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

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

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



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

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

Medium Term Note Programme

Guaranteed by

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

(each incorporated with limited liability in Australia)

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

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

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

Application has been made for permission to deal in, and for quotation of, any Notes which are agreed at the time of issue to be so listed on the Singapore Exchange Securities Trading Limited (the "SGX-ST"). Such permission will be granted when such Notes have been admitted to the Official List of the SGX-ST. Unlisted series of Notes may also be issued pursuant to the Programme. The applicable Pricing Supplement (as defined herein) in respect of any issue of Notes will specify whether or not such Notes will be listed on the SGX-ST or any other stock exchange. There is no assurance that the application to the SGX-ST for the listing of the Notes will be approved. Admission to the Official List of the SGX-ST and quotation of any Notes on the SGX-ST is not to be taken as an indication of the merits of the Issuer, the Guarantors or the Programme or of the merits of investing in any Notes. The SGX-ST assumes no responsibility for the correctness of any statement made or opinions expressed or reports contained herein.

Notes of each series (as described in "Summary of the Programme") will be issued in bearer form and will be represented by interests in a temporary global Note or by a permanent global Note, in bearer form (each a "Temporary Global Note" and a "Permanent Global Note", respectively and each, a "Global Note"), without interest coupons, which may be deposited on or about the relevant date of issue (the "Issue Date") with a common depository on behalf of Euroclear Bank SA/NV ("Euroclear"), and Clearstream Banking S.A. ("Clearstream, Luxembourg") (the "Common Depository") or with any other agreed clearance system. Interests in a Temporary Global Note will be exchangeable, in whole or in part, for interests in a Permanent Global Note from 40 days after the later of the commencement of the offering and the Issue Date (the "Exchange Date"), upon certification as to non-U.S. beneficial ownership. Individual definitive Notes ("Definitive Notes") will only be available in certain limited circumstances as described herein.

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

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

This Offering Circular is an advertisement and is not a prospectus for the purposes of EU Directive 2003/71/EC, as amended.

Arrangers

Citigroup

Morgan Stanley

Dealers

BNP PARIBAS

Citigroup

HSBC

Morgan Stanley

The date of this Offering Circular is 15 March 2016.

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

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

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

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

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

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

Neither the delivery of this Offering Circular nor the offering, sale or delivery of any Notes shall in any circumstances imply that the information contained herein concerning the Issuer and/or the Guarantors is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. Further, none of the Issuer or any of the Guarantors are obliged to, nor do they intend to, update, amend or supplement any such information including

forward-looking statements after the date hereof or indicated therein (as applicable). The Dealers, the Arrangers and the Trustee expressly do not undertake to review the financial condition or affairs of the Issuer or the Guarantors during the life of the Programme or to advise any investor in the Notes of any information coming to their attention. Investors should review, inter alia, the most recently published documents incorporated by reference into this Offering Circular when deciding whether or not to purchase any Notes.

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

In the case of any Notes which are to be admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a prospectus under Directive 2003/71/EC (and amendments thereto, including Directive 2010/73/EU to the extent implemented in any such Member State) including any relevant implementing measure in such Member State (the “Prospectus Directive”), the minimum specified denomination shall be €100,000 (or its equivalent in any other currency as at the date of issue of the Notes).

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

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

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

date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or person(s) acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.

DOCUMENTS INCORPORATED BY REFERENCE

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

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

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

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

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SUMMARY OF THE PROGRAMME

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

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

Issuer	AusNet Services Holdings Pty Ltd (ABN 97 086 006 859)
Guarantors	AusNet Asset Services Pty Ltd (ABN 27 075 826 881) AusNet Electricity Services Pty Ltd (ABN 91 064 651 118) AusNet Finance Pty Ltd (ABN 69 092 341 690) AusNet Gas Services Pty Ltd (ABN 43 086 015 036) AusNet Transmission Group Pty Ltd (ABN 78 079 798 173) (together with any Subsidiary of AusNet Services which is appointed from time to time, as an additional or replacement Guarantor in accordance with the terms of the Trust Deed (as defined below) and the Terms and Conditions of the Notes, the “Guarantors” and each a “Guarantor”). See description of “Guarantee” below and Condition 4.
Description	Medium Term Note Programme.
Size	Up to U.S.\$5,000,000,000 (or the equivalent in other currencies at the date of issue) aggregate nominal amount of Notes outstanding at any one time.
Arrangers	Citigroup Global Markets Singapore Pte. Ltd. and Morgan Stanley Asia (Singapore) Pte.
Permanent Dealers	BNP Paribas, HSBC Bank plc, Citigroup Global Markets Singapore Pte. Ltd., Citigroup Global Markets Limited, Morgan Stanley Asia (Singapore) Pte. and Morgan Stanley & Co. International plc. The Issuer may from time to time terminate the appointment of any Dealer under the Programme or appoint additional dealers either in respect of one or more Tranches or in respect of the whole Programme. References in this Offering Circular to “Permanent Dealers” are to the persons listed above as Dealers and to such additional persons that are appointed as dealers in respect of the whole Programme (and whose appointment has not been terminated) and references to “Dealers” are to all Permanent Dealers and all persons appointed as a dealer in respect of one or more Tranches.
Trustee	Citicorp Trustee Company Limited.
Principal Paying Agent.....	Citibank, N.A.

Method of Issue	The Notes will be issued on a syndicated or non-syndicated basis. The Notes will be issued in series (each a “Series”) having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest), the Notes of each Series being intended to be interchangeable with all other Notes of that Series. Each Series may be issued in tranches (each a “Tranche”) on the same or different issue dates. The specific terms of each Tranche (which will be supplemented, where necessary, with supplemental terms and conditions and, save in respect of the issue date, issue price, first payment of interest and nominal amount of the Tranche, will be identical to the terms of other Tranches of the same Series) will be set out in a pricing supplement to this Offering Circular (a “Pricing Supplement”).
Issue Price	Notes may be issued at their nominal amount or at a discount or premium to their nominal amount.
Form of the Notes	See “Form of the Notes” below.
Status of the Notes	The Notes will constitute direct, unconditional, unsubordinated and (subject to the provisions of Condition 3) unsecured obligations of the Issuer and rank <i>pari passu</i> without any preference among themselves and (subject as aforesaid and save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Issuer, from time to time outstanding.
Guarantee	The due payment of principal and interest (if any) in respect of any Notes and all other moneys payable by the Issuer under or pursuant to the Trust Deed is guaranteed on a joint and several basis by the Guarantors pursuant to the terms of the Trust Deed. The Issuer shall ensure that at all times the Total Assets of the Guarantors are not less than 90% of the Total AusNet Services Group Assets. The Issuer may from time to time and in accordance with the terms of the Trust Deed, appoint, or procure to be appointed, any Subsidiary of AusNet Services which is not a Guarantor as a Guarantor in order to comply with this requirement. Upon receipt by the Trustee of a certificate of two Directors of the Issuer that (a) a Subsidiary of AusNet Services (not being an Excluded Subsidiary) is to be released as a Guarantor, and (b) the release of such Guarantor would not cause the Total Assets of the remaining Guarantors to be less than 90% of the Total AusNet Services Group Assets, the Trustee shall (by the execution of appropriate release documentation to that effect) forthwith release such Guarantor from such Guarantee and the Trustee shall have no responsibility or liability to the Noteholders, Receiptholders, Couponholders or any person whatsoever in respect of such release. All Guarantors shall be

deemed to be aware of and be bound by such provisions and any such release or permission. Remaining Guarantors after any release shall continue to be bound by the terms of the Guarantee notwithstanding any release of any other Guarantor.

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

Fixed Rate Notes Fixed Rate Notes will bear interest at a fixed rate per annum at the rate specified in the applicable Pricing Supplement. Such interest will be payable on such date or dates as may be agreed between the Issuer and the relevant Dealer (as indicated in the applicable Pricing Supplement) and on redemption, will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer.

Floating Rate Notes Floating Rate Notes will bear interest determined separately for each Series as follows:

- (i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions; as published by the International Swaps and Derivatives Association, Inc. and as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series; or
- (ii) by reference to LIBOR or EURIBOR (or such other benchmark as may be specified in the applicable Pricing Supplement) as adjusted for any applicable margin.

Interest Periods will be specified in the relevant Pricing Supplement.

Zero Coupon Notes Zero Coupon Notes may be issued at their nominal amount or at a discount to it and will not bear interest other than in the case of late payment (as indicated in the applicable Pricing Supplement).

Index Linked Notes Payments of principal in respect of Index Linked Redemption Notes or of interest in respect of Index Linked Interest Notes will be calculated by reference to such index and/or formula as may be agreed by the Issuer and the relevant Dealer and specified in the applicable Pricing Supplement.

Dual Currency Notes Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange

	as may be agreed by the Issuer and the relevant Dealer and specified in the applicable Pricing Supplement.
Interest Periods and Interest Rates.....	The length of the Interest Periods for any Notes and the applicable interest rate or its method of calculation may differ from time to time or be constant for any Series. Notes may have a maximum interest rate, a minimum interest rate, or both. All such information will be set out in the applicable Pricing Supplement.
Denominations	Notes will be issued in the denominations indicated in the relevant Pricing Supplement (the “Specified Denomination(s)”), except that the minimum denomination of each Note will be such as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency. Notes denominated in Singapore dollars will have a minimum denomination of S\$250,000. Notes (including Notes denominated in Sterling) which have a maturity of less than one year and in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the Financial Services and Markets Act 2000 will have a minimum denomination of £100,000 (or its equivalent in other currencies as set out in the applicable Pricing Supplement) (together with any integral multiples thereafter). The minimum Specified Denomination of Notes which are to be admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a Prospectus under the Prospectus Directive, shall be €100,000 (or its equivalent in any other currency as at the date of issue of the relevant Notes as set out in the applicable Pricing Supplement) (together with any integral multiples thereafter). Although there is no minimum denomination for Notes denominated in Australian dollars, the minimum subscription price will be A\$500,000 (disregarding moneys lent by the offeror or its associates) unless the offer otherwise does not require disclosure to investors in accordance with Parts 6D.2 or 7.9 of the Corporations Act 2001 of Australia.
Clearing Systems	Clearstream, Luxembourg, Euroclear and, in relation to any Tranche, such other clearing system as may be agreed between the Issuer, the Principal Paying Agent, the Trustee and the relevant Dealer as specified in the applicable Pricing Supplement.
Initial Delivery of Notes	On or before the issue date for each Tranche, the Global Note representing Notes may be deposited with the Common Depositary. Global Notes may also be deposited with any other

	clearing system or may be delivered outside any clearing system provided that the method of such delivery has been agreed in advance by the Issuer, the Principal Paying Agent, the Trustee and the relevant Dealer.
Currencies	Subject to compliance with all relevant laws, regulations and directives, Notes may be issued in any currency agreed between the Issuer, the Guarantors and the relevant Dealers and specified in the applicable Pricing Supplement (each a “Specified Currency”).
Maturities	Subject to compliance with all relevant laws, regulations and directives, any maturity as may be agreed between the Issuer and the relevant Dealer.
Redemption by Instalments	The applicable Pricing Supplement issued in respect of each issue of Notes that are redeemable in two or more instalments will set out the dates on which, and the amounts in which, such Notes may be redeemed.
Optional Redemption	The Pricing Supplement issued in respect of each issue of Notes will state whether such Notes may be redeemed prior to their stated maturity at the option of the Issuer (Call Option) and/or Noteholders (Put Option), and if so the terms applicable to such redemption.
Early Redemption.....	Except as provided in “Optional Redemption” above, Notes may be redeemable at the option of the Issuer prior to maturity only for tax reasons. See “Terms and Conditions of the Notes—Redemption and Purchase”.
Other Notes	Terms applicable to high interest Notes, low interest Notes, step-up Notes, step-down Notes, reverse dual currency Notes, optional dual currency Notes, partly paid Notes and any other type of Note that the Issuer, the Trustee and any Dealer or Dealers may agree to issue under the Programme will be set out in the relevant Pricing Supplement.
Negative Pledge.....	See “Terms and Conditions of the Notes—Negative Pledge”.
Cross Default.....	See “Terms and Conditions of the Notes—Events of Default”.
Listing of the Notes.....	Application has been made for permission to deal in, and for quotation of, any Notes which are agreed at the time of issue to be so listed on the SGX-ST. There is no assurance that the application to the SGX-ST will be approved. Such permission will be granted when such Notes have been admitted to the Official List of the SGX-ST. If the application to the SGX-ST to list a particular series of Notes is approved, such Notes listed on the SGX-ST will be traded on the SGX-ST in a minimum board lot size of S\$200,000 or its equivalent in other currencies. Unlisted series of Notes may also be issued pursuant to the Programme. The Notes may also be listed on such other or further stock exchange(s) as may be agreed between the Issuer

and the relevant Dealer in relation to each series of Notes. The Pricing Supplement relating to each series of Notes will state whether or not the Notes of such series will be listed on any stock exchange(s) and, if so, on which stock exchange(s) the Notes are to be listed.

Taxation

All payments of principal and interest by each of the Issuer and the Guarantors will be made free and clear of and without withholding or deduction for or on account of any present or future taxes, duties, assessments, or governmental charges of whatever nature imposed or levied by or on behalf of Australia and any jurisdiction of incorporation of a Guarantor or any authority thereof or therein having power to tax or any other jurisdiction or any authority thereof or therein having power to tax, unless deduction or withholding of such taxes, duties, assessments or governmental charges is required by law.

If the Issuer is at any time required by law to deduct or withhold an amount in respect of withholding taxes, the Issuer must, subject to certain exceptions, pay such additional amounts as may be necessary in order to ensure that the net amounts received by the holders of the Notes after such deduction or withholding are equal to the respective amounts which would have been received had no such deduction or withholding been required.

Governing Law

English.

Selling Restrictions

United States, United Kingdom, Singapore, Hong Kong, Japan, Australia, New Zealand and European Economic Area. See “Subscription and Sale”.

The Issuer and each of the Guarantors is Category 1 for the purposes of Regulation S under the United States Securities Act of 1933, as amended.

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

INVESTMENT CONSIDERATIONS

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

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

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

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

Risks Related to AusNet Services Group's Business

Regulatory risks

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

The energy industry in Australia is highly regulated. The regulated component of the AusNet Services Group's revenues (approximately 86% of the AusNet Services Group's revenues for the year ended 31 March 2015 were regulated) will be subject to periodic pricing resets by the AER, where revenue or prices will be determined for each of the networks for the specified regulatory period. The AusNet Services Group has no ability or flexibility to charge more for regulated services than is provided for under the relevant AER determination (for electricity transmission and distribution), or the approved access arrangement (in respect of gas distribution), without regulatory approval. Regulatory control periods are generally five years, although with respect to the latest transmission revenue determination, the applicable pricing period is three years (with the next control period expected to be five years). The upcoming regulatory reset dates (where the next regulatory period commences) for the AusNet Services Group's electricity transmission network, gas distribution network and electricity distribution network are 1 April 2017, 1 January 2018 and 1 January 2021 respectively.

Regulated charges do not necessarily reflect actual or projected operating costs, capital expenditure or the costs of capital. If the regulated charges set by the AER are lower than the AusNet Services Group's costs, this may adversely affect the financial performance and position of the AusNet Services Group.

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

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

The AusNet Services Group is exposed to cost changes within a regulatory control period and bears the risk of any shortfall in allowances for costs provided by regulatory determinations. Costs can change materially within a regulatory control period due to, among other things, changes in the costs of labour, equipment or capital inputs (including the cost of finance). In some circumstances, where costs are outside the AusNet Services Group's control, the regulatory regime offers cost pass-through protection. However, this is generally limited

to costs incurred as a result of a change of exogenous circumstances (e.g. change in law, natural disaster or changes in occupational health and safety or environmental obligations) and the change in costs is required to satisfy a materiality threshold. It is also possible to re-open a price determination, but this can only occur where the determination is affected by a material error or deficiency. As such, the AusNet Services Group faces exposure to changes in its costs which could adversely affect its financial performance and position.

AER changes to National Electricity Rules and National Gas Rules

The AEMC completed a rules change process in respect of the National Electricity Rules (“**NER**”) and National Gas Rules (“**NGR**”) provisions on weighted average cost of capital (“**WACC**”) and other aspects of the economic regulatory framework for the electricity sector in 2012. The rule changes, as made, among other things establish a new rate of return framework that is common to electricity distribution, electricity transmission and gas, which requires the regulator to make the best possible estimate of the rate of return at the time a regulatory determination is made and to take into account market circumstances, estimation methods, financial models and other relevant information. This framework provides the AER with greater discretion on the approach for setting WACC.

In addition, these rule changes provide for new tools, such as capital expenditure sharing schemes and *ex post* efficiency reviews, so the regulator can incentivise network service providers to invest capital efficiently. The regulator can also apply the tools, in particular benchmarking, as it considers appropriate to each network business in making regulatory decisions. Operating expenditure is particularly subject to benchmarking comparisons to set efficient levels going forward.

In exercising any *ex post* efficiency review, the regulator will have regard to an overall objective that only capital expenditure that is efficient should form part of the regulated asset base. The AER established the necessary guidelines under the revised NER and NGR in 2013. The AER’s rate of return guideline decision released on 17 December 2013 continued the pattern of WACC reductions by regulators since the energy businesses were privatised in Victoria in 1994. In particular, the non-diversifiable risk (beta) assumed for the network businesses underpinning the cost of equity has been reduced and the tax allowance has been reduced. However, other methodological changes are likely to promote stability in the cost of capital in the long-term. The assumptions and methodologies set out in the rate of return guidelines may be subject to appeals to the ACT at the time of individual price reviews, which may negatively affect the AusNet Services Group’s financial performance and position.

The rules require the AER to review the rate of return guidelines every three years. The next review is due to be undertaken in 2016.

The AER’s new rate of return guidelines apply to the AusNet Services Group under the Victorian electricity distribution reset applicable from 1 January 2016. Once established, the application of these guidelines may have an adverse impact on the AusNet Services Group in future regulatory determinations for its regulated gas distribution and electricity transmission and distribution networks.

The AER applied the new guidelines for the first time in the draft determinations for the New South Wales (“**NSW**”) State networks made in November 2014.

The ACT heard appeals by the NSW State electricity distribution networks which, amongst other things, addressed a number of rate of return matters. On 26 February 2016, the ACT handed down its decision to have the determination remitted to the AER to reconsider and remake its decision with respect to gamma, the cost of debt and operational expenditure. As this process has not yet commenced, conclusions cannot yet be drawn on the impact for AusNet Services final EDPR determination.

A number of other regulatory reform processes could have a negative effect on revenue, net profit after tax and cash flow

A number of other regulatory reviews are in progress, including but not limited to:

- the Limited Merits Review Regime – a revised Limited Merits Review Regime was established by the COAG Energy Council following a review of the regime by an expert panel appointed by SCER (now the COAG Energy Council), which concluded that the regime had not delivered on the original policy intentions. The amendments to the national energy laws place greater emphasis on decisions that contribute to the long-term interests of consumers. The first appeals filed under the revised regime are currently before the appeals body, the ACT. These include appeals against the AER’s rate of return decisions in its final determinations for the NSW state-owned electricity distribution networks made in April 2015;
- the Power of Choice (Demand Side Participation) Review – the COAG Energy Council agreed to progress the recommendations from the AEMC’s Final Report. Consequently, the COAG Energy Council initiated a number of rule change requests based on the AEMC’s recommendations. These include new rules for electricity distribution network pricing arrangements in order to establish a ‘long run marginal cost’ basis for network pricing and to facilitate customer access to information about their electricity consumption. The AEMC’s rule determination on this matter is now complete, and revised network pricing arrangements commence in 2017. The Victorian electricity distribution networks have submitted their first tariff structure statements (“TSSs”) to the AER for approval as part of the 2016 EDPR process. The revised pricing arrangements will be introduced in a period where revenue recovery will be subject to revenue capping control in lieu of price capping which currently applies. Subsequent to submission of TSSs the Victorian Government has advised that the new tariff structures must be assigned to customers on an opt-in basis;
- the Expanding Competition in Metering and Related Services review – on 26 November 2015 the AEMC published its final determination and final rule on expanding competition in metering and related services. The AEMC states that the final rule will facilitate a market-led approach to the deployment of advanced meters, where consumers drive the uptake of technology through their choice of products and services. The rollout of smart metering in Victoria has proceeded separately, via a state government mandated rollout by the distribution networks. The AEMC’s rule does not distinguish Victoria from other jurisdictions in respect of roles for metering service provision once the new framework commences. It proposes that network service providers engaging in provision of meters and related services be ring-fenced from the regulated network business. The AusNet Services Group understands the Victorian Government is considering how the new framework should be accommodated in Victoria to realise the full benefits of the metering infrastructure that has been established here;
- Review of Governance Arrangements for Australian Energy Markets – the review was initiated by the COAG Energy Council, meeting a commitment made by COAG in 2007 to review the governance arrangements relating to the Australian energy markets. The review examined the broad energy market institutional structure and the legislative framework that establishes and assigns functions to energy market institutions, including the AER, the AEMC and AEMO. The review panel’s final report was released in October 2015 and COAG Energy Council made its initial response to the recommendations on 4 December 2015. This includes agreement to implement 48 of the review panel’s recommendations. The response also advised that the COAG Energy Council generally agrees on some further recommendations, including the opportunity to review the AER’s structure for which the review panel recommended separation of the AER from the ACCC.

The reforms are briefly outlined in “Industry/Regulatory Overview – Industry Overview – Regulatory Overview”. These reviews and others could give rise to changes in the regulatory and statutory framework that could, in time, affect the AusNet Services Group’s revenues and could have a negative impact on net profit after tax and cashflows.

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

The AusNet Services Group requires licences and accreditations in order to operate its distribution and transmission businesses. The ESC can revoke the AusNet Services Group’s licences if the relevant licensee does not comply with an enforcement order served by the ESC or an undertaking given to the ESC and the ESC considers that revocation is necessary or desirable in order to achieve the relevant gas or electricity policy objectives.

The regulatory regime applying to the electricity and gas industries in southern and eastern Australia is currently being amended by the introduction of the NECF. As a part of the NECF, certain regulatory functions currently performed by the ESC will transfer to the AER. An implementation date has not been announced for Victoria. This reform is not expected to amend the AusNet Services Group’s operating authority or arrangements in any way. However, any revocation of a licence or accreditation by the ESC or, in the future, by the AER could adversely affect the AusNet Services Group’s operating authority, which could in turn adversely affect the financial performance and position of the AusNet Services Group.

There is a risk that the AusNet Services Group may not fully recover its costs under the AMI programme

Whilst the AusNet Services Group has successfully converted around 425,000 meters to remotely provide meter data to market, the AusNet Services Group encountered periods of significant instability in its AMI systems performance during late 2013 and early 2014. In light of these issues, the AusNet Services Group undertook a technical review of its AMI systems to address that instability in mid 2014.

Following completion of the technical review, a remediation plan was drawn up to stabilise the existing end-to-end metering systems and to complete the network coverage. The AusNet Services Group believes that this approach is prudent and reasonable in all circumstances, and will yield a workable and cost-effective solution on an on-going basis.

The programme to complete this work commenced in late 2014. The expenditure required to complete network coverage and complete the programme is estimated at A\$219 million. As with all largescale and complex projects there is a risk that the programme may be delayed and further expenditure may be required or that the project will not remediate all issues with system performance.

The AusNet Services Group estimates that the total amount subject to future regulatory approval for AMI after completion of the remediation programme, compared to the current AER approved budget, is up to A\$296 million. In addition to this amount, A\$70.2¹ million excess expenditure was incurred during the 2013 calendar year. On 12 December 2014, the AER accepted A\$47.5¹ million of this amount in the AusNet Services Group’s Excess Expenditure Application and rejected the remaining A\$22.7 million.

The AusNet Services Group will seek to recover additional AMI programme expenditure within the regulatory framework through an Excess Expenditure Application. This process was amended on 30 June 2015 when further changes to the AMI CROIC were gazetted. The Excess Expenditure Application process now requires the AER to release a draft determination, consult with the public, and permits the AER to have regard to the expenditure of a benchmark efficient entity over the entirety of, or any part of, the period the CROIC has been in force. The AusNet Services Group will also seek to recover other additional AMI expenditure in the usual

¹ Source: AER, Determination Advanced Metering Infrastructure 2015 revised charges released on 12 December 2014.

course of the distribution price review process. The AER has discretion whether or not to approve any such applications for recovery of additional expenditure and there is a risk that some or all of this expenditure will not be approved.

The AusNet Services Group may lose its licence if there is a persistent and serious breach of the AMI CROIC

Section 46C of the Electricity Industry Act 2000 (Vic) requires the holder of the AusNet Services Group's electricity distribution licence to comply with the AMI CROIC. Compliance with the AMI CROIC is also a condition of the AusNet Services Group's electricity distribution licence. In October 2014, the ESC concluded its audit of distribution businesses' compliance with the best endeavours obligations under the AMI CROIC ("**Best Endeavours Audit**"). The ESC found that the AusNet Services Group "has not demonstrated that it used best endeavours, to the extent practicable, to meet the AMI rollout target, and has not demonstrated that it maintained an effective strategy to identify and manage risks." The ESC has indicated that it will continue to monitor the AusNet Services Group's progress and require regular reporting. The ESC noted in its report that it did not assess the efficiency and prudence of any AMI expenditure. In June 2015, the AusNet Services Group entered into an administrative undertaking with the ESC to meet a series of targets for the operation of smart meters, with all smart meters meeting the required service standards by 31 March 2017. The ESC will audit the AusNet Services Group's compliance against the administrative undertaking in August 2016 and February 2017. There is a risk of further enforcement actions if the AusNet Services Group does not comply with the administrative undertaking.

If the ESC considered the AusNet Services Group to be in breach of its distribution licence obligations, it could seek to impose financial penalties on the AusNet Services Group. Further, if the ESC considered the breach sufficiently serious, it could lead to a loss of the AusNet Services Group's electricity distribution licence.

During 2015, the AusNet Services Group paid a customer rebate of A\$125 per customer as a one-off lump sum for premises which did not have installed a smart meter which communicated remotely with the market as at 31 March 2015. There is currently no requirement for the AusNet Services Group to make a further payment. Until all smart meters are communicating remotely and although the AusNet Services Group has met its compliance obligations, a risk therefore remains that further rebate payments may be imposed on the AusNet Services Group.

Any such actions by the ESC could adversely affect the AusNet Services Group's financial performance and position.

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

Changes in the structure and regulation of the energy industry in Australia could have a materially adverse effect on the AusNet Services Group and its business. The AusNet Services Group is also directly or indirectly subject to a range of regulatory issues arising from environmental laws and regulations, occupational health and safety requirements and technical and safety standards. The AusNet Services Group's business is also subject to general legal and regulation including in relation to tax, land use and land access, native title and cultural heritage. Electricity and gas businesses are also subject to a range of changing technical regulation at both Federal and State levels. Changes to those government policies, laws or regulations, including but not limited to the AMI CROIC, the introduction of new legal or regulatory regimes (for example, in relation to climate change) or changes to the way in which those laws, regulations or policies are interpreted and applied by relevant regulators, including the ATO may have a material adverse effect on AusNet Services Group's financial position, operational costs, earnings, cash flows and its business. Such changes may have retrospective effect and they may include changes that are under consideration at the time of this Offering Circular but which have not been implemented. .

Regulators (including tax authorities) may take action against AusNet Services. This may have an adverse effect on AusNet Services' financial position, including as a result of fines, increased tax assessments and the cost of addressing and/or defending regulatory action.

The AusNet Services Group is required to comply with technical, safety and environmental standards applicable to its transmission and distribution networks and its compliance costs may increase

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

Amendments to the Electricity Safety (Bushfire Mitigation) Regulations 2013 are currently proposed for introduction in 2016. The objective of the regulations is to reduce the risk of bushfires initiated by electricity distribution networks.

The proposed regulations will mandate the following network programs;

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

The AusNet Services Group completed the installation of SWER ACRs on all SWER networks in December 2015. AusNet Services Group will be required to seek approval, through the AER for funding of the remaining two regulated programs.

With respect to the REFCL program, the proposed regulations prescribe a timeframe, as well as performance specifications, for implementation of a new technology.

Various materials and substances that are hazardous or environmentally sensitive, such as oil, sulphur hexafluoride gas (SF₆), polychlorinated biphenyls and asbestos, have been used or are contained in the facilities and sites involved in the AusNet Services Group's current and historical businesses. For example, the AusNet Services Group's networks include numerous transformers that may leak oil due to mechanical failures, automobile accidents and other factors. In the event such leaks and spills escape containment and contaminate ground or surface water, this may lead to expensive clean-up and remediation of affected sites, government sanctions may be imposed and the AusNet Services Group's reputation may be damaged. The AusNet Services Group is currently funding the clean-up of former gas works sites. Based on the AusNet Services Group's estimates as at 30 September 2015, a provision of A\$29.6 million has been made for these remediation works.

The AusNet Services Group must comply with environmental laws and regulations, and obtain and maintain numerous governmental permits. If it fails to comply with these environmental requirements, it could be subject to civil and/or criminal liability and fines, which could be substantial.

In addition, existing environmental regulations could be revised or reinterpreted, new laws and regulations could be adopted or become applicable to the AusNet Services Group, and future changes in environmental laws and regulations could occur. The occurrence of any of these events could materially adversely affect the AusNet Services Group's results of operations and financial condition.

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

Some of the AusNet Services Group's contracts, such as its use of system agreements, operate within previous or existing State and national regulatory frameworks. Some of these contracts have not kept pace with regulatory developments and, if a dispute arises, the AusNet Services Group may not be able to reach agreement with contract counterparties as to appropriate solutions. There is a further risk that, as that framework changes further over time, the contracts may not operate as intended and the AusNet Services Group may not be able to reach agreement with contract counterparties as to appropriate amendments, which could adversely affect the AusNet Services Group's financial performance and position. This could also potentially lead to disputes. If these disputes cannot be resolved favourably, it may adversely affect the financial performance and position of the AusNet Services Group.

Operational and Legal Risks

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

The AusNet Services Group's energy transmission and distribution networks and information technology systems are vulnerable to human error in operation, equipment failure, natural disasters (such as bushfires, severe weather, floods and earthquakes), sabotage, terrorist attacks or other events which can cause service interruptions to customers, network failures, breakdowns or unplanned outages. Certain events may occur that may affect electricity transmission or distribution lines or gas mains in a manner that would disrupt the supply of electricity or gas. Failures in the AusNet Services Group's equipment may cause supply interruptions or physical damage.

Any service disruption may cause loss or damage to customers, who may seek to recover damages from the AusNet Services Group, and this could harm the business and reputation of the AusNet Services Group. The AusNet Services Group's emergency response, crisis management and business continuity management system, known as the "Strategic Plan for the Integration of Response and Contingency Systems", is the approved methodology to guide response and recovery activities, however it may not be able to effectively protect the AusNet Services Group's business and operations from these events.

The AusNet Services Group is also exposed to the cost of replacing faulty equipment. On rare occasions, faults in plant items are discovered only after the item has been installed extensively within a network, requiring a large scale replacement programme. Only some such incidents are covered by plant warranties and in some instances these warranties may only be partial. Additionally, incidents in the AusNet Services Group's zone substations and terminal stations have property insurance cover to insure against failure, but incidents outside the boundaries of the AusNet Services Group's zone substations and terminal stations are self-insured. Any forced replacement programme, particularly if not insured or covered by warranties, could be costly and adversely affect the AusNet Services Group's financial performance and position.

Liability arising out of February 2014 Victorian bushfires may adversely affect the AusNet Services Group's financial position

The AusNet Services Group is a defendant in litigation brought in connection with the 9 February 2014 bushfires located at Yarram and Mickleham. The AusNet Services Group denies it was negligent in relation to these bushfires and will vigorously defend these claims. Although these proceedings are in early stages and at this time there is no quantification of the claims associated with these fires, it can be stated with reasonable certainty that the quantum of claims associated with the Yarram and Mickleham proceedings will be significantly less than those in the proceedings that were brought in connection with the 7 February 2009

bushfires located at Beechworth, Kilmore East and Murrindindi, respectively and that were ultimately settled without any admission of liability by AusNet Services Group or any other party.

The AusNet Services Group has liability insurance which specifically provides cover for bushfire liability. The AusNet Services Group reviews its insurance cover annually and ensures it is commensurate with the scale and size of its operations, the risks assessed to be associated with its operations and with industry standards and practice.

The AusNet Services Group's safety record, network asset management and network maintenance programmes are consistent with industry practice, and its bushfire mitigation and vegetation management programmes comply with the Electricity Safety (Bushfire Mitigation) Regulations. The AusNet Services Group's bushfire mitigation and vegetation management programmes are audited annually by Energy Safe Victoria. The AusNet Services Group has consistently achieved a 'zero' bushfire mitigation index for the bushfire seasons since listing in 2005, including the 2013-14 bushfire seasons.

Notwithstanding the above, any judgment against the AusNet Services Group could adversely affect its financial performance and position, and its reputation, and cause the AusNet Services Group to incur additional future costs to mitigate risk.

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

Although the AusNet Services Group maintains insurance that it believes is appropriate to protect against major operating and other risks, not all risks are insured or insurable. In particular, the AusNet Services Group does not carry insurance for damage to its towers, poles, wires or pipelines. Due to changeable insurance market conditions, the AusNet Services Group cannot be certain that adequate insurance coverage for potential losses and liabilities will be available in the future on commercially reasonable terms, and may also elect to self-insure and/or carry increased deductibles. If the AusNet Services Group experiences a loss in the future, the proceeds of the applicable insurance policies, if any, may not be adequate to cover replacement costs, lost revenues, increased expenses or liabilities to third parties.

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

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

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

The AusNet Services Group is exposed to a variety of legal risks. These legal risks include, but are not limited to: claims by gas or electricity users or specialist utility, government, energy or water services customers; environmental claims; land and other property related claims including native title; industrial action; occupational health and safety claims; legal action from special interest groups; and claims arising from third party losses alleged to have resulted from electricity network or gas pipeline disruptions or assets or the provision of specialist utility, government, energy or water services.

These legal risks are uncertain and any legal or financial liability arising from these risks may be material.

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

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

Regulators (including tax authorities) may take action against the AusNet Services Group. This may have an adverse effect on the AusNet Services Group's financial position including as a result of fines, increased tax assessments and the cost of addressing and/or defending regulatory action.

Variations in inflation could adversely impact the AusNet Services Group's financial position

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

Some of the AusNet Services Group's operations are hazardous and could expose the AusNet Services Group's employees, customers, contractors and the community to health and safety risks

Occupational health and safety is a key risk area in the operation and maintenance of energy transmission and distribution networks. There are risks caused by circumstances beyond the AusNet Services Group's control, as well as the inherently dangerous nature of maintenance and construction work involving electricity and gas transmission and distribution facilities.

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

- downed power lines, broken gas mains, oil spills and other events in connection with the construction, operation, management and maintenance of electricity transmission and electricity and gas distribution networks and other assets; and
- infrastructure leasing and licensing and providing specialist utility, government, energy and water services such as vegetation management, asset inspection and condition monitoring, chemical testing, metering and water infrastructure services.

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

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

The AusNet Services Group's transmission and distribution businesses are subject to certain conditions requiring the AusNet Services Group to complete necessary capital works. Due to unforeseen developments, the AusNet Services Group may be required to spend a materially higher amount on capital expenditure than is currently envisioned. While the regulatory regime provides that the AusNet Services Group may be compensated for regulatory capital expenditures incurred, funding unforeseen or unbudgeted capital expenditure requirements may adversely impact the AusNet Services Group's financial performance and position. While cost pass-through protections exist, there is a risk the AusNet Services Group will be required

to fund additional capital expenditure programmes that may result from the unplanned capital expenditure, resulting in delayed or incomplete cost recovery.

Climate change and related regulations may result in increased capital and operating expenditure for the AusNet Services Group

Climate change has the potential to require increases to capital and operating expenditure over time to accommodate changing operating conditions. For example, climate change may result in more extreme weather events, increasing bushfire risks and the operational costs of responding to storm damage. In addition, regulatory developments responding to the threats posed by climate change may require increased expenditure and the AusNet Services Group may be adversely affected if the AER does not recognise these increased costs.

The AusNet Services Group continues to report its emissions under the NGER. Corporations meeting or exceeding the thresholds are required to lodge their reports on emissions by 31 October each year. The AusNet Services Group meets the current thresholds under the NGER framework and lodged its current year's report with the Department of Climate Change and Energy Efficiency prior to the 31 October 2015 deadline.

Electric and magnetic fields may have adverse effects on human health

EMF produced by electricity have been the subject of employee and public health concerns. Numerous scientific studies have been undertaken on the potential adverse effects of EMF on human health, none of which has established adverse effects, but there still remains substantial public and scientific debate. The AusNet Services Group's distribution, sub-transmission and transmission lines EMF are within the health guidelines on EMF set by the NHMRC. These 1989 guidelines are being reviewed by the ARPANSA. At present, the 1989 NHMRC guidelines remain in current use in Australia. Any future ARPANSA guidelines could require the AusNet Services Group to re-design and re-construct some installations to ensure that EMF are within acceptable limits, which could adversely affect the AusNet Services Group's financial performance and position. Adverse findings relating to EMF may also lead to litigation against the AusNet Services Group which could expose the AusNet Services Group to material damages claims. The AusNet Services Group participates in the national and international standard development processes and monitors the relevant scientific research including work on standard compliant assessment.

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

The drive to reduce carbon emissions, customers' needs for higher levels of reliability and the reduction in the cost of digital technology has resulted in a greater role for ICT in the management and operations of utility networks. An example of this greater role is the implementation of Smart Meters in the electricity distribution business and other "Smart Network" technology to improve electricity supply reliability. This increased focus on the role ICT plays in the management and operations of utility networks will require the introduction of new technology. In the event there is any significant delay in the development of such new technology, this may negatively impact the AusNet Services Group's revenue or require unforeseen capital investment to replace obsolete technology.

In addition, as with all new business solutions, there are risks associated with solution design, implementation, budgeting, planning and integration and future maintenance, upgrades and support. The crystallisation of any such risks could adversely impact the effectiveness and cost of such a solution and business continuity.

To mitigate these risks, the AusNet Services Group has established a centralised architecture, delivery and governance capability to ensure the business's needs are delivered successfully through an architecturally-led approach with appropriate governance applied.

The AusNet Services Group's financial performance and position may also be adversely affected by the requirements for greater ICT investment if the AER does not recognise these increased costs.

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

Incentive mechanisms applicable to the AusNet Services Group's electricity and gas networks, which are regulated by the AER or AEMO, reward or penalise the AusNet Services Group for the reliability of its performance relative to its historic performance. Deterioration in network performance may arise from various causes, including unfavourable weather patterns, fire and the relative effectiveness of asset management strategies. If the AusNet Services Group is denied awards, or attracts penalties, under any applicable incentive mechanism, its revenue may be adversely affected.

The service performance incentive scheme applied by AEMO to the electricity transmission network is due to be closed by 31 March 2016. The AER's performance scheme will remain as the relevant transmission service incentive scheme.

Management and Personnel Risks

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

The AusNet Services Group's success is dependent on its ability to attract, develop, retain and engage employees. Competition for skilled employees in Australia is relatively strong, especially in the energy industry, with a number of trade and technical roles in demand. This demand for skilled workers could lead to increased labour costs. Even when new employees are hired, it may often take a considerable period of training before they possess the skills required to work effectively with the complex and sometimes dangerous facilities used in the AusNet Services Group's business. The inability to attract, develop, retain and engage employees could adversely affect the AusNet Services Group's financial performance and position.

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

Approximately 806 members of the AusNet Services Group's workforce are covered by Enterprise Agreements or the terms of Modern Awards. Historically, the operations of certain of the AusNet Services Group's subsidiaries have from time to time experienced work stoppages and other forms of industrial action when it is time to re-negotiate the terms of the Enterprise Agreements. The AusNet Services Group's operations may be affected by industrial action in the future. Any industrial action, work stoppages or other labour-related developments may adversely affect the AusNet Services Group's financial performance and position.

Financial Risks

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

As of 30 September 2015, the AusNet Services Group's long-term debt totalled A\$6.4 billion and debt maturing during the 12-month period ending 30 September 2015 was A\$0.4 billion consisting of certain maturing long term debt. The degree to which the AusNet Services Group may be leveraged in the future could affect the ability of the AusNet Services Group to service debt and other obligations, to pay dividends to securityholders, to make capital investments, to take advantage of certain business opportunities, to respond to competitive pressures or to obtain additional financing. The AusNet Services Group may incur substantial additional debt and other obligations such as leases, letters of credit and other instruments.

In addition, the AusNet Services Group relies on access to financial markets as a significant source of liquidity for capital requirements not satisfied by operating cash flows. The AusNet Services Group's access to financial markets could be adversely impacted by various factors, such as a material adverse change in the AusNet Services Group business or a reduction in its credit ratings. The inability to raise capital on favourable terms,

particularly during times of uncertainty in the financial markets, could impact the AusNet Services Group's ability to sustain and grow its businesses, which are capital intensive, and would likely increase its capital costs.

A downgrade in the credit ratings of the AusNet Services Group could increase the AusNet Services Group's borrowing costs and reduce its sources of liquidity and the AusNet Services Group's ability to make payments in relation to subordinated debt may be limited in certain circumstances

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

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

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

On 26 October 2015 the shareholders of AusNet Services passed a resolution to permit AusNet Services to issue shares pursuant to a dividend reinvestment plan ("**DRP**") or any underwriting thereof at any time within 18 months of the date of the resolution ("**DRP Approval**"). Actual issues of shares or other equity interests remain subject to the discretion of the Directors of AusNet Services and applicable laws and listing rules of the ASX.

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

The AusNet Services Group is exposed to interest rate risk

As at 30 September 2015, the AusNet Services Group hedged 90.3% of the interest rate exposure on its debt relating to each of its businesses (electricity distribution, gas distribution and electricity transmission) for the duration of the relevant regulatory reset periods. The AusNet Services Group is nonetheless exposed to adverse interest rate movements in the medium to long term, as its Treasury Risk Policy permits the percentage of debt hedged to range between 90% and 100% and, in the medium to long term, the percentage of hedged debt may vary within this limit. The AusNet Services Group remains exposed to credit margins on debt that is refinanced or new debt that is raised during the regulatory period.

The AusNet Services Group is exposed to counterparty credit risk

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

Valuation of derivatives may result in further deterioration of reserves

The AusNet Services Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. It is the AusNet Services Group's policy to ensure, wherever possible, that all hedging activities comply with the hedge accounting requirements of AASB 9. However, there may be instances where it makes commercial and economic sense to enter into derivative transactions that are not treated as effective hedges under accounting standards. In these instances, under AASB 9 such derivatives must be classified as "fair value through profit and loss". However, this classification is not an indication of intent to trade in derivative financial instruments.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised directly in equity in the hedge reserve. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. As at 30 September 2015, hedge reserves were negative A\$114.5 million due to the valuation of derivatives held under cash flow hedging arrangements. Movements in the fair value of derivatives held in a cash flow hedging relationship could result in a further deterioration of reserves.

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

The AusNet Services Group makes contributions to two Equisuper defined benefit superannuation plans that provide defined benefit amounts to certain employees or their dependants upon retirement, death, disablement or withdrawal. Benefits are mostly in the form of a lump sum based on the employee's final average salary although, in some cases, defined benefit members are also eligible for pension benefits. The terms and conditions of the two plans are consistent. The defined benefit sections of the Equisuper plans are closed to new members. An independent actuary performs actuarial valuations of the funds annually for 31 March in each year and additionally on other ad hoc dates as deemed appropriate.

The plans had a net surplus recognised on the balance sheet, as calculated in accordance with accounting standard AASB 119, of A\$7.9 million as at 30 September 2015.

Defined benefit funds are long term in nature and the actuarial calculations are based on long term expectations. Any short term fluctuations from the long term average will result in movements in the net surplus/deficit position of the fund. The AusNet Services Group makes contributions to the defined benefit funds based on the target funding method. Under this method, the contribution rate is set at a level which is expected to result in the plans' assets equalling 105% of the plans' liabilities within five years. Adverse movements in the market values of the plans' assets or actual obligations to be paid may result in the AusNet Services Group being required to make additional contributions.

Corporate Restructure outcomes subject to future ATO review

AusNet Services completed a corporate Restructure on 18 June 2015, with AusNet Services Limited becoming the single head entity of the group, replacing the triple-stapled arrangements in place since listing.

Pursuant to the Restructure, AusNet Services formed a single tax consolidated group that replaces the previous two tax consolidated groups of AusNet Services (Distribution) Ltd and AusNet Services (Transmission) Ltd. As a result of this change:

- the tax bases of the assets of the AusNet Services (Distribution) Ltd group have been reset with an uplift of A\$976.3 million recognised. As a result, deferred tax liabilities have been reduced by A\$292.9 million (being the tax effect of the uplift);
- the change to a new tax consolidated group triggered the cancellation of certain historical tax losses under the Same Business Test and an increase in deferred tax liabilities of A\$153.0 million. The AusNet Services Group obtained a ruling from the ATO confirming the non-availability of the losses; and

- the change to a new tax consolidated group required the reversal of historical deferred tax on derivative financial instruments of A\$8.4 million.

Judgments have been made regarding the application of tax laws and the valuation of assets in the calculation of the tax base reset arising from the Restructure. The calculation is based on current tax law. There are pending amendments to the consolidation rules which if introduced with retrospective application could adversely impact the quantum of the tax base reset value.

As a large business taxpayer, AusNet Services is subject to annual compliance reviews conducted by the ATO and continues to support a cooperative compliance relationship with the ATO. AusNet Services expects detailed engagement with the ATO in respect of all aspects of tax consolidation outcomes, which may ultimately lead to a higher or lower tax base step-up being adopted by AusNet Services.

Risks relating to the Guarantors

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

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

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

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

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

Risks Related to the Notes

Notes may not be a suitable investment for all investors

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

- (a) have sufficient knowledge and experience to make a meaningful evaluation of the relevant Notes, the merits and risks of investing in the relevant Notes and the information contained or incorporated by reference in this Offering Circular or any applicable supplement;
- (a) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the relevant Notes and the impact such investment will have on its overall investment portfolio;
- (b) have sufficient financial resources and liquidity to bear all of the risks of an investment in the relevant Notes, including where principal or interest is payable in one or more currencies, or where the currency for principal or interest payments is different from the currency in which such investor's financial activities are principally denominated;

- (c) understand thoroughly the terms of the relevant Notes and be familiar with any relevant indices and financial markets; and
- (d) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

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

Modification, waivers and substitution

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

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

Change of law

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

Notes where denominations involve integral multiples

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

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

Foreign Account Tax Compliance Withholding

Whilst the Notes are in global form and held within the clearing systems, in all but the most remote circumstances, it is not expected that FATCA will affect the amount of any payment received by the clearing systems (see "Tax Considerations — FATCA"). However, FATCA may affect payments made to custodians or intermediaries in the subsequent payment chain leading to the ultimate investor if any such custodian or intermediary generally is unable to receive payments free of FATCA withholding. It also may affect payment to any ultimate investor that is a financial institution that is not entitled to receive payments free of withholding under FATCA, or an ultimate investor that fails to provide its broker (or other custodian or intermediary from which it receives payment) with any information, forms, other documentation or consents that may be necessary for the payments to be made free of FATCA withholding. Investors should choose the custodians or

intermediaries with care (to ensure each is compliant with FATCA or other laws or agreements related to FATCA) and should provide each custodian or intermediary with any information, forms, other documentation or consents that may be necessary for such custodian or intermediary to make a payment free of FATCA withholding. Investors should consult their own tax adviser to obtain a more detailed explanation of FATCA and how FATCA may affect them. The Issuer's obligations under the Notes are discharged once it has paid the common depository for the clearing systems (as bearer or registered holder of the Notes) and the Issuer has therefore no responsibility for any amount thereafter transmitted through the hands of the clearing systems and custodians or intermediaries.

Risks related to the structure of a particular issue of Notes

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

Set out below is a description of certain such features:

Notes subject to optional redemption by the Issuer

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

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

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

Index Linked Notes and Dual Currency Notes

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

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

- (g) the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

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

Partly Paid Notes

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

Variable Rate Notes with a multiplier or other leverage factor

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

Inverse Floating Rate Notes

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

Fixed/Floating Rate Notes

Fixed/Floating Rate Notes may bear interest at a rate that the Issuer may elect to convert from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Where the Issuer has the right to effect such a conversion, this will affect the secondary market in and the market value of such Notes since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate in such circumstances, the spread on the Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Issuer converts from a floating rate to a fixed rate in such circumstances, the fixed rate may be lower than then prevailing rates on its Notes.

Notes issued at a substantial discount or premium

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

Risks related to the market generally

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

The secondary market generally

Notes may have no established trading market when issued and one may never develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Notes easily or at prices

that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and greater price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of Notes.

Exchange rate risks and exchange controls

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

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

Interest rate risks

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

Credit ratings may not reflect all risks

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

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (a) Notes are legal investments for it, (b) Notes can be used as collateral for various types of borrowing and (c) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

TERMS AND CONDITIONS OF THE NOTES

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

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

References herein to:

"Corporations Act" means the Corporations Act 2001 of Australia;

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

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

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

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

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

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

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

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

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

“Subsidiary” of an entity means:

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

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

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

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

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

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

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

Any reference to “Noteholders” or “holders” in relation to any Notes shall mean (in the case of Notes) the holders of the Notes and shall, in relation to any Notes represented by a Global Note, be construed as provided below. Any reference herein to “Receiptholders” shall mean the holders of the Receipts and any reference herein to “Couponholders” shall mean the holders of the Coupons and shall, unless the context otherwise requires, include the holders of the Talons.

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

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

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

1 FORM, DENOMINATION AND TITLE

The Notes are in bearer form and, in the case of definitive Notes, serially numbered, in the Specified Currency and the Specified Denomination(s) specified in the applicable Pricing Supplement provided that in the case of any Notes which are to be admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a Prospectus under Directive 2003/71/EC (and amendments thereto, including Directive 2010/73/EU to the extent implemented in any such Member State) including any relevant implementing measure in such Member State (the “Prospectus Directive”), the minimum Specified Denomination shall be €100,000 (or its equivalent in any other currency as at the date of issue of the relevant Notes). Notes of one Specified Denomination may not be exchanged for Notes of another Specified Denomination.

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

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

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

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

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

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

2 STATUS OF THE NOTES AND THE GUARANTEES

(a) *Status of the Notes*

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

(b) *Status of the Guarantees*

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

3 NEGATIVE PLEDGE

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

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

For the purposes of these Terms and Conditions:

"Capital Markets Indebtedness" means any indebtedness for money borrowed or interest thereon in the form of bonds, notes, debentures, loan stock or other similar securities that are, or are capable of being, quoted, listed or ordinarily dealt with in any stock exchange, over-the-counter or other securities market, having an original maturity of more than 365 days from its date of issue, or any guarantee or indemnity in respect of Capital Markets Indebtedness; and

"Lien" means any mortgage, charge, pledge, lien or other encumbrance or security interest.

4 GUARANTEES, JOINING AND RELEASING OF GUARANTORS

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

Noteholder, Receiptholder, Couponholder or any person whatsoever in respect of such release. The Issuer may only deliver the Directors' Certificate and the release will only be effective if, upon releasing the Guarantor from such Guarantee, the Issuer would not be in breach of paragraph (b) above. The Trustee and the Noteholders shall be deemed to be aware of and be bound by, and take their rights subject to, the provisions of this clause and any such release or permission. All Guarantors shall be deemed to be aware of and be bound by the provisions of this clause and any such release or permission. Remaining Guarantors after any release shall continue to be bound by the terms of the Guarantee notwithstanding any release of any other Guarantor.

5 REDENOMINATION

- (a) Where redenomination is specified in the applicable Pricing Supplement as being applicable, the Issuer may, without the consent of the Noteholders, the Receiptholders, the Couponholders or the Trustee, on giving prior notice to the Principal Paying Agent, Euroclear or Clearstream, Luxembourg and the Trustee and at least 30 days' prior notice to the Noteholders in accordance with Condition 15, elect that, with effect from the Redenomination Date specified in the notice, the Notes shall be redenominated in euro.
- (b) The election will have effect as follows:
 - (i) the Notes and the Receipts shall be deemed to be redenominated in euro in the denomination of euro 0.01 with a nominal amount for each Note and Receipt equal to the nominal amount of that Note or Receipt in the Specified Currency, converted into euro at the Established Rate, provided that, if the Issuer determines, with the agreement of the Principal Paying Agent and the Trustee, that the then market practice in respect of the redenomination in euro of internationally offered securities is different from the provisions specified above, such provisions shall be deemed to be amended so as to comply with such market practice and the Issuer shall promptly notify the Noteholders in accordance with Condition 15, the stock exchange (if any) on which the Notes may be listed and the Agents of such deemed amendments;
 - (ii) save to the extent that an Exchange Notice has been given in accordance with paragraph (iv) below, the amount of interest due in respect of the Notes will be calculated by reference to the aggregate nominal amount of Notes presented (or, as the case may be, in respect of which Coupons are presented) for payment by the relevant holder and the amount of such payment shall be rounded down to the nearest euro 0.01;
 - (iii) if definitive Notes are required to be issued after the Redenomination Date, they shall be issued at the expense of the Issuer in the denominations of euro 1,000, euro 10,000, euro 100,000 and (but only to the extent of any remaining amounts less than euro 1,000 or such smaller denominations as the Principal Paying Agent may approve) euro 0.01 and such other denominations as the Principal Paying Agent shall determine and notify to the Noteholders provided that in the case of any Notes which are to be admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a Prospectus under the Prospectus Directive, the minimum Specified Denomination shall be €100,000 (or its equivalent in any other currency as at the date of issue of the relevant Notes);
 - (iv) if issued prior to the Redenomination Date, all unmatured Coupons denominated in the Specified Currency (whether or not attached to the Notes) will become void with effect from the date on which the Issuer gives notice (the "Exchange Notice") that replacement euro-denominated Notes, Receipts and Coupons are available for exchange (provided that such securities are so available) and no payments will be made in respect of them. The payment obligations contained in any

Notes and Receipts so issued will also become void on that date although those Notes and Receipts will continue to constitute valid exchange obligations of the Issuer. New euro denominated Notes, Receipts and Coupons will be issued in exchange for Notes, Receipts and Coupons denominated in the Specified Currency in such manner as the Principal Paying Agent may specify and as shall be notified to the Noteholders in the Exchange Notice. No Exchange Notice may be given less than 15 days prior to any date for payment of principal or interest on the Notes;

- (v) after the Redenomination Date, all payments in respect of the Notes, the Receipts and the Coupons, other than payments of interest in respect of periods commencing before the Redenomination Date, will be made solely in euro as though references in the Notes to the Specified Currency were to euro. Payments will be made in euro by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque;
- (vi) if the Notes are Fixed Rate Notes and the amount of interest payable per Calculation Amount (specified in the applicable Pricing Supplement) in respect of any Note for any period ending on or after the Redenomination Date is required to be calculated for a period ending other than on an Interest Payment Date, such interest payable shall be equal to the product of the Rate of Interest, the Calculation Amount specified in the applicable Pricing Supplement and the Day Count Fraction (as defined in Condition 6) for the period for which interest is required to be calculated, rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention; and
- (vii) if the Notes are Floating Rate Notes, the applicable Pricing Supplement will specify any relevant changes to the provisions relating to interest.

(c) In these Terms and Conditions, the following expressions have the following meanings:

“Established Rate” means the rate for the conversion of the Specified Currency (including compliance with rules relating to roundings in accordance with applicable European Union regulations) into euro established by the Council of the European Union pursuant to Article 123 of the Treaty;

“euro” means the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty;

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

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

6 INTEREST

(a) *Interest on Fixed Rate Notes*

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

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

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

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

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

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

- (i) if “Actual/Actual ICMA” is specified in the applicable Pricing Supplement:
 - (a) in the case of Notes where the Calculation Period (as defined below) is equal to or shorter than the Determination Period during which it falls, the number of days in such Calculation Period divided by the product of (A) the number of days in such Determination Period and (B) the number of Determination Periods (as specified in the applicable Pricing Supplement) normally ending in any year; or
 - (b) in the case of Notes where the Calculation Period is longer than the Determination Period during which the Calculation Period ends, the sum of:
 - (A) the number of days in such Calculation Period falling in the Determination Period in which the Calculation Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods (as specified in the applicable Pricing Supplement) normally ending in any year; and
 - (B) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods (as specified in the applicable Pricing Supplement) normally ending in any year; and
- (ii) if “30/360” is specified in the applicable Pricing Supplement, the number of days in the Calculation Period divided by 360 calculated on a formula basis as follows:

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

where:

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

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

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

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

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

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

In these Terms and Conditions:

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

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

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

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

(i) *Interest Payment Dates*

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

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

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

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

If a Business Day Convention is specified in the applicable Pricing Supplement and (x) if there is no numerically corresponding day on the calendar month in which an Interest Payment Date should occur or (y) if any Interest

Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

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

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

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

(ii) *Rate of Interest*

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

(A) *ISDA Determination for Floating Rate Notes*

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

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

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

(B) Screen Rate Determination for Floating Rate Notes

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

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

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

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

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

(iii) Minimum and/or Maximum Rate of Interest

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

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

and any Instalment Amount or Redemption Amount shall be subject to the maximum Instalment Amount or maximum Redemption Amount specified.

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

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

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

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

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

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

where:

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

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

In these Terms and Conditions:

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

“Interest Amount” means:

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

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

- (vi) *Determination or Calculation by Trustee*

If for any reason the Principal Paying Agent or, as the case may be, the Calculation Agent does not at any time determine the Rate of Interest or calculate any Interest Amount in accordance with sub-paragraph (ii) or (iv), as the case may be, above, the Trustee shall determine the Rate of Interest at such rate plus or minus (as

appropriate) the relevant Margin (if any) as, in its absolute discretion (having such regard as it shall think fit to the foregoing provisions of this Condition 6(b) but subject always to sub-paragraph (iii) above), it shall deem fair and reasonable in all the circumstances and/or, as the case may be, the Trustee shall calculate the Interest Amount in the manner referred to in sub-paragraph (iv) above and such determination and/or calculation shall be deemed to have been made by the Principal Paying Agent or, as the case may be, the Calculation Agent. In making any determination and/or calculation by the Trustee under this sub-paragraph (vi), the Trustee may conclusively rely upon an opinion of any expert at the sole cost and expense of the Issuer.

(vii) Certificates to be Final

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 6(b), whether by the Principal Paying Agent or, if applicable, the Calculation Agent or the Trustee, shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Guarantors, the Trustee, the Principal Paying Agent, the Calculation Agent (if applicable), the other Agents and all Noteholders, Receiptholders and Couponholders and (in the absence as aforesaid) no liability to the Issuer, the Guarantors, the Trustee, the Noteholders, the Receiptholders or the Couponholders shall attach to the Principal Paying Agent, the Trustee or the Calculation Agent (as applicable) in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

(c) Interest on Dual Currency Notes

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

(d) Interest on Partly Paid Notes

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

(e) Accrual of Interest

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

(f) Rounding

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

7 PAYMENTS

(a) Method of Payment

Subject as provided below:

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

Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Wellington respectively); and

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

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

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

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

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

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

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

Upon the date on which any Floating Rate Note, Dual Currency Note, Index Linked Note or Long Maturity Note in definitive form becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof. A "Long Maturity Note" is a Fixed Rate Note (other than a Fixed

Rate Note which on issue had a Talon attached) whose nominal amount on issue is less than the aggregate interest payable thereon provided that such Note shall cease to be a Long Maturity Note on the Fixed Interest Date on which the aggregate amount of interest remaining to be paid after that date is less than the nominal amount of such Note.

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

(c) *Payments in Respect of Global Notes*

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

(d) *General Provisions Applicable to Payments*

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

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

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

(e) *Payment Day*

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

- (i) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:

- (A) the relevant place of presentation;
 - (B) London; and
 - (C) any Financial Centre specified in the applicable Pricing Supplement; and
- (ii) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than the place of presentation, London and any Financial Centre specified in the applicable Pricing Supplement and which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Wellington respectively) or (2) in relation to any sum payable in euro, a day on which the TARGET System is open.
- (f) *Interpretation of Principal and Interest*

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

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

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

8 REDEMPTION AND PURCHASE

(a) *Redemption at Maturity*

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

(b) *Redemption for Tax Reasons*

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

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

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

Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Trustee a certificate signed by two Directors of the Issuer or, as the case may be, two Directors of the relevant Guarantor stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred.

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

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

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

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

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

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

that effect shall be given by the Issuer to the Noteholders in accordance with Condition 15 at least five days prior to the Selection Date.

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

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

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

In this Condition 8(c):

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

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

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

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

“Independent Investment Banker” means the Reference Treasury Dealer;

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

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

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

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

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

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

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

(e) *Early Redemption Amounts*

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

- (i) in the case of a Note with a Final Redemption Amount equal to the Issue Price, at the Final Redemption Amount thereof;
- (ii) in the case of a Note (other than a Zero Coupon Note but including an Instalment Note and Partly Paid Note) with a Final Redemption Amount which is or may be less or greater than the Issue Price or which is payable in a Specified Currency other than that in which the Notes are denominated, at the amount specified in, or determined in the manner specified in, the applicable Pricing Supplement or, if no such amount or manner is so specified in the applicable Pricing Supplement, at its nominal amount; or
- (iii) in the case of a Zero Coupon Note, at an amount (the "Amortised Face Amount") equal to the sum of:
 - (A) the Reference Price; and
 - (B) the product of the Accrual Yield (compounded annually) being applied to the Reference Price from and including the Issue Date of the first Tranche of the Notes to but excluding the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable.

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

(f) *Instalments*

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

(g) *Partly Paid Notes*

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

(h) *Purchases*

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

(i) *Cancellation*

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

(j) *Late Payment on Zero Coupon Notes*

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

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

9 TAXATION

All payments of principal and interest in respect of the Notes, Receipts and Coupons by the Issuer or, as the case may be, the Guarantors will be made free and clear of and without withholding or deduction for or on account of any present or future taxes, duties, assessments, or governmental charges of whatever nature imposed or levied by or on behalf of any Tax Jurisdiction unless such withholding or deduction is required by law. In such event, the Issuer or, as the case may be, the Guarantors will pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Notes, Receipts or Coupons after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Notes, Receipts or Coupons, as the case may be, in the absence of such withholding or deduction; except that no such additional amounts shall be payable with respect to any Note, Receipt or Coupon:

- (i) presented for payment by or on behalf of a holder who is liable for such taxes or duties in respect of such Note, Receipt or Coupon by reason of his having some connection with a Tax Jurisdiction other than the mere holding of such Note, Receipt or Coupon (including, where the Tax Jurisdiction is the Commonwealth of Australia, his being resident in Australia or having a permanent establishment in Australia); or
- (ii) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for

payment on such thirtieth day assuming (whether or not such is in fact the case) that day to have been a Payment Day (as defined in Condition 7(e)); or

- (iii) presented for payment on account of any present or future taxes, levies, imports, duties, fees, assessments or other governmental charges of whatever nature, imposed by Australia or by any department, agency or other political sub-division or taxing authority thereof or therein, and all interest, penalties or similar liabilities with respect thereto ("Taxes") which are payable by reason of the holder being an associate of the Issuer for the purposes of section 128F of the Tax Act; or
- (iv) to the extent that such deduction or withholding would not have arisen if the Notes had been, or would be, issued in a manner which satisfies the requirements of section 128F of the Tax Act such that section 128F applies to interest paid, or any amount taken to consist of interest, in respect of such Notes; or
- (v) to the extent that the payee (a) is treated as a resident (for the purposes of the relevant double taxation agreement) in a jurisdiction having a double taxation agreement with the relevant jurisdiction of the holder giving complete exemption from Taxes otherwise imposed by such jurisdiction on the payment and (b) is not excluded from the benefit of such exemption; or
- (vi) where such withholding or deduction is required to be made pursuant to a notice or direction issued by the Commissioner of Taxation under section 255 of the Tax Act or section 260-5 of Schedule 1 to the Taxation Administration Act 1953 of Australia or any similar law; or
- (vii) in respect of any estate, inheritance, gift, sales, transfer, personal property, or any similar tax, assessment or governmental charge; or
- (viii) where such withholding or deduction is required as a result or by reason of a holder's, or a third party on behalf of a holder's, failure to quote a tax file number or an Australian Business Number or proof or details of some other exemption.

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

As used herein:

- (i) "Tax Jurisdiction" means the Commonwealth of Australia and any other jurisdiction of incorporation of a Guarantor (in the case of payment by the Issuer or a Guarantor, as the case may be), or, in each case, any political subdivision or any authority thereof or therein having power to tax or any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax to which the Issuer or any Guarantor, as the case may be, is or becomes subject in respect of payments made by it of principal and interest on the Notes, Receipts and Coupons; and
- (ii) the "Relevant Date" means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Principal Paying Agent or the Trustee, as the case may be, on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Noteholders in accordance with Condition 15.

10 PRESCRIPTION

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

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

11 EVENTS OF DEFAULT

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

- (a) the Issuer fails to pay any principal or interest due in respect of any Note within 7 days (in the case of the principal) and 14 days (in the case of interest) of the due date for payment;
- (b) the Issuer fails to pay any amount in respect of any Notes other than principal or interest, or the Issuer or a Guarantor otherwise fails to perform or comply with any of its other material obligations under any of the Notes or the Trust Deed in respect of that Series and the failure is not remedied within 30 Business Days of notice requiring remedy from the Trustee;
- (c) an Insolvency Event occurs in respect of the Issuer or a Guarantor except in the case of a members' voluntary winding up or a voluntary deregistration or dissolution of a Guarantor which owns no assets and is solvent;
- (d) any present or future monetary obligation of the Issuer or a Guarantor in connection with moneys borrowed or raised or a guarantee or indemnity of the Issuer or a Guarantor in respect of any moneys borrowed or raised (other than Subordinated Debt) exceeding in aggregate A\$50,000,000 (or its equivalent):
 - (i) is not satisfied on time, or at end of its grace period; or
 - (ii) is declared prematurely repayable as a result of an event of default (howsoever described),
except to the extent in any instance that the existence or enforceability of the relevant obligation is being disputed in good faith;
- (e) any final judgment is enforced against any property of the Issuer or a Guarantor for an amount exceeding A\$50,000,000 and which is reasonably likely to have a material adverse effect on the Issuer's or any Guarantor's ability to meet its financial and other material obligations under any of the Notes or the Trust Deed, and such judgment is not discharged, or a stay of execution is not obtained, within 45 Business Days; or
- (f) any of the Notes or the Trust Deed is or becomes wholly or partly void, voidable or unenforceable and that situation is not remedied within 30 Business Days of a notice requiring remedy from the Trustee.

For the purposes of this Condition 11:

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

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

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

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

12 REPLACEMENT OF NOTES, RECEIPTS, COUPONS AND TALONS

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

13 AGENTS

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

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

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

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

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

14 EXCHANGE OF TALONS

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

15 NOTICES

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

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

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

such notice shall be deemed to have been given to the holders of the Notes on the seventh day after the day on which the said notice was given to Euroclear and/or Clearstream, Luxembourg.

Notices to be given by any Noteholder shall be in writing and given by lodging the same, together (in the case of any Note in definitive form) with the relative Note or Notes, with the Principal Paying Agent. Whilst any of the Notes is represented by a Global Note, such notice may be given by any holder of a Note to the Principal Paying Agent through Euroclear and/or Clearstream, Luxembourg, as the case may be, in such manner as the Principal Paying Agent, the Trustee and Euroclear and/or Clearstream, Luxembourg, as the case may be, may approve for this purpose.

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

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

AusNet Services. Such agreement shall be subject to the relevant provisions of the Trust Deed and such other conditions as the Trustee may require, including (except where a successor in business of the Issuer is the new principal debtor) the guarantee in respect of the Notes by the Issuer and the Notes being guaranteed by the Guarantors or (where the new principal debtor is a Guarantor) by the other Guarantors. The Trustee may also agree without the consent of Noteholders, Receiptholders or Couponholders to the addition of another company as an issuer of Notes under the Programme and the Trust Deed. Any such addition shall be subject to the relevant provisions of the Trust Deed and to such amendment thereof and such other conditions as the Trustee may require. In the case of any proposed substitution or addition, the Trustee may agree, without the consent of the Noteholders, Receiptholders or Couponholders, to a change of the law governing the Notes, the Receipts, the Coupons and/or the Trust Deed, provided that such change would not, in the opinion of the Trustee, be materially prejudicial to the interests of the Noteholders.

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

17 FURTHER ISSUES

The Issuer shall be at liberty from time to time, without the consent of the Noteholders, Receiptholders or Couponholders, to create and issue further notes having terms and conditions the same as the Notes or the same

in all respects save for the amount and date of the first payment of interest thereon and so that the same shall be consolidated and form a single Series with the outstanding Notes.

18 THIRD PARTY RIGHTS

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

19 GOVERNING LAW AND SUBMISSION TO JURISDICTION

(a) Governing Law

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

(b) Submission to Jurisdiction

The Issuer and each of the Guarantors agree, for the exclusive benefit of the Noteholders, the Receiptholders and the Couponholders, that the courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the Notes, the Receipts and/or the Coupons (including any dispute relating to any non-contractual obligations arising out of or in connection with them) and that accordingly any suit, action or proceedings (together referred to as "Proceedings") arising out of or in connection with the Notes, the Receipts and the Coupons may be brought in such courts.

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

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

(c) Appointment of Process Agent

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

FORM OF THE NOTES

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

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

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

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

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

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

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

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

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

Pursuant to the Agency Agreement (as defined in “Terms and Conditions of the Notes”), the Agent shall arrange that, where a further Tranche of Notes is issued which is intended to form a single Series with an existing Tranche of Notes, the Notes of such further Tranche shall be assigned a common code and ISIN which are different from the common code and ISIN assigned to Notes of any other Tranche of the same Series until at least the expiry of the distribution compliance period (as defined in Regulation S under the Securities Act) applicable to the Notes of such Tranche.

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

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

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

USE OF PROCEEDS

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

CAPITALISATION AND INDEBTEDNESS

The following table shows the combined capitalisation and indebtedness of the AusNet Services Group as at 30 September 2015. You should read the information in this table together with the sections of this Offering Circular titled “Selected Financial Information and Operating Data”.

	As at 30 September 2015
	<i>(A\$ million)</i>
Capitalisation	
Short-Term Debt, Including Current Portion of Long-Term Debt⁽³⁾	409.0
Cash and Short-Term Deposits	33.0
Capitalisation	
<i>Long-term Debt, Less Amounts Due Currently⁽¹⁾</i>	
Bank debt	422.4
Domestic medium term notes	1,514.06
U.S. senior notes	151.1
Sterling bond	589.9
Swiss bond	781.4
Hong Kong bond	410.6
Norwegian Kroner bond	168.5
Japanese Yen bond	61.4
Euro bond	2,333.9
Total Long-Term Debt	6,433.2
<i>Equity</i>	
Contributed equity	5,015.4
Reserves	(1,563.1)
Retained profits	1,171.2
Other Equity	(1,095.1)
Total Equity	3,528.4
Total Capitalisation and Indebtedness⁽²⁾	10,337.6

Notes:

- (1) Includes the senior unsecured debt of the Issuer, AusNet Holdings (Partnership) Limited Partnership and AusNet Electricity Services Pty Ltd.
- (2) Since 30 September 2015, there has been no material change to the capitalisation, indebtedness or contingent liabilities of the AusNet Services Group.
- (3) A\$409 million of short-term debt is for U.S senior notes that will mature 14 September 2016.

- (4) Since the end of the financial period ended 30 September 2015, the Directors have approved an interim dividend for 2015 of A\$149.7 million (4.265 cents per fully paid share) which was paid on 24 December 2015. The DRP was in operation for the interim distribution in the current year. AusNet Services issued approximately 29 million new shares under the DRP to raise approximately A\$42 million.
- (5) On 29 February 2016 and 10 March 2016, AusNet Services announced that the Issuer had successfully placed, respectively, S\$200 million ([approximately](#) A\$200 million) and U.S.\$375 million ([approximately](#) A\$500 million) of hybrid securities in the form of non-convertible subordinated notes. The proceeds of these issuances will be used to refinance existing debt and fund capital expenditure.

SELECTED FINANCIAL INFORMATION AND OPERATING DATA

This section presents selected financial information and selected operating data of the AusNet Services Group. The AusNet Services Group's consolidated financial report is prepared as an aggregation of the financial statements of AusNet Services and its controlled entities. The financial information and operating data should be read together with the financial statements and related notes for the 12-month period ended 31 March 2015, the 12-month period ended 31 March 2014, the six-month period ended 30 September 2015 and the six-month period ended 30 September 2014. The AusNet Services Group's consolidated financial statements are prepared in accordance with Australian Accounting Standards and interpretations adopted by the Australian Accounting Standards Board and the Corporations Act. The consolidated financial statements and notes also comply with International Financial Reporting Standards and the interpretations adopted by the International Accounting Standards Board. Due to the seasonal nature of the AusNet Services Group's business, results for interim periods may not be indicative of results that may be expected for an entire year.

Selected Financial Information of the AusNet Services Group

The financial information in the table below has been derived from the AusNet Services Group's audited consolidated financial statements for the 12-month periods ended 31 March 2015 and 31 March 2014.

	As at and for the year ended 31 March	
	2015	2014
	<i>(A\$ million)</i>	
Income Statement		
Revenue from continuing operations.....	1,833.9	1,799.4
Expenses excluding finance costs	1,165.9	1,151.7
Finance costs (net).....	313.6	342.3
Profit before income tax	354.4	305.4
Income tax expense	331.8	127.1
Net profit	22.6	178.3
Balance Sheet		
Total assets	12,063.3	10,612.3
Total interest bearing liability—current.....	776.7	673.6
Total interest bearing liability—non-current	6,439.4	5,395.6
Equity	3,248.8	3,444.6
Cash Flows		
Cash flows from operating activities	767.6	730.2
Cash flows from investing activities	(786.4)	(939.8)
Cash flows from financing activities	492.1	78.4
Net increase/(decrease) in cash held.....	473.3	(131.2)
Capital expenditure.....	800.5	925.2

The financial information in the table below has been derived from the AusNet Services Group's reviewed consolidated financial statements for the six-month periods ended 30 September 2015 and 30 September 2014.

	As at and for the six month period ended 30 September	
	2015	2014
	<i>(A\$ million)</i>	
Income Statement		
Revenue from continuing operations.....	1,068.9	971.3
Expenses excluding finance costs	613.8	631.0
Finance costs (net).....	154.7	146.9
Profit before income tax	300.4	193.4
Income tax expense/(benefit)	(74.1)	198.3
Net profit/(loss)	374.5	(4.9)
Balance Sheet		
Total assets	11,393.9	11,218.6
Total interest bearing liability—current.....	409.0	1,312.0
Total interest bearing liability—non-current	6,433.2	5,254.4
Equity	3,528.4	3,351.9
Cash Flows		
Cash flows from operating activities	283.5	334.8
Cash flows from investing activities	(345.3)	(415.6)
Cash flows from financing activities	(788.3)	345.6
Net increase/(decrease) in cash held.....	(850.1)	264.8
Capital expenditure.....	349.7	423.2

Selected Operating Data of the AusNet Services Group

	As at and for the year ended 31 March		
	2015	2014	2013
Electricity Transmission Business			
Electricity transmitted – gigawatt hours (GWh)	45,642	48,023	55,011
Energy and Gas Distribution Business			
Electricity customer supply points.....	679,213	668,603	658,461
Electricity distributed—gigawatt hours (“GWh”).....	7,361	7,483	7,629
Gas customer supply points	647,536	633,184	620,113
Gas distributed—petajoules (“PJ”)	64.2	67.0	72.4

INDUSTRY/REGULATORY OVERVIEW

Industry Overview

The Electricity Industry

Electricity Generation

In Australia, electricity is mainly produced from the burning of fossil fuels, such as coal and natural gas at power stations, to create pressurised steam. The steam is forced through a turbine at high pressure to drive the generator. Other forms of electricity generation include open-cycle gas-fired, combined cycle gas-fired and renewable sources such as the sun, wind, biomass or water. The demand for electricity varies depending on conditions. For instance, demand tends to peak in the summer when heat drives up air conditioning loads and in the winter when cold weather increases heating requirements.

According to the AEMO Registration List, Australia has 114 entities registered as generators in the NEM as at 24 December 2015, which operate in the eastern and southern states and territories of Australia. The AER's State of the Energy Market 2014 reports that the total registered capacity of generation facilities within the NEM is approximately 47.779 GW and the electricity produced by major generators in the NEM is sold through a central dispatch process managed by the AEMO.

The AusNet Services Group does not engage in electricity generation but rather operates in the regulated electricity transmission and electricity distribution businesses.

Electricity Transmission

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

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

Figure 2.1

Electricity transmission grid and distribution networks in the National Electricity Market



QNI, Queensland-NSW Interconnector.

Source: AER State of the Energy Market 2014. Reprinted with the permission of the AER.

Note: Entities named in the graphic above in black are electricity distribution businesses in the NEM.

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

Electricity Distribution

Distribution networks move electricity from the transmission network to residential and business electricity customers. Distribution networks consist of lower voltage wires and other apparatus. In Victoria and South Australia, the distribution networks are also privatised. NSW is proposing a partial privatisation by leasing two of the three distribution networks to private operators. Generally in the NEM, electricity distributors provide the network infrastructure but do not sell electricity.

Electricity Retailing

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

The Gas Industry

Gas Reserves

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

Australia has large natural gas reserves. According to the AER's State of the Energy Market 2014, current estimates indicate that there are approximately 139,000 PJ of 2P natural gas reserves, comprising 96,000 PJ of conventional natural gas and 43,000 PJ of CSG. Australia produced 2,450 PJ of natural gas in 2013-14, of which approximately half (57%) was for the domestic market. The balance, all of which is sourced from offshore basins in Western Australia and the Timor Sea, was exported as LNG. This ratio is expected to increase with the development of new LNG projects in Queensland and Western Australia.

The most significant reserves of 2P gas supplies are in Western Australia. The AER's State of the Energy Market 2014 reports that the Carnarvon Basin off the north west coast of Australia holds approximately half of Australia's known natural gas reserves. Eastern Australia contains around 36% of Australia's natural gas reserves, of which the majority is CSG.

The principal sources of reserves are the Gippsland Basin off coastal Victoria (which supplies 34% of the eastern Australian market) and the Surat — Bowan Basin in Queensland (which supplies 36% of the eastern Australian market). Production in Victoria's offshore Otway Basin (15% of eastern Australian production) has risen significantly since 2004. The Cooper Basin supplies 13% of the eastern Australian market.

Gas Transmission

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

Gas Distribution

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

A gas distribution network typically consists of high, medium and low pressure pipelines. The high and medium pressure pipelines are used to service areas of high demand and to transport gas between population concentrations within a distribution area. Low pressure pipes lead off the higher pressure mains to the end customer.

Gas Retailing

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

Regulatory Overview

Institutional Arrangements

From 13 December 2013, the COAG Energy Council, established under the COAG, provides a forum for collaboration on developing an integrated and coherent national energy policy and any implications from the Commonwealth's abolition of the carbon tax. The COAG Energy Council replaces the original reform body, the MCE, and its subsequent replacement, the SCER.

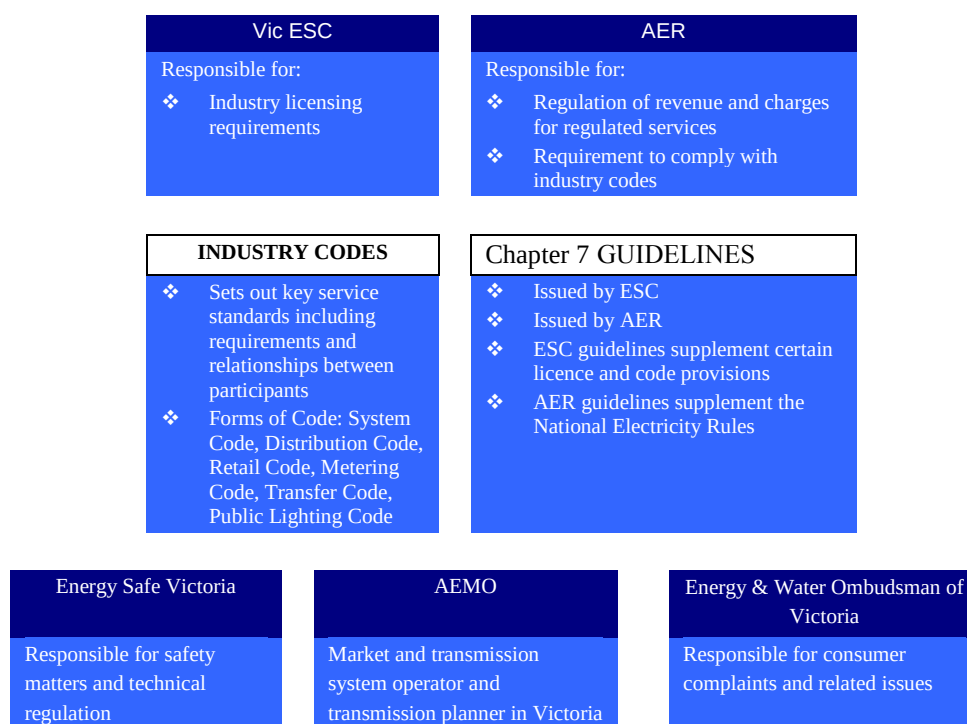
Reform processes originally steered by the MCE (now the COAG Energy Council) have seen the establishment of three main national bodies. The AEMC is responsible for rulemaking and market development. The AER is responsible for the economic regulation of energy networks and rule enforcement. The AEMO, established in July 2009, administers the operation of the NEM and gas markets in Australian States and Territories, other than Western Australia and the Northern Territory, and performs national transmission planning and transmission planning for Victoria. The establishment and functions of these bodies were provided for by the Commonwealth and the States and Territories of Australia in the AEMA.

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

Chapter 5 LEGISLATION

National Electricity Law and National Electricity Rules ❖ Participation in NEM ❖ Access and connection ❖ Revenue determinations	Electricity Industry Act 2000 ❖ Industry specific regulatory framework in Victoria Electricity Safety Act 1998 ❖ Safety of electricity supply and use	General Laws (e.g. Corporations Act), regulations and orders in council (e.g. Tariff Order)	Essential Services Commission Act 2001 General framework for regulated industries in Victoria

Chapter 6 ELECTRICITY DISTRIBUTION AND TRANSMISSION NETWORKS REGULATION



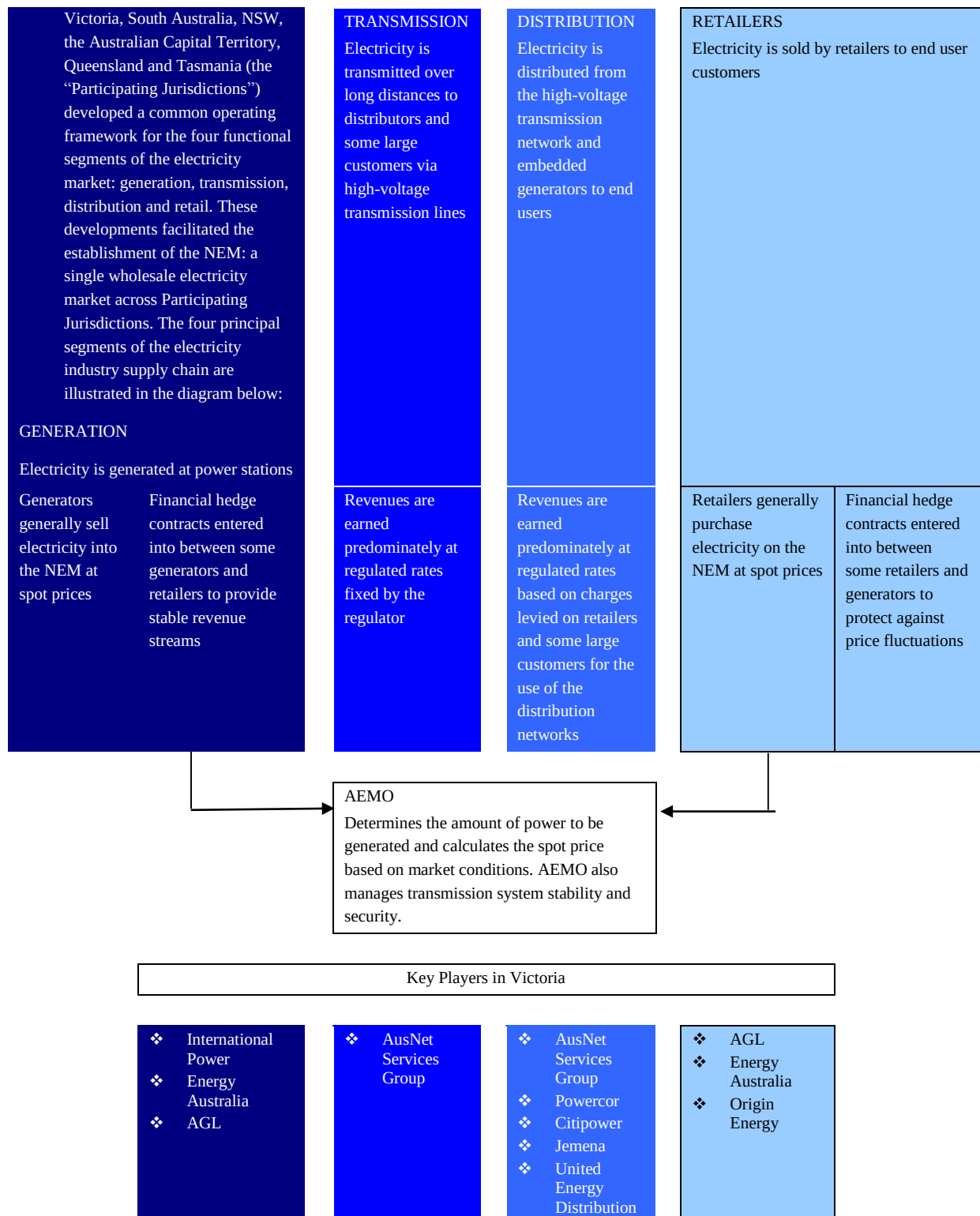
Source: AusNet Services Group.

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

The ESC's (and the AER's, where exercising Victorian jurisdictional powers) general regulatory powers are set out in the ESC Act and are applied to the Victorian electricity industry by the EIA. The EIA sets out the ESC's powers with respect to licensing and service regulation. Entities are required to hold a licence (or a licence exemption) from the ESC before they can engage in the generation of electricity for sale or supply or the transmission, distribution, supply or sale of electricity in Victoria. As an electricity transmitter and distributor, the AusNet Services Group holds both transmission and distribution licences.

Legislative Framework for Electricity

National Electricity Market



Source: AusNet Services Group.

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

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

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

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

Electricity Industry Act 2000 (Vic)

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

Electricity Transmission Licence

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

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

Transmission Network Augmentation

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

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

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

Electricity Distribution Licence

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

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

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

Cross-Ownership and Ring-Fencing in Electricity

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

The AER's transmission ring-fencing guidelines prevent a transmission business carrying on a related business, including a distribution business, unless a waiver is granted. Such a waiver was granted to the AusNet Services Group in March 2005. The waiver can be revoked if the AusNet Services Group takes on the responsibilities for network planning and directing network augmentation (functions currently undertaken by the AEMO) in respect of the shared network and the Victorian electricity distribution businesses in respect of the transmission connection assets. TasNetworks was also granted a waiver by the AER in 2014 on the basis that there is little public benefit in requiring TasNetworks to maintain legally separate transmission and distribution businesses.

Legislative Framework for Gas

National Gas Access Regime

The current legislative regime for the gas sector is comprised of jurisdiction specific legislation (such as the GIA), and national legislation governing the regulation of gas networks and pipelines. The National Gas (South Australia) Act 2008, to which the NGL is a schedule, and the NGR made under the NGL replaced the regulatory regime under the National Gas Code and the market and system operation rules which formerly governed the

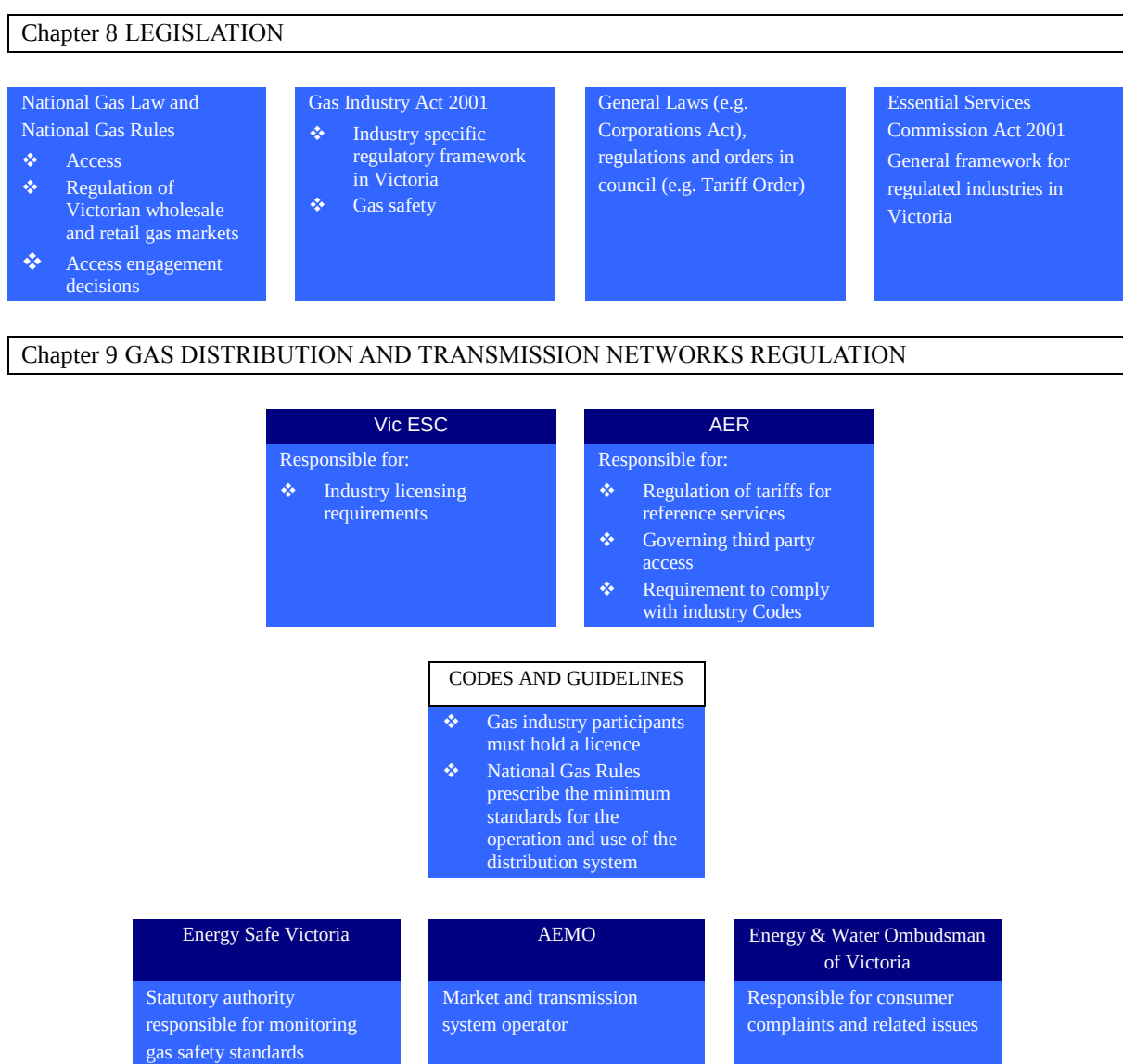
Victorian wholesale gas market. Under the NGL and the NGR, the AER has responsibility for approving the access arrangement proposed by the AusNet Services Group for each regulatory period. Where the proposed arrangement is not approved by the AER, the AER may make an alternative access arrangement which will apply for the regulatory period. The approved reference tariffs form part of the approved access arrangement.

Gas Industry Act 2001 (Vic)

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

Gas Regulatory Framework

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



Source: AusNet Services Group.

Gas Distribution Licence

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

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

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

Cross-Ownership in Gas

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

Access — Electricity and Gas

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

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

Economic Regulation

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

The principal legislation and the role of each regulatory body responsible for economic regulation of the existing AusNet Services Group businesses are set out below. The assets in the table below are all subject to regular regulatory determinations in relation to the revenue able to be charged for core services. The regulatory pricing periods are generally five years for gas and electricity distribution, however, the current regulatory period for electricity transmission is three years.

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

Sector	Primary Legislation	Economic Regulator
Victorian electricity distribution (AusNet Services Group)	National Electricity Law	AER
	National Electricity Rules	
	National Electricity (Victoria) Act 1997 (Vic)	ESC
	Electricity Industry Act 2000 (Vic)	
Victorian gas distribution (AusNet Services Group)	National Gas Law	AER
	National Gas Rules	
	National Gas (Victoria) Act 2008 (Vic)	

The approach to price regulation is similar for networks in the electricity and gas sectors (although for gas, this is a component of the approved access arrangement, rather than a stand-alone determination). This is commonly referred to as an “incentive-based” regulatory regime, where price caps or revenue caps are set for a period of typically five years and the network business is able to retain some of the benefits of efficiency gains arising from out-performance of the cost assumptions underlying the price/revenue cap.

The incentive for the AusNet Services Group’s regulated businesses is to reduce costs below the cost assumptions in the applicable revenue or price cap. In association with this incentive to reduce costs the regime includes monitoring of the business against target levels of service, and in some cases the inclusion of financial incentives to meet these target levels.

The revenue requirement for the regulated business is calculated according to a building block approach which provides for a target revenue stream that is designed to cover on-going operations and maintenance costs, depreciation, and a return on assets, calculated by reference to the business’s WACC. Network charges derived using the building block approach are averaged over the five-year regulatory period to minimise any price volatility for end customers. Electricity transmission revenue is recovered as a fixed amount and is not affected by usage volume. Currently, the revenue requirement for the gas distribution business is converted to a price cap, having regard to forecast volume. As of 1 January 2016, electricity distribution revenues are regulated under a revenue cap, rather than a price cap.

Regulators

Since 1997, the economic regulation of transmission networks has been undertaken by a national regulator (formerly the ACCC and now the AER). Amendments to the NEL enabled the transfer of the economic regulation of electricity distribution to the AER from 1 January 2008. Previously, this role was undertaken in Victoria by the ESC. Economic regulation of gas distribution transferred to the AER under the national regulatory arrangements for gas. The AER’s most recently completed revenue reset for an AusNet Services Group network, was the electricity transmission revenue reset, which applies until 31 March 2017.

Regulated Investments

Almost all shared use electricity network infrastructure is regulated and, although the arrangements in the electricity sector have provided for both merchant and regulated transmission investments since inception, almost all investments made are regulated or have been converted to regulated investments. In Victoria, separation of responsibility for transmission network planning and ownership provide for the contestable delivery of augmented transmission network services.

The arrangements for the gas sector similarly allow for non-regulated investment (regulated pipelines are referred to as “covered”). However, unlike the electricity sector, there has been a trend towards unregulated

services for gas transmission. A number of major pipelines have been subject to decisions to impose or revoke coverage after review by the National Competition Council, which makes decisions as to whether such pipelines will be subject to economic regulation.

Electricity Transmission Revenue Determination Process

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

The revenue determination process is set out in Chapter 6A of the NER. Chapter 6A was amended on 29 November 2012 as part of a wider change to the NER to improve economic regulation of network businesses. By virtue of transitional rules, the AusNet Services Group's revenue determination for 2014/2015 to 2016/2017 was conducted under the preceding version of the NER (version 52). The following paragraphs describe the process as it presently applies to the AusNet Services Group's transmission business.

The review process commences with the transmission company submitting a detailed proposal that outlines the costs expected to be incurred in delivering an efficient transmission service and defines the services to be provided. The regulator reviews this submission in detail. In the course of reaching its final decision on the regulated revenue cap for electricity transmission, the AER adopts a consultative process with all relevant stakeholders in order to reach a well-informed and balanced judgment.

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

Amendments to the NEL made in 2007 introduced a regime for limited merits review of regulatory decisions under the NEL, the National Electricity (South Australia) Regulations or the NER. Further amendments to the regime came into force on 19 December 2013. An appeal must be lodged in the ACT within 15 business days of the AER's final decision being made. The ACT may affirm or vary the AER's final decision, or set the decision aside and remit the matter back to the AER to make a decision in accordance with the ACT's direction or recommendation. Separately to the merits review process, the AER may revoke a revenue determination or amend a pricing methodology during a regulatory control period and make a new one where it appears to the AER that the total revenue cap was set, or the pricing methodology approved, on the basis of information that was false or misleading in a material particular, or if there was a material error in the revenue cap or methodology.

The AER has commenced its review process for AusNet Services Group's electricity transmission network and will make a final decision for the 2017/18 – 2021/22 regulated revenues for that network by 31 January 2017.

Electricity Distribution Price Determination Process

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

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

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

Regulated revenues are calculated for a minimum of five years. Amendments to the NEL enacted in 2007 provide for limited merits review of regulatory decisions. Further amendments to the regime commenced on 19 December 2013. An appeal must be lodged in the ACT within 15 business days of the AER's final decision being made. The ACT may affirm or vary the AER's final decision, or set the decision aside and remit the matter back to the AER to make a decision in accordance with the ACT's direction or recommendation. Separately to the merits review process, the AER may revoke a distribution determination during a regulatory control period and make a new one where it appears to the AER that a determination is affected by a material error or deficiency that is a clerical mistake or accidental slip or omission, a miscalculation or misdescription, a defect in form, or a deficiency resulting from the provision of false or materially misleading information.

2016 distribution prices are currently set pursuant to the 2015 EDPR Preliminary Decision. Transitional arrangements governing the 2016-20 revenue reset process mean that the 2016 revenues will be set by the AER's Preliminary Determination. The preliminary determination will be revoked and a new substituted determination will be made in April 2016 (the final determination).

This final determination will set revenues for the whole of the 2016-2020 regulatory period, and will include a "true-up" process to ensure any revenue difference between the preliminary and substitute determinations for the 2016 regulatory year are recovered appropriately.

Advanced Metering Infrastructure programme

In 2005, the ESC mandated a roll-out of manually read interval meters (30-minute interval) by distribution businesses for selected electricity customers in Victoria from 1 January 2006. The meters are intended to provide detailed consumer information that will assist the AusNet Services Group in monitoring and responding to electricity demand.

In 2006, the Victorian State Government announced a halt to the ESC mandate and announced its decision to roll out advanced interval meters to all Victorian electricity customers. Throughout the 2006 to 2008 period, the Victorian State Government worked with distributors, retailers and consumer groups to establish the requirements of the roll-out.

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

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

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

The Victorian State Government undertook a review of the arrangements for the AMI roll-out in 2011 and announced on 14 December 2011 that the AMI roll-out would continue to existing timelines. The Victorian State Government flagged a number of changes to the rollout milestones in the AMI CROIC, focusing on promoting the benefits to customers through devices such as in-home displays, and tightening the cost recovery mechanism on distribution businesses. Following this announcement, the Victorian State Government has amended the AMI CROIC (Government Gazette G 51 on 22 December 2011) removing the interim roll-out targets, whilst leaving the target for completion of the rollout of 31 December 2013 unchanged. The

amendments to the AMI CROIC also tightened the cost recovery process for the AusNet Services Group by removing the 10% project budget contingency, and shifted the onus to the AusNet Services Group to prove that budgeted costs are prudent.

The Victorian State Government on 29 November 2013 announced further amendments to the AMI CROIC comprising three policy positions:

- distribution businesses will be required to continue the installation of smart meters after 31 December 2013;
- distribution businesses will be required to pay a rebate to customers where they have not attempted to install a smart meter by 30 June 2014; and
- distribution businesses will be able to consider recovering the costs of running a separate metering service from customers who refuse the installation of a smart meter after 1 March 2015.

The above amendments to the AMI CROIC were gazetted in 2014.

The AusNet Services Group encountered periods of significant instability in its AMI systems performance as the number of smart meters connected to its AMI systems increased. In light of these issues, the AusNet Services Group undertook a technical review of its AMI systems to address that instability. The technical review was completed during 2014, and a remediation plan has been drawn up to stabilise the existing end-to-end metering systems and to complete the network coverage. Remediation commenced in late 2014 and full completion and implementation of the AMI programme is estimated to be achieved by March 2017.

On 30 June 2015, the Victorian State Government gazetted further amendments to the AMI CROIC impacting cost recovery:

- The charges applications for both calendar years 2014 and 2015 are to be submitted between 30 April and 31 May 2016, and the AER is required to make and publish a draft determination on the charges application and consult with the public before publishing a final determination by 31 October 2016 (or 31 December 2016, if required); and
- The AER is to consider various matters in determining the charges application, including the efficiency of the expenditure over the entirety of the AMI programme and the expenditure of a benchmark efficient entity over all or part of the period of the AMI programme.

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

Economic Regulation of Gas Distribution Networks

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

Each Victorian gas distributor must submit a proposed access arrangement for its distribution network for approval by the AER, who may require changes if it is not satisfied that the arrangement meets the requirements of the National Gas Law and NGR. The approved access arrangement establishes the tariff variation mechanism that is applied to adjust tariffs until the next regulatory reset, as well as outlining any principles to be used to review distribution tariffs at subsequent resets. The AusNet Services Group's current access arrangement was approved by the AER with effect from 1 January 2013.

Economic Regulation of Gas Transmission Networks

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

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

Technical Standards

In addition, energy network businesses are subject to technical regulation, which is independent of the economic regulatory regime. Technical regulation is the domain of separate specialist regulatory bodies and focuses on the safe operation of the network. There are regulatory bodies responsible for technical regulation of electricity metering services and separate bodies responsible for handling consumer complaints and related issues in the energy sector. For example, Energy Safe Victoria is responsible for the technical regulation of electricity and gas infrastructure in Victoria.

Other Regulation

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

Regulatory Reforms

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

Service-related incentive arrangements have been assuming increased prominence in regulatory development, for both electricity transmission and distribution. The AER has determined a market impact incentive scheme for transmission businesses which the AusNet Services Group has successfully applied since August 2011. Since 2012, an f-factor scheme aimed at providing incentives to reduce the risk of fire starts and to reduce the risk of loss or damage caused by fire starts has applied to AusNet Services' electricity distribution network. For the first four years of this scheme (2012 to 2015), DNSPs will be either rewarded or penalised at the incentive rate of A\$25,000 per fire for performing better or worse than their respective fire start targets.

The regulatory framework within which the AusNet Services Group operates continues to evolve. Generally speaking, regulators have been seeking to expand incentive and penalty regimes focused on network performance. Regulators are also seeking more information regarding operating and capital costs and are becoming more willing to make their own assessments about the requirements of regulated businesses in respect of matters such as asset augmentation, replacement, maintenance and operation.

The MCE developed a national framework for energy distribution and retail regulation. As has historically been the case, South Australia is acting as the lead jurisdiction for the adoption of the new framework. The National Energy Retail Law (South Australia) Act 2011 was passed by the South Australian Parliament on 8 March 2011. The National Energy Retail Law is included as Schedule 1 to that Act. The National Energy Retail Law provides for the making of the National Energy Retail Rules.

These reforms will deliver a single national framework for energy distribution networks and retail markets regulated by the AER. The changes will substantially complete the transfer of distribution network regulation that currently remains with State jurisdictions to the national framework, and provide a national framework for regulating the sale and delivery of energy (electricity and gas) by retailers and distributors. The changes to be introduced by the National Energy Retail Law deal primarily with:

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

The Parliament of Victoria is yet to pass legislation to apply the National Energy Retail Law as a law of Victoria. However, it has stated its intention to adopt the national Connections Framework in 2016 which governs how distributors charge customers for connection services. Once the National Energy Retail Law does apply in Victoria, the AusNet Services Group does not expect to face any material adverse effects.

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

- The Limited Merits Review Regime – a revised Limited Merits Review Regime was established by the COAG Energy Council following a review of the regime by the COAG Energy Council which concluded that the regime had not delivered on the original policy intentions. Amendments to the national energy laws place greater emphasis on decisions that contribute to the long-term interests of consumers. The first appeals applying the revised regime are currently before the appeals body, the ACT. These include appeals against the AER's rate of return decisions in its final determinations for the NSW state networks made in April 2015;
- Power of Choice Review (Demand Side Participation) Review – the COAG Energy Council agreed to progress the recommendations from the AEMC's Final Report. Consequently, the COAG Energy Council initiated a number of rule changes based on the AEMC's recommendations. Revised rules relating to distribution network pricing arrangements have subsequently been established and complying tariff structures will apply from January 2017, and subject to a Victorian Government requirement that customers be assigned to the new tariff structures on an opt-in basis. On 26 November 2015 the AEMC published its final rule determination on a national framework to expand competition in metering and related services, to apply from December 2017.

The COAG Energy Council has conducted a review of the governance arrangements for Australian energy markets. The review panel's final report was released in October 2015 and COAG Energy Council made its initial response to the recommendations on 4 December 2015. This includes agreement to implement 48 of the review panel's recommendations. The response also advised that the COAG Energy Council generally agrees on some further recommendations, including the opportunity to review the AER's structure for which the review panel recommended separation of the AER from the ACCC.

BUSINESS OF THE AUSNET SERVICES GROUP

AusNet Services Group Overview

The AusNet Services Group is a diversified energy infrastructure business that owns and operates the primary regulated Victorian electricity transmission network (“**AusNet Services Group’s Electricity Transmission Network**”), as well as an electricity distribution network in eastern Victoria and a gas distribution network in western Victoria. The AusNet Services Group has also established an unregulated business, Select Solutions, which provides specialised utility related solutions, in particular metering, monitoring and asset management services.

The AusNet Services Group’s total consolidated revenues were A\$1,068.9 million for the half year ended 30 September 2015, of which 90% was regulated. The AusNet Services Group’s total consolidated revenues were A\$1,833.9 million for the financial year ended 31 March 2015. As the primary provider of electricity transmission services in Victoria, the AusNet Services Group receives regulated revenues based on the regulated price path as determined by the AER. For the half year ended 30 September 2015, total transmission revenues were A\$335.1 million (prior to inter-segment eliminations) and A\$619.8 million (prior to inter-segment eliminations) for the financial year ended 31 March 2015. As one of five providers of electricity distribution services and one of three providers of gas distribution services in Victoria, the AusNet Services Group receives regulated revenues as determined by the AER based on actual usage by end users of the distribution networks. Total distribution revenues were A\$661.5 million (prior to inter-segment eliminations) for the half year ended 30 September 2015 and A\$1,066.9 million (prior to inter-segment eliminations) for the financial year ended 31 March 2015. As a specialist utility related solutions provider in Victoria, NSW, Western Australia and Tasmania, Select Solutions contributed revenue from third parties of A\$78.2 million for half year ended 30 September 2015 and A\$158.9 million for the financial year ended 31 March 2015.

The AusNet Services Group’s estimated total Regulated/Contracted Asset Base was A\$8.76 billion as at 30 September 2015, consisting of electricity transmission of A\$2.94 billion, electricity distribution of A\$3.36 billion, gas distribution of A\$1.44 billion, AMI of A\$0.33 billion and unregulated transmission, including the Victorian desalination contract of A\$0.70 billion. The RAB, which is the majority of the Regulated/Contracted Asset Base, is an estimate that is subject to review by the relevant regulators.

AusNet Services is listed on the ASX and the SGX-ST (secondary listing).

AusNet Services Group’s Growth Strategy

Approximately 86% of AusNet Services Group’s revenue for the financial year ended 31 March 2015 came from regulated sources, and while AusNet Services Group remains focused on the continued growth in the regulated networks, diversified growth is also targeted through:

- Unregulated infrastructure – The development of unregulated transmission connections and other infrastructure;
- Select Solutions – The continued expansion of specialist metering and asset intelligence solutions to existing and new customers predominately within the utilities, transportation and telecommunications sector;
- Energy solutions – Seeking to commercially respond to changing customer behaviour through the provision of new services related to energy use, energy storage, energy efficiency and other niche services reflecting the changing nature of the industry.

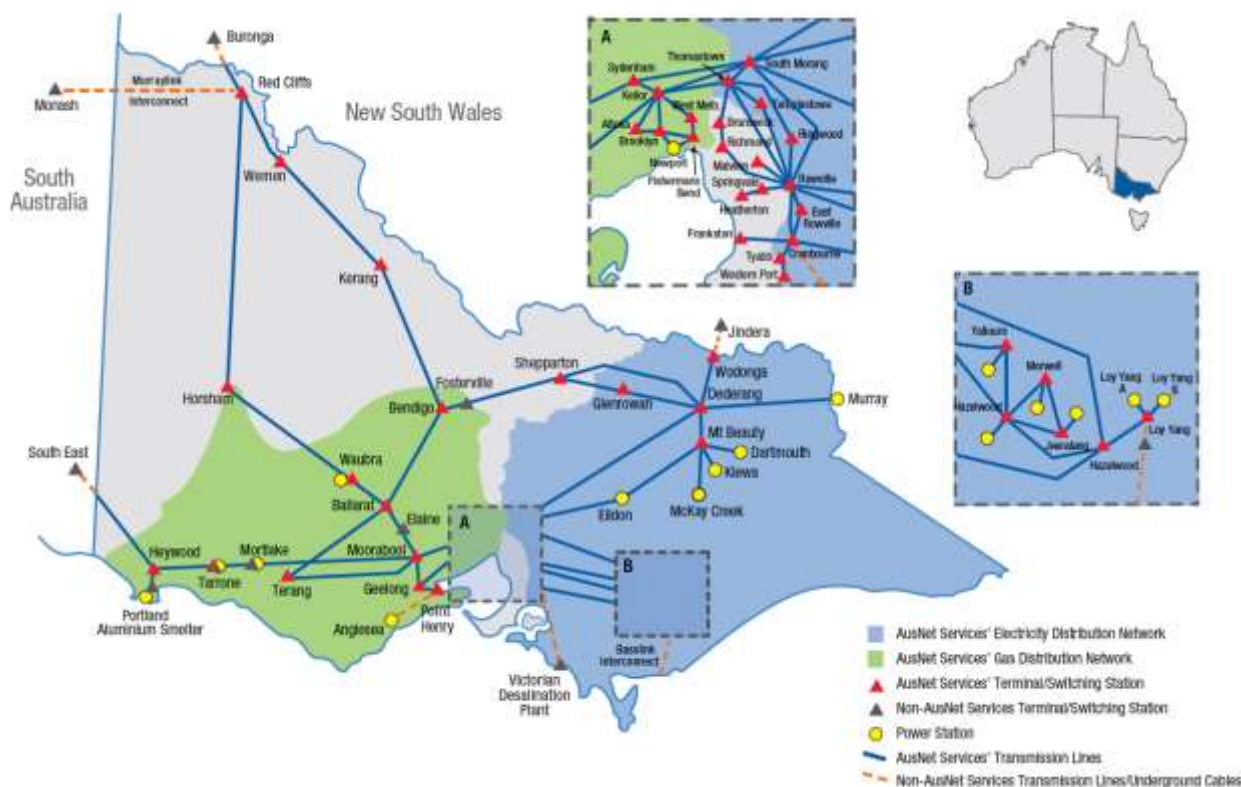
AusNet Services Group assesses acquisition opportunities and other corporate transactions as they arise, along with pursuing opportunities for further organic growth in existing and related businesses.

Divisional Overview

Victoria, where the majority of the AusNet Services Group's business and assets are located, is Australia's second most populous State with an estimated resident population as at 31 March 2015 of 5.91 million (24.9% of Australia's population), covering 227,600 square kilometres (87,800 square miles). While Victoria accounts for only 3% of Australia's land mass, it is responsible for approximately 22% of Australia's gross domestic product. The average annual compound growth rate in gross State product from 2005/06 to 2014/15 was 2.1%, compared with the national gross domestic product growth rate of 2.7%. Victoria has a AAA/Aaa rating from Standard & Poor's and Moody's.

Electricity Transmission Network

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



Source: AusNet Services Group

Note: Regulated transmission assets are the transmission assets in Victoria for which the AER is responsible for the economic regulation of revenues under chapter 6A of the NER.

The AusNet Services Group's Electricity Transmission Network consists of approximately 6,573 kilometres of transmission lines as at 30 September 2015 and carries electricity at extra-high voltages from power stations to

terminal stations around Victoria, where the voltage is lowered for the local distribution companies to deliver electricity to homes and businesses.

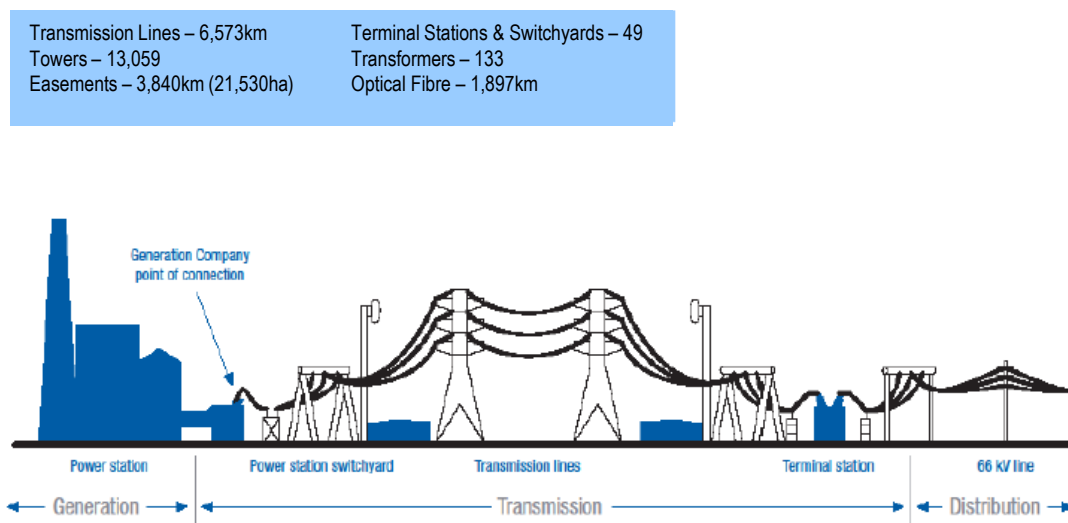
The AusNet Services Group is responsible for replacement of assets on its transmission network. The AEMO, generators and distribution businesses plan and direct network augmentation, with new transmission facilities and services open to contestability.

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

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

The AusNet Services Group's Electricity Transmission Network is regulated by the AER. The AusNet Services Group levies regulated transmission entry charges for connection to generator owners, exit charges for connection to distributors and customers taking supply at transmission voltages, and Common Service and Shared Transmission Service charges to the AEMO. The AusNet Services Group owns the transmission network and the right to provide transmission services throughout Victoria as provided for in its Electricity Transmission Licence. Charges for network augmentations to make new connections for generators are typically levied on these customers by the AusNet Services Group through negotiated agreements.

The following figure provides an overview of the AusNet Services Group's electricity transmission assets as at 30 September 2015 (network statistics are approximate). The AusNet Services Group owns the electricity transmission assets and is one of five electricity distributors in Victoria. It does not participate in electricity generation or in the retail electricity market.

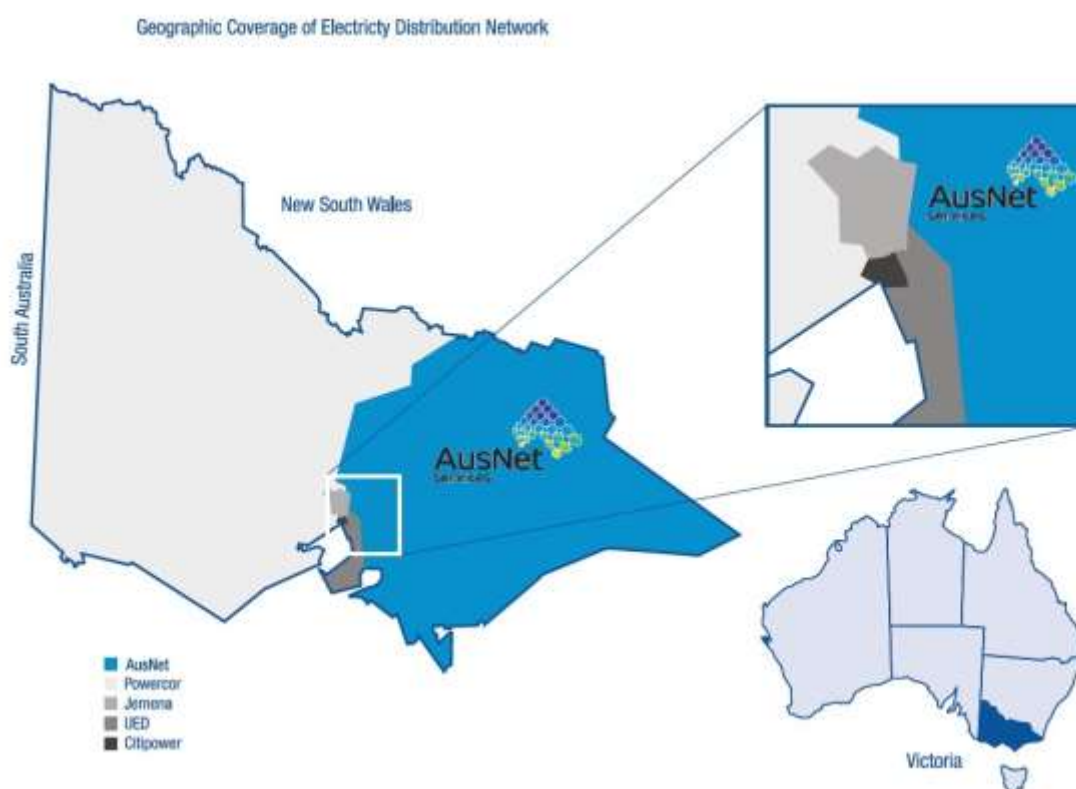


Source: AusNet Services Group.

Electricity Distribution Network

As at 30 September 2015, the AusNet Services Group distributed electricity to approximately 685,400 customers. The AusNet Services Group's electricity distribution network spans over 80,000 square kilometres, covering eastern metropolitan Melbourne and eastern Victoria, and includes some of Melbourne's areas of expected population growth such as South Morang, Lilydale, Beaconsfield and Narre Warren on the outskirts of metropolitan Melbourne. This distribution network transports electricity from the AusNet Services Group's high-voltage transmission grid to end users' points of supply with approximately 39,800 kilometres of overhead lines, approximately 11,800 kilometres of underground cable, approximately 62,000 distribution transformers and 60 zone substations as at 30 September 2015.

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



Source: AusNet Services Group.

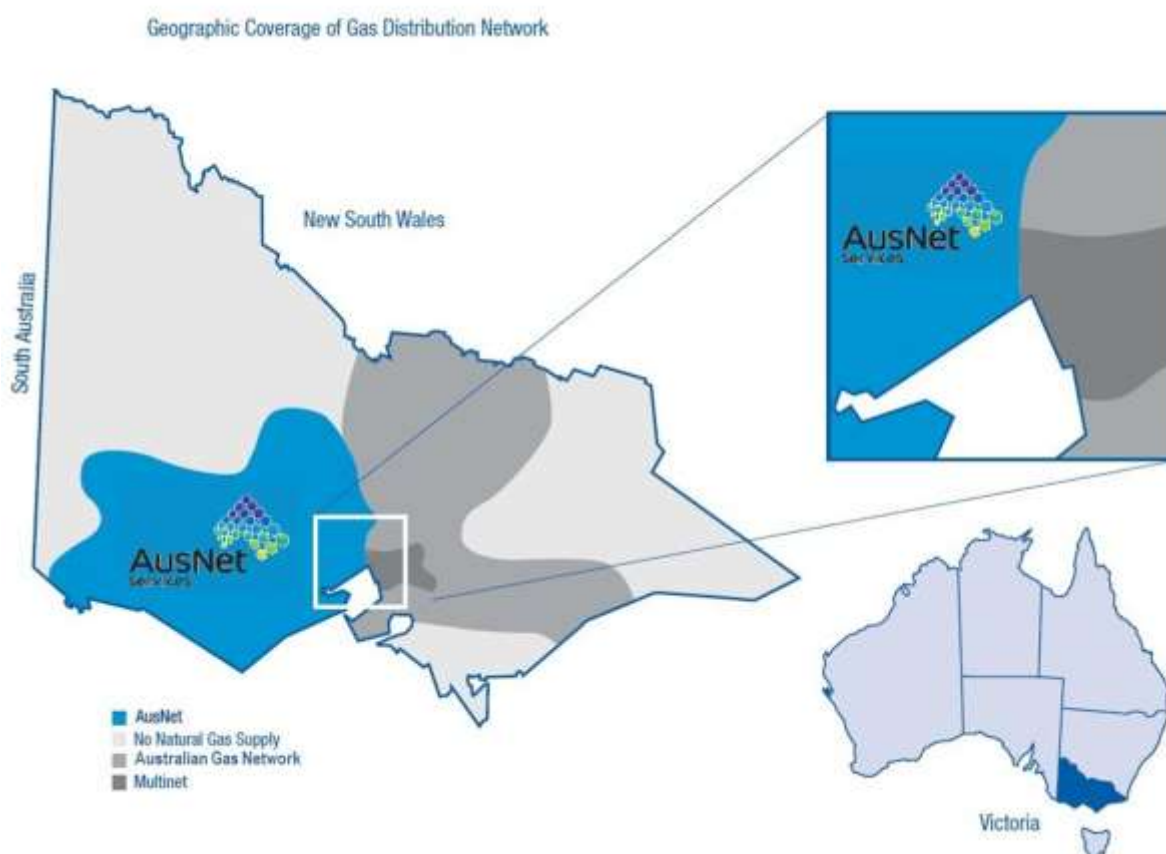
Gas Distribution Network

As at 30 September 2015, the AusNet Services Group distributed gas to approximately 654,600 consumers located in its distribution area located in central and western Victoria. AusNet Services Group's gas distribution network consists of approximately 10,700 kilometres of distribution mains and 185 kilometres of transmission

pipelines. The gas distribution network spans some of the significant areas of expected population growth in Melbourne and its surrounding areas.

The AusNet Services Group's gas distribution network's current access arrangement was approved by the AER and will remain in place until 31 December 2017. The AusNet Services Group levies regulated DUOs charges to retailers and some large distribution customers that use the AusNet Services Group's network. The AusNet Services Group owns the gas distribution assets and the right to distribute gas within its distribution area. The AusNet Services Group applies the same rates and charges for the same services, which is dependent on region and customer type, regardless of the retailer chosen by the consumer in its gas distribution area.

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



Source: AusNet Services Group.

Select Solutions Business

Select Solutions provides services to the AusNet Services Group and also provides specialist utility related solutions, in particular, metering, data and asset management services, to external parties. Select Solutions has extended its footprint to introduce these specialist utility services into NSW, Western Australia, Tasmania, South Australia and Queensland.

Select Solutions' customers are businesses operating in the essential infrastructure sector throughout Australia, including Jemena. Jemena was formerly a part of the Alinta group and is now owned by the Singapore Power Group (40%) and SGIAD (60%). In September 2008, the AusNet Services Group entered into agreements with Jemena in relation to a number of operational arrangements. Under the arrangements, the AusNet Services Group, through Select Solutions, provides network metering services, technical services and vegetation

management services in relation to electricity and gas networks owned and/or managed by Jemena. For the financial year ended 31 March 2015, service revenue from Jemena was A\$53.6 million, representing 33.7% of the service revenue generated by Select Solutions of A\$158.9 million.

AusNet Services Group's Strengths

- **Essential Infrastructure** — As at 30 September 2015, the AusNet Services Group's transmission network comprised 6,573 kilometres of transmission lines and approximately 13,060 towers, its electricity distribution network covered over 80,000 square kilometres and serviced approximately 685,400 consumers and its gas distribution network covered over 60,000 square kilometres and serviced approximately 654,600 consumers. Together these transmission and distribution assets represent essential infrastructure in Victoria, with the AusNet Services Group being the sole provider of electricity distribution and covered gas distribution services in eastern and western Victoria, respectively. In addition, the AusNet Services Group's networks are capital intensive and difficult to replicate and, as a result of these high barriers to entry, they operate as regulated natural monopolies.
- **Regulated Cash Flows** — The electricity transmission, electricity distribution and gas distribution assets provide regulated, largely predictable cash flows. A total of 86% of the AusNet Services Group's consolidated revenues for the financial year ended 31 March 2015 were regulated, all of which were protected from the risk of increases in inflation. Of these amounts, revenues from the AusNet Services Group's electricity transmission business (which amounted to 32% of total consolidated revenue) were not exposed to volume risk. The electricity distribution network will be regulated by a revenue cap for the 2016-2020 regulatory control period, further reducing volume risk. Further, these networks have staggered regulatory reset periods, which reduces earnings volatility, reflected in the AusNet Services Group's historical cash flows being relatively steady, and allows the AusNet Services Group to better manage its financial strategies.
- **Strong Credit Metrics and Diversified Funding Sources** — The AusNet Services Group has established a set of guidelines which target various credit metrics that it considers to be consistent with its policy of maintaining a standalone credit rating of "A-/A3" or above from Standard & Poor's and Moody's. In addition, the AusNet Services Group has a well diversified debt portfolio, both in terms of maturity and sources of debt. As part of its capital management tools, AusNet Services has also raised equity through its DRP and through pro rata entitlement offerings in 2009 and 2012, which raised A\$408.4 million and A\$434.4 million, respectively. For the financial year ended 31 March 2010, it also cut distributions to security holders to eight cents per security, which represented a 32.5% reduction from the financial year ended 31 March 2009.
- **Organic Growth** — The AusNet Services Group's distribution assets are situated in areas of expected population growth in Melbourne and its surrounding areas, contributing to increased connection growth. Continued expenditure on bushfire mitigation and asset replacement on the electricity distribution network will also underpin growth in coming years. In addition, there are opportunities for the AusNet Services Group to bid for the contestable parts of new transmission connections for new generation (including gas, wind and solar) and load (including resources and major industrial projects) connections to the transmission network. Select Solutions continues to pursue growth in the provision of niche metering and asset intelligence services in the essential infrastructure sector to electricity, water and gas utility owners, rail operators and telecommunications companies. Changes in technology and customer behaviour also provide opportunities for the AusNet Services Group to provide products and services related to energy use, energy storage, energy efficiency and other niche services, otherwise known as Energy Solutions.

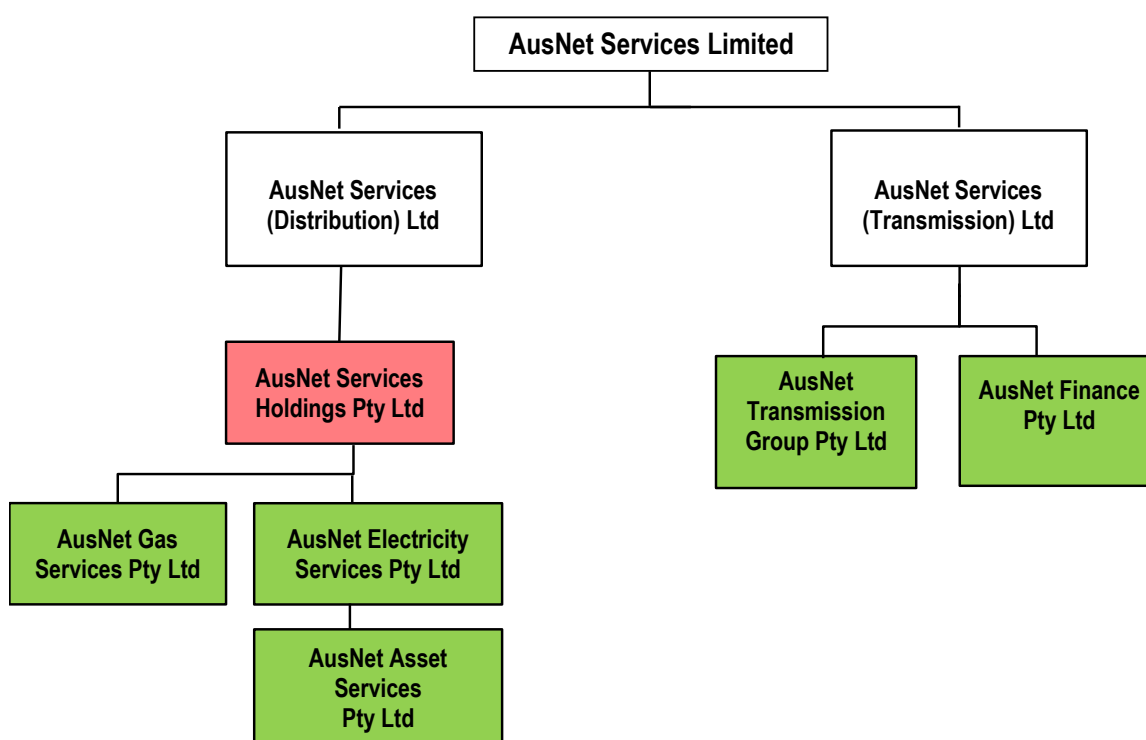
- **Management Expertise** — The AusNet Services Group’s management team has significant experience in operating and managing the AusNet Services Group’s business, including extensive experience with Australian regulatory reset processes.
- **Diversified RAB** — The AusNet Services Group’s regulated asset portfolio is diversified across transmission and distribution assets as well as electricity and gas assets, which, along with the related diversification of regulatory outcomes, provides for more stable cash flows.

Structure of the AusNet Services Group

Prior to the implementation of the Restructure on 18 June 2015, the head entities of the Group comprised the Stapled Entities. Prior to the Restructure the Stapled Entities had been listed on ASX and SGX (secondary listing) since December 2005 and investors held stapled securities in the Stapled Entities.

AusNet Services was publicly listed on the ASX, with a secondary listing on the SGX-ST, in June 2015 (ASX code: AST and SGX code: AUSNET SERVICES (AZI.SI)).

The structure of the AusNet Services Group, which, since the Restructure on 18 June 2015, consists of AusNet Services and its Subsidiaries, is summarised in the following chart. The Issuer is shown in the colour red and the initial Guarantors are shown in the colour green. The chart does not show AusNet Services Finance Trust, several intermediate holding companies and some minor subsidiaries with no substantial assets.



Source: AusNet Services Group

Notes:

- (1) AusNet Services Finance Trust, several intermediate holding companies and some minor subsidiaries with no substantial assets are not shown in the chart.
- (2) Certain existing borrowings may remain with former borrowing entities until refinanced at maturity in accordance with this structure.

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

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

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

Key Events in the Development of the AusNet Services Group

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

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

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

- **December 1995:** U.S.-based TXU Corp purchased the electricity distribution and retail business, Eastern Energy, from the Victorian State Government
- **November 1997:** U.S.-based GPU Electric, Inc. acquired Victorian electricity transmission business, PowerNet Victoria, from the Victorian State Government
- **February 1999:** TXU Corp acquired the gas distribution and retail businesses, Westar and Kinetic Energy, respectively, from the Victorian State Government
- **June 2000:** SPI acquired the Victorian electricity transmission business, GPU PowerNet, from GPU Electric, Inc.
- **July 2004:** Singapore Power acquired the electricity and gas distribution businesses and MEB that were then owned by TXU Corp
- **May/August 2005:** Singapore Power divested MEB, retaining the Victorian gas and electricity distribution businesses that had previously been owned by TXU Corp
- **June 2005:** Launch of SP AusNet brand
- **December 2005:** Initial Public Offering of the Stapled Entities
- **October 2008:** Stapled Entities established the DRP. The DRP operated for the 2008/2009 through to and including the 2015/2016 interim distribution

- **April 2009:** Establishment of Select Solutions division within the AusNet Services Group
- **May/June 2009:** The Stapled Entities raised approximately A\$408 million under an accelerated non-renounceable pro-rata entitlement offer and cut distributions by 32.5%
- **May/June 2012:** The Stapled Entities raised approximately A\$434 million under an accelerated non-renounceable pro-rata entitlement offer
- **December 2012:** The AusNet Services Group enters into agreements to operate and maintain the Victorian Desalination Project's electricity line
- **January 2014:** SGIAD (a subsidiary of State Grid Corporation of China) acquired a 19.9% stapled securityholding in the Stapled Entity from SPI
- **March 2014:** AusNet Services Group terminated the Management Services Agreement with SPI Management Services, under which management services were provided by SPI Management Services (a wholly owned subsidiary of SPI) to AusNet Services Group
- **August 2014:** SP AusNet Group renamed and rebranded to AusNet Services Group
- **June 2015:** AusNet Services completed a corporate restructure under which the Stapled Entities became wholly owned by a new listed entity, AusNet Services.

On 18 June 2015, the Restructure was implemented and AusNet Services became the single head entity of the AusNet Services Group. Eligible securityholders received shares in AusNet Services in the same proportion as the stapled securities in the Stapled Entities previously held. Shares in AusNet Services Ltd are listed on the ASX and the SGX-ST.

Sources and Uses of Liquidity

Until July 2007, the activities of the transmission business were financed through AusNet Finance Pty Ltd and the activities of the distribution business were financed through the Issuer, although both AusNet Electricity Services and AusNet Holdings (Partnership) Limited Partnership have current external borrowings. Following the establishment of the Issuer as the common funding vehicle for the AusNet Services Group, it is anticipated that all future financing will be undertaken by this entity. Certain existing borrowings will remain with the current borrower entity until refinanced at maturity in accordance with the structure set out below. The figure in the section above entitled "Structure of the AusNet Services Group" represents how the Issuer is ultimately intended to be used as the common funding vehicle for the AusNet Services Group and all of its subsidiaries.

As detailed, the issue of the Notes will form part of the external financing of the AusNet Services Group.

In October 2008, the Stapled Entities announced the establishment of a DRP. A DRP in relation to AusNet Services was established in conjunction with the Restructure and provides eligible shareholders of AusNet Services with a convenient method of reinvesting all or part of their dividends in additional securities. The funds raised by the DRP will be used for capital management purposes and to fund capital expenditure.

The DRP of the Stapled Entities operated for the 2008/2009 interim distribution through to and including the 2014/2015 interim distribution.

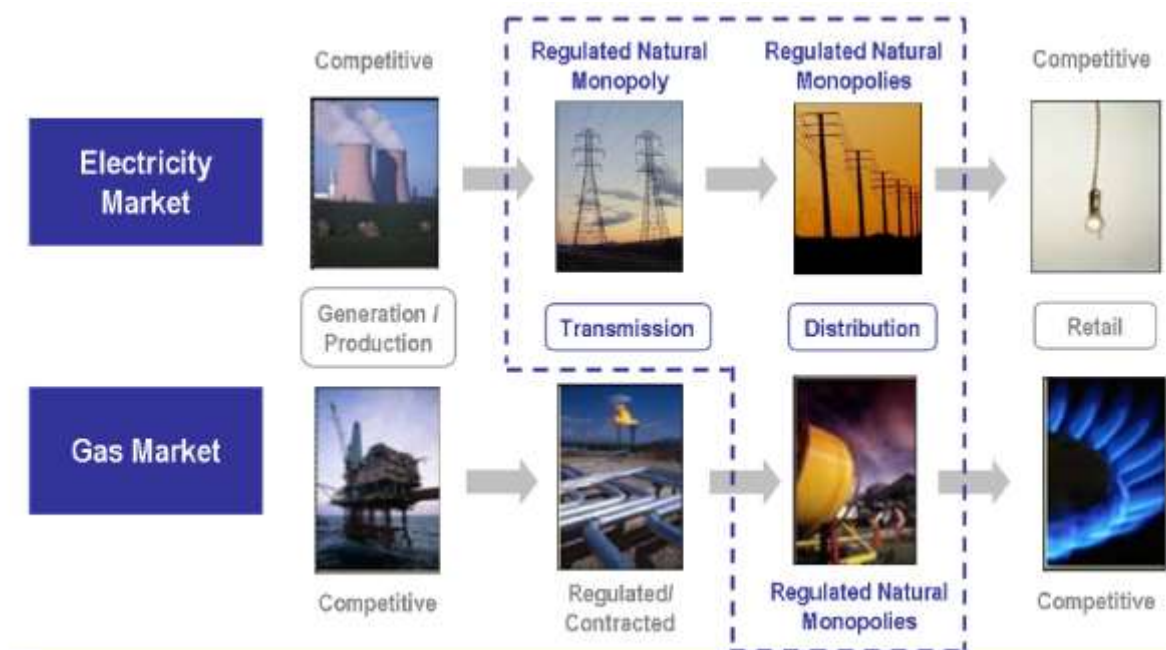
The DRP of AusNet Services operated for the 2014/2015 final dividend.

The Directors of AusNet Services approved an interim dividend for 2015/2016 financial year of A\$149.7 million (4.265 cents per share) which was paid on 24 December 2015 and the DRP of AusNet Services was in

operation for that dividend. Participation in the DRP is voluntary and eligible shareholders may elect to participate in respect of all or part of their holding.

Business Discussion

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



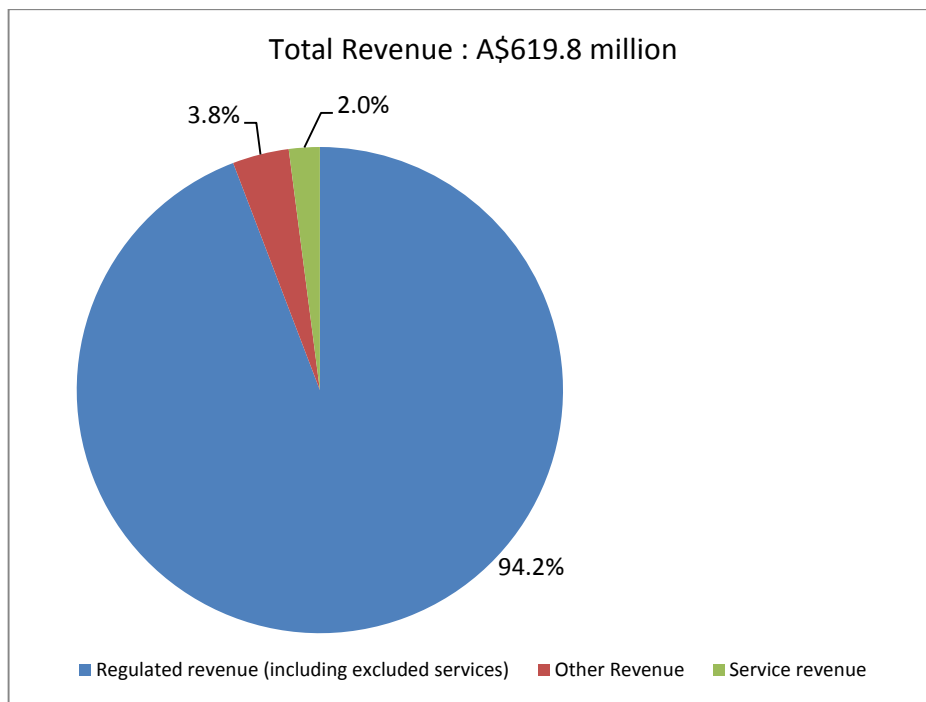
Source: AusNet Services Group.

Electricity Transmission Network

Electricity Transmission Revenue Profile

The electricity transmission business earns network charges and connection charges equal to an annual, regulated, fixed amount (i.e. not dependent upon the actual volume of electricity transmitted), and also earns network availability, reliability and market impact incentive payments. The network charges and connection charges, which together represent 94% of the AusNet Services Group's electricity transmission revenue for the year ended 31 March 2015, are subject to a cap set by the AER based in part on the RAB of the electricity transmission business.

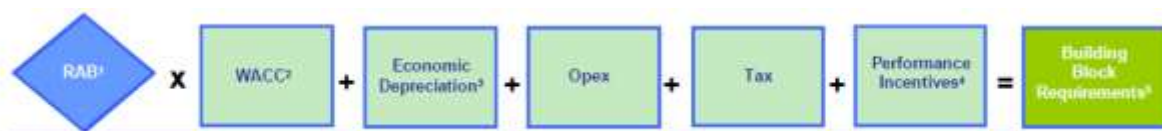
As shown below, the AusNet Services Group's electricity transmission revenues for the year ended 31 March 2015 comprise the following:



Source: AusNet Services Group.

Electricity Transmission Revenue Building Blocks

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



Source: AusNet Services Group.

Notes:

- (1) Regulated Asset Base, as determined by the AER, which is indexed annually to protect the business from inflation risk.
- (2) Weighted Average Cost of Capital, as determined by the AER.
- (3) Economic Depreciation is calculated by subtracting the RAB indexation from the straight line depreciation.
- (4) Performance incentives are also referred to by the AER as glidepath payments, and reward operational expenditure savings achieved in the previous period.
- (5) The forecast building block requirement for each year of the regulatory period is then smoothed using the (CPI-X) factor which also provides protection from inflation risk. The resulting forecast revenue path is referred to as the Maximum Allowable Revenue (“MAR”). Actual revenue will differ from the forecast MAR due to actual inflation and adjustments for service standards performance incentives and penalties.

Electricity transmission network charges derived using the building block approach are spread over the three-year regulatory period to minimise any price volatility for users. Electricity transmission revenue is recovered as a fixed amount and is not affected by usage volume.

The AER's final decision regarding the TRR for 2014/15 to 2016/17 was released on 31 January 2014. The decision was the last AER decision under the regulatory framework that applied prior to the major reforms implemented by the AEMC in 2012. As such, the AEMC decided that the current decision would cover a shorter three year period in order to accelerate the application of the new NER to AusNet Services Group's transmission business from April 2017.

In the final decision, the AER approved higher levels of capital and operating expenditure for AusNet Services Group, compared to its draft decision issued in August 2013.

Overview of outcomes

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

	Year ending 31 Mar				
	2014/15	2015/16	2016/17	Total	Average
	(A\$, in millions, nominal)				
Operating Costs.....	189.7	199.2	202.2	591.1	197
Return on Assets	226.5	233	242	701.4	233.8
Regulatory Depreciation	75.1	81	86.6	242.7	80.9
Cost of Tax	9.5	9.3	9.8	28.6	9.5
Efficiency Carryover.....	18.4	16.1	4.9	39.4	13.1
Total Revenue (unsmoothed)	519	538.7	545.4	1603.1	534.4
X factor	n/a	3.24	3.24	n/a	n/a
Total Revenue (smoothed)	538.1	533.4	528.8	1600.3	533.4

Source: AER, Final Decision AusNet Services Group Transmission Determination 2014/15 to 2016/17, January 2014

WACC parameters

The final decision provides for a WACC of 7.87% (in nominal, after tax terms).

Parameter	2008/09 to 2013/14	2014/15 to 2016/17
	Final Decision	
Risk Free Rate.....	6.09%	4.31%
Debt Risk Premium	2.11%	2.48%
Beta	1	0.8
Gamma	0.5	0.65
Market risk premium.....	6.00%	6.50%
Nominal Vanilla WACC	9.76%	7.87%
Return on Equity	12.09%	9.51%

Electricity Transmission Regulated Revenue

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

Network charges and the Network Agreement

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

The AusNet Services Group is remunerated for provision of the network services on a basis consistent with the revenue determined by the AER, applying pricing principles established in Chapter 6A of the NER. The network performance incentive schemes reward the AusNet Services Group for good network availability and performance. As of 1 April 2016, the Network Agreement will reflect the closure of AEMO's availability incentive scheme (the "AIS").

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

Connection Charges

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

Excluded Prescribed Services

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

Electricity Transmission Other Revenue

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

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

Victorian Desalination Project's Electricity Line

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

Under the agreement, the AusNet Services Group paid the 27 annual licence charges to the Victorian State Government upfront in a single licence payment of A\$235 million on 21 December 2012. The licence is a progression of the Commitment Deed Poll announced by the AusNet Services Group on 23 May 2011.

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

Electricity Transmission Network Condition and Life

The age profile and asset condition of the AusNet Services Group's Electricity Transmission Network are satisfactory as determined by benchmarking of plant availability and maintenance costs in the 2013 International Transmission Operations and Maintenance Study, a study conducted by UMS Group, a management consultancy whose expertise lies in performance measurement of the electricity utility industry. Assets are maintained, refurbished or replaced in accordance with well-established inspection, testing and condition monitoring programmes that form part of the AusNet Services Group's comprehensive asset management system. This asset management system is certified to the ISO 55001 Asset Management standard.

The transmission business is focused on maintaining acceptable levels of network performance, achieving low life cycle costs and optimising capital and operating expenditures. Key components of capital and operating expenditure programmes are focused on sustaining the performance, reliability and condition of the transmission assets. Informing this asset management strategy is a range of risk assessment and asset condition monitoring programmes.

The safety related programmes are subject to an ESMS approved by Energy Safe Victoria, the regulator in respect of the safe supply and use of electricity in Victoria. Compliance with the accepted ESMS is monitored via annual audits conducted by the AusNet Services Group and by Energy Safe Victoria.

The AusNet Services Group maintains a long-term asset replacement capital expenditure programme that takes into account increasing network utilisation, environmental issues, climate change, technology change and network-related risk.

Electricity Transmission Network Growth

The AusNet Services Group does not plan transmission augmentation projects because, in the Victorian market model, this is the function of the AEMO, distributors and generators. However, while the AusNet Services Group is unable to augment the transmission network without a request from the AEMO, a generator or a distributor, new transmission projects are sometimes awarded to the AusNet Services Group on a non-contestable basis, which assists in the further expansion of the AusNet Services Group's transmission network. Provision of services in connection with assets established under augmentation programmes are remunerated on the basis agreed with the AEMO or the augmenting connection party at the time of the augmentation, but which for the majority of augmentations will transfer to regulated services at the subsequent revenue reset. AEMO and the electricity distributors forecast peak load growth in the growth corridors and the need for increased capacity in these parts of the network will require the AusNet Services Group to continue to invest in the transmission network.

Electricity Transmission Network Performance

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

The Transmission Network Availability is the percentage Total Circuit Availability of the defined transmission network elements. It is calculated by dividing the actual hours available for the defined transmission network elements, by the total number of hours in a calendar year available from those defined transmission network elements. This measure used to be specified by the AER in its STPIS. However, in the regulatory period commencing on 1 April 2014, this measure no longer exists as part of the STPIS.

	Year Ending 31 December					
	2014	2013	2012	2011	2010	2009
Transmission System Minutes	0.585	1.183	2.734	0.025	0.19	40.07
Transmission Network Availability	98.96%	99.18%	99.25%	99.11%	99.15%	99.02%

Source: AusNet Services Group.

In 2009, 38.654 Transmission System Minutes out of 40.07 Transmission System Minutes for the entire year were incurred on 30 January 2009 as a result of wide spread load shedding initiated by the AEMO. This load shedding was required due to some of the 500 kV lines not being available for service as a result of equipment failure within the AusNet Services Group’s system, and also due to the reduction in Basslink transfer capability, during a period when an extreme heat wave was experienced across Victoria.

In 2012, 2.734 Transmission System Minutes incurred due to one significant system incident which affected supply to a single customer for 2.57 Transmission System Minutes. In April 2012, the 66 kV radial supply to Powercor Australia’s single high voltage customer was interrupted when its dedicated 220/66 kV transformer tripped. During this time, the customer chose not to use an alternative supply option due to the accompanying load restrictions. After attending to the faulty equipment associated with the dedicated transformer, power supply to Powercor Australia’s single high voltage customer was restored within approximately 7.5 hours through its own dedicated transformer.

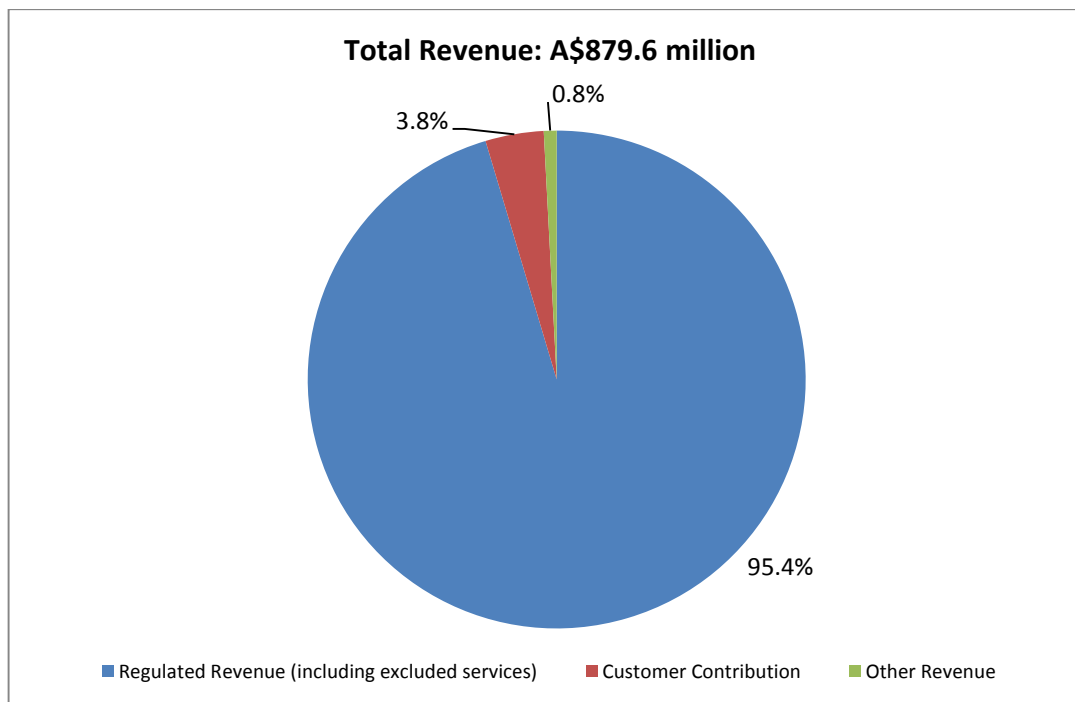
In 2014, the Transmission Network Availability of 98.96% was slightly lower than the previous years. The main contributing factor is a number of long duration planned outages to accomplish AusNet Services Group’s capital works programme.

Electricity Distribution Network

Electricity Distribution Revenue Profile

For the financial year ended 31 March 2015, 95% of the AusNet Services Group’s electricity distribution revenues were derived from regulated approved network prices, including AMI. The remaining electricity distribution revenues came from service revenue earned from customer contributions to capital works and alternative control and negotiated services such as meter reading, meter data management and the provision of public lighting services.

The chart below provides a summary of the AusNet Services Group’s electricity distribution revenues for the financial year ended 31 March 2015. Each of these components of the AusNet Services Group’s distribution revenues is discussed in greater detail below.

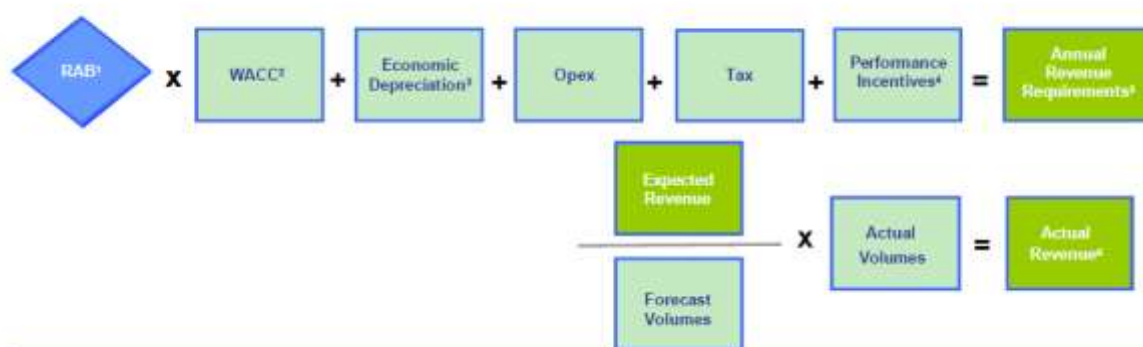


Source: AusNet Services Group.

Electricity Distribution Regulated Revenue

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

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



Source: AusNet Services Group.

Notes:

- (1) RAB, as determined by the AER, it is indexed annually by inflation to protect the business from inflation risk.
- (2) WACC, as determined by the AER.
- (3) Economic Depreciation is calculated by subtracting the RAB indexation from the straight line depreciation.

- (1) Performance incentives include efficiency carry-over amounts to reward operational expenditure savings achieved in the previous period, and S factor amounts to reward or penalise service standard performance in the previous period.
- (2) The annual revenue requirement for each year of the regulatory period is then smoothed using the (CPI-X) factor, which also provides protection from inflation risk. The resulting forecast revenue path is referred to as expected revenue.
- (3) Actual revenue will differ from the expected revenue due to actual inflation, actual volume and service standards performance incentives and penalties.

Previously for the electricity distribution network, the prices per volume of electricity distributed were regulated, with actual revenue subject to the volume of electricity distributed. By contrast, for the transmission network, total revenues are set by the regulator and revenues are not subject to actual electricity consumption. The pricing regime left the business with some exposure to revenue fluctuations due to volatility in volume demand. The new determination process applicable to the current 2016-2020 regulatory period applies a revenue cap to the distribution business, thus removing volume risk. Transitional arrangements governing the 2016-20 revenue reset process mean that the 2016 revenues will be set by the AER's preliminary determination. The preliminary determination will be revoked and a new substituted determination will be made in April 2016 (its final determination). The AER's final determination will apply to the whole of the 2016-2020 regulatory period, and will include a "true-up" process to ensure any revenue difference between the preliminary and substitute determinations for the 2016 regulatory year are recovered appropriately.

Target electricity revenue, as published by the AER in October 2015 for the 2016 year is illustrated below. The AER will make its final determination for the remaining four years of the current regulatory period (through to 2020) in April 2016.

	Year Ending 31 December
	2016
	<i>(A\$, in millions)</i>
Return on capital ⁽¹⁾	208.8
Regulatory depreciation	96.6
Operating expenditure	218.2
Tax allowance	34.6
Annual revenue requirements	559.0
Expected revenues ⁽²⁾	586.1
Forecast CPI (percent)	2.50
X factors (percent)	8.1

Source: AER, AusNet Electricity Services Pty Ltd Distribution Preliminary Determination 2016 to 2020, October 2015.

Notes:

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

Advanced Metering Infrastructure Revenues

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

The AMI CROIC legislates the cost recovery of regulated services supplied from 2009 to 2015 (including transitional arrangements for 2006 through 2008 AMI related expenditures) and contains two budget periods: 2009 to 2011 and 2012 to 2015 for expenditure approval purposes and two WACC periods: 2009 to 2013 and 2014 to 2015 for setting the WACC parameters. In general, the cost recovery regulatory framework has changed from incentive-based control to a cost “pass-through” building block approach with a series of supporting “Regulatory Principles”, specified in the AMI CROIC. In order to ensure the cost “pass-through” principle the AMI CROIC defines an annual true up process to ensure that the present value of the actual annual building block revenue equates to the present value of the actual tariff revenue for the same period. The AER is the economic regulator of this activity. Accordingly, the AER redetermined the AusNet Services Group’s metering services revenue requirement and established a new price control in the AMI final determination released on 30 October 2009. This determination prescribed the revised price controls to be applied from 1 January 2010. The price controls applied for 2009 were based on the previously approved 2005 through 2010 EDPR determination. The target tariff revenues for regulated metering services, as determined by the AER on 30 October 2009 and published in the AMI final determination, are illustrated in the table below.

	Year Ended 31 December		
	2011	2010	2009
	<i>(A\$, in millions)⁽¹⁾</i>		
Return on assets ⁽²⁾	10.9	7.2	4.3
Regulatory Depreciation.....	26.2	19.8	12.0
Operating costs allowance.....	26.8	28.3	29.3
2006-2008 Offset ⁽³⁾	N/A	N/A	(5.8)
Tax Liability	0.0	0.0	0.0
Total building block revenue (real 2008)	63.9	55.3	39.8
Total building block revenue (nominal) ⁽⁴⁾	70.6	59.6	41.8
AER determined target tariff revenue based on price path (nominal) ⁽⁵⁾	70.6	63.4	38.2

Source: AER Final Determination, released on 30 October 2009.

Notes:

- (1) The building block is expressed in real 2008 figures.
- (2) Return on assets is calculated by multiplying the RAB by the WACC as determined by the AER under the CROIC parameters.
- (3) 2006-2008 Offset is the true-up of the costs and revenues for the period as required under the CROIC cost pass-through mechanism.
- (4) The total building block revenue in real 2008 figures is adjusted for forecast inflation to give nominal figures.
- (5) The building block revenue is translated into the target tariff revenue by equating the present value of the net cash flows generated by both revenue streams over the regulatory period.

The revenues for regulated metering services described in the table above have been the subject of further applications for revisions and variations.

Under the AMI CROIC true up mechanism the above revenues have all been adjusted for actual costs incurred and the true up applied to later years' revenues.

Under the AMI CROIC, the AusNet Services Group was required to lodge a Subsequent Budget and Charges Application for the 2012 to 2015 period on 28 February 2011. The AER made a final determination on this application on 31 October 2011. Under the AMI CROIC this application includes the true-up process to ensure that the present value of the actual building block revenue equates to the present value of the actual tariff revenue for the 2009 to 2011 period. The target tariff revenues for regulated metering services, as determined by the AER on 31 October 2011 and published in the AMI final determination, are illustrated in the table below.

	Year Ending 31 December			
	2015	2014	2013	2012
			<i>(A\$, in millions)⁽¹⁾</i>	
Return on assets ⁽²⁾	16.4	18.9	18.8	15.4
Regulatory Depreciation	37.8	38.6	45.1	37.0
Operating costs allowance	15.0	16.3	26.7	32.6
Tax Liability	0	0	0	0
Total building block revenue (real 2008)	69.2	73.9	90.6	85.0
Total building block revenue (nominal) ⁽³⁾	83.7	87.0	104.2	95.3
AER determined target tariff revenue based on price path (nominal) ⁽⁴⁾	124.4	107.4	92.7	79.8

Source: AER Final Determination, released on 31 October 2011.

Notes:

- (6) The building block is expressed in real 2008 figures.
- (7) Return on assets is calculated by multiplying the RAB by the WACC as determined by the AER under the CROIC parameters.
- (8) The total building block revenue in real 2008 figures is adjusted for forecast inflation to give nominal figures.
- (9) The building block revenue is translated into the target tariff revenue by equating the present value of the net cash flows generated by both revenue streams over the regulatory period.

The AusNet Services Group has the ability under the AMI CROIC to submit applications for revisions and variations to this budget.

On 31 October 2011, the AER released its Final Determination on the 2012 to 2015 Budget and Charges Application. The determination reduced the AusNet Services Group's proposed expenditure for this period from A\$410.7 million to A\$304.1 million (in 2011 Australian dollars). The Final Determination relates to proposed expenditure from calendar years 2012 to 2015 only and does not impact on the costs incurred by the AusNet Services Group to date on the AMI programme or the recoverability of those costs, which were approved by the AER for the 2009 to 2011 period.

The AusNet Services Group appealed the AER's Final Determination in relation to approximately A\$86 million of the A\$106.6 million reduction in proposed expenditure. The ACT handed down its decision on 26 April 2012 and ordered the AER to revise its Final Determination in accordance with the ACT's reasoning for A\$73.9 million of proposed expenditure. On 11 February 2013 the AER released its Final Decision on the ACT remittal which increased the AusNet Services Group's approved budget by A\$17.5 million to A\$321.6 million.

The AusNet Services Group lodged an application for review to the ACT and an appeal to the Federal Court of Australia in relation to approximately A\$56.4 million of the A\$73.9 million the AER was directed in the ACT's remittal to reconsider. The ACT handed down its decision on the application for review on 1 August 2013, finding that the AER did not make a material error in making its February 2013 decision. On 17 September 2014, the Federal Court of Australia dismissed the AusNet Services Group's appeal. The AusNet Services Group decided not to pursue further appeals in relation to its approved budget for expenditure, and on 9 October 2014 discontinued its application for review of the ACT's decision of 1 August 2013. Consequently, there are costs that are not included in the budget approved by the AER. The AusNet Services Group will seek to recover additional AMI programme expenditure within the regulatory framework through future Excess Expenditure Applications.

The AMI CROIC required the AusNet Services Group to file a Charges Revision Application ("CR Application") by 31 August 2014 for the AER to determine the revised charges for 2015. The AusNet Services Group has filed the CR Application, which detailed the costs within the scope of the AMI CROIC that were incurred in 2013 and forecast costs for 2014 to 2015. The target tariff revenues for regulated metering services for 2012-2015, as determined by the AER on 12 December 2014 and published in the AMI final determination, are illustrated in the table below.

	Year Ending 31 December			
	2015	2014	2013	2012
	<i>(A\$, in millions)⁽¹⁾</i>			
Return on assets ⁽²⁾	16.6	16.7	21.7	16.6
Regulatory Depreciation.....	46.8	46.7	50.5	38.8
Operating costs allowance.....	33.3	26.8	34.2	35.5
Tax Liability.....	0	0	0	0
Total building block revenue (real 2008).....	96.7	90.4	106.4	90.9
Total building block revenue (nominal) ⁽³⁾	116.9	106.9	122.8	102.8
AER determined target tariff revenue based on price path (nominal) ⁽⁴⁾	160.0	123.0	98.8	83.6

Source: AER Final Determination, released on 12 December 2014.

Notes:

- (1) The building block is expressed in real 2008 figures.
- (2) Return on assets is calculated by multiplying the RAB by the WACC as determined by the AER under the CROIC parameters.
- (3) The total building block revenue in real 2008 figures is adjusted for forecast inflation to give nominal figures.
- (4) The building block revenue is translated into the target tariff revenue by equating the present value of the net cash flows generated by both revenue streams over the regulatory period.

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

From 1 January 2016, metering services will no longer be regulated under the AMI CROIC but rather the NEL and NER as Alternative Control Services with a revenue cap. On 29 October 2015, the AER released the 2016-20 EDPR Preliminary Determination which sets out the following revenue profile:

	Year Ending 31 December				
	2020	2019	2018	2017	2016
	(A\$, in millions)				
Return on capital ⁽¹⁾	15.8	17.3	19.5	21.6	23.2
Regulatory depreciation	25.9	36.2	46.9	44.0	40.7
Operating expenditure	31.7	31.0	30.2	29.5	28.8
Annual revenue requirements	73.4	84.6	96.7	95.1	92.7
Expected revenues ⁽²⁾	85.0	86.9	88.8	90.8	92.7
Forecast CPI (percent)	2.50	2.50	2.50	2.50	2.50
X factors (percent)	4.54	4.54	4.54	4.54	43.46

Source: AER, AusNet Electricity Services Pty Ltd Electricity Distribution Draft Determination 2016 to 2020.

Notes:

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

Metering charges from 1 January 2016 will be based on the EDPR Preliminary Determination. The AusNet Services Group will submit a revised Electricity Distribution regulatory proposal on 6 January 2016 and the AER will make its substitute determination by 30 April 2016.

Electricity Distribution Customer Contributions

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

Alternative Control, Ancillary and Negotiated Services

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

Electricity Distribution Other Revenue

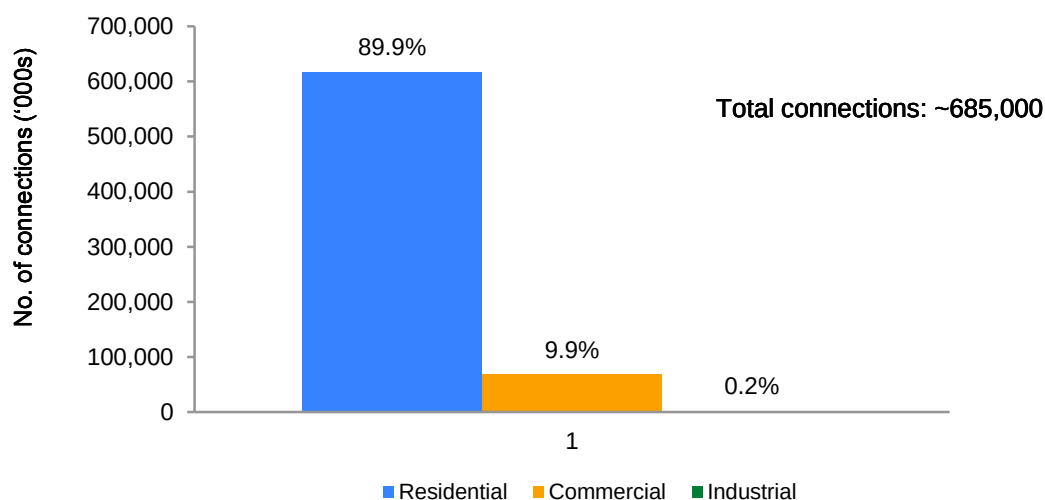
Other revenue generated by the electricity distribution business mainly relates to minor charges to other distribution businesses for shared use of assets and other services provided by the AusNet Services Group's

Select Solutions, such as contestable meter provision and data services not included as Alternative Control Services.

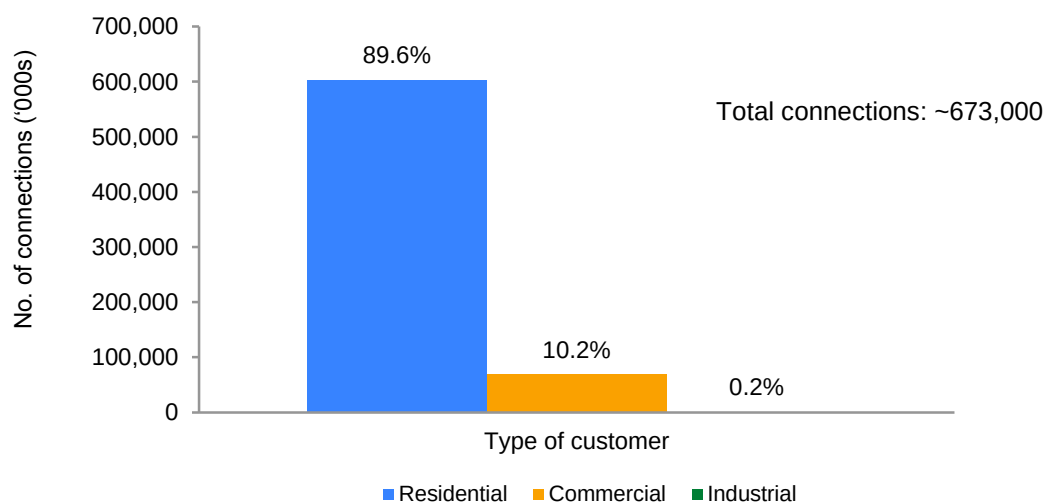
Electricity Distribution Customers

For the financial year ended 31 March 2015, the AusNet Services Group's five largest electricity retailer customers accounted for 69% of the AusNet Services Group's total electricity distribution network and excluded revenues. The charts below provide an overview of AusNet Services Group's customer numbers as at 30 September 2015 and 30 September 2014 and energy usage for the year ended 31 March 2015, respectively.

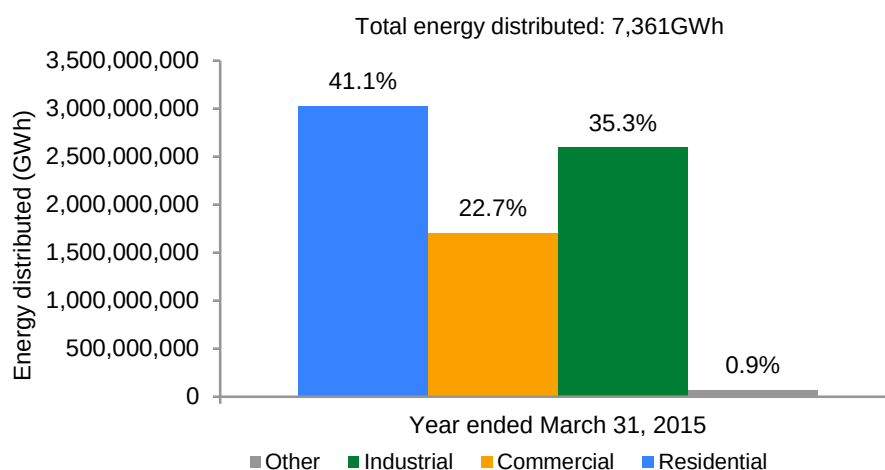
Customers, as at 30 September 2015



Customers, as at 30 September 2014



Energy distributed for the year ended 31 March 2015



Source: AusNet Services Group.

Electricity Distribution Network Condition and Life

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

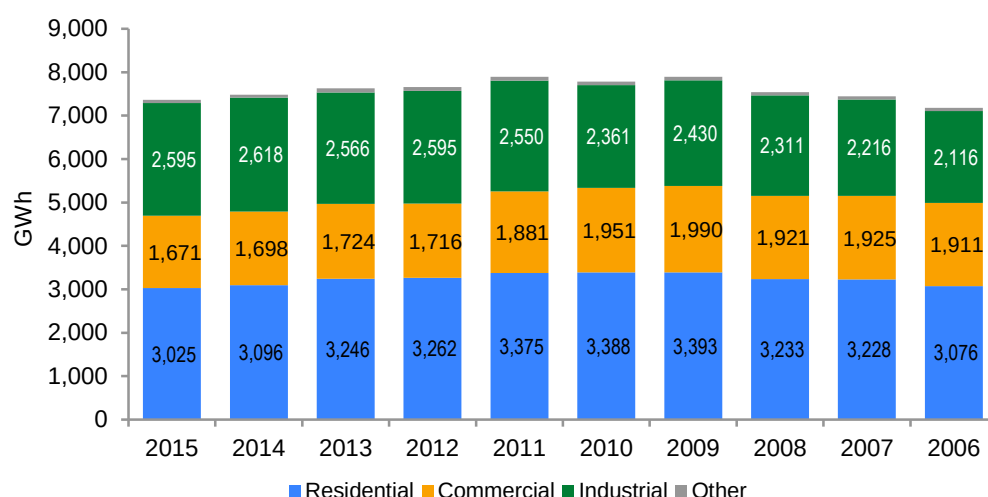
The safety related programmes are subject to an ESMS approved by Energy Safe Victoria, the regulator in respect of the safe supply and use of electricity in Victoria. Compliance with the approved ESMS is monitored via annual audits conducted by the AusNet Services Group and by Energy Safe Victoria.

Asset replacement is also driven by the AusNet Services Group's risk-based approach to sustaining a reliable electricity distribution network. Reliability risk is mainly dependent on the condition, age and location of electricity distribution assets. In general, older assets in seaside, heavily vegetated and termite-prone environments or assets located near the source of medium voltage circuits present higher reliability risks.

Electricity Distribution Network Growth

The AusNet Services Group enhances its network capacity to meet on-going increases in demand from consumers. The AusNet Services Group believes that its proposed capital expenditure plan is sufficient to meet foreseeable future demand for electricity and growth in customer connections. In the year ended 31 March 2015, the AusNet Services Group experienced a 1.6% reduction in energy delivered and approximately 10,600 net new customer connections, a 1.6% increase in new customer connections over the previous year. The figure below illustrates electricity consumption for the AusNet Services Group's electricity distribution network over the past ten fiscal years.

Units of Electricity Distributed



Source: AusNet Services Group.

Electricity Distribution Network Performance

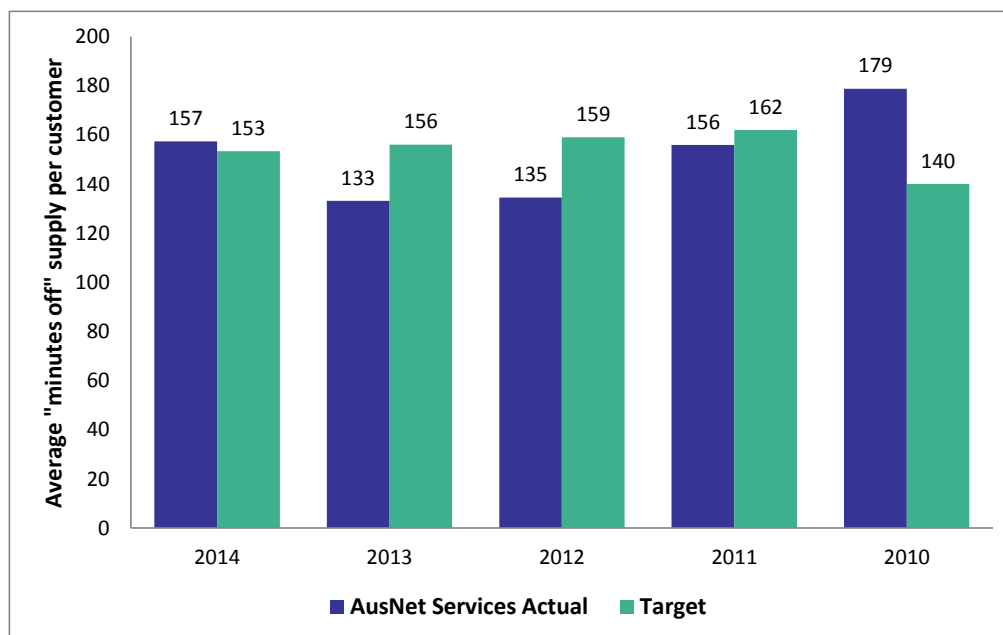
Distribution of electricity across the AusNet Services Group's distribution network is subject to various factors that may disrupt delivery. The majority of electricity distribution network outages are unplanned and result from a variety of factors beyond the AusNet Services Group's control, including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

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

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

Incentives under the STPIS are paid relative to a regulatory control period target and are an adjustment to prices one year after the completion of the performance year (i.e. 2013 performance impacts revenues from 1 January 2015 through 31 December 2015).

Yearly performance can vary broadly depending on the number of weather events. However, a number of risk mitigation tools exist to enable the AusNet Services Group to smooth or mitigate this variability. These include the ability to bank performance (delay rewards or penalties for a year) to reduce volatility of revenue and an exemption regime where extreme performance outside of the AusNet Services Group's control is excluded from calculations of performance. The graph below shows the reliability performance, as measured by the number of unplanned minutes off supply, defined as the total minutes, on average, that a customer can expect unplanned interruption to supply over a specified period of time ("USAIDI"), against the AusNet Services Group's internal targets for the regulatory period 2010 through 2014.



Source: AusNet Services Group.

The 2010 outcome for average unplanned minutes off supply per customer was higher than target. Lightning and other impacts of thunderstorms had a significant influence and on 6 March and 17 June contributed 12 minutes off supply each. Storm activity on 5 September contributed 24.5 minutes. None of these events met the Major Event Day ("MED") exclusion criteria for the STPIS.

Average unplanned minutes off supply per customer for 2011, 2012 and 2013 was better than the target. This can be attributed to a combination of favourable weather and the programme that focuses on improving the distribution network's reliability performance by systematically reviewing poorly performing segments and investing in making the network "smarter", that is, adding technology that automatically reconfigures the affected network in order to minimise the number of customers affected by outages.

In 2014, a total of 12 total fire ban days were declared in Victoria between January and March 2014 due to extreme temperatures which resulted in bushfires in some parts of the state. A total of 13 USAIDI minutes were lost between 14 and 17 January 2014 due to four consecutive days with temperatures above 40°C. Another four consecutive days of temperatures above 35°C affected Victoria between 6 and 9 February. On 9 February 2014, 18 USAIDI minutes were lost due to bushfires.

On 4 April 2014, a transmission event at Morwell Terminal Station caused the loss of supply to approximately 100,000 customers for up to two hours. A total of 8.6 USAIDI minutes were lost from this incident. The incident was caused by a protection system failure following a line fault.

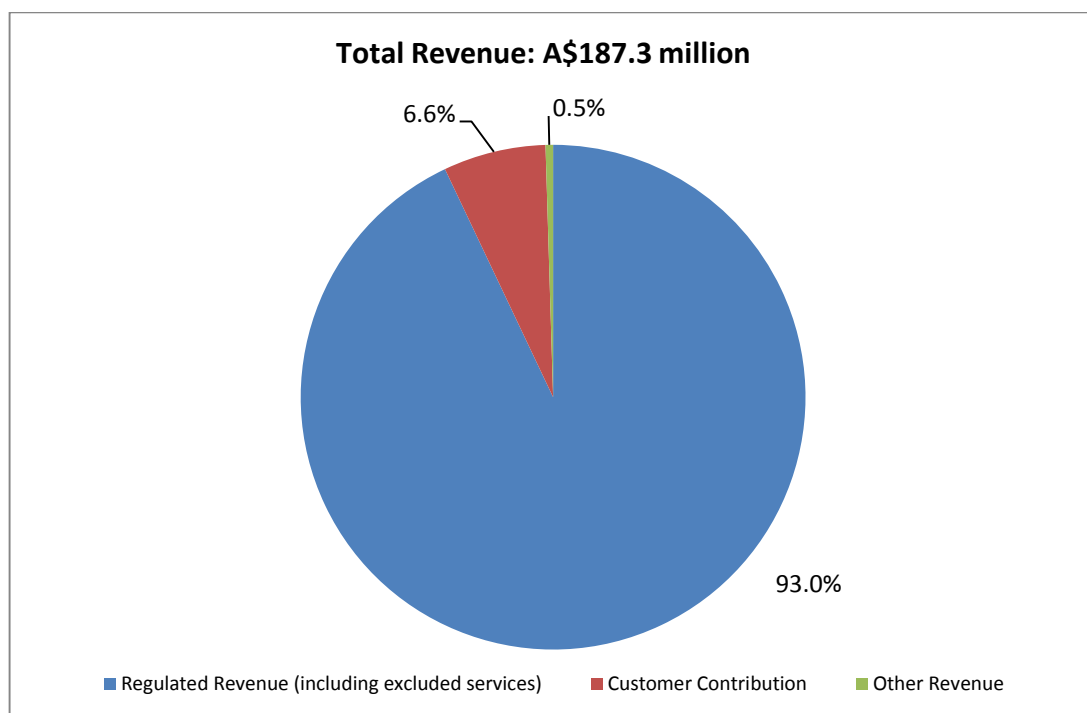
A number of major storms impacted the distribution network in 2014. On 24 June 2014, more than 15,000 customers lost supply for an average duration of 10 hours (approximately 14 USAIDI minutes). This was followed by another storm on 31 July 2014 when more than 21,000 customers experienced supply interruptions for up to four hours (approximately 32 USAIDI minutes). Over 70,000 customer interruptions with average interruption duration of three hours (approximately 17 USAIDI minutes) occurred as a result of another major storm on 30 September 2014. Fallen trees and branches on line assets caused the majority of these outages. All of the above events are classified as MED and met the exclusion criteria.

Contributing to the unfavourable USAIDI performance in 2014 were a number of severe weather days with damaging winds on 16 and 29 December which resulted in 3.7 and 5.2 USAIDI minutes being lost respectively. These events did not meet the MED exclusion criteria.

Gas Distribution Network

Gas Distribution Revenue Profile

The AusNet Services Group's gas distribution revenues for the financial year ended 31 March 2015 is summarised in the following chart. Each of these components of the AusNet Services Group's gas distribution revenues are discussed in greater detail below.



Source: AusNet Services Group.

Gas Distribution Regulated Revenue

The AusNet Services Group charges retailers, at regulated rates, for their customers' DUOs charges. The AER is responsible for regulating the distribution tariffs pursuant to the NGR and the GIA. Price regulation of the distribution networks is conducted in a similar manner as for electricity distribution tariffs (described above), except that it forms part of the approved access arrangement, rather than being a separate determination. For the gas distribution network, the prices per volume of gas distributed are regulated, with actual revenue subject to the volume of gas distributed. The target total building block revenue set for the AusNet Services Group's gas distribution network for the current regulatory period, 2013 through 2017, is set out in the table below.

	Year Ended 31 December				
	2017	2016	2015	2014	2013
	<i>(A\$, in millions)</i>				
Return on capital ⁽¹⁾	113.4	108.4	102.6	90.2	90.2
Depreciation	32.7	29.2	25.8	16.8	16.8
Operating costs allowance	60.5	57.9	55.4	49.6	49.6
Efficiency carry over	0.0	-1.6	5.9	13.1	13.1
Tax allowance.....	7.0	6.0	5.0	1.7	1.7
Total building block revenue	213.6	199.9	194.5	171.5	171.5
Total building block revenue (smoothed) ⁽²⁾	205.6	193.6	183.5	175.7	194.1

Source: AER, Access arrangement final decision AusNet Gas Services Pty Ltd 2013 to 2017, March 2013.

Notes:

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

Gas Distribution Customer Contributions

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

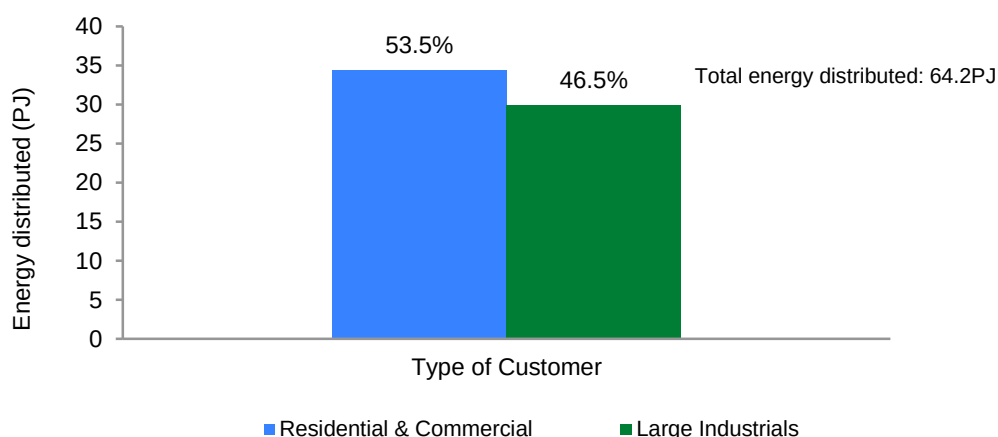
Excluded Services

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

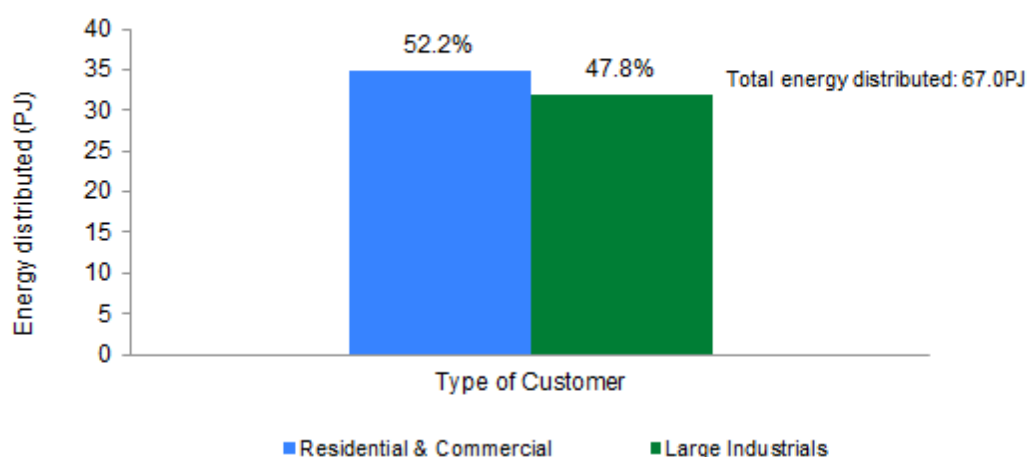
Gas Distribution Customers

For the financial year ended 31 March 2015, the AusNet Services Group's five largest gas retail customers accounted for 86% of the AusNet Services Group's total gas distribution network and excluded revenues. The AusNet Services Group had approximately 654,600 residential and commercial customers and approximately 274 large industrial customers as at 30 September 2015. The chart below provides an overview of the AusNet Services Group's gas energy distributed for the year ended 31 March 2015.

Gas distributed for the 2015 Fiscal Year



Gas distributed for the 2014 Fiscal Year



Source: AusNet Services Group.

The AusNet Services Group charges a volume-based tariff to residential and commercial customers who account for approximately 53% of total energy delivered and 97% of distribution-regulated revenue. Large industrial customers account for approximately 47% of total energy delivered and 3% of revenue through a demand-based tariff.

Gas Distribution Network Condition

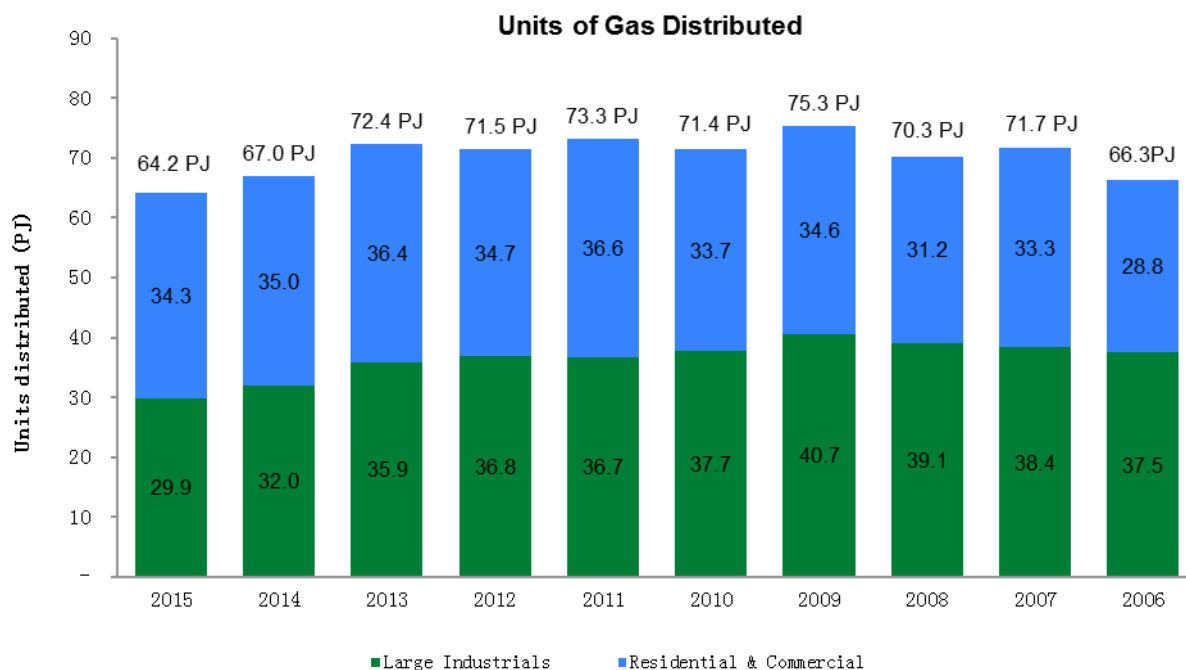
The age profile and asset condition of the AusNet Services Group's gas distribution network are consistent with industry standards. Assets are maintained, refurbished and replaced in response to well established inspection, testing and condition monitoring programmes that form part of the AusNet Services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

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

The AusNet Services Group's gas network consisted of approximately 185 kilometres of transmission pipe and approximately 10,700 kilometres of distribution mains as at 30 September 2015. The pipelines within the network are of different material, reflective of the prevailing technology of the day when the network was constructed: 67% are polyethylene, 23% are protected steel, 4% are polyvinyl chloride ("PVC"), and the balance (6%) is of unprotected steel or cast iron construction.

Gas Distribution Network Growth

The AusNet Services Group enhances its network capacity to meet on-going increases in demand from consumers. The AusNet Services Group believes that its current proposed capital expenditure plan is sufficient to meet foreseeable future increases in demand for gas. During the year ended 31 March 2015, the AusNet Services Group had approximately 14,350 net new customer connections equating to 2.3% growth. There continues to be strong, but slowing growth in new connections in the western suburbs of Melbourne due to new estate developments. The figure below illustrates gas consumption from the AusNet Services Group's gas distribution network over the past ten years.



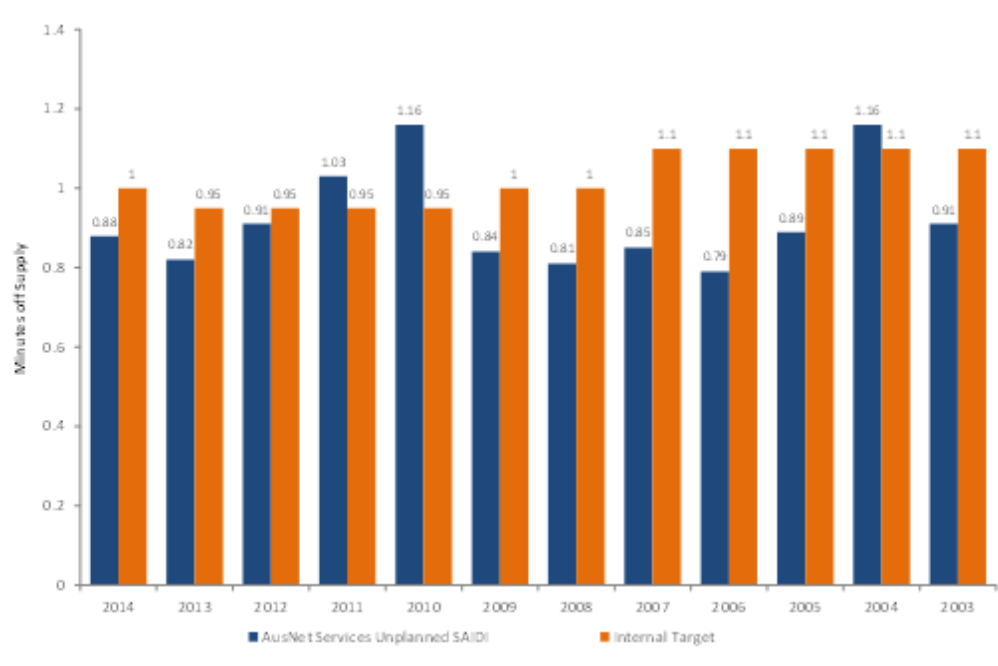
Source: AusNet Services Group.

Gas Distribution Network Performance

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

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

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



Source: AusNet Services Group.

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

The performance targets for 2011 and 2010 were exceeded as a direct result of high rainfall in the western part of Victoria. High rainfall increases water ingress into the low pressure cast iron network consequently causing increased customer outages. In 2010, Victoria experienced its heaviest rainfalls in a number of years.

Unregulated Businesses

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

Unregulated Infrastructure Investments

AusNet Services Group owns and operates a portfolio of unregulated infrastructure assets in excess of A\$400 million. These investments consist primarily of network infrastructure assets which fall outside the economically regulated asset base. The investments are made through directly negotiated agreements, pursuant to which AusNet Services Group typically receives revenue over the productive life of the asset in exchange for the network service and infrastructure provided.

AusNet Services announced on 12 February 2016 that it has entered into a binding Asset Sale Agreement with Origin Energy (ASX:ORG) to acquire its Mortlake Terminal Station for a total consideration of A\$110 million (A\$116.5 million including stamp duty). The terminal station facilitates the export of electricity generated at Origin's gas-fired Mortlake Power Station into Victoria's electricity transmission network, owned by AusNet Services. The Mortlake Terminal Station is closely aligned to AusNet Services' core operations and transmission network.

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

Select Solutions Business

Select Solutions is a division of the AusNet Services Group that provides services in the unregulated energy and utility markets including specialist utility services to the AusNet Services Group. Select Solutions is a leading specialist provider of metering, data and asset management services in the essential infrastructure sector throughout Australia. These services include network and contestable metering, asset inspection, utility material provision, technical services (such as chemical testing and asset condition monitoring) and water and gas services (gas and water metering, new connections, meter replacement and civil plumbing services). Services also include the leasing of communications infrastructure and space on the AusNet Services Group sites and assets.

These services provided by Select Solutions generally require minimal capital expenditure.

Select Solutions currently provides these services to various industry markets including, but not limited to, utility owners, energy retailers, governments and councils, industrial and commercial businesses and other like customers. Select Solutions has a number of accreditations that underpin its services offering, including AEMO accreditations for metering services and laboratories for calibration and testing services accredited by the National Association of Testing Authorities. Focusing on unregulated business growth, Select Solutions is dedicated to continued expansion of its current service portfolio to increase market share in its selected market.

The AusNet Services Group is required under the AMI programme to roll-out in excess of 680,000 remotely read interval meters. Select Solutions managed and controlled this field roll-out activity with respect to the AusNet Services Group's electricity distribution network.

Information, Communications and Technology

The AusNet Services Group has several important ICT systems to support the management of its transmission and distribution networks. These include systems relating to the operation and control of the electricity and gas networks, call centre and customer support systems, metering, billing, revenue collection and other typical systems such as financial and human resources systems.

The systems used to monitor and control the electricity and gas networks ("**SCADA systems**") are the most critical. Central control room operators use these systems to monitor the state of the networks and the energy that flows through them.

Other ICT systems such as metering and billing systems play a critical role in collecting revenue. Call centre and customer support systems enable the AusNet Services Group to respond to faults on a timely basis.

The AusNet Services Group's ICT systems are exposed to risks of hardware and software failures as well as environmental failures such as loss of power or fires, exposure to viruses or malicious attacks. However, the AusNet Services Group has in place various risk treatment strategies which include the installation of duplicated systems and sites for the SCADA systems. In line with the AusNet Services Group's risk management framework, the international standard for risk management ISO 31000:2009 has been used in developing the AusNet Services Group's strategy for ICT risk management. The AusNet Services Group has adopted a blend of in-house and outsourced services for the delivery of ICT functions and capability.

Employees

The AusNet Services Group had 2,439 permanent payroll employees and 268 fixed-term employees as at 30 September 2015. The vast majority of the AusNet Services Group's employees are located in Victoria. The total employee group comprises 1,647 employees on individual employment contracts and 806 employees on enterprise bargaining agreements or Modern Awards.

Overall, the AusNet Services Group enjoys a relatively stable industrial relations environment with issues resolved through negotiation and occasional support from the Fair Work Commission, the employment tribunal. In terms of disputes, there has been minimal industrial action in pursuit of any union claims, with the period from 2005 through 2010 being free of such action, and some limited protected action in 2010. There are current Enterprise Agreements in place until 2016/2017, with the current agreements being negotiated and agreed prior to the expiration of the previous agreements and achieved without the occurrence of any industrial action.

Health & Safety

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

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

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

Risk Management and Internal Controls

The effective management of risk is central to the continued growth and success of the AusNet Services Group. By understanding and managing risk the AusNet Services Group aims to provide greater certainty for its security holders, employees, customers, suppliers and for the communities in which it operates. The Board of Directors of the AusNet Services Group reviews and guides the AusNet Services Group's overall systems of risk management and internal control, and ensures that security holders are informed in a timely manner of material changes to the AusNet Services Group's risk profile.

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

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

The AusNet Services Group has a structured and consistent process for identifying, assessing and mitigating risks. All employees are responsible for the management of risk in accordance with the AusNet Services Group's Risk Management Standards. This responsibility includes ensuring that emerging conditions and key controls are identified and monitored so that any early warning of failure can be used to take pre-emptive action.

The AusNet Services Group operates under one framework that enables the management of risk to be integrated into its critical systems and decision-making processes. This enables the AusNet Services Group to challenge assumptions and preconceptions at an early stage and to take appropriate action to reduce uncertainty and increase the likelihood that its objectives will be achieved.

Interest Rate and Foreign Exchange Risk Management

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

The objective of the hedging activities in relation to these businesses is to minimise the exposure to changes in interest rates by matching the actual cost of debt with the cost of debt assumed by the AER when setting the rate of return for the relevant business. The AusNet Services Group's Treasury Risk Policy states that interest rate risk is to be managed in order to maintain the percentage of fixed rate debt to total debt at a level between 90% and 100% for each regulated business over the course of its regulatory period. As at 30 September 2015, the percentage of fixed rate debt (including floating rate debt hedged through interest rate swaps) to net debt was 90.3%.

The functional currency of the AusNet Services Group is the Australian dollar. The AusNet Services Group's Treasury Risk Policy states that any material currency exposure has to be hedged. This includes hedging 100% of foreign currency denominated debt. As at 30 September 2015, all foreign currency denominated bonds were 100% hedged through maturity.

Insurance

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

Litigation and Disputes

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

Environmental Matters

Contaminated Sites

The AusNet Services Group's operations are subject to a number of laws and regulations relating to environmental protection and safety, including bushfire mitigation. The AusNet Services Group believes that it

is in compliance in all material respects with applicable environmental laws and regulations and that there are no outstanding or anticipated environmental issues of a significant nature other than a number of sites contaminated by historical gas manufacturing operations. The estimated net present value for costs of remediation of those sites, amounting to A\$29.6 million at 30 September 2015, has been provided for in the AusNet Services Group's accounts. Work related to the remediation is on-going.

Spills from Oil Filled Plant

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

Polychlorinated Biphenyls

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

Asbestos

The AusNet Services Group has undertaken an audit to identify all material or materials likely to contain asbestos in its businesses. The AusNet Services Group maintains asbestos registers and has in place procedures relating to asbestos removal where required. The estimated net present value for costs of removing asbestos, amounting to A\$0.3 million at 30 September 2015, has been provided for in the AusNet Services Group's accounts.

Electric and Magnetic Fields

EMF produced by electricity have been the subject of employee and public health concerns in recent years. Numerous scientific studies have been undertaken on the potential adverse effects of EMF on human health, which have not been established, but there still remains substantial scientific and public debate. Any potential impact arising from electric and magnetic fields would affect the electricity industry as a whole and would not be limited to the AusNet Services Group.

The AusNet Services Group's distribution, sub-transmission and transmission lines are within the health guidelines on EMF set by the NHMRC. ARPANSA is currently reviewing this guideline. The AusNet Services Group monitors any proposed changes and also actively participates in the on-going international and national development of safe levels of human exposure to EMF.

Regulatory Management Policy

The AusNet Services Group seeks to maintain a professional relationship with government and the relevant regulators. The AusNet Services Group believes that this strategy has been relatively successful, in light of the outcomes achieved in a range of regulatory decisions and approvals. The AusNet Services Group believes that the improvement achieved in the final decisions for the 2010 EDPR, the 2013 Gas Access Arrangement Review and the 2014 Transmission Regulatory Review, compared to the regulator's draft decision, are evidence of the success of its regulatory approach to date.

BOARD AND MANAGEMENT

Directors

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

Name	Position
Ng Kee Choe	Director, Chairman
Ho Tian Yee	Director
Tina Renna McMeckan	Director
Nino Ficca	Managing Director
Sally Farrier	Director
Sun Jianxing	Director
Dr Ralph Craven	Director
Mr Robert Milliner	Director

Ng Kee Choe

Bachelor of Science (Honours), University of Singapore

Chairman and Non-Executive Director. Mr. Ng Kee Choe is Chairman of AusNet Services and, prior to the Restructure, had been Chairman of AusNet Services Transmission since 26 October 2005, Chairman of AusNet Services Distribution since 31 May 2005, and Chairman of AusNet Services (RE) since 9 September 2005. Mr. Ng also serves as Non-Executive Chairman of CapitaLand Limited and as President-Commissioner of PT Bank Danamon Indonesia Tbk. He is also a Director of Fullerton Financial Holdings Pte Ltd. He is also a member of the International Advisory Council of China Development Bank and Chairman of Tanah Merah Country Club.

Previously, Mr. Ng was the Chairman and Director of Singapore Power Limited, CapitaMalls Asia Limited and NTUS Income Insurance Co-Operative Limited. He was also previously the Vice-Chairman and Director of DBS Group Holdings Ltd and a Director of Singapore Airport Terminal Services Ltd and Singapore Exchange Limited. He retired from his executive position with DBS Group Holdings Ltd in 2003 after 33 years of service in various executive roles. Mr. Ng was conferred the Public Service Star in 2001 for his contributions to public service and the Meritorious Service Medal in 2012.

At the General Meeting on 26 October 2015, Mr. Ng Kee Choe announced that he will not seek re-election when his current term expires at the 2016 Annual General Meeting. Mr. Ng Kee Choe also announced that, in the event that the search for his successor was successfully concluded before the 2016 Annual General Meeting, to facilitate a smooth transition, he would retire when that person was appointed to the Board.

Ho Tian Yee

Bachelor of Economics (Honours), Portsmouth University, UK

Non-Executive Director. Mr. Ho Tian Yee is a Non-Executive Director of AusNet Services and, prior to the Restructure, had been a Non-Executive Director of AusNet Services Transmission, AusNet Services Distribution and AusNet Services (RE) since 1 September 2008.

Mr. Ho is currently the Managing Director and principal shareholder of Pacific Asset Management (S) Pte Ltd, an investment management company and an investment advisor to Blue Edge Advisors Pte Ltd. Mr. Ho currently serves as a non-executive Director of Fullerton Fund Management Company, DBS Group Holdings Ltd and DBS Bank Ltd. Mr. Ho is also a Board member of Singapore Power Ltd. Mr. Ho was previously the

General Manager and Managing Director of Bankers Trust Co. Singapore and previously a Director of Singapore Exchange Ltd and Fraser & Neave Ltd.

Tina Renna McMeckan

Bachelor of Liberal Arts & Sciences, San Diego State University, California, USA

Master of Business Administration, University of Melbourne

Independent Non-executive Director. Ms. McMeckan has been a Director of AusNet Services Transmission, AusNet Services Distribution and AusNet Services (RE) since 9 August 2010.

Ms. McMeckan is a Director of the Global Carbon Capture and Storage Institute. Ms McMeckan is also a Director of Circadian Technologies Ltd and the Cooperative Research Centre for Spatial Information. Ms McMeckan is also a former Director of Metlink Victoria Pty Ltd, Viscorp Limited and the National Board of Norton Rose law firm. Ms. McMeckan was previously an executive manager with GPU PowerNet and the SECV Energy Traders, and a project manager with the Victorian Department of Treasury and Finance on gas industry reform.

Nino Ficca

Bachelor of Engineering (Electrical) (Honours), Deakin University

Graduate Diploma in Management, Deakin University

Advanced Management Programme, Harvard Business School, USA

Managing Director. Mr. Ficca is Managing Director of AusNet Services and has been Managing Director of AusNet Services Transmission since 7 September 2005, Managing Director of AusNet Services Distribution since 31 May 2005 and Managing Director of AusNet Services (RE) since 9 September 2005 (and a Director since 31 May 2005).

Mr Ficca has over 30 years' experience in the energy industry, including numerous senior management roles with AusNet Transmission Group (formerly SPI PowerNet Pty Ltd) including as Managing Director since 2003. Mr Ficca is a Director of Energy Networks Association Limited and a member of the National Energy Market Operations Committee. He is Chair of the Deakin University Engineering Advisory Board. He was also formerly Deputy Chairman and Director of the Energy Supply Association of Australia.

Sally Farrier

Bachelor of Chemical and Process Engineering (First Class Honours), University of Canterbury, New Zealand

Masters of Business Administration, Victoria University of Wellington

Post Graduate Diploma in Finance and Investment Analysis, Securities Institute of Australia

Independent Non-Executive Director. Ms. Farrier is an Independent Non-Executive Director of AusNet Services and, prior to the restructure, had been an Independent Non-Executive Director of AusNet Services Transmission, AusNet Services Distribution and AusNet Services (RE), since 24 January 2014.

Ms. Farrier is also a Director of Meridian Energy and a founding Director of Farrier Swier Consulting Pty Ltd. She was a Director of Hydro Tasmania from 2004 to 2012 and a Director of Western Power between 2006 and 2009. Ms. Farrier has also been a Director of Manidis Roberts and served as a National Water Commissioner from 2008 to 2012. In Victoria, she was a Member of the Victorian Water Trust Advisory Council from its inception in 2003 until being wound up in early 2011.

Sun Jianxing

Bachelor of Engineering, Northeast Dianli University, China

Non-Executive Director. Mr. Sun is a Non-Executive Director of AusNet Services and, prior to the Restructure, had been a Non-Executive Director of AusNet Services Transmission, AusNet Services Distribution and AusNet Services (RE) since 24 January 2014.

Mr. Sun is also a Director of ElectraNet. He also presently holds the role of Head of Australia Representative Office, State Grid Corporation of China.

Mr. Sun is an electrical engineer and his previous roles include Deputy CEO of State Grid Energy Development Company Limited.

He has also previously held the roles of Division Chief of Department of International Affairs, State Grid Corporation of China; Chief Engineer of State Grid Shenzhen Energy Developments Ltd.; Deputy Director General of Materials & Equipment Supplying Department, State Grid Corporation of China. In his early years, Mr. Sun also worked as a Senior Engineer at the China General Institute for Electric Power Planning and Designing.

Dr Ralph Craven

Bachelor of Engineering (Electrical - Honours), University of Queensland

Doctor of Philosophy, University of New South Wales

Postgraduate Diploma in Management, Deakin University

Postgraduate Diploma in Information Processing, University of Queensland

Non-Executive Director. Dr Craven is a Non-Executive Director of AusNet Services and, prior to the Restructure, had been a Non-Executive of AusNet Services Transmission, AusNet Services Distribution and AusNet Services (RE) since 24 January 2014.

Dr Craven has broad experience in energy, resources and infrastructure having worked in these sectors for over 35 years. His professional background encompasses electricity and gas businesses, mining, commodities trading, and the management of large scale system operations at the national level and the delivery of major infrastructure projects.

Dr Craven is currently a Director of Senex Energy Limited and Windlab Limited. He is a Director of the International Electrotechnology Commission (“IEC”) and Chair of the IEC National Committee of Australia. Other recent directorships include being Chair of Invion Limited, Chair of the Audit Committee of Mitchell Services Limited and Chair of Genex Power Limited. He was formerly Chair of Ergon Energy Corporation Limited, Tully Sugar Limited and Deputy Chair of Arrow Energy Ltd. Dr Craven was CEO of Transpower New Zealand Limited and also held senior executive positions in Shell Coal Pty Ltd and NRG Asia Pacific Limited.

Mr Robert Milliner

Bachelor of Commerce, University of Queensland

Bachelor of Laws (Hons), University of Queensland

Master of Business Administration, University of Western Australia

Advanced Management Program, Harvard Business School, USA

Independent Non-Executive Director. Mr Milliner has been an Independent Non-Executive Director of AusNet Services since 23 July 2015. Mr Milliner is a Senior Adviser, International Affairs at Wesfarmers Limited, Senior Adviser at UBS and Senior Adviser to the ICC Secretary General. He is also Chairman of the Board of the Foundation for Young Australians and a director of the Australian Charities Fund. In 2013 and 2014 he was the B20 Australia Sherpa and coordinated the international business community’s recommendations to the 2014 G20.

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

Company Secretary

The company secretary of AusNet Services is Susan Taylor.

Executive Management

The following table lists the Managing Director of the AusNet Services Group and his direct reports.

Name	Position
Nino Ficca	Managing Director
John Azaris	General Manager — Service Delivery
Alistair Parker	General Manager — Asset Management
Adam Newman	Chief Financial Officer
Geraldine Leslie	General Manager — People, Safety & Customer
John Kelso	General Manager — Select Solutions
Mario Tieppo	Chief Information Officer
Claire Hamilton	General Manager — Risk & Assurance
Chad Hymas	General Manager — Strategy & Business Development
Susan Taylor	Company Secretary and General Counsel

Nino Ficca

Managing Director. For information about Mr. Ficca, see “— Board and Management — Directors” above.

John Azaris

Bachelor of Electrical & Electronic Engineering, Swinburne Institute of Technology

Graduate Diploma in Digital Electronics, Swinburne Institute of Technology

Graduate Diploma in Business Management, Deakin University

Master of Business Administration, Deakin University

General Management Programme, Harvard University, USA

General Manager — Service Delivery. Mr Azaris began his career as an engineer with the Metropolitan Transport Authority before joining the SECV in 1988. Throughout the 1990s, he took on various engineering, operations, maintenance and management roles before heading up the human resources and communications functions within the AusNet Services Group. Mr Azaris is now responsible for managing the entire field services area for the company, including the Network Operations Centre and capital project delivery.

Alistair Parker

Bachelor of Engineering (Honours), Aston University, UK

Master of Business Administration, Lancaster University, UK

General Manager — Asset Management. Mr Parker has over 30 years of experience in the energy industry with a focus on network strategy, asset management and network regulation. From 2009, prior to his role as General Manager – Asset Management at the AusNet Services Group, Mr Parker was Director – Regulation and Network Strategy. Before moving to Australia, Mr Parker spent 15 years with National Grid in the UK, initially as an engineer then moving into commercial roles. In 2000, he became a consultant with Ernst & Young in New Zealand before moving to PricewaterhouseCoopers in Australia, ultimately as Melbourne Energy Economics Practice Leader.

Adam Newman

Bachelor of Business, Western Australian Institute of Technology (now Curtin University)

Post Graduate Diploma of Business, Curtin University

Graduate Diploma in Applied Finance, Securities Institute of Australia

Chartered Accountant

Chief Financial Officer — Responsible for Finance, Treasury, Procurement, Investor Relations and Taxation. Mr Newman has over 27 years' experience in finance, managerial and operational areas. Prior to his appointment in March 2013 he worked at BlueScope Steel from 2001 to 2013 in a variety of roles in Australia and the United States; most recently General Manager – Commercial Australia and New Zealand, President of Steelscape Inc. and Chief Financial Officer for North America. Prior to joining BlueScope he worked at BHP Billiton Limited from 1996 to 2001 in corporate strategy, mergers and acquisitions and minerals business development.

Mr Newman is a Chartered Accountant who also worked in Coopers & Lybrand's Corporate Advisory group from 1989 to 1996 in their Perth and London offices.

Geraldine Leslie

Bachelor of Arts, University of Wollongong

Master of Business Administration, University of Wollongong

General Manager — People, Safety and Customer. Ms Leslie joined AusNet Services Group in November 2009. Her role incorporates responsibility for AusNet Services Group's human resources, health, safety environment and quality, corporate relations and customer service functions. Prior to joining AusNet Services Group, Ms Leslie worked with BlueScope Steel for almost nine years in Senior HR Leadership roles, her last position being the General Manager Human Resources for BlueScope's Australian Coated and Industrial Markets. Her background also incorporates various senior executive and leadership roles in the public health sector and local government.

John Kelso

Diploma of Business Management, Deakin University Melbourne

Master of Business Administration, Deakin University Melbourne

Graduate – Australian Institute of Company Directors

General Manager — Select Solutions. Mr. Kelso has over 35 years valuable experience in the energy industry, having joined the SECV in 1978. Mr. Kelso has held various senior management roles with AusNet Services Group, TXU and Eastern Energy. Prior to his current role, Mr. Kelso was responsible for the delivery of the AusNet Services Networks capital and maintenance works programmes. Mr Kelso was appointed to the role of General Manager, Select Solutions in 2009. This role allows Mr. Kelso to utilise his depth of industry knowledge to manage and grow Select Solutions, the AusNet Services Group's external services business.

Mario Tieppo

Bachelor of Business (Accounting), Phillip Institute of Technology

Certified Practising Accountant (CPA)

Chief Information Officer. Mr Tieppo has over 25 years' experience in the information technology industry and has a strong track record of building ICT functions and leading large organisational change programmes. Prior to joining the AusNet Services Group in 2013, he held the position of Chief Information Officer for SA Power Networks. Mr Tieppo has also held senior executive positions in the government, postal utilities, retail and logistics sectors. In previous positions, Mr Tieppo has been responsible for strategy and planning, programme and project management and the management of mission critical information systems. He is a Certified Practising Accountant (ASCPA) and has a strong background in financial management, audit and procurement.

At AusNet Services Group, Mr Tieppo is responsible for the strategic ICT and telecommunications functions of the business. This includes the provision of information systems, network operations systems and telecommunications for AusNet Services Group's three utility networks.

Claire Hamilton

Bachelor of Arts (Business Studies) (Honours), University of Sheffield, UK

Graduate Certificate in Innovation and Service Management, RMIT

Chartered Accountant

Graduate, Australian Institute of Company Directors

Professional Member, Institute of Internal Auditors, Australia

General Manager — Risk and Assurance. Ms. Hamilton is responsible for the risk management, internal audit, regulatory compliance and security functions. Previously, Ms. Hamilton held the role of Head of Internal Audit.

Ms. Hamilton has approximately eighteen years' experience in the energy industry, initially with TXU holding senior accounting roles and moving into internal audit in 2004. In 2005, she joined the AusNet Services Group and was appointed to the role of Head of Internal Audit responsible for establishing the internal audit function.

Ms. Hamilton is a Chartered Accountant, beginning her career with Coopers & Lybrand in the UK before joining the audit and advisory practice of PricewaterhouseCoopers in Melbourne in 1994.

Chad Hymas

Bachelor of Business (Accounting), Monash University

Bachelor of Arts (Organisational Psychology), Monash University

Master of Business Administration, Deakin University

Certified Practising Accountant (ASCPA)

General Manager — Strategy & Business Development. Mr Hymas has extensive strategy, operations and finance experience in the energy sector having worked for TXU, AusNet Electricity Services and the AusNet Services Group since 2001. Having held numerous positions within the AusNet Services Group, Mr Hymas was most recently Director of Transformation, leading a broad range of strategic initiatives in safety, process improvement and efficiency. Mr Hymas began his career as an Accountant at Arthur Andersen, followed by various financial roles for Motorola Australia & New Zealand.

Susan Taylor

Bachelor of Laws, University of Melbourne

Bachelor of Commerce (Economics), University of Melbourne

Graduate Diploma in Corporations and Securities Law, University of Melbourne

Graduate – Australian Institute of Company Directors

General Counsel and Company Secretary. Ms. Taylor has been Company Secretary of AusNet Services Transmission, AusNet Services Distribution and AusNet Services (RE) since 6 October 2008. Ms. Taylor is also General Counsel of the AusNet Services Group. Prior to this, Ms. Taylor worked in the United States for five years where she was senior attorney-advisor for the U.S. Federal Energy Regulatory Commission and in private practice at the law firms of Sullivan & Worcester and Heller Ehrman. Prior to leaving Australia, Ms. Taylor was a Partner of Freehills, where she played a leading role in the restructure of Victoria's electricity and gas industries, the creation of Australia's national electricity market, and the restructure of the electricity industries in several countries in the Asian-Pacific region, including Singapore, the Philippines and South Korea.

Ms. Taylor is admitted to the High Court of Australia, the Victorian Supreme Court, the NSW Supreme Court and the WA Supreme Court. She is also admitted to the New York Bar.

Board of Directors for the Issuer and the Guarantors

The directors of the Issuer and the Guarantors are Nino Ficca, Adam Newman and Charles Popple.

Nino Ficca

For information about Mr. Ficca, see “— Board and Management — Directors” above.

Adam Newman

For information about Mr. Newman, see “— Board and Management — Executive Management” above.

Charles Popple

Bachelor of Engineering (Electrical) (Honours), Monash University

Graduate Diploma in Management, Swinburne Institute of Technology

Master of Engineering Science, University of Melbourne

Mr Popple provides thought leadership and strategic influencing in the areas of regulatory development, strategy and reform. The intent is to engage with key external stakeholders, including Government, Industry, regulators and consumer stakeholders to provide a credible voice in the industry debate and to promote and influence changes to establish a sustainable future regulatory framework. The role also provides strategic advice to the AusNet Services Group on the development of regulatory and business strategies and for engagement with customers.

From 2009 until April 2013, Mr Popple was Group General Manager, Networks Strategy and Development of AusNet Services Group, providing leadership for the engineering and regulatory functions within the business. Prior to that, Mr Popple has held a variety of senior management roles within the sector.

TAX CONSIDERATIONS

Australian Tax Considerations

The following is a summary of the Australian withholding tax treatment under the Income Tax Assessment Acts of 1936 and 1997 of Australia (together, “Australian Tax Act”) and the Taxation Administration Act 1953 of Australia, at the date of this Offering Circular, of payments of interest (as defined in the Australian Tax Act) in relation to the Notes to be issued by the Issuer under the Programme and certain other Australian tax matters. It is intended only as a general summary of the Australian taxation treatment for investors who purchase Notes (“Noteholders”) and should not be relied upon as legal or tax advice in relation to their particular circumstances.

This summary is not exhaustive and, in particular, does not deal with the position of certain classes of Noteholders (including, without limitation, dealers in securities, custodians or other third parties who hold Notes on behalf of any person). In addition, unless expressly stated, this summary does not consider the Australian tax consequences for persons who hold interests in the Notes through Austraclear, Euroclear, Clearstream, Luxembourg or another clearing system.

Noteholders should also be aware that particular terms of issue of any Series of Notes may affect the tax treatment of that and other Series of Notes.

Noteholders should seek their own independent legal and taxation advice based upon their specific circumstances.

Interest Withholding Tax

An exemption from Australian interest withholding tax imposed under Division 11A of Part III of the Australian Tax Act (“Australian IWT”) is available, in respect of Notes issued by the Issuer, under section 128F of the Australian Tax Act if the following conditions are met:

- (a) the Issuer remains a resident of Australia when it issues those Notes and when interest (as defined in section 128A(1AB) of the Australian Tax Act) is paid. Interest is defined to include amounts in the nature of, or in substitution for, interest and certain other amounts;
- (b) the Notes constitute a debenture; and
- (c) the issue of those Notes satisfies the public offer test.

Public offer test

Where Notes constitute a debenture, there are five principal methods of satisfying the public offer test, the purpose of which is to ensure that lenders in overseas capital markets are aware that the Issuer is offering those Notes for issue. In summary, the five methods are to offer the Notes:

- to 10 or more unrelated persons, each of whom carries on the business of providing finance or investing or dealing in securities, in the course of operating in financial markets;
- to 100 or more investors whom it is reasonable for the Issuer to regard as either having acquired debentures in the past or to be likely to be interested in acquiring debentures;
- as a result of being accepted for listing on a stock exchange under an agreement requiring listing;
- as a result of negotiations being initiated in publicly available information sources; or
- to a dealer, manager or underwriter who offers to sell those Notes within 30 days by one of the preceding methods.

The issue of a Global Note also satisfies the public offer test if it is a ‘global bond’. In summary, a Global Note is a global bond for the purposes of the public offer test if all of the following conditions are met:

- the Global Note is described as a global bond or a global note;
- it is issued to a clearing house or a trustee or agent for or on behalf of a clearing house (e.g. a common depository);
- in connection with the issue, the clearing house confers rights in relation to the Global Note on other persons (i.e. the investors) and records the existence of those rights;
- before the issue of the Global Note, the Issuer or a dealer, manager or underwriter, in relation to the placement of the Global Note, acting on behalf of the Issuer, announces that such rights will be able to be created as a result of the issue;
- the announcement is made using one of the above five methods; and
- the terms of the Global Note provide that interests in the Global Note are able to be surrendered, whether or not in particular circumstances, in exchange for other debentures or debt interests issued by the Issuer that are not themselves global bonds.

Subject to the comments on the meaning of "associate" below, the following conditions will also need to be satisfied in order for the public offer test to apply:

- (a) the Issuer does not know, or have reasonable grounds to suspect, at the time of issue, that those Notes or interests in those Notes were being, or would be, acquired, directly or indirectly, by an “associate” of the Issuer not acting in the capacity of a dealer, manager, underwriter, clearing house, custodian, funds manager, or responsible entity of a registered scheme (section 128F(5) of the Australian Tax Act);
- (b) at the time of the payment of interest, the Issuer does not know, or have reasonable grounds to suspect, that the payee is an “associate” of the Issuer not acting in the capacity of a clearing house, paying agent, custodian, funds manager or responsible entity of a registered scheme (section 128F(6) of the Australian Tax Act).

Associates

An “associate” of the Issuer for the purposes of section 128F of the Australian Tax Act includes:

- (i) a person or entity which holds more than 50% of the voting shares of, or otherwise controls, the Issuer;
- (ii) an entity in which more than 50% of the voting shares are held by, or which is otherwise controlled by, the Issuer;
- (iii) a trustee of a trust where the Issuer is capable of benefiting (whether directly or indirectly) under that trust; and
- (iv) a person or entity who is an “associate” of another person or company which is an “associate” of the Issuer under paragraph (i) above.

However, for the purposes of sections 128F(5) and 128F(6) of the Australian Tax Act (see paragraphs (a) and (b) above), the “associate” provisions do not apply where the associate is an:

- (A) onshore associate (i.e. an Australian resident associate who has not acquired the Notes in the course of carrying on business at or through a permanent establishment outside Australia or a non-resident associate who has acquired the Notes in the course of carrying on business through a permanent establishment in Australia); or

- (B) offshore associate (i.e. an Australian resident associate who has acquired the Notes in the course of carrying on business at or through a permanent establishment outside Australia or a non-resident associate who has not acquired the Notes in the course of carrying on business at or through a permanent establishment in Australia) who is acting in the capacity of:
- (1) in the case of section 128F(5), a dealer, manager or underwriter in relation to the placement of the Notes, a clearing house, custodian, funds manager or responsible entity of a registered scheme;
 - (2) in the case of section 128F(6), a clearing house, paying agent, custodian, funds manager or responsible entity of a registered scheme.

Compliance with Section 128F of the Australian Tax Act

Unless otherwise specified in the applicable Pricing Supplement (or another relevant supplement to this Offering Circular), the Issuer intends to issue Notes in a manner which will satisfy the requirements of section 128F of the Australian Tax Act.

Noteholders who are Residents of Specified Countries

The Australian government has signed new or amended double tax conventions (“New Treaties”) with a number of countries (each a “Specified Country”). The New Treaties apply to interest derived by a resident of a Specified Country.

Broadly, the New Treaties effectively prevent Australian IWT applying to interest derived by:

- governments of the Specified Countries and certain governmental authorities and agencies in a Specified Country; and
- a “financial institution” resident in a Specified Country which is unrelated to and dealing wholly independently with the Issuer. The term “financial institution” refers to either a bank or any other enterprise which substantially derives its profits by carrying on a business of raising and providing finance. However, interest paid under a back to back loan or an economically equivalent arrangement will not qualify for this exemption.

The Australian Federal Treasury maintains a listing of Australia’s double tax conventions which provides details of country, status, withholding tax rate limits and Australian domestic implementation. This listing is available to the public on the Federal Treasury’s Department website.

Section 126 of the Australian Tax Act

Section 126 of the Australian Tax Act imposes a type of withholding tax (see below in relation to the rate of withholding tax) on the payment of interest on the Notes (if in bearer form) if the Issuer fails to disclose the names and addresses of the holders to the Australian Taxation Office (“ATO”).

Section 126 does not however apply to the payment of interest on Notes held by non-Australian residents who do not carry on business at or through a permanent establishment in Australia, where the issue of those Notes has satisfied the requirements of section 128F of the Australian Tax Act or Australian IWT is payable.

In addition, the ATO has confirmed that for the purpose of section 126 of the Australian Tax Act that the holder of debentures (such as the Notes) means the person in possession of the debentures. Section 126 is therefore limited in its application to persons in possession of Notes in bearer form, who are residents of Australia or non-Australian residents who are engaged in carrying on business in Australia at or through a permanent establishment in Australia. Where interests in Notes are held through Euroclear or Clearstream, Luxembourg or another clearing system, the Issuer intends to treat the operators of those clearing systems as the holders of those Notes for the purposes of section 126 of the Australian Tax Act.

The rate of withholding tax is 47% for the 2015-16 and 2016-17 income years and, under current law, will be reduced to 45% following the 2016-17 income year.

Payment of Additional Amounts

As set out in more detail in the relevant Terms and Conditions for the Notes, and unless expressly provided to the contrary in the applicable Pricing Supplement (or another relevant supplement to this Offering Circular), if the Issuer is at any time required by law to deduct or withhold an amount in respect of any Australian withholding taxes imposed or levied by the Commonwealth of Australia in respect of Notes, the Issuer must, subject to certain exceptions, pay such additional amounts as may be necessary in order to ensure that the net amounts received by the holders of those Notes after such deduction or withholding are equal to the respective amounts which would have been received had no such deduction or withholding been required. If as a result of a change in law or its application or interpretation the Issuer is required in relation to any Notes to deduct or withhold an amount in respect of any withholding taxes, the Issuer will have the option to redeem (all but not some of) those Notes in accordance with the relevant Terms and Conditions.

Payments Under the Guarantee

It is unclear whether or not any payment by a Guarantor under the Guarantee on account of interest owing by the Issuer in respect of the Notes would be subject to Australian IWT. There are good arguments that such payments (other than interest paid on an overdue amount) do not constitute “interest” for Australian withholding tax purposes, and, if so, would not be subject to Australian IWT.

The Australian Taxation Office has, however, published a Taxation Determination stating that payments by a guarantor in respect of debentures (such as the Notes) are entitled to the benefit of the exemption contained in section 128F of the Australian Tax Act if payments of interest in respect of those debentures by the Issuer are exempt from Australian IWT under section 128F. However, there is some doubt as to whether the Taxation Determination applies in the context of the Guarantee and whether the reasoning adopted in the Taxation Determination is strictly correct.

If such payments are characterised as “interest” for Australian withholding tax purposes, Australian IWT at the rate of 10% will be payable on payments of interest (as defined in section 128A(1AB) of the Australian Tax Act) by the Guarantor to non-residents (other than non-residents holding Notes in the course of carrying on a business at or through a permanent establishment in Australia) or residents of Australia holding Notes in the course of carrying on a business at or through a permanent establishment outside Australia.

If a Guarantor is at any time required by law to deduct or withhold an amount in respect of any Australian withholding taxes imposed or levied by the Commonwealth of Australia in respect of payments under the Guarantee, that Guarantor must, subject to certain exceptions, pay such additional amounts as may be necessary in order to ensure that the net amounts received by the holders of those Notes after such deduction or withholding are equal to the respective amounts which would have been received had no such deduction or withholding been required.

Other Tax Matters

Under Australian laws as presently in effect:

- (a) *income tax—offshore Noteholders*—assuming the requirements of section 128F of the Australian Tax Act are satisfied with respect to any Notes, payment of principal and interest to a holder of such Notes, who is a non-resident of Australia and who, during the taxable year, does not hold such Notes in the course of carrying on business at or through a permanent establishment in Australia, will not be subject to Australian income taxes; and

- (b) *income tax—Australian Holders*—Australian residents or non-Australian residents who hold Notes in the course of carrying on business at or through a permanent establishment in Australia (“Australian Holders”), will be assessable for Australian tax purposes on income either received or credited due to them in respect of the Notes. Whether income will be recognised on a cash receipts or accruals basis will depend upon the tax status of the particular Noteholders and the Terms and Conditions of the Notes. Special rules apply to the taxation of Australian residents who hold Notes in the course of carrying on business at or through a permanent establishment outside Australia which vary depending on the country in which that permanent establishment is located; and
- (c) *gains on disposal of Notes—offshore Noteholders*—a holder of Notes, who is a non-resident of Australia and who, during the taxable year, does not hold Notes in the course of carrying on business at or through a permanent establishment in Australia, will not be subject to Australian income tax on gains realised during that year on the sale or redemption of such Notes, provided such a gain does not have an Australian source. A gain arising on the sale of Notes by a non-Australian resident holder to another non-Australian resident should not be regarded as having an Australian source where such Notes are sold outside Australia and all negotiations are conducted, and documentation executed, outside Australia.; and
- (d) *gains on disposal of Notes—Australian Holders*—Australian Holders will be required to include any gain or loss on disposal of Notes in their taxable income. Special rules apply to the taxation of Australian residents who hold Notes in the course of carrying on business at or through a permanent establishment outside Australia which vary depending on the country in which that permanent establishment is located; and
- (e) *deemed interest*—there are specific rules that can apply to treat a portion of the purchase price of Notes as interest for withholding tax purposes when certain Notes originally issued at a discount or with a maturity premium or which do not pay interest at least annually are sold to an Australian resident (who does not acquire them in the course of carrying on business at or through a permanent establishment outside Australia) or a non-resident who acquires them in the course of carrying on business at or through a permanent establishment in Australia. These rules do not apply in circumstances where the deemed interest would have been exempt under section 128F of the Australian Tax Act if the Notes had been held to maturity by a non-resident; and
- (f) *death duties*—no Notes will be subject to death, estate or succession duties imposed by Australia, or by any political subdivision or authority therein having power to tax, if held at the time of death; and
- (g) *stamp duty and other taxes*—no ad valorem stamp, issue, registration or similar taxes are payable in Australia on the issue, transfer or redemption of any Notes; and
- (h) *TFN/ABN withholding* — withholding tax is imposed (see below in relation to the rate of withholding tax) on the payment of interest on certain registered securities unless the relevant payee has quoted an Australian tax file number (“TFN”), (in certain circumstances) an Australian Business Number (“ABN”) or proof of some other exception (as appropriate).

Assuming the requirements of section 128F of the Australian Tax Act are satisfied with respect to the Notes, then such withholding should not apply to payments to a non-resident of Australia for tax purposes who does not hold the Notes through an Australian permanent establishment.

The rate of withholding tax is 49% for the 2015-16 and 2016-17 income years and, under current law, will be reduced to 47% following the 2016-17 income year; and

- (i) *supply withholding tax*—payments in respect of Notes can be made free and clear of the “supply withholding tax” imposed under section 12-190 of the Taxation Administration Act; and

- (j) *goods and services tax (GST)*—neither the issue nor receipt of Notes will give rise to a liability for GST in Australia on the basis that the supply of Notes will comprise either an input taxed financial supply or (in the case of an offshore subscriber) a GST-free supply. Furthermore, neither the payment of principal or interest by the Issuer, nor the disposal of Notes, would give rise to any GST liability in Australia; and
- (k) *additional withholdings from certain payments to non-residents*—Section 12-315 of the Taxation Administration Act gives the Governor-General power to make regulations requiring withholding from certain payments to non-residents. Regulations may only be made if the responsible Minister is satisfied the specified payments are of a kind that could reasonably relate to assessable income of foreign residents. The current regulations do not apply to the payments in respect of any Notes or payments by a Guarantor under the Guarantee. The possible release of future regulations should be monitored; and
- (l) *taxation of financial arrangements*—Division 230 of the Australian Tax Act contains tax-timing rules for certain taxpayers to bring to account gains and losses from “financial arrangements”. The rules in Division 230 do not apply to impose interest or other withholding taxes on payments in respect of the Notes.

Common Reporting Standard

The OECD Common Reporting Standard for Automatic Exchange of Financial Account Information (“CRS”) will require certain financial institutions to report information regarding certain accounts (which may include the Notes) to their local tax authority and follow related due diligence procedures. Noteholders may be requested to provide certain information and certifications to ensure compliance with the CRS. A jurisdiction that has signed the CRS Competent Authority Agreement may provide this information to other jurisdictions that have signed the CRS Competent Authority Agreement. A version of the CRS is expected to apply to Australian financial institutions with effect from 1 July 2017.

Proposed Financial Transaction Tax (“FTT”)

On 14 February 2013, the European Commission published a proposal for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the “Participating Member States”). The proposed FTT has very broad scope and could, if introduced in its current form, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances.

Under current proposals the FTT could apply in certain circumstances to persons both within and outside of the Participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a Participating Member State. A financial institution may be, or be deemed to be, “established” in a Participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a Participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a Participating Member State.

A joint statement issued in May 2014 by ten of the eleven Participating Member States indicated an intention to implement the FTT progressively, such that it would initially apply to shares and certain derivatives, with this initial implementation occurring by 1 January 2016. The FTT, as initially implemented on this basis, may not apply to dealings in the Notes.

In December 2015, Estonia announced that it no longer supports the FTT.

The FTT proposal remains subject to negotiation between the Participating Member States and is the subject of legal challenge. It may therefore be altered prior to any implementation. Additional EU member states may decide to participate. Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

FATCA

Pursuant to the foreign account tax compliance provisions of the U.S. Hiring Incentives to Restore Employment Act of 2010 (commonly known as “FATCA”), non-U.S. financial institutions (“FFIs”) that enter into agreements with the U.S. Internal Revenue Service (“IRS Agreements”) or become subject to provisions of local law intended to implement an intergovernmental agreement (“IGA legislation”) entered into pursuant to FATCA, may be required to identify “financial accounts” held by U.S. persons or entities with substantial U.S. ownership, as well as accounts of other financial institutions that are not themselves participating in (or otherwise exempt from) the FATCA reporting regime.

In order (a) to obtain an exemption from FATCA withholding on payments it receives and/or (b) to comply with any applicable laws in its jurisdiction, a financial institution that enters into an IRS Agreement or is subject to IGA legislation may be required to (i) report certain information on its U.S. account holders to the government of the United States or another relevant jurisdiction and (ii) withhold 30% from all, or a portion of, certain payments made to persons that fail to provide the financial institution information and forms or other documentation that may be necessary for such financial institution to determine whether such person is compliant with FATCA or otherwise exempt from FATCA withholding.

Under FATCA, withholding may be imposed with respect to payments to persons that are not compliant with FATCA or that do not provide the necessary information or documentation made (i) in respect of certain U.S. source payments, (ii) on or after 1 January 2019, in respect of payments of gross proceeds (including principal repayments) on certain assets that produce U.S. source interest or dividends and (iii) on or after 1 January 2019 (at the earliest) in respect of “foreign passthru payments” (a term not yet defined under FATCA) and then (in the case of an obligation that pays only foreign passthru payments) only on “obligations” that are not treated as equity for U.S. federal income tax purposes and that are issued or materially modified after the date that is six months after the date on which the final regulations defining the term “foreign passthru payments” are filed in the U.S. Federal Register.

Whilst the Notes are in global form and held within the Clearing Systems, it is expected that FATCA will not affect the amount of any payments made under, or in respect of, the Notes by the Issuer, any paying agent and the common depository, given that each of the entities in the payment chain beginning with the Issuer and ending with the ICSDs is a major financial institution whose business is dependent on compliance with FATCA and that any alternative approach introduced under an intergovernmental agreement will be unlikely to affect the Notes. The documentation expressly contemplates the possibility that the Notes may go into definitive form and therefore that they may be taken out of the Clearing Systems. If this were to happen, then a non-FATCA compliant holder could be subject to withholding. However, definitive Notes will only be printed in remote circumstances.

Australia and the United States signed an intergovernmental agreement (“Australian IGA”) in respect of FATCA on 28 April 2014. The Australian Government has enacted legislation amending, among other things, the Taxation Administration Act 1953 of Australia to give effect to the Australian IGA (“Australian Amendments”). Depending on the nature of the relevant FFI, FATCA withholding may not be required from payments made with respect to the Notes other than in certain prescribed circumstances. Under the Australian Amendments, an FFI may be required to provide the Australian Taxation Office with information on financial accounts (for example, the Notes) held by U.S. persons and recalcitrant account holders and on payments made to non-participating FFIs. The Australian Taxation Office is required to provide that information to the U.S. Internal Revenue Service.

In the event that any amount is required to be withheld or deducted from a payment on the Notes as a result of FATCA, pursuant to the terms and conditions of the Notes, no additional amounts will be paid by the Issuer or any other person through whom payments on the Notes are made as a result of the deduction or withholding.

FATCA is particularly complex legislation.

Investors should consult their own tax advisers to determine how these rules may apply to them under the Notes.

TO ENSURE COMPLIANCE WITH IRS CIRCULAR 230, EACH TAXPAYER IS HEREBY NOTIFIED THAT: (A) ANY TAX DISCUSSION HEREIN IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED BY THE TAXPAYER FOR THE PURPOSE OF AVOIDING U.S. FEDERAL INCOME TAX PENALTIES THAT MAY BE IMPOSED ON THE TAXPAYER; (B) ANY SUCH TAX DISCUSSION WAS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) THE TAXPAYER SHOULD SEEK ADVICE BASED ON THE TAXPAYER'S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISER.

SUBSCRIPTION AND SALE

Summary of Dealer Agreement

Subject to the terms and on the conditions contained in an amended and restated Dealer Agreement dated 28 January 2014 as amended by side letter on 6 February 2015 and on 15 March 2016 (the “Dealer Agreement”) between the Issuer, the Guarantors, the Permanent Dealers and the Arrangers, Notes may be offered on a continuous basis by the Issuer to the Permanent Dealers. However, the Issuer has reserved the right to sell Notes directly on its own behalf to Dealers that are not Permanent Dealers. Notes may be resold at prevailing market prices, or at prices related thereto, at the time of such resale, as determined by the relevant Dealer. Notes may also be sold by the Issuer through the Dealers, acting as agents of the Issuer. The Dealer Agreement also provides for Notes to be issued in syndicated Tranches that are jointly and severally underwritten by two or more Dealers.

The Issuer will pay each relevant Dealer a commission as agreed between them in respect of Notes subscribed by it. The Issuer has agreed to reimburse the Arrangers for certain of their expenses incurred in connection with the establishment of the Programme and the Dealers for certain of their activities in connection with the Programme.

The Issuer has agreed to indemnify the Dealers against certain liabilities in connection with the offer and sale of any Notes. The Dealer Agreement entitles the Dealers to terminate any agreement that they make to subscribe Notes in certain circumstances prior to payment for such Notes being made to the Issuer.

Selling Restrictions

General

These selling restrictions below may be modified by the agreement of the Issuer, the Guarantors and the Dealers following a change in a relevant law, regulation or directive. Any such modification will be set out in the applicable Pricing Supplement issued in respect of the issue of Notes to which it relates or in a supplement to this Offering Circular.

No representation is made that any action has been taken in any jurisdiction that would permit a public offering of any of the Notes, or possession or distribution of the Offering Circular or any other offering material or any Pricing Supplement, in any country or jurisdiction where action for that purpose is required.

Each Dealer has agreed that it will to the best of its knowledge, comply with all relevant laws, regulations and directives in each jurisdiction in which it purchases, offers, sells or delivers Notes, or has in its possession or distributes the Offering Circular, any other offering material or any Pricing Supplement and neither the Issuer, the Guarantors nor any other Dealer shall have responsibility therefor.

United States

The Notes and the Guarantees have not been and will not be registered under the Securities Act and, subject to certain exceptions, the Notes may not be offered or sold within the United States. Bearer Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code and regulations thereunder.

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that, except as permitted by the Dealer Agreement, it will not offer, or sell or, in the case of Bearer Notes, deliver Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of an identifiable tranche of which such Notes are a part, as determined and certified to the Principal Paying Agent by such Dealer (or, in the case of an identifiable tranche of Notes sold to or through more than

one Dealer, by each of such Dealers with respect to Notes of an identifiable tranche purchased by or through it, in which case the Principal Paying Agent shall notify such Dealer when all such Dealers have so certified), within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each Dealer to which it sells Notes during the distribution compliance period a confirmation or other notice setting out the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in the preceding sentence have the meanings given to them by Regulation S.

The Notes are being offered and sold outside the United States to non-U.S. persons in reliance on Regulation S.

In addition, until 40 days after the commencement of the offering of any identifiable tranche of such Notes, an offer or sale of the Notes within the United States by any dealer (whether or not participating in the offering of such tranche of Notes) may violate the registration requirements of the Securities Act.

Each issuance of Index Linked Notes or Dual Currency Notes shall be subject to such additional U.S. selling restrictions as the Issuer and the relevant Dealer may agree as a term of the issuance and purchase of such notes, which additional selling restrictions shall be set out in the applicable pricing supplement.

United Kingdom

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) in relation to any Notes which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or as agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the Financial Services and Markets Act 2000 (the “FSMA”) by the Issuer;
- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or the Guarantors; and
- (c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Singapore

Each of the Dealers has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge, that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore under the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”). Accordingly, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell the Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the SFA, (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in

Section 275, of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where Notes are subscribed or purchased under section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under section 275 of the SFA except:

- (i) to an institutional investor or to a relevant person defined in section 275(2) of the SFA, or to any person arising from an offer referred to in section 275(1A) or section 276(4)(i)(B) of the SFA;
- (ii) where no consideration is or will be given for the transfer;
- (iii) where the transfer is by operation of law;
- (iv) as specified in section 276(7) of the SFA; or
- (v) as specified in Regulation 32 of the Securities and Futures (Offer of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

Hong Kong

In relation to each tranche of Notes issued by the Issuer, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (i) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than (a) to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (b) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies (Winding Up and Miscellaneous) Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and
- (ii) it has not issued or had in its possession for the purpose of issue, and will not issue or have in its possession for the purposes of issue (in each case whether in Hong Kong or elsewhere), any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the “FIEA”). Accordingly, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer or sell directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity recognised under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident

of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other relevant laws and regulations and ministerial guidelines of Japan.

Australia

No prospectus or other disclosure document (as defined in the Corporations Act 2001 of Australia (the “Corporations Act”)) in relation to the Programme or the Notes has been or will be lodged with, or registered by, the Australian Securities and Investments Commission (“ASIC”). Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that it:

- (a) has not (directly or indirectly) made or invited, and will not make or invite, an offer of the Notes for issue or sale in Australia (including an offer or invitation which is received by a person in Australia); and
- (b) has not distributed or published, and will not distribute or publish, any offering circular, information memorandum or any other offering material or advertisement relating to the Notes in Australia,

unless (a) the aggregate consideration payable by each offeree or invitee is at least A\$500,000 (or its equivalent in other currencies, but disregarding moneys lent by the offeror or its associates) or the offer or invitation otherwise does not require disclosure to investors in accordance with Part 6D.2 or Chapter 7 of the Corporations Act, (b) such offer is not made to a person who is a “retail client” within the meaning of section 761G of the Corporations Act, (c) such action complies with all applicable laws and directives, and (d) such action does not require any document to be lodged with ASIC.

For the purposes of this selling restriction, the Notes include interests or rights in the Notes held in Euroclear or Clearstream, Luxembourg.

New Zealand

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) it has not offered or sold, and will not offer or sell, directly or indirectly, any Notes; and
- (b) it has not and will not distribute, directly or indirectly, any offering materials or advertisement in relation to any offer of Notes,

in each case in New Zealand other than:

- (i) to persons who are “wholesale investors” as that term is defined in clauses 3(2)(a), (c) and (d) of Schedule 1 to the Financial Markets Conduct Act 2013 of New Zealand (“FMC Act”), being a person who is:
 - an “investment business”;
 - “large”; or
 - a “government agency”,in each case as defined in Schedule 1 to the FMC Act; or
- (ii) in other circumstances where there is no contravention of the FMC Act, provided that Notes may not be offered or transferred to any “eligible investors” (as defined in the FMC Act) or any person that meets the investment activity criteria specified in clause 38 of Schedule 1 to the FMC Act.

No Notes are being offered, and the Programme is not being conducted, with a view to any Notes being offered to the public in New Zealand.

Each Dealer represents and agrees, and each further Dealer appointed under the Programme will be required to represent and agree that, in relation to Notes issued by the Issuer, it has not offered or sold, and will not offer or sell, any Notes to persons such that the beneficial owner of a Note (being the person beneficially entitled to interest or other proceeds in respect of the Notes) is, for the purposes of the Income Tax Act 2007 (New Zealand) resident in New Zealand, or not resident in New Zealand but carrying on business in New Zealand through a fixed establishment in New Zealand, unless such persons certify that the beneficial owner holds a valid certificate of exemption for New Zealand resident withholding tax purposes and provide a copy of such certificate of exemption and the beneficial owner's New Zealand tax file number to such Dealer (in which event the Dealer shall provide details thereof to the Issuer or to a Paying Agent).

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each a “Relevant Member State”), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “Relevant Implementation Date”) it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Offering Circular as completed by the pricing supplement in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

- (i) if the pricing supplement in relation to the Notes specify that an offer of those Notes may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant Member State (a “Non-exempt Offer”), following the date of publication of a prospectus in relation to such Notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, provided that any such prospectus has subsequently been completed by the pricing supplement contemplating such Non-exempt Offer, in accordance with the Prospectus Directive, in the period beginning and ending on the dates specified in such prospectus or pricing supplement, as applicable, and the Issuer has consented in writing to its use for the purpose of that Non-exempt Offer;
- (ii) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (iii) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (iv) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes referred to in (b) to (d) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an “offer of Notes to the public” in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression “Prospectus Directive” means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU), and includes any relevant implementing measure in the Relevant Member State and the expression “2010 PD Amending Directive” means Directive 2010/73/EU.

INDEPENDENT AUDITORS

The financial statements of AusNet Services (Distribution) Ltd as at, and for the financial year ended 31 March 2015, and of SP Australia Networks (Distribution) Ltd as at, and for the financial year ended 31 March 2014 included in this Offering Circular have been audited by KPMG, independent auditors, as set forth in their reports thereon included herein.

With respect to the unaudited interim financial statements for the periods ended 30 September 2015 and 2014, included herein, the independent auditors have reported that they applied limited procedures in accordance with professional standards for a review of such information. However, their separate report included herein, states that they did not audit and they do not express an opinion on the interim financial statements. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied.

The liability of KPMG, in relation to the performance of their professional services provided to AusNet Services Group including, without limitation, KPMG's audits of AusNet Services Group's consolidated financial statements described above, is limited under the Institute of Chartered Accountants in Australia (VIC) Scheme approved by the Victoria Professional Standards Council or such other applicable scheme approved pursuant to the Professional Standards Act 2003 (Vic), including the Treasury Legislation Amendment (Professional Standards) Act.

GENERAL INFORMATION

1. Notes will be accepted for clearance through the Euroclear and Clearstream, Luxembourg systems. The Common Code, the International Securities Identification Number (ISIN) and (where applicable) the identification number for any other relevant clearing system for each Series of Notes will be set out in the relevant Pricing Supplement.
2. The Issuer and the Guarantors have obtained all necessary consents, approvals and authorisations in Australia in connection with the establishment and update of the Programme. The establishment and update of the Programme were authorised by resolutions passed by the Board of Directors of the Issuer on 25 October 2004 and 7 March 2016, respectively. The guarantee of Notes issued by the Issuer has been authorised by a resolution passed by the Board of Directors of each of AusNet Gas Services Pty Ltd, AusNet Electricity Services Pty Ltd and AusNet Asset Services Pty Ltd on 25 October 2004 and of AusNet Transmission Group Pty Ltd and AusNet Finance Pty Ltd on 3 July 2007 and again in respect of each of the Guarantors on 7 March 2016.
3. Application has been made for permission to deal in, and for quotation of, any Notes which are agreed at the time of issue to be listed on the SGX-ST. Such permission will be granted when such Notes have been admitted to the Official List of the SGX-ST. There can be no assurance that the application to the SGX-ST for the listing of the Notes will be approved. So long as any Notes are listed on the SGX-ST and the rules of the SGX-ST so require, the Issuer shall appoint and maintain a paying agent in Singapore, where such Notes may be presented or surrendered for payment or redemption, in the event that that Global Note representing such Notes is exchanged for definitive Notes. In addition, an announcement of such exchange will be made through the SGX-ST. Such announcement will include all material information with respect to the delivery of the definitive Notes, including details of the paying agent in Singapore.
4. Except as disclosed in this Offering Circular, there has been no significant change in the financial or trading position since 30 September 2015, and no material adverse change in the financial position or prospects, of the AusNet Services Group since 31 March 2015, the date of its last reviewed financial statements.
5. Except as disclosed in this Offering Circular, neither the Issuer nor any the Guarantor is nor has been involved in any legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer or any Guarantor is aware) during the 12 months preceding the date of this Offering Circular which may have or has had in the recent past material effects on the financial position or profitability of the Issuer or any Guarantor.
6. Each Note having a maturity of more than one year, Receipt, Coupon and Talon will bear the following legend: “Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in sections 165(j) and 1287(a) of the Internal Revenue Code”.
7. The Notes are freely tradable securities. However, there are certain restrictions as to the offer, sale and transfer of Notes as set out herein. See “Subscription and Sale”.
8. For so long as Notes may be issued pursuant to this Offering Circular, the following documents will be available, during usual business hours on any weekday (Saturdays and public holidays excepted), for inspection at the office of the Principal Paying Agent:
 - (i) the Trust Deed (which includes the form of the Global Notes, the definitive Notes, the Coupons, the Receipts and the Talons);

- (ii) the Dealer Agreement;
 - (iii) the Agency Agreement;
 - (iv) the Constitution of the Issuer;
 - (v) the latest published audited financial statements of the AusNet Services Group and the latest published interim financial statements of the AusNet Services Group;
 - (vi) each Pricing Supplement for Notes that are listed and admitted to trading on any stock exchange;
 - (vii) a copy of this Offering Circular together with any Supplement to this Offering Circular or further Offering Circular; and
9. KPMG has audited, and rendered unqualified audit reports on, the financial statements of the AusNet Services Group for the past three years ended 31 March 2015. KPMG has also prepared an independent auditors' review report for the six month periods ended 30 September 2014 and 2015.

FORM OF PRICING SUPPLEMENT

The form of Pricing Supplement that will be issued in respect of each Tranche, subject only to the deletion of non-applicable provisions, is set out below:

Pricing Supplement dated []

AusNet Services Holdings Pty Ltd

Issue of [*Aggregate nominal amount of Tranche*] [Title of Notes]

[Guaranteed by AusNet Asset Services Pty Ltd, AusNet Electricity Services Pty Ltd, AusNet Finance Pty Ltd, AusNet Gas Services Pty Ltd and AusNet Transmission Group Pty Ltd]
under the U.S.\$5,000,000,000 Medium Term Note Programme

This document constitutes the Pricing Supplement relating to the issue of Notes described herein. Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Offering Circular dated 15 March 2016. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with such Offering Circular.

[The following alternative language applies if the first tranche of an issue which is being increased was issued under an Offering Circular with an earlier date.]

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the “Conditions”) set forth in the Offering Circular dated [•]. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with the Offering Circular dated [current date], save in respect of the Conditions which are extracted from the Offering Circular dated [•] and are attached hereto.

[Include whichever of the following apply or specify as “Not Applicable” (N/A). Note that the numbering should remain as set out below, even if “Not Applicable” is indicated for individual paragraphs or sub-paragraphs. Italics denote directions for completing the Pricing Supplement.]

[If the Notes have a maturity of less than one year from the date of their issue, the minimum denomination may need to be £100,000 or its equivalent in another currency]

1	(i) Issuer:	AusNet Services Holdings Pty Ltd (ABN 97 086 006 859)
	(ii) Guarantor(s):	[AusNet Asset Services Pty Ltd (ABN 27 075 826 881), AusNet Electricity Services Pty Ltd (ABN 91 064 651 118), AusNet Finance Pty Ltd (ABN 69 092 341 690), AusNet Gas Services Pty Ltd (ABN 43 086 015 036) and AusNet Transmission Group Pty Ltd (ABN 78 079 798 173)]
2	[(i)] Series Number:	[]
	[(ii) Tranche Number:	[]
	<i>(If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible).]</i>	
3	Specified Currency or Currencies:	[]
4	Aggregate Nominal Amount:	
	[(i)] Series:	[]

	[(ii) Tranche:	[]
5	[(i)] Issue Price:	[] per cent. of the Aggregate Nominal Amount [plus accrued interest from <i>[insert date]</i> (<i>in the case of fungible issues only, if applicable</i>)]
	[(ii) Net proceeds:	[] (<i>Required only for listed issues</i>)]
6	(i) Specified Denominations:	[]
	(ii) Calculation Amount	[]
7	[(i)] Issue Date:	[]
	(ii) Interest Commencement Date:	[]
8	Maturity Date:	<i>[specify date or (for Floating Rate Notes) Interest Payment Date falling in or nearest to the relevant month and year]</i>
9	Interest Basis:	[[] per cent. Fixed Rate] [[LIBOR/EURIBOR] +/- [] per cent. Floating Rate] [Zero Coupon] [Index Linked Interest] [Dual Currency Interest] [Other (<i>specify</i>)] (further particulars specified below)
10	Redemption/Payment Basis:	[Redemption at par] [Index Linked Redemption] [Dual Currency Redemption] [Partly Paid] [Instalment] [Other (<i>specify</i>)]
11	Change of Interest or Redemption/Payment Basis:	<i>[Specify details of any provision for convertibility of Notes into another interest or redemption/payment basis]</i>
12	Put/Call Options:	[Put Option] [Call Option] [(further particulars specified below)]
13	(i) Status of the Notes:	Senior
	(ii) Status of the Guarantee:	Senior
14	Listing:	[SGX-ST/Other (<i>specify</i>)/None]
15	Method of distribution:	[Syndicated/Non-syndicated]
PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE		
16	Fixed Rate Note Provisions	[Applicable/Not Applicable]

		<i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i>
	(i) Rate[(s)] of Interest:	[] per cent. per annum [payable [annually/semi-annually/quarterly/monthly] in arrear]
	(ii) Interest Payment Date(s):	[] in each year up to [adjusted in accordance with <i>[specify Business Day Convention and any applicable Business Centre(s) for the definition of "Business Day"]</i> /not adjusted]
	(iii) Fixed Coupon Amount[(s)]:	[] per [] in Calculation Amount
	(iv) Broken Amount:	[] per Calculation Amount, payable on the Interest Payment Date falling [in/on] []
	(v) Day Count Fraction:	[30/360/Actual/Actual [ICMA/ISDA] /other]
	(vi) Determination Date(s):	[] in each year. <i>[insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon]</i> <i>N.B. Only relevant where Day Count fraction is Actual/Actual</i>
	(vii) Other terms relating to the method of calculating interest for Fixed Rate Notes:	[Not Applicable/give details]
17	Floating Rate Provisions	[Applicable/Not Applicable] <i>(If not applicable, delete the remaining sub- paragraphs of this paragraph)</i>
	(i) Interest Period(s):	[]
	(ii) Specified Interest Payment Dates:	[]
	(iii) Business Day Convention:	[Floating Rate Convention/ Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other (give details)]
	(iv) Business Centre(s):	[]
	(v) Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination/other (give details)]
	(vi) Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the [Calculation] Agent):	[]
	(vii) Screen Rate Determination	
	• Reference Rate:	[]
	• Interest Determination Date(s):	[]
	• Relevant Screen Page:	[]
	(viii) ISDA Determination:	

	- Floating Rate Option: - Designated Maturity: - Reset Date:	[] [] []
	(ix) Margin(s):	[+/-] [] per cent. per annum
	(x) Minimum Rate of Interest:	[] per cent. per annum
	(xi) Maximum Rate of Interest:	[] per cent. per annum
	(xii) Day Count Fraction:	[]
	(xiii) Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions:	[]
18	Zero Coupon Note Provisions	[Applicable/Not Applicable] <i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i>
	(a) Accrual Yield:	[] per cent. per annum
	(b) Reference Price:	[]
	(c) Any other formula/basis of determining amount payable:	[]
	(d) Day Count Fraction in relation to Early Redemption Amounts and late payment:	[] [Conditions 8(e) and 8(j) apply/specify other <i>(Consider applicable day count fraction if not U.S. dollar denominated)</i>]
19	Index Linked Interest Note Provisions	[Applicable/Not Applicable] <i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i>
	(i) Index/Formula:	[Give or annex details]
	(ii) Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the [Calculation] Agent):	[]
	(iii) Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable or otherwise disrupted:	[]
	(iv) Interest or calculation period(s):	[]
	(v) Specified Interest Payment Dates:	[]
	(vi) Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other <i>(give details)</i>]
	(vii) Business Centre(s):	[]

	(viii) Minimum Rate of Interest:	[] per cent. per annum
	(ix) Maximum Rate of Interest:	[] per cent. per annum
	(x) Day Count Fraction:	[]
20	Dual Currency Note Provisions	[Applicable/Not Applicable] (<i>If not applicable, delete the remaining sub-paragraphs of this paragraph</i>)
	(i) Rate of Exchange/Method of calculating Rate of Exchange:	[Give details]
	(ii) Party, if any, responsible for calculating Rate(s) of Interest and Interest Amount(s) (if not the [Calculation] Agent):	[]
	(iii) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable:	[]
	(iv) Person at whose option Specified Currency(ies) is/are payable:	[]
	PROVISIONS RELATING TO REDEMPTION	
21	Call Option	[Applicable/Not Applicable] (<i>If not applicable, delete the remaining sub-paragraphs of this paragraph</i>)
	(i) Optional Redemption Date(s):	
	(ii) Optional Redemption Amount(s) of each Note and specified denomination method, if any, of calculation of such amount(s):	[] per Calculation Amount
	(iii) If redeemable in part:	
	(a) Minimum Redemption Amount:	[] per Calculation Amount
	(b) Maximum Redemption Amount:	[] per Calculation Amount
	(c) Make-Whole Spread:	[]
	(iv) Notice period:	[]
	(v) Basis for calculation of discount to Optional Redemption Date:	[Annual/Semi annual/other (<i>specify</i>)]
22	Put Option	[Applicable/Not Applicable] (<i>If not applicable, delete the remaining sub-paragraphs of this paragraph</i>)
	(i) Optional Redemption Date(s):	[]
	(ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s):	[] per Calculation Amount

- (iii) Notice period: []
- 23 **Final Redemption Amount of each Note** [] per Calculation Amount
- 24 Early Redemption Amount(s) of each Note payable on redemption for taxation reasons (Condition 8(b)) or an event of default (Condition 11) and/or the method of calculating the same (if required or if different from that set out in Condition 8(e)): []

GENERAL PROVISIONS APPLICABLE TO THE NOTES

25	Form of Notes:	Bearer Notes:
	(i) Temporary or permanent global Notes:	[Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes only in the limited circumstances specified in the Permanent Global Note] [Temporary Global Note exchangeable for Definitive Notes only in the limited circumstances specified in the Temporary Global Note] [Permanent Global Note exchangeable for Definitive Notes only in the limited circumstances specified in the Permanent Global Note]
	(ii) Applicable TEFRA exemption:	[C Rules/D Rules/Not Applicable]
26	Financial Centre(s) or other special provisions relating to payment dates:	[Not Applicable/ <i>Give details. Note that this item relates to the date and place of payment, and not interest period end dates, to which item 16(ii), 17(iii) and 19(vii) relate</i>]]
27	Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature):	[Yes/No. <i>If yes, give details</i>]
28	Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment:	[Not Applicable/ <i>give details</i>]
29	Details relating to Instalment Notes: amount of each instalment, date on which each payment is to be made:	[Not Applicable/ <i>give details</i>]
30	Redenomination, renominatisation and reconventioning provisions:	[Not Applicable/The provisions in Condition [] [annexed to this Pricing Supplement] apply]
31	Consolidation provisions:	[Not Applicable/ The provisions in Condition [] [annexed to this Pricing Supplement] apply]

- 32 Rounding: [Not Applicable/ give details]
- 33 Other terms or special conditions: [Not Applicable/give details]

DISTRIBUTION

- 34 (i) If syndicated, names of Managers: [Not Applicable/*give names*]
- (ii) Stabilising Manager (if any): [Not Applicable/*give name*]
- 35 If non-syndicated, name of Dealer: [Not Applicable/*give name*]
- 36 Additional selling restrictions: [Not Applicable/*give details*]

OPERATIONAL INFORMATION

- 37 ISIN Code: []
- 38 Common Code: []
- 39 Any clearing system(s) other than Euroclear Bank SA/NV and Clearstream Banking S.A. and the relevant identification number(s): [Not Applicable/*give name(s) and number(s)*]
- 40 Delivery: Delivery [against/free of] payment
- 41 Additional Agents appointed in respect of the Notes: []

LISTING APPLICATION

This Pricing Supplement comprises the final terms required to list the issue of Notes described herein pursuant to the U.S.\$5,000,000,000 Medium Term Note Programme of AusNet Services Holdings Pty Ltd.

RESPONSIBILITY

The Issuer [and the Guarantors] accept[s] responsibility for the information contained in this Pricing Supplement.

Signed on behalf of the Issuer:

By: _____
Duly authorised

By: _____
Duly authorised

Signed on behalf of the Guarantors:

By: _____
Duly authorised

By: _____
Duly authorised

GLOSSARY

2010 EDPR Decision	The Australian Energy Regulator's 2010 Electricity Distribution Price Review dated 29 October 2010
2P	proved and provable
A\$	Australian dollars
AASB	Australian Accounting Standards Board
AASB 9	Financial Instruments
AASB 119	Employee Benefits
ABN	Australian Business Number
ACCC	Australian Competition and Consumer Commission
ACRs	Automatic Circuit Reclosers
ACT	Australian Competition Tribunal
AEMA	Australian Energy Market Agreement
AEMC	Australian Energy Markets Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
Alternative Control, Ancillary and Negotiated Services	Also referred to as Excluded Services, these are other services provided by the AusNet Services Group, including meter disconnection and reconnection, customer transfers, special meter reads and maintenance charges for large customer installations
AMI	Advanced Metering Infrastructure
AMI CROIC	AMI Cost Recovery Order in Council
ARPANSA	Australian Radiation Protection and Nuclear Safety Agency, a Commonwealth agency responsible for protecting the health and safety of people and the environment from the harmful effects of radiation
ASIC	Australian Securities and Investments Commission
ASX or Australian Securities Exchange	ASX Limited or the securities exchange which it operates
ATO	Australian Taxation Office
AusNet Electricity Services	AusNet Electricity Services Pty Ltd (ABN 91 064 651 118)
AusNet Services	As defined in the Terms and Conditions of the Notes
AusNet Services Distribution	AusNet Services (Distribution) Ltd (ABN 37 108 788 245)
AusNet Services Finance Trust	AusNet Services Finance Trust (ARSN 116 783 914)
AusNet Services Group or Group	As defined in the Terms and Conditions of the Notes
AusNet Services (RE)	AusNet Services (RE) Ltd (ABN 46 109 977 371), the trustee of the AusNet Services Finance Trust.
AusNet Services Transmission	AusNet Services (Transmission) Ltd (ABN 48 116 124 362)
AusNet Transmission Group	AusNet Transmission Group Pty Ltd (ABN 78 079 798 173)

Australian Government	The government of the Commonwealth of Australia
Australian Tax Act	Income Tax Assessment Acts of 1936 and 1997 of Australia
CCA	Competition and Consumer Act 2010 (Cth) of Australia (formerly the Trade Practices Act 1974 (Cth))
COAG	Council of Australian Governments
Common Service	As defined under the NER, “a service that ensures the integrity of a distribution system and benefits all Distribution Customers and cannot reasonably be allocated on a locational basis.”
Commonwealth	The Commonwealth of Australia
Constitution Restriction	The restriction on the power to issue shares and other equity interests set out in AusNet Services’ constitution
Corporations Act	Corporations Act 2001 (Cth) of Australia
CPI	The Australian Consumer Price Index published by the Australian Bureau of Statistics
CR Application	Charges Revision Application
CROIC	Cost Recovery Order in Councils
CSG	coal seam methane gas
(Cth)	Indicates federal legislation of the Commonwealth of Australia
DNSP	Distribution network service providers
DRP	Distribution Reinvestment Plan which provides eligible security holders with a method of reinvesting all or part of their distributions in additional securities.
DRP Approval	The resolution passed by the shareholders of AusNet Services on 26 October 2015 to permit AusNet Services to issue shares pursuant to a DRP or any underwriting thereof at any time within 18 months of the date of the resolution
DUoS	Distribution use of system charge
EDPR	Electricity Distribution Price Review
EIA	Electricity Industry Act 2000 (Vic) of Australia
EMF	Electric and magnetic fields
Enterprise Agreements	Union collective agreements
ESC	Essential Services Commission
ESC Act	Essential Services Commission Act 2001 (Vic) of Australia
ESMSs	Electricity Safety Management Schemes
Excluded Services	Also referred to as Alternative Control, Ancillary and Negotiated Services, these are other services provided by the AusNet Services Group, including meter disconnection and reconnection, customer transfers, special meter reads and maintenance charges for large customer installations
Excluded Subsidiary	As defined in the Terms and Conditions of the Notes.

FATCA	Sections 1471 to 1474 of the United States Internal Revenue Code of 1986 or any consolidation, amendment, re-enactment or replacement of those provisions and including any regulations or official interpretations issued, agreements (including, without limitation, intergovernmental agreements) entered into or non-United States laws enacted with respect thereto
FFI	Foreign financial institution
GIA	Gas Industry Act 2001 (Vic) of Australia
GST	goods and services tax
Guarantor/Guarantors	As described in the Terms and Conditions of the Notes
GW	gigawatt, a unit of power equal to one billion watts
GWh	gigawatt hour, a unit of energy equal to one billion watt hours
ICT	information, communications and technology
Issuer	AusNet Services Holdings Pty Ltd (ABN 97 086 006 859)
Jemena	SGSP (Australia) Assets Pty Ltd (“SGSPAA”) and its Subsidiaries trading as “Jemena” or “Zinfra Group” (as applicable)
KPMG Australia	KPMG, an Australian partnership
LNG	Liquefied natural gas
Long run marginal cost	The change in the long-run total cost of producing a good or service resulting from a change in the quantity of output produced
Management Services Agreement	The agreement (as amended) under which SPI Management Services acts as manager of the AusNet Services Group’s businesses
MCE	Ministerial Council on Energy
MEB	The merchant energy business that consisted of TXU Corp’s electricity generation, electricity and gas retail businesses and interest in the SEAGas gas pipeline
MED	Major event day
Modern Awards	Industry based Awards that contain the minimum employment standards set by the Fair Work Commission for that industry
Moody’s	Moody’s Investors Services, Inc.
MWh	Megawatt hour, a unit of energy equal to one million watt hours
National Grid	The interconnected transmission network in Queensland, New South Wales, the Australian Capital Territory, Victoria, South Australia and Tasmania
NECF	National Energy Customer Framework
NEL	National Electricity Law
NEM	National Electricity Market
NER	National Electricity Rules
NE(SA) Act	National Electricity (South Australia) Act 1996 (SA)

Network Agreement	The network agreement between the AEMO and the AusNet Services Group dated 3 October 1994 that establishes the services and applicable terms and conditions
NGER	National Greenhouse and Energy Reporting Act 2007 (Cth)
NGL	National Gas Law
NGR	National Gas Rules
NHMRC	National Health and Medical Research Council
NSW	New South Wales
PJ	petajoules, a unit of energy equal to one quadrillion (10 ¹⁵) joules
PVC	Polyvinyl chloride
RAB	The RAB represents the value, as assessed by the AER, of past regulated network investments. This is the value on which the AusNet Services Group can expect to earn a return (return on capital), and the value that is returned to the AusNet Services Group over the economic life of the assets (as regulatory depreciation). For each regulatory period, the RAB is adjusted for inflation, capital expenditure, depreciation, customer contributions and disposals. The AusNet Services Group's regulated assets include ownership of the primary regulated Victorian electricity transmission network, together with an electricity distribution network located in eastern Victoria and a gas distribution network located in western Victoria. The calculation of the total RAB value is subject to some estimation as the AER ultimately determines the RAB of each network.
REFCL	Rapid Earth Fault Current Limiter
Regulated/Contracted Asset Base	Includes the RAB as well as: (i) contracted transmission assets that are currently unregulated but will become regulated at the next price review; and (ii) contracted transmission assets whose revenues and returns are set through a negotiated process rather than through regulation, including, for example, the Victorian desalination contract.
Restructure	The corporate restructure under which the, then, Stapled Entities became wholly owned by AusNet Services and eligible securityholders received shares in AusNet Services in the same as proportion of the stapled securities previously held.
Same Business Test	As referred to in sections 165-13 and 165-210 of the Income Tax Assessment Act 1997.
SCER	Standing Council on Energy and Resources
SECV	State Electricity Commission of Victoria
SWER	Single Wire Earth Return
Select Solutions	The AusNet Services Group's unregulated business, which is a leading specialist provider of metering, data and asset management services in the essential infrastructure sector throughout Australia.

SGIAD	State Grid International Australia Development Company Limited
SGSPAA	SGSP (Australia) Assets Pty Ltd
SGX or SGX-ST	Singapore Exchange Securities Trading Limited or the securities exchange which it operates
Shared Transmission Service	As defined by the AER, “a service provided to a Transmission Network User for use of a transmission network for the conveyance of electricity (including a service that ensures the integrity of the related transmission system).”
Singapore Power Group	Singapore Power Limited and its Subsidiaries
SPI	Singapore Power International Pte Ltd
SPI Management Services	SPI Management Services Pty Ltd
Standard & Poor’s	Standard & Poor’s Rating Services, a division of the McGraw-Hill Companies, Inc.
Stapled Entities	AusNet Services (Distribution) Ltd (ABN 37 108 788 245), AusNet Services (Transmission) Ltd (ABN 48 116 124 362) and AusNet Services Finance Trust (ARSN 116 783 914) which, prior to the Restructure, were stapled together pursuant to, among other things, the terms of the Stapling Deed.
STPIS	Service Target Performance Incentive Scheme
Subsidiary	As defined in the Terms and Conditions of the Notes
Taxation Administration Act	Taxation Administration Act 1953 of Australia
TFN	Tax file number
Total Assets	As defined in the Terms and Conditions of the Notes
Total AusNet Services Group Assets	As defined in the Terms and Conditions of the Notes
Transmission System Maximum Demand	The maximum amount of aggregated electricity recorded at entry points to the AusNet Services Group transmission network and interconnection points in each calendar year
Transmission System Minutes	A measure used by the AusNet Services Group to track the loss of supply to its transmission customers caused by the transmission system
Trustee	As defined in the Terms and Conditions of the Notes
TSS	Tariff structure statement
TUoS	transmission use of system
U.S.\$	U.S. dollars
(Vic)	Indicates state legislation of the State of Victoria
Victorian State Government	The government of the State of Victoria
WACC	weighted average cost of capital

INDEX TO FINANCIAL STATEMENTS

Reviewed interim financial statements of AusNet Services Limited for the six month period ended 30 September 2015.

Audited financial statements of AusNet Services (Distribution) Ltd for the financial year ended 31 March 2015.

Reviewed interim financial statements of AusNet Services (Distribution) Ltd for the six month period ended 30 September 2014.

Audited financial statements of SP Australia Networks (Distribution) Ltd² for the financial year ended 31 March 2014.

² SP Australia Networks (Distribution) Ltd was the previous name of AusNet Services.

AusNet Services Ltd
ABN 45 603 317 559

Interim Financial Report

For the financial period ended 30 September 2015

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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 Stapled Group for the year ended 31 March 2015, 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 16 November 2015.

Directors' report

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 2015. The interim financial report is for AusNet Services Ltd and its controlled entities (AusNet Services or the Group).

The consolidated interim financial report is a continuation of the previously reported combined financial statements of the Stapled Group, which consisted of AusNet Services (Distribution) Ltd (AusNet Services Distribution) and its subsidiaries, AusNet Services (Transmission) Ltd (AusNet Services Transmission) and its subsidiaries, and AusNet Services Finance Trust.

Corporate restructure and simplification of the Stapled Group

On 18 June 2015, AusNet Services completed a corporate restructure under which the existing stapled entities became wholly owned by a new listed entity (AusNet Services Ltd).

Shares and units in the Stapled Group were exchanged for shares in AusNet Services Ltd. AusNet Services Ltd formed a new consolidated group for quotation on the ASX and SGX-ST to replace the Stapled Group.

While this is the first interim financial report with AusNet Services Ltd as parent entity of the Group, the consolidated financial report is accounted for as a corporate reorganisation rather than a business combination. Accounting for a corporate reorganisation requires that the new group's financial statements reflect the financial position and performance of the new group as if the restructure had always been in place (i.e. retrospective application). Therefore, the corporate restructure is deemed to have been in place for the entire period and the Group accounting policies are consistent with the previous Stapled Group's accounting policies, except as disclosed in note 1(c).

Directors

The persons listed below were Directors of AusNet Services Ltd and prior to the corporate restructure were Directors of AusNet Services Distribution, AusNet Services Transmission and AusNet Services (RE) Ltd (trustee of AusNet Services Finance Trust), during the whole of the financial period and up to the date of this report unless otherwise noted.

Non-executive Directors

Ng Kee Choe (Chairman)

Ralph **Craven**

Sally Marie **Farrier**

Ho Tian Yee

Antonino (Tony) Mario **Iannello** (ceased as a director effective 23 July 2015)

Robert **Milliner** (appointed 23 July 2015)

Tina Renna **McMeckan**

Ian Andrew **Renard** AM (retired effective 23 July 2015)

Sun Jianxing

Executive Director

Nino **Ficca** (Managing Director)

At the General Meeting on 26 October 2015, the Chairman announced that he will not seek re-election when his current term expires at the 2016 Annual General Meeting.

Directors' report (continued)**Review of operations for the period ended 30 September 2015**

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

	30 September 2015	30 September 2014	Movement	%
	\$M	\$M	\$M	
Revenue	1,068.9	971.3	97.6	10.0
EBITDA	650.4	529.4	121.0	22.9
Net profit/(loss) after tax	374.5	(4.9)	379.4	N/M
Adjusted EBITDA ^{1, 3}	650.4	566.9	83.5	14.7
Adjusted net profit after tax ^{2, 3}	214.9	164.0	50.9	31.0

N/M: not meaningful

Notes:

- (1) Adjusted earnings before interest, tax, depreciation and amortisation (EBITDA) excludes the recognition of a provision for Advanced Metering Infrastructure (AMI) customer rebates of \$37.5 million in the 30 September 2014 period. There are no adjustments for the 30 September 2015 period.
- (2) The period ended 30 September 2015 adjusted net profit after tax excludes one-off tax benefits of \$159.6 million comprising of \$131.5 million tax benefit arising from the restructure of the Group and tax benefit of \$28.1 million arising from the settlement of the IP dispute with the Australian Taxation Office (ATO). The period ended 30 September 2014 adjusted net profit after tax excludes the after-tax impact of the items listed for adjusted EBITDA above and \$142.6 million in income tax expense for the settlement with the ATO in relation to the intra-group financing audit.
- (3) Adjusted EBITDA and adjusted net profit after tax are non-IFRS measures and have not been subject to audit or review.

AusNet Services achieved EBITDA for the period ended 30 September 2015 of \$650.4 million, an increase of \$121.0 million or 22.9 per cent over the previous corresponding period. This was largely due to revenue increases driven by price and volume changes in electricity and gas distribution as well as the prior year recognition of a provision for AMI customer rebates of \$37.5 million and impairment of AMI assets of \$15.0 million.

AusNet Services achieved a net profit after tax of \$374.5 million for the period, an increase of \$379.4 million compared to the previous corresponding period. This increase was largely due to the ATO settlements and restructure of the Stapled Group. On an adjusted basis net profit after tax was \$50.9 million higher, which was reflective of the after tax impact of the \$83.5 million increase in EBITDA, offset by \$7.8 million higher net finance costs due to higher borrowing levels and higher depreciation expense due to an increased asset base.

Directors' report (continued)

Review of operations for the period ended 30 September 2015 (continued)

AusNet Services derives most of its earnings from three regulated energy network businesses, which include an electricity distribution network in eastern Victoria, a gas distribution network in western Victoria and Victoria's high voltage electricity transmission network. A summary of the Group's revenues and results by operating segment for the period ended 30 September 2015 is set out below:

Electricity distribution business

	30 September 2015	30 September 2014	Movement	%
Segment revenue (\$M)	530.6	447.7	82.9	18.5
Segment result - EBITDA (\$M)	332.6	213.8	118.8	55.6
Volume (GWh)	4,067	3,860	207	5.4
Connections	685,435	673,254	12,181	1.8
Capital expenditure (\$M)	198.8	250.2	(51.4)	(20.5)

AusNet Services' electricity distribution revenue growth has been driven by a combination of regulated price increases for both electricity distribution and AMI revenues and a cooler six month period to 30 September 2015 compared to the previous period. Along with an increase in customer connections, this has driven the 5.4 per cent increase in volume.

The electricity distribution business contributed \$332.6 million in EBITDA for the period ended 30 September 2015, a \$118.8 million increase compared to the previous period. This increase is due to the revenue increase as well as \$52.5 million AMI adjustments for customer rebates and impairment recognised in the prior period. The current period also includes \$10 million of costs for the Yarram and Mickleham bushfire class actions.

The decline in electricity distribution capital expenditure is due to a number of factors, including benefits from lower unit rates and capital efficiency measures, prudent management of capex at the end of the existing EDPR period, lower customer demand for augmentation, the completion of a number of zone substation rebuild projects in the prior year, and lower IT spend due to the implementation of the enterprise-wide SAP solution. In addition, there has been a change in the spend profile for asset replacement, with the prior year including a greater proportion of the spend in the first half compared to the current year forecast. This decline is somewhat offset by a \$17 million increase in expenditure on the metering program.

Metering Program Update

The IT stabilisation works and rollout of a wireless mesh communications network under the AMI program is continuing. AusNet Services expects to complete work on its core systems by the end of calendar 2016 and finalise the conversion of meters to remotely provide data to market by early calendar 2017. Total capital expenditure incurred on the AMI program during the six months to 30 September 2015 was \$53.9 million vs \$36.7 million in the prior period.

In July 2015, AusNet Services made an administrative undertaking to the Essential Services Commission (ESC), setting out the timeframes by which the compliance targets under the Cost Recovery Order in Council (CROIC) will be met. In accordance with this undertaking, AusNet Services will regularly report to the ESC on progress against the key milestones of the AMI program. AusNet Services' progress in achieving the compliance targets will be subject to independent audits in August 2016 and February 2017.

Directors' report (continued)**Review of operations for the period ended 30 September 2015 (continued)****Gas distribution business**

	30 September 2015	30 September 2014	Movement	%
Segment revenue (\$M)	130.9	117.5	13.4	11.4
Segment result - EBITDA (\$M)	104.8	92.0	12.8	13.9
Volume (PJ)	46.0	40.8	5.2	12.7
Connections	654,587	640,793	13,794	2.2
Capital expenditure (\$M)	46.8	44.0	2.8	6.4

The gas distribution business revenues for the period increased \$13.4 million largely due to the increase in volumes due to a cold winter in this period and a warmer winter in the comparative period. The gas distribution business contributed \$104.8 million in EBITDA, an increase of \$12.8 million over the previous period primarily as a result of the higher revenues.

Electricity transmission business

	30 September 2015	30 September 2014	Movement	%
Segment revenue (\$M)	335.1	330.7	4.4	1.3
Segment result - EBITDA (\$M)	207.6	213.9	(6.3)	(2.9)
Capital expenditure (\$M)	96.4	104.3	(7.9)	(7.6)

AusNet Services' electricity transmission business contributed \$335.1 million in total revenues for the period ended 30 September 2015. Transmission regulated revenue is not subject to volume risk. The 1.3 per cent increase in revenue is as a result of higher easement tax cost pass through along with favourable incentive scheme outcomes, offset by the negative price path in the Transmission Revenue Reset (TRR) Final Determination for the 2014-17 period.

The electricity transmission business contributed \$207.6m in EBITDA for the period ended 30 September 2015, a decrease of \$6.3 million over the previous corresponding period. Operating expenses increased due to higher easement tax and increased labour costs.

Capital expenditure has declined due to the completion of a number of replacement projects in the prior period including Ringwood and Dederang terminal station works. The major capital expenditure projects during the period were Brunswick terminal station upgrade (\$31.1 million) and Richmond terminal station rebuild (\$19.0 million). Both of these large projects are approximately 60 per cent complete and on track to be completed during FY17 and FY19 respectively.

Directors' report (continued)**Review of operations for the period ended 30 September 2015 (continued)****Select Solutions business**

	30 September 2015	30 September 2014	Movement	%
Segment revenue (\$M)	78.2	81.1	(2.9)	(3.6)
Segment result - EBITDA (\$M)	5.4	9.7	(4.3)	(44.3)

Select Solutions provides asset intelligence and end to end metering services. Select Solutions' customers are primarily businesses operating in the essential infrastructure sector such as electricity, water and gas utility owners and telecommunications companies.

Select Solutions contributed \$78.2 million in total revenues for the period ended 30 September 2015. Revenue decreased compared to the prior period due to the negotiated cessation of cost pass-through gas meter procurement activity with a large customer from April 2015 (\$10 million) offset by new contracts and growth in existing contracts. Select Solutions contributed \$5.4 million in EBITDA for the period ended 30 September 2015, a decrease of \$4.3 million on the prior period as a result of higher mobilisation costs on new contracts and cost overruns on other contracts.

Material risks and uncertainties

AusNet Services is committed to understanding and effectively managing risk to provide greater certainty and confidence for its shareholders, employees, customers, suppliers and communities in which it operates. AusNet Services maintains oversight of its material business risks (financial and non-financial) at an enterprise-wide level and reports regularly to the Audit and Risk Management Committee and the Board of Directors on the effectiveness of the management of these risks. In its 31 March 2015 annual report, AusNet Services detailed the following principal risks which may materially impact the execution and achievement of its business strategy and financial prospects:

- AMI program risks;
- Taxation risks;
- Regulatory risks;
- Network risks;
- Funding and market risks; and
- Information and communication technology risks.

While these remain relevant risks and uncertainties to AusNet Services, an update is required in relation to taxation risks. During the period to 30 September 2015, AusNet Services concluded its Section 163AA matter with an unfavourable judgement in the High Court and a final payment of \$69.0 million (no income statement impact as previously provided for). In addition, AusNet Services settled with the ATO in relation to the Intellectual Property matter, with no further payments required and a \$28.1 million credit to income tax expense in the current period. The resolution of tax litigation matters, together with the Division 974 audit settlement in March 2015, resolves all disputes with the ATO and delivers a high degree of tax certainty for income years up to and including March 2014. As a large business taxpayer, AusNet Services will continue to support a cooperative compliance relationship with the ATO.

Judgements have been made regarding the application of tax laws and the valuation of assets in the calculation of the tax base reset arising from the corporate restructure and formation of a single tax consolidated group. This has resulted in a \$292.9 million tax benefit recognised in the income statement. The calculation is based on current tax law. There are pending amendments to the consolidation rules which if introduced with retrospective application could adversely impact the quantum of the tax base reset value.

Financial position as at 30 September 2015

Shareholders' equity was \$3,528.4 million as at 30 September 2015, an increase of \$279.6 million compared to 31 March 2015 largely as a result of the impact of the corporate restructure and operating profits for the period in excess of dividends paid.

Directors' report (continued)

Financial position as at 30 September 2015 (continued)

AusNet Services' current liabilities exceeded current assets by \$316.9 million at 30 September 2015 due primarily to \$409.0 million of current borrowings. 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 2015 the Group had available a total of \$450 million of undrawn but committed non-current bank debt facilities and \$33 million cash on deposit. The current borrowings of \$409 million do not mature until 14 September 2016.

Capital management

AusNet Services manages its capital structure to ensure that it continues as a going concern while maximising the return to shareholders as well as providing the flexibility to fund organic growth and other investment opportunities. An appropriate capital structure is also maintained to ensure an efficient cost of capital is available to AusNet Services. Through its cash flows from operations and by maintaining an appropriate and prudent mix of debt and equity, AusNet Services ensures that it achieves its targeted credit metrics that support an 'A' range credit rating.

At present, AusNet Services is unable to raise further equity (other than a DRP) unless approved at a general meeting by shareholders. In the event that further funding is required, AusNet Services will evaluate its options and proceed in a way that supports its targeted credit metrics, including a potential issue of hybrid securities.

Debt funding

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

In line with AusNet Services' Treasury Risk Policy, AusNet Services maintains a diversified debt portfolio by maturity and source. AusNet Services has an A- credit rating from Standard and Poor's and A3 from Moody's Investor Services.

Dividends

The final 2015 dividend paid to shareholders on 26 June 2015 was as follows:

	Cents per share	Total dividend \$M
Fully franked dividend paid by AusNet Services Ltd	2.508	86.9
Unfranked dividend paid by AusNet Services Ltd	1.672	58.0
	4.180	144.9

In relation to the final dividend paid on 26 June 2015 of \$144.9 million, \$57.7 million was utilised in the allotment of new securities issued under the Dividend Reinvestment Plan (DRP).

Since the end of the financial period, the Directors have approved an interim dividend for 2016 of \$149.7 million (4.265 cents per share) to be paid on 24 December 2015, comprised as follows:

	Cents per share	Total dividend \$M
Fully franked dividend payable by AusNet Services Ltd	4.265	149.7
	4.265	149.7

Directors' report (continued)

Environmental regulation and climate change

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

Under the *National Greenhouse and Energy Reporting (NGER) Act 2007*, corporations that meet or exceed thresholds are required to report greenhouse gas emissions and energy usage by 31 October each year. AusNet Services meets these thresholds and has lodged its NGER reporting with the Clean Energy Regulator for the period from 1 July 2014 to 30 June 2015.

Significant changes in the state of affairs

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

Matters subsequent to the end of the financial period

Dividend

Since the end of the financial period, the Directors have approved an interim dividend for 2016 of \$149.7 million (4.265 cents per share) to be paid on 24 December 2015.

General Meeting results

On 26 October 2015, AusNet Services held a general meeting. The general meeting had one resolution, which was passed by shareholders with 98.4 per cent support, to enable the DRP to continue to run for FY16. As a result, the DRP will be available on the Interim and Final FY16 dividends.

Preliminary Electricity Distribution Price Review (EDPR) decision

On 29 October 2015, the Australian Energy Regulator (AER) released its preliminary decision on AusNet Services' 2016-20 EDPR. The preliminary decision is as follows:

Regulatory period	Current period 2011-15	AusNet Services 2016-20 proposal	AER draft decision
	\$M	\$M	\$M
Net Capex (Nominal)	1,579	1,866	1,614
Opex (Nominal)	928	1,260	1,191
Revenue (Nominal)	2,533	3,461	2,887

The preliminary decision also outlines metering revenues of \$443 million, a 12 per cent reduction from AusNet Services' proposal. A large part of this reduction relates to the AER rejecting replacement capital expenditure for metering.

AusNet Services is reviewing the preliminary decision and will provide further information to the AER to challenge these outcomes. The final decision is expected by the end of April 2016.

With the exception of the matters outlined above, the Directors are not aware of any circumstances that have arisen since 30 September 2015 that have significantly affected, or may significantly affect, the operations, and the results of those operations, or the state of affairs of the Group in the financial period subsequent to 30 September 2015.

Directors' report

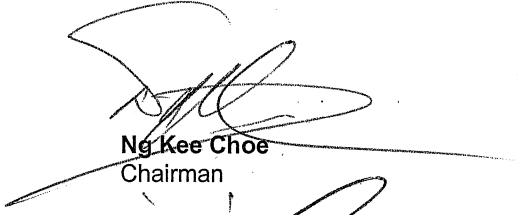
Lead Auditor's Independence Declaration

The Lead Auditor's Independence Declaration is set out on page 11 and forms part of the Directors' report for the period ended 30 September 2015.

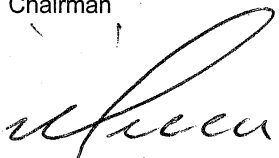
Rounding of amounts

AusNet Services is a company of a kind referred to in Class Order 98/100, 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 to the nearest hundred thousand dollars.

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



Ng Kee Choe
Chairman



Nino Ficca
Managing Director

Melbourne
16 November 2015



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 for the interim period ended 30 September 2015 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

A handwritten signature in black ink, appearing to read 'Paul McDonald', written over the printed name.

Paul McDonald
Partner

Melbourne

16 November 2015

Consolidated interim income statement

For the period ended 30 September 2015

		30 September 2015	30 September 2014
	Notes	\$M	\$M
Revenue	2	1,068.9	971.3
Expenses, excluding finance costs		(613.8)	(631.0)
Profit from operating activities		455.1	340.3
Finance income	4	15.3	15.1
Finance costs	4	(170.0)	(162.0)
Net finance costs		(154.7)	(146.9)
Profit before income tax		300.4	193.4
Income tax benefit/(expense)	5	74.1	(198.3)
Profit/(loss) for the period		374.5	(4.9)
Earnings per share attributable to the ordinary equityholders of AusNet Services			
Basic and diluted earnings per share (cents per share)	7	10.73	(0.14)

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 2015

	30 September 2015	30 September 2014
	\$M	\$M
Profit/(loss) for the period	374.5	(4.9)
Other comprehensive income		
Items that will not be reclassified to profit or loss in subsequent periods		
Movement in defined benefit fund	50.2	(16.8)
Income tax on movement in defined benefit fund	(15.1)	5.1
	35.1	(11.7)
Items that may be reclassified to profit or loss in subsequent periods		
Movement in hedge reserve	(28.0)	20.1
Income tax on movement in hedge reserve	(15.9)	(6.0)
	(43.9)	14.1
Other comprehensive income for the period, net of income tax	(8.8)	2.4
Total comprehensive income for the period	365.7	(2.5)

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 2015

	Notes	30 September 2015 \$M	31 March 2015 \$M
ASSETS			
Current assets			
Cash and cash equivalents		33.0	883.1
Receivables		281.9	488.9
Inventories		47.7	37.5
Derivative financial instruments		50.4	129.3
Other assets		26.5	24.3
Total current assets		439.5	1,563.1
Non-current assets			
Receivables		202.8	207.2
Inventories		18.6	19.4
Property, plant and equipment		9,308.5	9,253.8
Intangible assets		570.9	481.0
Derivative financial instruments		829.8	535.2
Tax receivable		15.4	-
Other assets		8.4	3.6
Total non-current assets		10,954.4	10,500.2
Total assets		11,393.9	12,063.3
LIABILITIES			
Current liabilities			
Payables and other liabilities		234.0	497.7
Current tax payable		3.3	138.6
Borrowings	8	409.0	776.7
Provisions		97.6	122.3
Derivative financial instruments		12.5	46.6
Total current liabilities		756.4	1,581.9
Non-current liabilities			
Payables and other liabilities		32.7	28.1
Non-current tax payable		-	5.4
Borrowings	8	6,433.2	6,439.4
Provisions		40.8	78.5
Derivative financial instruments		158.8	209.1
Deferred tax liabilities		443.6	472.1
Total non-current liabilities		7,109.1	7,232.6
Total liabilities		7,865.5	8,814.5
Net assets		3,528.4	3,248.8
EQUITY			
Equityholders of AusNet Services			
Contributed equity	9	5,015.4	3,456.6
Reserves		(1,563.1)	(19.2)
Retained profits		1,171.2	906.5
Other equity		(1,095.1)	(1,095.1)
Total equity		3,528.4	3,248.8

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 2015

	Notes	Contributed equity \$M	Restructure reserve (i) \$M	Hedge reserve (ii) \$M	Asset revaluation reserve (iii) \$M	Shared based payment reserve \$M	Other equity component (iv) \$M	Retained profits \$M	Total equity \$M
30 September 2015									
Balance as at 1 April 2015	1(b)	3,456.6	-	(70.6)	51.4	-	(1,095.1)	906.5	3,248.8
Total comprehensive income for the period									
Profit for the period		-	-	-	-	-	-	374.5	374.5
Other comprehensive income		-	-	(43.9)	-	-	-	35.1	(8.8)
Total comprehensive income for the period		-	-	(43.9)	-	-	-	409.6	365.7
Transactions with owners, recorded directly in equity									
Dividends paid	6	-	-	-	-	-	-	(144.9)	(144.9)
DRP (net of transaction costs)	6	57.7	-	-	-	-	-	-	57.7
Share based payments		-	-	-	-	1.1	-	-	1.1
Impact of corporate restructure	9	1,501.1	(1,501.1)	-	-	-	-	-	-
Total transactions with owners		1,558.8	(1,501.1)	-	-	1.1	-	(144.9)	(86.1)
Balance as at 30 September 2015		5,015.4	(1,501.1)	(114.5)	51.4	1.1	(1,095.1)	1,171.2	3,528.4
30 September 2014									
Balance as at 1 April 2014	1(b)	3,364.9	-	(57.0)	51.4	-	(1,095.1)	1,180.4	3,444.6
Total comprehensive income for the period									
Loss for the period		-	-	-	-	-	-	(4.9)	(4.9)
Other comprehensive income		-	-	14.1	-	-	-	(11.7)	2.4
Total comprehensive income for the period		-	-	14.1	-	-	-	(16.6)	(2.5)
Transactions with owners, recorded directly in equity									
Dividends paid	6	(13.8)	-	-	-	-	-	(127.8)	(141.6)
DRP (net of transaction costs)	6	51.4	-	-	-	-	-	-	51.4
Total transactions with owners		37.6	-	-	-	-	-	(127.8)	(90.2)
Balance as at 30 September 2014		3,402.5	-	(42.9)	51.4	-	(1,095.1)	1,036.0	3,351.9

Consolidated interim statement of changes in equity (continued)

For the period ended 30 September 2015

- (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 AusNet Services Stapled Group on the date of implementation (\$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 an equity 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 other equity component results from the application of reverse acquisition accounting and represents the difference between the net assets of AusNet Services Transmission and AusNet Finance Pty Ltd and the purchase price paid by the legal acquirer, AusNet Services Transmission.

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 2015

	Notes	30 September 2015 \$M	30 September 2014 \$M
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		1,126.5	1,039.0
Payments to suppliers and employees (inclusive of goods and services tax)		(547.4)	(487.5)
Payment of MSA termination fee (inclusive of goods and services tax)		-	(39.3)
Income tax paid (i)		(141.6)	(27.8)
Finance income received		16.3	11.3
Finance costs paid		(170.3)	(160.9)
Net cash inflow from operating activities		283.5	334.8
Cash flows from investing activities			
Payments for property, plant and equipment		(349.7)	(423.2)
Proceeds from sale of property, plant and equipment		-	3.6
Payment for acquisition of a subsidiary (net of cash acquired)		-	(0.4)
Repayment of desalination licence receivable		4.4	4.4
Net cash outflow from investing activities		(345.3)	(415.6)
Cash flows from financing activities			
Dividends paid (ii)	6	(87.2)	(90.2)
Proceeds from borrowings		146.0	799.3
Repayment of borrowings		(847.1)	(363.5)
Net cash (outflow)/inflow from financing activities		(788.3)	345.6
Net (decrease)/increase in cash held		(850.1)	264.8
Cash and cash equivalents at the beginning of the period		883.1	409.8
Cash and cash equivalents at the end of the period		33.0	674.6

(i) 2015 includes \$69.0 million tax paid in relation to the S163AA dispute and \$25.0 million ATO settlement in relation to the stapled structure.

(ii) Amounts shown represent dividends paid of \$144.9 million (2014: \$141.6 million) offset by proceeds from the DRP of \$57.7 million (2014: \$51.4 million), less transaction costs.

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

Condensed notes to the consolidated interim financial statements

For the period ended 30 September 2015

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Condensed notes to the consolidated interim financial statements (continued)

For the period ended 30 September 2015

Note 1 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the interim financial report are set out below.

(a) Basis of preparation

The consolidated general purpose interim financial report, prepared by a for-profit entity for the period ended 30 September 2015, represents the consolidated financial statements of the Group, which comprises AusNet Services Ltd and its subsidiaries. The Group is also referred to as AusNet Services.

The consolidated financial report represents a continuation of the combined financial statements of the AusNet Services Stapled Group, which consisted of AusNet Services (Distribution) Ltd (AusNet Services Distribution) and its subsidiaries, AusNet Services (Transmission) Ltd (AusNet Services Transmission) and its subsidiaries, and AusNet Services Finance Trust.

On 18 June 2015, AusNet Services completed a corporate restructure under which the existing stapled entities became wholly owned by a new entity (AusNet Services Ltd). Shares and units in the Stapled Group were exchanged for shares in AusNet Services Ltd which are listed on the Australian Stock Exchange (ASX) and the Singapore Exchange Securities Trading Limited (SGX-ST).

While this is the first interim financial report with AusNet Services Ltd as parent entity of the Group, the consolidated financial report is accounted for as a corporate reorganisation rather than a business combination. Accounting for a corporate reorganisation requires that the new group's financial statements reflect the financial position and performance of the new group as if the restructure had always been in place (i.e. retrospective application).

The consolidated general purpose interim financial report has been prepared in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001* (Cth).

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 Stapled Group for the year ended 31 March 2015 and any public announcements made by AusNet Services during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act*.

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

The interim financial statements were approved by the Board of Directors on 16 November 2015.

AusNet Services' current liabilities exceeded current assets by \$316.9 million at 30 September 2015 due primarily to \$409.0 million of current borrowings. 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 2015 the Group had available a total of \$450 million of undrawn but committed non-current bank debt facilities and \$33 million cash on deposit. The current borrowings of \$409 million do not mature until 14 September 2016.

(b) Corporate restructure

As a result of the corporate restructure, the financial statements of the Group are now presented as the consolidated group of AusNet Services Ltd and its subsidiaries. Amounts previously presented as equity balances in relation to non-controlling interest now form part of the Group's consolidated equity balances. The historical balances of non-controlling interest have been reallocated within equity as follows:

Condensed notes to the consolidated interim financial statements (continued)

For the period ended 30 September 2015

Note 1 Summary of significant accounting policies (continued)**(b) Corporate restructure (continued)**

	1 April 2014 \$M	30 September 2014 \$M	31 March 2015 \$M
Non-controlling interests as per Stapled Group financial statements	(2,788.0)	(2,800.4)	(2,751.1)
Reallocation of non-controlling interests in AusNet Services Ltd financial statements			
Contributed equity	3,364.4	3,402.0	3,456.1
Reserves	51.4	51.4	51.5
Retained profits	467.3	442.1	338.6
Other equity	(1,095.1)	(1,095.1)	(1,095.1)
	(2,788.0)	(2,800.4)	(2,751.1)

The issuing of shares by AusNet Services Ltd in order to effect the corporate restructure was measured at the market capitalisation of AusNet Services stapled securities at the date of the restructure, resulting in the recognition of \$4,957.7 million of contributed equity. The difference between this value and the pre-restructure contributed equity of the Stapled Group (\$3,456.6 million) of \$1,501.1 million is recognised as an equity reserve.

The consolidated statement of financial position and consolidated statement of changes in equity have been adjusted to reflect these changes. There were no restatements of the consolidated income statement, consolidated statement of comprehensive income or consolidated statement of cash flows.

In November 2015, ASIC cancelled the AFSL held by AusNet Services (RE) Ltd as this is no longer required to be held following the 18 June 2015 restructure of the Group.

(c) Significant accounting policies

The accounting policies applied by the Group in this consolidated interim financial report are the same as those applied by the Stapled Group in its consolidated financial report as at and for the year ended 31 March 2015. There have been no new accounting standards relevant to the Group adopted during the period except as follows:

(i) Early adoption of AASB 9 Financial Instruments

AASB 9 *Financial Instruments* was issued in December 2014 and replaces the existing guidance in AASB 139 *Financial Instruments: Recognition and Measurement*. AASB 9 simplifies the classification and recognition of financial instruments, introduces a new expected credit loss model for calculating impairment of financial assets, and aligns hedge accounting more closely with an entity's risk management practices.

AusNet Services has early adopted AASB 9 from 1 April 2015. The new hedge accounting requirements have been applied prospectively from this date, while the remainder of the requirements of AASB 9 have been applied retrospectively.

Condensed notes to the consolidated interim financial statements (continued)

For the period ended 30 September 2015

Note 1 Summary of significant accounting policies (continued)**(c) Significant accounting policies (continued)**

The following is a summary of the key accounting policy changes for AusNet Services as a result of adopting AASB 9, as well as a description of their ongoing impact on the financial statements.

Item	Accounting policy change	Impact of change
Hedge relationships	Existing hedges under AASB 139 can only continue if they satisfy the requirements for continuing hedge relationships under AASB 9. Risk components that are separately identifiable and reliably measurable are eligible as hedged items, including aggregated exposures. Effectiveness measurement testing is required only on a prospective basis and new criteria include the existence of an economic relationship between the hedged item and the hedging instrument.	AusNet Services had certain existing cash flow hedges that didn't satisfy the requirements of continuing hedge relationships under AASB 9. These hedges have been de-designated on 1 April 2014, with the associated derivative instruments and underlying borrowings re-designated in new cash flow hedges. Certain foreign currency debt previously de-designated under AASB 139 has also been included in these cash flow hedges. The cumulative loss in the hedge reserve on 1 April 2014 has remained in the hedge reserve and will unwind over the life of the hedges. There is no material impact on the income statement as a result of this de-designation and re-designation. It is anticipated that these changes will reduce in future the circumstances under which AusNet Services recognises hedge ineffectiveness, or discontinues hedge accounting and recognises a de-designation gain or loss.
Foreign currency basis	AASB 9 specifically allows for foreign currency basis spreads to be separated and excluded from the designation of a financial instrument as the hedging instrument.	A number of existing hedge relationships under AASB 139 included foreign currency basis. AusNet Services has elected to restructure these hedge relationships and separately account for foreign currency basis spreads. The cumulative change in the fair value of foreign currency basis spreads is recognised in other comprehensive income. The currency basis charge included in the original cost of the derivative instrument is recognised in the income statement over the life of the instrument. There is no material impact to the income statement as a result of this change.
Impairment of financial assets	Impairment of financial assets, including trade receivables, is recognised based on the expected credit losses of the assets. These are determined by discounting the weighted average expected future cash flows and comparing to the carrying value of the asset. There is no change in the classification of financial assets as a result of applying AASB 9.	There is no material impact on the income statement or statement of financial position as a result of this change.

(ii) Change in discount rates for employee liabilities

From 30 June 2015, Australian entities are required to use corporate bond rates, rather than Government bond rates to discount their post-employment benefits and other long-term employee liabilities. This is a change in accounting estimate rather than a change in accounting policy and as such is applied prospectively by AusNet Services. The impact of this change was not material to the profit and loss of AusNet Services, however the impact on the defined benefit obligation resulted in a \$38.4 million (\$26.9 million after tax) increase in other comprehensive income and the net assets of the Group.

Condensed notes to the consolidated interim financial statements (continued)

For the period ended 30 September 2015

Note 1 Summary of significant accounting policies (continued)

(d) Other presentation changes

Following the completion of several major software projects, AusNet Services has reclassified software assets to intangible assets (previously property, plant & equipment). The change in accounting policy has resulted in the restatement of the 31 March 2015 statement of financial position, reducing the value of property, plant and equipment by \$88.1 million and increasing intangible assets by the same amount. In addition, the useful life of software assets has been changed from 3-5 years to 3-10 years.

(e) Rounding of amounts

The Group is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the financial report. Amounts in the interim financial report have been rounded off to the nearest hundred thousand dollars.

Note 2 Segment information

(a) Description of reportable segments

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. The Group charges 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. The Group's electricity 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. The Group charges 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. The Group's gas distribution network covers central and western Victoria.

(iii) Electricity transmission

The Group owns and manages the vast majority of the electricity transmission network in Victoria. The Group's electricity transmission network consists of the transmission lines and towers which carry electricity at high voltages from power stations to electricity distributors around Victoria, forming the backbone of the Victorian electricity network. The network is centrally located amongst the five eastern states of Australia that form the National Electricity Market, and provides key links between the electricity transmission networks of Victoria, South Australia, New South Wales and Tasmania. The Group charges 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 includes both regulated and unregulated electricity transmission assets and revenues. The electricity transmission segment does not purchase or sell electricity.

(iv) Select Solutions

Select Solutions provides asset intelligence and end to end metering services to external parties and AusNet Services. Select Solutions' customers are primarily businesses operating in the essential infrastructure sector such as electricity, water and gas utility owners and telecommunications companies.

Condensed notes to the consolidated interim financial statements (continued)

For the period ended 30 September 2015

Note 2 Segment information (continued)**(b) Reportable segment financial information**

	Electricity distribution	Gas distribution	Electricity transmission	Select Solutions	Inter-segment eliminations	Combined
	\$M	\$M	\$M	\$M	\$M	\$M
30 September 2015						
Regulated revenue	522.6	128.6	316.6	-	(5.9)	961.9
Customer contributions	6.4	1.1	-	-	-	7.5
Service revenue	-	-	7.2	77.2	-	84.4
Other revenue	1.6	1.2	11.3	1.0	-	15.1
Total segment revenue	530.6	130.9	335.1	78.2	(5.9)	1,068.9
Segment expense before depreciation and amortisation	(198.0)	(26.1)	(127.5)	(72.8)	5.9	(418.5)
Segment result - EBITDA (i)	332.6	104.8	207.6	5.4	-	650.4
Depreciation and amortisation	(112.4)	(28.4)	(50.4)	(4.1)	-	(195.3)
Net finance costs						(154.7)
Income tax benefit						74.1
Profit for the period						374.5
30 September 2014						
Regulated revenue	433.9	112.6	312.7	-	(5.7)	853.5
Customer contributions	10.3	4.4	-	-	-	14.7
Service revenue	-	-	6.2	70.7	-	76.9
Other revenue	3.5	0.5	11.8	10.4	-	26.2
Total segment revenue	447.7	117.5	330.7	81.1	(5.7)	971.3
Segment expense before depreciation and amortisation (ii)	(233.9)	(25.5)	(116.8)	(71.4)	5.7	(441.9)
Segment result - EBITDA (i)	213.8	92.0	213.9	9.7	-	529.4
Depreciation and amortisation	(109.3)	(30.2)	(47.2)	(2.4)	-	(189.1)
Net finance costs						(146.9)
Income tax expense						(198.3)
Loss for the period						(4.9)

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

(ii) Electricity distribution segment for the period ended 30 September 2014 includes \$37.5 million of Advanced Metering Infrastructure (AMI) customer rebates, and \$15.0 million of AMI asset impairment.

(c) Notes to and forming part of the segment information*(i) Accounting policies*

Segment information is prepared in conformity with the accounting policies of the Group and AASB 8 *Operating Segments*. Segment revenues and expenses are those that are directly attributable to a segment and the relevant portion that can be allocated to the segment on a reasonable basis. The Cost Allocation Methodology as approved by the Australian Energy Regulator (AER) is used as the basis for allocating expenses to the relevant segment.

(ii) Inter-segment revenue

Segment revenues, expenses and results include transmission network connection charges between the electricity distribution and electricity transmission segments. The prices for such transfers are regulated and are eliminated on consolidation.

Condensed notes to the consolidated interim financial statements (continued)

For the period ended 30 September 2015

Note 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.

(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) Select Solutions

Select Solutions revenue is not seasonal. Select Solutions revenue is earned as the services are rendered.

Note 4 Net finance costs

	30 September 2015 \$M	30 September 2014 \$M
Finance income		
Interest income	0.1	0.1
Investment income	8.7	8.0
Return on desalination licence receivable	6.5	7.0
Total finance income	15.3	15.1
Finance costs		
Interest expense	184.9	172.8
Other finance charges - cash	1.5	1.7
Other finance charges - non-cash	2.5	2.6
(Gain)/loss on accounting for hedge relationships	(7.7)	(4.7)
Unwind of discount on provisions	1.1	1.2
Capitalised finance charges	(12.3)	(11.6)
Total finance costs	170.0	162.0
Net finance costs	154.7	146.9

Condensed notes to the consolidated interim financial statements (continued)

For the period ended 30 September 2015

Note 5 Taxation**Numerical reconciliation of income tax expense to prima facie tax payable**

	30 September 2015	30 September 2014
	\$M	\$M
Profit before income tax expense	300.4	193.4
Tax at the Australian tax rate of 30.0% (2014: 30.0%)	90.1	58.0
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
ATO settlement cash payment (i)	-	24.6
ATO settlement - cancellation of tax losses (i)	-	118.0
Impact of entry into new tax consolidated group (ii)	(131.5)	-
ATO settlement - Intellectual Property matter (iii)	(28.1)	-
Prior year (over)/under provision	(4.6)	(1.5)
Sundry items	-	(0.8)
Income tax (benefit)/expense	(74.1)	198.3

- (i) On 4 March 2015 the Group and the ATO executed a binding Settlement Deed regarding all matters concerning intra-group financing arrangements and rights to future income issues. This settlement resulted in:
- making a primary tax payment of \$23.5 million and an interest payment (deductible) of \$1.5 million;
 - cancelling \$506.5 million of carried-forward tax losses of which, \$393.2 million were previously recognised in the statement of financial position and as such have been written off; and
 - ceasing to take interest deductions in respect of AusNet Services Finance Trust loans from 1 April 2014.
- (ii) Under the new corporate structure, AusNet Services Ltd has formed a single tax consolidated group that replaces the previous two tax consolidated groups of AusNet Services (Distribution) Ltd and AusNet Services (Transmission) Ltd. As a result of this change:
- the tax bases of the assets of the Distribution Group have been reset with a valuation uplift of \$976.3 million recognised. As a result, deferred tax liabilities have been reduced by \$292.9 million (being the tax effect of the valuation uplift);
 - the change to a new tax consolidated group triggered the cancellation of certain historical tax losses under the Same Business Test and an increase in deferred tax liabilities of \$153.0 million; and
 - the change to a new tax consolidated group required the reversal of historical deferred tax on derivative financial instruments (\$8.4 million).
- (iii) On 8 September 2015, the Group and the ATO executed a binding Settlement Deed to settle the dispute relating to intellectual property deductions claimed by AusNet Services (and its predecessors) in the 1998 to 2010 tax years. As at 31 March 2015, the Group recognised an \$84.1 million tax charge in relation to the total disputed amounts. As a result of the settlement, \$28.1 million of prior period tax expense has been credited to income tax expense.

Condensed notes to the consolidated interim financial statements (continued)

For the period ended 30 September 2015

Note 6 Dividends

The following dividend was approved and paid by AusNet Services to shareholders during the current interim financial period:

	Paid by	Date paid	Cents per security	Total dividend \$M
Dividends				
Fully franked dividend	AusNet Services Ltd	26 June 2015	2.508	86.9
Unfranked dividend	AusNet Services Ltd	26 June 2015	1.672	58.0
Total dividends			4.180	144.9

The following distribution was approved and paid by AusNet Services Transmission and AusNet Services Finance Trust to stapled securityholders during the previous interim financial period:

Distributions				
Fully franked dividend	AusNet Services Transmission	27 June 2014	1.393	47.2
Interest income	AusNet Services Finance Trust	27 June 2014	2.379	80.6
Return of capital	AusNet Services Finance Trust	27 June 2014	0.408	13.8
Total distributions			4.180	141.6

In relation to the dividend paid in the current financial period of \$144.9 million (2014: \$141.6 million), \$57.7 million (2014: \$51.4 million) less transaction costs was utilised in the allotment of new securities issued under the DRP.

Note 7 Earnings per share**(a) Basic earnings per share**

	30 September 2015	30 September 2014
Profit/(loss) attributable to the ordinary shareholders of AusNet Services (\$M)	374.5	(4.9)
Weighted average number of shares (million)	3,489.1	3,406.9
Basic earnings per share (cents)	10.73	(0.14)

(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. Accordingly, basic and diluted earnings per share are the same.

Condensed notes to the consolidated interim financial statements (continued)

For the period ended 30 September 2015

Note 8 Borrowings

	Maturity date	30 September 2015 \$M	31 March 2015 \$M
Current borrowings			
Commercial paper		-	94.6
Swiss franc (CHF) senior notes (i)		-	646.1
US dollar (USD) senior notes (i)	Sep 2016	409.0	-
Bank debt facilities		-	36.0
Total current borrowings		409.0	776.7
Non-current borrowings			
US dollar (USD) senior notes (i)	Dec 2016	151.1	518.5
Bank debt facilities	2017-2019	422.4	472.1
Swiss franc (CHF) senior notes (i)	2017-2019	781.4	718.6
Domestic medium term notes	2017-2024	1,414.2	1,414.2
Pound sterling (GBP) senior notes (i)	2018	589.9	540.9
Floating rate notes	2020	99.8	99.7
Euro (EUR) senior notes (i)	2020-2027	2,333.9	2,076.1
Hong Kong dollar (HKD) senior notes (i)	2020-2028	410.6	376.6
Japanese yen (JPY) senior notes (i)	2024	61.4	55.9
Norwegian kroner (NOK) senior notes (i)	2029	168.5	166.8
Total non-current borrowings		6,433.2	6,439.4
Total borrowings (ii)		6,842.2	7,216.1

- (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 fair value of total borrowings as at 30 September 2015 was \$7,328.2 million (31 March 2015: \$7,817.7 million). This fair value measurement uses significant market observable data, and therefore is a level two measurement within the fair value hierarchy as per AASB 13 *Fair Value Measurement*. The valuation techniques applied are consistent with those applied by the Stapled Group in its combined financial report as at and for the year ended 31 March 2015.

AusNet Services had \$450 million of undrawn but committed non-current bank debt facilities and \$33 million cash on deposit as at 30 September 2015. AusNet Services has an A- credit rating from Standard and Poor's and an A3 credit rating from Moody's Investor Services.

Condensed notes to the consolidated interim financial statements (continued)

For the period ended 30 September 2015

Note 9 Equity**Movements in ordinary share capital**

Date	Details	Notes	Number of shares	\$M
1 April 2015	Opening balance		3,466,913,009	3,456.6
18 June 2015	Impact of corporate restructure	(i)	-	1,501.1
26 June 2015	Dividend reinvestment plan	(ii)	41,801,443	57.7
30 September 2015	Closing balance		3,508,714,452	5,015.4

(i) Refer to note 1(b).

(ii) On 26 June 2015, 41.8 million new shares were issued under the DRP. The new shares were issued at a price of \$1.38 per share providing approximately \$57.7 million.

Note 10 Financial risk management

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

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

The objective of hedging activities carried out by the Group is to minimise the exposure to changes in interest rates and foreign exchange rates. Changes in interest rates are hedged by matching the actual cost of debt with the cost of debt assumed by the regulator when setting the rate of return for the relevant regulated business for each regulatory reset period.

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

The Group's financial risk management objectives and policies are consistent with those disclosed in the Stapled Group's combined financial report as at and for the year ended 31 March 2015.

Condensed notes to the consolidated interim financial statements (continued)

For the period ended 30 September 2015

Note 11 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 valuation techniques applied by the Group are consistent with those applied and disclosed by the Stapled Group in its combined financial report as at and for the year ended 31 March 2015.

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 2015.

Note 12 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 that applied to the Stapled Group in its combined financial report as at and for the year ended 31 March 2015. Some of the critical judgements and estimates used by management in applying the Group's accounting policies for the period ended 30 September 2015 have been updated to reflect the latest available information. These updates have not had a significant impact on the financial performance or financial position of the Group for the period ended 30 September 2015.

Judgements have been made regarding the application of tax laws and the valuation of assets in the calculation of the tax base reset arising from the corporate restructure and formation of a single tax consolidated group. This has resulted in a \$292.9 million tax benefit being recognised in the income statement. The calculation is based on current tax law. There are pending amendments to the consolidation rules which if introduced with retrospective application could adversely impact the quantum of the tax base reset value. AusNet Services has applied for a binding private ruling from the ATO in relation to the process and methodology of this reset, which is expected to be received before the end of calendar 2015. If the ruling is not in AusNet Services favour or if the ATO forms a different view on the valuations applied, then this may result in an adjustment to the tax benefit recognised.

Condensed notes to the consolidated interim financial statements (continued)

For the period ended 30 September 2015

Note 13 Contingent liabilities

AusNet Services is involved in various legal and administrative proceedings and various claims on foot, including two bushfire class actions relating to fires that occurred in February 2014. In the opinion of AusNet Services, the ultimate resolution of these matters should not have a material effect on the consolidated financial position, results of operations or cash flows.

Other than listed above, the Directors are not aware of any contingent liabilities as at 30 September 2015.

Note 14 Events occurring after the balance sheet date**(a) Dividend**

Since the end of the financial period, the Directors have approved an interim dividend for 2016 of \$149.7 million (4.265 cents per share) to be paid on 24 December 2015, comprised as follows:

	Cents per share	Total dividend \$M
Fully franked dividend payable by AusNet Services Ltd	4.265	149.7
	4.265	149.7

(b) General Meeting results

On 26 October 2015, AusNet Services held a general meeting. The general meeting had one resolution, which was passed by shareholders with 98.4 per cent support, to enable the DRP to continue to run for FY16. As a result, the DRP will be available on the Interim and Final Dividend declared.

Condensed notes to the consolidated interim financial statements (continued)

For the period ended 30 September 2015

Note 14 Events occurring after the balance sheet date (continued)**(c) Preliminary Electricity Distribution Price Review (EDPR) decision**

On 29 October 2015, the Australian Energy Regulator (AER) released its preliminary decision on AusNet Services' 2016-20 EDPR. The preliminary decision is as follows:

Regulatory period	Current period 2011-15	AusNet Services 2016-20 proposal	AER draft decision
	\$M	\$M	\$M
Net Capex (Nominal)	1,579	1,866	1,614
Opex (Nominal)	928	1,260	1,191
Revenue (Nominal)	2,533	3,461	2,887

The preliminary decision also outlines metering revenues of \$443 million, a 12 per cent reduction from AusNet Services' proposal. A large part of this reduction relates to the AER rejecting replacement capital expenditure for metering.

AusNet Services is reviewing the preliminary decision and will provide further information to the AER to challenge these outcomes. The final decision is expected by the end of April 2016.

(d) Other matters

Other than outlined above, there has been no matter or circumstance that has arisen since 30 September 2015 up to the date of issue of this financial report that has significantly affected or may significantly affect:

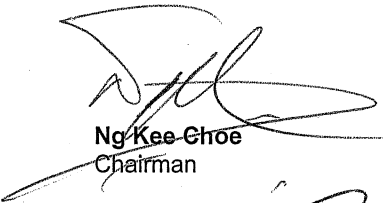
- (a) the operations in financial periods subsequent to 30 September 2015 of the Group;
- (b) the results of those operations; or
- (c) the state of affairs, in financial periods subsequent to 30 September 2015, of the Group.

AusNet Services Ltd
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 12 to 31, 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 2015 and its performance for the six month period ended on that date; and
- (iii) 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.



Ng Kee Choe
Chairman



Nino Ficca
Managing Director

Melbourne
16 November 2015



Independent auditor's review report to the members of AusNet Services Ltd

Report on the financial report

We have reviewed the accompanying interim financial report of AusNet Services Ltd, which comprises the consolidated interim statement of financial position as at 30 September 2015, 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 interim period ended on that date, notes 1 to 14 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the Company and the entities it controlled at the half-year's end or from time to time during the interim period.

Directors' responsibility for the interim financial report

The directors of the Company are responsible for the preparation of the interim financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and 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

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 2015 and its performance for the interim period ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of AusNet Services Ltd, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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



Conclusion

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:

- (a) giving a true and fair view of the Group's financial position as at 30 September 2015 and of its performance for the interim period ended on that date; and
- (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

KPMG

KPMG

A handwritten signature in black ink, appearing to read 'Paul McDonald'.

Paul McDonald
Partner

Melbourne

16 November 2015

AusNet Services (Distribution) Ltd (formerly SP Australia Networks (Distribution) Ltd)
ACN 108 788 245

Financial Report

For the financial year ended 31 March 2015

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This financial report covers the combined entity consisting of AusNet Services (Distribution) Ltd and its subsidiaries, AusNet Services (Transmission) Ltd and its subsidiaries, and AusNet Services Finance Trust. The financial report is presented in Australian dollars.

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

Level 31, 2 Southbank Boulevard
Southbank, Victoria 3006
Australia

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

The financial report was authorised for issue by the Directors on 13 May 2015.

Directors' report

Introduction to the Directors' report

The Directors of AusNet Services (Distribution) Ltd (AusNet Services Distribution) present their report on the general purpose financial report of the company and combined entity for the financial year ended 31 March 2015.

This general purpose financial report has been prepared as a consolidation of the financial statements of AusNet Services Distribution and its subsidiaries, AusNet Services (Transmission) Ltd (AusNet Services Transmission) and its subsidiaries and AusNet Services Finance Trust as if all entities operate together. They are therefore treated as a combined entity (the Stapled Group or AusNet Services).

Pursuant to the Stapling Deed effective 21 October 2005, the Stapled Group was established for the purpose of facilitating a joint quotation of AusNet Services Distribution, AusNet Services Transmission and AusNet Services Finance Trust on the Australian Securities Exchange (ASX) and the Singapore Exchange Securities Trading Limited (SGX-ST). The Stapled Group was listed on 14 December 2005.

So long as the three entities remain jointly quoted, the number of shares in each of AusNet Services Distribution and AusNet Services Transmission and the number of units in AusNet Services Finance Trust shall be equal and shareholders and unitholders shall be identical.

AusNet Services, AusNet Services Distribution, AusNet Services Transmission and AusNet Services Finance Trust were formerly known as SP AusNet, SP Australia Networks (Distribution) Ltd, SP Australia Networks (Transmission) Ltd, and SP Australia Networks (Finance) Trust respectively up until 4 August 2014.

Restructure and simplification of the Stapled Group

AusNet Services has released a securityholder booklet for the restructure and simplification proposal (Proposal) under which the existing stapled entities would become wholly owned by a new listed entity (AusNet Services Ltd). The Proposal is subject to applicable regulatory approvals and requires the approval of securityholders and the Court. It would be implemented by way of company and trust schemes of arrangement. The securityholder meeting date has been scheduled for 29 May 2015 and, pending approval, AusNet Services is targeting an implementation date of 18 June 2015.

If the Proposal is approved and implemented:

- eligible securityholders will simply hold shares in AusNet Services Ltd (instead of their current triple-stapled security) in the same proportion as the stapled securities they currently hold*;
- there will be no capital raising or return of capital as part of the Proposal and securityholders will not be required to pay any cash consideration;
- there will be no change to the composition of the AusNet Services Board, management or the operations of AusNet Services as a result of any restructure; and
- future periodic distributions are expected to be paid entirely as dividends and AusNet Services expects that there will be a higher franked component of future distributions, but those distributions will not include any AusNet Services Finance Trust distribution components as they have historically.

* Certain foreign securityholders who AusNet Services determines it would be illegal or unduly onerous to allow to receive shares in AusNet Services Ltd under the Proposal will not receive those shares, and will instead have their investment in AusNet Services sold on market by a nominee and the proceeds of that sale remitted to them in cash. AusNet Services expects that only a small proportion of its securityholders will be ineligible.

Directors' report (continued)

Directors

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

Non-executive Directors

Ng Kee Choe (Chairman)

Ralph **Craven**

Jeremy Guy Ashcroft **Davis** AM (retired effective 17 July 2014)

Sally Marie **Farrier**

Eric **Gwee** Teck Hai (retired effective 17 July 2014)

Ho Tian Yee

Antonino (Tony) Mario **Iannello**

Tina Renna **McMeckan**

Ian Andrew **Renard** AM

Sun Jianxing

Executive Director

Nino **Ficca** (Managing Director)

Principal activities

The principal activities of AusNet Services are:

- **Electricity distribution** – delivery of electricity to approximately 679,000 consumer connection points over 80,000 square kilometres in eastern Victoria including Melbourne's outer eastern suburbs;
- **Gas distribution** – delivery of natural gas to approximately 647,000 consumer connection points over 60,000 square kilometres in central and western Victoria including some of Melbourne's western suburbs;
- **Electricity transmission** – the transmission of electricity within the state of Victoria; and
- **Select Solutions** – the provision of specialist utility related metering, data and asset management services.

The principal activities of AusNet Services are conducted through the following main operating group companies:

- AusNet Electricity Services Pty Ltd (formerly SPI Electricity Pty Ltd);
- AusNet Gas Services Pty Ltd (formerly SPI Networks (Gas) Pty Ltd);
- Select Solutions Group Pty Ltd; and
- AusNet Transmission Group Pty Ltd (formerly SPI PowerNet Pty Ltd).

Directors' report (continued)

Strategy

As a diversified energy delivery networks business, AusNet Services plays a vital role in underpinning the economic strength of Victorian communities, while contributing to the wider Australian energy market. The sustainability of its networks is key to AusNet Services' commitment to the safe, reliable and efficient supply of energy.

The energy industry and network businesses will face significant changes in the coming years. These include but are not limited to:

- an evolving regulatory framework which increases the focus on network performance and cost and capital efficiency;
- technology changes in the generation, distribution, storage and usage of energy, coupled with customer acceptance of these new technologies; and
- increasing customer influence in light of recent electricity price rises and their impact on household budgets, ensuring that both community and government focus remain on energy policy.

In response to these significant challenges, in March 2013 the AusNet Services Board approved a five year corporate strategy to deliver more value from the core networks business and to explore growth opportunities in a challenging and evolving environment. At the centre of this strategy is AusNet Services' purpose which is '*To provide our customers with superior network and energy solutions*'. This purpose is underpinned by eight strategic objectives as set out below.

Safety	<i>Industry leadership in safety performance</i>	AusNet Services' leaders are responsible for and understand how to lead safety, encouraging its people to work safely and to create safer work environments.
People	<i>High performing leadership, capability and culture</i>	AusNet Services continues to develop the right culture, skills, talent and labour productivity to support a sustainable and high performing business.
Customer	<i>A highly developed customer service capability</i>	AusNet Services continues to focus on customers through meaningful, useful and actionable engagement. The business leverages customer knowledge, experience, and service levels to deliver outcomes that align with the needs and expectations of customers, supported through regulatory advocacy.

Directors' report (continued)

Strategy (continued)

Financial	<i>Diversified and accretive growth</i>	Approximately 86 per cent of AusNet Services' revenue comes from regulated sources, and while AusNet Services remains focused on the continued growth in the regulated networks, diversified growth is also targeted through: • Unregulated Infrastructure – The development of unregulated transmission connections and other infrastructure. • Select Solutions – The continued expansion of specialist utility-related and telecommunications solutions to existing and new customers. • Energy Solutions – Seeking to develop products and services related to energy use, energy storage, energy efficiency and other niche services in response to changing customer behaviours.
	<i>Sustainable earnings and securityholder value growth</i>	AusNet Services aims to improve its year-on-year financial performance.
Business & Asset	<i>An efficient business model</i>	AusNet Services' operations aim to achieve excellence in both energy delivery and managing customer services, through the implementation of processes and systems which produce high quality data, efficiency, effectiveness, controllability and management capability. This objective is being delivered through a company-wide program of Business Operational Excellence, of which the most significant component is an enterprise-wide change program enabled by the replacement of multiple asset management and resource planning platforms with a single, fully integrated system.
	<i>Safe, resilient and reliable networks</i>	In addition to network safety and reliability across three regulated networks, AusNet Services continues to enhance and optimise its inspection, maintenance and replacement plans through advanced modelling techniques and fully integrated systems.
	<i>Industry leadership and advocacy role in regulatory development</i>	AusNet Services aims to be a leader in regulatory development for the energy industry, thereby enhancing business value through constructive engagement with key policy makers.

Directors' report (continued)

Key achievements

AusNet Services has just completed year two of its five year corporate strategy, which was focussed on planning for change and establishing the frameworks and platforms under which the strategy will be realised. Key achievements in the current financial year against the strategic objectives include the following:

Safety	Continued to implement safety programs and training under Mission Zero, while delivering a small reduction in the Recordable Injury Frequency Rate to 6.7.
People	Select Solutions division received an Aon Hewitt Best Employers Award for its employee engagement achievements, scoring an 80 per cent engagement rating.
Customer	- Two per cent improvement in customer satisfaction rating to 86 per cent, while 72 per cent of customers gave us an "excellent" or "good" rating overall. - During the financial year, more than 3,000 customers registered to use our myHomeEnergy portal to help manage their energy usage, with over 10,000 customers now registered.
Financial	12 month total securityholder return to 31 March 2015 of 18.5 per cent. - Distributions of 8.36 cents per stapled security, in line with guidance. - Successfully raised over \$1.1 billion of debt capital at competitive prices whilst extending the tenor of our overall debt portfolio. - Settlement of the ATO intra-group financing audit provides greater tax certainty.
Business & Asset	- Provided greater business and financial certainty through the settlement of the Kilmore East bushfire class action and agreement to settle the Murrindindi bushfire class action. - Introduced a corporate restructure and simplification proposal (subject to securityholder and other approvals) that will bring a number of benefits as detailed in the securityholder booklet released on 22 April 2015. - Continued the significant investment in strengthening and extending the networks through \$809 million of capital expenditure on asset replacements, safety programs, major station builds and major IT projects.

In addition to these achievements, one of the key strategic initiatives for the year was the development, build and testing of a single, fully integrated IT system, known as Program Workout. This program went live in early May 2015 and will be a key enabler in improving operational efficiency as AusNet Services focusses on embedding the systems and process changes while realising substantial benefits next year and beyond.

Advanced metering infrastructure (AMI) program update

The most significant challenge for AusNet Services remains the delivery of the AMI Program. AMI has had a negative impact on AusNet Services' financial results through the recognition of customer rebates and asset write-offs, as well as additional spend required to ultimately deliver a compliant metering system.

In September 2014, AusNet Services announced that a technical review of the solution had been completed and a plan had been developed to stabilise the existing end-to-end metering system and to complete the network coverage. AusNet Services believes that this approach is prudent and will yield a workable and cost-effective solution on an ongoing basis.

Since September 2014, AusNet Services has worked to appoint and mobilise key vendors as well as undertake detailed planning and design works to ensure that the system issues are addressed, and the solution is delivered, in a co-ordinated manner across multiple applications. In addition, the implementation of some immediate improvements has enabled additional conversions of some meters to take place, with approximately 420,000 meters converted as at 31 March 2015.

Directors' report (continued)**Key achievements (continued)****AMI program update (continued)**

In addition to IT stabilisation works, AusNet Services will introduce a wireless mesh communications network, similar to the other Victorian distribution businesses, to service approximately 270,000 meters of the 714,000 total meter fleet. This level of coverage has increased since September 2014, with AusNet Services recently making the decision to replace an additional number of WiMAX communication modules with mesh. While the WiMAX network will continue to be the primary communication technology, AusNet Services believes that the wider mesh coverage is a prudent way to reduce the overall delivery risk, effectively mitigate the issues with trying to increase the capacity of certain existing systems, and provide greater support to achieving a compliant and sustainable solution.

Based on the work undertaken to date, the estimated cost of completing the network coverage and the AMI program, including IT stabilisation and replacement works, has increased to \$220 million. This is higher than the \$175 million announced in September 2014 primarily as a result of replacement expenditure for the additional mesh coverage and an increase in foreign exchange costs.

AusNet Services still expects to complete work on its core systems by the end of 2016, although it is anticipated that some meters will not be converted to remotely provide meter data to market until early 2017.

Refer to the 'Material risks and uncertainties' section below for further details regarding the AMI Program.

Review of operations for the year ended 31 March 2015

AusNet Services derives most of its earnings from three regulated energy network businesses, which include Victoria's high voltage electricity transmission network, an electricity distribution network in eastern Victoria and a gas distribution network in western Victoria.

\$M	31 March 2015	31 March 2014	Movement	%
Revenue	1,833.9	1,799.4	34.5	1.9%
EBITDA	1,047.2	1,017.4	29.8	2.9%
NPAT	22.6	178.3	(155.7)	(87.3%)
Adjusted EBITDA ^{1,3}	1,079.7	1,097.3	(17.6)	(1.6%)
Adjusted NPAT ^{2,3}	312.8	320.9	(8.1)	(2.5%)

Notes:

- Adjusted EBITDA excludes the recognition of a provision for AMI customer rebates of \$32.5 million for the year ended 31 March 2015 and \$50 million payable for the termination of the Management Services Agreement (MSA), \$22.2 million of performance fees under the MSA and \$7.7 million 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 \$183.3 million 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 \$84.1 million recognition of net exposure relating to Intellectual Property dispute with the ATO for the period ended 31 March 2015 and; excludes a net charge of \$86.7 million 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.

A summary of AusNet Services' revenues and results by operating segment for the financial year ended 31 March 2015 is set out below:

Directors' report (continued)**Review of operations for the year ended 31 March 2015 (continued)****Electricity distribution business**

	31 March 2015	31 March 2014	Movement	%
Segment revenue (\$M)	879.6	815.1	64.5	7.9%
Segment result – EBITDA (\$M)	453.7	451.6	2.1	0.5%
Volume (GWh)	7,361	7,483	(122)	(1.6%)
Connections	679,213	668,603	10,610	1.6%
Capital expenditure (\$M)	486.9	568.6	(81.7)	(14.4%)
Adjusted segment result (\$M) ¹	486.2	465.3	20.9	4.5%

Notes

1. Adjusted segment result excludes \$32.5 million of AMI rebates for 31 March 2015 and \$13.7 million of performance fees for 31 March 2014. Adjusted segment result is a non-IFRS measure that has not been subject to audit or review.

Despite the slight decline in volumes distributed, AusNet Services' electricity distribution business achieved an increase in revenue primarily driven by regulated price increases for both electricity distribution and AMI revenues. The electricity distribution price increase is due to a combination of regulated price path, as well as higher revenues under incentive schemes, partially offset by a price reduction for the pass-through of transmission use of system charges.

An increase in EBITDA has been achieved despite \$60.6 million in AMI charges relating to customer rebates (\$32.5 million) and write-offs of assets (\$28.1 million) and \$11.1 million of higher transmission use of system charges which will be recovered in next year's revenues. The prior year included \$13.7 million of SPI Management Services performance fees.

Of the total electricity distribution capital expenditure of \$486.9 million, \$119.3 million was spent on asset replacement while a further \$114.3 million relates to various safety programs, including those highlighted in the Victorian Bushfire Royal Commission. The decrease in capital expenditure from the previous year is due to AMI, with completion of the meter and communication rollouts principally occurring in the previous year. Refer to the 'AMI program risks' section within 'Material risks and uncertainties' below for further details.

Gas distribution business

	31 March 2015	31 March 2014	Movement	%
Segment revenue (\$M)	187.3	219.5	(32.2)	(14.7%)
Segment result – EBITDA (\$M)	142.0	168.1	(26.1)	(15.5%)
Volume (PJ)	64.2	67.0	(2.8)	(4.2%)
Connections	647,536	633,184	14,352	2.3%
Capital expenditure (\$M)	99.0	112.2	(13.2)	(11.8%)

The reduction in gas distribution segment revenue is largely the result of price reductions following a lower weighted average cost of capital (WACC) in the latest gas regulatory determination, with a 15 per cent price reduction on 1 July 2013, and a further 4 per cent price reduction on 1 January 2014 driving regulated revenues down \$19.2 million. In addition, customer contributions reduced \$13.3 million due to the prior year recognition of \$20.9 million of gifted gas distribution network assets as part of the Regional Rail Link project.

Directors' report (continued)**Review of operations for the year ended 31 March 2015 (continued)****Gas distribution business (continued)**

Lower industrial volumes contributed to almost 80 per cent of the volume decline. Weather conditions accounted for the remainder of the decline as weather normalised residential consumption increased 1.4 per cent.

The gas distribution business contributed \$142 million to EBITDA for the year, a decrease of \$26.1 million over the previous year primarily as a result of lower revenues, partially offset by prior year expenses containing a \$7.9 million increase in the environmental provision for the remediation of contaminated former gas sites.

AusNet Services remains committed to allocating its resources to ensure a safe and reliable supply of natural gas to existing customers and bringing more gas to Victorians through efficient investment. In addition to ongoing expansion of the network, AusNet Services has agreed to extend its gas network to several towns identified in the Victorian Government's Energy for the Regions program. To date, AusNet Services has an agreement with Regional Development Victoria for the supply and reticulation of natural gas to Huntly, Avoca, Bannockburn and Winchelsea with Huntly completed during the financial year and work underway in the other three towns.

Electricity transmission business

	31 March 2015	31 March 2014	Movement	%
Segment revenue (\$M)	619.8	628.3	(8.5)	(1.3%)
Segment result – EBITDA (\$M)	434.5	436.9	(2.4)	(0.6%)
Capital expenditure (\$M)	212.3	232.7	(20.4)	(8.8%)

The 1.3 per cent decrease in electricity transmission revenues is as a result of the reduction in regulatory WACC arising from the Transmission Revenue Reset (TRR) Final Determination for the 2014-17 period, which commenced on 1 April 2014.

The electricity transmission business contributed \$434.5 million to EBITDA for the year, a decrease of \$2.4 million over the previous year. The impact of lower revenues was offset by the removal of Management Services performance fees in the current year.

The decline in capital expenditure is a result of the completion of several major station upgrades. The TRR provides funding for key transmission projects, particularly the replacement and refurbishment of several major CBD terminal stations, including Richmond and West Melbourne, which underpin electricity supply to the Melbourne central business district. In addition, AusNet Services is undertaking an upgrade of the Brunswick terminal station.

Select Solutions business

	31 March 2015	31 March 2014	Movement	%
Segment revenue (\$M)	158.9	150.7	8.2	5.4%
Segment result – EBITDA (\$M)	17.0	18.5	(1.5)	(8.1%)

Select Solutions provides asset intelligence and end to end metering services. Select Solutions' customers are primarily businesses operating in the essential infrastructure sector such as electricity, water and gas utility owners, (including Jemena, which is considered a related party as it is controlled by State Grid Corporation of China) and telecommunications companies.

Select Solutions revenues increased by 5.4 per cent largely due to Geomatic Technologies (GT), which was acquired in February 2014. Select Solutions contributed \$17 million to EBITDA for the year, a decrease of \$1.5 million on the prior period primarily due to a change in revenue recognition treatment in communications revenues, resulting in a \$3.8 million adjustment, partially offset by the GT contribution.

Directors' report (continued)

Financial position as at 31 March 2015

Total equity of the Stapled Group was \$3,248.8 million as at 31 March 2015, a decrease of \$195.8 million compared to the previous financial year. Total securityholders' equity includes 100 per cent of the ownership interests in AusNet Services Transmission and AusNet Services Finance Trust, as they are owned by securityholders directly. Significantly impacting total equity during the year was the recognition of \$183.3 million of income tax expense arising from the settlement with the ATO on the intra-group financing audit, and \$84.1 million of income tax expense recognised in relation to the intellectual property tax dispute.

Current liabilities exceed current assets by \$18.8 million at 31 March 2015, an improvement of \$407.9 million compared to the prior year. The financial report has been prepared on a going concern basis, which contemplates the continuity of normal trading operations. The Stapled Group is, and is expected to continue, trading profitably, generating positive operating cash flows and successfully refinancing maturing debt. In addition, at 31 March 2015, the Stapled Group has available a total of \$300 million of undrawn but committed non-current bank debt facilities, \$64 million of undrawn but committed current bank debt facilities and \$883.1 million of cash.

Non-current assets have increased by \$646.8 million compared to prior year, largely due to the \$809.4 million of capital expenditure invested into the asset base and the improved fair value of derivative financial instruments.

Non-current liabilities increased by \$1,250.5 million as AusNet Services raised additional debt capital to fund its capex programs and refinance debt maturing in the next six months. In addition, the depreciation of the Australian dollar has resulted in an increase in the value of borrowings (offset by an equal increase in the value of derivative assets).

Capital management

AusNet Services manages its capital structure to ensure that it continues as a going concern while maximising the return to securityholders 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 to AusNet Services. Through its cash flows from operations and by maintaining an appropriate and prudent mix of debt and equity, AusNet Services ensures that it achieves its targeted credit metrics that support an 'A' range credit rating.

Debt raising

AusNet Services' common or central funding vehicle (CFV) operates through AusNet Services Holdings Pty Ltd (formerly SPI Electricity & Gas Australia Holdings Pty Ltd), a subsidiary of AusNet Services Distribution. AusNet Services has access to funds through the CFV.

In line with AusNet Services' Treasury Risk Policy, AusNet Services maintains a diversified debt portfolio by maturity and source. AusNet Services' A- credit rating from Standard and Poor's and A3 from Moody's Investor Services contributed to the successful completion of bond issues during the current financial year, being:

- a NOK 900 million fifteen-year Norwegian kroner bond issue to raise \$160 million in June 2014;
- a \$125 million ten-year Australian bond issue in June 2014; and
- a EUR 560 million twelve-year bond issue to raise approximately \$825 million in February 2015.

Directors' report (continued)**Capital management (continued)****Distributions**

Distributions paid to securityholders during the financial year were as follows:

	Final 2014 distribution		Interim 2015 distribution	
	Cents per security	Total distribution \$M	Cents per security	Total distribution \$M
Fully franked dividend paid by AusNet Services Transmission	1.393	47.2	2.200	75.3
Interest income paid by AusNet Services Finance Trust	2.379	80.6	1.980	67.8
Return of capital paid by AusNet Services Finance Trust	0.408	13.8	-	-
	4.180	141.6	4.180	143.1

Since the end of the financial year, the Directors have approved a final distribution for 2015 of \$144.9 million (4.18 cents per stapled security) to be paid on 26 June 2015 comprised as follows:

	Final 2015 distribution	
	Cents per security	Total distribution \$M
Fully franked dividend payable by AusNet Services Transmission	2.217	76.8
Interest income payable by AusNet Services Finance Trust	1.963	68.1
	4.180	144.9

If the corporate restructure is in place prior to distribution payment date, this distribution will be paid to AusNet Services Ltd. AusNet Services Ltd will then pay a dividend to securityholders. Refer to the 'Matters subsequent to the end of the financial year' section for further details.

AusNet Services will continue to determine future distribution amounts from operating cash flows after servicing all of its maintenance capital expenditure and a portion of its growth capital expenditure. For the 2016 financial year, AusNet Services expects to lift distributions to 8.53 cents per security. In addition, AusNet Services expects the interim 2016 distribution to be franked at 75 per cent in the event that the corporate restructure is implemented.

Distribution Reinvestment Plan (DRP)

In relation to the final 2014 distribution paid on 27 June 2014, \$51.4 million was utilised in the allotment of new securities issued under the DRP, representing a take up rate of approximately 36 per cent. In relation to the interim 2015 distribution paid on 24 December 2014, \$54.2 million was utilised in the allotment of new securities issued under the DRP, representing a take up rate of approximately 38 per cent.

The DRP will be in operation for the final 2015 distribution at a two per cent discount to the average of the volume weighted average price.

Directors' report (continued)

Material risks and uncertainties

AusNet Services is committed to understanding and effectively managing risk to provide greater certainty and confidence for its securityholders, employees, customers, suppliers and communities in which it operates. AusNet Services maintains oversight of its material business risks (financial and non-financial) at an enterprise-wide level and reports regularly to the Audit and Risk Management Committee and the Board of Directors on the effectiveness of the management of these risks. AusNet Services is cognisant of the following principal risks which may materially impact the execution and achievement of its business strategy and financial prospects.

(a) AMI program risks

Cost recovery

The AMI Cost Recovery Order in Council (CROIC) is the framework under which AusNet Services seeks regulatory recovery for its spend on the AMI Program. The CROIC allows for the recovery of prudent costs included in the scope of implementing the AMI Program and is for the period up to 31 December 2015. Any spend incurred in a calendar year that is above the Australian Energy Regulator (AER) approved budget may be submitted to the AER for recovery via an Excess Expenditure Application. Beyond this date, regulated metering business capital and operating costs are recovered through the normal distribution business price review process.

As noted in the 'AMI Program update' section of this report, AusNet Services has encountered periods of significant instability in its AMI systems performance as the number of meters connected to its AMI systems increased. In light of these issues, AusNet Services is currently executing a plan and replacement works to stabilise existing systems and complete the AMI Program. The total estimated cost of these works is \$220 million. As with all large-scale and complex projects, there is a risk that further expenditure may be required or that the project will not remediate all issues with system performance.

AusNet Services estimates that the total amount of current and forecast expenditure subject to future regulatory approval up to 31 December 2015 under the CROIC, compared to the current AER approved budget, is \$204 million. Of this amount, \$82 million was incurred in calendar year 2014. In addition, \$120 million of the future expenditure noted above to complete the AMI program will fall under the 2016-2020 Electricity Distribution Price Review period.

There is a risk that some or all of the additional expenditure incurred or to be incurred by AusNet Services in 2014 and 2015 may not be recovered through an Excess Expenditure Application under the CROIC. The AER has discretion whether or not to approve any such applications for recovery. In addition, there is a risk that the AER will not allow all of AusNet Services' metering business capital and operating costs during the 2016-2020 Electricity Distribution Price Review period to be recovered.

Electricity distribution licence

The Essential Services Commission (ESC) concluded its audit of distribution businesses' compliance with the best endeavours obligation under the CROIC in November 2014. The ESC found that AusNet Services "has not demonstrated that it used best endeavours, to the extent practicable, to meet the AMI rollout target, and has not demonstrated that it maintained an effective strategy to identify and manage risks." The ESC has indicated that it will continue to monitor AusNet Services' progress and require regular reporting. The ESC has noted that it did not assess the efficiency and prudence of any AMI expenditure.

If the ESC considered AusNet Services to be in breach of its distribution licence obligations, financial penalties could be applied. Further, if the ESC considered the breach sufficiently serious, it could ultimately lead to a loss of AusNet Services' electricity distribution licence if other enforcement actions available to the ESC had not satisfactorily rectified the breach.

Any such actions could adversely affect AusNet Services' financial performance and position.

Directors' report (continued)**Material risks and uncertainties (continued)****(b) Taxation risks**

As a large taxpayer with a stapled structure and two tax consolidated groups, the ATO regularly reviews the various tax positions adopted by AusNet Services. There is the risk that changes in tax law, or changes in the way tax laws are interpreted, may materially impact the tax liabilities of the Stapled Group or the tax losses currently available to offset future taxable profits. AusNet Services manages this risk via a Board-approved Tax Risk Management policy which outlines a number of review and sign-off procedures, including the utilisation of external tax and legal advisors, for each tax position based on the assessed level of judgment of that position.

In March 2015, the Stapled Group and the ATO executed a Settlement Deed to settle all matters concerning intra-group financing arrangements and rights to future income issues. This has impacted the Stapled Group as follows:

- a \$25 million payment to the ATO comprising a primary tax payment of \$23.5 million and an interest payment (deductible) of \$1.5 million, which was paid on 9 April 2015;
- cancellation of \$506.5 million of carried-forward tax losses. Of this, \$393.2 million were previously recognised in the statement of financial position and as such have been written off; and
- ceasing taking interest deductions in respect of AusNet Services Finance Trust loans from 1 April 2014.

While this settlement provides tax certainty, with the ATO concluding all audit activity for years up to and including 31 March 2014, AusNet Services presently has two significant unresolved issues with the ATO that, if they were to conclude unfavourably to AusNet Services, would result in a significant outflow of resources. The status of each of these matters is summarised below.

Section 163AA impost

On 7 April 2014 the Full Court of the Federal Court of Australia delivered judgment against AusNet Services in an appeal against disputed tax amended assessments relating to deductions claimed for amounts imposed under Section 163AA of the Electricity Industry Act (1993) (Vic).

The total after tax disputed amount is \$89.7 million as at 31 March 2015 (representing \$54 million of primary tax, plus a tax-effected interest component of \$35.7 million). This amount (less the \$3 million of interest accrued during the 2015 financial year) was recognised as a tax charge in the income statement for the year ended 31 March 2014. Of this total disputed amount, AusNet Services paid \$30.6 million to the ATO in October 2011.

On 9 April 2015 an appeal was heard by the High Court of Australia and a decision is expected before 30 June 2015.

Intellectual property

On 25 March 2014 the Federal Court of Australia delivered judgment in favour of AusNet Services in relation to intellectual property deductions claimed in the 1998 to 2011 years, inclusive. The disputed taxes amount to \$93.5 million as at 31 March 2015, as detailed below:

	Pre-consolidation years	Post-consolidation years	Total
	\$M	\$M	\$M
Primary tax	18.7	8.7	27.4
Interest	21.4	2.3	23.7
Future deductions	-	40.1	40.1
Penalties	2.3	-	2.3
Gross exposure	42.4	51.1	93.5

Of this total gross exposure, AusNet Services paid \$17.1 million to the ATO in October 2011.

Directors' report (continued)

Material risks and uncertainties (continued)

(b) Taxation risks (continued)

Intellectual property (continued)

The ATO appeal was heard in the Full Court of the Federal Court in November 2014. On 6 May 2015, the Full Court allowed the ATO appeal in respect of the pre tax consolidation years, being 1998 to October 2005. The Federal Court's decision to remit the \$2.3 million penalty imposed in respect of this period was not overturned. In relation to the post tax consolidation years (being October 2005 to 2011), the Full Court ordered that the matter be remitted back to the primary judge of the Federal Court for further hearing and determination.

In light of this judgment from the Full Court, and the significant uncertainty that has arisen, AusNet Services has recognised an \$84.1 million tax charge for the year ended 31 March 2015. This represents the net exposure of the total dispute, after taking into account the deductibility of the interest component and excluding the \$2.3 million of penalties.

(c) Regulatory risks

Price determinations

The energy industry in Australia is highly regulated. The regulated component of AusNet Services' revenues (approximately 86% of AusNet Services' revenues for the year ended 31 March 2015 were regulated) will be subject to periodic pricing resets by the AER, where revenue or prices will be determined for each of the networks for the specified regulatory period. AusNet Services has no ability or flexibility to charge more for regulated services than is provided for under the relevant AER determination (for electricity transmission and distribution), or the approved access arrangement (in respect of gas distribution), without regulatory approval. Regulatory control periods are generally 5 years, although with respect to the latest transmission revenue determination, the applicable pricing period is 3 years (with the next control period expected to be at least 5 years). The upcoming regulatory reset dates for AusNet Services' electricity transmission network, electricity distribution network and gas distribution network are 1 April 2017, 1 January 2016 and 1 January 2018, respectively.

Regulated charges do not necessarily reflect actual or projected operating costs, capital expenditure or the costs of capital. If the regulated charges set by the AER are lower than AusNet Services' costs, this may adversely affect the financial performance and position of AusNet Services. In addition, AusNet Services is exposed to cost changes within a regulatory control period and bears the risk of any shortfall in allowances for costs provided by regulatory determinations. Costs can change materially within a regulatory control period due to, among other things, changes in the costs of labour, equipment or capital inputs (including the cost of finance). In some circumstances, where costs are outside AusNet Services' control, the regulatory regime offers cost pass-through protection. However, this is generally limited to costs incurred as a result of a change of exogenous circumstances (e.g. change in law, natural disaster or changes in occupational health and safety or environmental obligations) and the change in costs is often required to satisfy a materiality threshold. It is also possible to re-open a price determination, but this can only occur where the determination is affected by a material error or deficiency. As such, AusNet Services faces exposure to changes in its costs which could adversely affect its financial performance and position.

AusNet Services carefully manages these risks in a number of ways. Prior to the commencement of a regulatory period, AusNet Services will develop a detailed plan of works to be undertaken and costs to be incurred as well as energy and maximum demand forecasts. Particular emphasis is placed on ensuring that AusNet Services continues to maintain safe, resilient and reliable networks and that the costs to be incurred are efficient and prudent. This information is submitted to the AER as part of the determination process, and where appropriate the views of industry and other external experts is sought to include in the submission. During the regulatory period AusNet Services continuously monitors and manages its costs through processes and systems which produce high quality data, efficiency, effectiveness and controllability.

Regulatory reform

The Australian Energy Market Commission (AEMC) has completed a rules change process in respect of the National Electricity Rules provisions on WACC and other aspects of the economic regulatory framework.

The rule changes, as made, among other things establish a new rate of return framework that is common to electricity distribution, electricity transmission and gas distribution, which requires the regulator to make the best possible estimate of the rate of return at the time a regulatory determination is made and to take into account market circumstances, estimation methods, financial models and other relevant information.

Directors' report (continued)

Material risks and uncertainties (continued)

(c) Regulatory risks (continued)

Regulatory reform (continued)

This framework provides the AER with greater discretion on the approach for setting WACC.

In addition, these rule changes provide for new tools, such as capital expenditure sharing schemes and ex-post efficiency reviews, so the regulator can incentivise network service providers to invest capital efficiently. The regulator can also apply the tools, in particular benchmarking, as it considers appropriate to each network business, having regard to an overall objective that only capital expenditure that is efficient should form part of the regulated asset base. Operating expenditure is also subject to benchmarking comparisons to set efficient levels going forward.

The AER has now completed a process to establish the necessary guidelines. The AER's WACC guideline decision released on 17 December 2013 continued the pattern of WACC reductions by regulators since the energy businesses were privatised in Victoria in 1994. In particular, the non-diversifiable risk (beta) assumed for the network businesses underpinning the cost of equity has been reduced and the tax allowance has been reduced. However, other methodological changes are likely to promote stability in the cost of capital in the long term. The assumptions and methodologies set out in the WACC guidelines may be subject to appeals to the Australian Competition Tribunal at the time of individual price reviews, which may negatively affect AusNet Services' financial performance and position.

The rules changes require the AER to conduct a review of the WACC guidelines every 3 years.

The AER's new WACC guidelines will first apply to AusNet Services under the Victorian electricity distribution reset applicable from 1 January 2016. Once established, the application of these guidelines may have an adverse impact on AusNet Services in future regulatory determinations for its regulated gas distribution and electricity transmission and distribution networks.

A number of other regulatory reviews are in progress or have recently been completed. The regulatory framework within which AusNet Services operates continues to evolve. Generally speaking, regulators have been seeking to expand incentive and penalty regimes focused on network performance. Regulators are also seeking more information regarding operating and capital costs and are becoming more willing to make their own assessments about the requirements of regulated businesses in respect of matters such as asset augmentation, replacement, maintenance and operation.

These reviews and others could give rise to changes in the regulatory and statutory framework that could in time affect AusNet Services' revenues and could have a negative impact on net profit after tax and cash flows.

In March 2015, the AEMC released draft changes to the National Electricity Rules and National Energy Retail Rules to remove the networks' effective metering monopoly. The proposals increase competition between retailers, networks and others to deliver new services via advanced metering to consumers who want to actively manage their electricity use. If adopted, the rules are proposed to commence from 1 July 2017.

(d) Network risks

AusNet Services' energy transmission and distribution networks and information technology systems are vulnerable to human error in operation, equipment failure, natural disasters (such as bushfires, severe weather, floods and earthquakes), sabotage, terrorist attacks or other events which can cause service interruptions to customers, network failures, breakdowns or unplanned outages. Certain events may occur that may affect electricity transmission or distribution lines or gas mains in a manner that would disrupt the supply of electricity or gas. Failures in AusNet Services' equipment may cause supply interruptions or physical damage.

Any service disruption may cause loss or damage to customers, who may seek to recover damages from AusNet Services, and this could harm the business and reputation of AusNet Services. AusNet Services' emergency response, crisis management and business continuity management system, known as Strategic Plan for the Integration of Response and Contingency Systems, is the approved methodology to guide response and recovery activities, however it may not be able to effectively protect AusNet Services' business and operations from these events.

Directors' report (continued)

Material risks and uncertainties (continued)

(d) Network risks (continued)

AusNet Services is also exposed to the cost of replacing faulty equipment. On rare occasions, faults in plant items are discovered only after the item has been installed extensively within a network, requiring a large scale replacement program. Only some such incidents are covered by plant warranties and in some instances these warranties may only be partial. Additionally, incidents in AusNet Services' zone substations and terminal stations have property cover to insure against failure, but incidents outside the boundaries of AusNet Services' zone substations and terminal stations are self-insured. Any forced replacement program, particularly if not insured or covered by warranties, could be costly and adversely affect AusNet Services' financial performance and position.

Bushfire litigation update

AusNet Services was a defendant in litigation brought in connection with the 7 February 2009 bushfires located at Beechworth, Kilmore East, and Murrindindi, respectively. The Beechworth class action was settled in March 2012.

On 22 December 2014, the Supreme Court of Victoria formally approved the settlement deed for the Kilmore East bushfire class action. Under the terms of the settlement, the parties involved in the litigation have paid approximately \$494.7 million with AusNet Services contributing \$378.6 million which was paid in full by AusNet Services' liability insurers.

On 6 February 2015, AusNet Services announced that the parties to the Murrindindi bushfire class action had agreed to settle the action. The settlement agreement is subject to the approval of the Supreme Court of Victoria. Under the terms of the settlement, the parties involved in the litigation have agreed to pay \$300 million with AusNet Services contributing \$260.9 million which will be paid in full by AusNet Services' liability insurers. This amount has been recognised in the financial statements for the year ended 31 March 2015 as both a liability and a corresponding asset to be received from insurers.

In all three matters settlement was reached without admission of liability by AusNet Services or any other party.

(e) Funding and market risks

AusNet Services relies on access to financial markets as a significant source of liquidity for capital requirements not satisfied by operating cash flows. AusNet Services' access to financial markets could be adversely impacted by various factors, such as a material adverse change in AusNet Services' business or a reduction in its credit rating. The inability to raise capital on favourable terms, particularly during times of uncertainty in the financial markets, could impact AusNet Services' ability to sustain and grow its businesses, which are capital intensive, and would likely increase its capital costs.

Furthermore, AusNet Services has a large amount of debt, with a net debt to Asset Base ratio at 31 March 2015 of 67.5 per cent. The degree to which AusNet Services may be leveraged in the future could affect AusNet Services' ability to service its debt and other obligations, to pay distributions to securityholders, to make capital investments, to take advantage of certain business opportunities, to respond to competitive pressures or to obtain additional financing. In addition, AusNet Services is exposed to a number of market risks associated with this debt, including interest rate risk.

AusNet Services effectively manages these risks in accordance with its Treasury Risk Policy which is approved by the Board and reviewed at least annually. Under this policy, AusNet Services aims to have a diverse funding mix in terms of source and tenure and proactively monitors and manages its credit metrics, in order to maintain its 'A' range credit rating and ensure continued access to various markets and to limit the funding requirement for any given year. In addition, through the use of derivative financial instruments AusNet Services aims to hedge 90 to 100 per cent of its interest rate risk.

Directors' report (continued)

Material risks and uncertainties (continued)

(f) Information and communication technology risks

The drive to reduce carbon emissions, customers' needs for higher levels of reliability and the reduction in the cost of digital technology have resulted in a greater role for ICT in the management and operations of utility networks. An example of this greater role includes the implementation of AMI in the electricity distribution business and other "Smart Network" technology to improve electricity supply reliability. This increased focus on the role ICT plays in the management and operations of utility networks will require the introduction of new technology. In the event there is any significant delay in the development of such new technology, this may negatively impact AusNet Services' revenue or require unforeseen capital investment to replace obsolete technology.

Another example is the current implementation of a new, organisation-wide, enterprise resource planning and enterprise asset management solution. The purpose of the solution is to deliver efficiencies, savings and opportunities, including improved processes and planning and the consolidation of certain systems across the business. However, as with all new business solutions, there are risks associated with solution design, implementation, budgeting, planning and integration and future maintenance, upgrades and support. The crystallisation of any such risks could adversely impact on the effectiveness and cost of such a solution and business continuity.

To mitigate this risk, AusNet Services has established a dedicated program, including a governance framework and a cross-functional team, to ensure the business needs are met and the program is delivered successfully.

AusNet Services' financial performance and position may also be adversely affected by the requirements for greater ICT investment if the AER does not recognise these increased costs.

Environmental regulation and climate change

The Stapled Group was subject to both Federal and State Government environmental legislation during the year. The most significant areas of environmental legislation affecting the Stapled Group 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*, corporations that meet or exceed thresholds are required to report greenhouse gas emissions and energy usage by 31 October each year. AusNet Services meets these thresholds and has lodged its current year's NGER reporting with the Clean Energy Regulator for the period from 1 July 2013 to 30 June 2014.

On 17 July 2014, the Federal Government approved the repeal of the carbon pricing mechanism, applicable from 1 July 2014.

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 Stapled Group that occurred during the year under review.

Directors' report (continued)**Matters subsequent to the end of the financial year****Restructure and simplification of the Stapled Group**

AusNet Services has released a securityholder booklet for a restructure and simplification proposal (Proposal) under which the existing stapled entities would become wholly owned by a new listed entity (AusNet Services Ltd). The Proposal is subject to applicable regulatory approvals and requires the approval of securityholders at the securityholder meeting on 29 May 2015. The Proposal would be implemented by way of company and trust schemes of arrangement. AusNet Services is targeting an implementation date of 18 June 2015.

Distribution

Since the end of the financial year, the Directors have approved a final distribution for 2015 of \$144.9 million (4.18 cents per stapled security) to be paid on 26 June 2015. If the restructure is implemented prior to the distribution payment date, as is currently anticipated (subject to Court and securityholder approval), the final distribution to securityholders will be comprised as follows:

	Cents per security	Total distribution \$M
Franked dividend payable by AusNet Services Ltd	2.508	86.9
Unfranked dividend payable by AusNet Services Ltd	1.672	58.0
	4.180	144.9

If the restructure is not implemented prior to the distribution payment date, the final distribution to securityholders will be comprised as follows:

	Cents per security	Total distribution \$M
Fully franked dividend payable by AusNet Services Transmission	2.217	76.8
Interest income payable by AusNet Services Finance Trust	1.963	68.1
	4.180	144.9

Intellectual property tax dispute

On 6 May 2015, the Full Court of the Federal Court allowed the ATO appeal in relation to the intellectual property tax dispute for the pre tax consolidation years, being 1998 to October 2005. The Federal Court's decision to remit the \$2.3 million penalty imposed in respect of this period was not overturned. In relation to the post tax consolidation years (being October 2005 to 2011), the Full Court ordered that the matter be remitted back to the primary judge of the Federal Court for further hearing and determination.

Bushfire litigation

On 6 February 2015, AusNet Services and the other parties to the Murrindindi Class Action agreed to settle the action. The settlement is without admission of liability by AusNet Services or any other party. As at 31 March 2015, AusNet Services recognised this settlement in the financial statements as both a liability and a corresponding asset to be received from insurers. The settlement agreement is subject to the approval of the Supreme Court of Victoria.

With the exception of the matters outlined above, the Directors are not aware of any circumstances that have arisen since 31 March 2015 that have significantly affected or may significantly affect the operations, and results of those operations or the state of affairs, of the Stapled Group in financial years subsequent to 31 March 2015.

Directors' report (continued)

Information on Directors

Ng Kee Choe – *Chairman – Non-executive*

Bachelor of Science (Honours), University of Singapore

Experience and expertise

Mr Ng serves as Chairman of CapitaLand Ltd. He is also President-Commissioner of PT Bank Danamon Indonesia, Tbk. He is a Director of Fullerton Financial Holdings Pte Ltd. He is a member of the International Advisory Council of China Development Bank and Chairman of Tanah Merah Country Club. Mr Ng was formerly the Chairman and Director of Singapore Power Limited, CapitaMalls Asia Limited and NTUC Income Insurance Co-Operative Limited. He served as a Director of Singapore Airport Terminal Services Limited and Singapore Exchange Limited. He was also Vice-Chairman and Director of DBS Group Holdings, retiring from his executive position in 2003 after 33 years' service.

Other current listed company directorships

PT Bank Danamon Indonesia, Tbk (2004 to date) (Jakarta Stock Exchange listed entity)
CapitaLand Limited (2010 to date) (SGX-ST listed entity)

Former listed company directorships in last 3 years

Singapore Airport Terminal Services Ltd (2000 to 2012) (SGX-ST listed entity)
Singapore Exchange Ltd (2003 to 2014) (SGX-ST listed entity)
CapitaMalls Asia Limited (2013 to 2014) (SGX-ST and Hong Kong Stock Exchange Listed entity)

Date of initial appointment

AusNet Services Transmission - 26 October 2005
AusNet Services Distribution - 31 May 2005
Responsible Entity - 9 September 2005
AusNet Services Ltd – 14 April 2015

Special responsibilities

Chairman of the AusNet Services Board, Chairman of the Nomination Committee and Chairman of the Issuing Committee.

Nino Ficca – *Managing Director*

Bachelor of Engineering (Electrical) (Honours), Deakin University
Graduate Diploma Management, Deakin University
Advanced Management Programme, Harvard Business School, USA

Experience and expertise

Mr Ficca has over 30 years' experience in the energy industry, including numerous senior management roles with AusNet Transmission Group Pty Ltd (formerly SPI PowerNet Pty Ltd) including as Managing Director since 2003. Mr Ficca is a Director of Energy Networks Association Limited and a member of the National Energy Market Operations Committee. He is Chair of the Deakin University Engineering Advisory Board. Mr Ficca recently resigned as a Director of SPI Management Services Pty Ltd. He was also formerly Deputy Chairman and Director of the Energy Supply Association of Australia.

Other current listed company directorships

None

Former listed company directorships in last 3 years

None

Date of initial appointment

AusNet Services Transmission - 7 September 2005
AusNet Services Distribution - 31 May 2005
Responsible Entity - 31 May 2005
AusNet Services Ltd – 11 December 2014

Special responsibilities

Managing Director and member of the Bushfire Litigation Committee and the Issuing Committee.

Directors' report (continued)

Information on Directors (continued)

Ralph Craven – *Non-executive Director*

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

Experience and expertise

Ralph Craven has broad experience in energy, resources and infrastructure having worked in these sectors for over 35 years. His professional background encompasses electricity and gas businesses, mining, commodities trading, and the management of large scale system operations at the national level and the delivery of major infrastructure projects. Dr Craven is currently a Director of Senex Energy Limited and Windlab Limited. He is a Director of the International Electrotechnology Commission (IEC) and Chair of the IEC National Committee of Australia. Other recent directorships include being Chair of Invion Limited, Chair of the Audit Committee of Mitchell Services Limited and Chair of Genex Power Limited. He was formerly Chair of Ergon Energy Corporation Limited, Tully Sugar Limited and Deputy Chair of Arrow Energy Ltd. Dr Craven was CEO of Transpower New Zealand Limited and also held senior executive positions in Shell Coal Pty Ltd and NRG Asia Pacific Limited.

Other current listed company directorships

Senex Energy Limited (2011 to date)

Former listed company directorships in last 3 years

Invion Limited (2011 to April 2015)
Mitchell Services Limited (2011 to November 2014)

Date of initial appointment

AusNet Services Transmission – 24 January 2014
AusNet Services Distribution - 24 January 2014
Responsible Entity - 24 January 2014
AusNet Services Ltd – 14 April 2015

Special responsibilities

Member of the Audit and Risk Management Committee, the Compliance Committee and the Bushfire Litigation Committee.

Sally Marie Farrier – *Independent Non-executive Director*

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

Experience and expertise

Ms Farrier is currently a Director of Meridian Energy Limited and a founding Director of Farrier Swier Consulting Pty Limited. Past directorships include Manidis Roberts Pty Limited, Hydro Tasmania and Western Power. In addition, Ms Farrier has served as a National Water Commissioner, and in Victoria, she was a Member of the Victorian Water Trust Advisory Council. She is a Member of the Australian Institute of Company Directors and a Fellow of the Financial Services Institute of Australasia.

Other current listed company directorships

Meridian Energy Limited (2012 to date) (New Zealand Stock Exchange Listed Company)

Former listed company directorships in last 3 years

None

Date of initial appointment

AusNet Services Transmission – 24 January 2014, AusNet Services Distribution - 24 January 2014
Responsible Entity - 24 January 2014, AusNet Services Ltd – 14 April 2015

Special responsibilities

Member of the Audit and Risk Committee and the Compliance Committee.

Directors' report (continued)

Information on Directors (continued)

Ho Tian Yee – *Non-executive Director*

Bachelor of Arts (Economics), Portsmouth University, UK

Experience and expertise

Mr Ho is currently the Managing Director and principal shareholder of Pacific Asset Management (S) Pte Ltd, and an investment advisor to Blue Edge Advisors Pte Ltd. Mr Ho was previously the General Manager and Managing Director of Bankers Trust Company, Singapore. He currently serves as a non-executive director of DBS Group Holdings Ltd, DBS Bank Ltd and Fullerton Funds Management Company Limited. He is also a Board member of Singapore Power Limited.

Other current listed company directorships

DBS Group Holdings Ltd (2011 to date) (SGX-ST listed company)
DBS Bank Ltd (2011 to date) (SGX-ST listed company)

Former listed company directorships in last 3 years

Singapore Exchange Ltd (1999 to 2013) (SGX-ST listed company)

Date of initial appointment

AusNet Services Transmission – 1 September 2008
AusNet Services Distribution – 1 September 2008
Responsible Entity – 1 September 2008
AusNet Services Ltd – 14 April 2015

Special responsibilities

Member of the Nomination Committee, the Remuneration Committee and the Issuing Committee.

Antonino (Tony) Mario Iannello – *Independent Non-executive Director*

Bachelor of Commerce, University of Western Australia
Advanced Management Programme, Harvard Business School, USA

Experience and expertise

Mr Iannello is Chairman of Empire Oil and Gas NL, HBF Health Ltd and D'Orsogna Ltd. He is also a director of ERM Power Ltd and Water Corporation of WA. Mr Iannello was formerly Chairman of and MG Kailis Group of Companies, Aviva Corporation Ltd and Energia Minerals Ltd. Mr Iannello was Managing Director of Western Power Corporation and previously he held a number of senior executive roles at the Bank of Western Australia.

Other current listed company directorships

ERM Power Ltd (2010 to date)
Empire Oil and Gas NL (2013 to date)

Former listed company directorships in last 3 years

Energia Minerals Ltd (2010 to 2014)

Date of initial appointment

AusNet Services Transmission – 6 June 2006
AusNet Services Distribution – 6 June 2006
Responsible Entity – 6 June 2006
AusNet Services Ltd – 14 April 2015

Special responsibilities

Chairman of the Audit and Risk Management Committee and member of the Nomination Committee, the Bushfire Litigation Committee and the Issuing Committee.

Directors' report (continued)

Information on Directors (continued)

Tina Renna McMeckan – *Independent Non-executive Director*

Bachelor of Liberal Arts & Science, San Diego State University, California, USA
Master of Business Administration, University of Melbourne

Experience and expertise

Ms McMeckan is a Director of the Global Carbon Capture and Storage Institute, Circadian Technologies Ltd and the Cooperative Research Centre for Spatial Information. She is a former Chair of the Centre for Eye Research Australia and a former Director of Metlink Victoria Pty Ltd, Viscorp Limited and the National Board of Norton Rose law firm. Ms McMeckan was previously an executive manager with GPU PowerNet and the SECV Energy Traders, and a project manager with the Victorian Department of Treasury and Finance on gas industry reform.

Other current listed company directorships

Circadian Technologies Limited (2008 to date)

Former listed company directorships in last 3 years

None

Date of initial appointment

AusNet Services Transmission – 9 August 2010
AusNet Services Distribution – 9 August 2010
Responsible Entity – 9 August 2010
AusNet Services Ltd – 14 April 2015

Special responsibilities

Chairman of the Compliance Committee and a member of the Remuneration Committee and the Audit and Risk Management Committee.

Ian Andrew Renard AM – *Independent Non-executive Director*

Bachelor of Arts, University of Melbourne
Master of Laws, University of Melbourne
Doctor of Laws (Hon), University of Melbourne

Experience and expertise

Mr Renard is a Director of Hillview Quarries Pty Ltd and a trustee of the R E Ross Trust. Mr Renard was formerly a Director of a number of public listed companies. He served as Chancellor of the University of Melbourne from 2005 to 2009, and was formerly a partner of the law firm Arthur Robinson & Hedderwicks, including a term as the firm's full-time Managing Partner.

Other current listed company directorships

None

Former listed company directorships in last 3 years

CSL Ltd (1998 to 2013)

Date of initial appointment

AusNet Services Transmission - 26 October 2005
AusNet Services Distribution - 31 May 2005
Responsible Entity - 9 September 2005
AusNet Services Ltd – 14 April 2015

Special responsibilities

Chairman of the Remuneration Committee and the Bushfire Litigation Committee and member of the Nomination Committee.

Directors' report (continued)

Information on Directors (continued)

Sun Jianxing - *Non-executive Director*

Bachelor of Engineering, Northeast Dianli University, China

Experience and expertise

Mr Sun is a Non-executive Director of ElectraNet and currently holds the role of Head of State Grid Corporation of China Australia Representative Office. His previous roles include Deputy CEO of State Grid Energy Development Company Ltd, Deputy Director General of Materials & Equipment Supplying Department, State Grid Corporation of China, Chief Engineer of State Grid Shenzhen Energy Developments Ltd and Division Chief of Department of International Affairs, State Grid Corporation of China. In his early years, Mr Sun also worked as a Senior Engineer at the China General Institute for Electric Power Planning and Designing.

Other current listed company directorships

None

Former listed company directorships in last 3 years

None

Date of initial appointment

AusNet Services Transmission – 24 January 2014

AusNet Services Distribution - 24 January 2014

Responsible Entity - 24 January 2014

AusNet Services Ltd – 14 April 2015

Special responsibilities

Member of the Nomination Committee and the Remuneration Committee.

Company Secretary

Susan Elizabeth Taylor

Bachelor of Laws, University of Melbourne

Bachelor of Commerce, University of Melbourne

Graduate Diploma in Corporations and Securities Law, University of Melbourne

Ms Taylor has been Company Secretary of AusNet Services Distribution, AusNet Services Transmission and the Responsible Entity since 6 October 2008 and Company Secretary of AusNet Services Ltd from 11 December 2014. She has over 25 years' experience in energy transactional and regulatory law. She was formerly a partner at the Australian law firm Freehills and Senior Attorney with the U.S. Federal Energy Regulatory Commission, with a mergers and acquisitions, corporations and competition law background.

Directors' report (continued)**Meetings of Directors**

The number of meetings of the Board of Directors of AusNet Services Distribution, AusNet Services Transmission and the Responsible Entity held during the year ended 31 March 2015, and the number of meetings attended by each Director, are set out in the following table. All meetings were held jointly.

	Board of AusNet Services Distribution		Board of AusNet Services Transmission		Board of Responsible Entity	
	A	B	A	B	A	B
Ng Kee Choe	13	14	13	14	13	14
Nino Ficca	13	14	13	14	13	14
Jeremy Davis ¹	5	5	5	5	5	5
Eric Gwee ¹	3	5	3	5	3	5
Ho Tian Yee	11	14	11	14	11	14
Tony Iannello	13	14	13	14	13	14
Tina McMeckan	14	14	14	14	14	14
Ian Renard	14	14	14	14	14	14
Sun Jianxing	10	14	10	14	10	14
Ralph Craven	14	14	14	14	14	14
Sally Farrier	13	14	13	14	13	14

¹ Mr Davis and Mr Gwee retired as Non-Executive Directors effective 17 July 2014.

A = Number of meetings attended

B = Number of meetings held during the time the Director held office

The number of meetings of each standing Board committee of AusNet Services Distribution, AusNet Services Transmission and the Responsible Entity held during the year ended 31 March 2015, and the number of meetings attended by each Director, are set out in the following table.

	Audit and Risk Management Committee		Compliance Committee		Nomination Committee		Remuneration Committee	
	A	B	A	B	A	B	A	B
Ng Kee Choe	**	**	**	**	3	3	**	**
Nino Ficca	**	**	**	**	**	**	**	**
Jeremy Davis ¹	1	1	**	**	**	**	**	**
Eric Gwee ¹	0	1	**	**	**	**	0	1
Ho Tian Yee	**	**	**	**	3	3	3	5
Tony Iannello	6	6	**	**	3	3	**	**
Tina McMeckan	6	6	4	4	**	**	5	5
Ian Renard	**	**	**	**	3	3	5	5
Sun Jianxing	**	**	**	**	2	3	5	5
Ralph Craven	6	6	4	4	**	**	**	**
Sally Farrier	6	6	4	4	**	**	**	**

¹ Mr Davis and Mr Gwee retired as Non-Executive Directors effective 17 July 2014.

A = Number of meetings attended

B = Number of meetings held during the time the Director held office

**** = Not a member of the relevant committee**

Directors' report (continued)

Meetings of Directors (continued)

The number of meetings of the Bushfire Litigation Committee and the Issuing Committee held during the year ended 31 March 2015, and the number of meetings attended by each Director, are set out in the following table.

	Bushfire Litigation Committee		Issuing Committee	
	A	B	A	B
Ng Kee Choe	**	**	1	1
Nino Ficca	7	8	1	1
Jeremy Davis ¹	2	2	**	**
Ralph Craven	7	8	**	**
Ho Tian Yee	**	**	1	1
Tony Iannello	8	8	0	1
Ian Renard	8	8	**	**

¹ Mr Davis retired as a Non-Executive Director effective 17 July 2014.

A = Number of meetings attended

B = Number of meetings held during the time the Director held office

**** = Not a member of the relevant committee**

Directors' report (continued)

Remuneration report (audited)

Introduction to remuneration report

The remuneration report for the year ended 31 March 2015 outlines the remuneration arrangements of the company and the AusNet Services Group in accordance with the requirements of the *Corporations Act 2001*(Cth) and its regulations. This information has been audited as required by section 308 (3C) of the Corporations Act.

The remuneration report details the remuneration arrangements for Key Management Personnel (KMP). KMP are those persons who have authority and responsibility for planning, directing and controlling the major activities of the company and the AusNet Services Group directly or indirectly, including any Director of the parent company.

In performing its role, the Board and Remuneration Committee may directly commission and receive information and advice from independent external advisers to ensure remuneration recommendations in relation to KMP are free from undue influence by management.

In March 2010, the Remuneration Committee appointed PwC as its remuneration adviser. This appointment was formalised in August 2011 following changes to the Corporations Act in relation to the appointment of remuneration advisers. In August 2014, the Remuneration Committee re-appointed PwC as its remuneration advisor for a further 12 months.

No remuneration recommendations were provided by PwC to the Remuneration Committee or Board during the reporting period. Advice was provided to the Remuneration Committee by PwC during the reporting period which outlined the current overall market conditions and external pay practices amongst a selected peer comparator group. This advice included an analysis of existing levels of fixed and performance remuneration of AusNet Services' KMP and executives and assisted the Board in reviewing and determining overall remuneration outcomes for the KMP and executives for the reporting period.

Details of key management personnel

The Directors and other KMP of AusNet Services are engaged to provide services to the AusNet Services Group and are not exclusive to any particular entity within AusNet Services. Accordingly, this report includes information that is common to AusNet Services Distribution, AusNet Services Transmission (together 'the Companies') and the Responsible Entity. The remuneration amounts reported represent the total remuneration received by KMP during the year for services to the AusNet Services Group, and have not been apportioned between particular entities within the AusNet Services Group.

The persons listed below were Directors of AusNet Services for the whole of the financial year and up to the date of this report unless otherwise noted. There have been no additional appointments or resignations of Directors throughout the reporting period.

Name	Position
Ng Kee Choe	Non-executive Chairman
Nino Ficca	Managing Director
Ralph Craven	Non-executive Director
Jeremy Davis	Non-executive Director (retired 17 July 2014)
Sally Farrier	Non-executive Director
Eric Gwee	Non-executive Director (retired 17 July 2014)
Ho Tian Yee	Non-executive Director
Tony Iannello	Non-executive Director
Sun Jianxing	Non-executive Director
Tina McMeckan	Non-executive Director
Ian Renard	Non-executive Director

Directors' report (continued)**Remuneration report (audited) (continued)**

The persons listed below were KMP of AusNet Services during the financial year ended 31 March 2015.

Name	Position
Nino Ficca	Managing Director
John Azaris	General Manager Service Delivery
Chad Hymas	General Manager Strategy & Business Development
John Kelso	General Manager Select Solutions
Adam Newman	Chief Financial Officer
Alistair Parker	General Manager Asset Management
Mario Tieppo	Chief Information Officer

On 31 March 2014, AusNet Services, Singapore Power and SPI Management Services entered into a Termination Deed, pursuant to which they agreed to terminate the Management Services Agreement with effect from 31 March 2014. As a result of this termination, KMP and other employees who were previously employed by SPI Management Services were offered, and accepted, employment with AusNet Services, under either SPI Electricity Pty Ltd or SPI PowerNet Pty Ltd, on the same terms as their existing remuneration arrangements, including the preservation of all existing entitlements and participation in incentive arrangements effective 1 April 2014.

Stapled Group performance

AusNet Services' executive remuneration is directly linked to the performance of the Stapled Group across a range of measures. The Short-Term Incentive (STI) is focussed on achieving operational targets and short-term profitability and the Long-Term Incentive (LTI) is focussed on achieving long-term growth and retaining talented executives.

The table below shows AusNet Services' consolidated operating revenue and net profit after tax for the current reporting period and previous years and the effect of AusNet Services' performance on securityholder value.

	2011	2012	2013	2014	2015
Revenue	\$1,468.0m	\$1,535.4m	\$1,639.5m	\$1,799.4m	\$1,833.9m
NPAT from continuing operations	\$252.9m	\$255.0m	\$273.5m	\$178.3m ¹	\$22.6m²
Closing security price as at 31 March	\$0.87	\$1.075	\$1.195	\$1.31	\$1.46
Distributions in respect of financial year (cents per stapled security)	8.00	8.00	8.20	8.36	8.36

¹ NPAT includes a net charge of \$86.7 million for the amount potentially payable in respect of the Section 163AA dispute, \$50.0 million payable for the termination of the Management Services Agreement (MSA) and \$7.7 million in restructuring costs associated with the Termination Deed.

² NPAT includes the recognition of \$183.3 million in income tax expense for the settlement with the Australian Taxation Office (ATO) in relation to the intra-group financing audit, the recognition of \$84.1 million net exposure in relation to the intellectual property tax dispute with the ATO and the recognition of a provision for Advanced Metering Infrastructure (AMI) customer rebates of \$22.8 million (after tax).

Directors' report (continued)

Remuneration report (audited) (continued)

Principles used to determine the nature and amount of remuneration

Non-executive Directors (NEDs)

NED fee element	Commentary
Fees	The remuneration of Non-executive Directors consists of Directors' fees and committee fees. The Board's policy has been that fee levels are set having regard to independent performance advice and fees paid by comparable companies, and that fees paid are not linked to the performance of AusNet Services in order to maintain objectivity and independence. The level of fees paid has not been altered since April 2013. The Board has deferred any decision to review the fees paid to Non-executive Directors pending resolution of material litigation (concerning bushfire liability) and the restructure of AusNet Services to be voted upon by securityholders on 29 May 2015. In accordance with the constitutions of AusNet Services Distribution, AusNet Services Transmission and the Responsible Entity, Non-executive Directors may also be paid additional fees for special duties or exertions.
Total fee pool	The constitutions of AusNet Services Distribution, AusNet Services Transmission and the Responsible Entity provide that Non-executive Directors are entitled to such remuneration for their services as the Board decides, but the total amount provided to all Non-executive Directors (including any additional fees for special duties or exertions) must not exceed in aggregate in any financial year the amount approved by securityholders in a general meeting. The securityholders of AusNet Services Distribution and AusNet Services Transmission approved a total remuneration pool for Non-executive Directors of \$2,000,000 per year at the Annual General Meeting of AusNet Services held on 19 July 2012.
Equity based compensation	Non-executive Directors are not provided with any form of equity based compensation.
Business related expenses	Non-executive Directors are entitled to be reimbursed for all business related expenses, including travel on company business, as may be incurred in the discharge of their duties.
Retirement benefits	Non-executive Directors are not provided with any form of retirement benefit. Fees paid to Non-executive Directors are inclusive of superannuation contributions made on behalf of the Non-executive Directors in accordance with AusNet Services' statutory superannuation obligations.
Review of fee levels and approach to Non-executive Director fees	Each year, the Remuneration Committee reviews the fees payable to Non-executive Directors taking into account market rates and the time commitment and responsibilities involved in carrying out their duties. The Board will continue to review its approach to Non-executive Director remuneration to ensure it remains in line with general industry practice and principles of good corporate governance.

Directors' report (continued)**Remuneration report (audited) (continued)*****Non-executive Directors (NEDs) (continued)***

The annual fees payable to Non-executive Directors of AusNet Services and approved by the Board (inclusive of statutory superannuation) for the financial year ended 31 March 2015 are set out in the table below. It is not possible to allocate fees to individual entities within the AusNet Services Group.

Role	Fee
Board Chairman ¹	\$330,000
Board Directors	\$121,000
Audit and Risk Management Committee Chairman	\$30,000
Audit and Risk Management Committee Members	\$18,000
Compliance Committee Chairman	\$21,600
Compliance Committee Members	\$12,000
Remuneration Committee Chairman	\$24,000
Remuneration Committee Members	\$12,000
Nomination Committee Chairman	\$15,000
Nomination Committee Members	\$12,000
Issuing Committee Members	\$12,000

1 The Board Chairman is currently Chairman of the Nomination and Issuing Committees. As his Board fee is all-inclusive, no additional Nomination or Issuing Committee Chairman's fee is currently paid.

2 In addition to the fees noted above, Non-executive Directors may also be paid fees for special duties or exertions.

Managing Director and Senior Executives

The key objective of AusNet Services' policy for Managing Director and senior executive remuneration is to manage a total reward framework designed to:

- focus on creating value for securityholders by rewarding executives based on enhancement of sustainable securityholder value;
- create an environment that will attract appropriate talent and where people can be motivated with energy and passion to deliver superior performance;
- recognise capabilities and promote opportunities for career and professional development;
- provide rewards, benefits and conditions that are competitive in the market in which AusNet Services operates; and
- provide fair and consistent rewards across AusNet Services that support corporate values and principles.

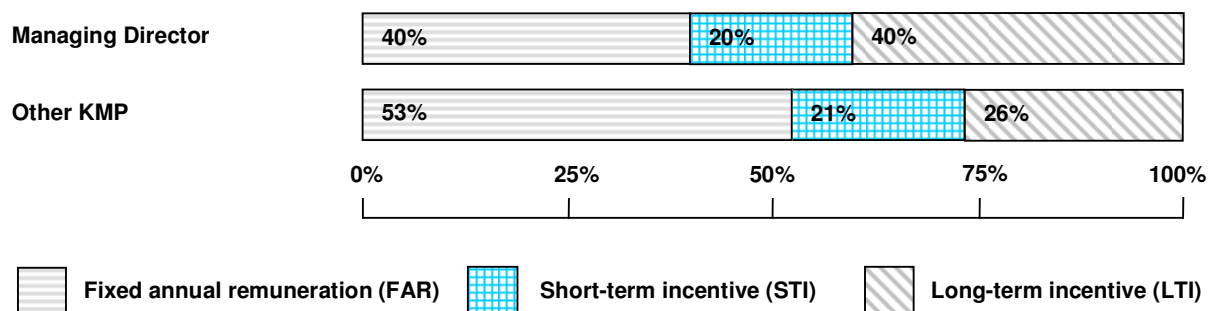
Directors' report (continued)

Remuneration report (audited) (continued)

Structure of total reward

The reward principles set out the relevant elements of remuneration to make up 'total reward'. For the majority of senior executives and AusNet Services employees, total reward consists of fixed remuneration and 'at risk' remuneration through a Short-Term Incentive (STI) plan. A Long-Term Incentive (LTI) plan is included in the remuneration structure for the Managing Director, senior executives and other employees who can influence long-term securityholder value. An appropriate mix of these components is determined for each level of management and employees.

The potential reward mix for the Managing Director and Other KMP for the reporting period, expressed as a percentage of total on-target reward, is shown in the following table:



Fixed annual remuneration

Fixed annual remuneration (FAR) represents the fixed component of executive remuneration and consists of a mix of cash, superannuation, prescribed benefits and salary-sacrificed items such as motor vehicles and fringe benefits tax. Market data is sourced from external remuneration advisers who provide detailed analysis of market practice for the Remuneration Committee to consider in the Committee's decision making process. FAR is reviewed annually against market rates for comparable roles. There are no guaranteed FAR increases in any senior executive's contract of employment.

Directors' report (continued)**Remuneration report (audited) (continued)****Short-term incentive**

The key design aspects of the STI plan are outlined below:

Key design aspect	Commentary
Eligibility	Managing Director, other senior executives and permanent employees on individual contracts of employment. Generally, senior executives must complete the business year to qualify for any STI payments. In some circumstances the Board, in its discretion, may determine that a pro-rata STI payment be awarded to an executive.
Target STI amount	A target STI amount, expressed as a percentage of the senior executive's FAR, is specified for each senior executive. However, the amount of STI payable is dependent on the: • extent to which AusNet Services has achieved or outperformed the corporate Key Performance Indicators (KPIs); and • extent to which the senior executive has achieved or outperformed his or her individual KPIs. The target STI for the Managing Director is 50% of FAR. The target STI for other senior executives is 40% of FAR.
Performance criteria	Based on corporate financial and non-financial measures as well as stretch individual performance hurdles. The key corporate KPIs set for the year ended 31 March 2015 included targets relating to: • employee, contractor and network safety; • earnings before interest, taxation, depreciation and amortisation; • return on equity; • capital efficiency; • business efficiency initiatives, network performance and reliability; and • employee retention. By linking individual rewards to the achievement of overall corporate targets, these KPIs align the interests of employees and managers with those of AusNet Services. The Managing Director's stretch individual performance scorecard contained a range of measures designed to contribute value to the business and included: • safety leadership and strategy implementation; • financial KPI's including credit rating KPI's • Business Excellence and performance efficiency KPI's; • people management and leadership; and • customer and community. The performance assessment of the Managing Director's stretch individual performance scorecard is conducted by the Chairman and the Remuneration Committee Chairman, and reviewed by the Board prior to finalisation and any award being granted.
Performance period	12 months to 31 March 2015.
Delivery mechanism	100% cash payment. The Board retains the right to vary any STI payment at its discretion.

Directors' report (continued)**Remuneration report (audited) (continued)****Long-term incentive**

The key design aspects of the LTI plan are outlined below:

Key design aspect	Commentary										
Eligibility	Managing Director and other senior executives. The Board may in its discretion invite additional employees who are in a position to influence long-term securityholder value to participate in the LTI plan.										
Purpose of the LTI plan	The LTI plan rewards participants for increasing long-term securityholder value.										
Target LTI amount	The LTI Award is calculated as a percentage of the participant's FAR as at the test date. The quantum available to participants expressed as a percentage of FAR as at the performance test date, are: - Managing Director – 75% based on the general senior executive performance measures of Total Securityholder Return (TSR) and Earnings Per Security (EPS), with a further 25% for the achievement of stretch targets related to Return on Invested Capital (ROIC) and Interest Cover Ratio (ICR). - Other senior executives – 50% - Other participants – between 15% and 25%										
Performance period	Performance is assessed over a three-year period and the LTI plan does not allow for retesting of performance measures in subsequent years.										
Performance measures	Relative TSR (for 50% of the Award) and growth in EPS (for the other 50% of the Award). The Board and Remuneration Committee believe that it is important to assess executive performance against both relative and absolute hurdles linked to securityholder value. With the exception of the Managing Director, where an additional 25% LTI opportunity was introduced from 1 April 2011, accompanied by new performance indicators of ROIC and ICR, the same performance measures have been used for senior executive LTI since 1 April 2006. TSR: The comparator group used for the TSR performance measure consists of the companies included in the S&P/ASX 200 index. In assessing whether the performance hurdles have been met, AusNet Services receives independent data which provides both AusNet Services' TSR growth from the commencement of each grant and that of the companies in the comparator group. The level of TSR growth achieved by AusNet Services is given a percentile ranking having regard to its performance compared with the performance of other companies in the comparator group. The vesting scale for the TSR performance measure is shown below: <table> <tr> <th>AusNet Services' TSR Percentile Ranking</th><th>Percentage of TSR Award that vests</th></tr> <tr> <td>Below 50.1</td><td>0%</td></tr> <tr> <td>50.1</td><td>35%</td></tr> <tr> <td>Between 50.1 and 74.9</td><td>Progressive vesting on a straight-line basis from greater than 35% to less than 100%</td></tr> <tr> <td>75 or above</td><td>100%</td></tr> </table>	AusNet Services' TSR Percentile Ranking	Percentage of TSR Award that vests	Below 50.1	0%	50.1	35%	Between 50.1 and 74.9	Progressive vesting on a straight-line basis from greater than 35% to less than 100%	75 or above	100%
AusNet Services' TSR Percentile Ranking	Percentage of TSR Award that vests										
Below 50.1	0%										
50.1	35%										
Between 50.1 and 74.9	Progressive vesting on a straight-line basis from greater than 35% to less than 100%										
75 or above	100%										

Directors' report (continued)**Remuneration report (audited) (continued)****Long-term incentive (continued)**

Key design aspect	Commentary																												
Performance measures (continued)	EPS: The EPS growth measure is based on AusNet Services achieving a nominal compound annual growth (CAGR) of 5% per annum over the three-year period. A sliding scale applies as follows: <table> <tr> <th>Compound annual growth rate</th><th>Percentage of EPS Award that vests</th></tr> <tr> <td>< 2.5% per annum</td><td>0%</td></tr> <tr> <td>Between 2.5% and 7.5% per annum</td><td>Linear scale from 50% to 150%</td></tr> <tr> <td>> 7.5% per annum</td><td>150%</td></tr> </table> ROIC: The ROIC measure applies to the Managing Director only and is designed to measure how effective AusNet Services uses funds (borrowed and owned) invested in its operations. ROIC equals $(NPAT + \text{Finance Cost adjusted for Tax}) / (\text{Average Equity} + \text{Average Debt})$ The target for this measure has been set as the average over the 3 year performance period, with the award calculated as follows: <table> <tr> <th>AusNet Services' ROIC</th><th>Percentage of ROIC Award that vests</th></tr> <tr> <td>Below threshold</td><td>0%</td></tr> <tr> <td>Between threshold and target</td><td>Linear scale from 50% to 100%</td></tr> <tr> <td>Above target to stretch target</td><td>Linear scale from 100% to 125%</td></tr> <tr> <td>Above stretch target</td><td>125%</td></tr> </table> ICR: The ICR applies to the Managing Director only and is a key financial metric which provides an indication of AusNet Services' ability to meet ongoing interest bills and therefore service debt. ICR equals $(\text{Funds Flow from Operations} + \text{Finance Expenses}) / \text{Finance Expenses}$ The target for this measure has been set as the average over the 3 year performance period, with the award calculated as follows: <table> <tr> <th>AusNet Services' ICR</th><th>Percentage of ICR Award that vests</th></tr> <tr> <td>Below threshold</td><td>0%</td></tr> <tr> <td>Between threshold and target</td><td>Linear scale from 50% to 100%</td></tr> <tr> <td>Above target to stretch target</td><td>Linear scales from 100% to 125%</td></tr> <tr> <td>Above stretch target</td><td>125%</td></tr> </table> In order for the Managing Director to qualify for an award under both the ROIC and ICR measures, a safety performance hurdle of zero fatalities for AusNet Services employees in the 12 month period prior to vesting must be achieved.	Compound annual growth rate	Percentage of EPS Award that vests	< 2.5% per annum	0%	Between 2.5% and 7.5% per annum	Linear scale from 50% to 150%	> 7.5% per annum	150%	AusNet Services' ROIC	Percentage of ROIC Award that vests	Below threshold	0%	Between threshold and target	Linear scale from 50% to 100%	Above target to stretch target	Linear scale from 100% to 125%	Above stretch target	125%	AusNet Services' ICR	Percentage of ICR Award that vests	Below threshold	0%	Between threshold and target	Linear scale from 50% to 100%	Above target to stretch target	Linear scales from 100% to 125%	Above stretch target	125%
Compound annual growth rate	Percentage of EPS Award that vests																												
< 2.5% per annum	0%																												
Between 2.5% and 7.5% per annum	Linear scale from 50% to 150%																												
> 7.5% per annum	150%																												
AusNet Services' ROIC	Percentage of ROIC Award that vests																												
Below threshold	0%																												
Between threshold and target	Linear scale from 50% to 100%																												
Above target to stretch target	Linear scale from 100% to 125%																												
Above stretch target	125%																												
AusNet Services' ICR	Percentage of ICR Award that vests																												
Below threshold	0%																												
Between threshold and target	Linear scale from 50% to 100%																												
Above target to stretch target	Linear scales from 100% to 125%																												
Above stretch target	125%																												

Directors' report (continued)

Remuneration report (audited) (continued)

Long-term incentive (continued)

Key design aspect	Commentary
Delivery mechanism	Once the performance criteria have been satisfied, participants receive a cash award. The Board retains the right to vary any LTI payment at its discretion. Participants are then required (under the Plan Rules) to use the after tax cash proceeds of this Award to purchase AusNet Services stapled securities on-market. These purchases must be conducted during an approved trading window and the stapled securities must be held for at least 12 months. Reasonable brokerage costs incurred by the participants are reimbursed. Participants are incentivised to achieve performance targets over a three-year timeframe, and are also required to hold the AusNet Services securities acquired with their Award payment for at least 12 months, thereby extending the long-term nature of the LTI plan.
Clawback arrangements	Where, in the opinion of the Board, the performance measures applicable to an award have been satisfied as a result of the fraud, dishonesty or breach of obligations of the participant and, in the opinion of the Board, the performance measures would not otherwise have been satisfied, the Board may determine that the performance measures are not satisfied and may, subject to applicable laws, determine that any award paid in such circumstances be repaid by the participant to AusNet Services.

Long-term incentive plan from 1 April 2015

AusNet Services has recently adopted a new equity based long-term incentive plan, to operate for offers made to employees from 1 April 2015. The equity based long-term incentive plan has been designed with an aim to align the interests of participating employees with the interests of AusNet Services Securityholders. No equity based performance rights have been granted under this plan as at the date of this Remuneration Report. No Director (except for the Managing Director) will be entitled to participate in this new long-term incentive plan.

Loans to Directors and senior executives

No loans have been made by AusNet Services to any Directors or senior executives.

Details of remuneration

Remuneration details of each Director and KMP of AusNet Services are set out in the following tables.

Directors' report (continued)**Remuneration report (audited) (continued)****Total remuneration for Non-executive Directors for the year ended 31 March 2014 and 31 March 2015**

Non-executive Directors	Year	Short-term		Post-employment	Total
		Cash salary and fees	Other short term benefits ¹	Superannuation ²	
Ng Kee Choe (Chairman)	2015	301,542	-	28,458	330,000
	2014	302,233	-	27,767	330,000
Ralph Craven ³	2015	157,704	-	14,896	172,600
	2014	25,375	-	2,347	27,722
Jeremy Davis	2015	38,059	-	3,536	41,595
	2014	136,278	-	12,519	148,797
Sally Farrier	2015	137,978	-	13,022	151,000
	2014	25,375	-	2,347	27,722
Eric Gwee	2015	45,186	-	-	45,186
	2014	160,797	-	-	160,797
Ho Tian Yee	2015	143,461	-	13,539	157,000
	2014	143,783	-	13,217	157,000
Tony Iannello ³	2015	179,635	-	16,965	196,600
	2014	176,745	-	16,255	193,000
George Lefroy	2014	51,335	-	4,665	56,000
Tina McMeckan	2015	157,716	-	14,884	172,600
	2014	151,010	-	13,882	164,892
Sun Jianxing	2015	132,496	-	12,504	145,000
	2014	24,430	-	2,260	26,690
Ian Renard ³	2015	176,338	-	16,662	193,000
	2014	184,218	-	16,941	201,159
Total for Non-executive Directors	2015	1,470,115	-	134,466	1,604,581
	2014	1,381,579	-	112,200	1,493,779

1 The allocation of the premium for Directors' and Officers' insurance is not included as under the terms of the current policy this information cannot be disclosed.

2 Superannuation contributions made on behalf of Non-executive Directors to satisfy AusNet Services' obligations under applicable Superannuation Guarantee legislation. This does not include any salary sacrifice or employee contributions which are included under cash salary and fees.

3 Received exertion payments for the year ended 31 March 2015 in relation to services provided on the Bushfire Litigation Committee up to 31 December 2014.

Directors' report (continued)**Remuneration report (audited) (continued)****Total remuneration for key management personnel for the year ended 31 March 2014 and 31 March 2015**

		Short-term			Post-employment	Equity based payments ³	Other long-term benefits ^{4,5}	Total
	Year	Cash salary and fees ⁵	Cash bonus ¹	Other short-term benefits ^{2,5}	Super-annuation			
Nino Ficca	2015	819,097	234,916	85,219	99,845	393,534	62,108	1,694,719
	2014	805,587	320,000	87,922	92,250	619,027	66,775	1,991,561
John Azaris	2015	317,182	74,634	33,650	43,378	98,514	19,830	587,188
	2014	329,076	102,400	37,648	42,214	126,660	10,016	648,014
Chad Hymas	2015	277,283	60,763	35,163	25,000	83,275	13,538	495,022
	2014	258,669	86,400	30,384	25,000	66,397	7,512	474,362
John Kelso	2015	315,488	84,470	35,247	33,402	95,168	27,805	591,580
	2014	299,795	90,144	37,003	31,233	126,524	52,711	637,410
Adam Newman	2015	586,686	144,659	57,887	25,000	183,324	16,847	1,014,403
	2014	579,310	180,000	54,747	25,000	199,797	15,642	1,054,496
Alistair Parker	2015	323,343	76,393	34,868	25,000	102,407	12,074	574,085
	2014	325,862	90,000	35,923	25,000	82,996	9,385	569,166
Ash Peck ⁶	2014	225,974	-	27,757	22,361	(100,948)	(22,929)	152,215
Mario Tieppo	2015	369,253	89,021	38,694	25,000	140,653	9,956	672,577
	2014	106,322	39,605	11,421	7,759	38,886	3,055	207,048
Total KMP	2015	3,008,332	764,856	320,728	276,625	1,096,875	162,158	5,629,574
	2014	2,930,595	908,549	322,805	270,817	1,159,339	142,167	5,734,272

- 2015 cash bonuses include bonuses in respect of performance for the year ended 31 March 2015. These amounts have been approved and will be payable in June 2015.
- Other short-term benefits include car parking benefits and the accrual of annual leave entitlements. The allocation of the premium for Directors' and Officers' insurance is not included as under the terms of the current policy this information cannot be disclosed.
- As the performance period over which the LTI Awards vest is three years, the amount included in equity based payments is one-third of the amount estimated to be payable at the end of the performance period for each outstanding Award. This estimated amount is based on certain assumptions regarding the achievement of performance targets which are reviewed and adjusted annually. Any adjustments to previously recognised amounts, both positive and negative, are included in the current year. The actual amounts paid under these Awards will not be known until the end of the performance period. Refer to the table below under the heading of key management personnel – long-term incentive for the maximum amounts payable at the end of three years.
- Other long-term benefits include the accrual of long service leave entitlements.
- The above table represents the accounting value of KMP remuneration, calculated in accordance with accounting standards. As a result, annual leave and long service leave entitlements are recognised as remuneration when they accrue rather than when they are taken. This has the impact of reducing the cash salary and fees remuneration disclosed in the table above when these leave entitlements are ultimately taken by the KMP. In addition, any changes to the value of leave entitlements (for example, because of changes in FAR or long service leave entitlements not vesting) are recognised as remuneration, either positive or negative, in the year that the change occurs. These accounting adjustments to remuneration values are reflected in the *Cash Salary and Fees*, *Other Short-term Benefits* and *Other Long-term Benefits* disclosed in the table above.
- Mr Peck ceased to be KMP on 6 December 2013. His remuneration up to this date has been included in the table above.

Directors' report (continued)**Remuneration report (audited) (continued)****Remuneration and Other Terms of Employment**

Remuneration and other terms of employment for the Managing Director and other KMP are set out below.

Managing Director	
Term of agreement	Permanent, subject to one month's notice of termination by either party.
Fixed remuneration	Fixed remuneration includes base salary and superannuation. As at 31 March 2015, fixed annual remuneration was \$1,045,000. Fixed remuneration is reviewed annually by the Remuneration Committee and the Board.
Short-term incentive	Annual short-term incentive of 50% of FAR for on-target performance.
Long-term incentive	Long-term incentive of 75% of FAR for on-target performance, based on the general senior executive performance measures of TSR and EPS, and a further 25% for the achievement of stretch targets related to ROIC and ICR. Annual invitation to participate with three-year performance period and no retesting of performance measures in subsequent years.
Termination benefits	Termination benefits calculated at three weeks' pay for every year of service paid at the Managing Director's FAR rate and capped at six months.

In addition, the Managing Director participates in the AusNet Services Retention Plan. Under this plan, the Managing Director is entitled to receive up to 100% of FAR, contingent upon a change of control event occurring (as defined under the Corporations Act and ASX Listing Rules) and subject to continued employment up to 12 months following the change of control event. The Retention Plan is in place until 16 September 2015. The Board has absolute and unfettered discretion to act or refrain from acting under or in connection with the Retention Plan and in the exercise of any power or discretion under the Plan.

Other KMP

The major provisions contained in the services agreements of the other KMP listed are substantially the same as those that apply to the Managing Director although participation levels for STI, LTI and Retention Plan vary.

Key management personnel cash bonuses – short-term incentive

The percentage of the available bonus that was paid, or that vested, in the financial years ended 31 March 2014 and 31 March 2015, and the percentage that was forfeited because the senior executive did not meet the service or performance criteria, are set out below.

	Cash Bonus (2015)¹			Cash Bonus (2014)		
	Payable (\$)	Percentage of available bonus		Paid (\$)	Percentage of available bonus	
		Payable (%)	Not Payable (%)		Paid (%)	Not Paid (%)
Nino Ficca	234,916	45.0	55.0	320,000	64.0	36.0
John Azaris	74,634	45.0	55.0	102,400	64.0	36.0
Chad Hymas	60,763	47.8	52.2	86,400	72.0	28.0
John Kelso	84,470	54.9	45.1	90,144	62.6	37.4
Adam Newman	144,659	55.6	44.4	180,000	72.0	28.0
Alistair Parker	76,393	48.5	51.5	90,000	60.0	40.0
Mario Tieppo	89,021	55.6	44.4	39,605	80.0	20.0

1 Bonuses for performance for the year ended 31 March 2015 have been approved and will be payable in June 2015.

Directors' report (continued)**Remuneration report (audited) (continued)****Key management personnel – long-term incentive (equity based payments)**

The AusNet Services Board approved a LTI plan for the Managing Director and senior executives that came into effect from 1 April 2006. The following table shows the value of cash grants subject to future performance testing, percentage payable or forfeited and future financial years that grants may vest and be paid. The grants made in 2013 and 2014 are still in progress and, as such, no percentage of these grants have been paid or forfeited as at the date of this report.

	Date of grant	Percentage of maximum grant payable (%) ¹	Percentage of maximum grant forfeited (%)	Vesting date	Maximum total value of grant (\$) ²
Nino Ficca	1 April 2012	32.6%	67.4%	31 March 2015	1,306,250
John Azaris ⁴	1 April 2012	26.8%	73.2%	31 March 2015	259,375
Chad Hymas ⁴	1 April 2012	26.8%	73.2%	31 March 2015	99,375
John Kelso	1 April 2012	26.8%	73.2%	31 March 2015	240,625
Adam Newman	4 March 2013	26.8%	73.2%	31 March 2015	281,206
Alistair Parker ⁴	1 April 2012	26.8%	73.2%	31 March 2015	123,125
Mario Tieppo ³	9 December 2013	26.8%	73.2%	31 March 2015	109,150
Total granted 1 April 2012					2,419,106
Nino Ficca	1 April 2013	-	-	31 March 2016	1,355,234
John Azaris	1 April 2013	-	-	31 March 2016	269,102
Chad Hymas	1 April 2013	-	-	31 March 2016	206,203
John Kelso	1 April 2013	-	-	31 March 2016	249,648
Adam Newman	1 April 2013	-	-	31 March 2016	421,484
Alistair Parker	1 April 2013	-	-	31 March 2016	255,484
Mario Tieppo ³	9 December 2013	-	-	31 March 2016	199,719
Total granted 1 April 2013					2,956,874
Nino Ficca	1 April 2014	-	-	31 March 2017	1,406,056
John Azaris ⁴	1 April 2014	-	-	31 March 2017	279,193
Chad Hymas ⁴	1 April 2014	-	-	31 March 2017	213,936
John Kelso	1 April 2014	-	-	31 March 2017	259,010
Adam Newman	1 April 2014	-	-	31 March 2017	437,290
Alistair Parker ⁴	1 April 2014	-	-	31 March 2017	265,065
Mario Tieppo ³	1 April 2014	-	-	31 March 2017	269,102
Total granted 1 April 2014					3,129,652

1 These grants have been approved and will be payable in June 2015. In determining LTI's for the 1 April 2012 grant, the Board has not exercised any discretion in relation to the performance measures and outcomes payable under the LTI Plan.

2 For the grant of 1 April 2012, the amounts payable equated to 26.8% of the maximum LTI, except for Mr Ficca for whom the amount payable equated to 32.6% of the maximum LTI. For the grants of 1 April 2013 and 1 April 2014, the amounts are based on maximum performance in relation to TSR, EPS, ROIC and ICR at the end of the three-year performance period described above and assumes prevailing FARs increase by 3.75% per annum.

3 Mr Tieppo commenced as KMP from 9 December 2013. As part of his contract of employment, Mr Tieppo has been granted pro-rata participation in the 1 April 2012 and 1 April 2013 tranches of the Company's LTI plan, which are due to be tested on 31 March 2015 and 31 March 2016 respectively. The maximum total value of grant disclosed above is based on this pro-rata entitlement.

4 Mr Azaris, Mr Hymas and Mr Parker commenced as KMP from 1 April 2013. The LTI participation and maximum grant payable disclosed above also include those LTI's that were granted prior to their commencement as KMP.

Directors' report (continued)**Remuneration report (audited) (continued)****Securityholdings of KMP**

The KMP of AusNet Services have disclosed relevant interests in stapled securities as at 31 March 2015 as follows:

Name	Number of stapled securities at 1 April 2014	Granted during the year as compensation (i)	Acquisitions/ (disposal)	Number of stapled securities at 31 March 2015
Non-executive Directors				
Ng Kee Choe ¹	195,883	-	-	195,883
Ralph Craven	-	-	-	-
Jeremy Davis ⁴	120,750	-	-	120,750
Sally Farrier	-	-	-	-
Eric Gwee ^{1, 4}	153,591	-	-	153,591
Ho Tian Yee	-	-	-	-
Tony Iannello ³	190,976	-	-	190,976
Sun Jianxing	-	-	-	-
Tina McMeckan ⁵	90,000	-	-	90,000
Ian Renard	84,898	-	-	84,898
Executives				
Nino Ficca ²	1,268,183	195,000	-	1,463,183
John Azaris	132,600	39,000	(110,000)	61,600
Chad Hymas	80,192	15,050	5,664	100,906
John Kelso	72,937	35,500	527	108,964
Adam Newman	20,000	30,000	-	50,000
Alistair Parker	31,000	19,250	2,621	52,871
Mario Tieppo	-	4,000	-	4,000

1 Securities held by The Central Depository (Pte) Limited. Mr Gwee retired as a Director of AusNet Services on 17 July 2014.

2 319,850 securities held by immediate family members of Mr Ficca and 1,143,333 securities held by Mr and Mrs Ficca as Trustees for the Ficca Investment Trust.

3 87,500 securities held jointly by Mr Iannello and immediate family members of Mr Iannello through a Superannuation Plan and 103,476 securities held by immediate family members of Mr Iannello as trustee for the ADI Investment Trust.

4 Mr Davis and Mr Gwee retired as Directors of AusNet Services on 17 July 2014. The number of stapled securities disclosed at 31 March 2015 represents the number held at the date that Mr Davis and Mr Gwee ceased to be KMP.

5 Securities held by McMeckan Superannuation Pty Ltd as Trustee for the McMeckan Family Super Fund.

(i) includes securities purchased under AusNet Services' Long-term Incentive Plan

Directors' report (continued)

Indemnification and insurance of officers and auditors

The constitutions of AusNet Services Distribution, AusNet Services Transmission and the Responsible Entity each provide for the company to indemnify each current and former Director, executive officer (as defined in the constitutions), and such other current and former officers of the company or of a related body corporate as the Directors determine (each an 'Officer'), on a full indemnity basis and to the full extent permitted by law against all liabilities (as defined in the constitutions) incurred by the Officer as an officer of the company or of a related body corporate.

The constitutions also provide for AusNet Services Distribution, AusNet Services Transmission and the Responsible Entity, to the extent permitted by law, to purchase and maintain insurance, or pay or agree to pay a premium for insurance, for each Officer against any liability (as defined in the constitutions) incurred by the Officer as an officer of the company or of a related body corporate.

AusNet Services Distribution, AusNet Services Transmission and the Responsible Entity may enter into a deed with any Officer to give effect to the rights conferred by the constitutions as described above.

The companies have executed protection deeds in favour of each of the Directors, the Company Secretary and certain general managers on substantially the same terms as provided in the constitutions. The deeds also give a right of access to the books of the companies and to Board documents (to the Directors only).

During the financial year, the Stapled Group paid a premium to insure the Directors and Company Secretaries of the Australian-based combined entities and the general managers of each of the divisions of AusNet Services. The Directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the insurance policy, as (in accordance with normal commercial practice) such disclosure is prohibited under the terms of the policy.

No insurance premiums are paid by the Stapled Group in regard to insurance cover provided to the auditor of the Stapled Group, KPMG. The auditor is not indemnified and no insurance cover is provided to the auditor.

Non-audit services

AusNet Services may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the relevant company and/or combined entity are important.

Details of the amounts paid or payable to the auditor, KPMG, for audit and non-audit services provided during the year are set out in note 22 of the financial report.

In accordance with the advice provided by the Audit and Risk Management Committee, the Directors are satisfied that the provision of non-audit services during the year by the auditor is compatible with the general standard of independence for auditors imposed by the Corporations Act. The Directors are satisfied for the following reasons:

- all non-audit services have been reviewed by the Audit and Risk Management Committee to ensure that they do not impact the impartiality and objectivity of the auditor; and
- none of the non-audit services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*.

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act is set out on page 43.

Directors' report (continued)

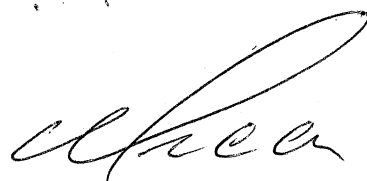
Rounding of amounts

AusNet Services Distribution is a company of a kind referred to in Class Order 98/100, 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 Class Order to the nearest hundred thousand dollars unless otherwise stated.

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



Ng Kee-Choe
Chairman



Nino Ficca
Managing Director

Melbourne
13 May 2015



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

To: the directors of AusNet Services (Distribution) Ltd, AusNet Services (Transmission) Ltd and the Responsible Entity of AusNet Services Finance Trust, AusNet Services (RE) Ltd

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 31 March 2015 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG



Michael Bray
Partner

Melbourne

13 May 2015

Combined income statement

For the year ended 31 March 2015

		2015	2014
	Notes	\$M	\$M
Revenue	3	1,833.9	1,799.4
Expenses, excluding finance costs and termination expenses	4	(1,165.9)	(1,094.0)
Termination expenses	4	-	(57.7)
Profit from operating activities		668.0	647.7
Finance income	5	26.7	24.7
Finance costs	5	(340.3)	(367.0)
Net finance costs		(313.6)	(342.3)
Profit before income tax		354.4	305.4
Income tax expense	6	(331.8)	(127.1)
Profit for the year		22.6	178.3
Attributable to:			
AusNet Services Distribution		(128.7)	3.4
AusNet Services Transmission and AusNet Services Finance Trust		151.3	174.9
Profit for the year		22.6	178.3
Earnings per share attributable to the ordinary equityholders of AusNet Services Distribution			
Basic and diluted (loss)/earnings per share (cents per share)*	8	(3.76)	0.10

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

* Basic and diluted earnings per stapled security of the Stapled Group for the year ended 31 March 2015 was 0.66 cents per security (2014: 5.28 cents). Refer to note 8.

Combined statement of comprehensive income

For the year ended 31 March 2015

		2015	2014
	Notes	\$M	\$M
Profit for the year		22.6	178.3
Other comprehensive income			
Items that will not be reclassified to profit or loss in subsequent periods			
Movement in defined benefit fund	18	(36.6)	37.8
Income tax on movement in defined benefit fund	6(d)	11.0	(11.3)
		<u>(25.6)</u>	<u>26.5</u>
Items that may be reclassified to profit or loss in subsequent periods			
Movement in hedge reserve		(19.5)	85.3
Income tax on movement in hedge reserve	6(d)	5.9	(25.6)
	19(c)	<u>(13.6)</u>	<u>59.7</u>
Other comprehensive income for the year, net of income tax		<u>(39.2)</u>	<u>86.2</u>
Total comprehensive income for the year		<u>(16.6)</u>	<u>264.5</u>
Attributable to:			
AusNet Services Distribution		(158.9)	80.2
AusNet Services Transmission and AusNet Services Finance Trust		<u>142.3</u>	<u>184.3</u>
Total comprehensive income for the year		<u>(16.6)</u>	<u>264.5</u>

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

Combined statement of financial position

As at 31 March 2015

	Notes	2015 \$M	2014 \$M
ASSETS			
Current assets			
Cash and cash equivalents		883.1	409.8
Receivables	9	488.9	281.7
Inventories	10	37.5	42.3
Derivative financial instruments	19(c)	129.3	0.1
Other assets	11	24.3	25.0
Total current assets		1,563.1	758.9
Non-current assets			
Receivables	9	207.2	215.3
Inventories	10	19.4	17.6
Property, plant and equipment	12	9,341.9	8,944.3
Intangible assets	13	392.9	392.8
Derivative financial instruments	19(c)	535.2	264.2
Tax receivable	23(b)	-	17.1
Other assets	11	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	14	497.7	272.3
Current tax payable	6(c)	138.6	69.7
Borrowings	15	776.7	673.6
Provisions	16	122.3	99.3
Derivative financial instruments	19(c)	46.6	70.7
Total current liabilities		1,581.9	1,185.6
Non-current liabilities			
Payables and other liabilities	14	28.1	11.4
Non-current tax payable	6(c)	5.4	-
Borrowings	15	6,439.4	5,395.6
Provisions	16	78.5	35.0
Derivative financial instruments	19(c)	209.1	235.4
Deferred tax liabilities	6(e)	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	17	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 accompanying notes.

Combined statement of changes in equity

For the year ended 31 March 2015

	Notes	Contributed equity \$M	Issued units \$M	Hedge reserve (i) \$M	Retained profits \$M	Fair value adjustment on stapling (ii) \$M	Other equity component (iii) \$M	Total equity \$M
31 March 2015								
AusNet Services Distribution								
Balance as at 1 April 2014		0.5	-	(57.0)	713.1	-	-	656.6
Total comprehensive income for the year								
Loss for the year		-	-	-	(128.7)	-	-	(128.7)
Other comprehensive income		-	-	(13.7)	(16.5)	-	-	(30.2)
Total comprehensive income for the year		-	-	(13.7)	(145.2)	-	-	(158.9)
Balance as at 31 March 2015		0.5	-	(70.7)	567.9	-	-	497.7
AusNet Services Transmission and AusNet Services Finance Trust								
Balance as at 1 April 2014		650.1	2,714.3	-	467.3	51.4	(1,095.1)	2,788.0
Total comprehensive income for the year								
Profit for the year		-	-	-	151.3	-	-	151.3
Other comprehensive income		-	-	0.1	(9.1)	-	-	(9.0)
Total comprehensive income for the year		-	-	0.1	142.2	-	-	142.3
Transactions with owners, recorded directly in equity								
Distributions paid	7	-	(13.8)	-	(270.9)	-	-	(284.7)
Distribution Reinvestment Plan (net of transaction costs)	7	-	105.5	-	-	-	-	105.5
Total transactions with owners		-	91.7	-	(270.9)	-	-	(179.2)
Balance as at 31 March 2015		650.1	2,806.0	0.1	338.6	51.4	(1,095.1)	2,751.1
Total stapled securityholders' equity as at 31 March 2015		650.6	2,806.0	(70.6)	906.5	51.4	(1,095.1)	3,248.8

Combined statement of changes in equity

For the year ended 31 March 2015

	Notes	Contributed equity \$M	Issued units \$M	Hedge reserve (i) \$M	Retained profits \$M	Fair value adjustment on stapling (ii) \$M	Other equity component (iii) \$M	Total equity \$M
31 March 2014								
AusNet Services Distribution								
Balance as at 1 April 2013		0.5	-	(116.7)	692.6	-	-	576.4
Total comprehensive income for the year								
Profit for the year		-	-	-	3.4	-	-	3.4
Other comprehensive income		-	-	59.7	17.1	-	-	76.8
Total comprehensive income for the year		-	-	59.7	20.5	-	-	80.2
Balance as at 31 March 2014		0.5	-	(57.0)	713.1	-	-	656.6
AusNet Services Transmission and AusNet Services Finance Trust								
Balance as at 1 April 2013		650.1	2,708.2	-	546.1	51.4	(1,095.1)	2,860.7
Total comprehensive income for the year								
Profit for the year		-	-	-	174.9	-	-	174.9
Other comprehensive income		-	-	-	9.4	-	-	9.4
Total comprehensive income for the year		-	-	-	184.3	-	-	184.3
Transactions with owners, recorded directly in equity								
Distributions paid	7	-	(16.0)	-	(263.1)	-	-	(279.1)
Distribution Reinvestment Plan (net of transaction costs)	7	-	22.1	-	-	-	-	22.1
Total transactions with owners		-	6.1	-	(263.1)	-	-	(257.0)
Balance as at 31 March 2014		650.1	2,714.3	-	467.3	51.4	(1,095.1)	2,788.0
Total stapled securityholders' equity as at 31 March 2014		650.6	2,714.3	(57.0)	1,180.4	51.4	(1,095.1)	3,444.6

Combined statement of changes in equity

For the year ended 31 March 2015

- (i) The hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments. These gains or losses are transferred to the income statement when the hedged item affects income, except for highly probable forecast purchases of an asset where the gains or losses are included in the initial measurement of that asset (refer note 1(l)).
- (ii) This amount represents the fair value uplift to the assets of the AusNet Services Transmission Group on the date of stapling (refer note 1(b)(i)). The fair value uplift was applied to easements which are considered to have an indefinite useful life.
- (iii) The AusNet Services Transmission other equity component results from the application of reverse acquisition accounting and represents the difference between the net assets of AusNet Services Transmission and AusNet Finance Pty Ltd and the purchase price paid by the legal acquirer, AusNet Services Transmission.

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

Combined statement of cash flows

For the year ended 31 March 2015

	Notes	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	28	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	9	8.8	8.8
Net cash outflow from investing activities		(786.4)	(939.8)
Cash flows from financing activities			
Distributions paid (ii)	7	(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 \$50 million plus recoverable GST, offset by SPIMS employee provisions transferred to AusNet Services of \$15.7 million.
- (ii) Amounts shown represent distributions paid of \$284.7 million (2014: \$279.1 million) offset by proceeds from the Distribution Reinvestment Plan of \$105.6 million (2014: \$22.2 million), less transaction costs.

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

Notes to the combined financial statements

31 March 2015

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Notes to the combined financial statements

31 March 2015

Note 1 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial report are set out below.

(a) Basis of preparation

The combined general purpose financial report, prepared by a for-profit entity for the year ended 31 March 2015, represents the combined financial statements of the Stapled Group, which comprises AusNet Services (Distribution) Ltd (AusNet Services Distribution) and its subsidiaries, AusNet Services (Transmission) Ltd (AusNet Services Transmission) and its subsidiaries, and AusNet Services Finance Trust. The Stapled Group is also referred to as AusNet Services.

Pursuant to the Stapling Deed effective 21 October 2005, a Stapled Group was established for the purpose of facilitating a joint quotation of AusNet Services Distribution, AusNet Services Transmission and AusNet Services Finance Trust on the Australian Securities Exchange and the Singapore Exchange Securities Trading Limited. The Stapled Group was listed on 14 December 2005. The combined financial statements are presented in accordance with class order 13/1050, issued by the Australian Securities and Investment Commission.

So long as the three entities remain jointly quoted, the number of shares in each of AusNet Services Distribution and AusNet Services Transmission and the number of units in AusNet Services Finance Trust shall be equal and shareholders and unitholders shall be identical.

AusNet Services, AusNet Services Distribution, AusNet Services Transmission and AusNet Services Finance Trust were formerly known as SP AusNet, SP Australia Networks (Distribution) Ltd, SP Australia Networks (Transmission) Ltd, and SP Australia Networks (Finance) Trust respectively up until 4 August 2014.

The combined general purpose financial report has been prepared in accordance with Australian Accounting Standards and interpretations adopted by the Australian Accounting Standards Board and the *Corporations Act 2001* (Cth). The combined financial statements and notes also comply with International Financial Reporting Standards and interpretations adopted by the International Accounting Standards Board. This general purpose financial report is presented in Australian dollars.

The financial statements were approved by the Board of Directors on 13 May 2015.

The Stapled Group's current liabilities exceed current assets by \$18.8 million at 31 March 2015. The financial report has been prepared on a going concern basis, which contemplates the continuity of normal trading operations. The Stapled Group is, and is expected to continue, trading profitably, generating positive operating cash flows and successfully refinancing maturing debt. In addition, at 31 March 2015, the Stapled Group has available a total of \$300 million of undrawn but committed non-current bank debt facilities, \$64 million of undrawn but committed current bank debt facilities and \$883.1 million of cash.

(i) Historical cost convention

The financial statements have been prepared under the historical cost convention, except for certain financial assets and liabilities (including derivative financial instruments) measured at fair value.

(ii) Critical accounting estimates and judgements

The preparation of financial statements in conformity with Australian Accounting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Stapled Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 20.

(b) Principles of consolidation

(i) Stapling

For statutory reporting purposes AusNet Services Distribution was identified as the acquirer in the Stapled Group based on the size of its net assets and its operations. Accordingly, it presents the combined financial report of the Stapled Group. As at the date of the stapling arrangement, the carrying amounts of the assets and liabilities of AusNet Services Distribution were consolidated with the fair values of the identifiable assets, liabilities and contingent liabilities of AusNet Services Transmission and AusNet Services Finance Trust.

Notes to the combined financial statements

31 March 2015

Note 1 Summary of significant accounting policies (continued)

(b) Principles of consolidation (continued)

(i) Stapling (continued)

As the business combination has been effected by contract alone, the total ownership interest in AusNet Services Transmission and AusNet Services Finance Trust is presented as a separate line item in the combined financial statements of AusNet Services Distribution, notwithstanding that by virtue of the stapling arrangement AusNet Services Distribution, AusNet Services Transmission and AusNet Services Finance Trust have common equityholders (securityholders) with the effect that total equity of the Stapled Group belongs to those securityholders. The retained profits of AusNet Services Transmission and the unitholders' funds of AusNet Services Finance Trust are available for distribution directly to securityholders.

(ii) Subsidiaries

Subsidiaries are entities controlled by the Stapled Group. Control exists when the Stapled Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, potential voting rights that are presently exercisable or convertible are taken into account.

Subsidiaries are fully consolidated from the date on which control is transferred to the Stapled Group and are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities within the Stapled Group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred.

(c) Segment reporting

An operating segment is a component of the Stapled 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.

(d) Foreign currency translation

All foreign currency transactions are accounted for using the exchange rate at the date of the transaction. At balance date, monetary items denominated in foreign currencies are translated at the exchange rate existing at that date. Resultant exchange differences are recognised in the income statement for the year, except for exchange differences for qualifying cash flow hedges which are recognised in other comprehensive income.

(e) Revenue recognition

Revenue is measured at the fair value of the consideration received net of the amount of Goods and Services Tax (GST) payable to the taxation authority. Revenue is recognised for the major business activities as follows:

(i) Transmission regulated revenue

Transmission regulated revenue is revenue earned from the transmission of electricity and related services and is recognised as the services are rendered.

(ii) Distribution regulated revenue

Distribution regulated revenue is revenue earned from the distribution of electricity and gas and related services and is recognised as the services are rendered.

(iii) Service revenue

Service revenue is recognised as the services are rendered. This includes revenue earned from specialist utility related solutions, in particular metering, monitoring and asset inspection services as well as the operation and maintenance services provided in connection with the desalination electricity transmission assets.

Notes to the combined financial statements

31 March 2015

Note 1 Summary of significant accounting policies (continued)

(e) Revenue recognition (continued)

(iv) Contributions from customers for capital works

Non-refundable contributions received from customers towards the cost of extending or modifying the networks are generally recognised as revenue and an asset respectively once control is gained of the contribution or asset and the customer is connected to the network. For unregulated customer projects, contributions received are recognised as revenue on a straight-line basis over the term of the connection agreement. Customer contributions of cash are measured with reference to the cash contribution received and customer contributions of assets are measured at the fair value of the assets contributed at the date AusNet Services gains control of the asset. Fair value is determined with reference to the depreciated replacement cost of the asset, unless another measure of fair value is considered more appropriate.

(v) Government grants

Government grants are recognised initially as deferred income at fair value when there is reasonable assurance that they will be received and AusNet Services will comply with the conditions associated with the grant, and are then recognised in the income statement as other income on a systematic basis over the useful life of the assets associated with the grant.

(f) Income tax

(i) Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by the reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

(ii) Deferred tax

Deferred tax is accounted for using the balance sheet liability method in respect of differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. Deferred tax assets and liabilities are, however, not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination), which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on the tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Stapled Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Stapled Group intends to settle its tax assets and liabilities on a net basis.

(iii) Tax expense

Current and deferred tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill.

Notes to the combined financial statements

31 March 2015

Note 1 Summary of significant accounting policies (continued)

(f) Income tax (continued)

(iv) Tax consolidation

AusNet Services Distribution and AusNet Services Transmission are the head entities in two separate tax consolidated groups comprising each of these entities and their wholly-owned subsidiaries.

The current and deferred tax amounts for each tax consolidated group are allocated among the entities in each group using the stand-alone taxpayer method.

The members of each tax consolidated group have entered into a tax funding arrangement which sets out the funding obligations of members of the tax consolidated group in respect of tax amounts. The tax funding arrangement requires payments to/(from) the head entity equal to the current tax liability/(asset) calculated under the stand-alone taxpayer method and any deferred tax asset relating to tax losses assumed by the head entity. The members of each tax consolidated group have also entered into valid tax sharing agreements under the tax consolidation legislation which set out the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations and the treatment of entities leaving the tax consolidated group.

Each head entity recognises deferred tax assets arising from unused tax losses of its tax consolidated group to the extent that it is probable that future taxable profits of the tax consolidated group will be available against which the assets can be utilised. Any subsequent period adjustments to deferred tax assets arising from unused tax losses assumed from subsidiaries are recognised by the head entity only.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses assumed by each head entity from the subsidiaries in its tax consolidated group are recognised in conjunction with any tax funding arrangement amounts.

(g) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. The Stapled Group does not have any finance lease arrangements.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the benefit.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefits of incentives are recognised as a reduction of rental expense on a straight-line basis over the term of the lease, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(h) Business combinations

The acquisition method of accounting is used for all business combinations, regardless of whether equity instruments or other assets are acquired. Cost is determined as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange as well as the fair value of any contingent consideration. Any subsequent changes in contingent consideration are recognised in the income statement.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at fair value at the acquisition date, irrespective of the extent of any non-controlling interest. All potential intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair value can be measured reliably. Transaction costs in relation to business combinations are expensed as incurred.

Where settlement of any part of the cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Notes to the combined financial statements

31 March 2015

Note 1 Summary of significant accounting policies (continued)

(i) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash at bank and investments in money market instruments. Bank overdrafts are repayable on demand and form an integral part of the Stapled Group's cash management, therefore these are included as a component of cash and cash equivalents for the purpose of the combined statement of cash flows.

(j) Receivables

Current and non-current receivables are initially recognised at the fair value of the amounts to be received and are subsequently measured at amortised cost, less any allowance for impairment.

Collectability of receivables is reviewed on an ongoing basis. Debts that are known to be uncollectable are written off. An allowance for impairment is established when there is objective evidence that the Stapled Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The change in the amount of the allowance is recognised in the income statement.

(k) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is based on a weighted average and includes expenditure incurred in acquiring the inventories and bringing them to their existing condition and location.

(l) Derivative financial instruments

Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in the income statement immediately unless the derivative financial instrument is designated and effective as a hedging instrument, in which case the timing of the recognition in the income statement depends on the nature of the hedge relationship. The Stapled Group designates certain derivative financial instruments as either hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges) or hedges of highly probable forecast transactions (cash flow hedges).

Credit risk is included in the fair value of derivative financial instruments based on a bilateral credit risk adjustment obtained using credit default swap curves. The difference between the fair value of derivatives and their transaction price at inception due to credit valuation adjustments is recognised progressively over the period to maturity.

To ensure derivative financial instruments qualify for hedge accounting the Stapled Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. The Stapled Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivative financial instruments that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

The Stapled Group classifies its derivative financial instruments between current and non-current based on the maturity date of the instrument. As a result, derivative financial instruments are classified as non-current, except for those instruments that mature in less than 12 months, which are classified as current.

(i) Fair value hedge

Changes in the fair value of derivative financial instruments that are designated and qualify as fair value hedges are recognised immediately in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

(ii) Cash flow hedge

The effective portion of changes in the fair value of derivative financial instruments that are designated and qualify as cash flow hedges are recognised directly in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Notes to the combined financial statements

31 March 2015

Note 1 Summary of significant accounting policies (continued)**(l) Derivative financial instruments (continued)**

Amounts accumulated in the hedge reserve are recycled in the income statement in the periods when the hedged item will affect the income statement (generally when the forecast transaction that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset, the gains and losses previously deferred in the hedge reserve are transferred from the hedge reserve and included in the measurement of the initial cost or carrying amount of the asset.

Hedge accounting is discontinued when the hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting. At that time, any cumulative gain or loss existing in the hedge reserve remains in hedge reserve and is recognised when the forecast transaction is ultimately recognised in the income statement.

When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in the hedge reserve is immediately recognised in the income statement.

(m) Property, plant and equipment

Items of property, plant and equipment are stated at historical cost less depreciation. The cost of contributed assets is their fair value at the date the Stapled Group gains control of the asset.

Historical cost includes all expenditure that is directly attributable to the acquisition of the asset, including an appropriate allocation of overheads and capitalised borrowing costs. Cost may also include transfers from the hedge reserve of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Stapled Group and the cost of the item can be measured reliably.

Items of plant and equipment under construction are recognised as capital work in progress. Once the asset construction is complete and the asset is capable of operating in the manner intended by management, the item of plant and equipment is transferred from capital work in progress to the relevant asset class and depreciation of the asset commences.

Maintenance and repair costs and minor renewals are charged as expenses as incurred, except where they relate to the replacement of an asset, in which case the costs are capitalised and depreciated, and the replaced item is derecognised.

Depreciation is recognised on property, plant and equipment, including freehold buildings but excluding land and easements. Depreciation is calculated on a straight-line basis so as to write off the net cost of each asset over its estimated useful life to its estimated residual value. The estimated useful lives, residual values and depreciation methods are reviewed annually, and where changes are made, their effects are accounted for on a prospective basis.

The expected average useful lives of major asset classes are as follows:

	Years
Distribution network (gas)	15-80
Buildings	40-99
Transmission network	15-70
Distribution network (electricity)	5-70
Other general assets	3-10
Motor vehicles and heavy machinery	3-12
Computer equipment and software	3-5
Land and easements	Indefinite

Notes to the combined financial statements

31 March 2015

Note 1 Summary of significant accounting policies (continued)

(n) Intangible assets

(i) Distribution licences

The distribution licences held entitle certain subsidiaries to distribute electricity and gas within the subsidiary's licensed region. Distribution licences are stated at cost and are considered to be indefinite life intangible assets, which are not amortised. The distribution licences are tested for impairment annually and are carried at cost less any accumulated impairment losses.

(ii) Goodwill

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed.

If, after reassessment, the Stapled Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in the income statement as a gain.

Goodwill is not amortised but is reviewed for impairment at least annually (refer note 1(o)).

(iii) Other intangible assets

Other intangible assets that are acquired by the Stapled Group and that have a finite useful life are measured at cost less accumulated amortisation and accumulated impairment losses.

(o) Impairment of non-financial assets

At each reporting date, the Stapled Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. An impairment loss occurs when an asset's carrying amount exceeds its recoverable amount. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Stapled Group estimates the recoverable amount of the cash-generating unit (CGU) to which the asset belongs. A CGU is the smallest group of assets that generate largely independent cash inflows.

Intangible assets with indefinite useful lives, including goodwill, are tested for impairment annually regardless of whether there is an indication that the asset or related CGU may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing fair value less costs to sell, the estimated future post-tax cash flows are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. The impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to the other assets of the CGU pro-rata on the basis of the carrying amount of each asset in the CGU. An impairment loss is recognised in the income statement immediately.

(p) Trade and other payables

These amounts represent liabilities for goods and services provided to the Stapled Group prior to the end of financial year which are unpaid. Trade and other payables are stated at cost, are unsecured and are usually payable within 30 days of end of month.

Notes to the combined financial statements

31 March 2015

Note 1 Summary of significant accounting policies (continued)

(q) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost, except as detailed below. Any difference between the proceeds (net of transaction costs) and redemption amount is recognised in the income statement over the period of the borrowings using the effective interest rate method.

Borrowings which are part of a fair value hedge relationship are recognised at amortised cost, adjusted for the gain or loss attributable to the hedged risk. The gain or loss attributable to the hedged risk is recorded in the income statement together with any changes in the fair value of derivative financial instruments that are designated and qualify as fair value hedges (refer note 1(l)).

Borrowings are classified as current liabilities unless the Stapled Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date or has the sole discretion to refinance or roll over the liability for at least 12 months after the reporting date under an existing loan facility.

(r) Net financing costs

Finance income comprises interest income on funds invested and the return on the desalination licence receivable (refer to note 9). Interest income is recognised as it accrues, taking into account the effective yield on the financial asset.

Finance costs comprise interest expense on borrowings, foreign exchange gains/losses, gains/losses on hedging instruments that are recognised in the income statement, unwinding of discount on provisions and the net interest cost in respect of defined benefit obligations. All borrowing costs are recognised in the income statement using the effective interest rate method, other than borrowing costs directly attributable to a qualifying asset which are capitalised into the cost of that asset.

The capitalisation rate used to determine the amount of borrowing costs to be included in the cost of qualifying assets is the average interest rate of 5.8 per cent (2014: 7.1 per cent) applicable to the Stapled Group's outstanding borrowings during the period.

(s) Provisions

Provisions are recognised when the Stapled Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount of the provision can be measured reliably. Provisions are not recognised for future operating losses.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligations. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

(t) Employee benefits

(i) *Wages and salaries, annual leave and sick leave*

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

(ii) *Long service leave*

The liability for long service leave is recognised in the provision for employee benefits and is measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date, including on-costs. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using interest rates on government guaranteed bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Notes to the combined financial statements

31 March 2015

Note 1 Summary of significant accounting policies (continued)

(t) Employee benefits (continued)

(iii) Defined contribution superannuation funds

Contributions made to defined contribution superannuation funds are expensed when the liability is incurred. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. The Stapled Group's obligation in respect of these funds is limited to the contributions to the fund.

(iv) Defined benefit superannuation funds

The Stapled Group's net obligation in respect of the defined benefit superannuation funds is calculated by estimating the amount of future benefits that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value and recognised after deducting the fair value of any plan assets.

The discount rate is the yield at the balance date on government bonds that have maturity dates approximating the terms of the Stapled Group's obligations. A qualified actuary performs the calculation using the projected unit credit method.

Remeasurements comprise actuarial gains and losses and the return on plan assets (excluding interest). They are recognised in full directly in retained profits in the period in which they occur and are presented in other comprehensive income.

When the calculation of the net obligation results in a benefit to the Stapled Group, the recognised asset is limited to the net total of any unrecognised actuarial losses and past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

(u) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from proceeds.

(v) Earnings per share

(i) Basic earnings per share and basic earnings per stapled security

Basic earnings per share is calculated by dividing the profit attributable to members of the Stapled Group, excluding any non-controlling interest and costs of servicing equity other than distributions, by the weighted average number of shares of AusNet Services Distribution outstanding during the financial year.

Because 100 per cent of the profits of AusNet Services Transmission and AusNet Services Finance Trust are included in non-controlling interest, but are available to the securityholders, an alternative presentation of earnings per stapled security for the Stapled Group is also presented which includes earnings attributable to non-controlling interest.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest or other financing costs associated with dilutive potential shares and includes these dilutive potential shares in the weighted average number of shares outstanding used in the calculation.

Notes to the combined financial statements

31 March 2015

Note 1 Summary of significant accounting policies (continued)

(w) New accounting standards not yet adopted

The following accounting standards, amendments to accounting standards and interpretations have been identified as those which may impact the Stapled Group in the period of initial adoption. They were available for early adoption for the Stapled Group's annual reporting period beginning 1 April 2014, but have not been applied in preparing this financial report:

- AASB 9 *Financial Instruments* replaces the existing guidance in AASB 139 *Financial Instruments: Recognition and Measurement*. AASB 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment of financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from AASB 139. AASB 9 is effective for annual reporting periods beginning on or after 1 April 2018, with early adoption permitted. While the impact of this standard has yet to be quantified by the Stapled Group, it is expected to reduce the circumstances under which AusNet Services recognises hedge ineffectiveness, or discontinues hedge accounting and recognises a de-designation gain or loss. This arises because this standard allows synthetic debt positions to be treated as hedged items, and it also amends the basis by which hedge effectiveness is measured.
- AASB 15 *Revenue from Contracts with Customers* establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including AASB 118 *Revenue*, AASB 111 *Construction Contracts* and associated Interpretations. AASB 15 is effective for annual reporting periods beginning on or after 1 April 2017, with early adoption permitted. The impact of this standard has yet to be quantified by the Group.

There are also other amendments and revisions to accounting standards that have not been early adopted. These changes are not expected to result in any material changes to the Stapled Group's financial performance or financial position.

(x) Rounding of amounts

The Stapled Group is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the financial report. Amounts in the financial report have been rounded off to the nearest hundred thousand dollars, unless otherwise stated.

Notes to the combined financial statements

31 March 2015

Note 2 Segment information

(a) Description of reportable segments

The Stapled 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. The Stapled Group charges 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. The Stapled Group's 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. The Stapled Group charges 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. The Stapled Group's gas distribution network covers central and western Victoria.

(iii) *Electricity transmission*

The Stapled Group owns and manages the vast majority of the electricity transmission network in Victoria. The Stapled Group's electricity transmission network consists of the transmission lines and towers which carry electricity at high voltages from power stations to electricity distributors around Victoria forming the backbone of the Victorian electricity network. The network is centrally located amongst the five eastern states of Australia that form the National Electricity Market, and provides key links between the electricity transmission networks of Victoria, South Australia, New South Wales and Tasmania. The Stapled Group charges 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 includes both regulated and unregulated electricity transmission assets and revenues. The electricity transmission segment does not purchase or sell electricity.

(iv) *Select Solutions*

Select Solutions provides asset intelligence and end-to-end metering services, to external parties as well as to all other segments of AusNet Services. Select Solutions' customers are primarily businesses operating in the essential infrastructure sector such as electricity, water and gas utility owners and telecommunications companies.

Notes to the combined financial statements

31 March 2015

Note 2 Segment information (continued)**(b) Reportable segment financial information**

	Electricity distribution	Gas distribution	Electricity transmission	Select Solutions (iii)	Un- allocated expenses (iv)	Inter- segment eliminations	Combined
	\$M	\$M	\$M	\$M	\$M	\$M	\$M
2015							
Regulated revenue	839.0	174.1	583.9	-	-	(11.7)	1,585.3
Customer contributions	33.3	12.3	-	-	-	-	45.6
Service revenue	-	-	12.7	138.2	-	-	150.9
Other revenue	7.3	0.9	23.2	20.7	-	-	52.1
Total segment revenue	879.6	187.3	619.8	158.9	-	(11.7)	1,833.9
Segment expense before depreciation and amortisation (i)	(425.9)	(45.3)	(185.3)	(141.9)	-	11.7	(786.7)
Segment result - EBITDA (ii)	453.7	142.0	434.5	17.0	-	-	1,047.2
Depreciation and amortisation	(218.8)	(59.1)	(95.9)	(5.4)	-	-	(379.2)
Net finance costs							(313.6)
Income tax expense							(331.8)
Profit for the year							22.6
Capital expenditure	486.9	99.0	212.3	11.2	-	-	809.4
2014							
Regulated revenue	783.9	193.3	593.7	-	-	(14.2)	1,556.7
Customer contributions	25.8	25.6	-	-	-	-	51.4
Service revenue	-	-	11.7	131.9	-	-	143.6
Other revenue	5.4	0.6	22.9	18.8	-	-	47.7
Total segment revenue	815.1	219.5	628.3	150.7	-	(14.2)	1,799.4
Segment expense before depreciation and amortisation	(363.5)	(51.4)	(191.4)	(132.2)	(57.7)	14.2	(782.0)
Segment result - EBITDA (ii)	451.6	168.1	436.9	18.5	(57.7)	-	1,017.4
Depreciation and amortisation	(213.9)	(56.0)	(95.9)	(3.9)	-	-	(369.7)
Net finance costs							(342.3)
Income tax expense							(127.1)
Profit for the year							178.3
Capital expenditure	568.6	112.2	232.7	36.5	-	-	950.0

(i) Electricity distribution segment includes \$32.5 million of Advanced Metering Infrastructure (AMI) customer rebates, and a \$28.1 million write-off of AMI communication card assets in the year ended 31 March 2015.

(ii) Earnings before interest, tax, depreciation and amortisation.

Notes to the combined financial statements

31 March 2015

Note 2 Segment information (continued)**(b) Reportable segment financial information (continued)**

- (iii) Capital expenditure for Select Solutions of \$36.5 million in the previous financial year includes \$27.2 million for the acquisition of the Geomatic Technologies business.

The segment financial information for Select Solutions reported in note 2(b) only includes revenues and expenses associated with external parties. All expenses incurred by Select Solutions for AusNet Services' other segments are allocated to those segments.

- (iv) Unallocated expenses in the previous financial year represents the MSA termination fee, as well as restructure costs associated with the internalisation of services previously provided by EBS.

(c) Notes to and forming part of the segment information*(i) Accounting policies*

Segment information is prepared in conformity with the accounting policies of the Stapled Group as disclosed in note 1 and AASB 8 *Operating Segments*.

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

(ii) Inter-segment transfers

Segment revenues, expenses and results include transmission network connection charges between the electricity distribution and electricity transmission segments. The prices for such transfers are regulated and are eliminated on consolidation.

Note 3 Revenue

	2015	2014
	\$M	\$M
Revenue		
Regulated revenue	1,585.3	1,556.7
Customer contributions	45.6	51.4
Service revenue	150.9	143.6
Other revenue	52.1	47.7
Total revenue	1,833.9	1,799.4

Regulated revenue includes revenue earned from the distribution of electricity and gas and transmission of electricity in accordance with the relevant regulatory determination, as well as revenue earned from alternative control services (distribution), and negotiated and prescribed projects (transmission).

Notes to the combined financial statements

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Note 4 Expenses

	Notes	2015 \$M	2014 \$M
Expenses, excluding finance costs, included in the income statement:			
Use of system and associated charges		95.8	86.3
Easement tax		103.4	103.4
Employee benefits			
Employee benefits expenses (iii)		162.1	124.9
Defined benefit superannuation expenses	18	7.5	7.1
Defined contribution superannuation expenses		17.4	13.9
Maintenance		95.0	95.5
Information technology and communication costs (iii)		23.5	41.4
Operating lease rental expenses		19.0	13.6
Administrative expenses		47.4	49.8
Materials		54.9	51.8
Flame logo fee	25(d)	0.5	1.0
Management services charge (iii)	25(d)	-	19.6
Performance fees	25(d)	-	22.2
Other operating expenses		92.6	85.7
Depreciation and amortisation		379.2	369.7
Net loss on disposal of property, plant and equipment		7.0	8.1
AMI customer rebates (i)		32.5	-
AMI asset write-off (ii)		28.1	-
Total expenses, excluding finance costs and termination expenses		1,165.9	1,094.0
Termination fee		-	50.0
Restructuring expenses		-	7.7
Total expenses, excluding finance costs		1,165.9	1,151.7

- (i) Under the Victorian Government's customer rebate policy, AusNet Services is required to pay a fixed amount of \$125 per customer as a one-off lump sum for premises that did not have a smart meter installed that communicated remotely with the market by 31 March 2015. Based on the current status of the program and the eligibility criteria under the policy, a \$32.5 million provision has been raised at 31 March 2015 for the cost of this obligation, including associated administration costs.
- (ii) A write-off of \$28.1 million has been recognised in relation to WiMax and 3G communication cards for smart meters that will no longer be used under AusNet Services' current program. Of this balance, \$20.6 million relates to property, plant and equipment while the remaining \$7.5 million relates to inventory.
- (iii) Following termination of the MSA in March 2014, management personnel previously included in the management services charge are now directly employed by AusNet Services and included within labour expenses. In addition, following the internalisation of EBS, service charges previously captured in Information technology and communications costs are now included within labour expenses.

Notes to the combined financial statements

31 March 2015

Note 5 Net finance costs

	Notes	2015 \$M	2014 \$M
Finance income			
Investment income		12.8	10.3
Return on desalination licence receivable		13.9	14.4
Total finance income		26.7	24.7
Finance costs			
Interest expense		349.6	382.5
Other finance charges - cash		3.1	3.1
Other finance charges - non-cash		5.2	5.4
Loss on accounting for hedge relationships	19(c)	4.5	3.7
Unwind of discount on provisions		2.4	0.5
Defined benefit net interest expense		-	1.0
Capitalised finance charges		(24.5)	(29.2)
Total finance costs		340.3	367.0
Net finance costs		313.6	342.3

Note 6 Income tax and deferred tax**(a) Income tax expense**

	Notes	2015 \$M	2014 \$M
Current tax		151.4	124.5
Prior year (over)/under provision - current tax		(3.9)	1.3
Deferred tax	6(f)(i)	182.8	3.7
Prior year under/(over) provision - deferred tax		1.5	(2.4)
		331.8	127.1

Notes to the combined financial statements

31 March 2015

Note 6 Income tax and deferred tax (continued)**(b) Numerical reconciliation of income tax expense to prima facie tax payable**

	2015	2014
	\$M	\$M
Profit before income tax expense	354.4	305.4
Tax at the Australian tax rate of 30% (2014: 30%)	106.3	91.6
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Non-assessable interest income (i)	-	(48.5)
ATO settlement primary tax cash payment (i)	24.6	-
ATO settlement - cancellation of tax losses (i)	118.0	-
Net tax and interest on section 163AA impost dispute (ii)	3.0	86.7
Net tax and interest on intellectual property dispute (iii)	84.1	-
Prior year (over)/under provision	(2.4)	(1.1)
Sundry items	(1.8)	(1.6)
Income tax expense	331.8	127.1

The Stapled Group's effective tax rate for the year ended 31 March 2015 was approximately 93.6 per cent (2014: 41.6 per cent). The divergence in the effective tax rate, from the prima facie tax rate of 30 per cent, was mainly caused by the following:

- (i) On 22 October 2014, the Stapled Group and the Australian Taxation Office (ATO) reached an in-principle, non-binding agreement to settle all matters concerning intra-group financing arrangements and rights to future income issues. Following execution of a binding settlement deed on 4 March 2015, the Stapled Group has:
- made a primary tax payment of \$23.5 million and an interest payment (deductible) of \$1.5 million on 9 April 2015;
 - cancelled \$506.5 million of carried-forward tax losses. Of this, \$393.2 million were previously recognised in the statement of financial position and as such have been written off; and
 - ceased taking interest deductions in respect of AusNet Services Finance Trust loans from 1 April 2014.
- This settlement provides tax certainty, with the ATO concluding all audit activity for years up to and including 31 March 2014.
- (ii) Recognition during the previous period of \$100.8 million for the amount potentially payable under the Section 163AA impost dispute. This is offset by the deductibility of the general interest component which results in a \$14.1 million tax credit. In the current year, a general interest charge of \$3 million was recognised. Refer to note 23(a).
- (iii) In light of the judgment received from the Full Court of the Federal Court on 6 May 2015 (refer to note 23(b)), and the significant uncertainty that has arisen, AusNet Services has recognised an \$84.1 million tax charge, consisting of the following components:
- a write-off of the \$40.1 million deferred tax asset for intellectual property – copyright;
 - a write-off of the \$17.1 million non-current tax receivable initially recognised on the part-payment of the dispute; and
 - recognition of a \$26.9 million tax liability, being the net cash exposure after taking into account the deductibility of the interest payment. Of this amount, \$21.5 million has been classified as current (relating to the pre tax consolidation years), and \$5.4 million has been classified as non-current (relating to the post tax consolidation years).

Notes to the combined financial statements

31 March 2015

Note 6 Income tax and deferred tax (continued)**(c) Reconciliation of tax payable**

	2015	2014
	\$M	\$M
Current tax payable		
Net amount potentially payable under Section 163AA impost dispute	59.1	56.1
ATO settlement primary tax payment for intra-group financing arrangements	24.6	-
Net amount potentially payable under intellectual property tax dispute - current	21.5	-
Other current tax payable	33.4	13.6
Total current tax payable	138.6	69.7
Non-current tax payable		
Net amount potentially payable under intellectual property tax dispute - non-current	5.4	-
Total non-current tax payable	5.4	-
Total tax payable	144.0	69.7

(d) Amounts recognised directly in other comprehensive income

	2015	2014
	\$M	\$M
Aggregate deferred tax arising in the year recognised in other comprehensive income:		
Hedge reserve - cash flow hedges	(5.9)	25.6
Remeasurement of defined benefit obligation	(11.0)	11.3
Net deferred tax recognised in other comprehensive income	(16.9)	36.9

(e) Recognised deferred tax assets and liabilities

	Deferred tax assets		Deferred tax liabilities	
	2015	2014	2015	2014
	\$M	\$M	\$M	\$M
Employee benefits	25.6	19.9	-	-
Other accruals and provisions	37.8	31.9	-	-
Intellectual property - copyright	-	40.1	-	-
Derivative financial instruments and fair value adjustments on borrowings	38.3	31.1	-	-
Tax losses (i)	228.3	316.0	-	-
Defined benefit funds	11.9	-	-	(0.2)
Intangibles	-	-	(4.7)	(4.8)
Desalination licence receivable	-	-	(10.1)	(5.7)
Property, plant and equipment	-	-	(796.4)	(729.6)
Other	-	-	(2.8)	(3.4)
Deferred tax assets/(liabilities)	341.9	439.0	(814.0)	(743.7)
Set-off of tax	(341.9)	(439.0)	341.9	439.0
Net deferred tax assets/(liabilities)	-	-	(472.1)	(304.7)

- (i) Of these tax losses, \$153 million are expected to be cancelled if AusNet Services' restructure and simplification proposal is approved and implemented.

Notes to the combined financial statements

31 March 2015

Note 6 Income tax and deferred tax (continued)**(f) Movement in temporary differences during the year**

	2015	2014
	\$M	\$M
Net deferred tax assets/(liabilities)		
Opening balance at 1 April	(304.7)	(266.5)
(Charged)/credited to the income statement (i)	(182.8)	(3.7)
Credited/(debited) to other comprehensive income	16.9	(36.9)
Net prior year over/(under) provision	(1.5)	2.4
Closing balance at 31 March	(472.1)	(304.7)

(i) Deferred tax (income)/expense recognised in the income statement in respect of each type of temporary difference is as follows:

	Charged/(credited) to the income statement	
	2015	2014
	\$M	\$M
Employee benefits	(5.7)	0.2
Other accruals and provisions	(5.9)	(15.5)
Intellectual property - copyright	40.1	1.0
Derivative financial instruments and fair value adjustments on borrowings	(1.3)	(1.1)
Tax losses	87.7	(47.7)
Intangibles	(0.1)	(0.1)
Defined benefit funds	(1.1)	(0.8)
Desalination licence receivable	4.4	4.4
Property, plant and equipment	65.3	63.8
Other	(0.6)	(0.5)
Total charged/(credited) to the income statement	182.8	3.7

Notes to the combined financial statements

31 March 2015

Note 7 Distributions

The following distributions were approved and paid by AusNet Services to stapled securityholders during the current financial year:

	Paid by	Date paid	Cents per security	Total distribution \$M
Distributions				
Fully franked dividend	AusNet Services Transmission	27 June 2014	1.393	47.2
Interest income	AusNet Services Finance Trust	27 June 2014	2.379	80.6
Return of capital	AusNet Services Finance Trust	27 June 2014	0.408	13.8
Fully franked dividend	AusNet Services Transmission	24 December 2014	2.200	75.3
Interest income	AusNet Services Finance Trust	24 December 2014	1.980	67.8
Total distributions			8.360	284.7

The following distributions were approved and paid by AusNet Services to stapled securityholders during the previous financial year:

	Paid by	Date paid	Cents per security	Total distribution \$M
Distributions				
Fully franked dividend	AusNet Services Transmission	28 June 2013	1.367	46.0
Interest income	AusNet Services Finance Trust	28 June 2013	2.649	89.2
Return of capital	AusNet Services Finance Trust	28 June 2013	0.084	2.8
Fully franked dividend	AusNet Services Transmission	23 December 2013	1.393	47.0
Interest income	AusNet Services Finance Trust	23 December 2013	2.396	80.9
Return of capital	AusNet Services Finance Trust	23 December 2013	0.391	13.2
Total distributions			8.280	279.1

In relation to the distributions paid in the current financial year of \$284.7 million (2014: \$279.1 million), \$105.6 million (2014: \$22.2 million) less transaction costs was utilised in the allotment of new securities issued under the Distribution Reinvestment Plan (DRP).

(a) Franking account

	2015 \$M	2014 \$M
30 per cent franking credits available to shareholders for subsequent financial years	107.8	59.9

The above available amounts are based on the balance of the dividend franking account at year end adjusted for franking credits that will arise from the payment of current tax liabilities, excluding the \$59.1 million tax potentially payable under the Section 163AA impost dispute and the \$26.9 million potentially payable under the intellectual property dispute. Included within the franking account is \$47.7 million (2014: \$45.7 million) arising from the tax payments made to the ATO in relation to the Section 163AA impost and intellectual property matters (refer to note 23(a) and (b)). If the Stapled Group is successful in the legal proceedings against the ATO, this amount will be reversed, resulting in lower franking credits being available.

The ability to utilise the franking credits is dependent upon there being sufficient net assets for the payment of dividends, the dividend payment being fair and reasonable to shareholders, and the dividend payment not materially prejudicing AusNet Services' ability to pay its creditors. In accordance with the tax consolidation legislation, AusNet Services Distribution and AusNet Services Transmission as the respective head entities in the tax consolidated groups have available \$0.1 million and \$107.7 million (2014: \$0.1 million and \$59.8 million) of franking credits respectively. For the final 2015 final distribution, the additional franking credits from the tax payments under the ATO disputes will not be utilised.

Notes to the combined financial statements31 March 2015

Note 8 Earnings per stapled security**(a) Basic earnings per stapled security**

As the stapling is a business combination by contract alone, the total ownership interest in AusNet Services Transmission and AusNet Services Finance Trust is presented as non-controlling interest in the combined financial statements of AusNet Services Distribution.

By virtue of the stapling arrangement, AusNet Services Distribution, AusNet Services Transmission and AusNet Services Finance Trust have common equityholders (the securityholders) with the effect that total equity belongs to the securityholders. Therefore an alternative measure of earnings per stapled security has been calculated which includes non-controlling interest and hence the earnings of AusNet Services Transmission and AusNet Services Finance Trust.

	2015	2014
Profit attributable to the ordinary securityholders of the Stapled Group (\$M)	22.6	178.3
Weighted average number of securities (million)	3,427	3,377
Earnings per stapled security (cents)	0.66	5.28

(b) Diluted earnings per stapled security

There were no factors causing a dilution of either the profit or loss attributable to ordinary securityholders or the weighted average number of ordinary securities outstanding. Accordingly, basic and diluted earnings per stapled security are the same.

(c) Basic and diluted earnings per share for AusNet Services Distribution

	2015	2014
(Loss)/profit attributable to the ordinary equityholders of AusNet Services Distribution (\$M)	(128.7)	3.4
Weighted average number of shares (million)	3,427	3,377
(Loss)/earnings per share (cents)	(3.76)	0.10

Notes to the combined financial statements

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Note 9 Receivables

	Notes	2015 \$M	2014 \$M
Current receivables			
Accounts receivable		36.0	141.8
Related party receivables	25(e)	9.2	11.5
Desalination licence receivable (i)		10.2	10.2
Murrindindi bushfire settlement – reimbursement from insurers (ii)		260.9	-
		316.3	163.5
Accrued revenue		167.5	116.2
Other receivables		0.5	0.2
Interest receivable		4.6	1.8
Total current receivables		488.9	281.7
Non-current receivables			
Desalination licence receivable (i)		207.2	215.3
Total non-current receivables		207.2	215.3
Total receivables (iii)		696.1	497.0

- (i) In December 2012, AusNet Services entered into a 27 year licence agreement with the Victorian State Government for the right to operate and maintain the 87 kilometre high-voltage underground transmission line supplying electricity to the Victorian desalination plant in Wonthaggi. At the same time, AusNet Services also entered into a 27 year agreement with the desalination plant operator to operate and maintain the transmission line in return for a monthly revenue payment.

The upfront payment of \$235 million plus transaction costs of \$1.2 million for the licence has been classified as a receivable. This receivable is interest-bearing and \$8.8 million (2014: \$8.8 million) of the total cash flows received from the operator during the year has been allocated against this receivable balance. The monthly revenue payment received from the operator is fixed, with an annual adjustment for inflation. Any amounts not received from the operator, but which are past due, can be recovered by AusNet Services from the Victorian State Government.

At the end of the agreements, AusNet Services is required to hand back the transmission line and all associated assets. In the event of early termination of the agreements, the unamortised portion of the upfront licence payment is refunded to AusNet Services, along with the reimbursement of necessary costs incurred in order to effect the termination.

- (ii) This amount was received subsequent to 31 March 2015 and was used to settle AusNet Services' obligation under the settlement. Refer to note 14.
- (iii) The fair value of total receivables as at 31 March 2015 was \$696.1 million (2014: \$497.0 million).

(a) Terms and conditions of accounts receivable

Accounts receivable are non-interest bearing and the average credit period on sales of transmission, distribution and specialist utility services is ten business days. An allowance has been made for estimated unrecoverable amounts, determined by reference to past default experience of individual debtors.

All debts greater than 90 days are provided for in full, except where past experience of individual debtors provides evidence that another amount, if any, is more appropriate.

Collateral in the form of bank guarantees, letters of credit and deposits are obtained from certain counterparties where appropriate. The amounts called upon during the current and previous financial years were insignificant.

Notes to the combined financial statements

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Note 9 Receivables (continued)**(b) Ageing of accounts receivable**

The ageing of accounts receivable as at reporting date was:

	2015	2015	2014	2014
	Gross	Allowance	Gross	Allowance
	\$M	\$M	\$M	\$M
Not past due	25.9	-	132.8	-
0 - 30 days	6.2	-	6.2	-
31 - 60 days	2.7	-	1.1	-
61 - 90 days	0.7	-	0.3	-
Greater than 90 days	0.5	-	1.4	-
Total	36.0	-	141.8	-

Of those debts that are past due, the majority are receivable from high credit quality counterparties. Receivables relating to regulated revenue streams (which account for approximately 86.4 per cent of revenues) are owed by retailers and distributors in the industry. There are strict regulatory requirements regarding who can obtain a retail or distribution licence and the Essential Services Commission has minimum prudential requirements which must be met before a participant can be registered as a distributor. AEMO also has high prudential requirements for retailers who participate in the market. Retailers must provide guarantees as requested by AEMO to minimise the risk of exposure by other participants to any defaults.

(c) Reconciliation of movement in allowance for impairment loss

The movement in the allowance for impairment loss in respect of accounts receivable was as follows:

	2015	2014
	\$M	\$M
Opening balance	-	0.1
Additional allowance recognised/(written back)	0.2	0.2
Amounts utilised	(0.2)	(0.3)
Closing balance	-	-

Notes to the combined financial statements

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Note 10 Inventories

	2015 \$M	2014 \$M
Current inventories		
Construction, maintenance stocks and general purpose materials - at cost	45.0	42.3
Inventory write-off	(7.5)	-
Total current inventories	37.5	42.3
Non-current inventories		
Construction, maintenance stocks and general purpose materials - at cost	19.4	17.6
Total non-current inventories	19.4	17.6
Total inventories	56.9	59.9

Note 11 Other assets

	Notes	2015 \$M	2014 \$M
Current other assets			
Prepayments		24.3	25.0
Total current other assets		24.3	25.0
Non-current other assets			
Prepayments		3.0	-
Other assets		0.6	0.5
Defined benefit surplus	18	-	1.6
Total non-current other assets		3.6	2.1
Total other assets		27.9	27.1

Notes to the combined financial statements

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Note 12 Property, plant and equipment

	Freehold land \$M	Buildings \$M	Easements \$M	Transmission network \$M	Electricity distribution network \$M	Gas distribution network \$M	Other plant and equipment \$M	Capital work in progress \$M	Total \$M
2015									
Carrying amount at 1 April 2014	253.8	229.1	1,218.8	1,771.9	3,192.4	1,359.2	409.6	509.5	8,944.3
Additions	-	-	-	-	-	-	0.7	808.7	809.4
Transfers	-	48.5	0.4	144.6	456.7	109.7	50.9	(810.8)	-
Write-offs (i)	-	-	-	-	(20.6)	-	-	-	(20.6)
Disposals	(2.6)	(0.4)	-	(2.5)	(3.1)	(2.6)	(1.5)	-	(12.7)
Depreciation expense	-	(9.0)	-	(74.3)	(144.5)	(37.7)	(113.0)	-	(378.5)
Carrying amount at 31 March 2015	251.2	268.2	1,219.2	1,839.7	3,480.9	1,428.6	346.7	507.4	9,341.9
Cost	251.2	328.5	1,219.2	2,413.6	4,581.8	1,769.8	895.8	507.4	11,967.3
Accumulated depreciation	-	(60.3)	-	(573.9)	(1,100.9)	(341.2)	(549.1)	-	(2,625.4)
Carrying amount at 31 March 2015	251.2	268.2	1,219.2	1,839.7	3,480.9	1,428.6	346.7	507.4	9,341.9

(i) Relates to AMI communications cards, Refer to note 4(ii) for further details.

Notes to the combined financial statements

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Note 12 Property, plant and equipment (continued)

	Freehold land \$M	Buildings \$M	Easements \$M	Transmission network \$M	Electricity distribution network \$M	Gas distribution network \$M	Other plant and equipment \$M	Capital work in progress \$M	Total \$M
2014									
Carrying amount at 1 April 2013	253.0	201.3	1,218.7	1,687.8	2,897.6	1,326.5	291.7	521.3	8,397.9
Additions	-	-	-	-	-	-	-	922.8	922.8
Acquisition through business combination	-	-	-	-	-	-	1.5	-	1.5
Transfers	0.8	35.9	0.1	158.8	447.5	69.4	222.1	(934.6)	-
Disposals	-	(0.1)	-	(1.5)	(5.3)	(0.8)	(1.2)	-	(8.9)
Depreciation expense	-	(8.0)	-	(73.2)	(147.4)	(35.9)	(104.5)	-	(369.0)
Carrying amount at 31 March 2014	253.8	229.1	1,218.8	1,771.9	3,192.4	1,359.2	409.6	509.5	8,944.3
Cost	253.8	280.8	1,218.8	2,276.9	4,150.5	1,664.5	858.2	509.5	11,213.0
Accumulated depreciation	-	(51.7)	-	(505.0)	(958.1)	(305.3)	(448.6)	-	(2,268.7)
Carrying amount at 31 March 2014	253.8	229.1	1,218.8	1,771.9	3,192.4	1,359.2	409.6	509.5	8,944.3

Notes to the combined financial statements

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Note 13 Intangible assets

	2015	2014
	\$M	\$M
Distribution licences (i)		
Opening net book amount - distribution licences	354.5	354.5
Closing net book amount - distribution licences	354.5	354.5
Goodwill		
Opening net book amount - goodwill	36.5	12.1
Acquisition of business (ii)	(0.7)	24.4
Closing net book amount - goodwill	35.8	36.5
Other intangible assets		
Opening net book amount - other intangible assets	1.8	2.5
Acquisition of business (ii)	1.5	-
Amortisation	(0.7)	(0.7)
Closing net book amount - other intangible assets	2.6	1.8
Total intangible assets	392.9	392.8

(i) The distribution licences are considered to have an indefinite life for the following reasons:

- the licences have been issued in perpetuity provided the licensee complies with certain licence requirements;
- the Stapled Group monitors its performance against those licence requirements and ensures that they are met; and
- the Stapled Group intends to, and is able to continue to maintain the network for the foreseeable future.

(ii) Goodwill on the acquisition of Geomatic Technologies was recognised based on the provisional values of the net assets acquired at the time of acquisition. Following the completion of purchase price accounting, the balance of other intangible assets was increased by \$1.5 million. The goodwill balance has been adjusted to reflect the final opening balances (net of tax).

Note 14 Payables and other liabilities

	2015	2014
	\$M	\$M
Current payables and other liabilities		
Trade payables and accruals	158.1	151.0
Accrued interest	41.3	33.4
Customer deposits	15.0	25.2
Deferred revenue	9.8	3.2
Related party payables	12.6	59.5
Murrindindi bushfire settlement (i)	260.9	-
Total current payables and other liabilities	497.7	272.3
Non-current payables and other liabilities		
Deferred revenue	28.1	11.4
Total non-current payables and other liabilities	28.1	11.4
Total payables and other liabilities	525.8	283.7

Notes to the combined financial statements

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Note 14 Payables and other liabilities (continued)

- (i) On 6 February 2015, AusNet Services announced that the parties to the Murrindindi bushfire class action had agreed to settle the action. This settlement was reached without admission of liability by AusNet Services or any other party. The settlement agreement is subject to the approval of the Supreme Court of Victoria. Under the terms of the settlement, the parties involved in the litigation have agreed to pay \$300 million with AusNet Services contributing \$260.9 million which will be paid in full by AusNet Services' liability insurers. This amount has been recognised in the financial statements for the year ended 31 March 2015 as both a liability and a corresponding asset to be received from insurers.

Note 15 Borrowings

	Maturity date	2015 \$M	2014 \$M
Current borrowings			
Commercial paper	Various	94.6	89.5
Swiss franc (CHF) senior notes (i)	Sep 2015	646.1	-
Bank debt facilities	Oct 2015	36.0	252.7
US dollar (USD) senior notes (i)		-	331.4
Total current borrowings		776.7	673.6
Non-current borrowings			
US dollar (USD) senior notes (i)	2016	518.5	433.1
Bank debt facilities	2017-2019	472.1	296.2
Swiss francs (CHF) senior notes (i)	2017-2019	718.6	1,233.6
Domestic medium term notes	2017-2024	1,414.2	1,211.1
Pound sterling (GBP) senior notes (i)	2018	540.9	520.6
Floating rate notes	2020	99.7	99.7
Euro (EUR) senior notes (i)	2020-2027	2,076.1	1,257.8
Hong Kong dollar senior notes (i)	2020-2028	376.6	289.1
Japanese yen (JPY) senior notes (i)	2024	55.9	54.4
Norwegian kroner (NOK) senior notes (i)	2029	166.8	-
Total non-current borrowings		6,439.4	5,395.6
Total borrowings (ii)		7,216.1	6,069.2

- (i) The carrying value of foreign currency borrowings is translated at spot rate as at balance sheet date. The foreign currency risk associated with these borrowings is hedged through the use of cross-currency swaps. Refer to note 19.
- (ii) The fair value of total borrowings as at 31 March 2015 was \$7,817.7 million (2014: \$6,535.2 million). Given lower floating market interest rates as at 31 March 2015 compared to the fixed rates on certain borrowings, and the impact of a significant depreciation of the AUD on foreign-denominated borrowings, the total carrying value of borrowings is lower than the total fair value. Refer to note 1(q) for details on how the carrying value of borrowings is determined.

(a) Other bank guarantees

Certain entities are required to provide bank guarantees in the form of tender bid bonds or performance bonds for contractual obligations. The subsidiaries have guarantee facilities with a number of institutions amounting to \$15 million, of which \$4.7 million was provided to third parties at 31 March 2015 (2014: \$2.2 million).

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Note 16 Provisions

	Notes	2015 \$M	2014 \$M
Current provisions			
Employee benefits (i)		77.5	60.6
Environmental provision (ii)		0.6	0.6
Customer rebates (iii)		6.7	7.6
Sundry provisions (iv)		4.0	8.5
Restructuring provision (v)		1.0	7.7
SPIMS employee provisions (vi)		-	14.3
AMI customer rebates provision (vii)		32.5	-
Total current provisions		122.3	99.3
Non-current provisions			
Employee benefits (i)		8.0	6.7
Environmental provision (ii)		28.3	25.9
Sundry provisions (iv)		2.6	-
Defined benefit funds	18	39.6	1.0
SPIMS employee provisions (vi)		-	1.4
Total non-current provisions		78.5	35.0
Total provisions		200.8	134.3

Movements in each class of provision during the year, other than employee benefits, are set out below:

	Environmental provision (ii)	Customer rebates (iii)	Sundry provisions (iv)	Restructuring provision (v)	AMI customer rebates provision (vii)
	\$M	\$M	\$M	\$M	\$M
Balance at 1 April 2014	26.5	7.6	8.5	7.7	-
Additional provisions recognised	-	14.1	1.4	-	32.5
Provisions written back	-	-	(0.7)	(2.9)	-
Unwind of discount	2.4	-	-	-	-
Amounts utilised	-	(15.0)	(2.6)	(3.8)	-
Balance at 31 March 2015	28.9	6.7	6.6	1.0	32.5
Current	0.6	6.7	4.0	1.0	32.5
Non-current	28.3	-	2.6	-	-
Total	28.9	6.7	6.6	1.0	32.5

- (i) Employee benefits provisions represent provisions for annual and long service leave for AusNet Services employees and provisions for employee bonuses. This includes former SPIMS and EBS employees who became AusNet Services employees on 1 April 2014 and 1 July 2014 respectively following agreement to terminate the MSA and unwind the shared information technology services on 31 March 2014.
- (ii) The environmental provision represents an estimate of the costs of rehabilitating sites, including the estimated costs to remediate soil and water contamination on gas sites which were previously used as coal gas production facilities.

Notes to the combined financial statements

31 March 2015

Note 16 Provisions (continued)

- (iii) The provision for customer rebates represents an assessment of the rebates payable to the customer for costs incurred by the customer in the construction of low voltage and high voltage infrastructure for turnkey projects in the electricity distribution network.
- (iv) Sundry provisions include uninsured losses, make good provisions for premises and unaccounted for gas.
- (v) The restructuring provision represents outstanding amounts in relation to the restructure and internalisation of EBS following the agreement to unwind the shared information technology services on 31 March 2014.
- (vi) The SPIMS employee entitlement provision represents the balance of SPIMS employee entitlements transferred to AusNet Services as at 31 March 2014 following the termination of the MSA. The balances are now contained within the employee entitlements provisions.
- (vii) Refer to note 4(i) for further detail on the AMI customer rebates provision recognised during the year.

Note 17 Equity

	Notes	2015 Shares	2014 Shares
Share capital			
Ordinary shares - fully paid (million)	(a), (b)	3,466.9	3,386.6

(a) Ordinary shares

Ordinary shares authorised and issued have no par value. Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of AusNet Services Distribution in proportion to the number of and amounts paid on the shares issued. Holders of ordinary shares are entitled to one vote on a show of hands or one vote for each ordinary share held on a poll at shareholders' meetings.

(b) Movements in ordinary share capital

Date	Details	Notes	Number of shares	\$M(i)
1 April 2014	Opening balance		3,386,607,080	0.5
27 June 2014	Distribution Reinvestment Plan	(ii)	38,637,082	-
24 December 2014	Distribution Reinvestment Plan	(ii)	41,668,847	-
31 March 2015	Closing balance		3,466,913,009	0.5
1 April 2013	Opening balance		3,367,543,113	0.5
28 June 2013	Distribution Reinvestment Plan	(iii)	8,782,410	-
23 December 2013	Distribution Reinvestment Plan	(iii)	10,281,557	-
31 March 2014	Closing balance		3,386,607,080	0.5

Notes to the combined financial statements

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Note 17 Equity (continued)**(b) Movements in ordinary share capital (continued)**

- (i) With respect to the allocation of the proceeds in the form of shares in AusNet Services Transmission and AusNet Services Distribution and units in AusNet Services Finance Trust, all amounts were allocated to the units in AusNet Services Finance Trust with the shares in AusNet Services Transmission and AusNet Services Distribution being issued at nominal consideration.
- (ii) On 27 June 2014 and on 24 December 2014, 38.6 million and 41.7 million new stapled securities were issued under the DRP respectively. The new securities were issued at a price of \$1.33 per security and \$1.30 per security respectively, providing approximately \$51.4 million and \$54.2 million respectively.
- (iii) On 28 June 2013 and on 23 December 2013, 8.8 million and 10.3 million new stapled securities were issued under the DRP respectively. The new securities were issued at a price of \$1.18 per security and \$1.15 per security respectively, providing approximately \$10.4 million and \$11.8 million respectively.

(c) Capital management

The Board's policy is to target an 'A' range credit rating and a capital structure appropriate to generate desired shareholder returns, and to ensure a low cost of capital is available to the entity.

An important credit metric which assists management to monitor AusNet Services' capital structure is the net debt to Asset Base ratio, determined as indebtedness as a percentage of the Asset Base. Indebtedness is debt at face value (net of cash), excluding any derivative financial instruments. The Asset Base consists of the following items:

- Regulated Asset Base (RAB), which is subject to some estimation as the AER ultimately determines the RAB of each network. RAB includes the value of regulated network assets as well as network assets that will become regulated at the next regulatory period; and
- The value of unregulated network assets whose revenues and return are set through a negotiated or competitive process rather than through regulation, including the carrying value of the desalination licence receivable.

The movement of this metric over time demonstrates how the business is funding its capital expenditure in terms of debt versus income generating assets. AusNet Services targets a net debt to Asset Base ratio of less than 75 per cent.

The net debt to Asset Base ratio as at reporting date was as follows:

	2015	2014
	%	%
Net debt to Asset Base	67.5	68.6

The terms of certain financing arrangements contain financial covenants that require maintenance of specified interest coverage ratios and gearing ratios. In addition, certain arrangements contain provisions that are specifically affected by changes in credit ratings, change of control and/or ownership and cross default provisions.

AusNet Services monitors and reports compliance with its financial covenants on a monthly basis. There have been no breaches during the year.

The Responsible Entity of AusNet Services Finance Trust is the holder of an Australian Financial Services Licence. In accordance with the licence requirements, the Responsible Entity must maintain a minimum capital balance of \$10 million. In this regard, capital consists of the ordinary shares and retained profits.

Notes to the combined financial statements

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Note 18 Defined benefit obligations

	2015	2014
	\$M	\$M
Total amounts included in the statement of financial position in respect of the defined benefit plans are as follows:		
Present value of defined benefit obligations	(338.5)	(248.0)
Fair value of plan assets	298.9	248.6
Net (liability)/asset arising from defined benefit obligations	(39.6)	0.6
Amounts recognised in the income statement in respect of the defined benefit plans are as follows:		
Current service cost	7.5	7.1
Net interest cost on defined benefit obligation	-	1.0
Total	7.5	8.1
Remeasurement (losses)/gains recognised during the year in other comprehensive income	(36.6)	37.8

The Stapled Group makes contributions to two Equisuper defined benefit superannuation plans that provide defined benefit amounts to employees or their dependants upon retirement, death, disablement or withdrawal. Benefits are mostly in the form of a lump sum based on the employee's final average salary, although, in some cases, defined benefit members are also eligible for pension benefits. The terms and conditions of the two plans are consistent.

The defined benefit sections of the Equisuper plans are closed to new members. All new members receive defined contribution, accumulation style benefits.

The defined benefit superannuation plans are administered by a trust that is legally separated from the Stapled Group. The trustees consist of both employee and employer representatives and an independent chair, all of whom are governed by the scheme rules. The trustees are responsible for the administration of plan assets and for the definition of plan strategy.

The Stapled Group expects to make contributions of \$4.3 million to the defined benefit plans during the next financial year. The Target Funding method is used to determine the contribution rates. Under the Target Funding method, the employer contribution rate is set at a level which is expected to result in the plans' assets equalling 105 per cent of the plans' liabilities within five years.

The defined benefit superannuation plans expose the Stapled Group to additional actuarial, interest rate and market risk.

Mercer Investment Nominees Limited performed actuarial valuations of the funds as at 31 March 2015 and 31 March 2014.

Notes to the combined financial statements

31 March 2015

Note 18 Defined benefit obligations (continued)**(a) Movement in defined benefit obligation**

	2015	2014
	\$M	\$M
Movements in the present value of the defined benefit obligations were as follows:		
Opening defined benefit obligation	248.0	256.0
Current service cost	7.5	7.1
Interest cost	11.4	9.0
Contributions by plan participants	2.7	2.4
Actuarial loss/(gain)	60.8	(15.7)
Benefits, taxes and premiums paid	(20.2)	(10.8)
Transfers in (i)	28.3	-
Closing defined benefit obligations	338.5	248.0

Movements in the fair value of plan assets were as follows:

Opening fair value of plan assets	248.6	221.3
Interest income	11.4	8.0
Actual return on fund assets less interest income	24.2	22.1
Contributions from the employer	4.8	5.6
Contributions by plan participants	2.7	2.4
Benefits, taxes and premiums paid	(20.2)	(10.8)
Transfers in (i)	27.4	-
Closing fair value of plan assets	298.9	248.6

The actual return on plan assets was a gain of \$35.6 million (2014: gain of \$30.1 million).

- (i) Transfers in represent the transfer of employees formerly under the SPIMS defined benefit plan into the Stapled Group's plans.

(b) Analysis of plan assets

Plan assets can be broken down into the following major categories of investments:

	2015	2014
	%	%
Investments quoted in active markets:		
Australian equities	31	31
International equities	24	25
Fixed interest securities	11	11
Unquoted investments:		
Property	9	9
Growth alternative	7	8
Defensive alternative	10	7
Cash	8	9
	100	100

Plan assets do not comprise any of the Stapled Group's own financial instruments or any assets used by Group companies.

Notes to the combined financial statements

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Note 18 Defined benefit obligations (continued)**(c) Actuarial assumptions**

The following were the principal actuarial assumptions at the reporting date (expressed as weighted averages).

	Defined benefit expense		Defined benefit obligation	
	2015	2014	2015	2014
	%	%	%	%
Key assumptions				
Discount rate	4.30	3.70	2.70	4.30
Expected salary increase rate	4.50	4.50	4.50	4.50

As at 31 March 2015, the weighted average duration of the defined benefit obligation was 9 years (2014: 10 years).

(d) Sensitivity analysis

Changes in the relevant actuarial assumptions as at reporting date, with all other variables held constant, would result in an increase/(decrease) in the value of the defined benefit obligation as shown below:

Defined benefit obligation

	Increase	Decrease
	\$M	\$M
Discount rate (0.5 per cent movement)	(18.9)	20.5
Expected salary increase rate (0.5 per cent movement)	15.3	(14.4)

When calculating the above sensitivity analysis the same method has been applied as when calculating the defined benefit liability recognised in the combined statement of financial position.

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31 March 2015

Note 19 Financial risk management

The Stapled Group's activities expose it to a number of financial risks, including changes in interest rates and foreign currency exchange rates, liquidity risk and credit risk. The Stapled Group manages its exposure to these risks in accordance with its Treasury Risk Policy which is approved by the Board. The policy is reviewed annually or more regularly if required by a significant change in the Stapled Group's operations. Any material changes are submitted to the Board for approval.

The objective of the Treasury Risk Policy is to document the Stapled Group's approach to treasury risk management and to provide a framework for ongoing evaluation and review of risk management techniques. The policy provides an analysis of each type of risk to which the Stapled Group is exposed and the objective of and techniques for managing the risk, including identifying and reporting risks to management and the Board.

Treasury evaluates and hedges financial risks in close co-operation with the Stapled Group's operating units. The Treasury Risk Policy provides written principles for overall risk management, as well as written policies covering specific areas, such as mitigating risks, use of derivative financial instruments and investing excess liquidity.

The Treasury Risk Policy operates in conjunction with several other AusNet Services policies, including:

- The AusNet Services Authority Manual which sets out the approvals required for such things as investment of surplus funds, execution of hedging transactions, borrowings and issue of guarantees and indemnities;
- The AusNet Services Treasury Operations Manual which sets out the day to day Treasury front office processes such as cash management and the operations of the Treasury back office, such as settlement processes and bank account operations;
- The AusNet Services Refinancing and Hedging Strategy which sets out the refinancing and hedging strategies over the relevant financial period; and
- The AusNet Services Credit Metrics Policy which sets out target ranges for the key credit metrics that determine the Stapled Group's credit strength, such as the percentage of debt to the value of the RAB at balance date.

Together these policies provide a financial risk management framework which supports the Stapled Group's objectives of finding the right balance between risk and reward to enhance profitability and business performance while minimising current and future exposures.

The material financial risks associated with AusNet Services' activities are each described below, together with details of AusNet Services' policies for managing the risk.

Notes to the combined financial statements

31 March 2015

Note 19 Financial risk management (continued)**(a) Interest rate risk**

Interest rate risk is the risk of suffering a financial loss due to an adverse movement in interest rates. AusNet Services is exposed to the risk of movements in interest rates on its borrowings.

In addition, AusNet Services' regulated revenues for the transmission and distribution businesses are directly impacted by changes in interest rates at each of their price review periods. This is a result of the 'building block' approach where interest rates are considered in the determination of the regulatory weighted average cost of capital and consequently regulated revenues. The current price review period is five years for gas and electricity distribution and three years for electricity transmission.

The objective of hedging activities carried out by the Stapled Group in relation to interest rate risk is to minimise the exposure to changes in interest rates by matching the actual cost of debt with the cost of debt assumed by the regulator when setting the rate of return for the relevant regulated business. The exposure is managed by maintaining the percentage of fixed rate debt to total debt at a level between 90 per cent and 100 per cent for the relevant business over its regulatory period. AusNet Services therefore considers net interest rate exposure, after hedging activities, to be minimal for the Stapled Group. The percentage of fixed rate debt to total debt (on a net debt basis) as at 31 March 2015 was 98.5 per cent (2014: 94.1 per cent).

The Stapled Group utilises interest rate swaps to manage its exposure to cash flow interest rate risk and achieve the targeted proportion of fixed rates on its debt portfolio. Under interest rate swaps, the Stapled Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Stapled Group to mitigate the risk of changing interest rates on debt held.

As at reporting date, the Stapled Group had the following financial assets and liabilities exposed to interest rate risk. The values disclosed below are the principal amounts, which differ from the carrying values and as such do not agree to the statement of financial position.

	2015	2014
	\$M	\$M
Financial assets		
Fixed rate instruments	810.9	406.7
Financial liabilities (i)		
Fixed rate instruments	(5,808.8)	(5,291.3)
Floating rate instruments	(896.7)	(737.4)

- (i) The financial liabilities above include the impact of derivative financial instruments used to manage the interest rate and foreign currency exposures on those liabilities. Therefore, they represent the post-hedge position. It should be noted that some fixed rate borrowings (post-hedge) as at reporting date are only fixed for a portion of their term. This is because the maturity profile of borrowings differs from the price review periods of the regulated businesses in order to achieve the objective of matching the actual cost of debt with the assumed cost of debt for each regulated price review period.

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Note 19 Financial risk management (continued)**(a) Interest rate risk (continued)**

The Stapled Group's exposure to changes in interest rates is limited to debt denominated in Australian dollars due to the Stapled Group's policy of mitigating interest rate risk exposure on foreign currency debt. As a result, the sensitivity analysis below has only been performed based on movements in Australian interest rates. As at reporting date, if Australian interest rates had increased by 1.50 per cent and decreased by 1.50 per cent as at 31 March 2015 (2014: increased by 2.77 per cent and decreased by 2.63 per cent), with all other variables held constant, post-tax profit and equity would have increased/(decreased) as follows:

	Net profit after tax (hedge reserve)	Equity after tax (hedge reserve)
	\$M	\$M
2015		
Increase in Australian interest rates with all other variables held constant	24.3	221.9
Decrease in Australian interest rates with all other variables held constant	(19.5)	(271.0)
2014		
Increase in Australian interest rates with all other variables held constant	18.6	256.9
Decrease in Australian interest rates with all other variables held constant	(19.7)	(319.8)

The judgements of reasonably possible movements were determined using statistical analysis of the 95th percentile best and worst expected outcomes having regard to actual historical interest rate data over the previous five years based on the three-month bank bill swap rate. Management considers that past movements are a transparent basis for determining reasonably possible movements in interest rates.

Due to the Stapled Group's interest rate risk management policies, the exposure to cash flow and foreign currency interest rate risk at any point in time is minimal. Therefore, the impact of a reasonably possible movement in interest rates on net profit after tax is minimal. The impact on equity is due to the valuation change of derivative financial instruments in cash flow hedges. This amount in the hedge reserve is transferred to the income statement when the underlying hedged transaction affects income in order to reflect the hedged position.

(b) Currency risk

The Stapled Group is exposed to currency risk due to funding activities in offshore debt markets as a means of providing cost effective and efficient funding alternatives, as well as a result of undertaking certain transactions denominated in foreign currencies. Exchange rate exposures are managed within approved policy parameters. The objective of AusNet Services' currency risk management program is to eliminate material foreign exchange risk by utilising various hedging techniques as approved by the Board. AusNet Services therefore considers its currency risk exposure to be minimal.

The Stapled Group is subject to the following currency exposures:

- United States dollars (USD);
- Pound sterling (GBP);
- Swiss francs (CHF);
- Hong Kong dollars (HKD);
- Japanese yen (JPY);
- Euro (EUR); and
- Norwegian krone (NOK).

Notes to the combined financial statements

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Note 19 Financial risk management (continued)**(b) Currency risk (continued)**

The Stapled Group enters into cross-currency swaps to manage exposures from foreign currency loans. It is the policy of the Stapled Group to cover 100 per cent of the cash flow exposure generated by these loans.

The Stapled Group also enters into forward foreign currency contracts to hedge the exchange rate risk in relation to specific purchase orders. It is the policy of the Stapled Group to fully hedge currency exposures above a Board approved threshold once the exposure is confirmed. The derivative financial instrument used to hedge the exposure is entered into when there is a high degree of certainty as to the nature of the exposure, including currency, amount and delivery date so as to ensure a high level of effectiveness in cash flow hedging.

As at reporting date, if the Australian dollar had moved against each of the currencies, with all other variables held constant, post-tax profit and equity would have increased/(decreased) as follows:

	Net profit after tax	Equity after tax (hedge reserve)
	\$M	\$M
2015		
Increase in foreign exchange rates for all currency exposures	(1.4)	(33.6)
Decrease in foreign exchange rates for all currency exposures	0.6	52.8
2014		
Increase in foreign exchange rates for all currency exposures	(1.7)	(35.2)
Decrease in foreign exchange rates for all currency exposures	5.5	51.8

The judgements of reasonably possible movements were determined using statistical analysis of the 95th percentile best and worst expected outcomes having regard to actual historical spot exchange rate data over the previous five years, with all other variables held constant. Management considers that past movements are a transparent basis for determining reasonably possible movements in exchange rates. As at 31 March 2015, the movements in foreign exchange rates used in the table above are as follows:

- United States dollars (USD) - 17 cents (2014: 21 cents)
- Pound sterling (GBP) - 11 pence (2014: 10 pence)
- Swiss francs (CHF) - 15 Swiss centime (2014: 17 Swiss centime)
- Hong Kong dollars (HKD) - 1.29 HK dollar (2014: 1.651 HK dollar)
- Japanese yen (JPY) – 11.18 Japanese yen (2014: 19.66 yen)
- Euro (EUR) - 14 Euro cents (2014: 14 Euro cents)
- Norwegian krone (NOK) - 65 Norwegian ore

The impact on the hedge reserve is due to the valuation change of derivative financial instruments in cash flow hedges. This amount in the hedge reserve is transferred to the income statement when the underlying hedged transaction affects income in order to reflect the hedged position.

Exchange rate risk arising from foreign currency denominated borrowings is managed using cross-currency swaps at 100 per cent of borrowed funds at inception date. The residual exposure to exchange rate movements disclosed in the sensitivity table above for post-tax profit only arises from trade payables and cash denominated in foreign currency, which are immaterial to the Stapled Group.

Notes to the combined financial statements

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Note 19 Financial risk management (continued)**(c) Derivative financial instruments used to hedge interest rate and currency risk**

The Stapled Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign currency risk, as detailed below:

	Interest rate swaps	Forward foreign currency contracts	Cross- currency swaps	Total net derivative financial instruments
	\$M	\$M	\$M	\$M
2015				
Current assets	-	0.5	128.8	129.3
Non-current assets	135.5	-	399.7	535.2
Current liabilities	(46.5)	(0.1)	-	(46.6)
Non-current liabilities	(192.2)	-	(16.9)	(209.1)
Total derivative financial instruments	(103.2)	0.4	511.6	408.8
Consists of:				
- fair value hedges (i)	94.1	-	229.6	323.7
- cash flow hedges (ii)	(197.3)	0.4	282.0	85.1
Total derivative financial instruments	(103.2)	0.4	511.6	408.8
2014				
Current assets	-	0.1	-	0.1
Non-current assets	78.5	-	185.7	264.2
Current liabilities	(1.5)	(0.1)	(69.1)	(70.7)
Non-current liabilities	(132.2)	-	(103.2)	(235.4)
Total derivative financial instruments	(55.2)	-	13.4	(41.8)
Consists of:				
- fair value hedges (i)	9.8	-	(107.8)	(98.0)
- cash flow hedges (ii)	(65.0)	-	121.2	56.2
Total derivative financial instruments	(55.2)	-	13.4	(41.8)

The increase in the net derivative balance at 31 March 2015 is largely due to the depreciation of the AUD relative to the currencies listed in note 19(b).

(i) Derivative financial instruments in a fair value hedge

Derivative financial instruments are designated in a fair value hedge in order to mitigate the exposure to changes in fair value of certain borrowings of AusNet Services. Fair value hedges are generally designated for the terms of borrowings that fall outside of the price review periods for the regulated businesses.

(ii) Derivative financial instruments in a cash flow hedge

Derivative financial instruments are designated in a cash flow hedge in order to mitigate the variability in cash flows attributable to interest rate and/or foreign currency movements on borrowings or highly probable forecast transactions.

Notes to the combined financial statements

31 March 2015

Note 19 Financial risk management (continued)**(c) Derivative financial instruments used to hedge interest rate and currency risk (continued)***Offsetting of derivative financial instruments*

Derivative assets and liabilities are presented on a gross basis. Certain derivative assets and liabilities are subject to enforceable master netting arrangements with individual counterparties if they were subject to default. Notwithstanding that these financial assets and liabilities do not meet the criteria for being presented on a net basis under AASB 132 *Financial Instruments: Presentation*, if these netting arrangements were applied to the derivative portfolio as at 31 March 2015, derivative assets and liabilities would be reduced by \$217.2 million respectively (2014: \$125.6 million). Refer to the below table:

	Gross amounts in the financial statements \$M	Amounts subject to master netting arrangements \$M	Net amount \$M
2015			
Derivative financial assets	664.5	(217.2)	447.3
Derivative financial liabilities	(255.7)	217.2	(38.5)
	408.8	-	408.8
2014			
Derivative financial assets	264.3	(125.6)	138.7
Derivative financial liabilities	(306.1)	125.6	(180.5)
	(41.8)	-	(41.8)

Notes to the combined financial statements

31 March 2015

Note 19 Financial risk management (continued)**(c) Derivative financial instruments used to hedge interest rate and currency risk (continued)***Movement in hedge reserve*

The following movements have occurred in the cash flow hedge reserve during the year, net of income tax:

	2015	2014
	\$M	\$M
Opening balance of cash flow hedge reserve	(57.0)	(116.7)
Changes in fair value of cash flow hedges	(64.3)	(32.9)
Amounts reclassified to interest expense for effective hedges	50.7	88.3
Amounts reclassified to property, plant and equipment and inventory	-	4.3
Closing balance of cash flow hedge reserve	(70.6)	(57.0)

The following table summarises the cash flows of the Stapled Group's cash flow hedges:

	2015	2014
	\$M	\$M
Highly probable forecast asset purchase:		
Less than 1 year	0.4	-
	0.4	-
Borrowings:		
Less than 1 year	(34.2)	(84.3)
1 - 2 years	(78.4)	(51.7)
2 - 5 years	(84.4)	(64.2)
Greater than 5 years	(260.4)	2.6
	(457.4)	(197.6)

These amounts will impact the income statement in the same period as cash flows are expected to occur, with the exception of hedges of highly probable forecast transactions which will impact the income statement as the underlying asset is utilised.

Notes to the combined financial statements

31 March 2015

Note 19 Financial risk management (continued)**(c) Derivative financial instruments used to hedge interest rate and currency risk (continued)***Loss on accounting for hedge relationships*

The following table provides details of the loss on accounting for hedge relationships recognised in finance costs:

	2015	2014
	\$M	\$M
(Gain)/loss on fair value hedges (i)	(3.6)	1.0
Gain on transactions not in a hedge relationship (ii)	-	(1.8)
Loss on ineffective portion of cash flow hedges	8.1	4.5
	4.5	3.7

- (i) The remeasurement of AusNet Services' borrowings in fair value hedges resulted in a loss before tax of \$305.6 million (2014: loss before tax of \$293.1 million). The change in fair value of the associated derivative financial instruments resulted in a gain before tax of \$309.2 million (2014: gain before tax of \$292.1 million), leaving a net \$3.6 million gain (2014: \$1 million loss) recognised in finance costs.
- (ii) In previous years a number of cash flow hedges no longer satisfied the requirements for hedge accounting and as such were de-designated. This was primarily due to the replacement of maturing Australian dollar debt with foreign currency debt. Notwithstanding that these borrowings and the related derivative financial instruments no longer satisfy the requirements for hedge accounting, they are in economic relationships that are effective in managing interest rate and currency risks, based on contractual face values and cash flows over the life of the transactions.

(d) Liquidity risk

Liquidity risk is defined as the risk of an unforeseen event which will result in AusNet Services not being able to meet its payment obligations in an orderly manner.

The Stapled Group manages liquidity risk by maintaining adequate cash reserves, committed banking facilities and reserve borrowing facilities and by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. These practices are governed by the Stapled Group's liquidity management policies, which include Board approved guidelines covering the maximum volume of long-term debt maturing in any one year, the minimum number of years over which debt maturities are to be spread and the timing of refinancing. In addition, short-term bank debt and commercial paper must not represent more than an agreed percentage of the total debt portfolio of AusNet Services.

The liquidity management policies ensure that the Stapled Group has a well-diversified portfolio of debt, in terms of maturity and source, which significantly reduces reliance on any one source of debt in any one particular year. In addition, the investment grade credit rating of the Stapled Group ensures ready access to both domestic and offshore capital markets.

(i) Contractual cash flows

Liquidity risk is managed by AusNet Services based on net inflows and outflows from financial assets and financial liabilities. The following table summarises the contractual cash flows of the Stapled Group's non-derivative and derivative financial assets and liabilities based on the remaining earliest contractual maturities. The contractual cash flows are based on undiscounted principal and interest commitments.

Notes to the combined financial statements

31 March 2015

Note 19 Financial risk management (continued)**(d) Liquidity risk (continued)***(i) Contractual cash flows (continued)*

		Principal at face value	Carrying amount	Total contractual cash flows	Less than 1 year	1 - 2 years	2 - 5 years	Greater than 5 years
2015	Notes	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Financial assets								
Non-derivative financial assets								
Cash and cash equivalents		883.1	883.1	883.1	883.1	-	-	-
Accounts and other receivables	9	696.1	696.1	865.4	504.6	21.6	61.4	277.8
Derivative financial assets								
Interest rate swaps			135.5	160.8	49.8	31.6	61.7	17.7
Cross-currency swaps			528.5	139.9	120.8	71.3	16.0	(68.2)
Forward foreign currency contracts			0.5					
- Inflow				6.5	6.1	0.2	0.2	-
- Outflow				(6.0)	(5.6)	(0.2)	(0.2)	-
			2,243.7	2,049.7	1,558.8	124.5	139.1	227.3
Financial liabilities								
Non-derivative financial liabilities								
Trade and other payables	14	472.9	472.9	472.9	472.9	-	-	-
Commercial paper	15	95.0	94.6	95.0	95.0	-	-	-
Bank debt facilities *	15	511.0	508.1	514.5	514.5	-	-	-
Domestic medium term notes	15	1,314.3	1,414.2	1,789.5	75.2	75.3	819.1	819.9
Floating rate notes	15	100.0	99.7	119.5	3.7	3.4	112.4	-
USD senior notes	15	484.5	518.5	543.2	30.3	512.9	-	-
GBP senior notes	15	537.5	540.9	625.8	34.7	34.7	556.4	-
CHF senior notes	15	1,075.0	1,364.7	1,398.0	666.5	347.2	384.3	-
HKD senior notes	15	287.7	376.6	489.6	13.1	13.1	157.9	305.5
JPY senior notes	15	62.6	55.9	61.9	0.7	0.8	2.3	58.1
EUR senior notes	15	2,078.3	2,076.1	2,365.1	43.5	43.4	130.2	2,148.0
NOK senior notes	15	159.7	166.8	234.2	5.9	5.8	17.5	205.0
Derivative financial liabilities								
Interest rate swaps			238.7	279.9	107.0	63.8	39.1	70.0
Cross-currency swaps			16.9	355.2	19.9	18.1	71.6	245.6
Forward foreign currency contracts			0.1					
- Inflow				(2.0)	(1.6)	(0.2)	(0.2)	-
- Outflow				2.1	1.7	0.2	0.2	-
			7,944.7	9,344.4	2,083.0	1,118.5	2,290.8	3,852.1
Net cash outflow				(7,294.7)	(524.2)	(994.0)	(2,151.7)	(3,624.8)

Notes to the combined financial statements

31 March 2015

Note 19 Financial risk management (continued)**(d) Liquidity risk (continued)***(i) Contractual cash flows (continued)*

2014	Notes	Principal at face value \$M	Carrying amount \$M	Total contractual cash flows \$M	Less than 1 year \$M	1 - 2 years \$M	2 - 5 years \$M	Greater than 5 years \$M
Financial assets								
Non-derivative financial assets								
Cash and cash equivalents		409.8	409.8	409.8	409.8	-	-	-
Accounts and other receivables	9	497.0	497.0	675.7	294.1	22.1	62.9	296.6
Derivative financial assets								
Interest rate swaps			78.5	105.2	13.5	15.5	33.6	42.6
Cross-currency swaps			185.7	(76.1)	(40.5)	23.2	(102.4)	43.6
Forward foreign currency contracts			0.1					
- Inflow				4.3	2.8	1.5	-	-
- Outflow				(4.2)	(2.7)	(1.5)	-	-
			1,171.1	1,114.7	677.0	60.8	(5.9)	382.8
Financial liabilities								
Non-derivative financial liabilities								
Trade and other payables	14	283.7	283.7	283.7	272.3	11.4	-	-
Commercial paper	15	90.0	89.5	90.0	90.0	-	-	-
Bank debt facilities *	15	553.0	548.9	547.9	547.9	-	-	-
Domestic medium term notes	15	1,185.0	1,211.1	1,662.6	76.3	76.3	495.0	1,015.0
Floating rate notes	15	100.0	99.7	133.0	4.3	4.7	17.5	106.5
USD senior notes	15	885.0	764.5	811.0	364.9	24.9	421.2	-
GBP senior notes	15	537.5	520.6	609.8	32.0	32.0	545.8	-
CHF senior notes	15	1,075.0	1,233.6	1,283.5	22.1	601.4	320.8	339.2
HKD senior notes	15	287.7	289.1	412.6	10.7	10.8	32.2	358.9
JPY senior notes	15	62.6	54.4	59.9	0.7	0.7	2.2	56.3
EUR senior notes		1,253.0	1,257.8	1,543.3	33.3	33.3	99.8	1,376.9
Derivative financial liabilities								
Interest rate swaps			133.7	144.1	72.4	46.3	9.8	15.6
Cross-currency swaps			172.3	499.1	73.3	10.2	217.4	198.2
Forward foreign currency contracts			0.1					
- Inflow				(2.6)	(2.0)	(0.2)	(0.4)	-
- Outflow				2.7	2.1	0.2	0.4	-
			6,659.0	8,080.6	1,600.3	852.0	2,161.7	3,466.6
Net cash outflow			(6,965.9)	(923.3)	(791.2)	(2,167.6)	(3,083.8)	

Notes to the combined financial statements

31 March 2015

Note 19 Financial risk management (continued)**(d) Liquidity risk (continued)***(i) Contractual cash flows (continued)*

* Bank debt facility drawings are due within the next twelve months and as such have been included within "less than 1 year". However, AusNet Services has the right to roll over these facilities until they ultimately mature in up to five years from the reporting date.

(ii) Financing facilities

The Stapled Group targets a minimum net liquidity, defined as available short-term funds and committed financing facilities. As at reporting date, AusNet Services had the following committed financing facilities available:

	2015	2014
	\$M	\$M
Financing facilities (face value)		
Unsecured bank overdraft facility, reviewed annually and payable at call:		
- Amount used	-	-
- Amount unused	2.5	2.5
	<u>2.5</u>	<u>2.5</u>
Unsecured working capital facility, reviewed annually:		
- Amount used	36.0	53.0
- Amount unused	64.0	47.0
	<u>100.0</u>	<u>100.0</u>
Unsecured bank loan facility with various maturity dates and which may be extended by mutual agreement:		
- Amount used	475.0	500.0
- Amount unused	300.0	700.0
	<u>775.0</u>	<u>1,200.0</u>

Notes to the combined financial statements

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Note 19 Financial risk management (continued)**(e) Credit risk**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Stapled Group and arises from the Stapled Group's financial assets, comprising cash and cash equivalents, trade and other receivables and derivative financial instruments.

The Stapled Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults (refer to note 9). The Stapled Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate values of transactions concluded are spread amongst approved counterparties. Revenues from a single customer, AEMO, in the Stapled Group's electricity transmission segment represents 27 per cent (2014: 27 per cent) of the Stapled Group's total revenues. AusNet Services is licensed to transmit electricity in Victoria whereas AEMO is the provider of shared network services and the planner, authoriser, contractor and director of augmentation of the declared shared network in Victoria. A network agreement is in place between both parties whereby AusNet Services receives network charges from AEMO for the use of AusNet Services' transmission network to transmit electricity to participants in the market. Due to the nature of this network agreement, AusNet Services does not believe that there is any significant credit risk exposure on this customer. AusNet Services therefore considers its credit risk exposure to be minimal.

In accordance with the Treasury Risk Policy, treasury counterparties each have an approved limit based on the lower of Standard & Poor's or Moody's credit rating. Counterparty limits are reviewed and approved annually by the Audit and Risk Management Committee and any changes to counterparties or their credit limits must be approved by the Chief Financial Officer and the Managing Director and must be within the parameters set by the Board as outlined in the Treasury Risk Policy.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies. At balance date, AusNet Services had \$810.9 million on term deposit and \$700.4 million of cross currency and interest rate swaps with 'A' rated or higher Australian and international banks.

Credit risk is included in the fair value of derivative financial instruments based on a bilateral credit risk adjustment obtained using credit default swap curves. The difference between the fair value of derivatives and their transaction price at inception due to credit valuation adjustments is recognised progressively over the period to maturity.

The unamortised value of the deferred credit risk adjustment for derivative financial instruments as at 31 March 2015 is \$42.2 million (2014: \$28.7 million).

Except as detailed in the following table, the carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the Stapled Group's maximum exposure to credit risk. The values disclosed below represent the market values in the event of early settlement (in-the-money market values), which differ from the carrying values and as such do not agree to the statement of financial position. The values below exclude any offsetting financial liabilities with the particular counterparty.

	2015	2014
	\$M	\$M
Financial assets and other credit exposures		
Cross-currency swaps	547.1	186.3
USD interest rate swaps	15.6	18.0
AUD interest rate swaps	137.7	71.3

Notes to the combined financial statements

31 March 2015

Note 19 Financial risk management (continued)

(f) Fair value of financial assets and liabilities

The fair values of financial assets and liabilities are measured in accordance with generally accepted pricing models based on discounted cash flow analysis.

The only financial instruments measured at fair value subsequent to initial recognition are derivative financial instruments. Derivative financial instruments are initially recognised at fair value in the statement of financial position and subsequently remeasured to their fair value at each reporting date. Accordingly there is no difference between the carrying value and fair value of derivative financial instruments at reporting date. Fair value is measured using valuation techniques and significant market observable data as well as market corroboration based on active quotes. These include industry standard interest rates, foreign exchange and currency basis yield curves sourced directly from Bloomberg.

In addition, an adjustment to the fair value for all cross currency and interest rate swap contracts is applied for credit risk in accordance with AASB 13 *Fair Value Measurement*. Credit risk is obtained directly from the observable Credit Default Swap curves within Bloomberg for each of the relevant counterparties, with the Bilateral Credit Risk applied uniformly across all asset and liability positions as at the reporting date.

As such, fair value measurements are deemed level two within the fair value hierarchy as per AASB 13. The Stapled Group does not have any financial instruments which would be categorised as either level one or three of the fair value hierarchy.

The Stapled Group also has a number of financial assets and liabilities which are not measured at fair value in the combined statement of financial position. With the exception of borrowings (refer to note 15), the carrying amounts of these items are considered to be a reasonable approximation of their fair value at 31 March 2015.

Notes to the combined financial statements

31 March 2015

Note 20 Critical accounting estimates and judgements

The Stapled Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Accounting estimates and judgements where changes in those estimates and judgements could result in a significant change to the carrying amounts of assets and liabilities within the next financial year are detailed below:

(a) Determination of CGU's and estimated recoverable amount of intangible assets with an indefinite useful life and associated tangible assets

For the purpose of impairment testing, assets have been allocated to CGUs. Each CGU represents a group of assets that generates cash inflows independent from other groups of assets.

The following CGUs have significant amounts of intangible assets with an indefinite useful life:

	2015	2014
	\$M	\$M
CGU		
Electricity distribution (distribution licence)	117.2	117.2
Gas distribution (distribution licence)	237.3	237.3
Asset Solutions business (goodwill)	11.8	11.8
Geomatic Technologies (goodwill)	23.7	24.4
	390.0	390.7

Recoverable amount is the higher of fair value less costs to sell and value in use.

In terms of the distribution licences, management has based its assessment of fair value less costs to sell on discounted cash flow projections over a period of 20 years together with an appropriate terminal value incorporating growth rates based on the long-term Consumer Price Index assumption of 2.6 per cent. Regulated cash flow forecasts are based on allowable returns on electricity and gas distribution assets as set out in the Victorian Electricity Supply Industry Tariff Order and the Victorian Gas Industries Tariff Order respectively, together with other information included in the Stapled Group's five-year forecast. Cash flows after that period are based on an extrapolation of the forecast, taking into account inflation and expected customer connection growth rates. It is considered appropriate to use cash flows after AusNet Services' five-year forecast period considering the long-term nature of the Stapled Group's activities. Cash flows are discounted using a post-tax discount rate of 5.0 per cent (2014: 6.3 to 6.5 per cent).

AusNet Services has determined that the assets under the AMI program form part of the electricity distribution CGU as the AMI assets are required, together with the rest of the electricity distribution network, in order to provide a network service to customers. As a result, the AMI assets are tested for impairment together with the electricity distribution regulated network assets and cash flows.

While the AMI assets are part of the electricity distribution CGU, certain AMI communication modules have been determined to be no longer of use and as such have been written off. This write-off resulted in a charge of \$28.1 million being recognised in the income statement. Refer to note 4 (ii) for further details.

In terms of the Asset Solutions business CGU and the Geomatic Technologies CGU, which are part of the Select Solutions reportable segment, management has based its assessment of fair value less costs to sell on discounted cash flow projections over a period of five years together with an appropriate terminal value. Cash flows are discounted using a post-tax discount rate of 8.6 per cent (2014: 10.4 per cent) for Asset Solutions and post-tax discount rate of 12.5 per cent for Geomatic Technologies.

The rates used for each CGU reflect current market assessments of the time value of money and risks specific to the assets that are not already reflected in the cash flows.

Appropriate terminal values were calculated using a range of both RAB multiples and market earnings before interest, tax, depreciation and amortisation multiples. Fair value less costs to sell is measured using inputs that are not based on significant observable market data. Therefore, they are considered to be level three within the fair value hierarchy as per AASB 13 *Fair Value Measurement*.

Notes to the combined financial statements

31 March 2015

Note 20 Critical accounting estimates and judgements (continued)

(b) Accrued revenue

Revenue accrual estimates are made to account for the unbilled period between the end user's last billing date and the end of the accounting period. The accrual relies on detailed analysis of customers' historical consumption patterns, and takes into account base usage and sensitivity to prevailing weather conditions. The results of this analysis are applied for the number of days and weather conditions over the unbilled period.

The accrual for solar rebates paid to retailers is calculated by applying the average rebate per day (based on the amount billed) to the number of unbilled days at month end.

(c) Useful lives of property, plant and equipment

Depreciation is recognised on property, plant and equipment, including freehold buildings but excluding land and easements. Depreciation is calculated on a straight-line basis so as to write off the net cost of each asset over its estimated useful life to its estimated residual value. The estimated useful lives, residual values and depreciation methods are reviewed annually. Assumptions are made regarding the useful lives and residual values based on the regulatory environment and technological developments. These assumptions are subject to risk and there is the possibility that changes in circumstances will alter expectations.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. For the year ended 31 March 2015, amendments to the useful life assumptions of certain AMI assets have been made following the finalisation of the plan to stabilise the AMI system performance in September 2014. These amendments have not had a material impact on the financial performance or financial position of the Stapled Group for the year.

(d) Income taxes

The tax expense and deferred tax balances assume certain tax outcomes and values of assets in relation to the application of tax legislation as it applies to AusNet Services Distribution and AusNet Services Transmission. These outcomes affect factors such as the quantification and utilisation of tax losses, capital allowance deductions and the taxation treatment of transactions between members of the Stapled Group.

The tax expense assumes that AusNet Services Distribution can carry forward income tax losses under relevant tax legislation and is more likely than not to utilise them in the future. If either of these assumptions is proven to be incorrect, then the deferred tax asset recognised for carry forward tax losses may need to be derecognised.

Judgements have been made regarding the application of income tax legislation, including in regard to the deductibility of the Section 163AA imposts and intellectual property which are currently in dispute with the ATO (refer note 23). The accounting treatment adopted for each of these matters reflects these current judgements and assumptions.

(i) Tax impact of corporate restructure

AusNet Services has received tax rulings in relation to the potential restructure that will result in the cancellation of \$510 million of tax losses that are subject to the Same Business Test if the restructure is implemented. The tax losses continue to be recognised at 31 March 2015 and will continue to be recognised until the restructure is implemented.

Notes to the combined financial statements

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Note 20 Critical accounting estimates and judgements (continued)

(e) Derivative financial instruments

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

Derivative financial instruments are recognised at fair value and are measured using market observable data, and where appropriate, are adjusted for credit risk, liquidity risk and currency basis risk. Therefore, they are deemed level two within the fair value hierarchy as per AASB 13 *Fair Value Measurement*.

Derivative financial instruments are used only for risk management strategies and are not actively traded.

The fair value of derivative financial instruments is determined in accordance with generally accepted pricing models based on discounted cash flow analysis. This involves the valuation of derivative financial instruments based on prices sourced from significant observable market data as well as market corroboration based on active quotes. Appropriate transaction costs are included in the determination of net fair value.

(f) Provisions

(i) Defined benefit plans

A number of estimates and assumptions are used in determining defined benefit assets, obligations and expenses. These estimates include salary increases, future earnings and rates of return. Any difference in estimates will be recognised in other comprehensive income and not through the income statement.

The net liability from defined benefit obligations recognised in the combined statement of financial position will be affected by any significant movement in investment returns and/or interest rates.

Each year AusNet Services engages Mercer Investment Nominees Limited to perform actuarial reviews of the AusNet Transmission Group Pty Ltd and AusNet Electricity Services Pty Ltd defined benefit funds.

In addition, prior to the termination of the MSA on 31 March 2014, the management services charges under the MSA included any actuarial gains or losses incurred by the SPIMS defined benefit plan as well as any defined benefit plan expenses. Assumptions were made by SPIMS regarding salary increases, discount rates and rates of return on assets which impacted on the services charge to the Stapled Group. Following the transfer of SPIMS employees to AusNet Services, the defined benefit obligation and plan assets of SPIMS were transferred to the Stapled Group's two funds.

(ii) Environmental provision

A provision for environmental costs is made for the remediation of contamination on gas sites which were previously used as coal gas production facilities. The provision is based on the estimated costs and timing of remediation/refurbishment, taking into account current legal requirements, the estimated extent of the contamination, the nature of the site and surrounding areas, and the technologies and methods available.

(g) Contingent liabilities and contingent assets

Judgements are made in relation to uncertain future events surrounding ATO disputes that may impact the Stapled Group's present obligations. Refer note 23 for further details.

Notes to the combined financial statements

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Note 21 Key management personnel

	2015	2014
	\$	\$
Short-term employee benefits	5,564,031	5,543,528
Post-employment benefits	411,091	383,017
Equity-based payments	1,096,875	1,159,339
Other long-term benefits	162,158	142,167
	7,234,155	7,228,051

The Remuneration Report contained in the Directors' report contains details of the remuneration paid or payable to each member of AusNet Services Distribution Group's key management personnel for the year ended 31 March 2015.

Note 22 Remuneration of auditors

During the year the following fees were paid or payable for services provided by KPMG and its related practices:

(a) Audit and review services

	2015	2014
	\$'000	\$'000
Audit and review of financial statements	1,527	1,473
Audit of regulatory returns (i)	632	891
Total remuneration for audit and review services	2,159	2,364

(b) Other services

Other assurance, taxation and advisory services	547	170
Total remuneration for other services	547	170
Total remuneration of auditors	2,706	2,534

- (i) It is the Stapled Group's policy to employ KPMG to perform the audit of regulatory returns as these returns represent an extension of statutory audit services and need to be performed by the same audit firm to gain efficiencies and effectiveness in performing these audits.

Notes to the combined financial statements

31 March 2015

Note 23 Contingent liabilities and contingent assets

Details of contingent liabilities and contingent assets of the Stapled Group are as follows:

(a) Section 163AA impost

During August 2011, the ATO issued amended assessments to AusNet Services in respect of the 2001 to 2006 income years, disallowing deductions claimed in respect of fees imposed under Section 163AA of the *Electricity Industry Act 1993* (Vic) in the 1999 to 2001 tax years. Under the amended assessments, the amount of primary tax payable is \$54 million.

In October 2011, AusNet Services paid \$30.6 million under a part-payment arrangement agreed with the ATO. A general interest charge continues to accrue in respect of unpaid tax under the payment arrangement, in addition to the total amount disclosed on the amended assessments.

AusNet Services lodged a notice of appeal and other documents in the Federal Court, appealing the ATO's amended assessments. On 7 April 2014, the Federal Court delivered judgment against AusNet Services' appeal. On the basis of this ruling, AusNet Services recognised the full amount potentially payable in the financial statements net of the amount part-paid. As at 31 March 2015 the net tax potentially payable is \$59.1 million.

On 12 December 2014 AusNet Services was granted special leave to appeal the High Court of Australia in relation to the decision of the Full Federal Court. The High Court heard the appeal on 9 April 2015, and judgment is expected in the first half of 2015. AusNet Services continues to believe that the fees imposed under Section 163AA are deductible.

(b) Intellectual Property

During September 2011 and October 2011, the ATO issued amended assessments to AusNet Services in respect of the 2001 to 2010 income years, disallowing deductions claimed in respect of intellectual property in each of those income years. Under the amended assessments, the amount payable is \$44 million (representing \$27.4 million of primary tax, plus an interest and administrative penalty component of \$16.6 million).

In November 2011, AusNet Services lodged notices of objection in relation to the amended assessments issued, with AusNet Services making a part-payment of \$17.1 million. A general interest charge continues to accrue in respect of unpaid tax under the payment arrangement, in addition to the total amount disclosed on the amended assessments. As at 31 March 2015, the total amount in dispute for intellectual property deductions, including additional accrued interest on the unpaid portion of the amended assessments, is \$53.4 million.

AusNet Services lodged a notice of appeal and other documents in the Federal Court. The Federal Court delivered judgment in favour of AusNet Services on 25 March 2014. The ATO subsequently lodged a notice of appeal in the Federal Court on 15 April 2014.

The ATO appeal was heard in the Full Court of the Federal Court in November 2014. On 6 May 2015, the Full Court allowed the ATO appeal in respect of the pre tax consolidation years, being 1998 to October 2005. The Federal Court's decision to remit the \$2.3 million penalty imposed in respect of this period was not overturned. In relation to the post tax consolidation years (being October 2005 to 2011), the Full Court ordered that the matter be remitted back to the primary judge of the Federal Court for further hearing and determination.

In light of this judgment from the Full Court, and the significant uncertainty that has arisen, AusNet Services has recognised an \$84.1 million tax charge for the year ended 31 March 2015. This represents the net exposure of the total dispute, after taking into account the deductibility of the interest component and excluding the \$2.3 million of penalties.

(c) Other

AusNet Services is involved in various other legal and administrative proceedings and various claims on foot, including two smaller bushfire class actions relating to fires that occurred in February 2014. In the opinion of AusNet Services, the ultimate resolution of these matters should not have a material effect on the combined financial position, results of operations or cash flows.

Other than listed above, the Directors are not aware of any contingent liabilities as at 31 March 2015.

Notes to the combined financial statements

31 March 2015

Note 23 Contingent liabilities and contingent assets (continued)**(d) Prior year contingent liabilities**

As at 31 March 2014, the Kilmore East and Murrindindi bushfire litigation proceedings were considered to be contingent liabilities. During the year ended 31 March 2015 both matters were settled and as such are no longer contingent liabilities, with AusNet Services' share of each settlement being fully covered by insurance. Both settlements were reached without admission of liability by AusNet Services or any other party. Refer to note 14 for further details regarding the Murrindindi bushfire.

Note 24 Commitments**(a) Capital commitments**

Capital expenditure contracted for at the reporting date but not recognised as a liability is as follows:

	2015	2014
	\$M	\$M
Property, plant and equipment	352.2	359.4

(b) Lease commitments

Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities are as follows:

	2015	2014
	\$M	\$M
Payable:		
Within one year	18.0	17.0
Later than one year, but no later than five years	56.1	34.7
Later than five years	15.8	16.0
	89.9	67.7
Representing:		
Non-cancellable operating leases	89.9	67.7

Operating leases

The Stapled Group's leases relate to premises, vehicles, network land and access sites under non-cancellable operating leases expiring within one to seven years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

Notes to the combined financial statements

31 March 2015

Note 25 Related party transactions

(a) Parent entities

By virtue of the Stapling deed effective 21 October 2005, AusNet Services Distribution is deemed to be the parent entity of the Stapled Group. Parent entity disclosures have been presented in note 27.

Prior to 3 January 2014, the immediate parent of AusNet Services Distribution was Singapore Power International Pte Ltd (SPI) and the ultimate parent was Temasek Holdings (Private) Limited (Temasek). SPI is a wholly-owned subsidiary of Temasek. Temasek's shareholder is the Minister for Finance, a body corporate under the Minister for Finance (Incorporation) Act, Chapter 183 of Singapore. Both SPI and Temasek are incorporated in Singapore.

On 3 January 2014 State Grid Corporation of China (State Grid) acquired a 19.9 per cent securityholding in the Stapled Group from SPI. Whilst SPI continues to be the largest shareholder in AusNet Services with a stake of 31.1 per cent, they ceased to be the parent of AusNet Services from that date. Under applicable accounting standards, both SPI and Temasek and their subsidiaries continue to be a related party of AusNet Services. These entities are not considered related parties under the *Corporations Act 2001*.

On 3 January 2014 SPI also divested 60 per cent of its securityholding in Jemena Asset Management Pty Ltd (referred to as Jemena) to State Grid. Under applicable accounting standards, State Grid and its subsidiaries (including Jemena) are related parties of AusNet Services. These entities are not considered related parties under the *Corporations Act 2001*.

(i) Logo

Up until 31 March 2014, Singapore Power Limited granted AusNet Services a licence for consideration of \$1 million per year to use the 'flame logo' and image in connection with its business and the use of the terms 'SP', 'SP Australia Networks' and 'SP AusNet'. The fee payable was on normal commercial terms. This arrangement ceased on 30 September 2014 when AusNet Services discontinued the use of the logo, and other 'SP' related branding.

(b) Other related parties

(i) Management Services Agreements (MSAs)

SPIMS is a wholly-owned subsidiary of related party SPI, and up until 31 March 2014 was a party to two management services agreements (MSAs) with AusNet Services Distribution and AusNet Services Transmission, and the Responsible Entity respectively. Prior to 31 March 2014, AusNet Services' senior management were employees of SPIMS. SPIMS charged AusNet Services various management service and performance fees in relation to these employees. The MSAs were terminated on 31 March 2014 and all SPIMS employees became AusNet Services employees. There were no further management service or performance fee payments under the MSA from 1 April 2014.

(ii) Long-term operational agreement

On 29 September 2008, AusNet Services entered into an agreement with the Singapore Power Group on a number of operational arrangements. AusNet Services through Select Solutions provides end-to-end metering services, technical services and vegetation management services to the electricity and gas networks owned and managed by Jemena. As part of the agreement, Jemena's contestable metering customer contracts were novated to AusNet Services who took over the responsibility for delivering contestable metering services to those customers.

To ensure continued capital investment and deliver network growth, Jemena was appointed to AusNet Services' preferred supplier panel, securing resources for the delivery of AusNet Services' capital portfolio.

Each of the above arrangements was for an initial five-year term and were renewed in August 2013 for an additional three year term. The agreements will then continue for further five year terms unless terminated by either party by giving notice to terminate at the end of the current term. The arrangements may also be terminated early by either party in certain circumstances.

Notes to the combined financial statements

31 March 2015

Note 25 Related party transactions (continued)**(b) Other related parties (continued)***(iii) IT services agreement*

On 29 September 2008, AusNet Services entered into an agreement with a wholly owned subsidiary of SPIMS, Enterprise Business Services (Australia) Pty Ltd (EBS), for it to be the exclusive provider to AusNet Services of IT services. The agreement was for an initial term of seven years, however, following the termination of the MSAs, these IT services were internalised into AusNet Services' business on 1 July 2014. EBS employees who had provided these services became AusNet Services employees from that date.

(c) Key management personnel

Disclosures relating to Directors and other key management personnel are set out in note 21.

(d) Transactions with related parties

Prior to 3 January 2014 the ultimate parent of AusNet Services was Temasek. AusNet Services engages in a wide variety of transactions with entities in the Temasek Group in the normal course of business on terms similar to those available to other customers. Such transactions include but are not limited to telecommunication services and leasing of properties. These related party transactions are carried out on terms negotiated between the parties which reflect an arm's-length basis. As a result, transactions with Temasek interests other than the Singapore Power Group have been excluded from the disclosures below.

AusNet Services also provides electricity distribution and electricity transmission services to the Singapore Power Group and Jemena. AusNet Services earns a regulated return from the provision of these services as these services are regulated by the AER.

The following transactions occurred with related parties within the Singapore Power and State Grid groups for the entire financial year:

	2015 \$'000	2014 \$'000
Sales of goods and services		
Regulated revenue (i)	9,346	26,141
Service revenue	53,582	62,601
Other revenue	366	155
Purchases of goods and services		
Management services charge	-	19,558
Performance fees	-	22,189
Termination fee	-	50,000
Flame logo fee	500	1,000
Other expenses	14,664	42,224
Property, plant and equipment	38,875	56,949
Distributions paid		
Distributions paid (net of DRP)	91,392	131,065
(i) Represents revenues from the provision of electricity distribution and electricity transmission services which are regulated by the AER.		

Notes to the combined financial statements

31 March 2015

Note 25 Related party transactions (continued)**(e) Outstanding balances**

The following balances are outstanding at the reporting date in relation to transactions with related parties within the Singapore Power and State Grid groups:

	2015	2014
	\$'000	\$'000
Current receivables (sale of goods and services)		
Singapore Power entities	-	128
Other related parties (i)	9,255	11,362
Other current assets (prepayments)		
Singapore Power entities	-	500
Current payables and other liabilities (purchase of goods)		
Singapore Power entities	34	46,906
Other related parties	12,560	12,551

No allowance for impairment loss has been raised in relation to any outstanding balances due from related parties.

- (i) Includes outstanding amounts from the provision of electricity distribution and electricity transmission services which are regulated by the AER.

Notes to the combined financial statements

31 March 2015

Note 26 Subsidiaries

The Stapled Group's financial statements incorporate the assets, liabilities and results of the following subsidiaries of the stapled entities in accordance with the accounting policy described in note 1(b):

Name of entity	Country of incorporation	Class of shares	Equity holding	
			2015 %	2014 %
AusNet Services (Distribution) Ltd	Australia	Ordinary		
AusNet Services Ltd (i)	Australia	Ordinary	100	-
AusNet Services (RE) Ltd	Australia	Ordinary	100	100
AusNet Distribution Group Pty Ltd	Australia	Ordinary	100	100
AusNet LDP (No.1) Ltd	UK	n/a	100	100
AusNet LDP (No.2) Ltd	UK	n/a	100	100
AusNet Holdings General Partner Pty Ltd	Australia	Ordinary	100	100
AusNet Holdings (Partnership) Limited Partnership	Australia	n/a	100	100
AusNet Services Holdings Pty Ltd	Australia	Ordinary	100	100
AusNet Electricity Services Pty Ltd	Australia	Ordinary	100	100
AusNet Asset Services Pty Ltd	Australia	Ordinary	100	100
AusNet (No. 8) Pty Ltd	Australia	Ordinary	100	100
AusNet (No. 9) Pty Ltd	Australia	Ordinary	100	100
AusNet Gas Services Pty Ltd	Australia	Ordinary	100	100
Select Solutions Group Pty Ltd	Australia	Ordinary	100	100
AusNet Services (Transmission) Ltd *	Australia	Ordinary		
AusNet Transmission Group Pty Ltd	Australia	Ordinary	100	100
AusNet Finance Pty Ltd	Australia	Ordinary	100	100
Geomatic Holdings Pty Ltd	Australia	Ordinary	100	100
Geomatic Technologies Pty Ltd	Australia	Ordinary	100	100
AusNet Services Insurance Ltd (ii)	Guernsey	Ordinary	100	-

AusNet Services Finance Trust ***Australia Ordinary**

(i) AusNet Services Ltd was incorporated on 11 December 2014 for the purposes of effecting the corporate restructure which is proposed to be implemented in June 2015. Under the restructure, AusNet Services Ltd will be the listed entity owned by the securityholders, with AusNet Services Distribution, AusNet Services Transmission and AusNet Services Finance Trust being subsidiaries of AusNet Services Ltd.

(ii) AusNet Services Insurance Ltd was incorporated as a subsidiary of AusNet Transmission Group Pty Ltd on 8 May 2014 for the purposes of providing insurance services to the Stapled Group.

* In accordance with AASB 3 *Business Combinations*, AusNet Services Distribution is deemed to have acquired AusNet Services Transmission and AusNet Services Finance Trust at the date of stapling. This acquisition is by contract alone and AusNet Services therefore does not have an equity holding in either entity.

Notes to the combined financial statements

31 March 2015

Note 27 Parent entity information**(a) Statement of financial position**

	2015	2014
	\$M	\$M
Current assets	-	0.3
Non-current assets	2,331.3	2,665.0
Total assets	2,331.3	2,665.3
Current liabilities	1,236.3	1,204.5
Non-current liabilities	233.1	368.7
Total liabilities	1,469.4	1,573.2
Contributed equity	0.5	0.5
Retained profits	861.4	1,091.6
Total equity	861.9	1,092.1

The parent entity has a net current asset deficiency of \$1,236.3 million as at 31 March 2015. The parent entity is considered to be a going concern as the deficiency arises from related party loans with AusNet Services Finance Trust. The Directors expect that following implementation of the restructuring of the Stapled Group in June 2015, the parent entity will be able to settle these obligations in a manner which will not require it to obtain further financing. In the event that the restructure is not implemented, the parent entity will need to refinance these loans.

The parent entity has access to funds through AusNet Services Holdings Pty Ltd, which is the common or central funding vehicle for AusNet Services.

(b) Statement of comprehensive income

	2015	2014
	\$M	\$M
Loss for the year	(230.2)	(77.0)
Total comprehensive income for the year	(230.2)	(77.0)

(c) Contingent liabilities

Other than the contingent liabilities disclosed in note 23, the Directors are not aware of any other contingent liabilities of the parent entity as at 31 March 2015.

Notes to the combined financial statements

31 March 2015

Note 28 Reconciliation of profit after income tax to net cash flows from operating activities

	2015	2014
	\$M	\$M
Profit for the year	22.6	178.3
Depreciation and amortisation of non-current assets	379.2	369.7
Net loss on sale of non-current assets	7.0	8.1
Write-off of assets	28.1	-
Contributed assets	(20.1)	(30.1)
Loss on accounting for hedge relationships	4.5	3.7
ATO settlement – cancellation of losses	118.0	-
Intellectual property tax dispute – write-off of deferred tax asset	40.1	-
Other non-cash items	37.1	14.0
Net cash from operations before changes in operating assets and liabilities	616.5	543.7
(Increase)/decrease in receivables	(204.7)	15.0
(Increase)/decrease in inventories	(4.5)	5.0
(Increase)/decrease in other assets	(0.8)	(4.9)
Increase/(decrease) in payables and other liabilities	244.5	64.2
Increase/(decrease) in net other financial assets and liabilities	(2.2)	(8.8)
Increase/(decrease) in provisions	20.2	21.3
Movement in tax balances	98.6	94.7
Net cash inflow from operating activities	767.6	730.2

Note 29 Events occurring after the balance sheet date**(a) Corporate restructure**

On 14 November 2014, AusNet Services announced a restructure and simplification proposal whereby existing stapled entities would become wholly-owned by a new listed entity (to be called AusNet Services Ltd). The restructure is to be implemented by way of company and trust schemes of arrangement and is subject to due diligence, applicable regulatory approvals and the approval of securityholders and the court.

The restructure and simplification proposal, if implemented, is expected to have a number of financial impacts on AusNet Services' financial statements. Most notably:

- \$510 million of tax losses will be cancelled which will result in an increase to deferred tax liabilities and a one-off increase to tax expense of \$153 million; and
- there will be an increase in the tax base of AusNet Services' assets due to the application of the tax consolidation provisions which will result in a decrease to deferred tax liabilities and a one-off decrease to tax expense. The actual quantum of this tax base adjustment will be determined at the time that the proposal is implemented.

Notes to the combined financial statements

31 March 2015

Note 29 Events occurring after the balance sheet date (continued)**(b) Distribution**

Since the end of the financial year, the Directors have approved a final distribution for 2015 of \$144.9 million (4.18 cents per stapled security) to be paid on 26 June 2015. If the restructure is implemented prior to the distribution payment date, as is currently anticipated (subject to Court and securityholder approval), the final distribution will be comprised as follows:

	Cents per security	Total distribution \$M
Franked dividend payable by AusNet Services Ltd	2.508	86.9
Unfranked dividend payable by AusNet Services Ltd	1.672	58.0
	4.180	144.9

If the restructure is not implemented prior to the distribution payment date, the final distribution will be comprised as follows:

	Cents per security	Total distribution \$M
Fully franked dividend payable by AusNet Services Transmission	2.217	76.8
Interest income payable by AusNet Services Finance Trust	1.963	68.1
	4.180	144.9

(c) Bushfire litigation

On 6 February 2015, AusNet Services and the other parties to the Murrindindi Class Action agreed to settle the action. The settlement is without admission of liability by AusNet Services or any other party. As at 31 March 2015, AusNet Services recognised this settlement in the financial statements as both a liability and a corresponding asset to be received from insurers. The settlement agreement is subject to the approval of the Supreme Court of Victoria.

(d) Intellectual property tax dispute

On 6 May 2015, the Full Court of the Federal Court allowed the ATO appeal in relation to the intellectual property tax dispute for the pre tax consolidation years, being 1998 to October 2005. The Federal Court's decision to remit the \$2.3 million penalty imposed in respect of this period was not overturned. In relation to the post tax consolidation years (being October 2005 to 2011), the Full Court ordered that the matter be remitted back to the primary judge of the Federal Court for further hearing and determination.

(e) Other matters

Other than outlined above, there has been no matter or circumstance that has arisen since 31 March 2015 up to the date of issue of this financial report that has significantly affected or may significantly affect:

- (a) the operations in financial years subsequent to 31 March 2015 of the Stapled Group;
- (b) the results of those operations; or
- (c) the state of affairs, in financial years subsequent to 31 March 2015, of the Stapled Group.

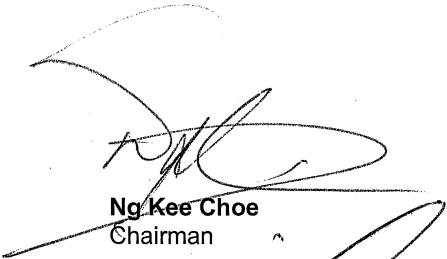
Directors' declaration

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

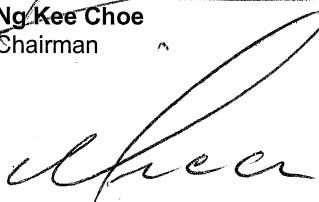
- (a) the financial statements and notes set out on pages 44 to 110, and the remuneration disclosures that are contained in the *Remuneration report* set out on pages 27 to 40 in the *Directors' report*, are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
 - (ii) giving a true and fair view of the combined entity's financial position as at 31 March 2015 and of its performance for the financial year ended on that date.
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1(a); and
- (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The Directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001*.

Signed in accordance with a resolution of the Directors.



Ng Kee Choe
Chairman



Nino Ficca
Managing Director

Melbourne
13 May 2015

Independent auditor's report to the members of AusNet Services (Distribution) Ltd, AusNet Services (Transmission) Ltd and AusNet Services Finance Trust

Report on the financial report

We have audited the accompanying financial report of AusNet Services (Distribution) (the Company), which comprises the combined statement of financial position as at 31 March 2015, and combined income statement and combined statement of comprehensive income, combined statement of changes in equity and combined statement of cash flows for the year ended on that date, notes 1 to 29 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration. The financial report includes the financial statements of the combined entity, being AusNet Services (Distribution) Ltd and the entities it controlled at the year's end or from time to time during the financial year, AusNet Services (Transmission) Ltd and the entities it controlled at the year's end or from time to time during the financial year, and AusNet Services Finance Trust ("the Combined Entity").

Directors' responsibility for the financial report

The directors of the Company, AusNet Services (Transmission) Ltd and the directors of the responsible entity of AusNet Services Finance Trust, AusNet Services (RE) Ltd, are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In note 1(a), the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Combined Entity comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Combined Entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Combined Entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Combined Entity's financial position and of its performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

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

Auditor's opinion

In our opinion:

(a) the financial report of the Combined Entity is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Combined Entity's financial position as at 31 March 2015 and of its performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1(a).

Report on the remuneration report

We have audited the Remuneration Report included in pages 25 to 38 of the directors' report for the year ended 31 March 2015. The directors of the Company and of AusNet Services (Transmission) Ltd, and the directors of the responsible entity of AusNet Services Finance Trust, AusNet Services (RE) Ltd, are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the remuneration report of AusNet Services (Distribution) Ltd for the year ended 31 March 2015, complies with Section 300A of the *Corporations Act 2001*.



KPMG



Michael Bray
Partner

Melbourne

13 May 2015

AusNet Services (Distribution) Ltd (formerly SP Australia Networks (Distribution) Ltd)
ACN 108 788 245

Interim Financial Report

For the financial period ended 30 September 2014

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This interim financial report covers the combined entity consisting of AusNet Services (Distribution) Ltd and its subsidiaries, AusNet Services (Transmission) Ltd and its subsidiaries, and AusNet Services Finance Trust. The interim financial report is presented in Australian dollars.

AusNet Services (Distribution) 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 for the year ended 31 March 2014, and any public announcements made by AusNet Services 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 11 November 2014.

Directors' report

The Directors of AusNet Services (Distribution) Ltd (AusNet Services Distribution) present their report on the general purpose interim financial report of the combined entity for the financial period ended 30 September 2014.

This general purpose interim financial report has been prepared as a consolidation of the financial statements of AusNet Services Distribution and its subsidiaries, AusNet Services (Transmission) Ltd (AusNet Services Transmission) and its subsidiaries and AusNet Services Finance Trust as if all entities operate together. They are therefore treated as a combined entity (the Stapled Group or AusNet Services).

AusNet Services Distribution, AusNet Services Transmission, AusNet Services Finance Trust, and AusNet Services were formerly known as SP Australia Networks (Distribution) Ltd, SP Australia Networks (Transmission) Ltd, SP Australia Networks (Finance) Trust, and SP AusNet respectively up until 4 August 2014.

Pursuant to the Stapling Deed effective 21 October 2005, the Stapled Group was established for the purpose of facilitating a joint quotation of AusNet Services Distribution, AusNet Services Transmission and AusNet Services Finance Trust on the Australian Securities Exchange (ASX) and the Singapore Exchange Securities Trading Limited (SGX-ST). The Stapled Group was listed on 14 December 2005.

So long as the three entities remain jointly quoted, the number of shares in each of AusNet Services Distribution and AusNet Services Transmission and the number of units in AusNet Services Finance Trust shall be equal and shareholders and unitholders shall be identical.

Directors

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

Non-executive Directors

Ng Kee Choe (Chairman)

Ralph **Craven**

Jeremy Guy Ashcroft **Davis** AM (resigned effective 17 July 2014)

Sally Marie **Farrier**

Eric **Gwee** Teck Hai (resigned effective 17 July 2014)

Ho Tian Yee

Antonino (Tony) Mario **Iannello**

Tina Renna **McMeckan**

Ian Andrew **Renard** AM

Sun Jianxing

Executive Director

Nino **Ficca** (Managing Director)

Restructure and simplification proposal

AusNet Services is considering a restructure and simplification proposal (Proposal) under which the existing stapled entities would become wholly owned by a new listed entity (expected to be called AusNet Services Ltd). The Proposal is subject to due diligence, applicable regulatory approvals and final Board approval. It would be implemented by way of company and trust schemes of arrangement and require the approval of securityholders and the Court. An explanatory memorandum and securityholder meeting date will be notified in due course. AusNet Services is targeting an implementation within the 2015 financial year.

Directors' report

Restructure and simplification proposal (continued)

If the Proposal is approved and implemented:

- eligible securityholders will simply hold shares in AusNet Services Ltd (instead of their current triple-stapled security) in the same proportion as the stapled securities they currently hold*;
- there will be no capital raising or return of capital as part of the Proposal and securityholders will not be required to pay any cash consideration;
- there will be no impact on FY15 distribution guidance of 8.36 cents per security;
- there will be no change to the composition of the AusNet Services Board, management or the operations of AusNet Services as a result of any restructure; and
- future periodic distributions are expected to be paid entirely as dividends and AusNet Services expects that there will be a higher franked component of future distributions but those distributions will not include any AusNet Services Finance Trust distribution components as they have historically.

Review of operations for the period ended 30 September 2014

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

	30 September 2014 \$M	30 September 2013 \$M	Movement \$M	%
Revenue	971.3	961.2	10.1	1.1
EBITDA	529.4	581.8	(52.4)	(9.0)
Net (loss)/profit after tax	(4.9)	97.7	(102.6)	(105.0)
Adjusted EBITDA ^{1, 3}	566.9	593.8	(26.9)	(4.5)
Adjusted net profit after tax ^{2, 3}	184.4	192.8	(8.4)	(4.4)

Notes:

- 1 Adjusted earnings before interest, tax, depreciation and amortisation (EBITDA) excludes \$12.0 million in performance fees recognised for the period ended 30 September 2013, and excludes the recognition of a provision for Advanced Metering Infrastructure (AMI) customer rebates of \$37.5 million for the period ended 30 September 2014.
- 2 As well as the after-tax impact of the items listed for adjusted EBITDA above, adjusted net profit after tax also excludes \$86.7 million for the amount potentially payable as at 30 September 2013 in respect of Section 163AA disputes, and excludes recognition of \$163.0 million in income tax expense for the settlement with the Australian Taxation Office (ATO) in relation to the intra-group financing audit for the period ended 30 September 2014.
- 3 Adjusted EBITDA and adjusted net profit after tax are non-IFRS measures and have not been subject to audit or review.

AusNet Services achieved EBITDA for the period ended 30 September 2014 of \$529.4 million, a decrease of \$52.4 million or 9.0 per cent over the previous corresponding period. This was largely due to the recognition of a provision for AMI customer rebates of \$37.5 million and impairment of AMI assets of \$15.0 million (refer to 'AMI program risks' section within 'Material risks and uncertainties' below for further details).

Adjusted EBITDA for the period was \$566.9 million which includes the \$15.0 million AMI asset impairment. Higher revenues in electricity distribution were offset by lower revenues in gas distribution and electricity transmission as a result of reductions in the Weighted Average Cost of Capital (WACC) arising from their respective regulatory resets which has impacted EBITDA margins. However, lower borrowing costs have also contributed to a \$29.4 million or 16.7 per cent reduction in net finance costs.

* Certain foreign securityholders who AusNet Services determines it would be illegal or unduly onerous to allow to receive shares in AusNet Services Ltd under the Proposal will not receive those shares, and will instead have their investment in AusNet Services sold on market by a nominee and the proceeds of that sale remitted to them in cash. AusNet Services expects that only a small proportion of its securityholders will be ineligible.

Directors' report

Review of operations for the period ended 30 September 2014 (continued)

AusNet Services incurred a net loss after tax of \$4.9 million for the period, a decrease of \$102.6 million compared to the previous period. This decrease is largely due to the recognition during the period of \$163.0 million in income tax expense for the settlement with the ATO in relation to the intra-group financing audit, and the \$36.8 million (after tax) of AMI costs described above. This is offset by the impact of the \$86.7 million of tax charges recognised in relation to the Section 163AA impost in the previous period, and the \$20.5 million (after tax) decrease in finance costs relative to the previous period. Refer to the 'Taxation risks' section within 'Material risks and uncertainties' below for further details regarding the settlement with the ATO.

AusNet Services derives most of its earnings from three regulated energy network businesses, which include Victoria's high voltage electricity transmission network, an electricity distribution network in eastern Victoria and a gas distribution network in western Victoria. A summary of the Stapled Group's revenues and results by operating segment for the period ended 30 September 2014 is set out below:

Electricity distribution business

	30 September 2014	30 September 2013	Movement	%
Segment revenue (\$M)	447.7	422.2	25.5	6.0
Segment result - EBITDA (\$M)	213.8	235.0	(21.2)	(9.0)
Volume (GWh)	3,860	3,902 ¹	(42)	(1.1)
Connections	673,254	663,163	10,091	1.5
Capital expenditure (\$M)	250.2	278.9	(28.7)	(10.3)

Notes:

1 Restated to exclude solar exports.

AusNet Services' electricity distribution business contributed \$447.7 million in total revenues for the period ended 30 September 2014. Total revenue for electricity distribution has increased by \$25.5 million or 6.0 per cent despite the slight decline in volumes distributed. This growth has been primarily driven by regulated price increases for both electricity distribution as well as AMI revenues. The electricity distribution price increase is due to a combination of regulated price path, as well as higher revenues under incentive schemes, somewhat offset by a price reduction for the pass-through of transmission use of system charges.

The electricity distribution business contributed \$213.8 million to EBITDA for the period ended 30 September 2014, which is a \$21.2 million decrease compared to the previous period. This reduction in EBITDA is significantly due to the \$37.5 million AMI customer rebates, as well as a \$15.0 million impairment of AMI assets, offset by increased revenue and a \$7.3 million reduction in expenses associated with the performance fees under the Management Services Agreements with SPI Management Services Pty Ltd (SPIMS) which was terminated on 31 March 2014.

A warmer six-month period to 30 September 2014 compared to the previous period, along with changing consumer behaviours, have largely contributed to the decline in volume. However, these impacts have been mostly offset by the 1.5 per cent increase in customer numbers.

Of the total capital expenditure for electricity distribution of \$250.2 million, \$65.4 million was spent on asset replacement while a further \$56.7 million relates to various safety programs, including those highlighted in the Victorian Bushfire Royal Commission. The decrease in capital expenditure from the previous period is due to AMI, with completion of the meter and communication rollouts, and lower IT spend as AusNet Services undertook a technical review of the AMI solution. Refer to the 'AMI program risks' section within 'Material risks and uncertainties' below for further details.

Directors' report

Review of operations for the period ended 30 September 2014 (continued)

Gas distribution business

	30 September 2014	30 September 2013	Movement	%
Segment revenue (\$M)	117.5	138.4	(20.9)	(15.1)
Segment result - EBITDA (\$M)	92.0	118.6	(26.6)	(22.4)
Volume (PJ)	40.8	42.7	(1.9)	(4.4)
Connections	640,793	627,240	13,553	2.2
Capital expenditure (\$M)	44.0	44.4	(0.4)	(0.9)

The gas distribution business contributed \$117.5 million in total revenues for the period, a \$20.9 million decrease compared to the previous period. This is largely due to price reductions following a lower WACC in the latest gas regulatory determination, with a 15.0 per cent price reduction on 1 July 2013, and a further 4.0 per cent price reduction on 1 January 2014. Lower industrial volumes contributed to a volume decline of 4.4 per cent.

The gas distribution business contributed \$92.0 million to EBITDA for the period ended 30 September 2014, a decrease of \$26.6 million over the previous period primarily as a result of lower revenues. In addition, a higher allocation of overhead costs to the gas business associated with management effort, relative to the other networks, has contributed to the EBITDA decline.

Electricity transmission business

	30 September 2014	30 September 2013	Movement	%
Segment revenue (\$M)	330.7	332.9	(2.2)	(0.7)
Segment result - EBITDA (\$M)	213.9	220.5	(6.6)	(3.0)
Capital expenditure (\$M)	104.3	128.8	(24.5)	(19.0)

AusNet Services' electricity transmission business contributed \$330.7 million in total revenues for the period. Transmission regulated revenue is not subject to volume risk. The 0.7 per cent decrease in revenue is as a result of the reduction in regulatory WACC arising from the Transmission Revenue Reset (TRR) Final Determination for the 2014-17 period, which commenced on 1 April 2014.

The electricity transmission business contributed \$213.9 million to EBITDA for the period ended 30 September 2014, a decrease of \$6.6 million over the previous period. In addition to lower revenues, operating expenses for transmission increased by 3.9 per cent due to lower capitalised overheads associated with lower capital expenditure (\$2.7 million) and a one-off gain on disposal of fixed assets recorded in the prior period (\$1.3 million).

The decline in capital expenditure compared to the previous period is a result of several major terminal station upgrades being completed in the prior period.

The TRR provides funding for key transmission projects, particularly the replacement and refurbishment of several major terminal stations, including Richmond and West Melbourne, which underpin electricity supply to the Melbourne Central Business District. In addition, AusNet Services is undertaking an upgrade of the Brunswick terminal station.

Directors' report

Review of operations for the period ended 30 September 2014 (continued)

Select Solutions business

	30 September 2014	30 September 2013	Movement	%
Segment revenue (\$M)	81.1	74.7	6.4	8.6
Segment result - EBITDA (\$M)	9.7	7.7	2.0	26.0

Select Solutions provides metering, data and asset management solutions, including integrated mobile and spatial technologies, to external parties and AusNet Services. Select Solutions' customers are primarily businesses operating in the essential infrastructure sector such as electricity, water and gas utility owners, transportation authorities and telecommunications companies.

Select Solutions contributed \$81.1 million in total revenues for the period ended 30 September 2014. This excludes revenue earned from services provided to other entities within the Stapled Group. Revenue increased due to the acquisition of Geomatic Technologies in February 2014, which contributed \$6.5 million towards segment revenue. Select Solutions contributed \$9.7 million to EBITDA for the period ended 30 September 2014, an increase of \$2.0 million on the previous period which included a \$1.2 million prior period adjustment.

Financial position as at 30 September 2014

Securityholders' equity was \$3,351.9 million as at 30 September 2014, a decrease of \$92.7 million compared to 31 March 2014. Total securityholders' equity includes 100 per cent of the ownership interests in AusNet Services Transmission and AusNet Services Finance Trust, as they are owned by securityholders directly.

AusNet Services' current liabilities exceed current assets by \$716.4 million at 30 September 2014 due primarily to \$1,312.0 million of current borrowings. The financial report has been prepared on a going concern basis, which contemplates the continuity of normal trading operations. The Stapled Group is, and is expected to continue, trading profitably, generating positive operating cash flows and successfully refinancing maturing debt. In addition, at 30 September 2014 the Stapled Group has available a total of \$375 million of undrawn but committed non-current bank debt facilities and \$674.6 million cash on deposit. Of the current borrowings, \$574.1 million does not mature until 9 September 2015.

Capital management

AusNet Services manages its capital structure to ensure that it continues as a going concern while maximising the return to securityholders 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 to AusNet Services. Through its cash flows from operations and by maintaining an appropriate and prudent mix of debt and equity, AusNet Services ensures that it achieves its targeted credit metrics that support an 'A' range credit rating.

Debt funding

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

In line with AusNet Services' Treasury Risk Policy, AusNet Services maintains a diversified debt portfolio by maturity and source. AusNet Services' A- credit rating from Standard and Poor's and A3 from Moody's Investor Services contributed to the successful completion of bond issues during the current period, being:

- a NOK 900 million fifteen-year Norwegian kroner bond issue to raise \$160 million in June 2014; and
- a \$125 million ten-year Australian bond issue in June 2014.

Directors' report

Capital management (continued)

Distributions

The final 2014 distribution paid to securityholders on 27 June 2014 was as follows:

	Cents per security	Total distribution \$M
Fully franked dividend paid by AusNet Services Transmission	1.393	47.2
Interest income paid by AusNet Services Finance Trust	2.379	80.6
Return of capital paid by AusNet Services Finance Trust	0.408	13.8
	4.180	141.6

In relation to the final distribution paid on 27 June 2014 of \$141.6 million, \$51.4 million was utilised in the allotment of new securities issued under the Distribution Reinvestment Plan (DRP).

Since the end of the financial period, the Directors have approved an interim distribution for 2015 of \$143.1 million (4.180 cents per stapled security) to be paid on 24 December 2014, comprised as follows:

	Cents per security	Total distribution \$M
Fully franked dividend payable by AusNet Services Transmission	2.200	75.3
Interest income payable by AusNet Services Finance Trust	1.980	67.8
	4.180	143.1

The DRP will be in operation for the interim distribution to be paid on 24 December 2014.

Directors' report

Material risks and uncertainties

AusNet Services is committed to understanding and effectively managing risk to provide greater certainty and confidence for its securityholders, employees, customers, suppliers and communities in which it operates. AusNet Services maintains oversight of its material business risks (financial and non-financial) at an enterprise-wide level and reports regularly to the Audit and Risk Management Committee and the Board of Directors on the effectiveness of the management of these risks. AusNet Services is cognisant of the following principal risks which may materially impact the execution and achievement of its business strategy and financial prospects.

AMI program risks

The Victorian Government mandated the rollout of smart electricity meters in Victoria. It also established a range of functional and service level specifications for the program, as well as a framework for the regulated recovery of costs associated with the program pursuant to the AMI Cost Recovery Order in Council (CROIC) which allows for the recovery of prudent costs of implementing the AMI program.

As of the date of this report, AusNet Services has installed approximately 700,000 meters, out of a total fleet of 713,000. The remaining meters to be installed largely relate to inaccessible sites or customer refusals and AusNet Services continues to proactively manage these installations to ensure the full rollout of smart meters.

Whilst AusNet Services has successfully converted around 400,000 meters to remotely provide meter data to market, AusNet Services has encountered periods of significant instability in its AMI systems performance as the number of smart meters connected to its AMI systems has increased. In light of these issues, AusNet Services undertook a technical review of its AMI systems to address that instability.

The technical review was completed during the period, and a remediation plan has been drawn up to stabilise the existing end-to-end metering systems and to complete the network coverage. AusNet Services believes that this approach is prudent and reasonable in all circumstances, and will yield a workable and cost-effective solution on an on-going basis. The future expenditure required to stabilise the existing AMI systems, to complete network coverage and complete the AMI Program has been estimated at \$175 million, with the vast majority of this expenditure expected to be incurred by 31 December 2015. As with all large-scale and complex projects there is a risk that further expenditure may be required or that the project will not remediate all issues with system performance.

AusNet Services estimates that the total amount subject to future regulatory approval for AMI after completion of the remediation program, compared to the current Australian Energy Regulator (AER) approved budget, is \$351 million. Of this amount, \$70 million excess expenditure was incurred in calendar year 2013, and AusNet Services has lodged an Excess Expenditure Application seeking approval of this amount. It is expected that the AER will provide a ruling on this application on 5 December 2014 when it sets the 2015 AMI tariffs.

AusNet Services will seek to recover additional AMI Program expenditure within the regulatory framework through future Excess Expenditure applications. AusNet Services will also seek to recover other additional AMI expenditure in the usual course of the distribution price review process. The AER has discretion whether or not to approve any such applications for recovery of additional expenditure and as such there is a risk that some or all of this expenditure will not be approved.

The Essential Services Commission (ESC) has concluded its audit of distribution businesses' compliance with the best endeavours obligations under the CROIC. The ESC found that AusNet Services "has not demonstrated that it used best endeavours, to the extent practicable, to meet the AMI rollout target, and has not demonstrated that it maintained an effective strategy to identify and manage risks." The ESC has indicated that it will continue to monitor AusNet Services' progress and require regular reporting. The ESC has noted in its report that it did not assess the efficiency and prudence of any AMI expenditure.

On 31 July 2014, AusNet Services advised that it may be required to make a payment of up to \$37.5 million under the Victorian Government's customer rebate policy. This policy requires AusNet Services to pay a fixed amount of \$125 per customer as a one-off lump sum for premises which do not have a smart meter installed that communicates remotely with the market by 31 March 2015. Based on the current program and further clarification from the Victorian Government, it is expected that this rebate will be paid in full by 30 June 2015. As a result, a provision has been raised for \$37.5 million of rebates that are expected to be paid.

Directors' report

Material risks and uncertainties (continued)

Taxation risks

(a) ATO review of tax balances and intra-group financing arrangements

On 22 October 2014, the Stapled Group and the ATO reached an in-principle, non-binding agreement to settle all matters concerning intra-group financing arrangements and rights to future income issues. Following execution of a binding settlement deed expected in November 2014, this will result in the Stapled Group:

- making a primary tax payment of \$23.5 million and an interest payment (deductible) of \$1.5 million;
- cancelling \$506.5 million of carried-forward tax losses. Of this, \$393.2 million were previously recognised in the statement of financial position and as such have been written off; and
- ceasing taking interest deductions in respect of AusNet Services Finance Trust loans from 1 April 2014.

This settlement provides tax certainty, with the ATO concluding all audit activity for years up to and including 31 March 2014.

The Stapled Group has accounted for this agreement as an adjusting post-balance date event on the basis that it is probable that a settlement deed will be executed based on these agreed terms, and that the circumstances surrounding the agreement existed as at 30 September 2014.

(b) Section 163AA impost

On 7 April 2014 the Full Court of the Federal Court of Australia delivered judgment against AusNet Services in an appeal against disputed tax amended assessments relating to deductions claimed for amounts imposed under Section 163AA of the *Electricity Industry Act (1993)* (Vic).

The total after tax disputed amount is \$87.8 million as at 30 September 2014 (representing \$54.0 million of primary tax, plus a tax-effected interest component of \$33.8 million). This amount was recognised as a tax charge in the income statement for the year ended 31 March 2014. Of this total disputed amount, AusNet Services paid \$30.6 million to the ATO in October 2011.

In May 2014, an application to the High Court of Australia for special leave to appeal the Full Federal Court decision was lodged. The application hearing is expected to be heard before January 2015. AusNet Services continues to believe that the fees imposed under Section 163AA are deductible.

(c) Intellectual Property

On 25 March 2014 the Federal Court of Australia delivered judgment in favour of AusNet Services in relation to intellectual property deductions claimed in the 1998 to 2011 years, inclusive. The disputed taxes amount to \$52.0 million as at 30 September 2014. Of this amount, AusNet Services paid \$17.1 million to the ATO in October 2011.

The ATO has subsequently lodged a notice of appeal in the Federal Court. It is expected that the appeal will be heard in November 2014, with judgement expected in the first quarter of calendar year 2015.

Directors' report

Material risks and uncertainties (continued)

Bushfire litigation risks

AusNet Services is, and has been, a defendant in litigation that has been brought in connection with the 7 February 2009 bushfires located at Beechworth, Kilmore East, and Murrindindi, respectively. In all three matters, AusNet Services has denied that it was negligent. AusNet Services alleges that its conduct was at all times reasonable, in compliance with technical regulations and reasonable in light of economic regulations applicable to AusNet Services.

On 16 May 2012, the Supreme Court of Victoria formally approved the settlement deed for the Beechworth bushfire class action. That settlement was reached without admission of liability by AusNet Services or any other party.

On 15 July 2014, AusNet Services announced that the parties to the Kilmore East bushfire class action had agreed to settle the action. The settlement was reached without admission of liability by AusNet Services or any other party. The settlement is subject to court approval, which is scheduled for hearing in November 2014.

The Murrindindi class action trial is scheduled to commence in February 2015. There are many variables associated with litigation and it is impossible to provide a prior assessment of the ultimate resolution of the Murrindindi proceeding. However, AusNet Services is vigorously defending the claim and rejects any assertion of negligence.

AusNet Services is also a defendant in litigation that has been brought in connection with the 9 February 2014 bushfires located at Yarram and Mickleham. AusNet Services also denies that it was negligent in relation to these bushfires and will vigorously defend these claims.

AusNet Services strongly holds the belief that it has consistently complied with its regulatory obligations, including in the year ended 31 March 2009 and in the year ended 31 March 2014. It is therefore reasonable to consider that AusNet Services' insurance and, if required, a claim to the regulator for pass-through of residual costs ultimately incurred in relation to the proceedings, would be sufficient to cover AusNet Services' liability, if any, associated with these bushfires. However, the ultimate resolution of these matters cannot be known with certainty.

AusNet Services has liability insurance which specifically provides cover for bushfire liability. AusNet Services reviews its insurance cover annually and ensures it is commensurate with the scale and size of its operations, the risks assessed to be associated with its operations and with industry standards and practice.

AusNet Services' safety record, network asset management and network maintenance programs are consistent with industry practice, and its bushfire mitigation and vegetation management programs comply with Electricity Safety (Bushfire Mitigation) Regulations. AusNet Services' bushfire mitigation and vegetation management programs are audited annually by Energy Safe Victoria. AusNet Services has consistently achieved a 'zero' bushfire mitigation index for the bushfire seasons since listing in 2005, including the 2008-09 and 2013-14 bushfire seasons.

Environmental regulation and climate change

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

Under the *National Greenhouse and Energy Reporting (NGER) Act 2007*, corporations that meet or exceed thresholds are required to report greenhouse gas emissions and energy usage by 31 October each year. AusNet Services meets these thresholds and has lodged its NGER reporting with the Clean Energy Regulator for the period from 1 July 2013 to 30 June 2014.

On 17 July 2014, the Federal Government approved the repeal of the carbon pricing mechanism, applicable from 1 July 2014.

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 Stapled Group that occurred during the period under review.

Directors' report

Matters subsequent to the end of the financial period

Distribution

Since the end of the financial period, the Directors have approved an interim distribution for 2015 of \$143.1 million (4.180 cents per stapled security) to be paid on 24 December 2014.

ATO settlement

Refer to the 'ATO review of tax balances and intra-group financing arrangements' section within 'Material risks and uncertainties' above. The settlement with the ATO is considered to be an adjusting event and these amounts have been recognised in the financial statements for the period.

With the exception of the matters outlined above, the Directors are not aware of any circumstances that have arisen since 30 September 2014 that have significantly affected or may significantly affect the operations, and the results of those operations, or the state of affairs of the Stapled Group in the financial period subsequent to 30 September 2014.

Lead Auditor's Independence Declaration

The Lead Auditor's Independence Declaration is set out on page 13 and forms part of the Directors' report for the period ended 30 September 2014.

Rounding of amounts

AusNet Services Distribution is a company of a kind referred to in Class Order 98/100, 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 to the nearest hundred thousand dollars.

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



Ng Kee Choe
Chairman



Nino Ficca
Managing Director

Melbourne
11 November 2014



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

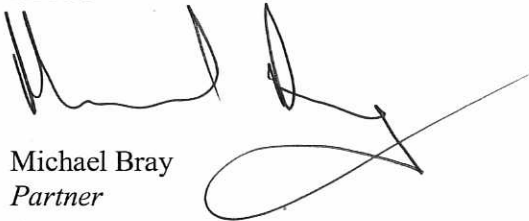
To: the directors of AusNet Services (Distribution) Ltd, and of AusNet Services (Transmission) Ltd and the Responsible Entity of AusNet Services Finance Trust, AusNet Services (RE) Ltd

I declare that, to the best of my knowledge and belief, in relation to the review for the interim period ended 30 September 2014 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



Michael Bray
Partner

Melbourne

11 November 2014

Combined interim income statement

For the period ended 30 September 2014

		30 September	30 September
		2014	2013
	Notes	\$M	\$M
Revenue	2	971.3	961.2
Expenses, excluding finance costs		(631.0)	(558.7)
Profit from operating activities		340.3	402.5
Finance income	4	15.1	15.1
Finance costs	4	(162.0)	(191.4)
Net finance costs		(146.9)	(176.3)
Profit before income tax		193.4	226.2
Income tax expense	5	(198.3)	(128.5)
(Loss)/profit for the period		(4.9)	97.7
Attributable to:			
AusNet Services Distribution		(111.9)	48.1
AusNet Services Transmission and AusNet Services Finance Trust		107.0	49.6
(Loss)/profit for the period		(4.9)	97.7
Earnings per share attributable to the ordinary equityholders of AusNet Services Distribution			
Basic and diluted earnings per share (cents per share)*	7	(3.28)	1.43

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

* Basic earnings per stapled security of the Stapled Group for the period ended 30 September 2014 was a loss of 0.14 cents per security (2013: earnings of 2.90 cents). Refer note 7.

Combined interim statement of comprehensive income

For the period ended 30 September 2014

	30 September 2014	30 September 2013
	\$M	\$M
(Loss)/profit for the period	(4.9)	97.7
Other comprehensive income		
Items that will not be reclassified to profit or loss in subsequent periods		
Movement in defined benefit fund	(16.8)	24.4
Income tax on movement in defined benefit fund	5.1	(7.3)
	(11.7)	17.1
Items that may be reclassified to profit or loss in subsequent periods		
Movement in hedge reserve	20.1	63.1
Income tax on movement in hedge reserve	(6.0)	(19.0)
	14.1	44.1
Other comprehensive income for the period, net of income tax	2.4	61.2
Total comprehensive income for the period	(2.5)	158.9
Attributable to:		
AusNet Services Distribution	(105.1)	103.0
AusNet Services Transmission and AusNet Services Finance Trust	102.6	55.9
Total comprehensive income for the period	(2.5)	158.9

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

Combined interim statement of financial position

As at 30 September 2014

	Notes	30 September 2014 \$M	31 March 2014 \$M
ASSETS			
Current assets			
Cash and cash equivalents		674.6	409.8
Receivables		320.1	281.7
Inventories		45.8	42.3
Derivative financial instruments		56.2	0.1
Other assets		20.7	25.0
Total current assets		1,117.4	758.9
Non-current assets			
Receivables		211.6	215.3
Inventories		18.0	17.6
Property, plant and equipment		9,134.9	8,944.3
Intangible assets		392.8	392.8
Derivative financial instruments		324.2	264.2
Tax receivable		17.2	17.1
Other assets		2.5	2.1
Total non-current assets		10,101.2	9,853.4
Total assets		11,218.6	10,612.3
LIABILITIES			
Current liabilities			
Payables and other liabilities		215.7	272.3
Current tax payable	5	106.9	69.7
Borrowings	8	1,312.0	673.6
Provisions		127.5	99.3
Derivative financial instruments		71.7	70.7
Total current liabilities		1,833.8	1,185.6
Non-current liabilities			
Payables and other liabilities		20.5	11.4
Borrowings	8	5,254.4	5,395.6
Provisions		54.2	35.0
Derivative financial instruments		264.9	235.4
Deferred tax liabilities		438.9	304.7
Total non-current liabilities		6,032.9	5,982.1
Total liabilities		7,866.7	7,167.7
Net assets		3,351.9	3,444.6
EQUITY			
Equityholders of AusNet Services Distribution			
Contributed equity	9	0.5	0.5
Reserves		(42.9)	(57.0)
Retained profits		593.9	713.1
		551.5	656.6
Equityholders of AusNet Services Transmission and AusNet Services Finance Trust		2,800.4	2,788.0
Total equity		3,351.9	3,444.6

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

Combined interim statement of changes in equity

For the period ended 30 September 2014

	Notes	Contributed equity \$M	Issued units \$M	Hedge reserve (i) \$M	Retained profits \$M	Fair value adjustment on stapling (ii) \$M	Other equity component (iii) \$M	Total equity \$M
30 September 2014								
AusNet Services Distribution								
Balance as at 1 April 2014		0.5	-	(57.0)	713.1	-	-	656.6
Total comprehensive income for the period								
Loss for the period		-	-	-	(111.9)	-	-	(111.9)
Other comprehensive income		-	-	14.1	(7.3)	-	-	6.8
Total comprehensive income for the period		-	-	14.1	(119.2)	-	-	(105.1)
Balance as at 30 September 2014		0.5	-	(42.9)	593.9	-	-	551.5
AusNet Services Transmission and AusNet Services Finance Trust								
Balance as at 1 April 2014		650.1	2,714.3	-	467.3	51.4	(1,095.1)	2,788.0
Total comprehensive income for the period								
Profit for the period		-	-	-	107.0	-	-	107.0
Other comprehensive income		-	-	-	(4.4)	-	-	(4.4)
Total comprehensive income for the period		-	-	-	102.6	-	-	102.6
Transactions with owners, recorded directly in equity								
Distribution paid	6	-	(13.8)	-	(127.8)	-	-	(141.6)
Distribution Reinvestment Plan (net of transaction costs)	6	-	51.4	-	-	-	-	51.4
Total transactions with owners		-	37.6	-	(127.8)	-	-	(90.2)
Balance as at 30 September 2014		650.1	2,751.9	-	442.1	51.4	(1,095.1)	2,800.4
Total stapled securityholders' equity as at 30 September 2014		650.6	2,751.9	(42.9)	1,036.0	51.4	(1,095.1)	3,351.9

Combined interim statement of changes in equity

For the period ended 30 September 2014

	Notes	Contributed equity \$M	Issued units \$M	Hedge reserve (i) \$M	Retained profits \$M	Fair value adjustment on stapling (ii) \$M	Other equity component (iii) \$M	Total equity \$M
30 September 2013								
AusNet Services Distribution								
Balance as at 1 April 2013		0.5	-	(116.7)	692.6	-	-	576.4
Total comprehensive income for the period								
Profit for the period		-	-	-	48.1	-	-	48.1
Other comprehensive income		-	-	44.1	10.8	-	-	54.9
Total comprehensive income for the period		-	-	44.1	58.9	-	-	103.0
Balance as at 30 September 2013		0.5	-	(72.6)	751.5	-	-	679.4
AusNet Services Transmission and AusNet Services Finance Trust								
Balance as at 1 April 2013		650.1	2,708.2	-	546.1	51.4	(1,095.1)	2,860.7
Total comprehensive income for the period								
Profit for the period		-	-	-	49.6	-	-	49.6
Other comprehensive income		-	-	-	6.3	-	-	6.3
Total comprehensive income for the period		-	-	-	55.9	-	-	55.9
Transactions with owners, recorded directly in equity								
Distribution paid	6	-	(2.8)	-	(135.2)	-	-	(138.0)
Distribution Reinvestment Plan (net of transaction costs)	6	-	10.4	-	-	-	-	10.4
Total transactions with owners		-	7.6	-	(135.2)	-	-	(127.6)
Balance as at 30 September 2013		650.1	2,715.8	-	466.8	51.4	(1,095.1)	2,789.0
Total stapled securityholders' equity as at 30 September 2013		650.6	2,715.8	(72.6)	1,218.3	51.4	(1,095.1)	3,468.4

Combined interim statement of changes in equity

For the period ended 30 September 2014

- (i) The hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments. These gains or losses are transferred to the income statement when the hedged item affects income, except for highly probable forecast purchases of an asset where the gains or losses are included in the initial measurement of that asset.
- (ii) This amount represents the fair value uplift to the assets of the AusNet Services Transmission Group at the date of stapling. The fair value uplift was applied to easements which are considered to have an indefinite useful life.
- (iii) AusNet Services Transmission other equity component results from the application of reverse acquisition accounting and represents the difference between the net assets of AusNet Services Transmission and AusNet Finance Pty Ltd and the purchase price paid by the legal acquirer, AusNet Services Transmission.

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

Combined interim statement of cash flows

For the period ended 30 September 2014

	30 September 2014	30 September 2013
Notes	\$M	\$M
Cash flows from operating activities		
Receipts from customers (inclusive of goods and services tax)	1,039.0	1,015.3
Payments to suppliers and employees (inclusive of goods and services tax)	(487.5)	(482.1)
Payment of MSA termination fee (inclusive of goods and services tax) (i)	(39.3)	-
Income tax paid	(27.8)	(19.5)
Finance income received	11.3	15.2
Finance costs paid	(160.9)	(180.7)
Net cash inflow from operating activities	334.8	348.2
Cash flows from investing activities		
Payments for property, plant and equipment	(423.2)	(475.8)
Proceeds from sale of property, plant and equipment	3.6	0.4
Payment for acquisition of a subsidiary (net of cash acquired)	(0.4)	-
Repayment of desalination licence receivable	4.4	4.4
Net cash outflow from investing activities	(415.6)	(471.0)
Cash flows from financing activities		
Distribution paid (ii)	6 (90.2)	(127.6)
Proceeds from borrowings	799.3	981.9
Repayment of borrowings	(363.5)	(1,259.0)
Net cash inflow/(outflow) from financing activities	345.6	(404.7)
Net increase/(decrease) in cash held	264.8	(527.5)
Cash and cash equivalents at the beginning of the period	409.8	541.0
Cash and cash equivalents at the end of the period	674.6	13.5

(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 which were recognised in the financial year ended 31 March 2014. The net payment represents the termination fee of \$50.0 million plus recoverable GST, offset by SPIMS employee provisions transferred to AusNet Services of \$15.7 million.

(ii) Amounts shown represent distributions paid of \$141.6 million (2013: \$138.0 million) offset by proceeds from the Distribution Reinvestment Plan of \$51.4 million (2013: \$10.4 million), less transaction costs.

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

Condensed notes to the combined interim financial statements

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Note 1 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the interim financial report are set out below.

(a) Basis of preparation

The combined general purpose interim financial report, prepared by a for-profit entity, for the period ended 30 September 2014, represents the consolidated interim financial statements of the Stapled Group, which comprises AusNet Services Distribution and its subsidiaries, AusNet Services Transmission and its subsidiaries and AusNet Services Finance Trust. The Stapled Group is also referred to as AusNet Services.

AusNet Services Distribution, AusNet Services Transmission, AusNet Services Finance Trust, and AusNet Services were formerly known as SP Australia Networks (Distribution) Ltd, SP Australia Networks (Transmission) Ltd, SP Australia Networks (Finance) Trust, and SP AusNet respectively up until 4 August 2014.

Pursuant to the Stapling Deed effective 21 October 2005, the Stapled Group was established for the purpose of facilitating a joint quotation of AusNet Services Distribution, AusNet Services Transmission and AusNet Services Finance Trust on the Australian Securities Exchange and the Singapore Exchange Securities Trading Limited. The Stapled Group was listed on 14 December 2005. The consolidated interim financial statements are presented in accordance with Class Order 13/1050, issued by the Australian Securities and Investments Commission.

This combined general purpose interim financial report has been prepared in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001* (Cth). Where the classification of items has been amended in the interim financial report, the comparative information has been restated to align to the revised classification unless otherwise noted.

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 for the year ended 31 March 2014 and any public announcements made by AusNet Services 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 financial statements were approved by the Board of Directors on 11 November 2014.

AusNet Services' current liabilities exceed current assets by \$716.4 million at 30 September 2014 due primarily to \$1,312.0 million of current borrowings. The financial report has been prepared on a going concern basis, which contemplates the continuity of normal trading operations. The Stapled Group is, and is expected to continue, trading profitably, generating positive operating cash flows and successfully refinancing maturing debt. In addition, at 30 September 2014 the Stapled Group has available a total of \$375 million of undrawn but committed non-current bank debt facilities and \$674.6 million cash on deposit. Of the current borrowings, \$574.1 million does not mature until 9 September 2015.

(b) Significant accounting policies

The accounting policies applied by the Stapled Group in this combined interim financial report are the same as those applied by the Stapled Group in its combined financial report as at and for the year ended 31 March 2014. There have been no new accounting standards relevant to the Stapled Group adopted during the period.

(c) Rounding of amounts

The Stapled Group is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the financial report. Amounts in the interim financial report have been rounded off to the nearest hundred thousand dollars.

Condensed notes to the combined interim financial statements

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Note 2 Segment information

(a) Description of reportable segments

The Stapled 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. The Stapled Group charges 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. The Stapled Group's electricity 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. The Stapled Group charges 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. The Stapled Group's gas distribution network covers central and western Victoria.

(iii) *Electricity transmission*

The Stapled Group owns and manages the vast majority of the electricity transmission network in Victoria. The Stapled Group's electricity transmission network consists of the transmission lines and towers which carry electricity at high voltages from power stations to electricity distributors around Victoria, forming the backbone of the Victorian electricity network. The network is centrally located amongst the five eastern states of Australia that form the National Electricity Market, and provides key links between the electricity transmission networks of Victoria, South Australia, New South Wales and Tasmania. The Stapled Group charges 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 includes both regulated and unregulated electricity transmission assets and revenues. The electricity transmission segment does not purchase or sell electricity.

(iv) *Select Solutions*

Select Solutions provides metering, data and asset management solutions, including integrated mobile and spatial technologies, to external parties as well as to all other segments of AusNet Services. Select Solutions' customers are primarily businesses operating in the essential infrastructure sector such as electricity, water and gas utility owners, transportation authorities and telecommunications companies.

Condensed notes to the combined interim financial statements

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Note 2 Segment information (continued)**(b) Reportable segment financial information**

	Electricity distribution	Gas distribution	Electricity transmission	Select Solutions	Inter- segment eliminations	Combined
	\$M	\$M	\$M	\$M	\$M	\$M
30 September 2014						
Regulated revenue	433.9	112.6	312.7	-	(5.7)	853.5
Customer contributions	10.3	4.4	-	-	-	14.7
Service revenue	-	-	6.2	70.7	-	76.9
Other revenue	3.5	0.5	11.8	10.4	-	26.2
Total segment revenue	447.7	117.5	330.7	81.1	(5.7)	971.3
Segment expense before depreciation and amortisation (i)	(233.9)	(25.5)	(116.8)	(71.4)	5.7	(441.9)
Segment result - EBITDA (ii)	213.8	92.0	213.9	9.7	-	529.4
Depreciation and amortisation	(109.3)	(30.2)	(47.2)	(2.4)	-	(189.1)
Net finance costs						(146.9)
Income tax expense						(198.3)
Loss for the period						(4.9)
30 September 2013						
Regulated revenue	410.2	133.4	316.0	-	(7.0)	852.6
Customer contributions	9.4	4.7	-	-	-	14.1
Service revenue	-	-	5.8	65.6	-	71.4
Other revenue	2.6	0.3	11.1	9.1	-	23.1
Total segment revenue	422.2	138.4	332.9	74.7	(7.0)	961.2
Segment expense before depreciation and amortisation	(187.2)	(19.8)	(112.4)	(67.0)	7.0	(379.4)
Segment result - EBITDA (ii)	235.0	118.6	220.5	7.7	-	581.8
Depreciation and amortisation	(103.0)	(27.4)	(47.0)	(1.9)	-	(179.3)
Net finance costs						(176.3)
Income tax expense						(128.5)
Profit for the period						97.7

(i) Electricity distribution segment includes \$37.5 million of Advanced Metering Infrastructure (AMI) customer rebates, and \$15.0 million of AMI asset impairment.

(ii) Earnings before interest, tax, depreciation and amortisation.

(c) Notes to and forming part of the segment information*(i) Accounting policies*

Segment information is prepared in conformity with the accounting policies of the Stapled Group and AASB 8 *Operating Segments*. Segment revenues and expenses are those that are directly attributable to a segment and the relevant portion that can be allocated to the segment on a reasonable basis. The Cost Allocation Methodology as approved by the Australian Energy Regulator (AER) is used as the basis for allocating expenses to the relevant segment.

(ii) Inter-segment revenue

Segment revenues, expenses and results include transmission network connection charges between the electricity distribution and electricity transmission segments. The prices for such transfers are regulated and are eliminated on consolidation.

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Note 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.

(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 Australian Energy Regulator.

(d) Select Solutions

Select Solutions revenue is not seasonal. Select Solutions revenue is earned as the services are rendered.

Note 4 Net finance costs

	30 September 2014 \$M	30 September 2013 \$M
Finance income		
Interest income	0.1	0.1
Investment income	8.0	7.7
Return on desalination licence receivable	7.0	7.3
Total finance income	15.1	15.1
Finance costs		
Interest expense	172.8	194.7
Other finance charges - cash	1.7	1.8
Other finance charges - non-cash	2.6	2.7
(Gain)/loss on accounting for hedge relationships	(4.7)	6.3
Unwind of discount on provisions	1.2	0.2
Defined benefit net interest expense	-	0.5
Capitalised finance charges	(11.6)	(14.8)
Total finance costs	162.0	191.4
Net finance costs	146.9	176.3

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Note 5 Taxation**(a) Numerical reconciliation of income tax expense to prima facie tax payable**

		30 September	30 September
		2014	2013
	Notes	\$M	\$M
Profit before income tax expense		193.4	226.2
Tax at the Australian tax rate of 30% (2013: 30%)		58.0	67.9
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:			
Non-assessable interest income (i)		-	(24.3)
ATO settlement cash payment (i)		24.6	-
ATO settlement - cancellation of tax losses (i)		118.0	-
Net tax and interest on section 163AA impost dispute (ii)	13(a)	1.1	86.7
Prior year (over)/under provision		(2.6)	(1.1)
Sundry items		(0.8)	(0.7)
Income tax expense		198.3	128.5

The Stapled Group's effective tax rate for the period ended 30 September 2014 was approximately 102.5 per cent (2013: 56.8 per cent). The divergence in the effective tax rate from the prima facie rate of 30 per cent is mainly caused by the following:

- (i) On 22 October 2014, the Stapled Group and the Australian Taxation Office (ATO) reached an in-principle, non-binding agreement to settle all matters concerning intra-group financing arrangements and rights to future income issues. Following execution of a binding settlement deed expected in November 2014, this will result in the Stapled Group:
- making a primary tax payment of \$23.5 million and an interest payment (deductible) of \$1.5 million;
 - cancelling \$506.5 million of carried-forward tax losses. Of this, \$393.2 million were previously recognised in the statement of financial position and as such have been written off; and
 - ceasing taking interest deductions in respect of AusNet Services Finance Trust loans from 1 April 2014.
- This settlement provides tax certainty, with the ATO concluding all audit activity for years up to and including 31 March 2014.
- (ii) Recognition during the previous period of \$100.8 million for the amount potentially payable under the Section 163AA impost dispute. This is offset by the deductibility of the general interest component which results in a \$14.1 million tax credit. Refer note 13(a).

(b) Reconciliation of current tax payable

	30 September	31 March
	2014	2014
	\$M	\$M
Net amount potentially payable under Section 163AA impost dispute	57.2	56.1
ATO settlement payment for intra-group financing arrangements	24.6	-
Other current tax payable	25.1	13.6
	106.9	69.7

Condensed notes to the combined interim financial statements

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Note 6 Distributions

The following distribution was approved and paid by AusNet Services to securityholders during the current interim financial period:

	Paid by	Date paid	Cents per security	Total distribution \$M
Distribution				
Fully franked dividend	AusNet Services Transmission	27 June 2014	1.393	47.2
Interest income	AusNet Services Finance Trust	27 June 2014	2.379	80.6
Return of capital	AusNet Services Finance Trust	27 June 2014	0.408	13.8
Total distribution			4.180	141.6

The following distribution was approved and paid by AusNet Services to securityholders during the previous interim financial period:

Distribution				
Fully franked dividend	AusNet Services Transmission	28 June 2013	1.367	46.0
Interest income	AusNet Services Finance Trust	28 June 2013	2.649	89.2
Return of capital	AusNet Services Finance Trust	28 June 2013	0.084	2.8
Total distribution			4.100	138.0

In relation to the distribution paid in the current financial period of \$141.6 million (2013: \$138.0 million), \$51.4 million (2013: \$10.4 million) less transaction costs was utilised in the allotment of new securities issued under the Distribution Reinvestment Plan (DRP).

Note 7 Earnings per stapled security**(a) Basic earnings per stapled security**

As the stapling is a business combination by contract alone, the total ownership interest in AusNet Services Transmission and AusNet Services Finance Trust is presented as non-controlling interest in the combined interim financial statements of AusNet Services Distribution.

By virtue of the stapling arrangement, AusNet Services Distribution, AusNet Services Transmission and AusNet Services Finance Trust have common equityholders (the securityholders) with the effect that total equity belongs to the securityholders. Therefore an alternative measure of earnings per stapled security has been calculated which includes non-controlling interest and hence the earnings of AusNet Services Transmission and AusNet Services Finance Trust.

	30 September 2014	30 September 2013
(Loss)/profit attributable to the ordinary securityholders of the Stapled Group (\$M)	(4.9)	97.7
Weighted average number of securities (million)	3,406.9	3,372.1
Earnings per stapled security (cents)	(0.14)	2.90

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Note 7 Earnings per stapled security (continued)**(b) Diluted earnings per stapled security**

There were no factors causing a dilution of either the profit or loss attributable to ordinary securityholders or the weighted average number of ordinary securities outstanding. Accordingly, basic and diluted earnings per share are the same.

(c) Basic and diluted earnings per share for AusNet Services Distribution

	30 September 2014	30 September 2013
(Loss)/profit attributable to the ordinary equityholders of AusNet Services Distribution (\$M)	(111.9)	48.1
Weighted average number of shares (million)	3,406.9	3,372.1
Earnings per share (cents)	(3.28)	1.43

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Note 8 Borrowings

		30 September 2014 \$M	31 March 2014 \$M
Current Borrowings	Maturity date		
Commercial paper	Various	293.7	89.5
Bank debt facilities	Oct 2014	99.9	252.7
US dollar (USD) senior notes (i)	Nov 2014	344.3	331.4
Swiss francs (CHF) senior notes (i)	Sep 2015	574.1	-
Total current borrowings		1,312.0	673.6
Non-current borrowings			
US dollar (USD) senior notes (i)	2016	454.7	433.1
Bank debt facilities	2017-2019	396.6	296.2
Swiss francs (CHF) senior notes (i)	2017-2019	632.8	1,233.6
Domestic medium term notes	2017-2024	1,361.9	1,211.1
Pound sterling (GBP) senior notes (i)	2018	522.9	520.6
Euro (EUR) senior notes (i)	2020-2024	1,253.0	1,257.8
Hong Kong dollar (HKD) senior notes (i)	2020-2028	312.8	289.1
Floating rate notes	2024	99.7	99.7
Japanese yen (JPY) senior notes (i)	2024	54.4	54.4
Norwegian kroner (NOK) senior notes (i)	2029	165.6	-
Total non-current borrowings		5,254.4	5,395.6
Total borrowings (ii)		6,566.4	6,069.2

- (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 fair value of total borrowings as at 30 September 2014 was \$7,065.5 million (31 March 2014: \$6,535.2 million). This fair value measurement uses significant market observable data, and therefore is a level two measurement within the fair value hierarchy as per AASB 13 *Fair Value Measurement*. The valuation techniques applied are consistent with those applied in the consolidated financial report as at and for the year ended 31 March 2014.

In June 2014, AusNet Services successfully completed a Norwegian kroner ("NOK") 900 million, fifteen-year bond issue to raise \$160 million, and a \$125 million, ten-year Australian bond issue. These bonds added to AusNet Services' funding diversity both in terms of maturity and sources of debt. AusNet Services has \$375 million of undrawn but committed non-current bank debt facilities and \$674.6 million cash on deposit as at 30 September 2014.

AusNet Services has an A- credit rating from Standard and Poor's, and an A3 credit rating from Moody's Investor Services.

Condensed notes to the combined interim financial statements

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Note 9 Equity**Movements in ordinary share capital**

Date	Details	Notes	Number of shares	\$M
1 April 2014	Opening balance		3,386,607,080	0.5
27 June 2014	Distribution reinvestment plan	(i)	38,637,082	-
30 September 2014	Closing balance		3,425,244,162	0.5

- (i) On 27 June 2014, 38.6 million new stapled securities were issued under the DRP. The new securities were issued at a price of \$1.33 per security providing approximately \$51.4 million. These proceeds were allocated to units in AusNet Services Finance Trust, with the shares in AusNet Services Transmission and AusNet Services Distribution being issued at nominal consideration.

Note 10 Financial risk management

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

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

The objective of hedging activities carried out by the Stapled Group is to minimise the exposure to changes in interest rates and foreign exchange rates. Changes in interest rates are hedged by matching the actual cost of debt with the cost of debt assumed by the regulator when setting the rate of return for the relevant regulated business for each regulatory reset period.

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

The Stapled Group's financial risk management objectives and policies are consistent with those disclosed in the combined financial report as at and for the year ended 31 March 2014.

Note 11 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 Stapled Group does not have any financial instruments which would be categorised as either level one or three of the fair value hierarchy.

The valuation techniques applied by the Stapled Group are consistent with those applied and disclosed in the combined financial report as at and for the year ended 31 March 2014.

The Stapled Group also has a number of financial assets and liabilities which are not measured at fair value in the combined 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 2014.

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Note 12 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 combined interim financial report, the key sources of estimation uncertainty were the same as those that applied to the combined financial report as at and for the year ended 31 March 2014. Some of the critical judgements and estimates used by management in applying the Stapled Group's accounting policies for the period ended 30 September 2014 have been updated to reflect the latest available information. In particular, amendments to the useful life assumptions of certain AMI assets have been made following the finalisation of the technical review and development of a remediation plan on 24 September 2014. These amendments have not had a material impact on the financial performance or financial position of the Stapled Group for the period ended 30 September 2014.

Note 13 Contingent liabilities and contingent assets

Details of contingent liabilities and contingent assets of the Stapled Group are as follows:

(a) Section 163AA impost

During August 2011, the ATO issued amended assessments to AusNet Services in respect of the 2001 to 2006 income years, disallowing deductions claimed in respect of fees imposed under Section 163AA of the *Electricity Industry Act 1993* (Vic) in the 1999 to 2001 tax years. Under the amended assessments, the amount of primary tax payable is \$54.0 million.

In October 2011, AusNet Services paid \$30.6 million under a part-payment arrangement agreed with the ATO. A general interest charge continues to accrue in respect of unpaid tax under the payment arrangement, in addition to the total amount disclosed on the amended assessments.

AusNet Services lodged a notice of appeal and other documents in the Federal Court, appealing the ATO's amended assessments. On 12 September 2013, the Federal Court delivered judgement against AusNet Services' appeal. On the basis of this ruling, AusNet Services recognised the full amount potentially payable in the financial statements net of the amount part-paid. As at 30 September 2014 the net tax potentially payable is \$57.2 million.

In May 2014, an application to the High Court of Australia for special leave to appeal the Full Federal Court decision was lodged. The application hearing is expected to be heard before January 2015. AusNet Services continues to believe that the fees imposed under Section 163AA are deductible.

(b) Intellectual Property

During September 2011 and October 2011, the ATO issued amended assessments to AusNet Services in respect of the 2001 to 2010 income years, disallowing deductions claimed in respect of intellectual property in each of those income years. Under the amended assessments, the amount payable is \$44.0 million (representing \$27.4 million of primary tax, plus an interest and administrative penalty component of \$16.6 million).

In November 2011, AusNet Services lodged notices of objection in relation to the amended assessments issued, with AusNet Services making a part-payment of \$17.1 million. A general interest charge continues to accrue in respect of unpaid tax under the payment arrangement, in addition to the total amount disclosed on the amended assessments. As at 30 September 2014, the total amount in dispute for intellectual property deductions, including additional accrued interest on the unpaid portion of the amended assessments, is \$52.0 million.

AusNet Services lodged a notice of appeal and other documents in the Federal Court. The Federal Court delivered judgement in favour of AusNet Services on 25 March 2014. The ATO subsequently lodged a notice of appeal in the Federal Court on 15 April 2014. It is expected that the appeal will be heard by the Full Court of the Federal Court in November 2014, with judgement expected in the first quarter of calendar year 2015. The \$17.1 million part-payment continues to be recognised as a non-current receivable at 31 March 2014.

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Note 13 Contingent liabilities and contingent assets (continued)

(c) Bushfire litigation

AusNet Services is, and has been, a defendant in litigation that has been brought in connection with the 7 February 2009 bushfires located at Beechworth, Kilmore East, and Murrindindi, respectively. In all three matters, AusNet Services has denied that it was negligent. AusNet Services alleges that its conduct was at all times reasonable, in compliance with technical regulations and reasonable in light of economic regulations applicable to AusNet Services.

On 16 May 2012, the Supreme Court of Victoria formally approved the settlement deed for the Beechworth bushfire class action. That settlement was reached without admission of liability by AusNet Services or any other party.

On 15 July 2014, AusNet Services announced that the parties to the Kilmore East bushfire class action had agreed to settle the action. The settlement was reached without admission of liability by AusNet Services or any other party. The settlement is subject to court approval, which is scheduled for hearing in November 2014.

The Murrindindi class action trial is scheduled to commence in February 2015. There are many variables associated with litigation and it is impossible to provide a prior assessment of the ultimate resolution of the Murrindindi proceeding. However, AusNet Services is vigorously defending the claim and rejects any assertion of negligence.

AusNet Services is also a defendant in litigation that has been brought in connection with the 9 February 2014 bushfires located at Yarram and Mickleham. AusNet Services also denies that it was negligent in relation to these bushfires and will vigorously defend these claims.

AusNet Services strongly holds the belief that it has consistently complied with its regulatory obligations, including in the year ended 31 March 2009 and in the year ended 31 March 2014. It is therefore reasonable to consider that AusNet Services' insurance and, if required, a claim to the regulator for pass-through of residual costs ultimately incurred in relation to the proceedings, would be sufficient to cover AusNet Services' liability, if any, associated with these bushfires. However, the ultimate resolution of these matters cannot be known with certainty.

AusNet Services has liability insurance which specifically provides cover for bushfire liability. AusNet Services reviews its insurance cover annually and ensures it is commensurate with the scale and size of its operations, the risks assessed to be associated with its operations and with industry standards and practice.

AusNet Services' safety record, network asset management and network maintenance programs are consistent with industry practice, and its bushfire mitigation and vegetation management programs comply with Electricity Safety (Bushfire Mitigation) Regulations. AusNet Services' bushfire mitigation and vegetation management programs are audited annually by Energy Safe Victoria. AusNet Services has consistently achieved a 'zero' bushfire mitigation index for the bushfire seasons since listing in 2005, including the 2008-09 and 2013-14 bushfire seasons.

Condensed notes to the combined interim financial statements

30 September 2014

Note 14 Events occurring after the balance sheet date**(a) Distribution**

Since the end of the financial period, the Directors have approved an interim distribution for 2015 of \$143.1 million (4.180 cents per stapled security) to be paid on 24 December 2014 comprised as follows:

	Cents per security	Total distribution \$M
Fully franked dividend payable by AusNet Services Transmission	2.200	75.3
Interest income payable by AusNet Services Finance Trust	1.980	67.8
	4.180	143.1

(b) ATO settlement

On 22 October 2014, the Stapled Group and the ATO reached an in-principle, non-binding agreement to settle all matters concerning intra-group financing arrangements and rights to future income issues. Following execution of a binding settlement deed expected in November 2014, this will result in the Stapled Group:

- making a primary tax payment of \$23.5 million and an interest payment (deductible) of \$1.5 million;
- cancelling \$506.5 million of carried-forward tax losses. Of this, \$393.2 million were previously recognised in the statement of financial position and as such have been written off; and
- ceasing taking interest deductions in respect of AusNet Services Finance Trust loans from 1 April 2014.

This settlement provides tax certainty, with the ATO concluding all audit activity for years up to and including 31 March 2014.

The Stapled Group has accounted for this agreement as an adjusting post-balance date event on the basis that it is probable that a settlement deed will be executed based on these agreed terms, and that the circumstances surrounding the agreement existed as at 30 September 2014.

(c) Other matters

Other than outlined above, there has been no matter or circumstance that has arisen since 30 September 2014 up to the date of issue of this financial report that has significantly affected or may significantly affect:

- the operations in financial periods subsequent to 30 September 2014 of the Stapled Group;
- the results of those operations; or
- the state of affairs, in financial periods subsequent to 30 September 2014, of the Stapled Group.

Directors' declaration

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

- (a) the interim financial statements and notes set out on pages 14 to 33, 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 combined entity's financial position as at 30 September 2014 and its performance for the six month period ended on that date.
- (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.



Ng Kee Choe
Chairman



Nino Ficca
Managing Director

Melbourne
11 November 2014

Independent auditor's review report to the members of AusNet Services (Distribution) Ltd, AusNet Services (Transmission) Ltd and AusNet Services Finance Trust

Report on the financial report

We have reviewed the accompanying interim financial report of AusNet Services (Distribution) Ltd ("the Company"), which comprises the combined interim statement of financial position as at 30 September 2014, combined interim income statement and combined interim statement of comprehensive income, combined interim statement of changes in equity and combined interim statement of cash flows for the interim period ended on that date, notes 1 to 14 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration. The combined interim financial report of AusNet Services (Distribution) Ltd comprises the financial statements of AusNet Services (Distribution) Ltd and the entities it controlled at the half-year's end or from time to time during the interim period, AusNet Services (Transmission) Ltd and the entities it controlled at the interim period's end or from time to time during the interim period and AusNet Services Finance Trust ("The Combined Entity").

Directors' responsibility for the interim financial report

The directors of the Company, and of AusNet Services (Transmission) Ltd, and the directors of the responsible entity of AusNet Services Finance Trust, AusNet Services (RE) Ltd, are responsible for the preparation of the interim financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and 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

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 Combined Entity's financial position as at 30 September 2014 and its performance for the interim period ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of AusNet Services (Distribution) Ltd, AusNet Services (Transmission) Ltd and AusNet Services Finance Trust, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we



would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

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

Conclusion

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 the Combined Entity is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Combined Entity's financial position as at 30 September 2014 and of its performance for the interim period ended on that date; and
- (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

KPMG

KPMG

Michael Bray
Partner

Melbourne

11 November 2014

SP Australia Networks (Distribution) Ltd
ACN 108 788 245

Financial Report

For the financial year ended 31 March 2014

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This financial report covers the combined entity consisting of SP Australia Networks (Distribution) Ltd and its subsidiaries, SP Australia Networks (Transmission) Ltd and its subsidiaries, and SP Australia Networks (Finance) Trust. The financial report is presented in Australian dollars.

SP Australia Networks (Distribution) Ltd is a company limited by shares, incorporated and domiciled in Victoria, Australia. Its registered office and principal place of business is:

Level 31, 2 Southbank Boulevard
Southbank, Victoria 3006
Australia

A description of the nature of SP Australia Networks (Distribution) Ltd's operations and its principal activities is included in the Directors' report.

The financial report was authorised for issue by the Directors on 14 May 2014.

Directors' report

The Directors of SP Australia Networks (Distribution) Ltd (SP AusNet Distribution) present their report on the general purpose financial report of the company and combined entity for the financial year ended 31 March 2014.

This general purpose financial report has been prepared as a consolidation of the financial statements of SP AusNet Distribution and subsidiaries, SP Australia Networks (Transmission) Ltd (SP AusNet Transmission) and subsidiaries and SP Australia Networks (Finance) Trust (SP AusNet Finance Trust) as if all entities operate together. They are therefore treated as a combined entity (Stapled Group or SP AusNet).

Pursuant to the Stapling Deed effective 21 October 2005, the Stapled Group was established for the purpose of facilitating a joint quotation of SP AusNet Distribution, SP AusNet Transmission and SP AusNet Finance Trust on the Australian Securities Exchange (ASX) and the Singapore Exchange Securities Trading Limited (SGX-ST). The Stapled Group was listed on 14 December 2005.

So long as the three entities remain jointly quoted, the number of shares in each of SP AusNet Distribution and SP AusNet Transmission and the number of units in SP AusNet Finance Trust shall be equal and shareholders and unitholders shall be identical.

Directors

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

Non-executive Directors

Ng Kee Choe (Chairman)

Ralph Craven (commenced effective 24 January 2014)

Jeremy Guy Ashcroft Davis AM

Sally Marie Farrier (commenced effective 24 January 2014)

Eric Gwee Teck Hai

Ho Tian Yee

Antonino (Tony) Mario Iannello

George Allister Lefroy (retired effective 18 July 2013)

Tina Renna McMeckan

Ian Andrew Renard AM

Sun Jianxing (commenced effective 24 January 2014)

Executive Director

Nino Ficca (Managing Director)

Principal activities

The principal activities of SP AusNet are:

- **Electricity distribution** – delivery of electricity to approximately 669,000 consumer connection points over 80,000 square kilometres in eastern Victoria including Melbourne's outer eastern suburbs;
- **Gas distribution** – delivery of natural gas to approximately 633,000 consumer connection points over 60,000 square kilometres in central and western Victoria including some of Melbourne's western suburbs;
- **Electricity transmission** – the transmission of electricity within the state of Victoria; and
- **Select Solutions** – the provision of specialist utility related metering, data and asset management services.

Directors' report (continued)

Principal activities (continued)

The principal activities of SP AusNet are conducted through the following main operating group companies:

- SPI Electricity Pty Ltd;
- SPI Networks (Gas) Pty Ltd;
- Select Solutions Group Pty Ltd; and
- SPI PowerNet Pty Ltd.

Strategy

As a diversified energy delivery networks business, SP AusNet plays a vital role in underpinning the economic strength of Victorian communities, while contributing to the wider Australian energy market. The sustainability of its networks is key to SP AusNet's commitment to the safe, reliable and efficient supply of energy.

The energy industry and network businesses will face significant changes in the next five years, driven by the changing energy environment, emerging technology, and increasing customer influence. In the longer term, the lowering cost of alternative technology could create a viable competitor to traditional networks.

SP AusNet's purpose is '*To provide our customers with superior network and energy solutions*'; which is underpinned by eight 5-year strategic objectives as set out below.

Safety	<i>Industry leadership in safety performance</i>	SP AusNet's leaders are responsible for and understand how to lead safety, encouraging its people to work safely and to create safer work environments.
People	<i>High performing leadership, capability and culture</i>	SP AusNet continues to develop the right culture, skills, talent and labour productivity to support a sustainable and high performing business.
Customer	<i>A highly developed customer service capability</i>	SP AusNet continues to focus on customers through meaningful, useful and actionable engagement. The business leverages customer knowledge, experience, and service levels to deliver outcomes that align with the needs and expectations of customers, supported through regulatory advocacy.

Directors' report (continued)

Strategy (continued)

Financial	<i>Diversified and accretive growth</i>	Approximately 87 per cent of SP AusNet's revenue comes from regulated sources, and while SP AusNet remains focused on the continued growth in the regulated networks, diversified growth is also targeted through: • Unregulated Infrastructure – The development of unregulated transmission connections and other infrastructure. • Select Solutions – The continued expansion of specialist utility-related, transportation and telecommunications solutions to existing and new customers. • Energy Solutions – Seeking to develop products and services related to energy use, energy storage, energy efficiency and other niche services in response to changing customer behaviours.
	<i>Sustainable earnings and securityholder value growth</i>	SP AusNet aims to improve its year-on-year financial performance.
Business & Asset	<i>An efficient business model</i>	SP AusNet's operations aim to achieve excellence in both energy delivery and managing customer services, through the implementation of processes and systems which produce high quality data, efficiency, effectiveness, controllability and management capability. This objective is being delivered through a company-wide program of Business Operational Excellence, with the most significant being an enterprise wide change program enabled by the replacement of multiple asset management and resource planning platforms with a single, fully integrated system.
	<i>Safe, resilient and reliable networks</i>	In addition to network safety and reliability across three regulated networks, SP AusNet continues to enhance and optimise its inspection, maintenance and replacement plans through advanced modelling techniques and fully integrated systems.
	<i>Industry leadership and advocacy role in regulatory development</i>	SP AusNet aims to be a leader in regulatory development for the energy industry, thereby enhancing business value through constructive engagement with key policy makers.

Directors' report (continued)

Key achievements

SP AusNet delivered a strong result through operational, capital expenditure and funding efficiencies. SP AusNet's performance highlights during the current financial year include the following:

- Achieved a 6.72 per cent reduction in the Recordable Injury Frequency Rate;
- 12 month total securityholder return to 31 March 2014 of 17 per cent;
- EBITDA (excluding the impact of the Termination Deed) increased by 10.4 per cent to \$1,075.1 million;
- Successfully raised over \$1.7 billion of debt capital at competitive prices;
- Continued the significant investment in strengthening and extending the networks through \$950.0 million of capital expenditure on major station build projects, Advanced Metering Infrastructure (AMI) rollout and upgrade and replacement works;
- Achieved a 1.0 per cent improvement in electricity reliability for calendar year 2013 (measured as the average number of minutes a customer experienced loss of supply due to unplanned interruptions, after allowable exclusions (USAIDI)); and
- Distributions of 8.36 cents per stapled security in line with guidance.

Despite the above key achievements, SP AusNet continues to operate in a challenging environment, with changing consumer behaviour, an increasing emphasis on technology, risks associated with delivery of the AMI program, an evolving regulatory framework, taxation litigation and bushfire litigation.

Ownership and management of SP AusNet

On 3 January 2014, State Grid International Development Limited (SGID) purchased a 19.9 per cent security holding in SP AusNet from Singapore Power International Pte Ltd (SPI). This has reduced SPI's security holding in SP AusNet to 31.1 per cent.

Following this transaction, SP AusNet, Singapore Power and SPI Management Services Pty Ltd (SPIMS) entered into a Termination Deed, pursuant to which they have agreed to terminate the Management Services Agreement (MSA) with effect from 31 March 2014. The key terms of the Termination Deed, as it relates to the MSA, are:

- A termination payment of \$50.0 million is payable by SP AusNet to SPIMS. This payment is made up of two parts: (a) an early termination fee representing the present value of the estimated termination payment that would have been payable if the MSA had terminated on 30 September 2015; and (b) the present value of estimated performance fees that would have been payable to SPIMS from 1 April 2014 to 30 September 2015, had the MSA continued until that time.
- Each SPIMS employee is offered employment with, and has transferred to SP AusNet subsequent to 31 March 2014.
- The termination payment made by SP AusNet is reduced by the amount of employee entitlements in respect of the SPIMS employees transferring to SP AusNet, such amounts having been previously paid by SP AusNet as part of the regular management services charge under the MSA. The net termination payment has been paid in April 2014.

Agreement has also been reached between SPIMS and SP AusNet to unwind shared information technology (IT) services provided to SP AusNet by Enterprise Business Services (EBS), a subsidiary of SPIMS. This arrangement was put in place in September 2008. SP AusNet intends to transition its share of existing EBS activities into the core SP AusNet IT function, as soon as practicable, commencing on 1 April 2014.

The Intellectual Property (IP) Licence Agreement with Singapore Power has also been terminated under the Termination Deed.

The termination payment of \$50.0 million and a provision of \$7.7 million for the costs associated with the restructure of IT services and the termination of the IP Licence Agreement have been reflected in the Stapled Group's 31 March 2014 financial statements.

Directors' report (continued)

Review of operations for the year ended 31 March 2014

SP AusNet derives most of its earnings from three regulated energy network businesses, which include Victoria's high voltage electricity transmission network, an electricity distribution network in eastern Victoria and a gas distribution network in western Victoria.

\$M	31 March 2014	31 March 2013 ¹	Movement	%
Revenue	1,799.4	1,639.5	159.9	9.8%
EBITDA	1,017.4	974.0	43.4	4.5%
NPAT	178.3	273.5	(95.2)	(34.8%)
Adjusted EBITDA ^{2, 4}	1,075.1	974.0	101.1	10.4%
Adjusted NPAT ^{3, 4}	305.4	273.5	31.9	11.7%

Notes:

1. 31 March 2013 restated due to changes to AASB 119 *Employee Benefits*.
2. 'Adjusted' EBITDA excludes recognition of \$50.0 million payable for the termination of the Management Services Agreement and \$7.7 million in restructuring costs associated with the Termination Deed.
3. 'Adjusted' NPAT excludes the after-tax adjustment to EBITDA in relation to the Termination Deed (\$40.4 million NPAT impact) and a net charge of \$86.7 million for the amount potentially payable at 31 March 2014 in respect of the Section 163AA dispute.
4. Adjusted EBITDA and Adjusted NPAT are non-IFRS measures that have not been subject to audit or review.

A summary of SP AusNet's revenues and results by operating segment for the financial year ended 31 March 2014 is set out below:

Electricity distribution business

	31 March 2014	31 March 2013	Movement	%
Segment revenue (\$M)	815.1	694.4	120.7	17.4%
Segment result – EBITDA (\$M)	451.6	365.0	86.6	23.7%
Volume (GWh)	7,483	7,629*	(146)	(1.9%)
Connections	668,603	658,461	10,142	1.5%
Capital expenditure (\$M)	568.6	542.7	25.9	4.8%

*Restated to exclude solar exports.

Total revenue for electricity distribution has experienced strong growth for the year, despite the slight decline in volumes distributed. This growth has been primarily driven by regulated price increases for both electricity distribution as well as AMI revenues. In addition to this, 2013 calendar year price increases have also included increased revenues under incentive schemes, the pass-through of increased transmission charges, and increases for the additional recovery of solar rebates paid that were not recovered in calendar year 2012.

A warmer winter, combined with changing consumer behaviours and the continued take-up of solar energy have contributed to the 1.9 per cent decline in volume.

The strong revenue growth, partially offset by a 10.4 per cent increase in operating expenditure (excluding depreciation and amortisation), has contributed to the 23.7 per cent increase in the electricity distribution EBITDA.

Directors' report (continued)

Review of operations for the year ended 31 March 2014 (continued)

Electricity distribution business (continued)

SP AusNet continued its investment in maintaining and augmenting the electricity distribution network during the year. Construction is nearing completion on building a new zone substation at Chirnside Park and works are continuing for the Enhanced Network Safety and Powerline Bushfire Safety Programs that are being delivered throughout the current Electricity Distribution Price Review (EDPR) 2011-15 period.

Advanced Metering Infrastructure (AMI) program

SP AusNet has encountered periods of significant instability in its AMI systems performance as the number of smart meters connected to its AMI systems has been increased. As a result, SP AusNet does not expect to have converted all smart meters by 30 June 2014, which was its previous target completion date.

The risks associated with the AMI program as a result of these system issues, as well as SP AusNet's approach to managing these risks, are detailed below under the 'Material Risks and Uncertainties' section.

Gas distribution business

	31 March 2014	31 March 2013	Movement	%
Segment revenue (\$M)	219.5	216.1	3.4	1.6%
Segment result – EBITDA (\$M)	168.1	167.3	0.8	0.5%
Volume (PJ)	67.0	72.4	(5.4)	(7.5%)
Connections	633,184	620,113	13,071	2.1%
Capital expenditure (\$M)	112.2	89.2	23.0	25.8%

Total revenue for the gas distribution business has increased largely due to the recognition of \$20.9 million of gifted gas distribution network assets as part of the Regional Rail Link project. Excluding the impact of this, the gas distribution revenue has declined due to a combination of regulated price decreases from 1 July 2013 and lower volumes. Warmer temperatures, particularly during the winter period, contributed to declining volumes.

Expenses for the gas distribution business for the year ending 31 March 2014 contain an increase in the environmental provision for the remediation of contaminated former gas sites.

SP AusNet remains committed to allocating its resources to ensure a safe and reliable supply of natural gas to existing customers and bringing more gas to Victorians through efficient investment. In addition to ongoing expansion of the network, SP AusNet has agreed to extend its gas network to several towns identified in the Victorian Government's Energy for the Regions program. To date, SP AusNet has an agreement with Regional Development Victoria for the supply and reticulation of natural gas to Huntly, Avoca, Bannockburn and Winchelsea. Construction of the Huntly connection began in October 2013 and is expected to be completed by winter 2014.

Directors' report (continued)

Review of operations for the year ended 31 March 2014 (continued)

Electricity transmission business

	31 March 2014	31 March 2013	Movement	%
Segment revenue (\$M)	628.3	604.0	24.3	4.0%
Segment result – EBITDA (\$M)	436.9	423.0	13.9	3.3%
Capital expenditure (\$M)	232.7	245.1	(12.4)	(5.1%)

The 4.0 per cent increase in electricity transmission revenues is largely driven by the annual regulated revenue reset. Transmission regulated revenue is not subject to volume risk. In addition, revenues were favourably impacted by the growth in transmission revenues from contestable and prescribed projects. The construction of a new terminal station at AGL's wind farm near Macarthur and the commencement of the desalination agreements to operate and maintain the underground transmission line supplying electricity to the Victorian Desalination Plant in Wonthaggi in December 2012 have both contributed to the unregulated revenue growth.

The investment in SP AusNet's state-wide transmission network continued during the year, including at the Brunswick, Richmond and West Melbourne terminal stations. With work on the Brunswick and Richmond terminal station upgrades, SP AusNet continued to strengthen the electricity supply into Melbourne's central business district and inner-city suburbs. The demolition work at the Brunswick terminal station concluded at the end of 2013 with construction to commence following receipt of all of the necessary approvals.

The Australian Energy Regulator (AER) released its Transmission Revenue Reset (TRR) Final Determination for the 2014-17 period commencing on 1 April 2014 in January 2014. The Final Determination allows (in nominal dollars) total revenue of \$1,600 million, total capital expenditure of \$552 million and total operating expenditure of \$591 million to maintain, operate and extend the network over the three-year regulatory period. The Final Determination provides funding for key transmission projects, particularly the replacement and refurbishment of several major terminal stations, including Richmond and West Melbourne, which underpin electricity supply to the Melbourne central business district.

Select Solutions business

	31 March 2014	31 March 2013	Movement	%
Segment revenue (\$M)	150.7	138.8	11.9	8.6%
Segment result – EBITDA (\$M)	18.5	18.7	(0.2)	(1.1%)

Select Solutions provides metering, data and asset management solutions, including integrated mobile and spatial technologies, to external parties and SP AusNet. Select Solutions' customers are primarily businesses operating in the essential infrastructure sector such as electricity, water and gas utility owners, (including Jemena, which was a related party until the completion of the State Grid transaction on 3 January 2014), transportation authorities and telecommunications companies.

Select Solutions revenues increased by 8.6 per cent largely due to growth in new contract wins and additional activity under existing contracts. The increased revenue has been partially offset by the loss of a service contract with United Energy. Select Solutions contributed \$18.5 million to EBITDA for the year, a reduction of \$0.2 million on the prior period due to a change in the contract profile and a \$1.2 million prior period adjustment.

In February 2014 SP AusNet acquired Geomatic Technologies (GT) a provider of IT integrated solutions and services that leverage advanced mobile and spatial technologies, for a total consideration of \$27.2 million. GT's portfolio includes solutions and services for field mobile computing, asset capture and inspection, web mapping as well as ICT managed services. The integration of GT will expand the service offering of the Select Solutions business and contribute to the growth of the unregulated business.

Directors' report (continued)

Financial position as at 31 March 2014

Securityholders' equity was \$3,444.6 million as at 31 March 2014, an increase of \$7.5 million compared to the previous financial year. Total securityholders' equity includes 100 per cent of the ownership interests in SP AusNet Transmission and SP AusNet Finance Trust, as they are owned by securityholders directly.

Current liabilities exceed current assets by \$426.7 million at 31 March 2014. The financial report has been prepared on a going concern basis, which contemplates the continuity of normal trading operations. This is because the Stapled Group is, and is expected to continue, trading profitably, generating positive cash flows, and successfully refinancing maturing debt. In addition, at 31 March 2014 the Stapled Group has available a total of \$550 million of undrawn but committed non-current bank debt facilities, \$197 million of undrawn but committed current bank debt facilities and \$409.8 million cash on deposit.

Capital management

SP AusNet manages its capital structure to ensure that it continues as a going concern while maximising the return to securityholders 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 to SP AusNet. Through its cash flows from operations and by maintaining an appropriate and prudent mix of debt and equity, SP AusNet ensures that it achieves its targeted credit metrics that support an 'A' range credit rating.

Debt raising

SP AusNet's common or central funding vehicle (CFV) operates through SPI Electricity & Gas Australia Holdings Pty Ltd, a subsidiary of SP AusNet Distribution. SP AusNet has access to funds through the CFV.

In line with SP AusNet's Treasury Risk Policy, SP AusNet maintains a diversified debt portfolio by maturity and source. SP AusNet's A- credit rating from Standard and Poor's and A3 from Moody's contributed to the successful completion of numerous bond issues and the establishment of several bank debt facilities during the current financial year, being:

- an inaugural EUR 500 million seven-year bond issue to raise approximately \$707 million in July 2013;
- a EUR 350 million 10 year bond issue to raise approximately \$543 million in February 2014; and
- a \$450 million five-year year bank debt facility in March 2014.

Distributions

Distributions paid to securityholders during the financial year were as follows:

	Final 2013 distribution		Interim 2014 distribution	
	Cents per security	Total distribution \$M	Cents per security	Total distribution \$M
Fully franked dividend paid by SP AusNet Transmission	1.367	46.0	1.393	47.0
Interest income paid by SP AusNet Finance Trust	2.649	89.2	2.396	80.9
Return of capital paid by SP AusNet Finance Trust	0.084	2.8	0.391	13.2
Total distributions	4.100	138.0	4.180	141.1

Directors' report (continued)

Capital management (continued)

Distributions (continued)

Since the end of the financial year, the Directors have approved a final distribution for 2014 of \$141.6 million (4.18 cents per stapled security) to be paid on 27 June 2014 comprised as follows:

	Final 2014 distribution	
	Cents per security	Total distribution \$M
Fully franked dividend payable by SP AusNet Transmission	1.393	47.2
Interest income payable by SP AusNet Finance Trust	2.379	80.6
Return of capital payable by SP AusNet Finance Trust	0.408	13.8
	<u>4.180</u>	<u>141.6</u>

SP AusNet will continue to determine future distribution amounts from operating cash flow after servicing all of its maintenance capital expenditure and a portion of its growth capital expenditure. For the 2015 financial year, SP AusNet expects to maintain distributions of 8.36 cents per security.

Distribution Reinvestment Plan (DRP)

In relation to the final 2013 distribution paid on 28 June 2013, \$10.4 million was utilised in the allotment of new securities issued under the DRP, representing a take up rate of approximately 7 per cent. In relation to the interim 2014 distribution paid on 23 December 2013, \$11.8 million was utilised in the allotment of new securities issued under the DRP, representing a take up rate of approximately 8 per cent.

The DRP will be in operation for the final 2014 distribution at a two per cent discount to the average of the volume weighted average price.

Material risks and uncertainties

SP AusNet is committed to understanding and effectively managing risk to provide greater certainty and confidence for its securityholders, employees, customers, suppliers and communities in which it operates. SP AusNet maintains oversight of its material business risks (financial and non-financial) at an enterprise-wide level and reports regularly to the Audit and Risk Management Committee and the Board of Directors on the effectiveness of the management of these risks. SP AusNet is cognisant of the following principal risks which may materially impact the execution and achievement of its business strategy and financial prospects.

(a) Advanced Metering Infrastructure (AMI) program risks

The Victorian Government mandated the rollout of smart electricity meters in Victoria. It also established a range of functional and service level specifications for the program, as well as a framework for the regulated recovery of costs associated with the program pursuant to the AMI Cost Recovery Order in Council (CROIC) which allows for the recovery of prudent costs of implementing the AMI program.

As of the date of this report, SP AusNet has installed approximately 686,000 meters, out of a total fleet of 713,000. The remaining meters to be installed largely relate to inaccessible sites or customer refusals and SP AusNet continues to proactively manage these installations to ensure the full rollout of smart meters.

Whilst SP AusNet has successfully converted 390,000 meters to remotely provide meter data to market, SP AusNet has encountered periods of significant instability in its AMI systems performance as the number of smart meters connected to its AMI systems have increased. In light of these issues, SP AusNet is undertaking a technical review of its AMI systems to address that instability.

Directors' report (continued)

Material risks and uncertainties (continued)

(a) Advanced Metering Infrastructure (AMI) program risks (continued)

SP AusNet will now undertake further work to determine options and risks to its program to convert its remaining smart meters and to ensure that its AMI systems will be able to deliver the mandated performance consistently at this scale. It is expected to take approximately two to three months to complete the determination of preferred options and risks.

Any solution to address the issues is likely to entail additional investment. The extent of the additional investment required is presently under review. While there are regulatory avenues under the CROIC for the recovery of prudent additional expenditure, which SP AusNet will pursue as the expenditure is incurred, this recovery is subject to approval by the AER.

For the calendar year ended 31 December 2013, SP AusNet spent \$70 million above the current regulatory allowance. SP AusNet considers this additional expenditure to be prudent and incurred in accordance with the CROIC and as such is currently preparing an application to have this expenditure approved. The application is required to be submitted by 31 August 2014. As the additional costs are incurred in calendar years 2014 and 2015, SP AusNet will lodge further applications.

There is a risk that some or all of the additional expenditure may not be approved by the AER under the CROIC. SP AusNet would consider other avenues for recovery, such as legal appeal, if this were to occur.

Separate to the cost recovery application process noted above, SP AusNet has appealed to the Federal Court to include \$43.5 million of additional costs in the AER approved budgetary allowance for the 2012 to 2015 calendar years. This appeal is expected to be heard during the fourth quarter of 2014, and if successful, would reduce the amount that SP AusNet sought to recover through additional expenditure applications under the CROIC, both now and in the future.

The Victorian Government announced in late November 2013 a new policy under which distribution businesses would pay a rebate to customers who do not have a smart meter by 30 June 2014. The rebate payment will not apply to customers that refuse a meter or that have defects that do not allow for a smart meter to be installed. The Victorian Government is currently undertaking a consultation process to finalise the mechanism for the rebate and its quantum. The amount of any customer rebates that SP AusNet will be required to pay is uncertain.

The Essential Services Commission (ESC) is currently conducting an audit of distribution businesses compliance with the best endeavours obligations under the CROIC. The ESC's findings are expected to be presented in June 2014.

(b) Taxation risks

As a large taxpayer with a stapled structure and two tax consolidated groups, the Australian Tax Office (ATO) regularly reviews the various tax positions adopted by SP AusNet. There is the risk that changes in tax law, or changes in the way tax laws are interpreted, may materially impact the tax liabilities of the Stapled Group or the tax losses currently available to offset future taxable profits. SP AusNet manages this risk via a Board-approved Tax Risk Management policy which outlines a number of review and sign-off procedures, including the utilisation of external tax and legal advisors, for each tax position based on the assessed level of judgement of that position.

SP AusNet presently has a number of unresolved issues with the ATO that, if they were to conclude unfavourably to SP AusNet, would result in a significant outflow of resources. The status of each of these matters is summarised below.

Directors' report (continued)

Material risks and uncertainties (continued)

(b) Taxation risks (continued)

Section 163AA impost

On 7 April 2014 the Full Court of the Federal Court of Australia delivered judgment against SP AusNet in an appeal against disputed tax amended assessments relating to deductions claimed for amounts imposed under Section 163AA of the Electricity Industry Act (1993) (Vic).

The total after tax disputed amount is \$86.7 million as at 31 March 2014 (representing \$54.0 million of primary tax, plus a tax-effected interest component of \$32.7 million). This amount has been recognised as a tax charge in the income statement for the year ended 31 March 2014. Of this total disputed amount, SP AusNet paid \$30.6 million to the ATO in October 2011.

In May 2014, an application to the High Court of Australia for special leave to appeal the Full Federal Court decision was lodged. The application hearing is expected to be heard in the second half of calendar year 2014. SP AusNet continues to believe that the fees imposed under Section 163AA are deductible.

Intellectual property

On 25 March 2014 the Federal Court of Australia delivered judgment in favour of SP AusNet in relation to intellectual property deductions claimed in the 1998 to 2011 years, inclusive. The disputed taxes amount to \$90.8 million (representing \$27.4 million of primary tax, \$23.3 million of interest penalties and \$40.1 million of future tax benefits). Of this amount, SP AusNet paid \$17.1 million to the ATO in October 2011.

The ATO has subsequently lodged a notice of appeal in the Federal Court. It is expected that the appeal will be heard in the second half of calendar year 2014, with a decision expected before the end of calendar year 2014.

Intra-group financing arrangements

The ATO are conducting an audit review of SP AusNet's intra-group financing arrangements for the 2010 - 2014 income years. The primary focus of the audit is to consider the classification of loans made by SP AusNet Finance Trust. In the event that prior year interest deductions are unavailable, a primary tax liability of \$79.8 million and \$20.7 million of interest penalties and incremental withholding tax would arise in the SP AusNet Transmission tax consolidation group. In addition, a primary tax liability of \$128.9 million would arise in the SP AusNet Distribution tax consolidated group, however this would not result in a cash tax liability due to carry forward tax losses. \$17.2 million of incremental withholding tax would also arise in the SP AusNet Distribution tax consolidated group.

The audit review is expected to be finalised by November 2014. In addition to prior interest deductions, there is also a risk that future deductions may also be unavailable.

(c) February 2009 bushfire litigation risks

SP AusNet is presently a defendant in litigation that has been brought in connection with the 7 February 2009 bushfires located at Kilmore East and Murrindindi. The Kilmore East Supreme Court hearing is presently underway, and according to the court timetable, it is likely to conclude in June 2014 with judgement expected by March 2015. The Murrindindi class action is in very early stages, and it is expected that the trial will formally commence some time in 2015.

SP AusNet has liability insurance which specifically provides cover for bushfire liability. SP AusNet reviews its insurance cover annually and ensures it is commensurate with the scale and size of its operations, the risks assessed to be associated with its operations and with industry standards and practice. In addition, there are regulatory mechanisms in place that enable SP AusNet to apply for a pass-through of any residual costs that may ultimately be incurred.

Directors' report (continued)

Material risks and uncertainties (continued)

(c) February 2009 bushfire litigation risks (continued)

There are many variables associated with litigation and it is impossible to provide a prior assessment of the ultimate resolution of either the Kilmore East or Murrindindi proceedings. While SP AusNet strongly holds the belief that it has consistently complied with its regulatory obligations and is vigorously defending both claims, there is a risk that SP AusNet's insurance and, if required, a claim to the regulator for pass-through of residual costs ultimately incurred in relation to these proceedings, may be insufficient to cover SP AusNet's liability, if any, associated with the February 2009 bushfires.

(d) Regulatory risks

The energy industry in Australia is highly regulated. Approximately 87 per cent of SP AusNet's revenues are subject to periodic reviews by the AER, where revenue or prices are determined for each of the networks for the specified regulatory period. Regulated revenues are determined based on a building block approach that is designed to cover a regulated networks' operating and maintenance costs, depreciation, tax, and a return on assets. The AER also applies an incentive framework which provides for higher (or lower) regulated returns if the network responds (or fails to respond). The key incentive framework schemes incentivise capex efficiency, opex efficiency and service standard performance.

There is a risk that costs approved by the AER may be insufficient to recover SP AusNet's actual costs. In addition, there is a risk that costs may unexpectedly increase during a regulatory period, or that additional costs may need to be incurred, and that SP AusNet will spend more than the regulatory allowance upon which revenues are derived which may adversely affect the financial performance and position of SP AusNet.

SP AusNet's electricity and gas distribution network revenues are currently exposed to volume risk (the amount of electricity or gas transported through the system) while maximum demand is a key driver of investment in both the electricity distribution and transmission networks. Energy volumes and maximum demand are subject to seasonal fluctuations and to a range of variables, including economic conditions, population growth, government policy, weather, alternative energy sources and availability of adequate supplies of electricity and gas.

SP AusNet carefully manages these risks in a number of ways. Prior to the commencement of a regulatory period, SP AusNet will develop a detailed plan of works to be undertaken and costs to be incurred as well as energy and maximum demand forecasts. Particular emphasis is placed on ensuring that SP AusNet continues to maintain safe, resilient and reliable networks and that the costs to be incurred are efficient and prudent. This information is submitted to the AER as part of the determination process, and where appropriate the views of industry and other external experts is sought to include in the submission. During the regulatory period SP AusNet continuously monitors and manages its costs through processes and systems which produce high quality data, efficiency, effectiveness and controllability.

In addition to these operating risks, the regulatory framework within which SP AusNet operates continues to evolve. A number of key economic regulatory framework reviews have reached their conclusion and have either progressed to implementation or remain as recommendations for decision-making. The key elements of these reviews and changes are as follows:

- A new rate of return framework has been established and the AER has greater discretion on the approach for setting the Weighted Average Cost of Capital (WACC). These new guidelines will first apply to SP AusNet under the electricity distribution reset on 1 January 2016.
- A number of other rule changes have been made to provide new tools, such as capital expenditure sharing schemes and ex-post efficiency reviews, so the regulator can incentivise network service providers to invest capital efficiently. The regulator will also have an increased regard to benchmarking in making revenue determinations.
- Legislative amendments to the limited merits appeal regime were passed in November 2013. The threshold for leave to appeal has been raised by requiring the applicant to establish a prima facie case that a materially preferable decision exists.

The application of these new rules and guidelines, as well as any future regulatory reform, may have an adverse impact on SP AusNet in future regulatory determinations.

Directors' report (continued)

Material risks and uncertainties (continued)

(e) Funding and market risks

SP AusNet relies on access to financial markets as a significant source of liquidity for capital requirements not satisfied by operating cash flows. SP AusNet's access to financial markets could be adversely impacted by various factors, such as a material adverse change in SP AusNet's business or a reduction in its credit rating. The inability to raise capital on favourable terms, particularly during times of uncertainty in the financial markets, could impact SP AusNet's ability to sustain and grow its businesses, which are capital intensive, and would likely increase its capital costs.

Furthermore, SP AusNet has a large amount of debt, with a net debt to Asset Base ratio at 31 March 2014 of 68.6 per cent. The degree to which SP AusNet may be leveraged in the future could affect SP AusNet's ability to service its obligations, pay distributions, make capital investments, and respond to competitive pressures or to obtain additional financing. In addition, SP AusNet is exposed to a number of market risks associated with this debt, including interest rate risk.

SP AusNet effectively manages these risks in accordance with its Treasury Risk Policy which is approved by the Board and reviewed at least annually. Under this policy, SP AusNet aims to have a diverse funding mix in terms of source and tenure and proactively monitors and manages its credit metrics, in order to maintain its 'A' range credit rating and ensure continued access to various markets and to limit the funding requirement for any given year. In addition, through the use of derivative instruments SP AusNet aims to hedge 90 – 100 per cent of its interest rate risk.

(f) Information and communication technology risks

Information and Communication Technology (ICT) is playing an increasing role in the management and operation of the networks as SP AusNet strives to achieve its strategic objectives of an efficient business model, safe, resilient and reliable networks, and a highly developed customer service capability. SP AusNet is currently making a number of significant ICT investments and operational changes which include the following:

- On 31 March 2014 SP AusNet terminated its agreement with EBS for the provision of information technology services. SP AusNet intends to transition its share of existing EBS activities into the core SP AusNet IT function as soon as practicable.
- As noted in the Strategy section above, SP AusNet has initiated an enterprise-wide program to improve processes, including the replacement of multiple asset management and resource planning platforms with a single fully integrated system.
- As noted in the AMI program risks section above, an additional investment is required to undertake a range of prudent and necessary activities to ensure that the AMI solution consistently meets the functional and service level requirements of the program for all meters.

There are both operational and financial risks associated with the successful implementation of these programs and the broader role of ICT on SP AusNet. These risks may negatively impact SP AusNet's ability to have these costs recovered under the regulatory process and ultimately the future financial performance of SP AusNet. Through rigorous planning and program management processes, as well as an appropriate risk management framework of governance and controls, SP AusNet carefully manages these risks.

Directors' report (continued)

Environmental regulation and climate change

The Stapled Group was subject to both Federal and State Government environmental legislation during the year. The most significant areas of environmental legislation affecting the Stapled Group 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*, corporations that meet or exceed thresholds are required to report greenhouse gas emissions and energy usage by 31 October each year. SP AusNet meets these thresholds and has lodged its current year's NGER reporting with the Clean Energy Regulator for the period from 1 July 2012 to 30 June 2013.

From 1 July 2012, the carbon pricing mechanism (introduced by the *Clean Energy (CE) Act 2011*) applies to certain greenhouse gas emissions, with liable entities being required to surrender carbon permits for each tonne of carbon dioxide equivalent emitted for each eligible financial year. This legislation also introduces additional annual reporting and compliance requirements for SP AusNet.

SP AusNet has estimated the annual cost of the carbon price based on direct emissions and other business impacts. These estimates show that the direct financial impact is unlikely to be material for the Stapled Group. SP AusNet is liable to surrender carbon units to cover fugitive emissions associated with the operation of its gas distribution network and must pay an equivalent import levy on SF₆, an insulating gas.

SP AusNet has a mechanism to recover any impost from 1 January 2013 in its Gas Access Arrangement.

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 Stapled Group that occurred during the year under review.

Matters subsequent to the end of the financial year

Distribution

Since the end of the financial year, the Directors have approved a final distribution for 2014 of \$141.6 million (4.18 cents per stapled security) to be paid on 27 June 2014.

With the exception of the matter outlined above, the Directors are not aware of any circumstances that have arisen since 31 March 2014 that have significantly affected or may significantly affect the operations, and results of those operations or the state of affairs, of the Stapled Group in financial years subsequent to 31 March 2014.

Directors' report (continued)

Information on Directors

Ng Kee Choe – *Chairman – Non-executive*

Bachelor of Science (Honours), University of Singapore

Experience and expertise

Mr Ng serves as Chairman of CapitaLand Ltd and CapitaMalls Asia Limited and as President-Commissioner of PT Bank Danamon Indonesia, Tbk. He is a Director of Singapore Exchange Ltd and Fullerton Financial Holdings Pte Ltd. He is a member of the Temasek Advisory Panel, International Advisory Council of China Development Bank and Chairman of Tanah Merah Country Club. Mr Ng was formerly the Chairman of NTUC Income Insurance Co-Operative Limited and the Chairman and Director of Singapore Power Limited and Singapore Airport Terminal Services Limited. He was also Vice-Chairman and Director of DBS Group Holdings, retiring from his executive position in 2003 after 33 years' service.

Other current listed company directorships

Singapore Exchange Ltd (2003 to date) (SGX-ST listed entity)

PT Bank Danamon Indonesia, Tbk (2004 to date) (Jakarta Stock Exchange listed entity)

CapitaLand Limited (2010 to date) (SGX-ST listed entity)

CapitaMalls Asia Limited (2013 to date) (SGX-ST and Hong Kong Stock Exchange Listed entity)

Former listed company directorships in last 3 years

Singapore Airport Terminal Services Ltd (2000 to 2012) (SGX-ST listed entity)

Date of initial appointment

SP AusNet Transmission - 26 October 2005

SP AusNet Distribution - 31 May 2005

Responsible Entity - 9 September 2005

Special responsibilities

Chairman of the SP AusNet Board, Chairman of the Nomination Committee and Chairman of the Issuing Committee.

Nino Ficca – *Managing Director*

Bachelor of Engineering (Electrical) (Honours), Deakin University

Graduate Diploma Management, Deakin University

Advanced Management Programme, Harvard Business School, USA

Experience and expertise

Mr Ficca has over 30 years' experience in the energy industry, including numerous senior management roles with SPI PowerNet Pty Ltd including as Managing Director since 2003. Mr Ficca is a Director of Energy Networks Association Limited. He also serves as a Director of SPI Management Services Pty Ltd and of Enterprise Business Services (Australia) Pty Ltd. Mr Ficca was formerly Deputy Chairman and Director of the Energy Supply Association of Australia.

Other current listed company directorships

None

Former listed company directorships in last 3 years

None

Date of initial appointment

SP AusNet Transmission - 7 September 2005

SP AusNet Distribution - 31 May 2005

Responsible Entity - 31 May 2005

Special responsibilities

Managing Director and member of the Bushfire Litigation Committee and the Issuing Committee.

Directors' report (continued)

Information on Directors (continued)

Ralph Craven – *Non-executive Director*

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

Experience and expertise

Dr Craven is currently the Chairman of Invion Limited and a Director of Senex Energy Limited and Mitchell Services Limited. He is also Director of Windlab Systems Pty Ltd and the International Electrotechnology Commission. He was formerly Chair of Ergon Energy Corporation Limited, Tully Sugar Limited and Deputy Chair of Arrow Energy Pty Ltd. Dr Craven was CEO of Transpower New Zealand Limited and also held senior executive positions in Shell Coal Pty Ltd and NRG Asia Pacific Limited. He is a Fellow of the Australian Institute of Company Directors, a Fellow of the Institution of Engineers Australia and a Fellow of the Institution of Professional Engineers New Zealand.

Other current listed company directorships

Invion Limited (2011 to date)
Senex Energy Limited (2011 to date)
Mitchell Services Limited (2011 to date)

Former listed company directorships in last 3 years

None

Date of initial appointment

SP AusNet Transmission – 24 January 2014
SP AusNet Distribution - 24 January 2014
Responsible Entity - 24 January 2014

Special responsibilities

Member of the Audit and Risk Management Committee, the Compliance Committee and the Bushfire Litigation Committee.

Jeremy Guy Ashcroft Davis AM – *Non-executive Director*

Bachelor of Economics (Honours), University of Sydney
MBA, Stanford University
AM (Economics), Stanford University

Experience and expertise

Professor Davis is a Director of Singapore Power Limited and CHAMP Ventures Pty Ltd. He is a former Director of the Transurban Group and a Professor Emeritus of the University of New South Wales, after retiring from the Australian Graduate School of Management (AGSM). Previously, Professor Davis spent ten years as a management consultant with the Boston Consulting Group and has served as a Director of the Australian Stock Exchange Ltd (now ASX Limited) and Australian Institute of Management.

Other current listed company directorships

None

Former listed company directorships in last 3 years

Transurban Group (1997 to 2011)

Date of initial appointment

SP AusNet Transmission - 26 October 2005
SP AusNet Distribution - 31 May 2005
Responsible Entity - 9 September 2005

Special responsibilities

Member of the Audit and Risk Management Committee and the Bushfire Litigation Committee.

Directors' report (continued)

Information on Directors (continued)

Sally Marie Farrier – *Independent Non-executive Director*

Bachelor of Chemical and Process Engineering (First Class Honours), University of Canterbury, New Zealand

Masters of Business Administration, Victoria University of Wellington

Post Graduate Diploma in Finance and Investment Analysis, Securities Institute of Australia

Experience and expertise

Ms Farrier is currently a Director of Meridian Energy Limited and a founding Director of Farrier Swier Consulting Pty Limited. Past directorships include Manidis Roberts Pty Limited, Hydro Tasmania and Western Power. In addition, Ms Farrier has served as a National Water Commissioner, and in Victoria, she was a Member of the Victorian Water Trust Advisory Council. She is a Member of the Australian Institute of Company Directors and a Fellow of the Financial Services Institute of Australasia.

Other current listed company directorships

Meridian Energy Limited (2012 to date) (New Zealand Stock Exchange Listed Company)

Former listed company directorships in last 3 years

None

Date of initial appointment

SP AusNet Transmission – 24 January 2014

SP AusNet Distribution - 24 January 2014

Responsible Entity - 24 January 2014

Special responsibilities

Member of the Audit and Risk Committee and the Compliance Committee.

Eric Gwee Teck Hai – *Non-executive Director*

Bachelor of Engineering (Mechanical), University of Melbourne

Experience and expertise

Mr Gwee is a former Director of Singapore Power Limited, WorleyParsons Ltd and Melbourne Business School Ltd. He has served as Chairman of the Board of Governors for the Institute of Technical Education (ITE) and ITE Holding Pte Ltd, both in Singapore. Mr Gwee has also served as Chairman of SP Services Limited, CPG Corporation Pte Ltd and the Public Transport Council.

Other current listed company directorships

None

Former listed company directorships in last 3 years

WorleyParsons Ltd (2005 to 2011)

Date of initial appointment

SP AusNet Transmission - 26 October 2005

SP AusNet Distribution - 31 May 2005

Responsible Entity - 9 September 2005

Special responsibilities

Member of the Audit and Risk Management Committee and the Remuneration Committee.

Directors' report (continued)

Information on Directors (continued)

Ho Tian Yee – *Non-executive Director*

Bachelor of Arts (Economics), Portsmouth University, UK

Experience and expertise

Mr Ho is currently the Managing Director and principal shareholder of Pacific Asset Management (S) Pte Ltd, and an investment advisor to Blue Edge Advisors Pte Ltd. Mr Ho was previously the General Manager and Managing Director of Bankers Trust Company, Singapore. He currently serves as a non-executive director of DBS Group Holdings Ltd and Fullerton Funds Management Company. He is also a Board member of Singapore Power Limited.

Other current listed company directorships

DBS Group Holdings Ltd (2011 to date) (SGX-ST listed company)

Former listed company directorships in last 3 years

Singapore Exchange Ltd (1999 to 2013) (SGX-ST listed company)

Fraser & Neave Ltd (1997 to 2011) (SGX-ST listed company)

Date of initial appointment

SP AusNet Transmission – 1 September 2008

SP AusNet Distribution – 1 September 2008

Responsible Entity – 1 September 2008

Special responsibilities

Member of the Nomination Committee, the Remuneration Committee and the Issuing Committee.

Antonino (Tony) Mario Iannello – *Independent Non-executive Director*

Bachelor of Commerce, University of Western Australia

Advanced Management Programme, Harvard Business School, USA

Experience and expertise

Mr Iannello is Chairman of Empire Oil and Gas NL, Energia Minerals Ltd, HBF Health Ltd, D'Orsogna Ltd and MG Kailis Group of Companies. He is also a director of ERM Power Ltd, Water Corporation of WA and a member of the Murdoch University Senate. Mr Iannello was formerly Managing Director of Western Power Corporation and previously he held a number of senior executive roles at the Bank of Western Australia.

Other current listed company directorships

ERM Power Ltd (2010 to date)

Energia Minerals Ltd (2010 to date)

Empire Oil and Gas NL (2013 to date)

Former listed company directorships in last 3 years

None

Date of initial appointment

SP AusNet Transmission – 6 June 2006

SP AusNet Distribution – 6 June 2006

Responsible Entity – 6 June 2006

Special responsibilities

Chairman of the Audit and Risk Management Committee and member of the Nomination Committee, the Bushfire Litigation Committee and the Issuing Committee.

Directors' report (continued)

Information on Directors (continued)

Tina Renna McMeckan – *Independent Non-executive Director*

Bachelor of Liberal Arts & Science, San Diego State University, California, USA
Master of Business Administration, University of Melbourne

Experience and expertise

Ms McMeckan is a Director of the Global Carbon Capture and Storage Institute. She is also a Director of Circadian Technologies Ltd and the Cooperative Research Centre for Spatial Information. She is a former Chair of the Centre for Eye Research Australia and a former Director of Metlink Victoria Pty Ltd and the National Board of Norton Rose law firm. Ms McMeckan was previously an executive manager with GPU PowerNet and the SECV Energy Traders, and a project manager with the Victorian Department of Treasury and Finance on gas industry reform. Ms McMeckan is a Fellow of the Australian Institute of Company Directors.

Other current listed company directorships

Circadian Technologies Limited (2008 to date)

Former listed company directorships in last 3 years

None

Date of initial appointment

SP AusNet Transmission – 9 August 2010

SP AusNet Distribution – 9 August 2010

Responsible Entity – 9 August 2010

Special responsibilities

Chairman of the Compliance Committee and a member of the Remuneration Committee and the Audit and Risk Management Committee.

Ian Andrew Renard AM – *Independent Non-executive Director*

Bachelor of Arts, University of Melbourne
Master of Laws, University of Melbourne
Doctor of Laws (Hon), University of Melbourne

Experience and expertise

Mr Renard is a Director of Hillview Quarries Pty Ltd. He is trustee of the R E Ross Trust and former Chancellor of the University of Melbourne. Mr Renard served as a partner of the law firm Arthur Robinson & Hedderwicks from 1979 to 2001, including as the firm's full-time Managing Partner from 1989 to 1991.

Other current listed company directorships

None

Former listed company directorships in last 3 years

CSL Ltd (1998 to 2013)

Date of initial appointment

SP AusNet Transmission - 26 October 2005

SP AusNet Distribution - 31 May 2005

Responsible Entity - 9 September 2005

Special responsibilities

Chairman of the Remuneration Committee and the Bushfire Litigation Committee and member of the Nomination Committee.

SP Australia Networks (Distribution) Ltd

Directors' report (continued)

Information on Directors (continued)

Sun Jianxing - *Non-executive Director*

Bachelor of Engineering, Northeast Dianli University, China

Experience and expertise

Mr Sun is a Non-executive Director of ElectraNet and currently holds the role of Head of State Grid Corporation of China Australia Representative Office. His previous roles include Deputy CEO of State Grid Energy Development Company Ltd, Deputy Director General of Materials & Equipment Supplying Department, State Grid Corporation of China, Chief Engineer of State Grid Shenzhen Energy Developments Ltd and Division Chief of Department of International Affairs, State Grid Corporation of China. In his early years, Mr Sun also worked as a Senior Engineer at the China General Institute for Electric Power Planning and Designing.

Other current listed company directorships

None

Former listed company directorships in last 3 years

None

Date of initial appointment

SP AusNet Transmission – 24 January 2014

SP AusNet Distribution - 24 January 2014

Responsible Entity - 24 January 2014

Special responsibilities

Member of the Nomination Committee and the Remuneration Committee.

Company Secretary

Susan Elizabeth Taylor

Bachelor of Laws, University of Melbourne

Bachelor of Commerce, University of Melbourne

Graduate Diploma in Corporations and Securities Law, University of Melbourne

Ms Taylor has been Company Secretary of SP AusNet Distribution, SP AusNet Transmission and the Responsible Entity since 6 October 2008. She has over 20 years' experience in energy transactional and regulatory law. She was formerly a partner at the Australian law firm Freehills and Senior Attorney with the U.S. Federal Energy Regulatory Commission, with a mergers and acquisitions, corporations and competition law background.

Directors' report (continued)

Meetings of Directors

The number of meetings of the Board of Directors of SP AusNet Distribution, SP AusNet Transmission and the Responsible Entity held during the year ended 31 March 2014, and the number of meetings attended by each Director, are set out in the following table. All meetings were held jointly.

	Board of SP AusNet Distribution		Board of SP AusNet Transmission		Board of Responsible Entity	
	A	B	A	B	A	B
Ng Kee Choe	8	8	8	8	8	8
Nino Ficca	8	8	8	8	8	8
Jeremy Davis	8	8	8	8	8	8
Eric Gwee	8	8	8	8	8	8
Ho Tian Yee	8	8	8	8	8	8
Tony Iannello	8	8	8	8	8	8
George Lefroy ¹	3	4	3	4	3	4
Tina McMeckan	8	8	8	8	8	8
Ian Renard	8	8	8	8	8	8
Sun Jianxing	2	2	2	2	2	2
Ralph Craven	2	2	2	2	2	2
Sally Farrier	2	2	2	2	2	2

¹ Mr Lefroy retired as a Non-Executive Director effective 18 July 2013.

A = Number of meetings attended

B = Number of meetings held during the time the Director held office

The number of meetings of each standing Board committee of SP AusNet Distribution, SP AusNet Transmission and the Responsible Entity held during the year ended 31 March 2014, and the number of meetings attended by each Director, are set out in the following table.

	Audit and Risk Management Committee		Compliance Committee		Nomination Committee		Remuneration Committee	
	A	B	A	B	A	B	A	B
Ng Kee Choe	**	**	**	**	4	4	**	**
Nino Ficca	**	**	**	**	**	**	**	**
Jeremy Davis	5	7	**	**	4	4	**	**
Eric Gwee	7	7	**	**	4	4	3	3
Ho Tian Yee	**	**	3	3	**	**	3	3
Tony Iannello	7	7	3	3	**	**	**	**
George Lefroy	**	**	**	**	**	**	1	1
Tina McMeckan	7	7	2	2	**	**	3	3
Ian Renard	5	5	2	2	4	4	2	3
Sun Jianxing	**	**	**	**	**	**	1	1
Ralph Craven	2	2	1	1	**	**	**	**
Sally Farrier	1	2	1	1	**	**	**	**

A = Number of meetings attended

B = Number of meetings held during the time the Director held office

** = Not a member of the relevant committee

Directors' report (continued)

Meetings of Directors (continued)

The number of meetings of the Bushfire Litigation Committee and the Issuing Committee held during the year ended 31 March 2014, and the number of meetings attended by each Director, are set out in the following table.

	Bushfire Litigation Committee		Issuing Committee	
	A	B	A	B
Ng Kee Choe	**	**	3	3
Nino Ficca	2	2	3	3
Ho Tian Yee	**	**	3	3
Tony Iannello	2	2	3	3
George Lefroy	1	1	**	**
Ian Renard	2	2	**	**

A = Number of meetings attended

B = Number of meetings held during the time the Director held office

** = Not a member of the relevant committee

Directors' report (continued)

Remuneration report (audited)

Introduction to remuneration report

The remuneration report for the year ended 31 March 2014 outlines the remuneration arrangements of the company and the SP AusNet Group in accordance with the requirements of the *Corporations Act 2001(Cth)* and its regulations. This information has been audited as required by section 308 (3C) of the Corporations Act.

The remuneration report details the remuneration arrangements for Key Management Personnel (KMP). KMP are those persons who have authority and responsibility for planning, directing and controlling the major activities of the company and the SP AusNet Group directly or indirectly, including any Director of the parent company.

In performing its role, the Board and Remuneration Committee may directly commission and receive information and advice from independent external advisers to ensure remuneration recommendations in relation to KMP are free from undue influence by management.

In March 2010, the Remuneration Committee appointed PwC as its remuneration adviser. This appointment was formalised in August 2011 following changes to the Corporations Act in relation to the appointment of remuneration advisers.

No remuneration recommendations were provided by PwC to the Remuneration Committee or Board during the reporting period. Advice was provided to the Remuneration Committee by PwC during the reporting period which outlined the current overall market conditions and external pay practices amongst a selected peer comparator group. This advice included an analysis of existing levels of fixed and performance remuneration of SP AusNet's KMP and executives and assisted the Board in reviewing and determining overall remuneration outcomes for the KMP and executives for the reporting period.

Details of key management personnel

The Directors and other KMP of SP AusNet are engaged to provide services to the SP AusNet Group and are not exclusive to any particular entity within SP AusNet. Accordingly, this report includes information that is common to SP AusNet Distribution, SP AusNet Transmission (together 'the Companies') and the Responsible Entity. The remuneration amounts reported represent the total remuneration received by KMP during the year for services to the SP AusNet Group, and have not been apportioned between particular entities within the SP AusNet Group.

The persons listed below were Directors of SP AusNet for the whole of the financial year and up to the date of this report unless otherwise noted. There have been no additional appointments or resignations of Directors throughout the reporting period.

Name	Position
Ng Kee Choe	Non-executive Chairman
Nino Ficca	Managing Director
Ralph Craven	Non-executive Director (appointed 24 January 2014)
Jeremy Davis	Non-executive Director
Sally Farrier	Non-executive Director (appointed 24 January 2014)
Eric Gwee	Non-executive Director
Ho Tian Yee	Non-executive Director
Tony Iannello	Non-executive Director
Sun Jianxing	Non-executive Director (appointed 24 January 2014)
George Lefroy	Non-executive Director (up to 18 July 2013)
Tina McMeckan	Non-executive Director
Ian Renard	Non-executive Director

Directors' report (continued)

Remuneration report (audited) (continued)

The persons listed below were KMP of SP AusNet during the financial year ended 31 March 2014.

Name	Position
Nino Ficca	Managing Director
John Azaris	General Manager Service Delivery (KMP from 1 April 2013)
Chad Hymas	General Manager Strategy & Business Development (KMP from 1 April 2013)
John Kelso	General Manager Select Solutions
Adam Newman	Chief Financial Officer and General Manager Finance
Alistair Parker	General Manager Asset Management (KMP from 1 April 2013)
Ash Peck ¹	General Manager Information and Communication Technology (up to 6 December 2013)
Mario Tieppo	General Manager Information and Communication Technology (appointed 9 December 2013)

¹ On 6 December 2013, Mr Peck ceased to be a KMP of SP AusNet and resigned from SP AusNet on 9 December 2013.

Up to 31 March 2014, SPI Management Services Pty Ltd (SPI Management Services), a wholly-owned subsidiary of related party Singapore Power International Pte Ltd (SPI), provided the services of key senior management, including the Managing Director and the executive management team, to SP AusNet. Although not employed by SP AusNet, the individuals set out above are deemed to qualify as KMP of SP AusNet on the basis that they had the authority and the responsibility for planning, directing and controlling the major activities of SP AusNet during the financial year.

On 31 March 2014, SP AusNet, Singapore Power and SPI Management Services entered into a Termination Deed, pursuant to which they agreed to terminate the Management Services Agreement with effect from 31 March 2014. As a result of this termination, KMP and other employees who were previously employed by SPI Management Services were offered, and accepted, employment with SP AusNet, under either SPI Electricity Pty Ltd or SPI PowerNet Pty Ltd, on the same terms as their existing remuneration arrangements, including the preservation of all existing entitlements and participation in incentive arrangements.

Stapled Group performance

SP AusNet's executive remuneration is directly linked to the performance of the Stapled Group across a range of measures. The Short-Term Incentive (STI) is focussed on achieving operational targets and short-term profitability and the Long-Term Incentive (LTI) is focussed on achieving long-term growth and retaining talented executives.

The table below shows SP AusNet's consolidated operating revenue and net profit after tax for the current reporting period and previous years and the effect of SP AusNet's performance on securityholder value.

	2010	2011	2012	2013 (restated)	2014
Revenue	\$1,333.6m	\$1,468.0m	\$1,535.4m	\$1,639.5m	\$1,799.4m
NPAT from continuing operations	\$209.0m	\$252.9m	\$255.0m	\$273.5m	\$178.3m ¹
Closing security price as at 31 March	\$0.91	\$0.87	\$1.075	\$1.195	\$1.31
Distributions in respect of financial year (cents per stapled security)	8.00	8.00	8.00	8.20	8.36

¹ NPAT from continuing operations for the year ended 31 March 2014 includes a net charge of \$86.7 million for the amount potentially payable under the Section 163AA impost dispute with the Australian Tax Office (ATO) and \$40.4 million (net of tax) for the termination payment and restructuring provision arising from the Termination Deed.

Directors' report (continued)

Remuneration report (audited) (continued)

Principles used to determine the nature and amount of remuneration

Non-executive Directors (NEDs)

NED fee element	Commentary
Fees	The remuneration of Non-executive Directors consists of Directors' fees and committee fees. Fees paid to Non-executive Directors are set at levels that reflect both the responsibilities of, and the time commitments required from, each Non-executive Director to discharge their duties. Fee levels are set having regard to independent professional advice and fees paid by comparable companies. In accordance with the constitutions of SP AusNet Distribution, SP AusNet Transmission and the Responsible Entity, Non-executive Directors may also be paid additional fees for special duties or exertions.
Total fee pool	The constitutions of SP AusNet Distribution, SP AusNet Transmission and the Responsible Entity provide that Non-executive Directors are entitled to such remuneration for their services as the Board decides, but the total amount provided to all Non-executive Directors (including any additional fees for special duties or exertions) must not exceed in aggregate in any financial year the amount approved by securityholders in a general meeting. The securityholders of SP AusNet Distribution and SP AusNet Transmission approved a total remuneration pool for Non-executive Directors of \$2,000,000 per year at the Annual General Meeting of SP AusNet held on 19 July 2012.
Performance based and equity based compensation	The fees paid to Non-executive Directors are not linked to the performance of SP AusNet in order to maintain objectivity and independence. Non-executive Directors are not provided with any form of equity based compensation.
Business related expenses	Non-executive Directors are entitled to be reimbursed for all business related expenses, including travel on company business, as may be incurred in the discharge of their duties.
Retirement benefits	Non-executive Directors are not provided with any form of retirement benefit. Fees paid to Non-executive Directors are inclusive of superannuation contributions made on behalf of the Non-executive Directors in accordance with SP AusNet's statutory superannuation obligations.
Review of fee levels and approach to Non-executive Director fees	Each year, the Remuneration Committee reviews the fees payable to Non-executive Directors taking into account market rates and the time commitment and responsibilities involved in carrying out their duties. The Board will continue to review its approach to Non-executive Director remuneration to ensure it remains in line with general industry practice and principles of good corporate governance.

Directors' report (continued)

Remuneration report (audited) (continued)

Non-executive Directors (NEDs) (continued)

The annual fees payable to Non-executive Directors of SP AusNet and approved by the Board (inclusive of statutory superannuation) for the financial year ended 31 March 2014 are set out in the table below. It is not possible to allocate fees to individual entities within the SP AusNet Group.

Role	Fee
Board Chairman ^{1, 2}	\$330,000
Board Directors	\$121,000
Audit and Risk Management Committee Chairman	\$30,000
Audit and Risk Management Committee Members	\$18,000
Compliance Committee Chairman	\$21,600
Compliance Committee Members	\$12,000
Remuneration Committee Chairman	\$24,000
Remuneration Committee Members	\$12,000
Nomination Committee Chairman	\$15,000
Nomination Committee Members	\$12,000
Issuing Committee Members ²	\$12,000

1 The Board Chairman is currently Chairman of the Nomination Committee. As his Board fee is all-inclusive, no Nomination Committee Chairman's fee is currently paid.

2 At its November 2013 meeting, the Board resolved to formalise the Issuing Committee as a standing Committee of the Board effective 1 January 2014. The Board Chairman is currently Chairman of the Issuing Committee. As his Board fee is all-inclusive, no Issuing Committee Chairman's fee is currently paid.

3 In addition to the fees noted above, Non-executive Directors may also be paid fees for special duties or exertions.

At their meeting in November 2012, the Board resolved to increase Non-executive Director fees, effective from 1 April 2013. The increase in fees is within the fee limit approved by the securityholders of SP AusNet Distribution and SP AusNet Transmission at the Annual General Meeting held on 19 July 2012.

Managing Director and Senior Executives

The key objective of SP AusNet's policy for Managing Director and senior executive remuneration is to manage a total reward framework designed to:

- focus on creating value for securityholders by rewarding executives based on enhancement of sustainable securityholder value;
- create an environment that will attract appropriate talent and where people can be motivated with energy and passion to deliver superior performance;
- recognise capabilities and promote opportunities for career and professional development;
- provide rewards, benefits and conditions that are competitive in the market in which SP AusNet operates; and
- provide fair and consistent rewards across SP AusNet that support corporate values and principles.

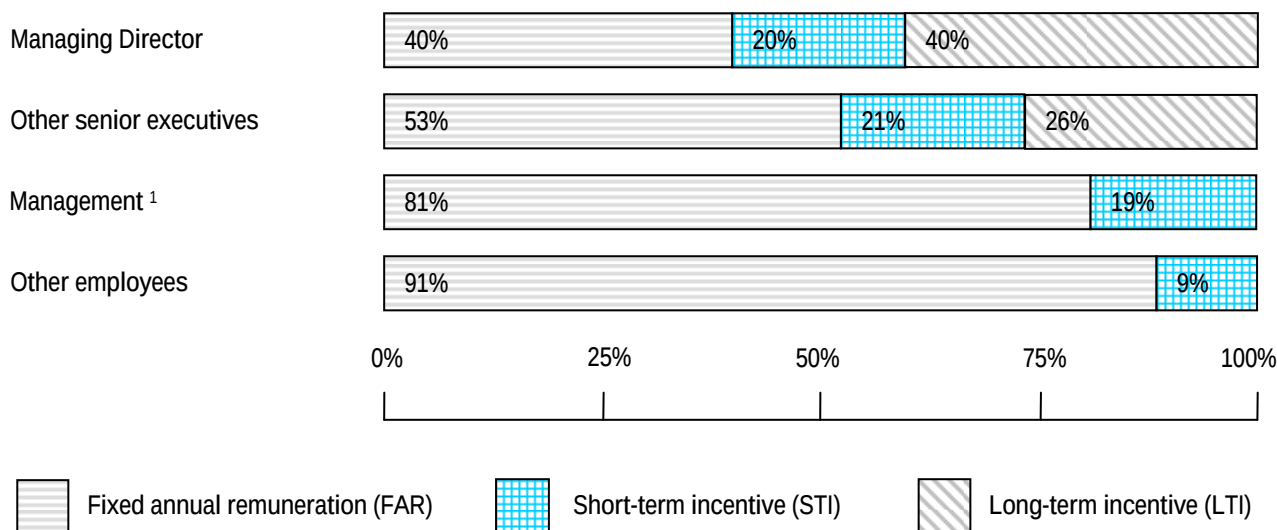
Directors' report (continued)

Remuneration report (audited) (continued)

Structure of total reward

The reward principles set out the relevant elements of remuneration to make up 'total reward'. For the majority of senior executives and SP AusNet employees, total reward consists of fixed remuneration and 'at risk' remuneration through a Short-Term Incentive (STI) plan. A Long-Term Incentive (LTI) plan is included in the remuneration structure for the Managing Director, senior executives and other employees who can influence long-term securityholder value. An appropriate mix of these components is determined for each level of management and employees.

The potential reward mix for various levels of seniority in SP AusNet for the reporting period, expressed as a percentage of total on-target reward, is shown in the following table:



¹ The Board at its discretion has invited a small number of 'Management' employees who are in a position to influence long-term securityholder value to participate in the LTI plan. The potential payments of this plan represents between 15% and 25% of the participants' fixed annual remuneration. Key aspects of the plan are detailed under the heading of 'Long-term incentive' below.

Fixed annual remuneration

Fixed annual remuneration (FAR) represents the fixed component of executive remuneration and consists of a mix of cash, superannuation, prescribed benefits and salary-sacrificed items such as motor vehicles and fringe benefits tax. Market data is sourced from external remuneration advisers who provide detailed analysis of market practice for the Remuneration Committee to consider in the Committee's decision making process. FAR is reviewed annually against market rates for comparable roles. There are no guaranteed FAR increases in any senior executive's contract of employment.

Directors' report (continued)

Remuneration report (audited) (continued)

Short-term incentive

The key design aspects of the STI plan are outlined below:

Key design aspect	Commentary
Eligibility	Managing Director, other senior executives and permanent employees on individual contracts of employment. Generally, senior executives must complete the business year to qualify for any STI payments. In some circumstances the Board, in its discretion, may determine that a pro-rata STI payment be awarded to an executive.
Target STI amount	A target STI amount, expressed as a percentage of the senior executive's FAR, is specified for each senior executive. However, the amount of STI payable is dependent on the: • extent to which SP AusNet has achieved or outperformed the corporate Key Performance Indicators (KPIs); and • extent to which the senior executive has achieved or outperformed his or her individual KPIs. The target STI for the Managing Director is 50% of FAR. The target STI for other senior executives is 40% of FAR.
Performance criteria	Based on corporate financial and non-financial measures as well as stretch individual performance hurdles. The key corporate KPIs set for the year ended 31 March 2014 included targets relating to: • employee, contractor and network safety; • earnings before interest, taxation, depreciation and amortisation; • return on equity; • capital efficiency; • business efficiency initiatives network performance and reliability; and • employee retention. By linking individual rewards to the achievement of overall corporate targets, these KPIs align the interests of employees and managers with those of SP AusNet. The Managing Director's stretch individual performance scorecard contained a range of measures designed to contribute value to the business and included: • safety leadership and strategy implementation; • financial KPI's including credit rating KPI's • Business Excellence and performance efficiency KPI's; • people management and leadership; and • customer and community. The performance assessment of the Managing Director's stretch individual performance scorecard is conducted by the Chairman and the Remuneration Committee Chairman, and reviewed by the Board prior to finalisation and any award being granted.
Performance period	12 months to 31 March 2014.
Delivery mechanism	100% cash payment. The Board retains the right to vary any STI payment at its discretion.

Directors' report (continued)

Remuneration report (audited) (continued)

Long-term incentive

The key design aspects of the LTI plan are outlined below:

Key design aspect	Commentary										
Eligibility	Managing Director and other senior executives. The Board may in its discretion invite additional employees who are in a position to influence long-term securityholder value to participate in the LTI plan.										
Purpose of the LTI plan	The LTI plan rewards participants for increasing long-term securityholder value.										
Target LTI amount	The LTI Award is calculated as a percentage of the participant's FAR as at the test date. The quantum available to participants expressed as a percentage of FAR as at the performance test date, are: - Managing Director – 75% based on the general senior executive performance measures of Total Securityholder Return (TSR) and Earnings Per Security (EPS), with a further 25% for the achievement of stretch targets related to Return on Invested Capital (ROIC) and Interest Cover Ratio (ICR). - Other senior executives – 50% - Other participants – between 15% and 25%										
Performance period	Performance is assessed over a three-year period and the LTI plan does not allow for retesting of performance measures in subsequent years.										
Performance measures	Relative TSR (for 50% of the Award) and growth in EPS (for the other 50% of the Award). The Board and Remuneration Committee believe that it is important to assess executive performance against both relative and absolute hurdles linked to securityholder value. With the exception of the Managing Director, where an additional 25% LTI opportunity was introduced from 1 April 2011, accompanied by new performance indicators of ROIC and ICR, the same performance measures have been used for senior executive LTI since 1 April 2006. TSR: The comparator group used for the TSR performance measure consists of the companies included in the S&P/ASX 200 index. In assessing whether the performance hurdles have been met, SP AusNet receives independent data which provides both SP AusNet's TSR growth from the commencement of each grant and that of the companies in the comparator group. The level of TSR growth achieved by SP AusNet is given a percentile ranking having regard to its performance compared with the performance of other companies in the comparator group. The vesting scale for the TSR performance measure is shown below: <table> <tr> <th>SP AusNet's TSR Percentile Ranking</th><th>Percentage of TSR Award that vests</th></tr> <tr> <td>Below 50.1</td><td>0%</td></tr> <tr> <td>50.1</td><td>35%</td></tr> <tr> <td>Between 50.1 and 74.9</td><td>Progressive vesting on a straight-line basis from greater than 35% to less than 100%</td></tr> <tr> <td>75 or above</td><td>100%</td></tr> </table>	SP AusNet's TSR Percentile Ranking	Percentage of TSR Award that vests	Below 50.1	0%	50.1	35%	Between 50.1 and 74.9	Progressive vesting on a straight-line basis from greater than 35% to less than 100%	75 or above	100%
SP AusNet's TSR Percentile Ranking	Percentage of TSR Award that vests										
Below 50.1	0%										
50.1	35%										
Between 50.1 and 74.9	Progressive vesting on a straight-line basis from greater than 35% to less than 100%										
75 or above	100%										

Directors' report (continued)

Remuneration report (audited) (continued)

Long-term incentive (continued)

Key design aspect	Commentary								
Performance measures (continued)	EPS: The EPS growth measure is based on SP AusNet achieving a nominal compound annual growth (CAGR) of 5% per annum over the three-year period. A sliding scale applies as follows: <table> <tr> <th>Compound annual growth rate</th><th>Percentage of EPS Award that vests</th></tr> <tr> <td>< 2.5% per annum</td><td>0%</td></tr> <tr> <td>Between 2.5% and 7.5% per annum</td><td>Linear scale from 50% to 150%</td></tr> <tr> <td>> 7.5% per annum</td><td>150%</td></tr> </table>	Compound annual growth rate	Percentage of EPS Award that vests	< 2.5% per annum	0%	Between 2.5% and 7.5% per annum	Linear scale from 50% to 150%	> 7.5% per annum	150%
Compound annual growth rate	Percentage of EPS Award that vests								
< 2.5% per annum	0%								
Between 2.5% and 7.5% per annum	Linear scale from 50% to 150%								
> 7.5% per annum	150%								

ROIC: The ROIC measure applies to the Managing Director only and is designed to measure how effective SP AusNet uses funds (borrowed and owned) invested in its operations.

ROIC is calculated by $(NPAT + \text{Finance Cost adjusted for Tax}) / (\text{Equity} + \text{Debt})$

The target for this measure has been set as the average over the 3 year performance period, with the award calculated as follows:

SP AusNet's ROIC	Percentage of ROIC Award that vests
Below threshold	0%
Between threshold and target	Linear scale from 50% to 100%
Above target to stretch target	Linear scale from 100% to 125%
Above stretch target	125%

ICR: The ICR applies to the Managing Director only and is a key financial metric which provides an indication of SP AusNet's ability to meet ongoing interest bills and therefore service debt.

ICR equals $\text{Funds Flow from Operations} + \text{Finance Expenses} / \text{Finance Expenses}$

The target for this measure has been set as the average over the 3 year performance period, with the award calculated as follows:

SP AusNet's ICR	Percentage of ICR Award that vests
Below threshold	0%
Between threshold and target	Linear scale from 50% to 100%
Above target to stretch target	Linear scales from 100% to 125%
Above stretch target	125%

In order for the Managing Director to qualify for an award under both the ROIC and ICR measures, a safety performance hurdle of zero fatalities for SP AusNet employees in the 12 month period prior to vesting must be achieved.

Directors' report (continued)

Remuneration report (audited) (continued)

Long-term incentive (continued)

Key design aspect	Commentary
Delivery mechanism	Once the performance criteria have been satisfied, participants receive a cash award. The Board retains the right to vary any LTI payment at its discretion. Participants are then required (under the Plan Rules) to use the after tax cash proceeds of this Award to purchase SP AusNet stapled securities on-market. These purchases must be conducted during an approved trading window and the stapled securities must be held for at least 12 months. Reasonable brokerage costs incurred by the participants are reimbursed. Participants are incentivised to achieve performance targets over a three-year timeframe, and are also required to hold the SP AusNet securities acquired with their Award payment for at least 12 months, thereby extending the long-term nature of the LTI plan.
Clawback arrangements	Where, in the opinion of the Board, the performance measures applicable to an award have been satisfied as a result of the fraud, dishonesty or breach of obligations of the participant and, in the opinion of the Board, the performance measures would not otherwise have been satisfied, the Board may determine that the performance measures are not satisfied and may, subject to applicable laws, determine that any award paid in such circumstances be repaid by the participant to SP AusNet.

Loans to Directors and senior executives

No loans have been made by SP AusNet to any Directors or senior executives.

Details of remuneration

Remuneration details of each Director and KMP of SP AusNet are set out in the following tables.

Directors' report (continued)

Remuneration report (audited) (continued)

Total remuneration for Non-executive Directors for the year ended 31 March 2013 and 31 March 2014

Non-executive Directors	Year	Short-term		Post-employment	Total
		Cash salary and fees	Other short-term benefits ¹	Super-annuation ²	
Ng Kee Choe (Chairman)	2014	302,233	-	27,767	330,000
	2013	229,358	-	20,642	250,000
Ralph Craven ⁵	2014	25,375	-	2,347	27,722
Jeremy Davis	2014	136,278	-	12,519	148,797
	2013	123,853	-	11,147	135,000
Sally Farrier ⁵	2014	25,375	-	2,347	27,722
Eric Gwee	2014	160,797	-	-	160,797
	2013	145,000	-	-	145,000
Ho Tian Yee ⁴	2014	143,783	-	13,217	157,000
	2013	133,028	-	11,972	145,000
Tony Iannello ^{3,4}	2014	176,745	-	16,255	193,000
	2013	174,312	-	15,688	190,000
Sun Jianxing ⁵	2014	24,430	-	2,260	26,690
George Lefroy ³	2014	51,335	-	4,665	56,000
	2013	146,789	-	13,211	160,000
Tina McMeckan	2014	151,010	-	13,882	164,892
	2013	123,853	-	11,147	135,000
Ian Renard ³	2014	184,218	-	16,941	201,159
	2013	186,239	-	16,761	203,000
Total for Non-executive Directors	2014	1,381,579	-	112,200	1,493,779
	2013	1,262,432	-	100,568	1,363,000

¹ The allocation of the premium for Directors' and Officers' insurance is not included as under the terms of the current policy this information cannot be disclosed.

² Superannuation contributions made on behalf of Non-executive Directors to satisfy SP AusNet's obligations under applicable Superannuation Guarantee legislation. This does not include any salary sacrifice or employee contributions which are included under cash salary and fees.

³ Received exertion payments in relation to services provided on the Bushfire Litigation Committee. Mr Lefroy ceased to be a member of this Committee upon his retirement on 18 July 2013 and as a consequence received a pro rata exertion payment up to this date.

⁴ Received exertion payments in relation to services provided on the Issuing Committee for the period up to 31 December 2013.

⁵ Dr Craven, Ms Farrier and Mr Sun were all appointed to the Board on 24 January 2014.

Directors' report (continued)

Remuneration report (audited) (continued)

Total remuneration for key management personnel for the year ended 31 March 2013 and 31 March 2014

		Short-term			Post-employment	Equity based payments ³	Termination benefits	Other long-term benefits ^{4,5}	Total
	Year	Cash salary and fees ⁵	Cash bonus ¹	Other short-term benefits ^{2,5}	Super-annuation				
Nino Ficca	2014	805,587	320,000	87,922	92,250	619,027	-	66,775	1,991,561
	2013	717,057	662,264	66,346	81,508	560,566	-	36,397	2,124,138
John Azaris ⁷	2014	329,076	102,400	37,648	42,214	126,660	-	10,016	648,014
Chad Hymas ⁷	2014	258,669	86,400	30,384	25,000	66,397	-	7,512	474,362
John Kelso	2014	299,795	90,144	37,003	31,233	126,524	-	52,711	637,410
	2013	243,113	136,737	28,402	25,449	77,029	-	11,570	522,300
Adam Newman	2014	579,310	180,000	54,747	25,000	199,797	-	15,642	1,054,496
	2013	45,977	150,000	3,822	1,916	7,024	-	1,066	209,805
Alistair Parker ⁷	2014	325,862	90,000	35,923	25,000	82,996	-	9,385	569,166
Ash Peck ⁶	2014	225,974	-	27,757	22,361	(100,948)	-	(22,929)	152,215
	2013	294,896	181,805	32,937	28,395	88,790	-	9,195	636,018
Mario Tieppo ⁸	2014	106,322	39,605	11,421	7,759	38,886	-	3,055	207,048
Geoff Nicholson	2013	437,078	297,729	38,808	41,480	122,250	86,773	(72,325)	951,793
Norm Drew	2013	371,040	244,761	37,944	47,904	119,659	-	20,001	841,309
Charles Popple	2013	352,313	215,149	31,968	35,422	103,956	-	13,125	751,933
Total KMP	2014	2,930,595	908,549	322,805	270,817	1,159,339	-	142,167	5,734,272
	2013	2,461,474	1,888,445	240,227	262,074	1,079,274	86,773	19,029	6,037,296

¹ 2014 cash bonuses include bonuses in respect of performance for the year ended 31 March 2014. These amounts have been approved and will be payable in June 2014.

² Other short-term benefits include car parking benefits and the accrual of annual leave entitlements. The allocation of the premium for Directors' and Officers' insurance is not included as under the terms of the current policy this information cannot be disclosed.

³ As the performance period over which the LTI Awards vest is three years, the amount included in equity based payments is one-third of the amount estimated to be payable at the end of the performance period for each Award. This estimated amount is based on certain assumptions regarding the achievement of performance targets which are reviewed and adjusted annually. Any adjustments to previously recognised amounts, both positive and negative, are included in the current year. The actual amounts paid under these Awards will not be known until the end of the performance period. Refer to the table below under the heading of key management personnel – long-term incentive for the maximum amounts payable at the end of three years.

⁴ Other long-term benefits include the accrual of long service leave entitlements.

⁵ The above table represents the accounting value of KMP remuneration, calculated in accordance with accounting standards. As a result, annual leave and long service leave entitlements are recognised as remuneration when they accrue rather than when they are taken. This has the impact of reducing the cash salary and fees remuneration disclosed in the table above when these leave entitlements are ultimately taken by the KMP. In addition, any changes to the value of leave entitlements (for example, because of changes in FAR or long service leave entitlements not vesting) are recognised as remuneration, either positive or negative, in the year that the change occurs. These accounting adjustments to remuneration values are reflected in the *Cash Salary and Fees*, *Other Short-term Benefits* and *Other Long-term Benefits* disclosed in the table above.

⁶ Mr Peck ceased to be KMP on 6 December 2013. His remuneration up to this date has been included in the table above.

⁷ Mr Azaris, Mr Parker and Mr Hymas commenced as KMP on 1 April 2013.

⁸ Mr Tieppo commenced as KMP on 9 December 2013.

Directors' report (continued)

Remuneration report (audited) (continued)

Remuneration and Other Terms of Employment

Remuneration and other terms of employment for the Managing Director and specified senior executives (including KMP) are set out below.

Managing Director	
Term of agreement	Permanent, subject to one month's notice of termination by either party.
Fixed remuneration	Fixed remuneration includes base salary and superannuation. As at 31 March 2014, fixed annual remuneration was \$1,000,000. Fixed remuneration is reviewed annually by the Remuneration Committee and the Board.
Short-term incentive	Annual short-term incentive of 50% of FAR for on-target performance.
Long-term incentive	Long-term incentive of 75% of FAR for on-target performance, based on the general senior executive performance measures of TSR and EPS, and a further 25% for the achievement of stretch targets related to ROIC and ICR. Annual invitation to participate with three-year performance period and no retesting of performance measures in subsequent years.
Termination benefits	Termination benefits calculated at three weeks' pay for every year of service paid at the Managing Director's FAR rate and capped at six months.

In addition, the Managing Director participates in the SP AusNet Retention Plan. Under this plan, the Managing Director is entitled to receive up to 100% of FAR, contingent upon a change of control event occurring (as defined under the Corporations Act and ASX Listing Rules) and subject to continued employment up to 12 months following the change of control event. The Retention Plan is in place until 16 September 2015. The Board has absolute and unfettered discretion to act or refrain from acting under or in connection with the Retention Plan and in the exercise of any power or discretion under the Plan.

In accordance with that discretion, the Board decided that no payment would be made under the Retention Plan arising from the sale by Singapore Power to StateGrid of 19.9% of SP AusNet securities.

Senior executives

The major provisions contained in the services agreements of the other KMP listed are substantially the same as those that apply to the Managing Director although participation levels for STI, LTI and Retention Plan vary.

Key management personnel cash bonuses – short-term incentive

The percentage of the available bonus that was paid, or that vested, in the financial years ended 31 March 2013 and 31 March 2014, and the percentage that was forfeited because the senior executive did not meet the service or performance criteria, are set out below.

	Cash Bonus (2014) ¹			Cash Bonus (2013)		
	Payable (\$)	Percentage of available bonus		Paid (\$)	Percentage of available bonus	
		Payable (%)	Not Payable (%)		Paid (%)	Not Paid (%)
Nino Ficca	320,000	64.0	36.0	662,264	140.0	0.0
John Azaris	102,400	64.0	36.0	-	-	-
Chad Hymas	86,400	72.0	28.0	-	-	-
John Kelso	90,144	62.6	37.4	136,737	114.8	0.0
Adam Newman	180,000	72.0	28.0	-	-	-
Alistair Parker	90,000	60.0	40.0	-	-	-
Ash Peck	-	-	100.0	181,805	130.1	0.0
Mario Tieppo	39,605	80.0	20.0	-	-	-

¹ Bonuses for performance for the year ended 31 March 2014 have been approved and will be payable in June 2014.

Directors' report (continued)

Remuneration report (audited) (continued)

Key management personnel – long-term incentive (equity based payments)

The SP AusNet Board approved a LTI plan for the Managing Director and senior executives that came into effect from 1 April 2006. The following table shows the value of cash grants subject to future performance testing, percentage payable or forfeited and future financial years that grants may vest and be paid. The grants made in 2012 and 2013 are still in progress and, as such, no percentage of these grants have been paid or forfeited as at the date of this report.

	Date of grant	Percentage of maximum grant payable (%) ¹	Percentage of maximum grant forfeited (%)	Vesting date	Maximum total value of grant (\$) ²
Nino Ficca	1 April 2011	38.5	61.5	31 March 2014	1,250,000
John Azaris ⁴	1 April 2011	40.0	60.0	31 March 2014	250,000
Chad Hymas ⁴	1 April 2011	40.0	60.0	31 March 2014	93,750
John Kelso	1 April 2011	40.0	60.0	31 March 2014	225,000
Adam Newman	4 March 2013	40.0	60.0	31 March 2014	139,844
Alistair Parker ⁴	1 April 2011	40.0	60.0	31 March 2014	117,188
Mario Tieppo ³	9 December 2013	40.0	60.0	31 March 2014	25,550
Total granted 1 April 2011					2,101,332
Nino Ficca	1 April 2012	-	-	31 March 2015	1,296,875
John Azaris ⁴	1 April 2012	-	-	31 March 2015	259,375
Chad Hymas ⁴	1 April 2012	-	-	31 March 2015	97,266
John Kelso	1 April 2012	-	-	31 March 2015	233,438
Adam Newman	4 March 2013	-	-	31 March 2015	280,449
Alistair Parker ⁴	1 April 2012	-	-	31 March 2015	121,582
Mario Tieppo ³	9 December 2013	-	-	31 March 2015	113,088
Total granted 1 April 2012					2,402,073
Nino Ficca	1 April 2013	-	-	31 March 2016	1,345,508
John Azaris	1 April 2013	-	-	31 March 2016	269,102
Chad Hymas	1 April 2013	-	-	31 March 2016	201,826
John Kelso	1 April 2013	-	-	31 March 2016	242,191
Adam Newman	1 April 2013	-	-	31 March 2016	420,471
Alistair Parker	1 April 2013	-	-	31 March 2016	252,283
Mario Tieppo ³	9 December 2013	-	-	31 March 2016	207,154
Total granted 1 April 2013					2,938,535

¹ These grants have been approved and will be payable in June 2014. In determining LTI's for the 1 April 2011 grant, the Board has not exercised any discretion in relation to the performance measures and outcomes payable under the LTI Plan.

² For the grant of 1 April 2011, the amounts payable equated to 40.0% of the maximum LTI, except for Mr Ficca whereby the amount payable equated to 38.5% of the maximum LTI. For the grants of 1 April 2012 and 1 April 2013, the amounts are based on maximum performance in relation to TSR, EPS, ROIC and ICR at the end of the three-year performance period described above and assumes prevailing FARs increase by 3.75% per annum.

³ Mr Tieppo commenced as KMP from 9 December 2013. As part of his contract of employment, Mr Tieppo has been granted pro-rata participation in the 1 April 2011, 1 April 2012 and 1 April 2013 tranches of the Company's LTI plan, which are due to be tested on 31 March 2014, 31 March 2015 and 31 March 2016 respectively. The maximum total value of grant disclosed above is based on this pro-rata entitlement.

⁴ Mr Azaris, Mr Hymas and Mr Parker commenced as KMP from 1 April 2013. The LTI participation and maximum grant payable disclosed above also include those LTI's that were granted prior to their commencement as KMP.

Directors' report (continued)

Remuneration report (audited) (continued)

Directors' interests

The Directors of SP AusNet have disclosed relevant interests in stapled securities as at the date of this report as follows:

Name	Number of stapled securities
Ng Kee Choe ¹	195,883
Nino Ficca ²	1,268,183
Ralph Craven	-
Jeremy Davis	120,750
Sally Farrier	-
Eric Gwee ¹	153,591
Ho Tian Yee	-
Tony Iannello ³	190,976
Sun Jianxing	-
George Lefroy ⁴	275,086
Tina McMeckan ⁵	90,000
Ian Renard	84,898

¹ Securities held by The Central Depository (Pte) Limited.

² 319,850 securities held by immediate family members of Mr Ficca and 948,333 securities held by Mr and Mrs Ficca as Trustees for the Ficca Investment Trust.

³ 87,500 securities held jointly by Mr Iannello and immediate family members of Mr Iannello through a Superannuation Plan and 103,476 securities held by immediate family members of Mr Iannello as trustee for the ADI Investment Trust.

⁴ Securities held by Serp Hills Pty Ltd (as trustee for Serp Hills Super Fund). Dr Lefroy retired as a Director of SP AusNet on 18 July 2013.

⁵ Securities held by McMeckan Superannuation Pty Ltd as Trustee for the McMeckan Family Super Fund.

Directors' report (continued)

Indemnification and insurance of officers and auditors

The constitutions of SP AusNet Distribution, SP AusNet Transmission and the Responsible Entity each provide for the company to indemnify each current and former Director, executive officer (as defined in the constitutions), and such other current and former officers of the company or of a related body corporate as the Directors determine (each an 'Officer'), on a full indemnity basis and to the full extent permitted by law against all liabilities (as defined in the constitutions) incurred by the Officer as an officer of the company or of a related body corporate.

The constitutions also provide for SP AusNet Distribution, SP AusNet Transmission and the Responsible Entity, to the extent permitted by law, to purchase and maintain insurance, or pay or agree to pay a premium for insurance, for each Officer against any liability (as defined in the constitutions) incurred by the Officer as an officer of the company or of a related body corporate.

SP AusNet Distribution, SP AusNet Transmission and the Responsible Entity may enter into a deed with any Officer to give effect to the rights conferred by the constitutions as described above.

The companies have executed protection deeds in favour of each of the Directors, the Company Secretary and certain general managers on substantially the same terms as provided in the constitutions. The deeds also give a right of access to the books of the companies and to Board documents (to the Directors only).

During the financial year, the Stapled Group paid a premium to insure the Directors and Company Secretaries of the Australian-based combined entities and the general managers of each of the divisions of SP AusNet. The Directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the insurance policy, as (in accordance with normal commercial practice) such disclosure is prohibited under the terms of the policy.

No insurance premiums are paid by the Stapled Group in regard to insurance cover provided to the auditor of the Stapled Group, KPMG. The auditor is not indemnified and no insurance cover is provided to the auditor.

Non-audit services

SP AusNet may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the relevant company and/or combined entity are important.

Details of the amounts paid or payable to the auditor, KPMG, for audit and non-audit services provided during the year are set out in note 22 of the financial report.

In accordance with the advice provided by the Audit and Risk Management Committee, the Directors are satisfied that the provision of non-audit services during the year by the auditor is compatible with the general standard of independence for auditors imposed by the Corporations Act. The Directors are satisfied for the following reasons:

- all non-audit services have been reviewed by the Audit and Risk Management Committee to ensure that they do not impact the impartiality and objectivity of the auditor; and
- none of the non-audit services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*.

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act is set out on page 41.

Directors' report (continued)

Rounding of amounts

SP AusNet Distribution is a company of a kind referred to in Class Order 98/100, 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 Class Order to the nearest hundred thousand dollars or, in certain cases, the nearest thousand dollars.

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



Ng Kee Choe
Chairman



Nino Ficca
Managing Director

Melbourne
14 May 2014



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

To: the directors of SP Australia Networks (Distribution) Ltd, SP Australia Networks (Transmission) Ltd and the Responsible Entity of SP Australia Networks (Finance) Trust, SP Australia Networks (RE) Ltd.

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 31 March 2014 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Michael Bray
Partner

Melbourne

14 May 2014

Combined income statement

For the year ended 31 March 2014

		2014	2013 (restated*)
	Notes	\$M	\$M
Revenue	3	1,799.4	1,639.5
Expenses, excluding finance costs and termination expenses	4	(1,094.0)	(988.3)
Termination expenses	4	(57.7)	-
Profit from operating activities		647.7	651.2
Finance income	5	24.7	18.1
Finance costs	5	(367.0)	(354.0)
Net finance costs		(342.3)	(335.9)
Profit before income tax		305.4	315.3
Income tax expense	6	(127.1)	(41.8)
Profit for the year		178.3	273.5
Attributable to:			
SP AusNet Distribution		3.4	6.0
SP AusNet Transmission and SP AusNet Finance Trust		174.9	267.5
Profit for the year		178.3	273.5
Earnings per share attributable to the ordinary equityholders of SP AusNet Distribution			
Basic and diluted earnings per share (cents per share)**	8	0.10	0.18

*Restated in accordance with AASB 119 Employee Benefits. Refer note 1(w).

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

** Basic earnings per stapled security of the Stapled Group for the year ended 31 March 2014 was 5.28 cents per security (2013: 8.37 cents). Refer note 8.

Combined statement of comprehensive income

For the year ended 31 March 2014

	2014	2013 (restated*)
	\$M	\$M
Profit for the year	178.3	273.5
Other comprehensive income		
Items that will not be reclassified to profit or loss in subsequent periods		
Movement in defined benefit funds	37.8	3.3
Income tax on movement in defined benefit funds	(11.3)	(1.0)
	<u>26.5</u>	<u>2.3</u>
Items that may be reclassified to profit or loss in subsequent periods		
Movement in hedge reserve	85.3	21.1
Income tax on movement in hedge reserve	(25.6)	(6.3)
	<u>59.7</u>	<u>14.8</u>
Other comprehensive income for the year, net of income tax	<u>86.2</u>	<u>17.1</u>
Total comprehensive income for the year	<u>264.5</u>	<u>290.6</u>
Attributable to:		
SP AusNet Distribution	80.2	22.9
SP AusNet Transmission and SP AusNet Finance Trust	184.3	267.7
Total comprehensive income for the year	<u>264.5</u>	<u>290.6</u>

*Restated in accordance with AASB 119 Employee Benefits. Refer note 1(w).

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

Combined statement of financial position

As at 31 March 2014

	Notes	2014 \$M	2013 (restated*) \$M
ASSETS			
Current assets			
Cash and cash equivalents		409.8	541.0
Receivables	9	281.7	291.6
Inventories	10	42.3	46.8
Derivative financial instruments	19(c)	0.1	6.7
Other assets	11	25.0	20.3
Total current assets		758.9	906.4
Non-current assets			
Receivables	9	215.3	224.2
Inventories	10	17.6	16.7
Property, plant and equipment	12	8,944.3	8,397.9
Intangible assets	13	392.8	369.1
Derivative financial instruments	19(c)	264.2	92.0
Tax receivable	23(b)	17.1	47.7
Deferred tax assets	6(d)	-	27.5
Other assets	11	2.1	0.7
Total non-current assets		9,853.4	9,175.8
Total assets		10,612.3	10,082.2
LIABILITIES			
Current liabilities			
Payables and other liabilities	14	272.3	242.4
Current tax payable		69.7	9.9
Borrowings	15	673.6	843.0
Provisions	16	99.3	80.5
Derivative financial instruments	19(c)	70.7	207.1
Total current liabilities		1,185.6	1,382.9
Non-current liabilities			
Payables and other liabilities	14	11.4	2.1
Borrowings	15	5,395.6	4,434.2
Provisions	16	35.0	57.3
Derivative financial instruments	19(c)	235.4	474.6
Deferred tax liabilities	6(d)	304.7	294.0
Total non-current liabilities		5,982.1	5,262.2
Total liabilities		7,167.7	6,645.1
Net assets		3,444.6	3,437.1
EQUITY			
Equityholders of SP AusNet Distribution			
Contributed equity	17	0.5	0.5
Reserves		(57.0)	(116.7)
Retained profits		713.1	692.6
		656.6	576.4
Equityholders of SP AusNet Transmission and SP AusNet Finance Trust		2,788.0	2,860.7
Total equity		3,444.6	3,437.1

*Restated in accordance with AASB 119 Employee Benefits. Refer note 1(w).

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

Combined statement of changes in equity

For the year ended 31 March 2014

	Notes	Contributed equity \$M	Issued units \$M	Hedge reserve (i) \$M	Retained profits \$M	Fair value adjustment on stapling (ii) \$M	Other equity component (iii) \$M	Total equity \$M
31 March 2014								
SP AusNet Distribution								
Balance as at 1 April 2013 (restated*)		0.5	-	(116.7)	692.6	-	-	576.4
Total comprehensive income for the year								
Profit for the year		-	-	-	3.4	-	-	3.4
Other comprehensive income		-	-	59.7	17.1	-	-	76.8
Total comprehensive income for the year		-	-	59.7	20.5	-	-	80.2
Balance as at 31 March 2014		0.5	-	(57.0)	713.1	-	-	656.6
SP AusNet Transmission and SP AusNet Finance Trust								
Balance as at 1 April 2013 (restated*)		650.1	2,708.2	-	546.1	51.4	(1,095.1)	2,860.7
Total comprehensive income for the year								
Profit for the year		-	-	-	174.9	-	-	174.9
Other comprehensive income		-	-	-	9.4	-	-	9.4
Total comprehensive income for the year		-	-	-	184.3	-	-	184.3
Transactions with owners, recorded directly in equity								
Distributions paid	7	-	(16.0)	-	(263.1)	-	-	(279.1)
Distribution Reinvestment Plan (net of transaction costs)	7	-	22.1	-	-	-	-	22.1
Total transactions with owners		-	6.1	-	(263.1)	-	-	(257.0)
Balance as at 31 March 2014		650.1	2,714.3	-	467.3	51.4	(1,095.1)	2,788.0
Total stapled securityholders' equity as at 31 March 2014		650.6	2,714.3	(57.0)	1,180.4	51.4	(1,095.1)	3,444.6

Combined statement of changes in equity

For the year ended 31 March 2014

	Notes	Contributed equity \$M	Issued units \$M	Hedge reserve (i) \$M	Retained profits \$M	Fair value adjustment on stapling (ii) \$M	Other equity component (iii) \$M	Total equity \$M
31 March 2013 (restated*)								
SP AusNet Distribution								
Balance as at 1 April 2012 (restated*)		0.5	-	(131.4)	684.4	-	-	553.5
Total comprehensive income for the year								
Profit for the year		-	-	-	6.0	-	-	6.0
Other comprehensive income		-	-	14.7	2.2	-	-	16.9
Total comprehensive income for the year		-	-	14.7	8.2	-	-	22.9
Balance as at 31 March 2013 (restated*)		0.5	-	(116.7)	692.6	-	-	576.4
SP AusNet Transmission and SP AusNet Finance Trust								
Balance as at 1 April 2012 (restated*)		650.1	2,266.8	(0.1)	507.6	51.4	(1,095.1)	2,380.7
Total comprehensive income for the year								
Profit for the year		-	-	-	267.5	-	-	267.5
Other comprehensive income		-	-	0.1	0.1	-	-	0.2
Total comprehensive income for the year		-	-	0.1	267.6	-	-	267.7
Transactions with owners, recorded directly in equity								
New units issued (net of transaction costs)		-	426.8	-	-	-	-	426.8
Distributions paid	7	-	(23.6)	-	(229.1)	-	-	(252.7)
Distribution Reinvestment Plan (net of transaction costs)	7	-	38.2	-	-	-	-	38.2
Total transactions with owners		-	441.4	-	(229.1)	-	-	212.3
Balance as at 31 March 2013 (restated*)		650.1	2,708.2	-	546.1	51.4	(1,095.1)	2,860.7
Total stapled securityholders' equity as at 31 March 2013 (restated*)		650.6	2,708.2	(116.7)	1,238.7	51.4	(1,095.1)	3,437.1

*Restated in accordance with AASB 119 Employee Benefits. Refer note 1(w).

Combined statement of changes in equity

For the year ended 31 March 2014

- (i) The hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments. These gains or losses are transferred to the income statement when the hedged item affects income, except for highly probable forecast purchases of an asset where the gains or losses are included in the initial measurement of that asset (refer note 1(l)).
- (ii) This amount represents the fair value uplift to the assets of the SP AusNet Transmission Group at the date of stapling (refer note 1(b)(i)). The fair value uplift was applied to easements which are considered to have an indefinite useful life.
- (iii) SP AusNet Transmission other equity component results from the application of reverse acquisition accounting and represents the difference between the net assets of SP AusNet Transmission and SPI Australia Finance Pty Ltd and the purchase price paid by the legal acquirer, SP AusNet Transmission.

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

Combined statement of cash flows

For the year ended 31 March 2014

	Notes	2014 \$M	2013 \$M
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		2,000.3	1,777.2
Payments to suppliers and employees (inclusive of goods and services tax)		(897.3)	(824.1)
Income tax paid		(35.4)	(40.8)
Finance income received		23.1	13.2
Finance costs paid		(360.5)	(356.9)
Net cash inflow from operating activities	30	<u>730.2</u>	<u>568.6</u>
Cash flows from investing activities			
Payments for property, plant and equipment		(925.2)	(843.8)
Proceeds from sale of property, plant and equipment		0.8	1.2
Payments for acquisition of a subsidiary (net of cash acquired)	27	(24.2)	-
Payment for desalination licence	9	-	(235.5)
Repayment of desalination licence receivable	9	8.8	1.1
Net cash outflow from investing activities		<u>(939.8)</u>	<u>(1,077.0)</u>
Cash flows from financing activities			
Proceeds from issue of new securities (net of transaction costs)		-	426.8
Distributions paid (i)	7	(257.0)	(214.5)
Proceeds from borrowings		2,162.6	2,057.0
Repayment of borrowings		(1,827.2)	(1,239.0)
Net cash inflow from financing activities		<u>78.4</u>	<u>1,030.3</u>
Net (decrease)/increase in cash held		<u>(131.2)</u>	<u>521.9</u>
Cash and cash equivalents at the beginning of the year		<u>541.0</u>	<u>19.1</u>
Cash and cash equivalents at the end of the year		<u>409.8</u>	<u>541.0</u>

(i) Amounts shown represent distributions paid of \$279.1 million (2013: \$252.7 million) offset by proceeds from the Distribution Reinvestment Plan of \$22.2 million (2013: \$38.4 million), less transaction costs.

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

Notes to the combined financial statements

31 March 2014

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Notes to the combined financial statements

31 March 2014

Note 1 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial report are set out below.

(a) Basis of preparation

The combined financial report, prepared by a for-profit entity for the year ended 31 March 2014, represents financial statements for the Stapled Group, which consists of SP AusNet Distribution and its subsidiaries, SP AusNet Transmission and its subsidiaries and SP AusNet Finance Trust. The Stapled Group is also referred to as SP AusNet.

Pursuant to the Stapling Deed effective 21 October 2005, a Stapled Group was established for the purpose of facilitating a joint quotation of SP AusNet Distribution, SP AusNet Transmission and SP AusNet Finance Trust on the Australian Securities Exchange and the Singapore Exchange Securities Trading Limited. The Stapled Group was listed on 14 December 2005. The consolidated financial statements are presented in accordance with class order 13/1050, issued by the Australian Securities and Investments Commission.

So long as the three entities remain jointly quoted, the number of shares in each of SP AusNet Distribution and SP AusNet Transmission and the number of units in SP AusNet Finance Trust shall be equal and shareholders and unitholders shall be identical.

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards and interpretations adopted by the Australian Accounting Standards Board and the *Corporations Act 2001 (Cth)*. The combined financial statements and notes also comply with International Financial Reporting Standards and interpretations adopted by the International Accounting Standards Board. Where the classification of items has been amended in the financial report, the comparative information has been restated to align to the revised classification unless otherwise noted.

This general purpose financial report is presented in Australian dollars.

The financial statements were approved by the Board of Directors on 14 May 2014.

SP AusNet's current liabilities exceed its current assets by \$426.7 million at 31 March 2014 (2013: \$476.5 million). The financial report has been prepared on a going concern basis, which contemplates the continuity of normal trading operations. The Stapled Group is, and is expected to continue, trading profitably, generating positive cash flows, and successfully refinancing maturing debt. In addition, at 31 March 2014 the Stapled Group has available a total of \$550 million of undrawn but committed non-current bank debt facilities, \$197 million of undrawn but committed current bank debt facilities and \$409.8 million cash on deposit.

(i) Historical cost convention

The financial statements have been prepared under the historical cost convention, except for certain financial assets and liabilities (including derivative financial instruments) measured at fair value.

(ii) Critical accounting estimates and judgements

The preparation of financial statements in conformity with Australian Accounting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Stapled Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 20.

Notes to the combined financial statements

31 March 2014

Note 1 Summary of significant accounting policies (continued)

(b) Principles of consolidation

(i) *Stapling*

For statutory reporting purposes SP AusNet Distribution was identified as the acquirer in the Stapled Group based on the size of its net assets and its operations. Accordingly, it presents the combined financial report of the Stapled Group. As at the date of the stapling arrangement, the carrying amounts of the assets and liabilities of SP AusNet Distribution were consolidated with the fair values of the identifiable assets, liabilities and contingent liabilities of SP AusNet Transmission and SP AusNet Finance Trust.

As the business combination has been effected by contract alone, the total ownership interest in SP AusNet Transmission and SP AusNet Finance Trust is presented as a separate line item in the combined financial statements of SP AusNet Distribution, notwithstanding that by virtue of the stapling arrangement SP AusNet Distribution, SP AusNet Transmission and SP AusNet Finance Trust have common equityholders (securityholders) with the effect that total equity of the Stapled Group belongs to those securityholders. The retained profits of SP AusNet Transmission and the unitholders' funds of SP AusNet Finance Trust are available for distribution directly to securityholders.

(ii) *Subsidiaries*

Subsidiaries are entities controlled by the Stapled Group. Control exists when the Stapled Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, potential voting rights that are presently exercisable or convertible are taken into account.

Subsidiaries are fully consolidated from the date on which control is transferred to the Stapled Group and are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities within the Stapled Group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred.

(c) Segment reporting

An operating segment is a component of the Stapled 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.

(d) Foreign currency translation

All foreign currency transactions are accounted for using the exchange rate at the date of the transaction. At balance date, monetary items denominated in foreign currencies are translated at the exchange rate existing at that date. Resultant exchange differences are recognised in the income statement for the year, except for exchange differences for qualifying cash flow hedges which are recognised in other comprehensive income.

Notes to the combined financial statements

31 March 2014

Note 1 Summary of significant accounting policies (continued)

(e) Revenue recognition

Revenue is measured at the fair value of the consideration received net of the amount of Goods and Services Tax (GST) payable to the taxation authority. Revenue is recognised for the major business activities as follows:

(i) *Transmission regulated revenue*

Transmission regulated revenue is revenue earned from the transmission of electricity and related services and is recognised as the services are rendered.

(ii) *Distribution regulated revenue*

Distribution regulated revenue is revenue earned from the distribution of electricity and gas and related services and is recognised as the services are rendered.

(iii) *Service revenue*

Service revenue is recognised as the services are rendered. This includes revenue earned from specialist utility related solutions, in particular metering, monitoring and asset inspection services as well as the operation and maintenance services provided in connection with the desalination electricity transmission assets.

(iv) *Contributions from customers for capital works*

Non-refundable contributions received from customers towards the cost of extending or modifying the networks are recognised as revenue and an asset respectively once control is gained of the contribution or asset and the customer is connected to the network. Customer contributions of cash are measured with reference to the cash contribution received and customer contributions of assets are measured at the fair value of the assets contributed at the date SP AusNet gains control of the asset.

(f) Income tax

(i) *Current tax*

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by the reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

(ii) *Deferred tax*

Deferred tax is accounted for using the balance sheet liability method in respect of differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. Deferred tax assets and liabilities are, however, not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination), which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

Notes to the combined financial statements

31 March 2014

Note 1 Summary of significant accounting policies (continued)

(f) Income tax (continued)

(ii) *Deferred tax (continued)*

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on the tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Stapled Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Stapled Group intends to settle its tax assets and liabilities on a net basis.

(iii) *Tax expense*

Current and deferred tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill.

(iv) *Tax consolidation*

SP AusNet Distribution and SP AusNet Transmission are the head entities in two separate tax consolidated groups comprising each of these entities and their wholly-owned subsidiaries.

The current and deferred tax amounts for each tax consolidated group are allocated among the entities in each group using the stand-alone taxpayer method.

The members of each tax consolidated group have entered into a tax funding arrangement which sets out the funding obligations of members of the tax consolidated group in respect of tax amounts. The tax funding arrangement requires payments to/(from) the head entity equal to the current tax liability/(asset) calculated under the stand-alone taxpayer method and any deferred tax asset relating to tax losses assumed by the head entity. The members of each tax consolidated group have also entered into valid tax sharing agreements under the tax consolidation legislation which set out the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations and the treatment of entities leaving the tax consolidated group.

Each head entity recognises deferred tax assets arising from unused tax losses of its tax consolidated group to the extent that it is probable that future taxable profits of the tax consolidated group will be available against which the assets can be utilised. Any subsequent period adjustments to deferred tax assets arising from unused tax losses assumed from subsidiaries are recognised by the head entity only.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses assumed by each head entity from the subsidiaries in its tax consolidated group are recognised in conjunction with any tax funding arrangement amounts.

(g) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. The Stapled Group does not have any finance lease arrangements.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the benefit.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefits of incentives are recognised as a reduction of rental expense on a straight-line basis over the term of the lease, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Notes to the combined financial statements

31 March 2014

Note 1 Summary of significant accounting policies (continued)

(h) Business combinations

The acquisition method of accounting is used for all business combinations, regardless of whether equity instruments or other assets are acquired. Cost is determined as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange as well as the fair value of any contingent consideration. Any subsequent changes in contingent consideration are recognised in the income statement.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at fair value at the acquisition date, irrespective of the extent of any non-controlling interest. All potential intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair value can be measured reliably. Transaction costs in relation to business combinations are expensed as incurred.

Where settlement of any part of the cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

(i) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash at bank and investments in money market instruments. Bank overdrafts are repayable on demand and form an integral part of the Stapled Group's cash management, therefore these are included as a component of cash and cash equivalents for the purpose of the combined statement of cash flows.

(j) Receivables

Current and non-current receivables are initially recognised at the fair value of the amounts to be received and are subsequently measured at amortised cost, less any allowance for impairment.

Collectability of receivables is reviewed on an ongoing basis. Debts that are known to be uncollectible are written off. An allowance for impairment is established when there is objective evidence that the Stapled Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The change in the amount of the allowance is recognised in the income statement.

(k) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is based on a weighted average and includes expenditure incurred in acquiring the inventories and bringing them to their existing condition and location.

Notes to the combined financial statements

31 March 2014

Note 1 Summary of significant accounting policies (continued)

(l) Derivative financial instruments

Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in the income statement immediately unless the derivative financial instrument is designated and effective as a hedging instrument, in which case the timing of the recognition in the income statement depends on the nature of the hedge relationship (refer below). The Stapled Group designates certain derivative financial instruments as either hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges) or hedges of highly probable forecast transactions (cash flow hedges).

Credit risk is included in the fair value of derivative financial instruments based on a bilateral credit risk adjustment obtained using credit default swap curves. In management's view transaction price is not the best evidence of fair value because it does not incorporate bilateral credit risk pricing. The difference between the fair value of derivatives and their transaction price at inception due to credit valuation adjustments is recognised progressively over the period to maturity.

To ensure derivative financial instruments qualify for hedge accounting the Stapled Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. The Stapled Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivative financial instruments that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

The Stapled Group classifies its derivative financial instruments between current and non-current based on the maturity date of the instrument. As a result, derivative financial instruments are classified as non-current, except for those instruments that mature in less than 12 months, which are classified as current.

(i) Fair value hedge

Changes in the fair value of derivative financial instruments that are designated and qualify as fair value hedges are recognised immediately in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

(ii) Cash flow hedge

The effective portion of changes in the fair value of derivative financial instruments that are designated and qualify as cash flow hedges are recognised directly in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in the hedge reserve are recycled in the income statement in the periods when the hedged item will affect the income statement (generally when the forecast transaction that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset, the gains and losses previously deferred in the hedge reserve are transferred from the hedge reserve and included in the measurement of the initial cost or carrying amount of the asset.

Hedge accounting is discontinued when the hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting. At that time, any cumulative gain or loss existing in the hedge reserve remains in hedge reserve and is recognised when the forecast transaction is ultimately recognised in the income statement.

When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in the hedge reserve is immediately recognised in the income statement.

(m) Property, plant and equipment

Items of property, plant and equipment are stated at historical cost less depreciation. The cost of contributed assets is their fair value at the date the Stapled Group gains control of the asset.

Historical cost includes all expenditure that is directly attributable to the acquisition of the asset, including an appropriate allocation of overheads and capitalised borrowing costs. Cost may also include transfers from the hedge reserve of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Notes to the combined financial statements

31 March 2014

Note 1 Summary of significant accounting policies (continued)**(m) Property, plant and equipment (continued)**

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Stapled Group and the cost of the item can be measured reliably.

Items of plant and equipment under construction are recognised as capital work in progress. Once the asset construction is complete and the asset is capable of operating in the manner intended by management, the item of plant and equipment is transferred from capital work in progress to the relevant asset class and depreciation of the asset commences.

Maintenance and repair costs and minor renewals are charged as expenses as incurred, except where they relate to the replacement of an asset, in which case the costs are capitalised and depreciated, and the replaced item is derecognised.

Depreciation is recognised on property, plant and equipment, including freehold buildings but excluding land and easements. Depreciation is calculated on a straight-line basis so as to write off the net cost of each asset over its estimated useful life to its estimated residual value. The estimated useful lives, residual values and depreciation methods are reviewed annually, and where changes are made, their effects are accounted for on a prospective basis.

The expected average useful lives of major asset classes for the current and comparative periods are as follows:

	Years
Distribution network (gas)	15-80
Buildings	40-99
Transmission network	15-70
Distribution network (electricity)	5-70
Other general assets	3-10
Motor vehicles and heavy machinery	3-12
Computer equipment and software	3-5
Land and easements	Indefinite

(n) Intangible assets**(i) Distribution licences**

The distribution licences held entitle certain subsidiaries to distribute electricity and gas within the subsidiary's licensed region. Distribution licences are stated at cost and are considered to be indefinite life intangible assets, which are not amortised. The distribution licences are tested for impairment annually and are carried at cost less any accumulated impairment losses.

(ii) Goodwill

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed.

If, after reassessment, the Stapled Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in the income statement as a gain.

Goodwill is not amortised but is reviewed for impairment at least annually (refer note 1(o)).

Notes to the combined financial statements

31 March 2014

Note 1 Summary of significant accounting policies (continued)

(n) Intangible assets (continued)

(iii) Other intangible assets

Other intangible assets that are acquired by the Stapled Group and that have a finite useful life are measured at cost less accumulated amortisation and accumulated impairment losses.

(o) Impairment of non-financial assets

At each reporting date, the Stapled Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. An impairment loss occurs when an asset's carrying amount exceeds its recoverable amount. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Stapled Group estimates the recoverable amount of the cash-generating unit (CGU) to which the asset belongs. A CGU is the smallest group of assets that generate independent cash flows.

Intangible assets with indefinite useful lives, including goodwill, are tested for impairment annually regardless of whether there is an indication that the asset or related CGU may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing fair value less costs to sell, the estimated future post-tax cash flows are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. The impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to the other assets of the CGU pro-rata on the basis of the carrying amount of each asset in the CGU. An impairment loss is recognised in the income statement immediately.

(p) Trade and other payables

These amounts represent liabilities for goods and services provided to the Stapled Group prior to the end of financial year which are unpaid. Trade and other payables are stated at cost, are unsecured and are usually payable within 30 days of end of month.

(q) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost, except as detailed below. Any difference between the proceeds (net of transaction costs) and redemption amount is recognised in the income statement over the period of the borrowings using the effective interest rate method.

Borrowings which are part of a fair value hedge relationship are recognised at amortised cost, adjusted for the gain or loss attributable to the hedged risk. The gain or loss attributable to the hedged risk is recorded in the income statement together with any changes in the fair value of derivative financial instruments that are designated and qualify as fair value hedges (refer note 1(l)).

Borrowings are classified as current liabilities unless the Stapled Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date or has the sole discretion to refinance or roll over the liability for at least 12 months after the reporting date under an existing loan facility.

Notes to the combined financial statements

31 March 2014

Note 1 Summary of significant accounting policies (continued)

(r) Net financing costs

Finance income comprises interest income on funds invested and the return on the desalination licence receivable (refer note 9). Interest income is recognised as it accrues, taking into account the effective yield on the financial asset.

Finance costs comprise interest expense on borrowings, foreign exchange gains/losses, gains/losses on hedging instruments that are recognised in the income statement, unwinding of discount on provisions and the net interest cost in respect of defined benefit obligations. All borrowing costs are recognised in the income statement using the effective interest rate method, other than borrowing costs directly attributable to a qualifying asset which are capitalised into the cost of that asset.

The capitalisation rate used to determine the amount of borrowing costs to be included in the cost of qualifying assets is the average interest rate of 7.1 per cent (2013: 7.7 per cent) applicable to the Stapled Group's outstanding borrowings during the period.

(s) Provisions

Provisions are recognised when the Stapled Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount of the provision can be measured reliably. Provisions are not recognised for future operating losses.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligations. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

(t) Employee benefits

(i) *Wages and salaries, annual leave and sick leave*

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

(ii) *Long service leave*

The liability for long service leave is recognised in the provision for employee benefits and is measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date, including on-costs. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using interest rates on government guaranteed bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) *Defined contribution superannuation funds*

Contributions made to defined contribution superannuation funds are expensed when the liability is incurred. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. The Stapled Group's obligation in respect of these funds is limited to the contributions to the fund.

Notes to the combined financial statements

31 March 2014

Note 1 Summary of significant accounting policies (continued)

(t) Employee benefits (continued)

(iv) *Defined benefit superannuation funds*

The Stapled Group's net obligation in respect of the defined benefit superannuation funds is calculated by estimating the amount of future benefits that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value and recognised after deducting the fair value of any plan assets.

The discount rate is the yield at the balance date on government bonds that have maturity dates approximating the terms of the Stapled Group's obligations. A qualified actuary performs the calculation using the projected unit credit method.

Remeasurements comprise actuarial gains and losses and the return on plan assets (excluding interest). They are recognised in full directly in retained profits in the period in which they occur and are presented in other comprehensive income.

When the calculation of the net obligation results in a benefit to the Stapled Group, the recognised asset is limited to the net total of any unrecognised actuarial losses and past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

(u) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from proceeds.

(v) Earnings per share

(i) *Basic earnings per share and basic earnings per stapled security*

Basic earnings per share is calculated by dividing the profit attributable to members of the Stapled Group, excluding any non-controlling interest and costs of servicing equity other than distributions, by the weighted average number of shares of SP AusNet Distribution outstanding during the financial year.

Because 100 per cent of the profits of SP AusNet Transmission and SP AusNet Finance Trust are included in non-controlling interest, but are available to the securityholders, an alternative presentation of earnings per stapled security for the Stapled Group is also presented which includes earnings attributable to non-controlling interest.

(ii) *Diluted earnings per share*

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest or other financing costs associated with dilutive potential shares and includes these dilutive potential shares in the weighted average number of shares outstanding used in the calculation.

(w) New accounting standards and interpretations

- AASB 119 *Employee Benefits* requires calculation of the net interest on the net defined benefit liability using the same discount rate that is used to measure the defined benefit liability, resulting in the full expected return on plan assets to no longer be recognised in profit or loss. In addition, plan administration expenses, previously deducted from the expected return on defined benefit fund plan assets, are now included within profit from operating activities. The amendment has also clarified how taxes should be treated when calculating the discount rate which has resulted in the discount rate no longer including an allowance for tax.

Notes to the combined financial statements

31 March 2014

Note 1 Summary of significant accounting policies (continued)

(w) New accounting standards and interpretations (continued)

As a result of these amendments, the comparative financial information in the income statement, statement of comprehensive income, statement of financial position and statement of changes in equity for the year ended 31 March 2013 have been restated. The impact from adoption of the revised AASB 119 is shown below:

	Cumulative impact - increase/(decrease)	
	1 April 2012	31 March 2013
	\$M	\$M
Impact on income statement		
Profit after income tax	-	(5.6)
Impact on statement of comprehensive income		
Other comprehensive income for the year, net of income tax	-	4.2
Impact on statement of financial position		
Net liabilities	(6.3)	(4.9)
Retained earnings (opening balance)	6.3	6.3
Retained earnings	-	(1.4)
Total equity	6.3	4.9

There was no restatement impact on the statement of cash flows. Earnings per share attributable to the ordinary equityholders of SP AusNet Distribution for the year ended 31 March 2013 decreased by 0.1 cents. A statement of financial position as at 1 April 2012 has not been presented as the impact from adoption of the revised AASB 119 is not material, as shown above.

- Amendments to AASB 101 *Presentation of Items of Other Comprehensive Income* requires items of other comprehensive income that may be reclassified to profit or loss to be presented separately from items that will never be reclassified. The statement of comprehensive income has been revised accordingly.
- AASB 13 *Fair Value Measurement* provides guidance on how to measure fair value when it is required under existing accounting standards and enhances fair value disclosures. AASB 13 does not extend the use of fair value accounting and only applies to the Stapled Group prospectively from 1 April 2013. Comparative information is not restated. As a result of the adoption of AASB 13, the Stapled Group has made some minor amendments to its valuation methodology for derivative financial instruments regarding the measurement of non-performance risk, including credit risk. While these amendments may result in an increase in hedge ineffectiveness recognised in the future, it is not expected to be material to the income statement or the carrying value of derivatives in the statement of financial position.

New accounting standards not yet adopted

The following accounting standards, amendments to accounting standards and interpretations have been identified as those which may impact the Stapled Group in the period of initial adoption. They were available for early adoption for the Stapled Group's annual reporting period beginning 1 April 2013, but have not been applied in preparing this financial report:

- AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and liabilities. It also makes a number of significant amendments to the hedge accounting requirements. While the International Accounting Standards Board is yet to publish an adoption date for AASB 9, it is not expected to be applicable until after 1 April 2017. The impact of the standard has yet to be quantified by the Stapled Group.

Notes to the combined financial statements

31 March 2014

Note 1 Summary of significant accounting policies (continued)

(w) New accounting standards and interpretations (continued)

There are also other amendments and revisions to accounting standards that have not been early adopted. These changes are not expected to result in any material changes to the Stapled Group's financial performance or financial position.

(x) Rounding of amounts

The Stapled Group is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest hundred thousand dollars, or in certain cases, the nearest thousand dollars.

Note 2 Segment information

(a) Description of reportable segments

The Stapled 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. The Stapled Group charges 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. The Stapled Group's 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. The Stapled Group charges 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. The Stapled Group's gas distribution network covers central and western Victoria.

(iii) Electricity transmission

The Stapled Group owns and manages the vast majority of the electricity transmission network in Victoria. The Stapled Group's electricity transmission network consists of the transmission lines and towers which carry electricity at high voltages from power stations to electricity distributors around Victoria forming the backbone of the Victorian electricity network. The network is centrally located amongst the five eastern states of Australia that form the National Electricity Market, and provides key links between the electricity transmission networks of Victoria, South Australia, New South Wales and Tasmania. The Stapled Group charges 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 includes both regulated and unregulated electricity transmission assets and revenues. The electricity transmission segment does not purchase or sell electricity.

(iv) Select Solutions

Select Solutions provides metering, data and asset management solutions, including integrated mobile and spatial technologies, to external parties as well as to all other segments of SP AusNet. Select Solutions' customers are primarily businesses operating in the essential infrastructure sector such as electricity, water and gas utility owners, (including Jemena, which was a related party until the completion of the State Grid transaction on 3 January 2014), transportation authorities and telecommunications companies.

Notes to the combined financial statements

31 March 2014

Note 2 Segment information (continued)

(b) Reportable segment financial information

	Electricity distribution	Gas distribution	Electricity transmission	Select Solutions (ii)	Unallocated expenses	Inter-segment eliminations	Combined
2014	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Regulated revenue	783.9	193.3	593.7	-	-	(14.2)	1,556.7
Customer contributions	25.8	25.6	-	-	-	-	51.4
Service revenue	-	-	11.7	131.9	-	-	143.6
Other revenue	5.4	0.6	22.9	18.8	-	-	47.7
Total segment revenue	815.1	219.5	628.3	150.7	-	(14.2)	1,799.4
Segment expense before depreciation and amortisation	(363.5)	(51.4)	(191.4)	(132.2)	(57.7)	14.2	(782.0)
Segment result - EBITDA (i)	451.6	168.1	436.9	18.5	(57.7)	-	1,017.4
Depreciation and amortisation	(213.9)	(56.0)	(95.9)	(3.9)	-	-	(369.7)
Net finance costs							(342.3)
Income tax expense							(127.1)
Profit for the year							178.3
Capital expenditure	568.6	112.2	232.7	36.5	-	-	950.0
2013 (restated*)							
Regulated revenue	663.1	211.4	573.2	-	-	(13.8)	1,433.9
Customer contributions	27.2	4.4	-	-	-	-	31.6
Service revenue	-	-	2.7	118.8	-	-	121.5
Other revenue	4.1	0.3	28.1	20.0	-	-	52.5
Total segment revenue	694.4	216.1	604.0	138.8	-	(13.8)	1,639.5
Segment expense before depreciation and amortisation	(329.4)	(48.8)	(181.0)	(120.1)	-	13.8	(665.5)
Segment result - EBITDA (i)	365.0	167.3	423.0	18.7	-	-	974.0
Depreciation and amortisation	(174.4)	(54.5)	(90.6)	(3.3)	-	-	(322.8)
Net finance costs							(335.9)
Income tax expense							(41.8)
Profit for the year							273.5
Capital expenditure	542.7	89.2	245.1	4.4	-	-	881.4

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

(ii) Capital expenditure for Select Solutions of \$36.5 million for the year ended 31 March 2014, includes \$27.2 million for the acquisition of the Geomatic Technologies business. Refer note 27.

* Restated in accordance with AASB 119 *Employee Benefits*. Refer note 1(w).

Notes to the combined financial statements

31 March 2014

Note 2 Segment information (continued)

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

(i) Accounting policies

Segment information is prepared in conformity with the accounting policies of the Stapled Group as disclosed in note 1 and AASB 8 *Operating Segments*.

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

The \$50.0 million termination fee and restructuring expenses of \$7.7 million associated with the Termination Deed have not been allocated to any reportable segment. Refer note 28 for further details.

(ii) Inter-segment transfers

Segment revenues, expenses and results include transmission network connection charges between the electricity distribution and electricity transmission segments. The prices for such transfers are regulated and are eliminated on consolidation.

Note 3 Revenue

	2014	2013
	\$M	\$M
Revenue		
Regulated revenue	1,556.7	1,433.9
Customer contributions	51.4	31.6
Service revenue	143.6	121.5
Other revenue	47.7	52.5
Total revenue	1,799.4	1,639.5

Regulated revenue includes revenue earned from the distribution of electricity and gas and transmission of electricity in accordance with the relevant regulatory determinations, as well as revenue earned from negotiated and prescribed projects.

Notes to the combined financial statements

31 March 2014

Note 4 Expenses

		2014	2013 (restated)
	Notes	\$M	\$M
Expenses, excluding finance costs, included in the income statement:			
Use of system and associated charges		86.3	91.6
Easement tax		103.4	99.3
Employee benefits			
Labour expenses		124.9	108.8
Defined benefit superannuation expenses	18	7.1	6.9
Defined contribution superannuation expenses		13.9	10.6
Maintenance		95.5	92.3
Information technology and communication costs		41.4	31.6
Operating lease rental expenses		13.6	14.4
Administrative expenses		49.8	45.4
Materials		51.8	45.3
Flame logo fee	25(d)	1.0	1.0
Other operating expenses		85.7	69.7
Management services charge	25(d)	19.6	24.9
Performance fees	25(d)	22.2	19.6
Depreciation and amortisation		369.7	322.8
Net loss on disposal of property, plant and equipment		8.1	4.1
Total expenses, excluding finance costs and termination expenses		1,094.0	988.3
Termination fee	28	50.0	-
Restructuring expenses	28	7.7	-
Total expenses, excluding finance costs		1,151.7	988.3

Notes to the combined financial statements

31 March 2014

Note 5 Net finance costs

		2014	2013 (restated)
	Notes	\$M	\$M
Finance income			
Interest income		0.2	0.2
Investment income		10.1	13.6
Return on desalination licence receivable		14.4	4.3
Total finance income		24.7	18.1
Finance costs			
Interest expense		382.5	374.8
Other finance charges - cash		3.1	4.5
Other finance charges - non-cash		5.4	5.7
Loss/(gain) on accounting for hedge relationships	19(c)	3.7	(7.1)
Unwind of discount on provisions		0.5	0.9
Defined benefit net interest expense		1.0	1.2
Capitalised finance charges		(29.2)	(26.0)
Total finance costs		367.0	354.0
Net finance costs		342.3	335.9

Note 6 Income tax and deferred tax

(a) Income tax expense

		2014	2013 (restated)
	Notes	\$M	\$M
Current tax		124.5	36.7
Prior year (over)/under provision - current tax		1.3	0.9
Deferred tax	6(e)(i)	3.7	5.3
Prior year (over)/under provision - deferred tax		(2.4)	(1.1)
		127.1	41.8

Notes to the combined financial statements

31 March 2014

Note 6 Income tax and deferred tax (continued)

(b) Numerical reconciliation of income tax expense to prima facie tax payable

	2014	2013 (restated)
	\$M	\$M
Profit before income tax expense	305.4	315.3
Tax at the Australian tax rate of 30% (2013: 30%)	91.6	94.6
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Non-assessable interest income (i)	(48.5)	(51.5)
Net tax and interest on section 163AA impost dispute (ii)	86.7	-
Prior year (over)/under provision	(1.1)	(0.2)
Sundry items	(1.6)	(1.1)
Income tax expense	127.1	41.8

The Stapled Group's effective tax rate for the year ended 31 March 2014 is approximately 42 per cent (2013: 13 per cent). The divergence in the effective tax rate, from the prima facie tax rate of 30 per cent, is mainly caused by the following:

- (i) SP AusNet Finance Trust's interest income not assessable in the Trust on the basis that all beneficiaries are presently entitled to trust income at the end of the reporting period. The corresponding interest expense incurred in SP AusNet Distribution and SP AusNet Transmission is, however, deductible for tax purposes; and
- (ii) Recognition during the year of \$100.8 million for the amount potentially payable under the Section 163AA impost dispute. This is offset by the deductibility of the general interest component which results in a \$14.1 million tax credit. Refer note 23(a).

(c) Amounts recognised directly in other comprehensive income

	2014	2013 (restated)
	\$M	\$M
Aggregate deferred tax arising in the reporting period recognised in other comprehensive income:		
Hedge reserve - cash flow hedges	25.6	6.3
Remeasurement of defined benefit obligation	11.3	1.0
Net deferred tax recognised in other comprehensive income	36.9	7.3

Notes to the combined financial statements

31 March 2014

Note 6 Income tax and deferred tax (continued)

(d) Recognised deferred tax assets and liabilities

	Notes	Deferred tax assets		Deferred tax liabilities	
		2014	2013 (restated)	2014	2013
		\$M	\$M	\$M	\$M
Employee benefits		19.9	20.3	-	-
Other accruals and provisions		31.9	15.8	-	-
Intellectual property - copyright	23(b)	40.1	41.1	-	-
Derivative financial instruments and fair value adjustments on borrowings		31.1	55.6	-	-
Tax losses		316.0	266.8	-	-
Defined benefit funds		-	10.4	(0.2)	-
Intangibles		-	-	(4.8)	(4.9)
Desalination licence receivable		-	-	(5.7)	(1.3)
Property, plant and equipment		-	-	(729.6)	(666.2)
Other		-	-	(3.4)	(4.1)
Deferred tax assets/(liabilities)		439.0	410.0	(743.7)	(676.5)
Set off of tax		(439.0)	(382.5)	439.0	382.5
Net deferred tax assets/(liabilities)		-	27.5	(304.7)	(294.0)

(e) Movement in temporary differences during the year

	2014	2013 (restated)
	\$M	\$M
Net deferred tax assets/(liabilities)		
Opening balance at 1 April	(266.5)	(255.0)
(Charged)/credited to the income statement (i)	(3.7)	(5.3)
Credited/(debited) to other comprehensive income	(36.9)	(7.3)
Net prior year over provision	2.4	1.1
Closing balance at 31 March	(304.7)	(266.5)

Notes to the combined financial statements

31 March 2014

Note 6 Income tax and deferred tax (continued)

(e) Movement in temporary differences during the year (continued)

- (i) Deferred tax (income)/expense recognised in the income statement in respect of each type of temporary difference is as follows:

	Charged/(credited) to the income statement	
	2014	2013 (restated)
	\$M	\$M
Employee benefits	0.2	(3.3)
Other accruals and provisions	(15.5)	(1.0)
Intellectual property - copyright	1.0	-
Derivative financial instruments and fair value adjustments on borrowings	(1.1)	2.0
Tax losses	(47.7)	(46.7)
Intangibles	(0.1)	(0.2)
Defined benefit funds	(0.8)	0.7
Desalination licence receivable	4.4	1.3
Property, plant and equipment	63.8	53.0
Other	(0.5)	(0.5)
Total charged/(credited) to the income statement	3.7	5.3

Note 7 Distributions

The following distributions were approved and paid by SP AusNet to stapled securityholders during the current financial year:

	Payable by	Date paid	Cents per security	Total distribution \$M
Distributions				
Fully franked dividend	SP AusNet Transmission	28 June 2013	1.367	46.0
Interest income	SP AusNet Finance Trust	28 June 2013	2.649	89.2
Return of capital	SP AusNet Finance Trust	28 June 2013	0.084	2.8
Fully franked dividend	SP AusNet Transmission	23 December 2013	1.393	47.0
Interest income	SP AusNet Finance Trust	23 December 2013	2.396	80.9
Return of capital	SP AusNet Finance Trust	23 December 2013	0.391	13.2
Total distributions			8.280	279.1

Notes to the combined financial statements

31 March 2014

Note 7 Distributions (continued)

The following distributions were approved and paid by SP AusNet to stapled securityholders during the previous financial year:

	Payable by	Date paid	Cents per security	Total distribution \$M
Distributions				
Fully franked dividend	SP AusNet Transmission	29 June 2012	1.333	38.6
Interest income	SP AusNet Finance Trust	29 June 2012	2.159	62.5
Return of capital	SP AusNet Finance Trust	29 June 2012	0.508	14.7
Fully franked dividend	SP AusNet Transmission	21 December 2012	1.367	45.6
Interest income	SP AusNet Finance Trust	21 December 2012	2.467	82.4
Return of capital	SP AusNet Finance Trust	21 December 2012	0.266	8.9
Total distributions			8.100	252.7

In relation to the distributions paid in the current financial year of \$279.1 million (2013: \$252.7 million), \$22.2 million (2013: \$38.4 million) less transaction costs was utilised in the allotment of new securities issued under the Distribution Reinvestment Plan (DRP).

(a) Franking account

	2014 \$M	2013 \$M
30 per cent franking credits available to stapled securityholders for subsequent financial years	59.9	58.0

The above available amounts are based on the balance of the dividend franking account at year end adjusted for franking credits that will arise from the payment of current tax liabilities. Included within the franking account is \$45.7 million (2013: \$43.2 million) arising from the tax payments made to the Australian Taxation Office (ATO) in relation to the Section 163AA impost and intellectual property matters (refer note 23(a)(b)). If the Stapled Group is successful in the legal proceedings against the ATO, this amount will be reversed, resulting in lower franking credits being available.

The ability to utilise the franking credits is dependent upon there being sufficient net assets for the payment of dividends, the dividend payment being fair and reasonable to stapled securityholders, and the dividend payment does not materially prejudice SP AusNet's ability to pay its creditors. In accordance with the tax consolidation legislation, SP AusNet Distribution and SP AusNet Transmission as the respective head entities in the tax consolidated groups have available \$0.1 million and \$59.8 million (2013: \$0.1 million and \$57.9 million) of franking credits respectively. For the 2014 final distribution, the additional franking credits from the tax payments under the ATO disputes will not be utilised.

Notes to the combined financial statements

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Note 8 Earnings per stapled security**(a) Basic earnings per share for SP AusNet Distribution**

	2014	2013 (restated)
Profit attributable to the ordinary equityholders of SP AusNet Distribution (\$M)	3.4	6.0
Weighted average number of shares (million)	3,377	3,268
Earnings per share (cents)	0.10	0.18

(b) Diluted earnings per share

There were no factors causing a dilution of either the profit or loss attributable to ordinary securityholders or the weighted average number of ordinary securities outstanding. Accordingly, basic and diluted earnings per share are the same.

(c) Earnings per stapled security

As the stapling is a business combination by contract alone, the total ownership interest in SP AusNet Transmission and SP AusNet Finance Trust is presented as non-controlling interest in the combined financial statements of SP AusNet Distribution.

By virtue of the stapling arrangement, SP AusNet Distribution, SP AusNet Transmission and SP AusNet Finance Trust have common equityholders (the securityholders) with the effect that total equity belongs to the securityholders. Therefore an alternative measure of earnings per stapled security has been calculated which includes non-controlling interest and hence the earnings of SP AusNet Transmission and SP AusNet Finance Trust.

(d) Basic earnings per stapled security

	2014	2013 (restated)
Profit attributable to the ordinary securityholders of the Stapled Group (\$M)	178.3	273.5
Weighted average number of securities (million)	3,377	3,268
Earnings per stapled security (cents)	5.28	8.37

Notes to the combined financial statements

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Note 9 Receivables

	Notes	2014 \$M	2013 \$M
Current receivables			
Accounts receivable		141.8	120.8
Allowance for impairment loss		-	(0.1)
Related party receivables	25(e)	11.5	20.1
Desalination licence receivable (i)		10.2	10.2
		<u>163.5</u>	<u>151.0</u>
Accrued revenue		116.2	137.9
Other receivables		0.2	0.1
Interest receivable		1.8	2.6
Total current receivables		<u>281.7</u>	<u>291.6</u>
Non-current receivables			
Desalination licence receivable (i)		215.3	224.2
Total non-current receivables		<u>215.3</u>	<u>224.2</u>
Total receivables (ii)		<u>497.0</u>	<u>515.8</u>

- (i) In December 2012, SP AusNet entered into a 27 year licence agreement with the Victorian State Government for the right to operate and maintain the 87 kilometre high voltage underground transmission line supplying electricity to the Victorian Desalination Plant in Wonthaggi. At the same time, SP AusNet also entered into a 27 year agreement with the desalination plant operator to operate and maintain the transmission line in return for a monthly revenue payment.

The upfront payment of \$235.0 million plus transaction costs of \$0.5 million for the licence has been classified as a receivable. This receivable is interest-bearing and \$8.8 million (2013: \$1.1 million) of the total cash flows received from the operator over the 27 year term has been allocated against this receivable balance during the year. The monthly revenue payment received from the operator is fixed, with an annual adjustment for inflation. Any amounts not received from the operator, but which are past due, can be recovered by SP AusNet from the Victorian State Government.

At the end of the agreements, SP AusNet is required to hand back the transmission line and all associated assets. In the event of early termination of the agreements, the unamortised portion of the upfront licence payment is refunded to SP AusNet, along with the reimbursement of necessary costs incurred in order to effect the termination.

- (ii) The fair value of total receivables as at 31 March 2014 was \$497.0 million (2013: \$515.8 million).

(a) Terms and conditions of accounts receivable

Accounts receivable are non-interest bearing and the average credit period on sales of transmission, distribution and specialist utility services is ten business days. An allowance has been made for estimated unrecoverable amounts, determined by reference to past default experience of individual debtors.

All debts greater than 90 days are provided for in full, except where past experience of individual debtors provides evidence that another amount, if any, is more appropriate.

Collateral in the form of bank guarantees, letters of credit and deposits are obtained from certain counterparties where appropriate. The amounts called upon during the current and previous financial years were insignificant.

Notes to the combined financial statements

31 March 2014

Note 9 Receivables (continued)

(b) Ageing of accounts receivable

The ageing of accounts receivable as at reporting date was:

	2014	2014	2013	2013
	Gross	Allowance	Gross	Allowance
	\$M	\$M	\$M	\$M
Not past due	132.8	-	117.6	-
0 - 30 days	6.2	-	1.4	-
31 - 60 days	1.1	-	0.4	-
61 - 90 days	0.3	-	0.3	-
Greater than 90 days	1.4	-	1.1	(0.1)
Total	141.8	-	120.8	(0.1)

Of those debts that are past due, the majority are receivable from high credit quality counterparties. Receivables relating to regulated revenue streams (which account for approximately 87 per cent of revenues) are owed by retailers and distributors in the industry. There are strict regulatory requirements regarding who can obtain a retail or distribution licence and the Essential Services Commission has minimum prudential requirements which must be met before a participant can be registered as a distributor. The Australian Energy Market Operator (AEMO) also has high prudential requirements for retailers who participate in the market. Retailers must provide guarantees as requested by AEMO to minimise the risk of exposure by other participants to any defaults.

(c) Reconciliation of movement in allowance for impairment loss

The movement in the allowance for impairment loss in respect of accounts receivable was as follows:

	2014	2013
	\$M	\$M
Opening balance	0.1	0.4
Additional allowance recognised/(written back)	0.2	0.3
Amounts utilised	(0.3)	(0.6)
Closing balance	-	0.1

Notes to the combined financial statements

31 March 2014

Note 10 Inventories

	2014	2013
	\$M	\$M
Current inventories		
Construction, maintenance stocks and general purpose materials - at cost	42.3	46.8
Total current inventories	42.3	46.8
Non-current inventories		
Construction, maintenance stocks and general purpose materials - at cost	17.6	16.7
Total non-current inventories	17.6	16.7
Total inventories	59.9	63.5

Note 11 Other assets

	2014	2013
	\$M	\$M
Current other assets		
Prepayments	25.0	20.3
Total current other assets	25.0	20.3
Non-current other assets		
Other assets	0.5	0.7
Defined benefit fund surplus	1.6	-
Total non-current other assets	2.1	0.7
Total other assets	27.1	21.0

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Notes to the combined financial statements

31 March 2014

Note 12 Property, plant and equipment

	Freehold land \$M	Buildings \$M	Easements \$M	Transmission network \$M	Electricity distribution network \$M	Gas distribution network \$M	Other plant and equipment \$M	Capital work in progress \$M	Total \$M
2014									
Carrying amount at 1 April 2013	253.0	201.3	1,218.7	1,687.8	2,897.6	1,326.5	291.7	521.3	8,397.9
Additions	-	-	-	-	-	-	-	922.8	922.8
Acquisition through business combination	-	-	-	-	-	-	1.5	-	1.5
Transfers	0.8	35.9	0.1	158.8	447.5	69.4	222.1	(934.6)	-
Disposals	-	(0.1)	-	(1.5)	(5.3)	(0.8)	(1.2)	-	(8.9)
Depreciation expense	-	(8.0)	-	(73.2)	(147.4)	(35.9)	(104.5)	-	(369.0)
Carrying amount at 31 March 2014	253.8	229.1	1,218.8	1,771.9	3,192.4	1,359.2	409.6	509.5	8,944.3
Cost	253.8	280.8	1,218.8	2,276.9	4,150.5	1,664.5	858.2	509.5	11,213.0
Accumulated depreciation	-	(51.7)	-	(505.0)	(958.1)	(305.3)	(448.6)	-	(2,268.7)
Carrying amount at 31 March 2014	253.8	229.1	1,218.8	1,771.9	3,192.4	1,359.2	409.6	509.5	8,944.3

Notes to the combined financial statements

31 March 2014

Note 12 Property, plant and equipment (continued)

	Freehold land \$M	Buildings \$M	Easements \$M	Transmission network \$M	Electricity distribution network \$M	Gas distribution network \$M	Other plant and equipment \$M	Capital work in progress \$M	Total \$M
2013									
Carrying amount at 1 April 2012	253.6	173.3	1,218.7	1,585.6	2,648.4	1,284.4	234.0	449.0	7,847.0
Additions	-	-	-	-	-	-	-	881.4	881.4
Transfers	1.8	35.2	-	176.5	384.0	79.7	131.9	(809.1)	-
Disposals	(2.4)	(0.2)	-	(1.8)	(2.4)	(0.6)	(1.2)	-	(8.6)
Depreciation expense	-	(7.0)	-	(72.5)	(132.4)	(37.0)	(73.0)	-	(321.9)
Carrying amount at 31 March 2013	253.0	201.3	1,218.7	1,687.8	2,897.6	1,326.5	291.7	521.3	8,397.9
Cost	253.0	245.2	1,218.7	2,123.0	3,750.4	1,596.9	640.0	521.3	10,348.5
Accumulated depreciation	-	(43.9)	-	(435.2)	(852.8)	(270.4)	(348.3)	-	(1,950.6)
Carrying amount at 31 March 2013	253.0	201.3	1,218.7	1,687.8	2,897.6	1,326.5	291.7	521.3	8,397.9

Notes to the combined financial statements

31 March 2014

Note 13 Intangible assets

	Notes	2014 \$M	2013 \$M
Distribution licences (i)			
Opening net book amount - distribution licences		354.5	354.5
Closing net book amount - distribution licences		354.5	354.5
Goodwill			
Opening net book amount - goodwill		12.1	12.1
Acquisition of business	27	24.4	-
Closing net book amount - goodwill		36.5	12.1
Other intangible assets			
Opening net book amount - other intangible assets		2.5	3.4
Amortisation		(0.7)	(0.9)
Closing net book amount - other intangible assets		1.8	2.5
Total intangible assets		392.8	369.1

(i) The distribution licences are considered to have an indefinite life for the following reasons:

- the licences have been issued in perpetuity provided the licensee complies with certain licence requirements;
- the Stapled Group monitors its performance against those licence requirements and ensures that they are met; and
- the Stapled Group intends to continue to maintain the network for the foreseeable future.

Note 14 Payables and other liabilities

	Notes	2014 \$M	2013 \$M
Current payables and other liabilities			
Trade payables and accruals		151.0	170.0
Accrued interest		33.4	28.9
Customer deposits		25.2	11.3
Deferred revenue		3.2	1.1
Related party payables	25(e)	59.5	31.1
Total current payables and other liabilities		272.3	242.4
Non-current payables and other liabilities			
Deferred revenue		11.4	2.1
Total non-current payables and other liabilities		11.4	2.1
Total payables and other liabilities		283.7	244.5

Notes to the combined financial statements

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Note 15 Borrowings

	2014	2013
	\$M	\$M
Current borrowings		
Commercial paper	89.5	171.8
US dollar (USD) senior notes (i)	331.4	291.2
Bank debt facilities	252.7	380.0
Total current borrowings	673.6	843.0
Non-current borrowings		
Bank debt facilities	296.2	597.2
Domestic medium term notes	1,310.8	1,324.3
US dollar (USD) senior notes (i)	433.1	710.4
Pound sterling (GBP) senior notes (i)	520.6	445.3
Swiss francs (CHF) senior notes (i)	1,233.6	1,020.7
Hong Kong dollar (HKD) senior notes (i)	289.1	282.9
Japanese Yen (JPY) senior notes (i)	54.4	53.4
Euro (EUR) senior notes (i)	1,257.8	-
Total non-current borrowings	5,395.6	4,434.2
Total borrowings (ii)	6,069.2	5,277.2

- (i) The carrying value of foreign currency borrowings is 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. Refer note 19.
- (ii) The fair value of total borrowings as at 31 March 2014 was \$6,535.2 million (2013: \$5,648.5 million). Given lower floating market interest rates as at 31 March compared to the fixed rates on certain borrowings, the total carrying value of borrowings is lower than the total fair value. Refer note 1(q) for details on how the carrying value of borrowings is determined.

(a) Other bank guarantees

Certain entities are required to provide bank guarantees in the form of tender bid bonds or performance bonds for contractual obligations. The subsidiaries have guarantee facilities with a number of institutions amounting to \$15.0 million, of which \$2.2 million was provided to third parties at 31 March 2014 (2013: \$1.0 million).

Notes to the combined financial statements

31 March 2014

Note 16 Provisions

	Notes	2014 \$M	2013 (restated) \$M
Current provisions			
Employee benefits		60.6	62.7
Environmental provision (i)		0.6	3.7
Customer rebates (ii)		7.6	7.0
Sundry provisions (iii)		8.5	7.1
Restructuring provision (iv)		7.7	-
SPIMS employee provisions (v)		14.3	-
Total current provisions		99.3	80.5
Non-current provisions			
Employee benefits		6.7	5.4
Environmental provision (i)		25.9	17.2
Defined benefit funds	18	1.0	34.7
SPIMS employee provisions (v)		1.4	-
Total non-current provisions		35.0	57.3
Total provisions		134.3	137.8

Movements in each class of provision during the year, other than employee benefits, are set out below:

	Environmental provision (i) \$M	Customer rebates (ii) \$M	Sundry provisions (iii) \$M	Restructuring provision (iv) \$M
Balance at 1 April 2013	20.9	7.0	7.1	-
Additional provisions recognised	7.9	12.4	6.6	7.7
Provisions written back	(2.7)	-	(1.0)	-
Unwind of discount	0.5	-	-	-
Amounts utilised	(0.1)	(11.8)	(4.2)	-
Balance at 31 March 2014	26.5	7.6	8.5	7.7
Current	0.6	7.6	8.5	7.7
Non-current	25.9	-	-	-
Total	26.5	7.6	8.5	7.7

- (i) The environmental provision represents an estimate of the costs of rehabilitating sites, including the estimated costs to remediate soil and water contamination on gas sites which were previously used as coal gas production facilities and refurbishment of meter panels in accordance with the AMI program.

Notes to the combined financial statements

31 March 2014

Note 16 Provisions (continued)

- (ii) Provision for customer rebates represents an assessment of the rebates payable to the customer for costs incurred by the customer in the construction of low voltage and high voltage infrastructure for turnkey projects in the electricity distribution network.
- (iii) Sundry provisions include uninsured losses, licence fee, unaccounted for gas and earn-out provision.
- (iv) The restructuring provision represents the cost associated with the Termination Deed. Refer note 28.
- (v) The SPIMS employee entitlement provision represents the balance of SPIMS employee entitlements as at 31 March 2014. The Stapled Group is responsible for this obligation under the Termination Deed. All SPIMS employees have transferred to the Stapled Group subsequent to 31 March 2014. Refer note 28.

Note 17 Equity

	Notes	2014 Shares	2013 Shares
Share capital			
Ordinary shares - fully paid (million)	(a), (b)	3,386.6	3,367.5

(a) Ordinary shares

Ordinary shares authorised and issued have no par value. Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of SP AusNet Distribution in proportion to the number of and amounts paid on the shares issued. Holders of ordinary shares are entitled to one vote on a show of hands or one vote for each ordinary share held on a poll at shareholders' meetings.

(b) Movements in ordinary share capital

Date	Details	Notes	Number of shares	\$M (i)
1 April 2013	Opening balance		3,367,543,113	0.5
28 June 2013	Distribution Reinvestment Plan	(ii)	8,782,410	-
23 December 2013	Distribution Reinvestment Plan	(ii)	10,281,557	-
31 March 2014	Closing balance		3,386,607,080	0.5
1 April 2012	Opening balance		2,896,219,682	0.5
1 June 2012	Institutional capital raising	(iii)	347,767,659	-
20 June 2012	Retail capital raising	(iii)	86,662,590	-
29 June 2012	Distribution Reinvestment Plan	(iv)	8,970,234	-
21 December 2012	Distribution Reinvestment Plan	(iv)	27,922,948	-
31 March 2013	Closing balance		3,367,543,113	0.5

- (i) With respect to the allocation of the proceeds in the form of shares in SP AusNet Transmission and SP AusNet Distribution and units in SP AusNet Finance Trust, all amounts were allocated to the units in SP AusNet Finance Trust with the shares in SP AusNet Transmission and SP AusNet Distribution being issued at nominal consideration.

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Note 17 Equity (continued)

(b) Movements in ordinary share capital (continued)

- (ii) On 28 June 2013 and on 23 December 2013, 8.8 million and 10.3 million new stapled securities were issued under the DRP respectively. The new securities were issued at a price of \$1.18 per security and \$1.15 per security respectively, providing approximately \$10.4 million and \$11.8 million respectively.
- (iii) A total of 434.4 million securities were issued under the non-renounceable entitlement offer completed in June 2012 at an issue price of \$1.00 per stapled security for eligible securityholders in Australia and New Zealand and S\$1.25 per stapled security for eligible securityholders in Singapore.
- (iv) On 29 June 2012 and on 21 December 2012, 9.0 million and 27.9 million new stapled securities were issued under the DRP respectively. The new securities were issued at a price of \$1.01 per security and \$1.05 per security respectively, providing approximately \$9.1 million and \$29.3 million respectively.

(c) Capital management

The Board's policy is to target an 'A' range credit rating and a capital structure appropriate to generate desired securityholder returns, and to ensure a low cost of capital is available to the entity.

An important credit metric which assists management to monitor SP AusNet's capital structure is the net debt to Asset Base ratio, determined as indebtedness as a percentage of the Asset Base. Indebtedness is debt at face value (net of cash), excluding any derivative financial instruments. The Asset Base consists of the following items:

- Regulated Asset Base (RAB), which is subject to some estimation as the Australian Energy Regulator (AER) ultimately determines the RAB of each network. RAB includes the value of regulated network assets as well as network assets that will become regulated at the next regulatory period; and
- The value of unregulated network assets whose revenues and return are set through a negotiated or competitive process rather than through regulation, including the carrying value of the desalination licence receivable.

The movement of this metric over time demonstrates how the business is funding its capital expenditure in terms of debt versus income generating assets. SP AusNet targets a net debt to Asset Base ratio of less than 75 per cent.

The net debt to Asset Base ratio as at reporting date was as follows:

	2014	2013
	%	%
Net debt to Asset Base	68.6	68.1

The terms of certain financing arrangements contain financial covenants that require maintenance of specified interest coverage ratios and gearing ratios. In addition, certain arrangements contain provisions that are specifically affected by changes in credit ratings, change of control and/or ownership and cross default provisions.

SP AusNet monitors and reports compliance with its financial covenants on a monthly basis. There have been no breaches during the year.

The Responsible Entity of SP AusNet Finance Trust is the holder of an Australian Financial Services Licence. In accordance with the licence requirements, the Responsible Entity must maintain a minimum capital balance of \$5,050,000. In this regard, capital consists of the ordinary shares and retained profits.

Notes to the combined financial statements

31 March 2014

Note 18 Defined benefit obligations

	2014	2013 (restated)
	\$M	\$M
Total amount included in the statement of financial position in respect of the defined benefit plans are as follows:		
Present value of defined benefit obligations	(248.0)	(256.0)
Fair value of plan assets	248.6	221.3
Net asset/(liability) arising from defined benefit obligations	0.6	(34.7)
Amounts recognised in the income statement in respect of the defined benefit plans are as follows:		
Current service cost	7.1	6.9
Net interest cost on defined benefit obligations	1.0	1.2
Total	8.1	8.1
Remeasurement gains recognised during the year in other comprehensive income	37.8	3.3

The Stapled Group makes contributions to two Equipsuper defined benefit superannuation plans that provide defined benefit amounts to employees or their dependants upon retirement, death, disablement or withdrawal. Benefits are mostly in the form of a lump sum based on the employee's final average salary, although, in some cases, defined benefit members are also eligible for pension benefits. The terms and conditions of the two plans are consistent.

The defined benefit sections of the Equipsuper plans are closed to new members. All new members receive defined contribution, accumulation style benefits.

The defined benefit superannuation plans are administered by a trust that is legally separated from the Stapled Group. The trustees consist of both employee and employer representatives and an independent chair, all of whom are governed by the scheme rules. The trustees are responsible for the administration of the plan assets and for the definition of the plan strategy.

The Stapled Group expects to make contributions of \$4.5 million to the defined benefit plan during the next financial year. The Target Funding method is used to determine the contribution rates. Under the Target Funding method, the employer contribution rate is set at a level which is expected to result in the plans' assets equalling 105 per cent of the plans' liabilities within five years.

The defined benefit superannuation plans expose the Stapled Group to additional actuarial, interest rate and market risk.

Mercer Investment Nominees Limited performed actuarial valuations of the funds as at 31 March 2014 and 31 March 2013.

Notes to the combined financial statements

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Note 18 Defined benefit obligations (continued)

(a) Movement in defined benefit obligations

	2014	2013 (restated)
	\$M	\$M
Movement in the present value of the defined benefit obligations were as follows:		
Opening defined benefit obligation	256.0	244.3
Current service cost	7.1	6.9
Interest cost	9.0	9.4
Contributions by plan participants	2.4	2.5
Actuarial (gains)/losses	(15.7)	10.8
Benefits, taxes and premiums paid	(10.8)	(18.6)
Transfers in	-	0.7
Closing defined benefit obligations	248.0	256.0

Movements in the fair value of plan assets were as follows:

Opening fair value of plan assets	221.3	203.9
Interest income	8.0	8.2
Actual return on fund assets less interest income	22.1	14.1
Contributions from the employer	5.6	10.5
Contributions by plan participants	2.4	2.5
Benefits, taxes and premiums paid	(10.8)	(18.6)
Transfers in	-	0.7
Closing fair value of plan assets	248.6	221.3

The actual return on plan assets was a gain of \$30.1 million (2013: gain of \$22.3 million).

(b) Analysis of plan assets

Plan assets can be broken down into the following major categories of investments:

	2014	2013
	%	%
Investments quoted in active markets:		
Australian equities	31	32
International equities	25	28
Fixed interest securities	11	10
Unquoted investments:		
Property	9	9
Growth alternative	8	8
Defensive alternative	7	7
Cash	9	6
	100	100

Plan assets do not comprise any of the Stapled Group's own financial instruments or any assets used by the Stapled Group.

Notes to the combined financial statements

31 March 2014

Note 18 Defined benefit obligations (continued)

(c) Actuarial assumptions

The following were the principal actuarial assumptions at the reporting date (expressed as weighted averages).

	Defined benefit expense		Defined benefit obligations	
	2014	2013 (restated)	2014	2013 (restated)
	%	%	%	%
Key assumptions				
Discount rate	3.70	4.10	4.30	3.70
Expected salary increase rate	4.50	4.50	4.50	4.50

As at 31 March 2014, the weighted average duration of the defined benefit obligation was 10 years (2013: 10 years).

(d) Sensitivity analysis

Changes in the relevant actuarial assumptions as at reporting date, with all other variables held constant, would result in an increase/(decrease) in the value of the defined benefit obligation as shown below:

	Defined benefit obligations	
	Increase	Decrease
	\$M	\$M
Discount rate (0.5 per cent movement)	(11.9)	12.7
Expected salary increase rate (0.5 per cent movement)	10.6	(10.1)

When calculating the above sensitivity analysis the same method has been applied as when calculating the defined benefit liability recognised in the combined statement of financial position.

Notes to the combined financial statements

31 March 2014

Note 19 Financial risk management

The Stapled Group's activities expose it to a number of financial risks, including changes in interest rates and foreign currency exchange rates, liquidity risk and credit risk. The Stapled Group manages its exposure to these risks in accordance with its Treasury Risk Policy which is approved by the Board. The policy is reviewed annually or more regularly if required by a significant change in the Stapled Group's operations. Any material changes are submitted to the Board for approval.

The objective of the Treasury Risk Policy is to document the Stapled Group's approach to treasury risk management and to provide a framework for ongoing evaluation and review of risk management techniques. The policy provides an analysis of each type of risk to which the Stapled Group is exposed and the objective of and techniques for managing the risk, including identifying and reporting risks to management and the Board.

Treasury evaluates and hedges financial risks in close co-operation with the Stapled Group's operating units. The Treasury Risk Policy provides written principles for overall risk management, as well as written policies covering specific areas, such as mitigating risks, use of derivative financial instruments and investing excess liquidity.

The Treasury Risk Policy operates in conjunction with several other SP AusNet policies, including:

- SP AusNet Authority Manual which sets out the approvals required for such things as investment of surplus funds, execution of hedging transactions, borrowings and issue of guarantees and indemnities;
- SP AusNet Treasury Operations Manual which sets out the day to day Treasury front office processes such as cash management and the operations of the Treasury back office, such as settlement processes and bank account operations;
- SP AusNet Refinancing and Hedging Strategy which sets out the refinancing and hedging strategies over the relevant financial period; and
- SP AusNet Credit Metrics Policy which sets out target ranges for the key credit metrics that determine the Stapled Group's credit strength, such as the percentage of debt to the value of the RAB at balance date.

Together these policies provide a financial risk management framework which supports the Stapled Group's objectives of finding the right balance between risk and reward to enhance profitability and business performance while minimising current and future exposures.

The material financial risks associated with SP AusNet's activities are each described below, together with details of SP AusNet's policies for managing the risk.

Notes to the combined financial statements

31 March 2014

Note 19 Financial risk management (continued)

(a) Interest rate risk

Interest rate risk is the risk of suffering a financial loss due to an adverse movement in interest rates. SP AusNet is exposed to the risk of movements in interest rates on its borrowings.

In addition, SP AusNet's regulated revenues for the transmission and distribution businesses are directly impacted by changes in interest rates at each of their price review periods. This is a result of the 'building block' approach where interest rates are considered in the determination of the regulatory weighted average cost of capital and consequently regulated revenues. The price review period is five years for gas and electricity distribution and six years for electricity transmission. Starting from 1 April 2014, the price review period for electricity transmission will be three years, followed by a five-year price review period.

The objective of hedging activities carried out by the Stapled Group in relation to interest rate risk is to minimise the exposure to changes in interest rates by matching the actual cost of debt with the cost of debt assumed by the regulator when setting the rate of return for the relevant regulated business. The exposure is managed by maintaining the percentage of fixed rate debt to total debt at a level between 90 per cent and 100 per cent for the relevant business over its regulatory period. SP AusNet therefore considers net interest rate exposure, after hedging activities, to be minimal for the Stapled Group. The percentage of fixed rate debt to total debt (on a net debt basis) as at 31 March 2014 was 94.1 per cent (2013: 94.7 per cent).

The Stapled Group utilises interest rate swaps to manage its exposure to cash flow interest rate risk and achieve the targeted proportion of fixed rates on its debt portfolio. Under interest rate swaps, the Stapled Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Stapled Group to mitigate the risk of changing interest rates on debt held.

As at reporting date, the Stapled Group had the following financial assets and liabilities exposed to interest rate risk. The values disclosed below are the principal amounts, which differ from the carrying values and as such do not agree to the statement of financial position.

	2014 \$M	2013 \$M
Financial assets		
Fixed rate instruments	406.7	523.5
Financial liabilities (i)		
Fixed rate instruments	(5,291.3)	(4,893.7)
Floating rate instruments	(737.4)	(798.5)

- (i) The financial liabilities above include the impact of derivative financial instruments used to manage the interest rate and foreign currency exposures on those liabilities. Therefore, they represent the post-hedge position. It should be noted that some fixed rate borrowings (post-hedge) as at reporting date are only fixed for a portion of their term. This is because the maturity profile of borrowings differs from the price review periods of the regulated businesses in order to achieve the objective of matching the actual cost of debt with the assumed cost of debt for each regulated price review period.

Notes to the combined financial statements

31 March 2014

Note 19 Financial risk management (continued)

(a) Interest rate risk (continued)

The Stapled Group's exposure to changes in interest rate is limited to debt denominated in Australian dollars due to the Stapled Group's policy of mitigating interest rate risk exposure on foreign currency debt. As a result, the sensitivity analysis below has only been performed based on movements in Australian interest rates. As at reporting date, if Australian interest rates had increased by 2.77 per cent and decreased by 2.63 per cent as at 31 March 2014 (2013: increased by 3.17 per cent and decreased by 2.97 per cent), with all other variables held constant, post-tax profit and equity would have increased/(decreased) as follows:

	Net profit after tax \$M	Equity after tax (hedge reserve) \$M
2014		
Increase in Australian interest rates with all other variables held constant	18.6	256.9
Decrease in Australian interest rates with all other variables held constant	(19.7)	(319.8)
2013		
Increase in Australian interest rates with all other variables held constant	9.2	187.8
Decrease in Australian interest rates with all other variables held constant	(7.9)	(242.6)

The judgements of reasonably possible movements were determined using statistical analysis of the 95th percentile best and worst expected outcomes having regard to actual historical interest rate data over the previous five years based on the three-month bank bill swap rate. Management considers that past movements are a transparent basis for determining reasonably possible movements in interest rates.

Due to the Stapled Group's interest rate risk management policies, the exposure to cash flow and foreign currency interest rate risk at any point in time is minimal. Therefore, the impact of a reasonably possible movement in interest rates on net profit after tax is minimal. The impact on equity is due to the valuation change of derivative financial instruments in cash flow hedges. This amount in the hedge reserve is transferred to the income statement when the underlying hedged transaction affects income in order to reflect the hedged position.

(b) Currency risk

The Stapled Group is exposed to currency risk due to funding activities in offshore debt markets as a means of providing cost effective and efficient funding alternatives, as well as a result of undertaking certain transactions denominated in foreign currencies. Exchange rate exposures are managed within approved policy parameters. The objective of SP AusNet's currency risk management program is to eliminate material foreign exchange risk by utilising various hedging techniques as approved by the Board. SP AusNet therefore considers its currency risk exposure to be minimal.

The Stapled Group is subject to the following currency exposures:

- United States dollars (USD);
- Pound sterling (GBP);
- Swiss francs (CHF);
- Hong Kong dollars (HKD);
- Japanese Yen (JPY); and
- Euro (EUR).

Notes to the combined financial statements

31 March 2014

Note 19 Financial risk management (continued)

(b) Currency risk (continued)

The Stapled Group enters into cross-currency swaps to manage exposures from foreign currency loans. It is the policy of the Stapled Group to cover 100 per cent of the cash flow exposure generated by these loans.

The Stapled Group also enters into forward foreign currency contracts to hedge the exchange rate risk in relation to specific purchase orders. It is the policy of the Stapled Group to fully hedge currency exposures above a Board approved threshold once the exposure is confirmed. The derivative financial instrument used to hedge the exposure is entered into when there is a high degree of certainty as to the nature of the exposure, including currency, amount and delivery date so as to ensure a high level of effectiveness in cash flow hedging.

As at reporting date, if the Australian dollar had moved against each of the currencies, with all other variables held constant, post-tax profit and equity would have increased/(decreased) as follows:

	Net profit after tax \$M	Equity after tax (hedge reserve) \$M
2014		
Increase in foreign exchange rates for all currency exposures	(1.7)	(35.2)
Decrease in foreign exchange rates for all currency exposures	5.5	51.8
2013		
Increase in foreign exchange rates for all currency exposures	(0.5)	(32.9)
Decrease in foreign exchange rates for all currency exposures	3.3	49.6

The judgements of reasonably possible movements were determined using statistical analysis of the 95th percentile best and worst expected outcomes having regard to actual historical spot exchange rate data over the previous five years, with all other variables held constant. Management considers that past movements are a transparent basis for determining reasonably possible movements in exchange rates. As at 31 March 2014, the movements in foreign exchange rates used in the table above are as follows:

- United States dollars (USD) - 21 cents (2013: 23 cents)
- Pound sterling (GBP) – 10 pence (2013: 7 pence)
- Swiss francs (CHF) – 17 Swiss centime (2013: 19 Swiss centime)
- Hong Kong dollars (HKD) – 1.651 HK dollar (2013: 1.779 HK dollar)
- Japanese Yen (JPY) – 19.66 Japanese Yen (2013: 24.62 Yen)
- Euro (EUR) - 14 Euro cents

The impact on the hedge reserve is due to the valuation change of derivative financial instruments in cash flow hedges. This amount in the hedge reserve is transferred to the income statement when the underlying hedged transaction affects income in order to reflect the hedged position.

Exchange rate risk arising from foreign currency denominated borrowings is managed using cross-currency swaps at 100 per cent of borrowed funds at inception date. The residual exposure to exchange rate movements disclosed in the sensitivity table above for post-tax profit only arises from trade payables and cash denominated in foreign currency, which are immaterial to the Stapled Group.

Notes to the combined financial statements

31 March 2014

Note 19 Financial risk management (continued)

(c) Derivative financial instruments used to hedge interest rate and currency risk

The Stapled Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign currency risk, as detailed below:

	Interest rate swaps	Forward foreign currency contracts	Cross-currency swaps	Total net derivative financial instruments
	\$M	\$M	\$M	\$M
2014				
Current assets	-	0.1	-	0.1
Non-current assets	78.5	-	185.7	264.2
Current liabilities	(1.5)	(0.1)	(69.1)	(70.7)
Non-current liabilities	(132.2)	-	(103.2)	(235.4)
Total derivative financial instruments	(55.2)	-	13.4	(41.8)
Consists of:				
- fair value hedges	9.8	-	(107.8)	(98.0)
- cash flow hedges	(65.0)	-	121.2	56.2
Total derivative financial instruments	(55.2)	-	13.4	(41.8)
2013				
Current assets	-	6.7	-	6.7
Non-current assets	92.0	-	-	92.0
Current liabilities	(81.1)	(13.4)	(112.6)	(207.1)
Non-current liabilities	(124.9)	-	(349.7)	(474.6)
Total derivative financial instruments	(114.0)	(6.7)	(462.3)	(583.0)
Consists of:				
- fair value hedges	39.7	-	(419.2)	(379.5)
- cash flow hedges	(151.9)	(6.7)	(43.1)	(201.7)
- not in a hedge relationship	(1.8)	-	-	(1.8)
Total derivative financial instruments	(114.0)	(6.7)	(462.3)	(583.0)

The decrease in net derivative liabilities at 31 March 2014 is largely due to the revaluation in the exchange rate.

Derivative assets and liabilities are presented on a gross basis. Certain derivative assets and liabilities are subject to enforceable master netting arrangements with individual counterparties if they were subject to default. If these netting arrangements were applied to the derivative portfolio as at 31 March 2014, derivative assets and liabilities are reduced by \$125.6 million respectively (2013: \$77.9 million).

Notes to the combined financial statements

31 March 2014

Note 19 Financial risk management (continued)

(c) Derivative financial instruments used to hedge interest rate and currency risk (continued)

(i) Derivative financial instruments in a fair value hedge

Derivative financial instruments are designated in a fair value hedge in order to mitigate the exposure to changes in fair value of certain borrowings of SP AusNet. Fair value hedges are generally designated for the terms of borrowings that fall outside of the price review periods for the regulated businesses.

(ii) Derivative financial instruments in a cash flow hedge

Derivative financial instruments are designated in a cash flow hedge in order to mitigate the variability in cash flows attributable to interest rate and/or foreign currency movements on borrowings or highly probable forecast transactions.

The following movements have occurred in the cash flow hedge reserve during the year, net of income tax:

	2014	2013
	\$M	\$M
Opening balance of cash flow hedge reserve	(116.7)	(131.5)
Changes in fair value of cash flow hedges	(32.9)	(100.7)
Amounts reclassified to interest expense for effective hedges	88.3	103.3
Amounts reclassified to property, plant and equipment and inventory	4.3	12.2
Closing balance of cash flow hedge reserve	(57.0)	(116.7)

The following table summarises the cash flows of the Stapled Group's cash flow hedges:

	2014	2013
	\$M	\$M
Highly probable forecast asset purchase:		
Less than 1 year	-	(6.8)
	-	(6.8)
Borrowings:		
Less than 1 year	(84.3)	(166.5)
1 - 2 years	(51.7)	(44.4)
2 - 5 years	(64.2)	(87.0)
Greater than 5 years	2.6	(14.3)
	(197.6)	(312.2)

These amounts will impact the income statement in the same period as cash flows are expected to occur, with the exception of hedges of highly probable forecast transactions which will impact the income statement as the underlying asset is utilised.

Notes to the combined financial statements

31 March 2014

Note 19 Financial risk management (continued)

(c) Derivative financial instruments used to hedge interest rate and currency risk (continued)

(iii) (Gain)/loss on accounting for hedge relationships

The following table provides details of the (gain)/loss on accounting for hedge relationships recognised in finance costs:

	2014	2013
	\$M	\$M
(Gain)/loss on fair value hedges (i)	1.0	(0.5)
(Gain)/loss on transactions not in a hedge relationship (ii)	(1.8)	1.4
Ineffective portion of cash flow hedges (iii)	4.5	(8.0)
	<u>3.7</u>	<u>(7.1)</u>

- (i) The remeasurement of SP AusNet's borrowings in fair value hedges resulted in a loss before tax of \$293.1 million (2013: gain before tax of \$95.9 million). The change in fair value of the associated derivative financial instruments resulted in a gain before tax of \$292.1 million (2013: loss before tax of \$95.4 million), leaving a net \$1.0 million loss (2013: \$0.5 million gain) recognised in finance costs.
- (ii) In previous years a number of cash flow hedges no longer satisfied the requirements for hedge accounting and as such were de-designated. This was primarily due to the replacement of maturing Australian dollar debt with foreign currency debt. Notwithstanding that these borrowings and the related derivative financial instruments no longer satisfy the requirements for hedge accounting, they are in economic relationships that are effective in managing interest rate and currency risks, based on contractual face values and cash flows over the life of the transactions.
- (iii) Includes a gain of \$10.9 million (2013: \$16.6 million) due to the partial unwinding of previous de-designation losses recognised.

(d) Liquidity risk

Liquidity risk is defined as the risk of an unforeseen event which will result in SP AusNet not being able to meet its payment obligations in an orderly manner.

The Stapled Group manages liquidity risk by maintaining adequate cash reserves, committed banking facilities and reserve borrowing facilities and by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. These practices are governed by the Stapled Group's liquidity management policies, which include Board approved guidelines covering the maximum volume of long-term debt maturing in any one year, the minimum number of years over which debt maturities are to be spread and the timing of refinancing. In addition, short-term bank debt and commercial paper must not represent more than an agreed percentage of the total debt portfolio of SP AusNet.

The liquidity management policies ensure that the Stapled Group has a well diversified portfolio of debt, in terms of maturity and source, which significantly reduces reliance on any one source of debt in any one particular year. In addition, the investment grade credit rating of the Stapled Group ensures ready access to both domestic and offshore capital markets.

(i) Contractual cash flows

Liquidity risk is managed by SP AusNet based on net inflows and outflows from financial assets and financial liabilities. The following table summarises the contractual cash flows of the Stapled Group's non-derivative and derivative financial assets and liabilities based on the remaining earliest contractual maturities. The contractual cash flows are based on undiscounted principal and interest commitments.

Notes to the combined financial statements

31 March 2014

Note 19 Financial risk management (continued)

(d) Liquidity risk (continued)

(i) Contractual cash flows (continued)

2014	Notes	Principal at face value \$M	Carrying amount \$M	Total contractual cash flows \$M	Less than 1 year \$M	1 - 2 years \$M	2 - 5 years \$M	Greater than 5 years \$M
Financial assets								
Non-derivative financial assets								
Cash and cash equivalents		409.8	409.8	409.8	409.8	-	-	-
Accounts and other receivables	9	497.0	497.0	675.7	294.1	22.1	62.9	296.6
Derivative financial assets								
Interest rate swaps			78.5	105.2	13.5	15.5	33.6	42.6
Cross-currency swaps		-	185.7	(76.1)	(40.5)	23.2	(102.4)	43.6
Forward foreign currency contracts		-	0.1	-	-	-	-	-
- Inflow				4.3	2.8	1.5	-	-
- Outflow				(4.2)	(2.7)	(1.5)	-	-
			1,171.1	1,114.7	677.0	60.8	(5.9)	382.8
Financial liabilities								
Non-derivative financial liabilities								
Trade and other payables	14	283.7	283.7	283.7	272.3	11.4	-	-
Commercial paper	15	90.0	89.5	90.0	90.0	-	-	-
Bank debt facilities *	15	553.0	548.9	547.9	547.9	-	-	-
Domestic medium term notes	15	1,285.0	1,310.8	1,795.6	80.6	81.0	512.5	1,121.5
USD senior notes	15	885.0	764.5	811.0	364.9	24.9	421.2	-
GBP senior notes	15	537.5	520.6	609.8	32.0	32.0	545.8	-
CHF senior notes	15	1,075.0	1,233.6	1,283.5	22.1	601.4	320.8	339.2
HKD senior notes	15	287.7	289.1	412.6	10.7	10.8	32.2	358.9
JPY senior notes	15	62.6	54.4	59.9	0.7	0.7	2.2	56.3
EUR senior notes	15	1,253.0	1,257.8	1,543.3	33.3	33.3	99.8	1,376.9
Derivative financial liabilities								
Interest rate swaps			133.7	144.1	72.4	46.3	9.8	15.6
Cross-currency swaps			172.3	499.1	73.3	10.2	217.4	198.2
Forward foreign currency contracts			0.1					
- Inflow				(2.6)	(2.0)	(0.2)	(0.4)	-
- Outflow				2.7	2.1	0.2	0.4	-
			6,659.0	8,080.6	1,600.3	852.0	2,161.7	3,466.6
Net cash outflow				(6,965.9)	(923.3)	(791.2)	(2,167.6)	(3,083.8)

Notes to the combined financial statements

31 March 2014

Note 19 Financial risk management (continued)

(d) Liquidity risk (continued)

(i) Contractual cash flows (continued)

2013	Notes	Principal at face value \$M	Carrying amount \$M	Total contractual cash flows \$M	Less than 1 year \$M	1 - 2 years \$M	2 - 5 years \$M	Greater than 5 years \$M
Financial assets								
Non-derivative financial assets								
Cash and cash equivalents		541.0	541.0	541.0	541.0	-	-	-
Accounts and other receivables	9	515.8	515.8	717.6	304.8	22.8	65.2	324.8
Derivative financial assets								
Interest rate swaps			92.0	102.8	22.0	21.0	51.7	8.1
Forward foreign currency contracts			6.7					
- Inflow				29.9	29.9	-	-	-
- Outflow				(23.2)	(23.2)	-	-	-
				1,155.5	1,368.1	874.5	43.8	116.9
							116.9	332.9
Financial liabilities								
Non-derivative financial liabilities								
Trade and other payables	14	244.5	244.5	244.5	242.4	2.1	-	-
Commercial paper	15	172.0	171.8	172.0	172.0	-	-	-
Bank debt facilities *	15	980.5	977.2	989.5	989.5	-	-	-
Domestic medium term notes	15	1,285.0	1,324.3	1,875.4	89.0	81.0	533.9	1,171.5
USD senior notes	15	1,292.1	1,001.6	1,064.0	342.4	324.7	396.9	-
GBP senior notes	15	537.5	445.3	520.8	26.0	26.0	78.0	390.8
CHF senior notes	15	1,075.0	1,020.7	1,080.5	16.2	18.3	761.6	284.4
HKD senior notes	15	287.7	282.9	376.2	9.5	9.5	28.6	328.6
JPY senior notes	15	62.6	53.4	59.1	0.7	0.7	2.1	55.6
Derivative financial liabilities								
Interest rate swaps			206.0	225.3	127.5	50.0	41.7	6.1
Cross-currency swaps			462.3	896.8	159.0	152.9	299.4	285.5
Forward foreign currency contracts			13.4					
- Inflow				(46.6)	(46.6)	-	-	-
- Outflow				60.0	60.0	-	-	-
				6,203.4	7,517.5	2,187.6	665.2	2,142.2
							2,142.2	2,522.5
Net cash outflow								
				(6,149.4)	(1,313.1)	(621.4)	(2,025.3)	(2,189.6)

* Bank debt facility drawings are due within the next twelve months and as such have been included within "less than 1 year". However, SP AusNet has the right to roll over these facilities until they ultimately mature in up to five years from the reporting date.

Notes to the combined financial statements

31 March 2014

Note 19 Financial risk management (continued)

(d) Liquidity risk (continued)

(ii) Financing facilities

The Stapled Group targets a minimum net liquidity, defined as available short-term funds and committed financing facilities. As at reporting date, SP AusNet had the following committed financing facilities available:

	2014	2013
	\$M	\$M
Financing facilities (face value)		
Unsecured bank overdraft facility, reviewed annually and payable at call:		
- Amount used	-	-
- Amount unused	2.5	2.5
	<u>2.5</u>	<u>2.5</u>
Unsecured working capital facility, reviewed annually:		
- Amount used	53.0	30.5
- Amount unused	47.0	69.5
	<u>100.0</u>	<u>100.0</u>
Unsecured bank loan facility with various maturity dates and which may be extended by mutual agreement:		
- Amount used	500.0	950.0
- Amount unused	700.0	250.0
	<u>1,200.0</u>	<u>1,200.0</u>

Notes to the combined financial statements

31 March 2014

Note 19 Financial risk management (continued)

(e) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Stapled Group and arises from the Stapled Group's financial assets, comprising cash and cash equivalents, trade and other receivables and derivative financial instruments.

The Stapled Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults (refer note 9). The Stapled Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate values of transactions concluded are spread amongst approved counterparties. Revenues from a single customer, AEMO, in the Stapled Group's electricity transmission segment represents 27 per cent (2013: 30 per cent) of the Stapled Group's total revenues. SP AusNet is licensed to transmit electricity in Victoria whereas AEMO is the provider of shared network services and the planner, authoriser, contractor and director of augmentation of the declared shared network in Victoria. A network agreement is in place between both parties whereby SP AusNet receives network charges from AEMO for the use of SP AusNet's transmission network to transmit electricity to participants in the market. Due to the nature of this network agreement, SP AusNet does not believe that there is any significant credit risk exposure on this customer. SP AusNet therefore considers its credit risk exposure to be minimal.

In accordance with the Treasury Risk Policy, treasury counterparties each have an approved limit based on the lower of Standard & Poor's or Moody's credit rating. Counterparty limits are reviewed and approved annually by the Audit and Risk Management Committee and any changes to counterparties or their credit limits must be approved by the Chief Financial Officer and the Managing Director and must be within the parameters set by the Board as outlined in the Treasury Risk Policy.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies. At balance date, SP AusNet had \$409.8 million on term deposit and \$275.6 million of cross currency and interest rate swaps with 'A' rated or higher Australian and international banks.

The unamortised value of the deferred credit risk adjustment for derivative financial instruments as at 31 March 2014, recognised in accordance with note 1(l), is \$28.7 million.

Except as detailed in the following table, the carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the Stapled Group's maximum exposure to credit risk. The values disclosed below represent the market values in the event of a closeout (in-the-money market values), which differ from the carrying values and as such do not agree to the statement of financial position. The values below exclude any offsetting financial liabilities with the particular counterparty.

	Maximum credit risk	
	2014	2013
	\$M	\$M
Financial assets and other credit exposures		
Cross-currency swaps	186.3	0.2
USD interest rate swaps	18.0	22.8
AUD interest rate swaps	71.3	82.4

Notes to the combined financial statements

31 March 2014

Note 19 Financial risk management (continued)

(f) Fair value of financial assets and liabilities

The fair values of financial assets and liabilities are measured in accordance with generally accepted pricing models based on discounted cash flow analysis.

The only financial instruments measured at fair value subsequent to initial recognition are derivative financial instruments. Derivative financial instruments are initially recognised at fair value in the statement of financial position and subsequently remeasured to their fair value at each reporting date. Accordingly there is no difference between the carrying value and fair value of derivative financial instruments at reporting date. Fair value is measured using valuation techniques and significant market observable data as well as market corroboration based on active quotes. These include industry standard interest rate, foreign exchange and currency basis yield curves sourced directly from Bloomberg.

In addition, an adjustment to the fair value for all cross currency and interest rate swap contracts is applied for credit risk in accordance with AASB 13 *Fair Value Measurement*. Credit risk is obtained directly from the observable Credit Default Swap curves within Bloomberg for each of the relevant counterparties, with the bilateral credit risk applied uniformly across all asset and liability positions as at the reporting date.

As such, fair value measurements are deemed level two within the fair value hierarchy as per AASB 13 *Fair Value Measurement*. The Stapled Group does not have any financial instruments which would be categorised as either level one or three of the fair value hierarchy.

The Stapled Group also has a number of financial assets and liabilities which are not measured at fair value in the combined statement of financial position. With the exception of borrowings (refer note 15), the carrying amounts of these items are considered to be a reasonable approximation of their fair value at 31 March 2014.

Notes to the combined financial statements

31 March 2014

Note 20 Critical accounting estimates and judgements

The Stapled Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Accounting estimates and judgements where changes in those estimates and judgements could result in a significant change to the carrying amounts of assets and liabilities within the next financial year are detailed below:

(a) Estimated recoverable amount of intangible assets with an indefinite useful life and associated tangible assets

For the purpose of impairment testing, assets have been allocated to CGUs. Each CGU represents a group of assets that generates cash inflows independent from other groups of assets.

The following CGUs have significant amounts of intangible assets with an indefinite useful life:

	2014	2013
	\$M	\$M
CGU		
Electricity distribution (distribution licence)	117.2	117.2
Gas distribution (distribution licence)	237.3	237.3
Asset Solutions business (goodwill)	11.8	11.8
Geomatic Technologies (goodwill)	24.4	-
	<u>390.7</u>	<u>366.3</u>

Recoverable amount is the higher of fair value less costs to sell and value in use.

In terms of the distribution licences, management has based its assessment of fair value less costs to sell on discounted cash flow projections over a period of 20 years together with an appropriate terminal value incorporating growth rates based on the long-term Consumer Price Index assumption of 2.6 per cent. Regulated cash flow forecasts are based on allowable returns on electricity and gas distribution assets as set out in the Victorian Electricity Supply Industry Tariff Order and the Victorian Gas Industries Tariff Order respectively, together with other information included in the Stapled Group's five-year forecast. Cash flows after that period are based on an extrapolation of the forecast, taking into account inflation and expected customer connection growth rates. It is considered appropriate to use cash flows after SP AusNet's five-year forecast period considering the long-term nature of the Stapled Group's activities. Cash flows are discounted using post-tax discount rates of 6.3 per cent to 6.5 per cent.

In terms of the Asset Solutions business CGU, which is part of the Select Solutions reportable segment, management has based its assessment of fair value less costs to sell on discounted cash flow projections over a period of five years together with an appropriate terminal value. Cash flows are discounted using a post-tax discount rate of 10.4 per cent.

The rates used for each CGU reflect current market assessments of the time value of money and risks specific to the assets.

Appropriate terminal values were calculated using a range of both RAB multiples and market earnings before interest, tax, depreciation and amortisation multiples. Fair value less costs to sell is measured using inputs that are not based on observable market data. Therefore, they are deemed level three within the fair value hierarchy as per AASB 13 *Fair Value Measurement*.

Given the Geomatic Technologies business was only acquired during the year, the first formal impairment assessment for this CGU will not be performed until the year ended 31 March 2015, unless there is an indication of impairment.

In addition, SP AusNet has reviewed the carrying values of the Advanced Metering Infrastructure (AMI) assets. Despite experiencing significant periods of instability in its AMI systems performance and the additional investment that will be required to address these issues, the AMI assets are considered recoverable as at 31 March 2014. AMI forms part of the electricity distribution CGU.

Notes to the combined financial statements

31 March 2014

Note 20 Critical accounting estimates and judgements (continued)

(b) Income taxes

The tax expense and deferred tax balances assume certain tax outcomes and values of assets in relation to the application of the tax consolidation regime as it applies to SP AusNet Distribution and SP AusNet Transmission. These outcomes affect factors such as the quantification and utilisation of tax losses, capital allowance deductions and the taxation treatment of transactions between members of the Stapled Group.

The tax expense assumes that SP AusNet Distribution can carry forward income tax losses under relevant tax legislation and is more likely than not to utilise them in the future. If either of these assumptions is proven to be incorrect, then the deferred tax asset recognised for carry forward tax losses may need to be derecognised.

The Stapled Group has taken positions in relation to the income tax and capital gains tax consequences of the acquisition by SP AusNet Distribution of the Australian assets from TXU, the restructuring and sale of the Merchant Energy Business (including the amount of capital gain resulting from the sale) and the restructuring and subsequent deemed acquisition of the SP AusNet Transmission Group.

Judgements have been made regarding the application of income tax legislation, including in regard to the deductibility of the Section 163AA imposts and intellectual property which are currently in dispute with the Australian Taxation Office (ATO) (refer note 23). In addition, judgements have been made regarding the deductibility of interest payments on intra-group financing arrangements with SP AusNet Finance Trust which are currently subject to an audit review by the ATO. The accounting treatment adopted for each of these matters reflects these current judgements and assumptions.

(c) Derivative financial instruments

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

Derivative financial instruments are recognised at fair value and are measured using market observable data, and where appropriate, are adjusted for credit risk, liquidity risk and currency basis risk. Therefore, they are deemed level two within the fair value hierarchy as per AASB 13 *Fair Value Measurement*.

Derivative financial instruments are used only for risk management strategies and are not actively traded.

The fair value of derivative financial instruments is determined in accordance with generally accepted pricing models based on discounted cash flow analysis. This involves the valuation of derivative financial instruments based on prices sourced from significant observable data as well as market corroboration based on active quotes. Appropriate transaction costs are included in the determination of net fair value.

(d) Accrued revenue

Revenue accrual estimates are made to account for the unbilled period between the end user's last billing date and the end of the accounting period. The accrual relies on detailed analysis of customers' historical consumption patterns, and takes into account base usage and sensitivity to prevailing weather conditions. The results of this analysis are applied for the number of days and weather conditions over the unbilled period.

The accrual for solar rebates paid to retailers is calculated by applying the average rebate per day (based on the amount billed) to the number of unbilled days at month end.

Notes to the combined financial statements

31 March 2014

Note 20 Critical accounting estimates and judgements (continued)

(e) Useful lives of property, plant and equipment

Depreciation is recognised on property, plant and equipment, including freehold buildings but excluding land and easements. Depreciation is calculated on a straight-line basis so as to write off the net cost of each asset over its estimated useful life to its estimated residual value. The estimated useful lives, residual values and depreciation methods are reviewed annually. Assumptions are made regarding the useful lives and residual values based on the regulatory environment and technological developments. These assumptions are subject to risk and there is the possibility that changes in circumstances will alter expectations.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(f) Provisions

(i) *Defined benefit plans*

A number of estimates and assumptions are used in determining defined benefit assets, obligations and expenses. These estimates include salary increases, future earnings and rates of return. Any difference in estimates will be recognised in other comprehensive income and not through the income statement.

The net (liability)/asset from defined benefit obligations recognised in the combined statement of financial position will be affected by any significant movement in investment returns and/or interest rates.

Each year SP AusNet engages Mercer Investment Nominees Limited to perform actuarial reviews of the SPI PowerNet Pty Ltd and SPI Electricity Pty Ltd defined benefit funds.

In addition, the management services charge under the Management Services Agreements (refer note 25(b)) has included any actuarial gains or losses incurred by the SPI Management Services Pty Ltd (SPIMS) defined benefit plan as well as any defined benefit plan expenses. Assumptions are made by SPIMS regarding salary increases, discount rates and expected return on assets which impact on the services charge to SP AusNet.

(ii) *Environmental provision*

A provision for environmental costs is made for the remediation of contamination on gas sites which were previously used as coal gas production facilities. The provision is based on the estimated costs and timing of remediation, taking into account current legal requirements, the estimated extent of the contamination, the nature of the site and surrounding areas, and the technologies and methods available.

(g) Contingent liabilities

Judgements are made in relation to uncertain future events surrounding the Victorian February bushfires and Australian Taxation Office disputes that may impact the Stapled Group's present obligations. Refer note 23 for further details.

Notes to the combined financial statements

31 March 2014

Note 21 Key management personnel

Up to 31 March 2014, SPIMS, a wholly-owned subsidiary of related party Singapore Power International Pte Ltd (SPI), provided the services of key senior management, including the Managing Director and the executive management team, to SP AusNet. Although not employed by SP AusNet, these individuals are deemed to qualify as key management personnel (KMP) of SP AusNet on the basis that they had the authority and the responsibility for planning, directing and controlling the major activities of SP AusNet during the financial year.

On 31 March 2014, SP AusNet, Singapore Power and SPIMS entered into a Termination Deed, pursuant to which they agreed to terminate the Management Services Agreement with effect from 31 March 2014. As a result of this termination, KMP and other employees who were previously employed by SPIMS were offered, and accepted, employment with SP AusNet on the same terms as their existing remuneration arrangements, including the preservation of all existing entitlements and participation in incentive arrangements.

Total remuneration for key management personnel during the year is set out below:

	2014	2013
	\$	\$
Remuneration by category		
Short-term employee benefits	5,543,528	5,852,578
Post-employment benefits	383,017	362,642
Equity based payments	1,159,339	1,079,274
Termination benefits	-	86,773
Other long-term benefits	142,167	19,029
	<u>7,228,051</u>	<u>7,400,296</u>

Notes to the combined financial statements

31 March 2014

Note 21 Key management personnel (continued)

Securityholdings of key management personnel

The movement in the number of ordinary securities in SP AusNet held directly, indirectly or beneficially, by key management personnel, including their related entities, is as follows:

	Balance at beginning of year (1 April 2013)	Granted during the year as compensation (i)	Net change other (ii)	Balance at end of year (31 March 2014)
Key management personnel				
Non-executive Directors				
Ng Kee Choe	195,883	-	-	195,883
Ralph Craven (iv)	-	-	-	-
Jeremy Davis	120,750	-	-	120,750
Sally Farrier (iv)	-	-	-	-
Eric Gwee	153,591	-	-	153,591
Ho Tian Yee	-	-	-	-
Tony Iannello	190,976	-	-	190,976
George Lefroy (iii)	275,086	-	-	275,086
Tina McMeckan	90,000	-	-	90,000
Ian Renard	84,898	-	-	84,898
Sun Jianxing (iv)	-	-	-	-
Executives				
Nino Ficca	1,108,183	160,000	-	1,268,183
John Azaris (v)	176,600	36,000	(80,000)	132,600
Chad Hymas (v)	58,400	16,950	4,842	80,192
John Kelso	35,099	37,288	550	72,937
Adam Newman	-	-	20,000	20,000
Alistair Parker (v)	12,000	19,000	-	31,000
Ash Peck (vi)	-	32,687	-	32,687
Mario Tieppo (vii)	-	-	-	-

(i) Includes securities purchased under SP AusNet's Long-term Incentive Plan.

(ii) Net change other refers to securities purchased, sold or acquired other than via the Long-term Incentive Plan.

(iii) Mr Lefroy retired as a Non-Executive Director effective 18 July 2013.

(iv) Dr Craven, Ms Farrier and Mr Sun commenced as Non-Executive Directors effective 24 January 2014.

(v) Mr Azaris, Mr Hymas and Mr Parker were appointed as key management personnel effective 1 April 2013.

(vi) Mr Peck resigned as key management personnel effective 6 December 2013.

(vii) Mr Tieppo was appointed as key management personnel effective 9 December 2013.

Further details are provided in the *Remuneration report* in the *Directors' report*.

Notes to the combined financial statements

31 March 2014

Note 21 Key management personnel (continued)

	Balance at beginning of year (1 April 2012)	Granted during the year as compensation (i)	Net change other (ii)	Balance at end of year (31 March 2013)
Key management personnel				
Non-executive Directors				
Ng Kee Choe	195,883	-	-	195,883
Jeremy Davis	105,000	-	15,750	120,750
Eric Gwee	153,591	-	-	153,591
Ho Tian Yee	-	-	-	-
Tony Iannello	140,976	-	50,000	190,976
George Lefroy	239,206	-	35,880	275,086
Tina McMeckan	54,650	-	35,350	90,000
Ian Renard	73,825	-	11,073	84,898
Executives				
Nino Ficca	1,312,334	99,000	(303,151)	1,108,183
Norm Drew	380,005	34,131	-	414,136
John Kelso	52,893	21,641	(39,435)	35,099
Adam Newman	-	-	-	-
Geoff Nicholson	432,764	40,632	-	473,396
Ash Peck	-	-	-	-
Charles Popple	333,532	30,938	-	364,470

Notes to the combined financial statements

31 March 2014

Note 22 Remuneration of auditors

During the year the following fees were paid or payable for services provided by KPMG and its related practices:

(a) Audit and review services

	2014	2013
	\$'000	\$'000
Audit and review of financial statements	1,473	1,493
Audit of regulatory returns (i)	891	617
Total remuneration for audit and review services	2,364	2,110

(b) Other services

Other assurance, taxation and advisory services	170	165
Total remuneration for other services	170	165
Total remuneration of auditors	2,534	2,275

- (i) It is the Stapled Group's policy to employ KPMG to perform the audit of regulatory returns as these returns represent an extension of statutory audit services and need to be performed by the same audit firm to gain efficiencies and effectiveness in performing these audits.

Note 23 Contingent liabilities and contingent assets

Details of contingent liabilities and contingent assets of the Stapled Group are as follows:

(a) Section 163AA impost**(i) Background**

During August 2011, the ATO issued amended assessments to SP AusNet in respect of the 2001 to 2006 income years, disallowing deductions claimed in respect of fees imposed under Section 163AA of the Electricity Industry Act 1993 in the 1999 to 2001 tax years. Under the amended assessments, the amount of primary tax payable is \$54.0 million.

In October 2011, the ATO agreed to a part payment arrangement, on the basis that the amount due is a disputed tax amount. Under the arrangement, SP AusNet paid \$30.6 million. Up to 31 March 2013, this amount has been recorded as a non-current receivable. A general interest charge continues to accrue in respect of unpaid tax under the payment arrangement, in addition to the total amount disclosed on the amended assessments.

On 10 October 2012, SP AusNet lodged a notice of appeal and other documents in the Federal Court, appealing the ATO's amended assessments.

Notes to the combined financial statements

31 March 2014

Note 23 Contingent liabilities and contingent assets (continued)

(a) Section 163AA impost (continued)

(ii) *Current status*

On 12 September 2013, the Federal Court delivered judgement against SP AusNet's appeal. On the basis of this ruling, for the year ended 31 March 2014 SP AusNet has derecognised the \$30.6 million non-current receivable and recognised a \$70.2 million provision for tax, representing the unpaid portion of primary tax and the unpaid general interest charge up to 31 March 2014.

This provision represents the amount that is potentially payable under the amended assessments and, along with the write-off of the non-current receivable and the deductibility of the general interest charge, has reduced net profit after tax for the year ended 31 March 2014 by \$86.7 million.

On 7 October 2013, SP AusNet lodged a notice of appeal in the Federal Court. On 7 April 2014, the Full Court of the Federal Court of Australia delivered judgement against SP AusNet. SP AusNet has subsequently sought special leave to appeal to the High Court of Australia. The application hearing is expected to be heard in the second half of calendar year 2014. SP AusNet continues to believe that the fees imposed under Section 163AA are deductible.

If SP AusNet is ultimately successful in these proceedings, then the \$86.7 million reduction in net profit after tax that has been recognised at 31 March 2014 would be reversed and the \$30.6 million part-payment would be refunded, with interest.

(b) Intellectual Property

(i) *Background*

During September 2011 and October 2011, the ATO issued amended assessments to SP AusNet in respect of the 2001 to 2010 income years, disallowing deductions claimed in respect of intellectual property in each of those income years. Under the amended assessments, the amount payable is \$44.0 million (representing \$27.4 million of primary tax, plus an interest and administrative penalty component of \$16.6 million).

In November 2011, SP AusNet lodged notices of objection in relation to the amended assessments issued. The ATO agreed to a part-payment arrangement, with SP AusNet making a payment of \$17.1 million to the ATO in October 2011. This amount has been recorded as a non-current receivable at the time of payment. A general interest charge continues to accrue in respect of unpaid tax under the payment arrangement, in addition to the total amount disclosed on the amended assessments. As at 31 March 2014, the total amount in dispute for intellectual property deductions, including additional accrued interest on the unpaid portion of the amended assessments, is \$50.7 million.

On 27 April 2012, SP AusNet lodged a notice of appeal and other documents in the Federal Court, appealing the ATO's objection decision in relation to the intellectual property matter.

(ii) *Current status*

The Federal Court delivered judgement in favour of SP AusNet on 25 March 2014. The ATO subsequently lodged a notice of appeal in the Federal Court on 15 April 2014. It is expected that the appeal will be heard by the Full Court of the Federal Court in the second half of calendar year 2014, with a decision expected before the end of calendar year 2014. The \$17.1 million part-payment continues to be recognised as a non-current receivable at 31 March 2014.

Notes to the combined financial statements

31 March 2014

Note 23 Contingent liabilities and contingent assets (continued)

(c) February 2009 bushfire litigation

SP AusNet is a defendant in litigation that has been brought in connection with the 7 February 2009 bushfires located at Beechworth, Kilmore East, and Murrindindi, respectively. In all three matters, SP AusNet denies that it was negligent. SP AusNet alleges that its conduct was at all times reasonable, in compliance with technical regulations and reasonable in light of economic regulations applicable to SP AusNet.

On 16 May 2012, the Supreme Court of Victoria formally approved the settlement deed for the Beechworth bushfire class action. That settlement was reached without admission of liability by SP AusNet or any other party.

The Kilmore East Supreme Court hearing is presently underway, and according to the court timetable, it is likely to conclude in June 2014 with judgement expected by March 2015. SP AusNet is a defendant in this proceeding, along with the State of Victoria (Department of Sustainability and Environment, Country Fire Authority and others) and a contracted asset inspector.

The Murrindindi class action is in very early stages, and it is expected that the trial will formally commence some time in 2015.

There are many variables associated with litigation and it is impossible to provide a prior assessment of the ultimate resolution of either the Kilmore East or Murrindindi proceedings. However, SP AusNet is vigorously defending both claims and rejects any assertion of negligence. SP AusNet strongly holds the belief that it has consistently complied with its regulatory obligations, including in the year ended 31 March 2009. It is therefore reasonable to consider that SP AusNet's insurance and, if required, a claim to the regulator for pass-through of residual costs ultimately incurred in relation to these proceedings, would be sufficient to cover SP AusNet's liability, if any, associated with the February 2009 bushfires. However, the ultimate resolution of these matters cannot be known with certainty.

SP AusNet has liability insurance which specifically provides cover for bushfire liability. SP AusNet reviews its insurance cover annually and ensures it is commensurate with the scale and size of its operations, the risks assessed to be associated with its operations and with industry standards and practice.

SP AusNet's safety record, network asset management and network maintenance programs are consistent with industry practice, and its bushfire mitigation and vegetation management programs comply with Electricity Safety (Bushfire Mitigation) Regulations. SP AusNet's bushfire mitigation and vegetation management programs are audited annually by Energy Safe Victoria. SP AusNet had a 'zero' bushfire mitigation index throughout the 2008-09 bushfire season.

(d) Other

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

Other than listed above, the Directors are not aware of any other contingent liabilities as at 31 March 2014.

Notes to the combined financial statements

31 March 2014

Note 24 Commitments

(a) Capital commitments

Capital expenditure contracted for at the reporting date but not recognised as a liability is as follows:

	2014	2013
	\$M	\$M
Property, plant and equipment	359.4	322.2

(b) Lease commitments

Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities are as follows:

	2014	2013
	\$M	\$M
Payable:		
Within one year	17.0	13.1
Later than one year, but no later than five years	34.7	35.1
Later than five years	16.0	17.4
	<u>67.7</u>	<u>65.6</u>
Representing:		
Non-cancellable operating leases	<u>67.7</u>	<u>65.6</u>

Operating leases

The Stapled Group leases relate to premises, vehicles, network land and access sites under non-cancellable operating leases expiring within one to seven years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

Notes to the combined financial statements

31 March 2014

Note 25 Related party transactions

(a) Parent entities

By virtue of the Stapling Deed effective 21 October 2005, SP AusNet Distribution is deemed to be the parent entity of the Stapled Group.

Prior to 3 January 2014, the immediate parent of SP AusNet Distribution was Singapore Power International Pte Ltd (SPI) and the ultimate parent was Temasek Holdings (Private) Limited (Temasek). SPI is a wholly-owned subsidiary of Temasek. Temasek's shareholder is the Minister for Finance, a body corporate under the Minister for Finance (Incorporation) Act, Chapter 183 of Singapore. Both SPI and Temasek are incorporated in Singapore.

On 3 January 2014, State Grid Corporation of China (State Grid) acquired a 19.9 per cent securityholding in SP AusNet from SPI. Whilst SPI continues to be the largest securityholder in SP AusNet with a stake of 31.1 per cent, they ceased to be the parent of SP AusNet Distribution from that date. Under applicable accounting standards, both SPI and Temasek and their subsidiaries continue to be a related party of SP AusNet.

On 3 January 2014, SPI also divested 60 per cent of its securityholding in Jemena Asset Management Pty Ltd (referred to as Jemena) to State Grid. SPI continue to hold 40 per cent of the securityholding in Jemena, however Jemena ceased to be a related party of SP AusNet from that date. The related party transactions set out below include transactions with Jemena that took place during the whole financial year.

(i) Logo

Singapore Power Limited has granted SP AusNet a licence for consideration of \$1.0 million per year to use the 'flame logo' and image in connection with its business and the use of the terms 'SP', 'SP Australia Networks' and 'SP AusNet'. The fee payable is on normal commercial terms. This arrangement is expected to cease no later than 17 August 2014.

(b) Other related parties

(i) Management Services Agreements (MSAs)

SPIMS, a wholly-owned subsidiary of related party SPI, is a party to two management services agreements with SP AusNet Distribution and SP AusNet Transmission, and the Responsible Entity respectively. As noted in note 28 these agreements have been terminated from 1 April 2014 therefore the details below only describe the arrangements that were in place until 31 March 2014. There will be no further management service charge or performance fee payments under the MSA in respect of any period after 1 April 2014.

Management Services Agreement with SP AusNet Distribution and SP AusNet Transmission

Under the MSA, SP AusNet engaged SPIMS to provide management and administration services including management of SP AusNet's electricity transmission and electricity and gas distribution networks. SPIMS were able to consult with Singapore Power Limited and its subsidiaries from time to time in the performance of its work. In accordance with the MSA, SPIMS provided the services of key senior management (including the Managing Director and the executive management team) of SP AusNet.

The MSA commenced on 1 October 2005 and was terminated on 31 March 2014.

Notes to the combined financial statements

31 March 2014

Note 25 Related party transactions (continued)

(b) Other related parties (continued)

(i) Management Services Agreements (MSAs) (continued)

Pursuant to the MSA, SP AusNet agreed to pay SPIMS a management fee comprising a management services charge and a performance fee for each financial year during the term of the MSA. The management services charge was to compensate SPIMS for expenses relating to all remuneration and other employment entitlements and benefits of the employees of SPIMS who provided services to SP AusNet. The performance fee was to incentivise SPIMS to meet or better the non-financial and financial performance targets of SP AusNet and to align the interests of SPIMS with those of SP AusNet. Details of the components of the performance fee are set out below:

Fee component	Description
Network Performance Fee	Calculated as 40 per cent of an amount (if any) of the regulatory incentive payments earned by SP AusNet in the financial year for network performance that exceeds network benchmark performance levels. If the net incentive payment for a financial year is zero or negative, no Network Performance Fee is received and 40 per cent of the deficit amount will be carried forward (capped at \$2.0 million) to be set-off against future Network Performance Fees earned.
Financial Performance Fee – which includes an EBITDA Performance Fee component and an EBITDA Outperformance Fee component	The EBITDA Performance Fee component is equal to 0.75 per cent of actual EBITDA of SP AusNet for that financial year. The EBITDA Outperformance Fee component is payable if SP AusNet's actual EBITDA exceeds budgeted EBITDA for a financial year. In that case, an additional fee equal to 0.25 per cent of SP AusNet's actual EBITDA for that financial year is payable, provided that this does not result in actual EBITDA being lower than budgeted EBITDA.
Business Incentive Fee – which comprises a Market Outperformance Fee component	The Market Outperformance Fee component is equal to 5 per cent of the amount by which the return of the Stapled Securities exceeds the Benchmark Return for a half-year. If the SP AusNet Return is less than the Benchmark Return in any half-year, no Market Outperformance Fee is payable. 5 per cent of the deficit amount is carried forward (capped at \$2.0 million) and set off against the Market Outperformance Fee which is payable in the subsequent half-year.
Capital Works Management Fee	Calculated as 1 per cent of an increase (if any) in SP AusNet's RAB amount from the previous month (excluding depreciation and customer contributions).
Capital Efficiency Incentive Fee	A fee payable to SPIMS at the discretion of the Board, having regard to SP AusNet's performance in relation to such capital expenditure efficiency measures as the Directors consider appropriate.

Notes to the combined financial statements

31 March 2014

Note 25 Related party transactions (continued)

(b) Other related parties (continued)

(i) *Management Services Agreements (MSAs) (continued)*

From 1 October 2008, the maximum performance fee payable by SP AusNet in respect of a financial year was capped at 0.50 per cent of the market capitalisation of SP AusNet's securities.

The MSA contained mutual indemnities for all damages, costs, claims, suits, liabilities, expenses, actions or injuries suffered or incurred as a consequence of any claims against a party to the extent to which any such claim is caused by the negligence, fraud or dishonesty of the other party (or its officers or employees) or a breach of the MSA. The total liability of either party was limited to \$5.0 million in any financial year.

Management Services Agreement with the Responsible Entity

Under the RE MSA, the Responsible Entity engaged SPIMS to provide management and administration services in respect of SP AusNet Finance Trust. SPIMS was entitled to an annual fee of \$0.1 million per year in respect of the RE MSA. SPIMS was able to consult with Singapore Power Limited and its subsidiaries from time to time in the performance of its work.

The RE MSA also commenced on 1 October 2005 and was terminated on 31 March 2014. The RE MSA contained mutual indemnities and limits the total liability of either party to \$5.0 million in any financial year.

(ii) *Long-term operational agreement*

On 29 September 2008, SP AusNet entered into an agreement with the Singapore Power Group on a number of operational arrangements. SP AusNet through Select Solutions provides end-to-end metering services, technical services and vegetation management services to the electricity and gas networks owned and managed by Jemena Asset Management Pty Ltd (referred to as Jemena). As part of the agreement, Jemena's contestable metering customer contracts were novated to SP AusNet who took over the responsibility for delivering contestable metering services to those customers.

To ensure continued capital investment and deliver network growth, Jemena has been appointed to SP AusNet's preferred supplier panel, securing resources for the delivery of SP AusNet's capital portfolio.

Each of the above arrangements was for an initial five year term and were renewed in August 2013 for an additional three year term. The agreements will then continue for further five year terms unless terminated by either party by giving notice to terminate at the end of the current term. The arrangements may also be terminated early by either party in certain circumstances.

(iii) *IT services agreement*

On 29 September 2008, SP AusNet entered into an agreement with a wholly owned subsidiary of SPIMS, Enterprise Business Services (Australia) Pty Ltd (EBS), for it to be the exclusive provider to SP AusNet of IT services. The agreement was for an initial term of seven years, however agreement has been reached to unwind shared IT services provided to SP AusNet.

Notes to the combined financial statements

31 March 2014

Note 25 Related party transactions (continued)**(c) Key management personnel**

Disclosures relating to Directors and other key management personnel are set out in note 21.

(d) Transactions with related parties

Prior to 3 January 2014 the ultimate parent of SP AusNet was Temasek. SP AusNet engages in a wide variety of transactions with entities in the Temasek Group in the normal course of business on terms similar to those available to other customers. Such transactions include but are not limited to telecommunication services and leasing of properties. These related party transactions are carried out on terms negotiated between the parties which reflect an arm's-length basis. As a result, transactions with Temasek interests other than the Singapore Power Group and Jemena have been excluded from the disclosures below.

SP AusNet also provides electricity distribution and electricity transmission services to the Singapore Power Group and Jemena. SP AusNet earns a regulated return from the provision of these services as these services are regulated by the AER.

The following transactions occurred with related parties within the Singapore Power Group and Jemena for the entire financial year:

	2014	2013
	\$'000	\$'000
Sales of goods and services		
Regulated revenue (i)	26,141	25,124
Service revenue	62,601	57,369
Other revenue	155	800
Purchases of goods and services		
Management services charge	19,558	24,927
Performance fees	22,189	19,650
Termination fee	50,000	-
Flame logo fee	1,000	1,000
Other expenses	42,224	31,333
Property, plant and equipment	56,949	69,953
Distributions paid		
Distributions paid (net of DRP)	131,065	109,293

The related party transactions set out above include transactions with Jemena that took place during the whole financial year. Jemena ceased to be a related party of SP AusNet from 3 January 2014.

- (i) Represents revenues from the provision of electricity distribution and electricity transmission services which are regulated by the AER.

Notes to the combined financial statements

31 March 2014

Note 25 Related party transactions (continued)

(e) Outstanding balances

The following balances are outstanding at the reporting date in relation to transactions with related parties within the Singapore Power Group and Jemena:

	2014 \$'000	2013 \$'000
Current receivables (sale of goods and services)		
Singapore Power entities	128	205
Other related parties (i)	11,362	19,928
Other current assets (prepayments)		
Singapore Power entities	500	500
Current payables and other liabilities (purchase of goods)		
Singapore Power entities	46,906	19,333
Other related parties	12,551	11,725

The 31 March 2014 balances above include \$9.9 million of current receivables and \$12.6 million of current payables and other liabilities relating to Jemena. Jemena ceased to be a related party of SP AusNet from 3 January 2014.

No allowance for impairment loss has been raised in relation to any outstanding balances due from related parties.

- (i) Includes outstanding amounts from the provision of electricity distribution and electricity transmission services which are regulated by the AER.

Notes to the combined financial statements

31 March 2014

Note 26 Subsidiaries

The Stapled Group's financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1(b):

Name of entity	Country of incorporation	Class of shares	Equity holding	
			2014 %	2013 %
SP Australia Networks (Distribution) Ltd	Australia	Ordinary		
Subsidiaries:				
SPI Australia Networks (RE) Ltd	Australia	Ordinary	100	100
SPI Australia Group Pty Ltd	Australia	Ordinary	100	100
SPI Australia (LP) No. 1 Limited	UK	n/a	100	100
SPI Australia (LP) No. 2 Limited	UK	n/a	100	100
SPI Australia Holdings (AGP) Pty Ltd	Australia	Ordinary	100	100
SPI Australia Holdings (Partnership) Limited Partnership	Australia	Ordinary	100	100
SPI Electricity & Gas Australia Holdings Pty Ltd	Australia	Ordinary	100	100
SPI Electricity Pty Ltd	Australia	Ordinary	100	100
SPI Networks Pty Ltd	Australia	Ordinary	100	100
SPI (No. 8) Pty Ltd	Australia	Ordinary	100	100
SPI (No. 9) Pty Ltd	Australia	Ordinary	100	100
SPI Networks (Gas) Pty Ltd	Australia	Ordinary	100	100
Select Solutions Group Pty Ltd	Australia	Ordinary	100	100
SP Australia Networks (Transmission) Ltd *	Australia	Ordinary		
Subsidiaries:				
SPI PowerNet Pty Ltd	Australia	Ordinary	100	100
SPI Australia Finance Pty Ltd	Australia	Ordinary	100	100
Geomatic Holdings Pty Ltd (i)	Australia	Ordinary	100	-
Geomatic Technologies Pty Ltd (i)	Australia	Ordinary	100	-
SP Australia Networks (Finance) Trust *	Australia	Ordinary		

(i) Geomatic Holdings Pty Ltd and Geomatic Technologies Pty Ltd were acquired by the Stapled Group on 28 February 2014 (refer note 27). Both companies have an annual reporting date of 30 June, which will be aligned to the Stapled Group's 31 March reporting date in due course.

* In accordance with AASB 3 *Business Combinations* SP AusNet Distribution is deemed to acquire SP AusNet Transmission and SP AusNet Finance Trust at the date of stapling. This acquisition is by contract alone and SP AusNet Distribution therefore does not have an equity holding in either entity.

Notes to the combined financial statements

31 March 2014

Note 27 Business combinations

On 28 February 2014 SP AusNet acquired 100 per cent of the share capital of Geomatic Technologies, a provider of IT integrated solutions and services that leverage advanced mobile and spatial technologies. This acquisition enables SP AusNet to continue to expand the service offering of the Select Solutions business, providing customers with an expanded portfolio of end-to-end specialist services and capabilities.

Since the date of acquisition up to 31 March 2014, Geomatic Technologies has contributed revenue of \$1.5 million and operating profit of \$0.1 million. The acquisition related costs included in operating expenses for the year ended 31 March 2014 were \$0.8 million.

(a) Consideration transferred

The following summarises the major classes of consideration transferred:

	2014 \$M
Cash consideration paid	24.2
Fair value of contingent consideration (i)	3.0
Total consideration	27.2

- (i) Under the terms of the acquisition agreement, SP AusNet must make additional cash payments based upon various performance metrics including business integration and EBITDA targets in the 2015 financial year. The potential undiscounted amount of all future payments that could be required is up to \$3.0 million. SP AusNet has forecast several scenarios, and probability weighted each to determine a fair value for this contingent payment arrangement, which has been included in the determination of the consideration transferred. As at 31 March 2014, SP AusNet had paid \$0.3 million of this contingent consideration due to the satisfaction of certain business integration targets.

(b) Assets and liabilities acquired

The following summarises the recognised amounts of assets acquired and liabilities assumed at the acquisition date:

	2014 \$M
Assets and liabilities acquired	
Cash	0.3
Receivables	3.4
Inventory	1.3
Property, plant and equipment	1.5
Payables	(2.8)
Provisions	(0.9)
	2.8
Goodwill	24.4
	27.2

Due to the proximity of the acquisition to the financial year end, the fair values set out above are provisional and are subject to amendment on finalisation of the fair value exercise, no later than 12 months following the date of acquisition.

Notes to the combined financial statements

31 March 2014

Note 28 MSA termination

SP AusNet, Singapore Power and SPIMS entered into a Termination Deed, pursuant to which they have agreed to terminate the Management Services Agreement (MSA) with effect from 31 March 2014. The key terms of the Termination Deed, as it relates to the MSA, are:

- A termination payment of \$50.0 million is payable by SP AusNet to SPIMS. This payment is made up of two parts: (a) an early termination fee representing the present value of the estimated termination payment that would have been payable if the MSA had terminated on 30 September 2015; and (b) the present value of estimated performance fees that would have been payable to SPIMS from 1 April 2014 to 30 September 2015, had the MSA continued until that time.
- Each SPIMS employee is offered employment with, and has transferred to SP AusNet subsequent to 31 March 2014.
- The termination payment made by SP AusNet is reduced by the amount of employee entitlements in respect of the SPIMS employees transferring to SP AusNet, which total \$15.9 million as at 31 March 2014, such amounts having been previously paid by SP AusNet as part of the regular management service charge under the MSA. The net termination payment has been paid in April 2014.

Agreement has also been reached between SPIMS and SP AusNet to unwind shared information technology (IT) services provided to SP AusNet by EBS, a subsidiary of SPIMS. This arrangement was put in place in September 2008. SP AusNet intends to transition its share of existing EBS activities into the core SP AusNet IT function, as soon as practicable, commencing on 1 April 2014.

The Intellectual Property (IP) Licence Agreement with Singapore Power has also been terminated under the Termination Deed. A provision of \$7.7 million has been reflected as at 31 March 2014 for the costs associated with this restructure of IT services and the termination of the IP licence Agreement.

Note 29 Parent entity information

(a) Statement of financial position

	2014	2013
	\$M	\$M
Current assets	0.3	0.3
Non-current assets	2,665.0	2,632.7
Total assets	2,665.3	2,633.0
Current liabilities	1,204.5	1,214.4
Non-current liabilities	368.7	249.5
Total liabilities	1,573.2	1,463.9
Contributed equity	0.5	0.5
Retained profits	1,091.6	1,168.6
Total equity	1,092.1	1,169.1

The parent entity has a net current asset deficiency of \$1,204.2 million as at 31 March 2014. The parent entity is considered to be a going concern as the deficiency arises from related party loans with SP AusNet Finance Trust. Whilst repayable on demand, the loan agreements are for terms of ten years, and mature in July 2014 and December 2018. The Directors are confident that SP AusNet Finance Trust will not demand repayment of the outstanding principal and unpaid accrued interest prior to the expiration of the term.

The parent entity has access to funds through SPI Electricity & Gas Australia Holdings Pty Ltd, which is the common or central funding vehicle for SP AusNet.

Notes to the combined financial statements

31 March 2014

Note 29 Parent entity information (continued)

(b) Statement of comprehensive income

	2014	2013
	\$M	\$M
Loss for the year	(77.0)	(77.4)
Total comprehensive income for the year	(77.0)	(77.4)

(c) Contingent liabilities

Other than the contingent liabilities disclosed in note 23, the Directors are not aware of any other contingent liabilities of the parent entity as at 31 March 2014.

Note 30 Reconciliation of profit after income tax to net cash flows from operating activities

	2014	2013 (restated)
	\$M	\$M
Profit for the year	178.3	273.5
Depreciation and amortisation of non-current assets	369.7	322.8
Net loss on sale of non-current assets	8.1	4.1
Contributed assets	(30.1)	(6.5)
(Gain)/loss on accounting for hedge relationships	3.7	(7.1)
Other non-cash items	14.0	17.6
Net cash from operations before changes in operating assets and liabilities	543.7	604.4
(Increase)/decrease in receivables	15.0	(14.0)
(Increase)/decrease in inventories	5.0	(8.1)
(Increase)/decrease in other assets	(4.9)	(3.7)
Increase/(decrease) in payables and other liabilities	64.2	(4.1)
Increase/(decrease) in net other financial assets and liabilities	(8.8)	(8.7)
Increase/(decrease) in provisions	21.3	4.3
Movement in tax balances	94.7	(1.5)
Net cash inflow from operating activities	730.2	568.6

Notes to the combined financial statements

31 March 2014

Note 31 Events occurring after the balance sheet date

(a) Distribution

Since the end of the financial year, the Directors have approved a final distribution for 2014 of \$141.6 million (4.180 cents per stapled security) to be paid on 27 June 2014 comprised as follows:

	Cents per security	Total distribution \$M
Fully franked dividend payable by SP AusNet Transmission	1.393	47.2
Interest income payable by SP AusNet Finance Trust	2.379	80.6
Return of capital payable by SP AusNet Finance Trust	0.408	13.8
	<u>4.180</u>	<u>141.6</u>

(b) Other matters

Other than outlined above, there has been no matter or circumstance that has arisen since 31 March 2014 up to the date of issue of this financial report that has significantly affected or may significantly affect:

- (a) the operations in financial years subsequent to 31 March 2014 of the Stapled Group;
- (b) the results of those operations; or
- (c) the state of affairs, in financial years subsequent to 31 March 2014, of the Stapled Group.

Directors' declaration

In the opinion of the Directors of SP Australia Networks (Distribution) Ltd (the Company):

- (a) the financial statements and notes set out on pages 42 to 115, and the remuneration disclosures that are contained in the *Remuneration report* set out on pages 25 to 38 in the *Directors' report*, are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
 - (ii) giving a true and fair view of the combined entity's financial position as at 31 March 2014 and of its performance for the financial year ended on that date;
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1(a); and
- (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The Directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001*.

Signed in accordance with a resolution of the Directors.



Ng Kee Choe
Chairman



Nino Ficca
Managing Director

Melbourne
14 May 2014



Independent auditor's report to the members of SP Australia Networks (Distribution) Ltd, SP Australia Networks (Transmission) Ltd and SP Australia Networks (Finance) Trust

Report on the financial report

We have audited the accompanying financial report of SP Australia Networks (Distribution) (the Company), which comprises the combined statement of financial position as at 31 March 2014, and combined income statement and combined statement of comprehensive income, combined statement of changes in equity and combined statement of cash flows for the year ended on that date, notes 1 to 31 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration. The financial report includes the financial statements of the combined entity, being SP Australia Networks (Distribution) Ltd and the entities it controlled at the year's end or from time to time during the financial year, SP Australia Networks (Transmission) Ltd and the entities it controlled at the year's end or from time to time during the financial year, and SP Australia Networks (Finance) Trust ("the Combined Entity").

Directors' responsibility for the financial report

The directors of the Company, SP Australia Networks (Transmission) Ltd and the directors of the responsible entity of SP Australia Networks (Finance) Trust, SP Australia Networks (RE) Ltd, are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In note 1(a), the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Combined Entity comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Combined Entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Combined Entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Combined Entity's financial position and of its performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

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

Auditor's opinion

In our opinion:

(a) the financial report of the Combined Entity is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Combined Entity's financial position as at 31 March 2014 and of its performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1 (a).

Report on the remuneration report

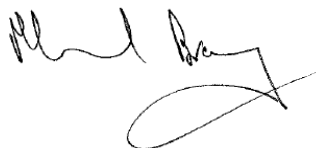
We have audited the Remuneration Report included in pages 25 to 38 of the directors' report for the year ended 31 March 2014. The directors of the Company and of SP Australia Networks (Transmission) Ltd, and the directors of the responsible entity of SP Australia Networks (Finance) Trust, SP Australia Networks (RE) Ltd, are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the remuneration report of SP Australia Networks (Distribution) Ltd for the year ended 31 March 2014, complies with Section 300A of the *Corporations Act 2001*.



KPMG



Michael Bray
Partner

Melbourne

14 May 2014

REGISTERED OFFICE OF THE ISSUER

Level 31
2 Southbank Boulevard
Southbank VIC 3006
Australia

REGISTERED OFFICE OF THE GUARANTORS

Level 31
2 Southbank Boulevard
Southbank VIC 3006
Australia

ARRANGERS**Citigroup Global Markets Singapore Pte. Ltd.**

8 Marina View
#21-00 Asia Square Tower 1
Singapore 018960

Morgan Stanley Asia (Singapore) Pte.

23 Church Street
#16-01 Capital Square
Singapore 049481

DEALERS**BNP Paribas**

10 Harewood Avenue
London NW1 6AA
United Kingdom

Citigroup Global Markets Limited

Citigroup Centre
Canada Square
Canary Wharf
London E14 5LB
United Kingdom

HSBC Bank plc

8 Canada Square
London E14 5HQ
United Kingdom

Morgan Stanley & Co. International plc

25 Cabot Square
Canary Wharf
London E14 4QA
United Kingdom

PRINCIPAL PAYING AGENT**Citibank N.A.**

c/o Ground Floor
1 North Wall Quay
Dublin
Ireland

TRUSTEE**Citicorp Trustee Company Limited**

Citigroup Centre
Canada Square
Canary Wharf
London E14 5LB
United Kingdom

AUDITORS TO THE ISSUER AND EACH GUARANTOR**KPMG**

147 Collins Street
Melbourne VIC 3000
Australia

LEGAL ADVISERS

to the Issuer and the Guarantors

in respect of English law

King & Wood Mallesons

10 Queen Street Place
London EC4R 1BE
United Kingdom

in respect of Australian law

King & Wood Mallesons

Governor Phillip Tower
1 Farrer Place
Sydney NSW 2000
Australia

to the Arrangers and the Dealers

in respect of English law

Linklaters Singapore Pte. Ltd.

One George Street
#17-01
Singapore 049145