ASX Announcement

11 November 2020

Results for Announcement to the Market
AusNet Services Half Year 2021 Results

The following documents are attached:

1. ASX Appendix 4D – Half Year Report for the half year ended 30 September 2020; and
2. AusNet Services Ltd Interim Financial Report for the financial period ended 30 September 2020.

Naomi Kelly
Company Secretary

This announcement was authorised for release by the Board of AusNet Services Ltd.

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11 November 2020

AusNet Services Ltd
ABN: 45 603 317 559

Appendix 4D
Half Year ended 30 September 2020

Results for announcement to the market for the half year ended 30 September 2020

	30 September 2020	30 September 2019	% change	Up / down
Revenue from ordinary activities ($M)	**1,039.4**	1,020.7	1.8%	Up
Net profit from ordinary activities after tax attributable to shareholders ($M)	**225.7**	171.8	31.4%	Up
Net profit for the period attributable to shareholders ($M)	**225.7**	171.8	31.4%	Up
Net tangible assets per share	**67 cents**	69 cents		

Dividends paid during the interim period were a 5.10 cent per share final dividend (2.55 cents franked, 2.55 cents unfranked) for the year ended 31 March 2020 paid on 25 June 2020.

Dividends for the half year ended 30 September 2020

	30 September 2020 Cents per share	**30 September 2019 Cents per share**
Interim dividend:		
Franked dividend	1.90	2.55
Unfranked dividend	2.85	2.55
Total interim dividend	**4.75**	**5.10**
Ex-dividend date	16 Nov 2020	18 Nov 2019
Record date	17 Nov 2020	19 Nov 2019
Payment date	17 Dec 2020	19 Dec 2019

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

Dividend Reinvestment Plan ("DRP")
The DRP continues to operate for the FY2021 interim dividend. A 2% discount to the average trading price will apply. The average trading price will be the average of the volume weighted average price of shares sold in ordinary market transactions (as more particularly described in the DRP Rules) on the ASX during the 12 trading days from 19 November 2020 to 4 December 2020 (inclusive). The operation of the DRP for FY2021 interim dividend will also be partially underwritten. The underwriting is subject to the terms of an underwriting agreement.

The deadline for the receipt of elections for DRP participation for the FY2021 interim dividend is 5.00pm (Australian Eastern Daylight Time) on 18 November 2020. Participation, including eligibility, is subject to the DRP Rules - available at www.ausnetservices.com.au (> Investor Centre > Shares and Investors > Dividend Reinvestment Plan).

AusNet Services Ltd
ACN 603 317 559

Interim Financial Report

For the financial period ended 30 September 2020

Contents **Page**

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

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

Level 31, 2 Southbank Boulevard
Southbank, Victoria 3006
Australia

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report of the Group for the year ended 31 March 2020 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 10 November 2020.

Directors' Report

Introduction

The Directors of AusNet Services Ltd present their report on the general purpose interim financial report of the consolidated entity for the financial period ended 30 September 2020.

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

Our Board of Directors

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

Non-executive Directors

Peter **Mason** (Chairman)

Alan **Chan** Heng Loon

Ralph **Craven**

Sally **Farrier**

Li Lequan

Robert **Milliner**

Nora **Scheinkestel**

Tan Chee Meng

Executive Director

Tony **Narvaez** – *Managing Director*

Directors' Report (continued)

HY2021 operating environment

The six months to 30 September continued to present a challenging operating environment, with Victoria enduring various COVID-19 restrictions throughout the period. This has had an impact on our people, our works practices, our customers, and how we provide our essential services. It has also elevated capital market volatility and resulted in a deteriorating economic climate. This challenging environment continues today.

We responded to the operating environment challenges by making several changes to the way we work. This included deferring a range of initiatives and reprioritising our capital expenditure programs to minimise customer disruption during lockdown. We also put in place a Network Relief Package to support our customers who were facing hardship during this time. AusNet Services received no Government benefits from COVID-19 stimulus measures during the period.

These actions have enabled us to reduce our operating cost base, while still maintaining safe and reliable networks as well as supporting our customers changing circumstances. Our rapid and prudent responses to these challenges, combined with the fact that COVID-19 has not had a material impact on our revenues to date, have contributed to our improved financial performance for the period. Combined with our proactive capital management actions during the period, they have also strengthened our resilience and capacity to successfully navigate the ongoing challenges and future growth opportunities, whilst continuing to meet the needs of our customers and our people.

Other operating highlights for the period included:

- Maintaining a strong focus on employee wellbeing and providing an extension to the customer bill relief package.
- Responding to a severe storm in August 2020, which directly impacted over 140,000 electricity distribution customers.
- Commenced a new multi-year transformation program to reshape the organisation and implemented a new operating model.
- Receiving the AER draft decision for our Electricity Distribution Price Review 2021-26, which broadly endorsed the ‘New Reg’ consumer engagement approach and the outcomes of our negotiations with the Customer Forum.
- Completing the issuance of a A$650m hybrid, in support of our ‘A’ range credit rating.
- Progressed early works on several large connection projects.

Interim review of financial results

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

$M	30 September 2020	30 September 2019	Movement	%
Revenue	**1,039.4**	1,020.7	18.7	1.8
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**661.6**	625.8	35.8	5.7
Net profit after tax	**225.7**	171.8	53.9	31.4
Capital expenditure	**379.1**	458.0	(78.9)	(17.2)

Our businesses have delivered a strong half year result against the backdrop of the current operating environment. The COVID-19 restrictions have resulted in higher residential volumes across our distribution networks, resulting in an increase in revenues that has served to offset the reduction in commercial and industrial volumes. The mechanism of the electricity distribution revenue cap results in $20.9 million of this revenue being returned to customers, primarily in FY2022. In addition, while our network relief package has provided effective customer support during this period, the package has not had a material impact on our financial results.

The revenue increase compared to the prior period primarily reflects the following factors:

- $36.6 million increase in regulated electricity distribution due to revenue cap outperformance from the changing volume mix under COVID-19 restrictions, transmission use of system (TUOS) recovery and tariff increases.
- $5.7 million reduction in customer contributions as a result of fewer new connections for electricity business and residential customers;
- $4.6 million reduction in easement tax (pass through revenue) in the electricity transmission business; and
- The one-off sale of inventory for $11.1 million in the prior period to Downer as part of transferring our electricity distribution field workforce and scheduling function. This inventory was sold at nil margin.

Directors' Report (continued)

Interim review of financial results (continued)

Our ongoing efficiency and cost management focus, combined with our proactive response to COVID-19, has enabled us to decrease operating expenses by $1.4 million (excluding easement tax and the materials cost of the inventory sale described above). This is despite recognising an additional $7.5 million of customer compensation payments compared to the prior period from a severe storm event in August 2020, $7.0 million of transformation implementation costs and $8.3 million from higher TUOS costs (recovered via higher TUOS revenues).

Net profit after tax increased by $53.9 million as a result of the EBITDA increase described above as well as a reduction in net finance charges largely due to reversal of previous hedge accounting losses and higher lease interest income from recently completed projects. Income tax expense, while increased from prior year due to higher profit before tax, included a $13.3 million credit as a result of amended tax returns for the 2016-2019 period that were lodged in the current period.

The completion of several large wind farm connection contracts at the end of FY2020 is the primary driver of the reduction in capital expenditure, with the Western Victoria Transmission Project planning phase and other early works engagements being less capital intensive. In addition, our planned outage management response during COVID-19 restrictions has resulted in a reduction in Electricity Distribution replacement expenditure.

The financial performance for each of our businesses for the period is discussed below. During the period, the Mondo segment was renamed 'Growth & Future Networks' and now includes customer-initiated excluded prescribed and excluded negotiated transmission contracts and network innovation functions that were previously included in the Electricity Transmission and Electricity Distribution businesses respectively as well as Mondo. Comparatives have been restated for consistency.

Electricity transmission business

	30 September 2020	**30 September 2019 (restated)**	**Movement**	**%**
Segment revenue ($M)	**301.6**	305.8	(4.2)	(1.4)
Segment result - EBITDA ($M)	**180.7**	178.2	2.5	1.4
Capital expenditure ($M)	**71.5**	74.9	(3.4)	(4.5)

Transmission revenues decreased as a result of a $4.6 million reduction in easement tax (pass-through revenue – no impact on EBITDA). Operating expenses decreased $2.1 million excluding the easement tax reduction, which was primarily due to the benefits of new delivery partner arrangements and reduced corporate costs. Easement tax reflects $80.7 million or 67 per cent of total transmission operating expenses.

Capital expenditure was reduced as prior period included $14.0 million of spend on the North-West Communications Loop, which was completed in FY2020, partly offset with $12.6 million current period spend on replacement of fallen transmission towers.

Electricity distribution business

	30 September 2020	**30 September 2019 (restated)**	**Movement**	**%**
Segment revenue ($M)	**502.0**	483.2	18.8	3.9
Segment result - EBITDA ($M)	**319.5**	297.2	22.3	7.5
Volume (GWh)	**3,999**	3,950	49	1.2
Connections	**761,388**	747,740	13,648	1.8
Capital expenditure ($M)	**211.9**	228.2	(16.3)	(7.1)

Revenues increased by $18.8 million due to the following three factors:

- Regulated revenues increased by $36.6 million primarily due to the combination of revenue cap outperformance ($20.9 million in current period, offset by $4.3 million in prior period), higher TUOS recovery ($16.9 million, largely a catch up for prior year costs) and price increases ($7.0 million).
- A $5.7 million reduction in customer contributions due to lower business and residential new connections.
- Prior period included $11.1 million associated with the sale of inventory to Downer, which was at nil margin.

Expenditure increased by $7.6 million after removing the impact of the Downer inventory sale described above. The primary reason was a significant storm event in late August 2020 that resulted in an increase of $7.5 million of customer compensation payments compared to prior period.

Interim review of financial results (continued)

Capital expenditure decreased as we reduced replacements from deferral of residential outages as a response to minimising disruptions to households facing COVID-19 restrictions and lower business and residential new connections.

Future revenue impacts

Revenue for distribution services is recognised when those services are provided, based on the prevailing tariffs at the time. Our electricity distribution business is regulated by the Australian Energy Regulator (AER) and revenue is set on a calendar year basis (changing from calendar year to July-June year starting 1 July 2021) which differs to our financial year. Given the nature of the regulatory model and how tariffs are set, there are a number of items that will impact future revenues for our electricity distribution business as follows:

- There is a difference between the regulated revenue recognised under our accounting policy, and the revenue cap under the Electricity Distribution Price Review (EDPR) determination. This difference is trued-up as an adjustment to tariffs in future periods. At 30 September 2020, we have a cumulative over-recovery of $27.5 million (primarily as a result of current period outperformance as discussed above) which will reduce our future revenues from 1 July 2021.
- In May 2020, we submitted an application to the AER for a positive pass-through of $14.7 million for costs associated with the 2019-20 bushfires, which is still subject to approval, including the timing of this recovery.
- The July 2021 to June 2022 tariffs are expected to include a Service Target Performance Incentive Scheme (STPIS) penalty of $5.9 million as a result of our CY2019 network reliability performance.

Gas distribution business

	30 September 2020	30 September 2019	Movement	%
Segment revenue ($M)	**149.3**	143.1	6.2	4.3
Segment result - EBITDA ($M)	**120.2**	111.0	9.2	8.3
Volume (PJ)	**46.9**	43.6	3.3	7.6
Connections	**744,590**	722,458	22,132	3.1
Capital expenditure ($M)	**49.6**	51.0	(1.4)	(2.7)

Gas revenues increased more than the 1.9 per cent tariff increase for CY2020 as a result of higher residential volume charges. A combination of colder weather and residential usage increases due to COVID-19 restrictions resulted in higher revenues for the period. Operating expenditure reductions of $3.0 million were largely expected as prior period was elevated due to early retirement of assets and phasing of certain expenditures.

Capital expenditure was consistent with prior period in both customer connections and mains replacement program.

Growth & Future Networks business (including Mondo)

The Mondo business is now part of the Growth & Future Networks business, which includes contracted infrastructure connections and network innovation functions.

	30 September 2020	30 September 2019 (restated)	Movement	%
Segment revenue ($M)	**91.3**	93.8	(2.5)	(2.7)
Segment result – EBITDA ($M)	**41.2**	39.4	1.8	4.6
Lease interest income ($M)	**17.9**	11.4	6.5	57.0
EBITDA after lease income (EBITDAaL) ($M)	**59.1**	50.8	8.3	16.3
EBITDAaL Margin (%)	**54.1**	48.3	5.8	12.0
Capital expenditure ($M)	**46.1**	103.9	(57.8)	(55.6)

The completion of a number of connection assets over the past 12-18 months has resulted in an $8.9 million increase in combined revenue and lease interest income compared to the prior period. This has been somewhat offset by the cessation of the materials sales business ($6.8 million revenue in prior period). EBITDAaL margins have increased due to this revenue mix change.

Capital expenditure in the current period is lower due to the completion of major wind farm transmission connections in FY2020. Several large transmission connections projects are in stakeholder engagement, planning and early works stages, which are less capital intensive until the project reaches financial close.

Financial position

Total equity of the Group was $3,063.5 million as at 30 September 2020, an increase of $57.9 million compared to 31 March 2020, primarily attributed to net profit for the period being higher than dividends paid, which reflects the seasonal impacts of our distribution businesses profits.

Our current assets exceed current liabilities by $489.6 million at 30 September 2020. The financial report has been prepared on a going concern basis, which contemplates the continuity of normal trading operations. In making this assessment consideration has been given to the continuing uncertainty as a result of COVID-19 on our 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 2020 we have available a total of $1,000 million of undrawn but committed bank debt facilities and $128.1 million of cash and short-term investments.

Capital management

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

Debt raising

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

In line with our Treasury Risk Policy, we maintain a diversified debt portfolio by maturity and source. AusNet Services has an A- credit rating from Standard and Poor’s and A3 from Moody’s Investor Services. This contributed to the successful completion of A$400 million of 10 to 20 year bond issues in July 2020 and an A$650 million 60 year hybrid security issue in the form of non-convertible subordinated notes in September 2020. These issuances, in addition to our existing bank debt facilities, satisfy our refinancing requirements for the next 12 months and have increased the tenor of our debt portfolio.

Dividends

The final FY2020 dividend paid to shareholders on 25 June 2020 was as follows:

	Cents per share	**Total dividend $M**
Unfranked dividend	2.55	95.05
Franked dividend	2.55	95.05
Total dividend	**5.10**	**190.10**

In relation to the final FY2020 dividend, $45.1 million was utilised in the allotment of new shares issued under the Dividend Reinvestment Plan.

Environmental regulation and climate change

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

Under the *National Greenhouse and Energy Reporting (NGER) Act 2007 (Cth)*, corporations that meet or exceed thresholds are required to report greenhouse gas emissions and energy usage by 31 October each year. We meet these thresholds and have lodged our current year’s NGER reporting with the Clean Energy Regulator for the period from 1 July 2019 to 30 June 2020.

Regulatory Update

Electricity Distribution Price Review (EDPR) Draft Decision

In September 2020, the AER published the Draft Decision on AusNet Services' 2021-26 Electricity Distribution Price Review. This was the first decision underpinned by the 'New Reg' consumer engagement process, the goal of which is to ensure consumers' preferences drive regulatory proposals and outcomes. Under the New Reg process an independent Customer Forum was engaged to negotiate aspects of AusNet Services' regulatory proposal. The end result of this Australian first trial was a proposal that delivered price relief for our customer base balanced with expenditure to improve customer experience, maintain the safety and reliability of the network and to fund innovation to support the customer led investment in distributed generation and storage.

The Draft Decision is a broad endorsement of the agreements reached with the Customer Forum ensuring price cuts and service improvements for our customers and also accepts the majority of our proposed faster capital recovery. The reduction on our proposal was driven primarily by lower bond rates and minor expenditure cuts to account for the COVID-19 pandemic's economic impacts. AusNet Services will formally respond with a revised proposal in early December. A Final Decision is expected by 30 April 2021.

Inflation Review

In October 2020, the AER released a draft position paper on the treatment of inflation in the regulatory framework. When the AER make regulatory decisions on future allowed revenues, they use an estimate of expected inflation. This estimate currently incorporates a 10-year period including two years of Reserve Bank of Australia (RBA) forecast inflation and eight years of the RBA's mid-point of the target band, 2.50 per cent. The approach outlined in the position paper is to shorten the time period of estimation, to match the length of the regulatory period (typically five years) and apply two years of RBA forecasts followed by a glide path from years three to five to finish at the RBA's mid-point of the target band of 2.50 per cent.

At the current time, market data and forecasts indicate that the draft approach is likely to generate a lower estimate of expected inflation when compared to the current approach. If implemented, the draft approach would result in higher revenues and higher prices for consumers, however the AER are of the view that it would be in the long-term interest of consumers due to the current approach potentially undermining efficient investment signals.

A final position is expected in December 2020 and will apply to future regulatory decisions, starting with the Electricity Distribution Price Determination commencing 1 July 2021.

Transmission Rate Reset (TRR) Proposal 2022-2027

In October 2020, we submitted our TRR proposal to the AER, proposing $2,827 million of revenue (in nominal dollars) over the five year period commencing 1 April 2022. A draft decision is expected in July 2021.

Material risks and uncertainties

We are committed to understanding and effectively managing risk to enhance our ability to deliver on our strategic objectives and meet expectations of our shareholders, employees, customers, suppliers and the communities in which we operate. We maintain oversight of our material business risks (financial and non-financial) at an enterprise-wide level, with regular reporting to the Audit and Risk Management Committee (renamed to Audit and Risk Committee effective 10 November 2020) and the Board of Directors on the effectiveness of the management of these risks. In our 31 March 2020 Financial Report, we detailed the following principal risks, which may materially impact the execution and achievement of our business strategy and financial prospects:

- COVID-19 pandemic risks;
- Industry and regulatory risks;
- Network risks;
- Funding and market risks;
- Climate change and sustainability risks;
- Information and communication technology risks; and
- Taxation risks.

We provide the following update on our material risks since the 31 March 2020 Financial Report:

COVID-19 pandemic risks

During the period, Management undertook a series of actions in relation to COVID-19 responses. A network relief package resulted in the waiving of revenues for eligible customers and the take up of deferred payment terms in relation to both electricity and gas distribution revenues. Deferred payment terms continued to be offered for eligible customers and this program will be in place until March 2021.

While COVID-19 has not had a negative impact on our financial results to date, the impacts on the broader economy remain uncertain and the potential for further outbreaks and additional government responses remain. As such, the risks in relation to COVID-19 as described in the 31 March 2020 Financial Report remain present and continue to be appropriately managed to minimise impacts to our employees, customers, suppliers and delivery partners.

Industry and regulatory risks

Rapid Earth Fault Current Limiter (REFCL) update

AusNet Services has eight zone substations commissioned with REFCL technology as part of Tranche 1 of the REFCL program. Energy Safe Victoria (ESV) approved full compliance for six zone substations, ESV-observed compliance testing has been completed in relation to one zone substation, which is pending approval and the final zone substation is on track to meet the extended compliance deadline of May 2021.

Tranche two is predominately in urban areas, with a number of high voltage customers connecting to these zone substations. Two of these zone substations achieved compliance during the period, one is commissioned and will be compliance tested during November 2020, commissioning is well progressed at three zone substations whilst construction activities are being finalised at the remaining three zone substations. It is expected that the compliance date (1 May 2021) will be achieved with the exception of three zone substations that require an extension of time in order for a High Voltage customer to complete their REFCL readiness works at five sites. We have commenced the time extension application process and are regularly communicating the status of these sites with ESV.

As detailed in the 31 March 2020 Financial Report, this program presents several other risks, which continue to be present and are being actively managed.

Taxation risks

AusNet Services is a large taxpayer and subject to annual Australian Tax Office (ATO) reviews of the income tax return and various tax positions adopted by the Company. There is a risk that changes in tax law, or changes in the way that tax laws are interpreted, may materially impact the tax liabilities of the Group. AusNet Services continues to carry an $11.0 million tax risk provision in relation to tax consolidation issues arising from the 2015 restructure. AusNet Services continues its engagement with the ATO in relation to these matters.

Material risks and uncertainties (continued)

Climate change and sustainability risks

Bushfire risks

In August 2020, the AER issued a consultation paper titled 'Guidance note on key matters the AER is likely to have regard to when assessing an insurance coverage event application'. The AER have noted recent changed insurance market conditions, characterised by rising insurance premiums and withdrawn capacity, and the impact of recent major bushfire events across Australia. The consultation paper acknowledges that these changed conditions may lead to network service providers experiencing insurance coverage gaps and the potential for more catastrophic circumstances that are not covered by commercial insurance. The AER expect to release a draft guidance note in January 2021 for further consultation, followed by the final guidance note in June 2021. AusNet Services will continue to engage with the AER on this matter to provide clarity on this risk.

Information and communication technology risks

There is a growing focus required from organisations due to an increasing risk of cyber-attacks across the Australian marketplace. Our cyber security function is mandated to protect our digital assets from an attack that could disrupt our operations, impact our customers or defraud our organisation, acknowledging the important role we play in providing critical infrastructure and services to the State of Victoria.

On 6 August 2020, the Federal Government published its new 2020 Cyber Security Strategy and Regulatory Framework Paper. The Regulatory Consultation paper released together with the Cyber strategy introduces an enhanced regulatory framework (building on the Critical Infrastructure Act) and covers not just cyber but also physical, personnel and supply chain protections. Potential impacts include legislation directing levels of capability required and time frames to achieve this goal, increased Board level responsibilities in planning and managing security and resilience and direct government assistance in the event of a major event.

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 FY2021 of $178.3 million (4.75 cents per share) 40 per cent franked to be paid on 17 December 2020. The AusNet Services Ltd Dividend Reinvestment Plan will be in operation for the FY2021 interim dividend, with shares allocated at a two percent discount to the volume weighted average price. The operation of the DRP for the FY2021 interim dividend will be partially underwritten. The underwriting is subject to the terms of an underwriting agreement.

Tax Law Amendments for instant asset write-offs

In October 2020, the Australian Government passed taxation law amendments to give effect to Federal Budget announcements to enable instant asset write-off for assets acquired after 6 October 2020 and installed ready for use by 30 June 2022. A significant portion of our capital expenditure may be eligible for this concession in FY2022 and FY2023, which would bring forward tax benefits into these financial years that would have otherwise been realised over a much longer timeframe.

Rounding of amounts

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

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

Peter Mason	**Tony Narvaez**
Chairman	Managing Director

Melbourne
10 November 2020

KPMG

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

To the Directors of AusNet Services Ltd

I declare that, to the best of my knowledge and belief, in relation to the review of AusNet Services Ltd for the half-year ended 30 September 2020 there have been:

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

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

KPMG

KPMG

BW Szentirmay

Partner

Melbourne

10 November 2020

Consolidated interim income statement

For the period ended 30 September 2020

	Notes	**30 September 2020 $M**	30 September 2019 $M
Revenue	B.2	**1,039.4**	1,020.7
Use of system and associated charges		**(57.1)**	(53.2)
Easement and land tax		**(83.6)**	(88.2)
Employee benefit expenses		**(92.7)**	(86.0)
External maintenance and contractors' services		**(63.3)**	(65.7)
Materials		**(8.8)**	(24.1)
Information technology and communication costs		**(22.9)**	(22.8)
Administrative expenses		**(16.6)**	(19.8)
Service level payments		**(12.6)**	(3.3)
Disposal of property plant and equipment		**(5.7)**	(11.4)
Other costs		**(14.5)**	(20.4)
Total expenses excluding depreciation, amortisation, interest and tax		**(377.8)**	(394.9)
Earnings before interest, tax, depreciation and amortisation		**661.6**	625.8
Depreciation and amortisation		**(231.9)**	(228.3)
Profit from operating activities		**429.7**	397.5
Finance income	D.2	**22.0**	12.5
Finance costs	D.2	**(148.1)**	(164.5)
Net finance costs		**(126.1)**	(152.0)
Profit before income tax		**303.6**	245.5
Income tax expense	B.7	**(77.9)**	(73.7)
Profit for the period		**225.7**	171.8
Basic and diluted earnings per share (cents per share)	B.4	**6.04**	4.69

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 2020

	30 September 2020 $M	30 September 2019 $M
Profit for the period	**225.7**	171.8
Other comprehensive income		
Items that will not be reclassified to profit or loss in subsequent periods		
Movement in defined benefit fund	**10.4**	(34.1)
Income tax on movement in defined benefit fund	**(3.1)**	10.2
	7.3	(23.9)
Items that may be reclassified to profit or loss in subsequent periods		
Movement in hedge reserve	**(44.6)**	(321.2)
Income tax on movement in hedge reserve	**13.4**	96.4
	(31.2)	(224.8)
Other comprehensive income for the period, net of income tax	**(23.9)**	(248.7)
Total comprehensive income for the period	**201.8**	(76.9)

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 2020

	Notes	30 September 2020 $M	31 March 2020 $M
ASSETS			
Current assets			
Cash and cash equivalents		**28.3**	155.3
Receivables	B.5	**883.8**	213.2
Other financial assets	B.6	**112.9**	262.7
Inventories		**50.0**	44.2
Derivative financial instruments		**38.1**	194.8
Other assets		**53.1**	23.4
Total current assets		**1,166.2**	893.6
Non-current assets			
Inventories		**19.8**	19.6
Property, plant and equipment	C.1	**11,230.5**	11,105.4
Intangible assets	C.2	**549.6**	535.1
Other financial assets	B.6	**445.9**	446.2
Derivative financial instruments		**600.4**	1,249.1
Other assets		**44.1**	35.8
Total non-current assets		**12,890.3**	13,391.2
Total assets		**14,056.5**	14,284.8
LIABILITIES			
Current liabilities			
Payables and other liabilities		**304.5**	300.7
Lease liabilities		**6.1**	6.1
Provisions		**73.7**	75.7
Borrowings	D.1	**257.2**	955.2
Derivative financial instruments		**8.7**	6.0
Current tax payable		**26.4**	26.2
Total current liabilities		**676.6**	1,369.9
Non-current liabilities			
Deferred revenue		**210.6**	218.5
Lease liabilities		**89.4**	88.2
Provisions		**57.0**	61.2
Borrowings	D.1	**8,739.1**	8,325.5
Derivative financial instruments		**767.5**	776.1
Deferred tax liabilities		**452.8**	439.8
Total non-current liabilities		**10,316.4**	9,909.3
Total liabilities		**10,993.0**	11,279.2
Net assets		**3,063.5**	3,005.6
EQUITY			
Contributed equity	D.3	**5,399.5**	5,352.8
Reserves		**(2,115.6)**	(2,083.4)
Retained profits		**874.7**	831.3
Other equity		**(1,095.1)**	(1,095.1)
Total equity		**3,063.5**	3,005.6

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 2020

	Notes	Share capital $M	Restructure reserve (i) $M	Hedge reserve (ii) $M	Asset Revaluation Reserve (iii) $M	Share based payment reserve (iv) $M	Other equity (v) $M	Retained profits $M	Total equity $M
30 September 2020									
Balance as at 1 April 2020		5,352.8	(1,501.9)	(635.2)	51.4	2.3	(1,095.1)	831.3	3,005.6
Total comprehensive income for the period									
Profit for the period		-	-	-	-	-	-	225.7	225.7
Other comprehensive income		-	-	(31.2)	-	-	-	7.3	(23.9)
Total comprehensive income for the period		**-**	**-**	**(31.2)**	**-**	**-**	**-**	**233.0**	**201.8**
Transactions with owners, recorded directly in equity									
Dividends paid	D.4	-	-	-	-	-	-	(190.1)	(190.1)
Dividend Reinvestment Plan (net of transaction costs)	D.3	45.1	-	-	-	-	-	-	45.1
Shares purchased as part of employee share plans		(1.4)	-	-	-	-	-	0.5	(0.9)
Share based payment reserve	D.3	3.0	-	-	-	(1.0)	-	-	2.0
Total transactions with owners		**46.7**	**-**	**-**	**-**	**(1.0)**	**-**	**(189.6)**	**(143.9)**
Balance as at 30 September 2020		**5,399.5**	**(1,501.9)**	**(666.4)**	**51.4**	**1.3**	**(1,095.1)**	**874.7**	**3,063.5**
30 September 2019									
Balance as at 1 April 2019		5,222.9	(1,501.9)	(315.2)	51.4	4.1	(1,095.1)	922.9	3,289.1
Impact of change in accounting policy		-	-	-	-	-	-	(4.2)	(4.2)
Adjusted balance as at 1 April 2019		**5,222.9**	**(1,501.9)**	**(315.2)**	**51.4**	**4.1**	**(1,095.1)**	**918.7**	**3,284.9**
Total comprehensive income for the period									
Profit for the period		-	-	-	-	-	-	171.8	171.8
Other comprehensive income		-	-	(224.8)	-	-	-	(23.9)	(248.7)
Total comprehensive income for the period		**-**	**-**	**(224.8)**	**-**	**-**	**-**	**147.9**	**(76.9)**
Transactions with owners, recorded directly in equity									
Dividends paid	D.4	-	-	-	-	-	-	(177.5)	(177.5)
Dividend Reinvestment Plan (net of transaction costs)	D.3	65.0	-	-	-	-	-	-	65.0
Share based payment reserve	D.3	2.7	-	-	-	(0.9)	-	-	1.8
Total transactions with owners		**67.7**	**-**	**-**	**-**	**(0.9)**	**-**	**(177.5)**	**(110.7)**
Balance as at 30 September 2019		**5,290.6**	**(1,501.9)**	**(540.0)**	**51.4**	**3.2**	**(1,095.1)**	**889.1**	**3,097.3**

Consolidated interim statement of changes in equity

For the period ended 30 September 2020

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

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

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

(iv) The share based payment reserve represents the tax-effected fair value of the performance rights granted under the long term incentive plan as well as the difference between the vested cost and expense recognised. This takes into account estimated vesting and service conditions as at 30 September 2020.

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

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

Consolidated interim statement of cash flows
For the period ended 30 September 2020

	30 September 2020 $M	30 September 2019 $M
Cash flows from operating activities		
Profit for the period	**225.7**	171.8
Add back interest, tax, depreciation and amortisation	**435.9**	454.0
Earnings before interest, tax, depreciation and amortisation	**661.6**	625.8
Non-cash gifted assets revenue	**(19.0)**	(23.8)
Other non-cash items	**5.7**	(0.8)
Working capital movement	**(17.5)**	(34.4)
Income tax paid	**(53.4)**	(57.2)
Net interest paid	**(146.5)**	(153.4)
Net cash inflow from operating activities	**430.9**	356.2
Cash flows from investing activities		
Payments for property, plant and equipment (i)	**(407.0)**	(466.0)
Proceeds from sale of property, plant and equipment	**0.2**	2.9
Proceeds from short term investments (ii)	**149.8**	-
Receipts from financial assets	**5.7**	4.3
Net cash outflow from investing activities	**(251.3)**	(458.8)
Cash flows from financing activities		
Payments for employee share plans	**(1.0)**	-
Payments for lease liabilities	**(2.9)**	(3.2)
Dividends paid (iii)	**(145.0)**	(112.5)
Proceeds from borrowings	**552.0**	378.0
Repayments of borrowings	**(709.7)**	(318.2)
Net cash inflow/(outflow) from financing activities	**(306.6)**	(55.9)
Net increase/(decrease) in cash held	**(127.0)**	(158.5)
Cash and cash equivalents at the beginning of the period	**155.3**	339.4
Cash and cash equivalents at the end of the period	**28.3**	180.9

(i) Net finance costs include a credit of $10.1 million (2019: $13.8 million) for capitalised finance charges which is included in payments for property, plant and equipment.

(ii) $149.8 million of short term investments matured in July 2020.

(iii) Amounts shown represent dividends paid of $190.1 million (2019: $177.5 million) offset by proceeds from the Dividend Reinvestment Plan net of transaction costs of $45.1 million (2019: $65.0 million).

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

Contents

Section A Overview

(a) Basis of preparation

The consolidated general purpose interim financial report, prepared by a for-profit entity for the period ended 30 September 2020, represents the consolidated financial statements of the Group, which comprises AusNet Services Ltd and its subsidiaries. The Group is also referred to as we, us, our or AusNet Services.

The financial report has been prepared:

- in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001* (Cth);
- on a going concern basis, which contemplates the continuity of normal trading operations. In making this assessment consideration has been given to the continuing uncertainty as a result of COVID-19 on our operations. The Group's current assets exceed current liabilities by $489.6 million at 30 September 2020 mostly due to an increase in receivables balance for hybrid securities issued. 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 2020 we have available a total of $900 million of undrawn but committed non-current bank debt facilities, $100 million of undrawn but committed current bank debt facilities, as well as $128.1 million of cash and short-term investments;
- under the historical cost convention, except for certain financial assets and liabilities (including derivative financial instruments) measured at fair value; and
- with amounts rounded off to the nearest hundred thousand dollars, unless otherwise stated, in accordance with Instrument 2016/191 issued by the Australian Securities and Investments Commission.

The interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report of the Group for the year ended 31 March 2020 and any public announcements made by AusNet Services Ltd during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act*.

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

The interim financial statements were approved by the Board of Directors on 10 November 2020.

The accounting policies applied by the Group in this consolidated interim financial report are the same as those applied by the Group in its consolidated financial report as at and for the year ended 31 March 2020.

(b) Critical accounting estimates and judgements

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

In preparing this consolidated interim financial report, the key sources of estimation uncertainty were the same as those applied by the Group in its consolidated financial report as at and for the year ended 31 March 2020. Some of the critical judgements and estimates used by management in applying the Group's accounting policies for the period ended 30 September 2020 have been updated to reflect the latest available information. These updates have not had a significant impact on the financial performance or financial position of the Group as at and for the period ended 30 September 2020.

Section B Operating our business

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

Note B.1 Segment information

Segment information is based on the information that management uses to make decisions about operating matters and allows users to review operations through the eyes of management. We present our reportable segments and measure our segment results for each of our regulated networks as well as our Growth & Future Networks (including Mondo) business.

(a) Description of reportable segments

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

Following an organisational restructure during the period our operating segments have been updated to reflect the way that we manage the business. The most notable change being that we have consolidated customer-initiated excluded transmission projects, distribution network innovation projects and the current Mondo business into the broadened 'Growth & Future Networks" segment. The comparative information has been restated to provide consistent segment information for both periods shown.

The Group is organised into the following segments:

(i) Electricity distribution

The electricity distribution network carries electricity from the high voltage transmission network to end users, including metering. We charge retailers and some large customers regulated rates for the use of the electricity distribution network. The performance obligation is the provision of the access to the network and as such use of system revenue is recognised over the contract period which is deemed to be the regulatory reset period. The transaction price is deemed to be the determined recoverable revenue over that period. Variable consideration relating to volumes is constrained to the period in which it occurs, and volume over or under recoveries under the revenue cap are not considered to comprise intangible assets in accordance with AASB 138 *Intangible Assets.*

Excluded ancillary and alternative control services including public lighting, cross boundary charges and new connection charges are rendered to customers for a fixed rate with revenue recognised at a point in time when the services are rendered. The electricity distribution segment does not purchase or sell electricity. Our electricity distribution network covers eastern Victoria including the eastern metropolitan region of Melbourne.

Customer Contributions

Customer contributions include the receipt of cash from a customer for the construction of assets, or the contribution of completed assets to us.

Non-refundable contributions received from customers towards the cost of extending or modifying our networks are generally recognised as revenue and an asset respectively once control is gained of the contribution or asset and it is operating as intended. The performance obligation is at a point in time being the time at which the customer is connected to the network.

For some customer projects, the performance obligation will be linked to an ongoing service contract, and hence the performance obligation will be satisfied over time, being the contract term.

Customer contributions of cash are measured with reference to the cash contribution received and customer contributions of assets are measured at the fair value of the assets contributed at the date we gain control of the asset. Fair value is determined with reference to the depreciated replacement cost of the asset, unless another measure of fair value is considered more appropriate

Note B.1 Segment information (continued)

(a) Description of reportable segments (continued)

(ii) Gas distribution

The gas distribution network carries natural gas to commercial and residential end users, including metering. We charge retailers and some large customers regulated rates for the use of the gas distribution network. The performance obligation is the provision of the access to the network and as such use of system revenue is recognised over the contract period which is deemed to be the regulatory reset period. The transaction price is deemed to be the determined recoverable revenue over that period. Variable consideration, being the volume fluctuations or true ups for unaccounted for gas are constrained to the period to which they apply. The gas distribution segment does not purchase or sell gas. Our gas distribution network covers central and western Victoria.

Customer contributions in the gas distribution segment are accounted for in the same way as the electricity distribution segment.

(iii) Electricity transmission

We own and manage the vast majority of the electricity transmission network in Victoria. Our electricity transmission network consists of the transmission lines and towers which carry electricity at high voltages from power generators to electricity distributors around Victoria forming the backbone of the Victorian electricity network. We charge the Australian Energy Market Operator (AEMO), distribution network service providers and electricity generators for connections and use of the electricity transmission network.

Prescribed excluded services revenue is generated from assets that will be rolled into the regulated asset base (RAB) in the next regulatory reset period and included in regulated transmission revenue from that date. For the period that this revenue is under separate contracts, and related to customer-initiated works it is included in the Growth & Future Networks segment.

The performance obligation is the provision of the access to the network and as such revenue is recognised over the contract period which is deemed to be the regulatory reset period. The transaction price is deemed to be the determined recoverable revenue over that period.

The electricity transmission segment does not purchase or sell electricity.

(iv) Growth & Future Networks (including Mondo)

The Growth & Future Networks business provides contracted infrastructure asset services and specialised technology solutions to enable energy data and asset intelligence services. Many of these services continue to be provided under the Mondo brand. The contracted infrastructure asset services business unit owns and operates a portfolio of assets that fall outside the regulated asset base. The investments are made through directly negotiated agreements, pursuant to which fixed fees are received over the contract period in exchange for the infrastructure and operational services provided. Variable consideration includes penalty regimes for unplanned outages, early completion bonuses and other incentives/penalties which vary between contracts and is constrained to the period in which it arises.

Specialised technology solutions relate to the development and maintenance of asset management software solutions for utility and rail customers. Performance obligations are recognised over time being the contract term. There is no variable consideration in these contracts.

This segment now also includes customer-initiated excluded prescribed and excluded negotiated transmission services previously in the electricity transmission segment. Excluded negotiated services revenue is generated from assets that are excluded from the RAB but for which revenue is controlled under a regulated negotiating framework. In each case, contracts are based on fixed fees over the life of the asset and performance obligations are satisfied over time.

The Growth & Future Networks business also provides various services to customers in the utility, renewables and essential infrastructure sectors of electricity, water, gas and rail. Revenue for these services is recognised at a point in time as the services are rendered.

Note that lease interest income in this segment includes interest income on the desalination licence receivable.

Note B.1 Segment information (continued)

(b) Reportable segment financial information

	Electricity distribution	Gas distribution	Electricity transmission	Growth & Future Networks	Inter-segment eliminations	Consolidated
30 September 2020	**$M**	**$M**	**$M**	**$M**	**$M**	**$M**
Regulated revenue	468.6	144.8	284.9	-	(4.6)	893.7
Excluded prescribed transmission revenue	-	-	15.0	9.5	(0.2)	24.3
Excluded negotiated transmission revenue	-	-	-	9.2	-	9.2
Unregulated infrastructure revenue	-	-	-	29.0	-	29.0
Customer contributions	31.3	3.6	-	-	-	34.9
Service revenue	-	-	-	39.3	-	39.3
Other revenue	2.1	0.9	1.7	4.3	-	9.0
Total segment revenue	**502.0**	**149.3**	**301.6**	**91.3**	**(4.8)**	**1,039.4**
Segment operating expense	(182.5)	(29.1)	(120.9)	(50.1)	4.8	(377.8)
Segment result - EBITDA (i)	**319.5**	**120.2**	**180.7**	**41.2**	**-**	**661.6**
Lease interest income	-	-	-	17.9	-	17.9
EBITDAaL (ii)	**319.5**	**120.2**	**180.7**	**59.1**	**-**	**679.5**
Depreciation and amortisation	(127.9)	(30.7)	(50.3)	(23.0)	-	(231.9)
Capital expenditure	211.9	49.6	71.5	46.1	-	379.1
30 September 2019 (restated)						
Regulated revenue	431.9	139.0	290.6	-	(4.8)	856.7
Excluded prescribed transmission revenue	-	-	14.8	8.1	(0.4)	22.5
Excluded negotiated transmission revenue	-	-	-	8.0	-	8.0
Unregulated infrastructure revenue	-	-	-	26.2	-	26.2
Customer contributions	37.0	3.4	-	-	-	40.4
Service revenue	-	-	-	40.6	-	40.6
Other revenue	14.3	0.7	0.4	10.9	-	26.3
Total segment revenue	**483.2**	**143.1**	**305.8**	**93.8**	**(5.2)**	**1,020.7**
Segment operating expense	(186.0)	(32.1)	(127.6)	(54.4)	5.2	(394.9)
Segment result - EBITDA (i)	**297.2**	**111.0**	**178.2**	**39.4**	**-**	**625.8**
Lease interest income	-	-	-	11.4	-	11.4
EBITDAaL (ii)	**297.2**	**111.0**	**178.2**	**50.8**	**-**	**637.2**
Depreciation and amortisation	(128.4)	(32.9)	(45.6)	(21.4)	-	(228.3)
Capital expenditure	228.2	51.0	74.9	103.9	-	458.0

(i) Earnings before interest, tax, depreciation and amortisation
(ii) EBITDA after lease income

Note B.1 Segment information (continued)

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

(i) Accounting policies

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

(ii) Inter-segment eliminations

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

Note B.2 Revenue from Contracts with Customers

Disaggregated revenue

In the following table, revenue is disaggregated by revenue type and timing of recognition. The table also includes a reconciliation of the disaggregated revenue with AusNet Services' reportable segments (note B.1) by including income items not in the scope of AASB 15 *Revenue from Contracts with Customers* . Comparative figures have been restated in line with the changes in note B.1.

30 September 2020	**Electricity distribution**	**Gas distribution**	**Electricity transmission**	**Growth & Future Networks**	**Inter-segment eliminations**	**Total**
	$M	**$M**	**$M**	**$M**	**$M**	**$M**
Timing of recognition						
At a point in time	42.6	6.0	1.3	28.2	-	78.1
Over time	458.7	143.3	299.9	61.2	(4.8)	958.3
Revenue from contracts with customers	**501.3**	**149.3**	**301.2**	**89.4**	**(4.8)**	**1,036.4**
Other income not in scope of AASB 15						
Operating lease income	0.1	-	0.4	-	-	0.5
Income from government grants (i)	0.6	-	-	1.9	-	2.5
Total segment revenue	**502.0**	**149.3**	**301.6**	**91.3**	**(4.8)**	**1,039.4**
30 September 2019 (restated)						
Timing of recognition						
At a point in time	60.7	6.1	0.3	34.6	-	101.7
Over time	421.7	137.0	305.4	57.6	(5.2)	916.5
Revenue from contracts with customers	**482.4**	**143.1**	**305.7**	**92.2**	**(5.2)**	**1,018.2**
Other income not in scope of AASB 15						
Operating lease income	0.1	-	0.1	-	-	0.2
Income from government grants (i)	0.7	-	-	1.6	-	2.3
Total segment revenue	**483.2**	**143.1**	**305.8**	**93.8**	**(5.2)**	**1,020.7**

(i) Government grant income in the electricity distribution segment comprises grants under the Powerline Replacement Program whereby grants are received to fund bushfire safety capital expenditure, with income recognised over the life of the constructed assets. Government grants in the Growth & Future Networks segment comprises assets received in relation to the Ballarat Energy Storage System, with income recognised over the life of the asset.

Note B.3 Seasonality of operations

(a) Electricity distribution

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

(b) Gas distribution

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

(c) Electricity transmission

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

Easement tax pass-through revenue (and the associated payments to the State Revenue Office) are paid upfront in the first half of the year. Under AASB 15, both the revenue and expense are recognised on a straight-line basis over the financial year. As such, at 30 September we have prepayment and deferred revenue balances representing this accounting treatment.

(d) Growth & Future Networks (including Mondo)

Growth & Future Networks revenue is not seasonal and is earned as the services are rendered.

Note B.4 Earnings per share

(a) Basic earnings per share

		30 September 2020	30 September 2019
	Profit attributable to the ordinary shareholders of AusNet Services ($M)	**225.7**	171.8
divided by	Weighted average number of shares (million)	**3,738**	3,667
equals	Basic earnings per share (cents)	**6.04**	4.69

(b) Diluted earnings per share

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

Note B.5 Receivables

	30 September 2020 $M	31 March 2020 $M
Accounts receivable	**69.5**	63.6
Allowance for impairment loss	**(2.2)**	(2.5)
Accrued revenue	**165.6**	151.6
Interest receivable	**0.9**	0.5
Debt proceeds receivable (i)	**650.0**	-
Total current receivables	**883.8**	213.2

(i) The settlement date for AUD hybrid securities was on 6 October 2020. Loan fees of $4.4 million have been accrued at 30 September 2020. Borrowings net of loan fees have also been recognised. Refer to note D.1.

Note B.6 Other financial assets

	30 September 2020 $M	31 March 2020 $M
Lessor finance receivable	**1.0**	0.9
Short term investments	**99.8**	249.7
Desalination licence receivable	**12.1**	12.1
Total other current financial assets	**112.9**	262.7
Lessor finance receivable	**287.2**	283.1
Desalination licence receivable	**158.7**	163.1
Total non-current other financial assets	**445.9**	446.2

Note B.7 Taxation

	30 September 2020 $M	30 September 2020 $M
Profit before income tax	**303.6**	245.5
Tax at the Australian tax rate of 30.0% (2019: 30.0%)	**91.1**	73.7
Tax effect of amounts which are not (taxable)/deductible:		
Prior year under provisions	**0.1**	-
Impact of amended assessments (i)	**(13.3)**	-
Income tax expense	**77.9**	73.7

(i) During the period, amended assessments for FY2016 to FY2019 were lodged with the ATO, with a number of changes to the timing of deductions for property, plant and equipment. Part of these changes relate to the period prior to the 2015 tax consolidation event and as such, they increase the reset tax base amount under the consolidation event. A $13.3 million credit to tax expense has been recognised as a result of this higher reset tax base amount and is based on the amended assessments.

Separately, items that are currently subject to continued ATO engagement are considered in the $11.0 million uncertain tax provision. Judgement is required in determining the timing and deductibility of expenditure, which impacts the amount of income tax payable and whether deferred tax balances are to be recognised in the statement of financial position. Changes in tax legislation or the interpretation of tax laws by tax authorities may affect the amount of provision for income taxes and deferred tax balances recognised.

Section C Investing in our business

This section highlights the investments made by us into our non-current asset base, including the core network assets.

Note C.1 Property, plant and equipment

	Freehold land $M	Buildings $M	Easements $M	Transmission network (i) $M	Electricity distribution network $M	Gas distribution network $M	Other plant and equipment $M	Right-of-use asset (ii) $M	Capital work in progress $M	Total $M
30 September 2020										
Cost	252.4	601.8	1,225.6	3,343.2	6,298.1	2,228.5	713.0	102.1	553.9	**15,318.6**
Accumulated depreciation	-	(119.7)	-	(987.8)	(1,837.6)	(559.1)	(570.1)	(13.8)	-	**(4,088.1)**
Carrying amount as at 30 September 2020	**252.4**	**482.1**	**1,225.6**	**2,355.4**	**4,460.5**	**1,669.4**	**142.9**	**88.3**	**553.9**	**11,230.5**
31 March 2020										
Cost	252.0	566.8	1,226.9	3,254.3	6,117.7	2,188.7	686.1	100.7	622.2	**15,015.4**
Accumulated depreciation	-	(113.1)	(0.2)	(943.5)	(1,752.3)	(537.5)	(552.0)	(11.4)	-	**(3,910.0)**
Carrying amount as at 31 March 2020	**252.0**	**453.7**	**1,226.7**	**2,310.8**	**4,365.4**	**1,651.2**	**134.1**	**89.3**	**622.2**	**11,105.4**

(i) Transmission network also contains Growth & Future Networks unregulated infrastructure assets.

(ii) Useful life for right-of-use asset reflects remaining lease term (including extension options that are reasonably certain to be exercised).

Note C.2 Intangible assets

	Distribution licences	Goodwill	Software	Total
	$M	$M	$M	$M
30 September 2020				
Cost	354.5	35.8	667.1	1,057.4
Accumulated amortisation	-	-	(507.8)	(507.8)
Carrying amount as at 30 September 2020	**354.5**	**35.8**	**159.3**	**549.6**
31 March 2020				
Cost	354.5	35.8	626.4	1,016.7
Accumulated amortisation	-	-	(481.6)	(481.6)
Carrying amount as at 31 March 2020	**354.5**	**35.8**	**144.8**	**535.1**

Section D Financing our business

This section provides information relating to our capital structure and our exposure to financial risks, how they affect the Group's financial position and performance, and how those risks are managed. The Group's financial risk management objectives and policies are consistent with those disclosed in the Group's consolidated financial report as at and for the year ended 31 March 2020.

Note D.1 Borrowings

	Maturity date	**30 September 2020 $M**	31 March 2020 $M
Current borrowings			
Bank debt facilities	-	**-**	48.0
Domestic medium-term notes	Apr 2021	**257.2**	-
Euro (EUR) senior notes (i)	-	**-**	907.2
Total current borrowings		**257.2**	955.2
Non-current borrowings			
Domestic medium-term notes	2022-2043	**2,482.8**	2,351.0
Bank debt facilities	2023	**297.3**	98.1
Euro (EUR) senior notes (i)	2024-2030	**2,823.9**	3,058.8
Japanese Yen (JPY) senior notes (i)	2024	**68.2**	78.6
US dollar (USD) senior notes (i)	2026	**124.8**	145.6
Hong Kong dollar (HKD) senior notes (i)	2021-2034	**964.3**	1,119.6
Norwegian Kroner (NOK) senior notes (i)	2027-2029	**595.5**	620.4
US dollar (USD) hybrid (i), (ii)	2076	**528.7**	619.5
Singapore dollar (SGD) hybrid (i), (ii)	2076	**208.0**	233.9
Australian dollar (AUD) hybrid (ii)	2080	**645.6**	-
Total non-current borrowings		**8,739.1**	8,325.5
Total borrowings		**8,996.3**	9,280.7

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

(ii) The first call date for hybrid securities is in September 2021 for SGD and USD hybrids and October 2025 for AUD hybrids.

AusNet Services had $900 million of undrawn but committed non-current bank debt facilities, $100 million of undrawn but committed current bank debt facilities and $128.1 million cash and short-term deposits as at 30 September 2020. AusNet Services has an A- credit rating from Standard and Poor's and an A3 credit rating from Moody's Investor Services.

(a) Fair value measurement

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

The Group also has a number of financial assets and liabilities which are not measured at fair value in the consolidated statement of financial position. With the exception of borrowings, the carrying amounts of these items are considered to be a reasonable approximation of their fair value at 30 September 2020.

Note D.1 Borrowings (continued)

(a) Fair value measurement (continued)

The fair value of total borrowings as at 30 September 2020 is $9,211.4 million (31 March 2020: $10,002.4 million). This fair value measurement uses significant market observable data, and therefore is a level two measurement within the fair value hierarchy as per AASB 13. The valuation techniques applied are consistent with those applied in the consolidated financial report as at and for the year ended 31 March 2020.

Note D.2 Net finance costs

	30 September 2020 $M	30 September 2019 $M
Finance income		
Interest income	**4.1**	1.1
Lease interest income	**17.9**	11.4
Total finance income	**22.0**	12.5
Finance costs		
Interest expense	**168.2**	162.5
Lease interest expense	**1.9**	3.4
Other finance charges - cash	**2.3**	1.7
Other finance charges - non-cash	**2.4**	2.5
(Gain)/loss on accounting for hedge relationships	**(16.1)**	6.5
Unwind of discount on provisions	**0.1**	2.3
Defined benefit net interest income	**(0.6)**	(0.6)
Capitalised finance charges	**(10.1)**	(13.8)
Total finance costs	**148.1**	164.5
Net finance costs	**126.1**	152.0

Note D.3 Equity

		30 September 2020 $M	31 March 2020 $M
Contributed equity			
Ordinary share capital	(a)	**5,404.4**	5,359.3
Shares held by employee share plans trust	(b)	**(4.9)**	(6.5)
Total contributed equity		**5,399.5**	5,352.8

(a) Movements in ordinary share capital

Date	**Details**	**Issue price**	**Number of shares**	**$M**
1 April 2020	Opening balance		3,726,840,530	5,359.3
25 June 2020	Dividend Reinvestment Plan	$1.72	26,208,143	45.1
30 September 2020	**Closing balance**		**3,753,048,673**	**5,404.4**
1 April 2019	Opening balance		3,652,664,376	5,232.1
27 June 2019	Dividend Reinvestment Plan	$1.75	37,146,857	65.0
30 September 2019	**Closing balance**		**3,689,811,233**	**5,297.1**

Note D.3 Equity (continued)

(b) Shares held by employee share plans trust

The Group uses an employee share trust as a delivery mechanism to satisfy future vesting entitlements for the Short Term Incentive Plan deferred equity rights for the Managing Director and the Long Term Incentive Plan (LTIP) performance rights. During the financial period, 780,000 shares were acquired on market (2019: nil) at an average price of $1.84 and 1,821,950 shares vested at an average price of $1.70 per share (2019: 1,622,106 shares vested at an average price of $1.69 per share).

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

Note D.4 Dividends

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

	Date paid	Cents per share	Total dividend $M
Current period - Ordinary dividend	25 June 2020	5.10	190.1
Previous period - Ordinary dividend	27 June 2019	4.86	177.5

In relation to the dividend paid of $190.1 million (2019: $177.5 million), $45.1 million less transaction costs was utilised in the allotment of new shares issued under the DRP (2019: $65.0 million).

Section E Other disclosures

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

Note E.1 Contingent liabilities and contingent assets

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

AusNet Services has eight zone substations commissioned with REFCL technology as part of Tranche 1 of the REFCL program. Energy Safe Victoria (ESV) approved full compliance for six zone substations, ESV-observed compliance testing has been completed in relation to one zone-substation, which is pending approval and the final zone substation is on track to meet the extended compliance deadline of May 2021.

Tranche 2 of the REFCL program requires nine zone substations to achieve compliance by May 2021. It is expected that the compliance date will be achieved, with the exception of three zone substations that require an extension of time in order for a High Voltage customer to complete their REFCL readiness works at five sites. We have commenced the time extension application process and are regularly communicating the status of the sites with ESV.

As disclosed in the 31 March 2020 Annual Report, legislation exists that could potentially impose significant financial penalties if AusNet Services fails to achieve the number of points prescribed by the Regulations throughout the applicable compliance period. With extensions of time in place for Tranche 1, AusNet Services is compliant at present and continues to provide detailed regular reporting to ESV demonstrating progress and seeking extensions of time where required for upcoming compliance deadlines.

(b) Other

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

Other than as listed above, we are not aware of any contingent liabilities or assets as at 30 September 2020 (2019: $0).

Note E.2 Events occurring after the balance sheet date

(a) Dividend

Since the end of the period, the Directors have approved an interim dividend for FY2021 of $178.3 million (4.75 cents per share) to be paid on 17 December 2020. The interim dividend will be 40 per cent franked. The AusNet Services Ltd DRP will be in operation for the FY2021 interim dividend, with shares allocated at a two per cent discount to the volume weighted average price. The operation of the DRP for the FY2021 interim dividend will be partially underwritten. The underwriting is subject to the terms of an underwriting agreement.

(b) Tax Law Amendments for instant asset write-offs

In October 2020, the Australian Government passed taxation law amendments to give effect to Federal Budget announcements to enable instant asset write-off for assets acquired after 6 October 2020 and installed ready for use by 30 June 2022. A significant portion of our capital expenditure may be eligible for this concession in FY2022 and FY2023, which would bring forward tax benefits into these financial years that would have otherwise been realised over a much longer timeframe.

(c) Other matters

Other than outlined above, there has been no matter or circumstance that has arisen since 30 September 2020 up to the date of issue of this financial report that has significantly affected or may significantly affect:

(a) the operations in the financial period subsequent to 30 September 2020 of the Group;

(b) the results of those operations; or

(c) the state of affairs, in the financial period subsequent to 30 September 2020, of the Group.

Directors' declaration

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

(a) the interim financial statements and notes set out on pages 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 2020 and its performance for the six-month period ended on that date; and

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

Signed in accordance with a resolution of the Directors.

Peter Mason
Chairman

Tony Narvaez
Managing Director

Melbourne
10 November 2020

KPMG

Independent Auditor's Review Report

To the shareholders of AusNet Services Ltd

Report on the Interim Financial Report

Conclusion

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

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

- giving a true and fair view of the ***Group's*** financial position as at 30 September 2020 and of its performance for the half-year ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

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

- Consolidated statement of financial position as at 30 September 2020
- Consolidated interim income statement, Consolidated interim statement of comprehensive income, Consolidated interim statement of changes in equity and Consolidated interim statement of cash flows for the half-year ended on that date
- Notes comprising a summary of significant accounting policies and other explanatory information
- The Directors' Declaration.

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

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report.

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the Directors of AusNet Services Ltd, would be in the same terms if given to the Directors as at the time of this Auditor's Review Report.

KPMG

Responsibilities of the Directors for the Interim Financial Report

The Directors of the Company are responsible for:

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

Auditor's Responsibilities for the Review of the Interim Financial Report

Our responsibility is to express a conclusion on the Interim Financial Report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the Interim Financial Report does not comply with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 30 September 2020 and its performance for the half-year ended on that date, and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

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

KPMG

KPMG

BW Szentirmay

Partner

Melbourne

10 November 2020

Mithra Villanelo

Partner