

ASX Announcement

16 December 2021

Court approves distribution of Scheme Booklet and convening of Scheme Meeting and Scheme Booklet registered with ASIC

AusNet Services Ltd (**AusNet**) is pleased to provide the following update in relation to the proposed acquisition of AusNet by Australian Energy Holdings No 4 Pty Ltd (**Bidder**) (a company controlled by Brookfield Asset Management, Inc.) by way of a scheme of arrangement (**Scheme**).

The Supreme Court of New South Wales (**Court**) has today made orders:

- that AusNet convene a meeting of AusNet shareholders to consider and vote on the proposed Scheme (**Scheme Meeting**); and
- approving the despatch of an explanatory statement providing information about the Scheme and attaching the Notice of Meeting (**Scheme Booklet**).

The Scheme Booklet has also today been registered with the Australian Securities and Investments Commission.

Scheme Booklet/Independent Expert's Report

A copy of the Scheme Booklet is attached to this announcement.

The Scheme Booklet provides AusNet shareholders with information about the Scheme. AusNet shareholders are advised to read the Scheme Booklet in its entirety before making a decision on whether or not to vote in favour of the Scheme.

The Scheme Booklet includes a copy of the Independent Expert's Report prepared by Grant Samuel & Associates Pty Limited (**Independent Expert**). The Independent Expert has concluded that the Scheme is fair and reasonable and, therefore, is in the best interests of AusNet shareholders (in the absence of a superior proposal). The Independent Expert has assessed the full underlying value of AusNet shares at between \$2.45 and \$2.70 per AusNet share. The cash amount payable by Bidder for each AusNet share under the Scheme is \$2.6025 (which, when added to AusNet's interim unfranked dividend for the half year ended 30 September 2021 of \$0.0475 per AusNet share to be paid on 16 December 2021 (**Interim**

Dividend), equates to a total cash amount of \$2.65 per AusNet share).¹ The total cash amount of \$2.65 per AusNet share is near the top of the Independent Expert's valuation range. The Independent Expert's conclusions should be read in context with the full Independent Expert's Report and the Scheme Booklet.

Directors' recommendation

The AusNet Board unanimously recommends that AusNet shareholders vote in favour of the Scheme, in the absence of a superior proposal and subject to the Independent Expert continuing to conclude that the Scheme is in the best interests of AusNet shareholders. Each AusNet Director intends to vote all the AusNet shares held or controlled by them in favour of the Scheme, subject to the same qualifications.

Accessing the Scheme Booklet

The Scheme Booklet is enclosed with this announcement. The Scheme Booklet is also available electronically for viewing and downloading at www.ausnetservices.com.au and at www.edocumentview.com.au/AST2022SM.

In addition, all AusNet shareholders will receive a letter (sent by post to their registered address) enclosing a personalised proxy form and the Notice of Meeting and containing details of where they can view and download the Scheme Booklet. This letter will be sent to AusNet shareholders shortly. AusNet shareholders who have previously elected to receive communications electronically will also receive an email to their nominated email address, which will contain instructions about how to view and download a copy of the Scheme Booklet.

AusNet shareholders who wish to receive a printed copy of the Scheme Booklet may request one by calling the AusNet Shareholder Information Line on 1300 540 303 (within Australia) or +61 2 9066 4083 (outside Australia), Monday to Friday (excluding public holidays, other than Wednesday, 26 January 2022) between 9.00am and 5.00pm (Melbourne time).

Scheme Meeting

The Scheme Meeting will be held online at 11.00am (Melbourne time) on Friday, 28 January 2022. There will be no physical Scheme Meeting. AusNet shareholders (or their proxies, attorneys or corporate representatives) will be able to virtually attend and vote at the Scheme Meeting by using a web browser at <https://meetnow.global/AST2022> on a smartphone, tablet or computer.

¹ AusNet shareholders will only receive the Interim Dividend if they held their AusNet shares as at the Interim Dividend record date of 17 November 2021. If the AusNet shares were not held as at the Interim Dividend record date, the total cash amount that AusNet shareholders will receive for each of their AusNet shares will be \$2.6025.

If you are an AusNet shareholder entitled to attend and vote at the Scheme Meeting, your username is your SRN/HIN. Your password is the postcode of your registered address for your holding if you are an Australian shareholder. If you are an overseas shareholder, no password is required and instead please select your country from the drop-down list. Please refer to the online meeting user guide at www.computershare.com.au/ASTmeetingguide for further details.

All AusNet shareholders are encouraged to vote either by attending and voting at the virtual Scheme Meeting or by lodging a proxy to attend and vote at the virtual Scheme Meeting. The Notice of Meeting provides information on how to lodge your proxy form (if applicable).

Further Information

AusNet shareholders can obtain further information in relation to the Scheme Booklet, the Scheme or the Scheme Meeting by calling the AusNet Shareholder Information Line on 1300 540 303 (within Australia) or +61 2 9066 4083 (outside Australia), Monday to Friday (excluding public holidays, other than Wednesday, 26 January 2022) between 9.00am and 5.00pm (Melbourne time).

AusNet is being advised by Adara Partners and Citigroup as financial advisers, and by Allens as legal adviser.

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

Investor Relations Enquiries

Adrian Hill
General Manager
Strategy & Corporate Development
+61 438 533 193

Media Enquiries

Jim Kelly
Domestique Consulting
+61 412 549 083

SCHEME BOOKLET

In relation to the proposed acquisition of AusNet Services Ltd (*AusNet*) by Australian Energy Holdings No 4 Pty Ltd (*Bidder*) by way of Scheme of Arrangement.

VOTE IN FAVOUR

Your Directors unanimously recommend that you vote in favour of the scheme in the absence of a superior proposal and subject to the independent expert continuing to conclude that the scheme is in the best interests of AusNet shareholders.

As a result of the potential health risks associated with large gatherings, and the ongoing COVID-19 pandemic, the Scheme Meeting is scheduled to be held online at 11.00am (Melbourne time) on Friday, 28 January 2022.

This Scheme Booklet is important and requires your prompt attention. You should read it in its entirety, and consider its contents carefully, before deciding whether or not to vote in favour of the Scheme. If you are in any doubt about what you should do, you should consult with a financial, legal, taxation or other professional adviser.

If you have any questions in relation to this Scheme Booklet or the Scheme, please contact the AusNet Shareholder Information Line on 1300 540 303 (within Australia) or +61 2 9066 4083 (outside Australia), Monday to Friday (excluding public holidays, other than Wednesday, 26 January 2022) between 9.00am and 5.00pm (Melbourne time).

This Scheme Booklet is prepared for persons shown in the AusNet Share Register as holding AusNet Shares. If you have recently sold all of your AusNet Shares, please disregard this Scheme Booklet.

Financial Advisers



Legal Adviser

Allens & Linklaters

Important notices

Nature of this Scheme Booklet

This Scheme Booklet provides AusNet Shareholders with information about the proposed acquisition of AusNet by Bidder. You should review all of the information in this Scheme Booklet carefully. Section 1.1 sets out the reasons why you should vote in favour of the Scheme and section 1.2 sets out the reasons why you may wish to vote against the Scheme.

Defined terms

A number of defined terms are used in this Scheme Booklet. These terms are explained in section 9 of this Scheme Booklet.

No investment advice

The information contained in this Scheme Booklet does not constitute financial product advice and has been prepared without reference to your own investment objectives, financial situation, taxation position or particular needs. It is important that you read this Scheme Booklet in its entirety before making any investment decision and any decision as to whether or not to vote in favour of the Scheme. If you are in any doubt in relation to these matters, you should consult with a financial, legal, taxation or other professional adviser.

Not an offer

This Scheme Booklet does not constitute or contain an offer to AusNet Shareholders, or a solicitation of an offer from AusNet Shareholders, in any jurisdiction.

Foreign jurisdictions

The release, publication or distribution of this Scheme Booklet in jurisdictions other than Australia may be restricted by law or regulation in such other jurisdictions and persons outside of Australia who come into possession of this Scheme Booklet should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable laws or regulations.

This Scheme Booklet has been prepared in accordance with Australian law and the information contained in this Scheme Booklet may not be the same as that which would have been disclosed if this Scheme Booklet had been prepared in accordance with the laws and regulations outside of Australia.

Regulatory information

This Scheme Booklet is the explanatory statement for the Scheme of Arrangement between AusNet and the Scheme Shareholders for the purposes of section 412(1) of the Corporations Act. A copy of the proposed Scheme is included in this Scheme Booklet in Schedule 2.

A copy of this Scheme Booklet was provided to ASIC for examination in accordance with section 411(2)(b) of the Corporations Act and was lodged with ASIC for registration under section 412(6) of the Corporations Act. It was then registered by ASIC under section 412(6) of the Corporations Act before being sent to AusNet Shareholders.

ASIC has been requested to provide a statement, in accordance with section 411(17)(b) of the Corporations Act, that ASIC has no objection to the Scheme. If ASIC provides that statement, it will be produced to the Court at the time of the Court hearing to approve the Scheme. Neither ASIC nor any of its officers takes any responsibility for the contents of this Scheme Booklet.

A copy of this Scheme Booklet will be lodged with the ASX. Neither the ASX nor any of its officers takes any responsibility for the contents of this Scheme Booklet.

Notice of Meeting

The Notice of Meeting is set out in Schedule 4. AusNet Shareholders will be asked at the Scheme Meeting to vote on the Scheme Resolution.

AusNet Shareholder's right to appear at the Second Court Hearing

At the Second Court Hearing, the Court will consider whether to approve the Scheme following the vote at the Scheme Meeting.

Any AusNet Shareholder may appear at the Second Court Hearing, expected to be held at 9.15am (Melbourne time) on Thursday, 3 February 2022 at the Supreme Court of New South Wales, Law Courts Building, 184 Phillip Street, Sydney.

Any AusNet Shareholder who wishes to oppose approval of the Scheme at the Second Court Hearing may do so by filing with the Court and serving on AusNet a notice of appearance in the prescribed form together with any affidavit that the AusNet Shareholder proposes to rely on.

It is possible that, because of restrictions imposed in response to the COVID-19 pandemic, the Second Court Hearing will be conducted by remote access technology, including via a dedicated video conferencing service or telephone conferencing. An AusNet Shareholder seeking to attend the Second Court Hearing should review the Court list (available at www.onlineregistry.lawlink.nsw.gov.au/content/) for details of the hearing and how such hearing can be attended. The Court list is usually available by 3:30pm the day before a scheduled hearing. Any change to the date or arrangements for the conduct of the Second Court Hearing will be announced on ASX (www.asx.com.au) and will also be notified on the AusNet Website.

IMPORTANT NOTICE ASSOCIATED WITH THE COURT ORDER UNDER SECTION 411(1) OF THE CORPORATIONS ACT

The fact that under section 411(1) of the Corporations Act, the Court has ordered that a meeting be convened and has directed that an explanatory statement accompany the Notice of Meeting does not mean that the Court:

- has formed any view as to the merits of the proposed Scheme or as to how members should vote (members must reach their own decision on this matter); or
- has prepared, or is responsible for, the content of the explanatory statement.

The order of the Court that the Scheme Meeting be convened is not, and should not be treated as, an endorsement by the Court of, or any other expression of opinion by the Court on, the Scheme.

Disclaimer as to forward-looking statements

This Scheme Booklet contains both historical and forward-looking statements. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements.

All forward-looking statements in this Scheme Booklet reflect views, and are held, only as at the date of this Scheme Booklet, and generally may be identified by the use of forward-looking words such as "believe", "aim", "expect", "anticipate", "intending", "foreseeing", "likely", "should", "planned", "may", "estimate", "potential", or other similar words. Similarly, statements that describe AusNet or Bidder's objectives, plans, goals or expectations are or may be forward-looking statements.

Any statements contained in this Scheme Booklet about the impact that the Scheme may have on the results of AusNet operations, and the advantages and disadvantages anticipated to result from the Scheme, are also forward-looking statements.

All forward-looking statements (including in relation to the operations and financial performance of AusNet) involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to differ materially from the anticipated results, performance or achievements, expressed, projected or implied by those forward-looking statements or historical results, performance or achievements.

Those risks and uncertainties include the risks set out in section 6, factors and risks specific to the industry in which AusNet operates as well as general economic conditions and conditions in the financial markets. As a result, the actual results of operations and earnings of AusNet following implementation of the Scheme, as well as the actual advantages of the Scheme, may differ significantly from those that are anticipated in respect of timing, amount or nature and may never be achieved.

Although AusNet and Bidder believe that the views reflected in any forward-looking statements they respectively make in the AusNet Information or the Bidder Information (as applicable) have been made on a reasonable basis, no assurance can be given that such views will prove to have been correct.

None of the AusNet Group, Bidder Group, AusNet Group's officers, Bidder Group's officers, any persons named in this Scheme Booklet or any person involved in the preparation of this Scheme Booklet makes any representation or warranty (express or implied) as to the likelihood of fulfilment of any forward-looking statement, or any events or results expressed or implied in any forward-looking statement, except to the extent required by law. You are cautioned not to place undue reliance on any forward-looking statement.

Subject to any continuing obligations under relevant laws or the listing rules of a relevant exchange, the AusNet Group and Bidder Group do not give any undertaking to update or revise any such statements after the date of this Scheme Booklet, to reflect any change in expectations in relation thereto or any change in events, conditions or circumstances on which any such statement is based.

Effect of rounding

A number of figures, amounts, percentages, estimates, calculations of value and fractions in this Scheme Booklet are subject to the effect of rounding. Accordingly, the actual calculation of these figures may differ from the figures set out in this Scheme Booklet.

Responsibility statement

AusNet has been solely responsible for preparing the AusNet Information. The AusNet Information concerning AusNet and the intentions, views and opinions of AusNet and the AusNet Directors contained in this Scheme Booklet have been prepared by AusNet and the AusNet Directors and are the responsibility of AusNet. Bidder Group and its directors and officers do not assume any responsibility for the accuracy or completeness of any AusNet Information or the Independent Expert's Report (or any information contained therein).

Bidder has been solely responsible for preparing the Bidder Information. The Bidder Information concerning Bidder and the intentions, views and opinions of any Bidder Group member contained in this Scheme Booklet have been prepared by Bidder and are the responsibility of Bidder. The AusNet Group and its directors and officers do not assume any responsibility for the accuracy or completeness of any Bidder Information.

White & Case has prepared section 7 of this Scheme Booklet (Tax Letter) and takes responsibility for that section. None of the AusNet Group, Bidder or any of their respective directors or officers assume any responsibility for the accuracy or completeness of the information contained in section 7, except, in the case of AusNet, in relation to the information which it has provided to White & Case.

Grant Samuel has prepared the Independent Expert's Report in relation to the Scheme and takes responsibility for that report. None of the AusNet Group, Bidder or any of their respective directors or officers assume any responsibility for the accuracy or completeness of the information contained in the Independent Expert's Report, except, in the case of AusNet, in relation to the information which it has provided to the Independent Expert. The Independent Expert's Report is set out in Schedule 1.

Computershare has had no involvement in the preparation of any part of this Scheme Booklet other than being named as the AusNet Share Registry. Computershare has not authorised or caused the issue of, and expressly disclaims and takes no responsibility for, any part of this Scheme Booklet.

Privacy

AusNet and its agents and representatives may collect personal information in the process of implementing the Scheme. Such information may include the name, contact details and shareholdings of AusNet Shareholders and the name of persons appointed by those persons to act as a proxy, attorney or corporate representative at the Scheme Meeting. The primary purpose of the collection of personal information is to assist AusNet to conduct the Scheme Meeting and to implement the Scheme. Personal information of the type described above may be disclosed to the AusNet Share Registry, print and mail service providers, authorised securities brokers, any member of Bidder, AusNet and its Related Entities, and AusNet and Bidder's advisers and service providers. AusNet Shareholders have certain rights to access personal information that has been collected. AusNet Shareholders should contact the AusNet Share Registry in the first instance, if they wish to access their personal information. AusNet Shareholders who appoint a named person to act as their proxy, attorney or corporate representative should ensure that they inform that person of these matters.

Times and dates

Unless otherwise stated, all times referred to in this Scheme Booklet are times in Melbourne, Australia. All dates are indicative only and are subject to the Court approval process and the satisfaction or, where capable, waiver of the Conditions Precedent to the implementation of the Scheme. The Conditions Precedent are summarised in section 8.12 and set out in full in clause 3.1 of the Scheme Implementation Deed.

Currency and exchange

Unless otherwise stated, all dollar amounts in this Scheme Booklet are in Australian Dollars and all share prices and trading volumes refer to AusNet Shares trading on the ASX.

Date of this Scheme Booklet

This Scheme Booklet is dated 16 December 2021.

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Key Dates

Event	Date
Date of this Scheme Booklet	Thursday, 16 December 2021
First Court Date	Thursday, 16 December 2021
Proxy Form Last date and time for receipt of the Proxy Form (including proxies lodged online) or powers of attorney for the Scheme Meeting	11.00am (Melbourne time) on Wednesday, 26 January 2022
Scheme Meeting Record Date Time and date for determining eligibility to vote at the Scheme Meeting	7.00pm (Melbourne time) on Wednesday, 26 January 2022
Scheme Meeting As a result of the potential health risks associated with large gatherings and the ongoing COVID-19 pandemic, the Scheme Meeting will be virtual (online only). There will not be a physical meeting where AusNet Shareholders or their proxies, attorneys or corporate representatives can attend in person. Further details relating to the Scheme Meeting and the Scheme Resolution the subject of that meeting are set out in section 2 of this Scheme Booklet and in the Notice of Meeting in Schedule 4.	11.00am (Melbourne time) on Friday, 28 January 2022
If the Scheme is approved by eligible AusNet Shareholders at the Scheme Meeting	
Second Court Date For approval of the Scheme	Thursday, 3 February 2022
Effective Date The date on which the Scheme becomes Effective and is binding on AusNet Shareholders The Court order will be lodged with ASIC and announced on the ASX Last day of trading in AusNet Shares – AusNet suspended from trading on the ASX from close of trading	Friday, 4 February 2022
If the Scheme is approved by the Court and becomes Effective	
Scheme Record Date All AusNet Shareholders who hold AusNet Shares on the Scheme Record Date will be entitled to receive the Scheme Consideration	7.00pm (Melbourne time) on Wednesday, 9 February 2022
Implementation Date All Scheme Shareholders will be paid the Scheme Consideration to which they are entitled on this date and transfer of Scheme Shares to Bidder	Wednesday, 16 February 2022

All dates are indicative only and, among other things, are subject to the Court approval process and satisfaction or, where applicable, waiver of the Conditions Precedent. Any changes to the above timetable (which may include an earlier or later date for the Scheme Meeting or Second Court Hearing) will be announced through the ASX and notified on AusNet's Website.

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Letter from the Chair of AusNet



16 December 2021

Dear Shareholder,

On behalf of the AusNet Board, I am pleased to provide you with this Scheme Booklet, which contains information for your consideration in relation to the proposed acquisition of 100% of the AusNet Shares by Australian Energy Holdings No 4 Pty Ltd (**Bidder**) via a Scheme of Arrangement (**Scheme**). The cash amount payable by Bidder for each AusNet Share under the Scheme is \$2.6025 (which, when added to AusNet's interim unfranked dividend for the half year ended 30 September 2021 of \$0.0475 per AusNet Share to be paid on 16 December 2021 (the **Interim Dividend**), represents a Total Cash Amount of \$2.65 per AusNet Share)¹.

In order for the Scheme to proceed, it must be approved at a meeting of AusNet Shareholders to be held at 11.00am (Melbourne time) on Friday, 28 January 2022 (**Scheme Meeting**). The Scheme is also subject to Court approval and certain other conditions described in section 8.12(a).

Your vote on this significant proposed transaction is important and the purpose of this Scheme Booklet is to provide you with information about the Scheme to assist you in voting on it at the Scheme Meeting.

Background

The Scheme was announced on 1 November 2021 following a competitive process between Brookfield Asset Management Inc. (**Brookfield**) and APA Group, which produced five indicative, non-binding and conditional proposals for the acquisition of AusNet prior to the final binding offer from Bidder of \$2.65 cash per AusNet Share².

The Bidder is controlled by Brookfield, and will ultimately be owned by a consortium including Brookfield Managed Investors, a syndicate of institutional investors managed or advised by Brookfield, together with co-investors Sunsuper Superannuation Fund, Alberta Investment Management Corporation, Investment Management Corporation of Ontario and Healthcare of Ontario Pension Plan (or one or more of their affiliates).

AusNet Board's recommendation on the Scheme

The AusNet Board unanimously recommends that you vote in favour of the Scheme, in the absence of a Superior Proposal and subject to the Independent Expert continuing to conclude that the Scheme is in the best interests of AusNet Shareholders³. Each AusNet Director intends to vote (or procure the voting of) all AusNet Shares held or controlled by them in favour of the Scheme subject to the same qualifications.

The AusNet Board believes that the Scheme is in the best interests of AusNet Shareholders and considers that the Total Cash Amount of \$2.65 per AusNet Share¹ appropriately reflects:

- AusNet's stable and reliable cashflows;
- the nature of AusNet's diversified portfolio of high quality regulated and contracted infrastructure assets; and
- AusNet's stand alone pipeline of regulated and contracted growth projects, with AusNet being well placed to participate in the upside driven by transformational changes occurring in the energy market.

¹ AusNet Shareholders will only receive the Interim Dividend if they held their AusNet Shares as at the Interim Dividend record date of 17 November 2021. If the AusNet Shares were not held as at the Interim Dividend record date, the total cash amount that AusNet Shareholders will receive for each of their AusNet Shares will be \$2.6025. There will also be Additional Consideration if the Scheme is implemented after 31 March 2022.

² Less any Permitted Dividends to which AusNet Shareholders become entitled on or before the Implementation Date and (if the Scheme is implemented after 31 March 2022) plus the amount of Additional Consideration.

³ Mr Tony Narvaez (AusNet's Managing Director) has previously been granted Performance Rights and Deferred Rights. If the Scheme proceeds, Mr Narvaez will receive a benefit in the sense that he will receive shares in return for the vesting of his existing Performance Rights and Deferred Rights, even though the vesting conditions for those Performance Rights and Deferred Rights will not have been fully satisfied at the relevant time. If the Scheme becomes Effective and is implemented by 31 March 2022, by the Implementation Date, Mr Narvaez will have received, in aggregate, \$4,409,730 in respect of his Performance Rights and Deferred Rights. See sections 8.2 and 8.3(d) for details of the implications of the Scheme for Mr Narvaez's Performance Rights and Deferred Rights. AusNet Shareholders should have regard to these arrangements when considering Mr Narvaez's recommendation on the Scheme. Given the importance of the Scheme and Mr Narvaez's role in the management of AusNet, the other AusNet Directors consider that it is appropriate that Mr Narvaez make a recommendation on the Scheme. Mr Narvaez also considers that it is appropriate that he make a recommendation on the Scheme.

Reasons for the AusNet Board's recommendation

The key reasons for the AusNet Board's recommendation are as follows:

- The AusNet Board believes that the Total Cash Amount of \$2.65 per AusNet Share represents a significant premium to AusNet's recent historical trading prices. It represents:
 - 34% premium to the undisturbed AusNet Share Price of \$1.98 on 17 September 2021, being the last trading day prior to the announcement of Brookfield's indicative non-binding and conditional proposal on 20 September 2021;
 - 36% premium to the 30 day volume weighted average price of AusNet Shares to 17 September 2021 of \$1.95;
 - 43% premium to the 90 day volume weighted average price of AusNet Shares to 17 September 2021 of \$1.85; and
 - 27% premium to AusNet's all-time share price high recorded on 19 and 20 October 2020 of \$2.08 prior to 17 September 2021.
- The Total Cash Amount of \$2.65 per AusNet Share equates to acquisition multiples that are at the high end of market evidence for electricity transmission and distribution networks and gas distribution networks.
- The proposal from Bidder is a 100% cash proposal, which provides AusNet Shareholders with the opportunity to realise certain cash value for their AusNet Shares now, which may not be achieved if the Scheme does not proceed.
- The Independent Expert has concluded that the Scheme is fair and reasonable and, therefore, is in the best interests of AusNet's Shareholders, in the absence of a Superior Proposal.
- The Total Cash Amount of \$2.65 per AusNet Share is the highest offer price received as a result of a competitive process between Brookfield and APA Group, which produced five indicative, non-binding and conditional proposals for the acquisition of AusNet prior to the final binding offer of \$2.65 per AusNet Share from Bidder.
- Since the announcement of the signing of the Scheme Implementation Deed, no Superior Proposal has emerged.
- AusNet's share price may fall if the Scheme does not proceed and in the absence of a Superior Proposal.
- The Scheme is supported by AusNet's major shareholder Singapore Power International Pte Ltd and SP eResources Pte Ltd (collectively, **SP Group**), which intends to vote all AusNet Shares that it holds or controls on the Scheme Meeting Record Date in favour of the Scheme, subject to the conditions outlined in section 1.1(i), including that there is no superior proposal. As at the Last Practicable Trading Date, SP Group holds or controls 32.74%⁴ of AusNet Shares on issue.
- As announced by AusNet to the ASX on 12 November 2021, Bidder has received written confirmation from FIRB that the Commonwealth Government has no objection to the Transaction.

In forming their view that the Scheme is in the best interests of AusNet Shareholders, the AusNet Board also considered reasons why an AusNet Shareholder may wish to vote against the Scheme. In particular:

- You may disagree with the AusNet Board's unanimous recommendation or the Independent Expert's conclusion.
- You may prefer to have the opportunity to participate in any future value creation that may result from being an AusNet Shareholder.
- You may wish to maintain your investment in AusNet because there may be limited alternative ways of obtaining exposure to an investment in an Australian listed entity with comparable investment characteristics and a comparable asset portfolio to AusNet.
- You may believe that there is potential for a Superior Proposal to emerge in the foreseeable future.
- The tax consequences of the Scheme may not suit your current financial circumstances.

Further details on the recommendation given by the AusNet Board are contained in section 1 of this Scheme Booklet.

⁴ This percentage figure is based on SP Group's substantial shareholder notices released to the ASX and information in AusNet's register of beneficial ownership of AusNet Shares, which was available to AusNet as at the Last Practicable Trading Date.

Independent Expert

The AusNet Board appointed Grant Samuel as the Independent Expert to assess the merits of the Scheme.

The Independent Expert has concluded that the Scheme is fair and reasonable and, therefore, in the best interests of AusNet Shareholders, in the absence of a Superior Proposal.

The Independent Expert has assessed the full underlying value of AusNet Shares at between \$2.45 and \$2.70. The Total Cash Amount of \$2.65 per AusNet Share is near the top of this range.

A complete copy of the Independent Expert's Report is included as Schedule 1 to this Scheme Booklet.

Total Cash Amount

The Bidder has agreed to purchase each AusNet Share for a cash amount of \$2.65, subject to the adjustments described below.

As the Bidder's offer price of \$2.65 per AusNet Share is a dividend inclusive figure, the amount payable by Bidder to acquire each AusNet Share will be reduced by the Interim Dividend (and, in the event the Scheme is implemented after the record date of any final dividend in respect of the financial year ending 31 March 2022, will also be reduced by the amount of such final dividend).⁵ Accordingly, if the Scheme becomes Effective and is implemented by 31 March 2022, each person who holds AusNet Shares as at the Scheme Record Date and who also receives AusNet's Interim Dividend to be paid on 16 December 2021 will receive a total cash amount of \$2.65 for each of their AusNet Shares (the **Total Cash Amount**), comprising:

- Scheme Consideration of \$2.6025 per AusNet Share from Bidder for the sale of each of their AusNet Shares to Bidder; and
- the Interim Dividend.⁶

It is currently expected that the Scheme will be implemented by 31 March 2022. However, if the Scheme is implemented after 31 March 2022, the Bidder is required to pay additional purchase consideration (the **Additional Consideration**).

Further information on the Scheme Consideration and the amount of the Additional Consideration is contained in section 3 of this Scheme Booklet.

How to vote at the Scheme Meeting

Your vote is important and I encourage you to vote by attending the online Scheme Meeting scheduled to be held at 11.00am (Melbourne time) on Friday, 28 January 2022 or, if you're unable to attend the online meeting, I encourage you to vote by way of proxy by completing the Proxy Form that accompanies this Scheme Booklet and returning it to AusNet or Computershare by 11.00am (Melbourne time) on Wednesday, 26 January 2022.

Details on how to vote are found in the Notice of Meeting which is contained in Schedule 4 of this Scheme Booklet.

Shareholder approval threshold

The Scheme will only be effective and implemented if it is approved by:

- more than 50% of eligible AusNet Shareholders present and voting at the Scheme Meeting (whether in person or by proxy, attorney or corporate representative) (unless the Court orders otherwise); and
- at least 75% of the total number of votes cast on the Scheme Resolution by eligible AusNet Shareholders.

If you wish the Scheme to proceed, it is important that you vote in favour of the Scheme.

⁵ Pursuant to the Scheme Implementation Deed, any final dividend must be unfranked and may only be up to a maximum of \$0.0475 per AusNet Share. AusNet Shareholders who hold AusNet Shares on any final dividend record date will be entitled to receive any final dividend from AusNet for each of their AusNet Shares.

⁶ AusNet Shareholders will only receive the Interim Dividend if they held their AusNet Shares as at the Interim Dividend record date of 17 November 2021.

Further information

This Scheme Booklet sets out important information regarding the Scheme, including the reasons for the AusNet Board's recommendation and the Independent Expert's Report. It also sets out reasons why you may wish to vote against the Scheme.

Please read this document carefully and in its entirety as it will assist you in making an informed decision on how to vote. I would also encourage you to seek independent financial, legal and taxation advice before making any investment decision in relation to your shares.

If you require any further information, please call the Shareholder Information Line on 1300 540 303 (within Australia) or +61 2 9066 4083 (outside Australia).

On behalf of the AusNet Board, I would like to take this opportunity to thank you for your ongoing support.

I look forward to your participation in the Scheme Meeting and encourage you to vote in favour of the Scheme, which the AusNet Board believes, and the Independent Expert has concluded, is in the best interests of AusNet Shareholders.

Yours sincerely,



Peter Mason AM
Chair

AusNet Services Ltd

Key considerations relevant to your vote



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1 Key considerations relevant to your vote

The Scheme has a number of advantages and disadvantages which may affect AusNet Shareholders in different ways depending on their individual circumstances. AusNet Shareholders should seek professional advice on their particular circumstances, as appropriate.

Section 1.1 provides a summary of some of the reasons why the AusNet Board unanimously recommends that AusNet Shareholders vote in favour of the Scheme, in the absence of a Superior Proposal and subject to the Independent Expert continuing to conclude that the Scheme is in the best interests of AusNet Shareholders.⁷ This section should be read in conjunction with section 1.2, which sets out other reasons why you may wish to vote against the Scheme.

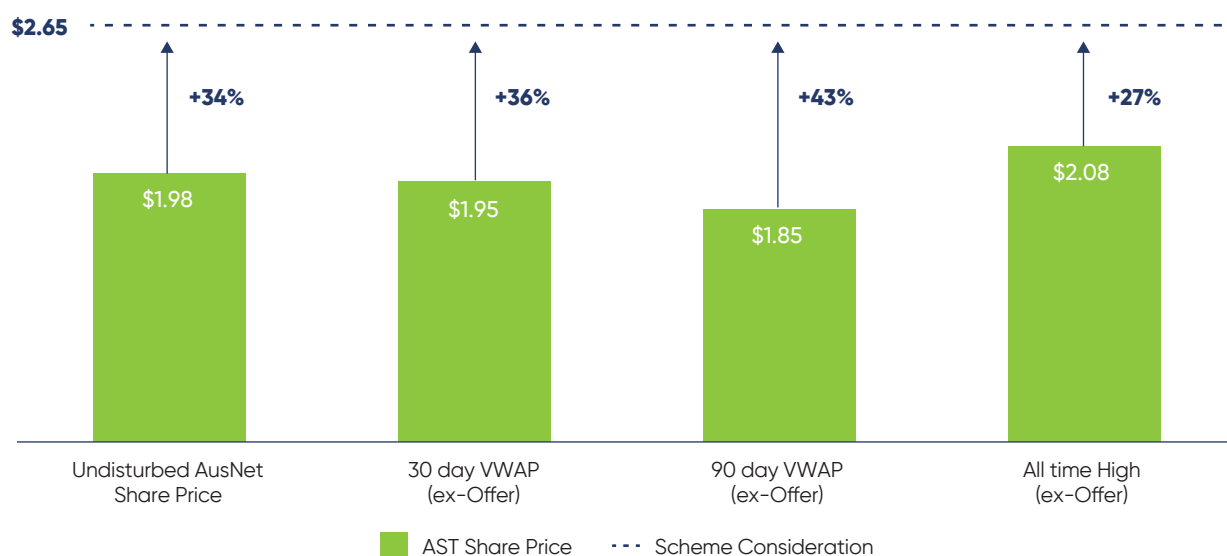
You should read this Scheme Booklet in full, including the Independent Expert's Report, before deciding how to vote at the Scheme Meeting.

1.1 Why you should vote in favour of the Scheme

The AusNet Board has formed the view that the Scheme is in the best interests of AusNet Shareholders for the following reasons:

(a) The Total Cash Amount of \$2.65 per AusNet Share represents a significant premium to the recent historical trading prices.

As at 20 September 2021, being the day of AusNet's announcement of Brookfield's indicative non-binding and conditional proposal, the Total Cash Amount of \$2.65 per AusNet Share represents the following premia:



(b) The Total Cash Amount of \$2.65 per AusNet Share equates to acquisition multiples that are at the high end of market evidence for electricity transmission and distribution networks and gas distribution networks.

The Total Cash Amount of \$2.65 per AusNet Share implies an enterprise value (**EV**) of \$18.2 billion on a fully diluted basis, implying an EV/R&CAB⁸ multiple of 1.61x and an EV/EBITDA⁹ multiple of 15.3x for the financial year ending 31 March 2022 (median broker forecast⁹). The implied acquisition multiples are at the high end of market evidence for electricity transmission and distribution networks and gas distribution networks, as set out on section 5 of the Independent Expert's Report contained in Schedule 1. Also see section 5 of the Independent Expert's Report for the Independent Expert's views on this topic.

⁷ Mr Tony Narvaez (AusNet's Managing Director) has previously been granted Performance Rights and Deferred Rights. If the Scheme proceeds, Mr Narvaez will receive a benefit in the sense that he will receive shares in return for the vesting of his existing Performance Rights and Deferred Rights, even though the vesting conditions for those Performance Rights and Deferred Rights will not have been fully satisfied at the relevant time. If the Scheme becomes Effective and is implemented by 31 March 2022, by the Implementation Date, Mr Narvaez will have received, in aggregate, \$4,409,730 in respect of his Performance Rights and Deferred Rights. See sections 8.2 and 8.3(d) for details of the implications of the Scheme for Mr Narvaez's Performance Rights and Deferred Rights. AusNet Shareholders should have regard to these arrangements when considering Mr Narvaez's recommendation on the Scheme. Given the importance of the Scheme and Mr Narvaez's role in the management of AusNet, the other AusNet Directors consider that it is appropriate that Mr Narvaez make a recommendation on the Scheme. Mr Narvaez also considers that it is appropriate that he make a recommendation on the Scheme.

⁸ Based on R&CAB as at 30 September 2021.

⁹ Refer to Appendix 1 of the Independent Expert's Report for further detail on the broker forecasts considered by the Independent Expert.

1 Key considerations relevant to your vote continued

(c) The Total Cash Amount of \$2.65 per AusNet Share appropriately reflects the value of the assets and growth opportunities available to AusNet.

The AusNet Board believes that the Total Cash Amount of \$2.65 appropriately reflects:

- (i) AusNet's stable and reliable cashflows;
- (ii) the nature of AusNet's diversified portfolio of high quality regulated and contracted infrastructure assets; and
- (iii) AusNet's stand alone pipeline of regulated and contracted growth projects, with AusNet being well placed to participate in the upside driven by transformational changes occurring in the energy market.

The Independent Expert's Report also confirms this view. See section 6.2 of the Independent Expert's Report for the Independent Expert's views on this topic.

(d) The proposal from Bidder is a 100% cash proposal, which provides AusNet Shareholders with the opportunity to realise certain cash value for their AusNet Shares now, which may not be achieved if the Scheme does not proceed.

The Total Cash Amount of \$2.65 per AusNet Share provides AusNet Shareholders with certainty of value for their AusNet Shares (subject to the Scheme becoming Effective) and the opportunity for AusNet Shareholders to realise certain cash value in the near term, which may not be achieved if the Scheme does not proceed. Whilst AusNet is currently well-placed to capitalise on a range of growth initiatives, the AusNet Board is mindful of the fact that, in the absence of the Scheme, AusNet Shareholders face ongoing risks and uncertainties associated with the AusNet Group business. These risks are described further in section 6.3. If the Scheme is approved and implemented, the Scheme removes these risks and uncertainties for AusNet Shareholders for cash certain value, as these risks and uncertainties will be assumed by Bidder, as the sole shareholder of AusNet following implementation of the Scheme.

(e) The Independent Expert has concluded that the Scheme is fair and reasonable and, therefore, is in the best interests of AusNet's Shareholders, in the absence of a Superior Proposal.

AusNet appointed Grant Samuel as the Independent Expert to assess the merits of the Scheme and prepare an Independent Expert's Report setting out its opinion as to whether the Scheme is in the best interests of AusNet Shareholders. The Independent Expert has concluded that the Scheme is fair and reasonable and therefore is in the best interests of Scheme Shareholders, in the absence of a Superior Proposal.

The Independent Expert has assessed the full underlying value of an AusNet Share to be between \$2.45 and \$2.70. The Total Cash Amount of \$2.65 per AusNet Share is near the top of this range.

A copy of the Independent Expert's Report is included as Schedule 1 of this Scheme Booklet. The AusNet Board encourages you to read this report in its entirety.

(f) The Total Cash Amount of \$2.65 per AusNet Share is the highest offer price received as a result of a competitive process between Brookfield and APA Group, which produced five indicative, non-binding and conditional proposals from Brookfield and APA Group for the acquisition of AusNet prior to the final binding offer of \$2.65 per AusNet Share from Bidder.

On 1 September 2021, AusNet received an indicative, non-binding and conditional proposal from APA Group to acquire all of the shares in AusNet at an indicative price with a notional value of \$2.32 per AusNet Share (at the time the proposal was made) by way of scheme of arrangement. On 21 September 2021, APA Group submitted a revised indicative, non-binding and conditional proposal at an indicative price with a notional value of \$2.60 per AusNet Share (at the time the proposal was made). Both of the APA Group proposals involved consideration in the form of cash and scrip, which AusNet considered would involve additional risk for AusNet Shareholders. Since 21 September 2021, AusNet has not received any further proposals from APA Group.

(g) Since the announcement of the signing of the Scheme Implementation Deed, no Superior Proposal has emerged.

Since the announcement of the signing of the Scheme Implementation Deed on 1 November 2021, no Superior Proposal has emerged and, as at the date of this Scheme Booklet, the AusNet Directors are not aware of any Superior Proposal that is likely to emerge.

(h) AusNet Share Price may fall if the Scheme does not proceed and in the absence of a Superior Proposal.

If the Scheme does not proceed, AusNet Shares will remain quoted on the ASX and will continue to be subject to market volatility, including general stock market movements, the impact of general economic conditions, and the demand for listed shares. As such, if the Scheme does not proceed, subject to no comparable proposal or Superior Proposal emerging, the price at which AusNet Shares trade may fall, including to a price that is below the Total Cash Amount of \$2.65 per AusNet Share.

The below chart shows AusNet's Share price over the last twelve months to 17 September 2021 (being the last trading day prior to the announcement of Brookfield's indicative non-binding and conditional proposal on 20 September 2021) compared to the Total Cash Amount of \$2.65 per AusNet Share.



Source: IRESS daily closing price data. IRESS has not consented to the use of this information in this Scheme Booklet.

(i) The Scheme is supported by AusNet's major shareholder, SP Group, who intends to vote all AusNet Shares that it holds or controls in favour of the Scheme, subject to certain conditions.

As at the Last Practicable Trading Date, SP Group holds or controls 32.74%¹⁰ of AusNet Shares on issue.

SP Group has confirmed that it supports the Scheme and intends to vote in favour of the Scheme the AusNet Shares that the SP Group holds or controls on the Scheme Meeting Record Date, subject to:

- (i) the SID not being terminated;
- (ii) there not being on or before the Scheme Meeting date, any proposal in relation to AusNet or its assets which SP Group considers, in its sole and absolute discretion, to be a superior proposal to the Scheme;
- (iii) AusNet engaging an independent expert to prepare a report for inclusion in this Scheme Booklet and that independent expert concluding to the effect that the Scheme is in the best interests of AusNet Shareholders, and the independent expert not changing that conclusion at any time until and including the date of the Scheme Meeting; and
- (iv) the Scheme being implemented on or before 30 June 2022 or such later date as SP Group specifies from time to time.

All other things being equal, SP Group has confirmed its preference for all cash consideration for the AusNet Shares held or controlled by SP Group.

¹⁰ This percentage figure is based on SP Group's substantial shareholder notices released to the ASX and information in AusNet's register of beneficial ownership of AusNet Shares, which was available to AusNet as at the Last Practicable Trading Date.

1 Key considerations relevant to your vote continued

(j) Bidder has received written confirmation from FIRB that the Commonwealth Government has no objection to the Transaction.

As announced by AusNet to the ASX on 12 November 2021, Bidder has received written confirmation from FIRB that the Commonwealth Government has no objection to the Transaction. The FIRB condition contained in the Scheme Implementation Deed has therefore been satisfied.

(k) If the Scheme has not been implemented by 31 March 2022, AusNet Shareholders will be entitled to Additional Consideration of \$0.000260274 per AusNet Share per day for each day after 31 March 2022 that has elapsed by the date of implementation.

If the Scheme is implemented after 31 March 2022, AusNet Shareholders will be entitled to the Additional Consideration from Bidder of \$0.000260274 per AusNet Share per day for each day after 31 March 2022 that has elapsed by the date of implementation of the Scheme (ie approximately 0.8 cents for each AusNet Share per month).

This adjustment mechanism helps to protect AusNet Shareholders against the risks associated with any delay to the implementation date beyond 31 March 2022 and provides further certainty of value for AusNet Shareholders under the Scheme.

(l) AusNet Shareholders will not incur any brokerage charges on the transfer of their AusNet Shares if the Scheme proceeds.

AusNet Shareholders will not incur brokerage charges on the transfer of their AusNet Shares to Bidder pursuant to the Scheme. If you dispose of your AusNet Shares on the ASX (rather than disposing of them via the Scheme), you may incur brokerage charges (and potentially GST on those charges).

1.2 Why you may wish to vote against the Scheme

Although the Scheme is unanimously recommended by the AusNet Board¹¹ and the Independent Expert has concluded that the Scheme is in the best interests of AusNet Shareholders, in each case in the absence of a Superior Proposal, and although AusNet's largest Shareholder, SP Group (who holds or controls 32.74%¹² of AusNet Shares on issue) also intends to vote in favour of the Scheme subject to the conditions outlined in section 1.1(i), factors which may lead you to consider voting against the Scheme include the following:

(a) You may disagree with the AusNet Board's unanimous recommendation or the Independent Expert's conclusion.

Despite the views of the AusNet Board and the Independent Expert, you may believe that the Scheme is not in your best interests.

(b) You may prefer to have the opportunity to participate in any future value creation that may result from being an AusNet Shareholder.

If the Scheme is implemented, you will no longer be an AusNet Shareholder and will forgo any benefits that may result from being an AusNet Shareholder. This will mean that you will not participate in the future performance of AusNet or have the potential to share in the value that could be generated by AusNet in the future, including any distributions or capital growth.

You may consider that, despite the risk factors relevant to AusNet's potential future operations (including those set out in section 6 of this Scheme Booklet), AusNet may be able to return greater value from its assets by remaining a listed entity or by seeking alternative corporate transactions in the future.

However, there is no guarantee as to AusNet's future performance, as is the case with all investments in listed entities.

¹¹ Mr Tony Narvaez (AusNet's Managing Director) has previously been granted Performance Rights and Deferred Rights. If the Scheme proceeds, Mr Narvaez will receive a benefit in the sense that he will receive shares in return for the vesting of his existing Performance Rights and Deferred Rights, even though the vesting conditions for those Performance Rights and Deferred Rights will not have been fully satisfied at the relevant time. If the Scheme becomes Effective and is implemented by 31 March 2022, by the Implementation Date, Mr Narvaez will have received, in aggregate, \$4,409,730 in respect of his Performance Rights and Deferred Rights. See sections 8.2 and 8.3(d) for details of the implications of the Scheme for Mr Narvaez's Performance Rights and Deferred Rights. AusNet Shareholders should have regard to these arrangements when considering Mr Narvaez's recommendation on the Scheme. Given the importance of the Scheme and Mr Narvaez's role in the management of AusNet, the other AusNet Directors consider that it is appropriate that Mr Narvaez make a recommendation on the Scheme. Mr Narvaez also considers that it is appropriate that he make a recommendation on the Scheme.

¹² This percentage figure is based on SP Group's substantial shareholder notices released to the ASX and information in AusNet's register of beneficial ownership of AusNet Shares, which was available to AusNet as at the Last Practicable Trading Date.

(c) You may wish to maintain your investment in AusNet because there may be limited alternative ways of obtaining exposure to an investment in an Australian listed entity with comparable investment characteristics and a comparable asset portfolio to AusNet.

You may prefer to keep your AusNet Shares to preserve your investment in an Australian listed entity with the specific characteristics and asset portfolio of AusNet, including but not limited to industry, size, operational profile, capital structure, potential future distributions and governance. In particular, you may have regard to:

- (i) AusNet's stable and reliable cashflows;
- (ii) the nature of AusNet's diversified portfolio of high quality regulated and contracted infrastructure assets; and
- (iii) AusNet's stand alone pipeline of regulated and contracted growth projects, with AusNet being well placed to participate in the upside driven by transformational changes occurring in the energy market.

You may also consider that it would be difficult to identify or invest in alternative investments that have comparable investment characteristics and asset portfolios to that of AusNet or may incur transaction costs in undertaking any new investment.

(d) You may believe that there is potential for a Superior Proposal to emerge in the foreseeable future.

You may consider that a Superior Proposal could emerge in the foreseeable future. This may include a takeover offer or scheme of arrangement which would deliver total consideration to AusNet in excess of the Scheme Consideration.

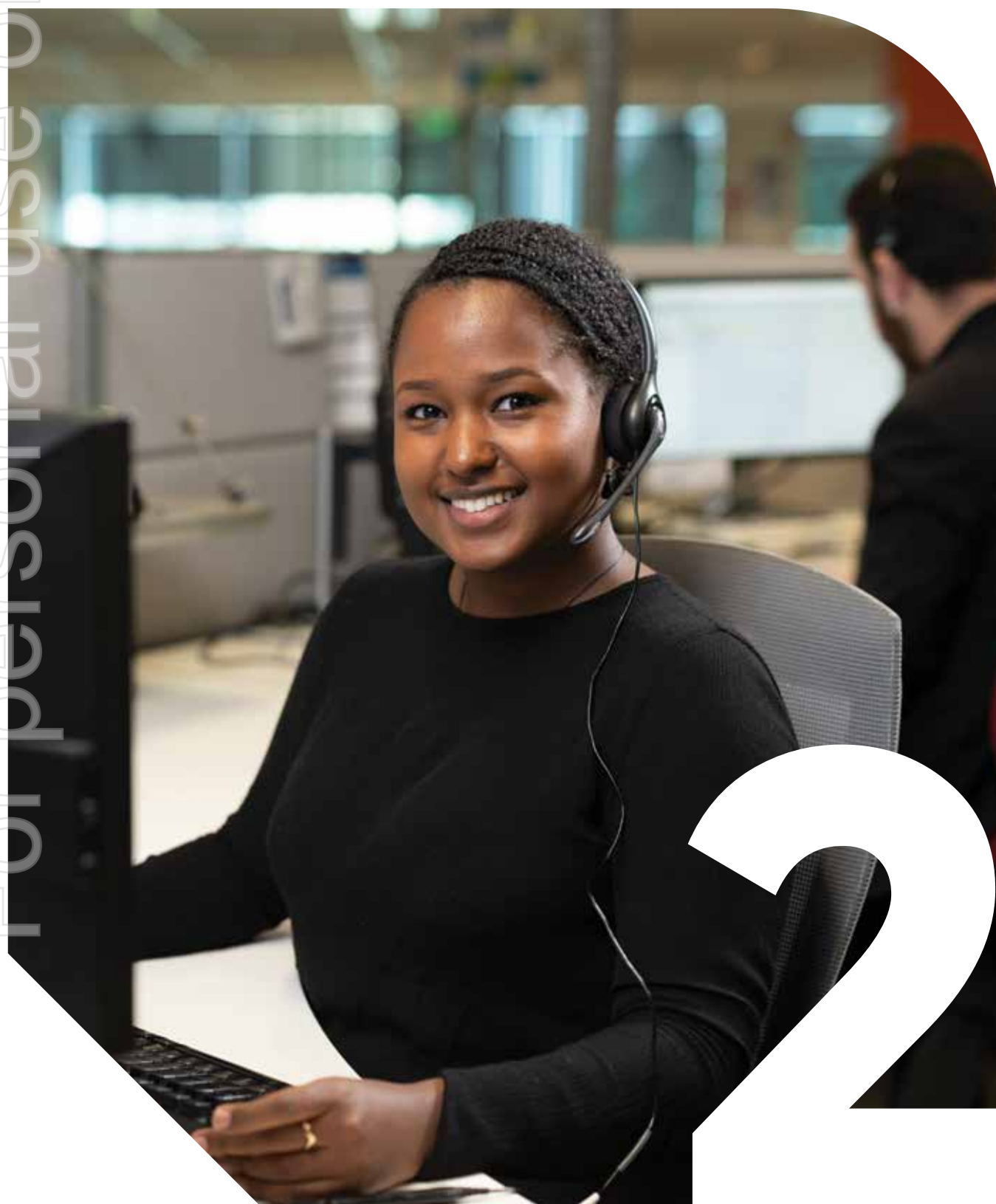
However, since the Scheme Implementation Date, no Superior Proposal has emerged and the AusNet Directors are not aware of any Superior Proposal that is likely to emerge.

(e) The tax consequences of the Scheme may not suit your current financial circumstances.

The tax consequences of the Scheme will depend on your personal situation.

You may consider that the tax consequences of the Scheme are not attractive to you. AusNet Shareholders should read the tax implications of the Scheme outlined in section 7 of this Scheme Booklet. However, section 7 is general in nature, and AusNet Shareholders should consult their own independent taxation advisers regarding the tax implications of the Scheme for their own particular circumstances.

Frequently asked questions



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2 Frequently asked questions

Question	Answer	More Information
An Overview of the Scheme		
Why have I received this Scheme Booklet?	<p>This Scheme Booklet has been prepared for you because you are an AusNet Shareholder and eligible AusNet Shareholders are being asked to vote on the Scheme, which, if approved, will result in Bidder acquiring all of the Scheme Shares.</p> <p>This Scheme Booklet is intended to help you decide how to vote on the Scheme Resolution which needs to be passed at the Scheme Meeting to allow the Scheme to proceed.</p>	N/A
What is the Scheme?	<p>The Scheme is a scheme of arrangement, which is a statutory procedure that is commonly used to enable one company to acquire another company.</p> <p>The Scheme is between AusNet and the Scheme Shareholders and will effect the acquisition of AusNet by Bidder.</p>	Section 3.
What is the Scheme Consideration and what is the Total Cash Amount?	<p>If the Scheme is implemented on or before 31 March 2022, Scheme Shareholders who also receive AusNet's Interim Dividend to be paid on 16 December 2021 will receive the Total Cash Amount of \$2.65 in respect of each of their AusNet Shares, comprising:</p> <ul style="list-style-type: none"> Scheme Consideration of \$2.6025 per AusNet Share from Bidder for the sale of each of their AusNet Shares to Bidder; and the Interim Dividend of \$0.0475 per AusNet Share, which is to be paid on 16 December 2021.¹³ <p>As the Bidder's offer price of \$2.65 per AusNet Share is a dividend inclusive figure, the amount payable by Bidder to acquire each AusNet Share will be reduced by the Interim Dividend (and, in the event the Scheme is implemented after the record date of any final dividend in respect of the full year ending 31 March 2022, will also be reduced by the amount of such final dividend).¹⁴</p> <p>It is currently expected that the Scheme will be implemented by 31 March 2022. However, if the Scheme is implemented after 31 March 2022, Bidder is required to pay additional purchase consideration of \$0.000260274 per AusNet Share for each day after 31 March 2022 that has elapsed by the date of implementation of the Scheme (ie approximately 0.8 cents for each AusNet Share per month) (the Additional Consideration). In that scenario, each person who holds AusNet Shares as at the Scheme Record Date will be entitled to receive the Additional Consideration for each of their AusNet Shares, in addition to the amounts described above.</p> <p>Refer to the question 'Can I sell my AusNet Shares now?' for more information.</p>	Section 3.

¹³ AusNet Shareholders will only receive the Interim Dividend if they held their AusNet Shares as at the Interim Dividend record date of 17 November 2021.

¹⁴ Pursuant to the Scheme Implementation Deed, any final dividend must be unfranked and may only be up to a maximum of \$0.0475 per AusNet Share. AusNet Shareholders who hold AusNet Shares on any final dividend record date will be entitled to receive any final dividend from AusNet for each of their AusNet Shares.

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2 Frequently asked questions continued

Question	Answer	More Information
What is the Additional Consideration?	If the Scheme is not implemented on or before 31 March 2022, the Scheme Consideration will be increased by the Additional Consideration of \$0.000260274 per AusNet Share per day for each day after 31 March 2022 that has elapsed until the Implementation Date.	Section 3.3.
What do the AusNet Directors recommend and how do they intend to vote?	<p>The AusNet Directors unanimously recommend that, in the absence of a Superior Proposal and subject to the Independent Expert continuing to conclude that the Scheme is in the best interests of AusNet Shareholders, AusNet Shareholders vote in favour of the Scheme at the Scheme Meeting.¹⁵</p> <p>Each AusNet Director intends to vote (or procure the voting of) all AusNet Shares held or controlled by them in favour of the Scheme subject to the same qualifications.</p> <p>The reasons for the AusNet Directors' recommendation and other matters that you may wish to consider are outlined in the Letter from the Chair of AusNet and in section 1.</p>	<p>Section 1.1 provides a summary of the reasons why the AusNet Directors consider that eligible AusNet Shareholders should vote in favour of the Scheme.</p> <p>Section 1.2 provides a summary of some of the reasons why eligible AusNet Shareholders may wish to vote against the Scheme.</p> <p>Section 8 sets out further information regarding the interests of the AusNet Directors and benefits they will derive if the Scheme is implemented.</p>
What is the opinion of the Independent Expert?	The Independent Expert has concluded that the Scheme is fair and reasonable and, therefore, is in the best interests of AusNet Shareholders, in the absence of a Superior Proposal.	A copy of the Independent Expert's Report is contained in Schedule 1.
Who are Bidder, Brookfield and the Equity Partners?	<p>Bidder is an Australian special purpose proprietary limited company that was incorporated for the purpose of acquiring the Scheme Shares.</p> <p>If the Scheme is implemented, Bidder will become the holder of all Scheme Shares.</p> <p>Brookfield is a leading global alternative asset manager with more than US\$650 billion of assets under management across real estate, infrastructure, renewable power, private equity and credit.</p> <p>The Brookfield Managed Investors, together with Sunsuper Superannuation Fund, Alberta Investment Management Corporation, Investment Management Corporation of Ontario and Healthcare of Ontario Pension Plan (together, the Equity Partners) (or one or more of their affiliates) are expected to own all of the shares in Bidder's ultimate holding company, TopCo. As at the date of this Scheme Booklet, Brookfield Managed Investors hold a 100% interest in TopCo, with the remaining four Equity Partners having agreed to invest an amount at implementation of the Scheme that would give them an aggregate interest of 44.7%.</p>	Section 5 provides further information regarding Bidder, its funding arrangements and intentions for the AusNet business if the Scheme is implemented.

¹⁵ Mr Tony Narvaez (AusNet's Managing Director) has previously been granted Performance Rights and Deferred Rights. If the Scheme proceeds, Mr Narvaez will receive a benefit in the sense that he will receive shares in return for the vesting of his existing Performance Rights and Deferred Rights, even though the vesting conditions for those Performance Rights and Deferred Rights will not have been fully satisfied at the relevant time. If the Scheme becomes Effective and is implemented by 31 March 2022, by the Implementation Date, Mr Narvaez will have received, in aggregate, \$4,409,730 in respect of his Performance Rights and Deferred Rights. See sections 8.2 and 8.3(d) for details of the implications of the Scheme for Mr Narvaez's Performance Rights and Deferred Rights. AusNet Shareholders should have regard to these arrangements when considering Mr Narvaez's recommendation on the Scheme. Given the importance of the Scheme and Mr Narvaez's role in the management of AusNet, the other AusNet Directors consider that it is appropriate that Mr Narvaez make a recommendation on the Scheme. Mr Narvaez also considers that it is appropriate that he make a recommendation on the Scheme.

Question	Answer	More Information
What are Bidder's intentions?	Bidder's current intentions, subject to a full review of AusNet's business, operations, assets and employees following implementation of the Scheme, are to maintain AusNet's current strategic direction with an investment case based on furthering its position as a leading owner and operator of gas and electricity networks across Victoria by investing in the networks to support and facilitate the energy transition underway in Australia and ensure the reliability and resilience of the networks, and connecting new and decentralised energy sources to bring renewable energy to Victorian communities.	Section 5.4.
How is Bidder funding the Scheme Consideration?	<p>Bidder intends to fund payment of the Scheme Consideration using a combination of debt and equity.</p> <p>The equity is available pursuant to a legally binding Equity Commitment Letter from Brookfield and Brookfield Super-Core Infrastructure Partners in favour of Bidder (and enforceable by AusNet) as described in section 5.3(b).</p> <p>The debt is available pursuant to an Acquisition Facility between Bidder and the Financiers, as described in section 5.3(c).</p>	Section 5.3.
Does Bidder currently hold any AusNet Shares?	<p>Bidder does not hold nor does it have the power to control voting rights attached to, or the power to dispose of, any AusNet Shares.</p> <p>As at 23 November 2021, Brookfield (and also Bidder, because it is ultimately controlled by Brookfield) had Voting Power in 78,440 AusNet Shares (which represents 0.0020% of AusNet's issued shares) because entities in Brookfield's public securities group have Voting Power in those AusNet Shares. Those other members of the Brookfield group operate on the other side of information barrier arrangements.</p>	Section 5.5 sets out further information regarding Bidder's holdings and Voting Power in AusNet Shares.
What choices do I have as an AusNet Shareholder?	<p>As an AusNet Shareholder, you have the following choices in relation to the Scheme:</p> <ul style="list-style-type: none"> • vote in favour of the Scheme Resolution at the Scheme Meeting; • vote against the Scheme Resolution at the Scheme Meeting; • sell your AusNet Shares on the ASX; or • do nothing. <p>If you do nothing and the Scheme is implemented, your AusNet Shares will be sold to Bidder for the Scheme Consideration.</p>	For key considerations that may be relevant to your vote, see section 1.
Why should I vote in favour of the Scheme?	The reasons to vote in favour of the Scheme are set out in section 1.1.	Section 1.1.
Why may I consider voting against the Scheme?	The reasons why you may wish to vote against the Scheme are set out in section 1.2.	Section 1.2.

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2 Frequently asked questions continued

Question	Answer	More Information
Can I sell my AusNet Shares now?	<p>You can sell your AusNet Shares on market at any time before close of trading on the ASX on the Effective Date (which is currently expected to be Friday, 4 February 2022) at the then prevailing market price, which may vary from the Scheme Consideration (including, in respect of the period after the Ex-Dividend Date, as reduced by the Interim Dividend of \$0.0475).</p> <p>AusNet intends to apply to the ASX for AusNet Shares to be suspended from official quotation on the ASX from close of trading on the Effective Date. You will not be able to sell your AusNet Shares on market after this time.</p> <p>If you sell your AusNet Shares prior to the Effective Date, you will not receive the Scheme Consideration.</p>	N/A
Voting at the Scheme Meeting		
What will the AusNet Shareholders be asked to vote on at the Scheme Meeting?	AusNet Shareholders will be asked at the Scheme Meeting to vote on the Scheme Resolution – to approve the Scheme under which Bidder will acquire all of the AusNet Shares.	Notice of Meeting contained in Schedule 4.
What vote is required to approve the Scheme?	For the Scheme to proceed, the Scheme Resolution must be passed by the Requisite Majorities at the Scheme Meeting.	Section 3.4(a) and the Notice of Meeting contained in Schedule 4 set out further details regarding the Requisite Majorities and your entitlement to vote.
Am I entitled to vote?	Each AusNet Shareholder who is registered on the AusNet Share Register on the Scheme Meeting Record Date (currently expected to be 7.00pm (Melbourne time) on Wednesday, 26 January 2022) is entitled to vote at the Scheme Meeting.	The Notice of Meeting contained in Schedule 4 sets out further details on your entitlement to vote at the Scheme Meeting.
How do I vote?	<p>You can vote:</p> <ul style="list-style-type: none"> • in person by attending the online Scheme Meeting; or • by appointing a proxy, attorney or, if you are a body corporate, a duly appointed corporate representative, to attend the online Scheme Meeting and vote on your behalf. <p>You can appoint a proxy for the Scheme Meeting by completing the Proxy Form attached to the Notice of Meeting in Schedule 4, and returning the form to AusNet or Computershare by 11.00am (Melbourne time) on Wednesday, 26 January 2022).</p>	The Notice of Meeting contained in Schedule 4 sets out further details on your entitlement to vote at the Scheme Meeting and how to submit a Proxy Form.

Question	Answer	More Information
When and where will the Scheme Meeting be held?	<p>The Scheme Meeting will be held as a virtual (online only) meeting at 11.00am (Melbourne time) on Friday, 28 January 2022.</p> <p>You (or your proxy, attorney or, if you are a body corporate, your duly appointed corporate representative) may virtually attend the Scheme Meeting by using a web browser at www.meetnow.global/AST2022 on your smartphone, tablet or computer. You will need the latest versions of Chrome, Safari, Edge or Firefox. Please ensure your browser is compatible.</p> <p>Your username is your SRN/HIN.</p> <p>Your password is the postcode of your registered address for your holding if you are an Australian shareholder. If you are an overseas shareholder, no password is required and instead please select your country from the drop-down list.</p> <p>Please refer to the online meeting user guide at www.computershare.com.au/ASTmeetingguide for further details.</p> <p>The online platform enables participants to view the Scheme Meeting live, ask questions online and vote on the Scheme Resolution in real time.</p>	The Notice of Meeting contained in Schedule 4 sets out further details on your entitlement to vote at the Scheme Meeting.
When will the result of the Scheme Meeting be known?	The result of the Scheme Meeting will be available shortly after the conclusion of the meeting and will be announced to the ASX once available. Even if the Scheme Resolution is passed at the Scheme Meeting, the Scheme is subject to approval by the Court.	N/A
What happens to my AusNet Shares if I do not vote, or if I vote against the Scheme, and the Scheme becomes Effective?	If you do not vote, vote against the Scheme or vote in favour of the Scheme, and the Scheme becomes Effective, the outcome for your AusNet Shares will be the same – any AusNet Shares held by you on the Scheme Record Date will be transferred to Bidder and you will receive the Scheme Consideration, notwithstanding that you may not have voted or you voted against the Scheme.	N/A
Can I oppose the Scheme at the Second Court Hearing?	As an AusNet Shareholder, you have a right to appear and make submissions at the Second Court Hearing which is scheduled to be held at 9.15am (Melbourne time) on Thursday, 3 February 2022 at the Supreme Court of New South Wales, Law Courts Building, 184 Phillip Street, Sydney.	N/A
Do I have to give any warranties in relation to my Scheme Shares?	Yes. Each Scheme Shareholder will be deemed to have warranted to Bidder that all of their Scheme Shares will, at the date of transfer under the Scheme, be fully paid and free from all mortgages, charges, liens, encumbrances and interests of third parties of any kind, and that they have full power and capacity to sell and transfer their Scheme Shares (together with all rights and entitlements attaching to such shares) to Bidder.	Section 8.11.

2 Frequently asked questions continued

Question	Answer	More Information
What will AusNet Shareholders receive under the Scheme		
When will I be paid?	Payments of the Scheme Consideration will occur in accordance with the Scheme on the Implementation Date. The Implementation Date is expected to occur on Wednesday, 16 February 2022.	Section 3.3(c).
How will I be paid?	<p>All payments will be made by:</p> <ul style="list-style-type: none"> • electronic funds transfer on the Implementation Date into your nominated bank account as advised to the AusNet Share Registry as at the Scheme Record Date; or • if you have not nominated a bank account, sending an Australian dollar cheque on the Implementation Date, by pre-paid post to your registered address as shown on the AusNet Share Register. 	Section 3.3(c).
Will I have to pay brokerage?	No brokerage will be payable by AusNet Shareholders in respect of the disposal of their AusNet Shares pursuant to the Scheme.	Section 1.1(l)
Implementation of the Scheme		
What will happen to AusNet if the Scheme becomes Effective and is implemented?	If the Scheme is implemented, Bidder will acquire all of the AusNet Shares and, following the implementation of the Scheme, Bidder intends for AusNet to apply for the termination of the official quotation of AusNet Shares on the ASX and for AusNet to be removed from ASX's official list, with effect on or around the Business Day immediately following the Implementation Date.	Section 5 sets out further details on Bidder and Bidder's intentions as to AusNet into the future.

Question	Answer	More Information
Are there any conditions to be satisfied?	<p>There are certain conditions that will need to be satisfied or waived (where capable of waiver) before the Scheme can become Effective.</p> <p>In summary, as at the date of this Scheme Booklet, the outstanding conditions include:</p> <ul style="list-style-type: none"> • approval from eligible AusNet Shareholders at the Scheme Meeting; • Court approval; • no legal or regulatory restraints on, or Orders preventing, the implementation of the Scheme (may be waived by Bidder and AusNet together); • no AusNet Material Adverse Change occurring between the date of the Scheme Implementation Deed and 8.00am on the Second Court Date (may be waived by Bidder); and • no AusNet Regulated Event occurring between the date of the Scheme Implementation Deed and 8.00am on the Second Court Date (may be waived by Bidder). <p>As at the date of this Scheme Booklet, the AusNet Directors are not aware of any reason why these conditions should not be satisfied or waived (where capable of waiver).</p>	Section 8.12(a).
What happens if the Scheme does not proceed?	<p>If the Scheme is not approved at the Scheme Meeting, or another condition to the Scheme is not satisfied or waived (where capable of waiver), the Scheme will not be implemented.</p> <p>If the Scheme is not implemented, Scheme Shareholders will not receive the Scheme Consideration but will retain their AusNet Shares. In these circumstances, AusNet will, in the absence of another proposal, continue to operate as a stand-alone company listed on the ASX and you will continue to hold your AusNet Shares and continue to be exposed to risks and opportunities associated with your investment in AusNet. In addition, AusNet Shareholders would still be entitled to receive any final dividend in respect of the financial year ending 31 March 2022 (to the extent they continue to hold AusNet Shares on the relevant record date).</p>	N/A
Is there a break fee payable?	<p>AusNet has agreed to pay Bidder a break fee of \$101,674,267 in certain circumstances, and vice versa.</p> <p>However, no break fee is payable merely for the reason that eligible AusNet Shareholders do not approve the Scheme at the Scheme Meeting.</p>	Section 8.12(e).

2 Frequently asked questions continued

Question	Answer	More Information
What are the taxation implications of the Scheme?	<p>The tax consequences of the Scheme will depend on your personal situation.</p> <p>A general outline of the main Australian taxation implications of the Scheme for certain AusNet Shareholders is set out in section 7 of this Scheme Booklet.</p> <p>As this outline is general in nature, you should consult with your own taxation advisers for detailed tax advice regarding the Australian and, if applicable, foreign taxation implications for participating in the Scheme in light of the particular circumstances which apply to you before making a decision as to how to vote on the Scheme.</p>	Section 7.
Further information		
Where can I get further information?	For further information, you can call the Shareholder Information Line on 1300 540 303 (within Australia) or +61 2 9066 4083 (outside Australia).	N/A

Overview of the Scheme



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3 Overview of the Scheme

3.1 Background

On 20 September 2021, AusNet announced that it had received an indicative non-binding and conditional proposal from Brookfield to acquire, by way of scheme of arrangement, all of the issued shares in AusNet at an indicative price of \$2.50 cash per share (the **Brookfield Indicative Proposal**).

Prior to the announcement of the Brookfield Indicative Proposal, the AusNet Board, taking advantage of the interest of two competing bidders, received four indicative proposals (three from Brookfield and one from APA Group) ranging from a notional value of \$2.32 per AusNet Share (from APA Group) to an indicative price of \$2.50 cash per AusNet Share (ie the Brookfield Indicative Proposal).

After receipt of the Brookfield Indicative Proposal, the AusNet Board considered that it was prepared to engage further with Brookfield to seek to convert the Brookfield Indicative Proposal into a binding proposal and, as announced to the ASX on 20 September 2021, agreed to provide Brookfield with the opportunity to conduct due diligence on the AusNet Group.

On 21 September 2021, the AusNet Board received a further indicative non-binding and conditional proposal from APA Group to acquire all of the issued shares in AusNet at an indicative price with a notional value of \$2.60 per share (at the time the proposal was made) by way of scheme of arrangement, with consideration in the form of cash and APA Group securities (the **APA Indicative Proposal**). As announced on to the ASX, AusNet granted APA Group due diligence on 23 October 2021.

On 1 November 2021, AusNet announced that it had received a binding offer from Brookfield at \$2.65 cash per AusNet Share¹⁶ and that AusNet and Bidder had entered into the Scheme Implementation Deed under which AusNet agreed to propose and implement the Scheme and Bidder agreed to assist AusNet to propose and implement the Scheme.

3.2 Scheme

Under the Scheme Implementation Deed, Bidder has agreed to acquire all of the AusNet Shares on issue by way of the Scheme, in return for the Scheme Consideration being, for each Scheme Share:

- (a) an amount of \$2.65 per AusNet Share; less
- (b) the cash amount of the Interim Dividend of \$0.0475¹⁷, as well as any final dividend in respect of the financial year ending 31 March 2022¹⁸ to which AusNet Securityholders become entitled on or before the Implementation Date; plus
- (c) the amount of any Additional Consideration.

A brief summary of the Scheme Implementation Deed is included in section 8.12 of this Scheme Booklet.

For the Scheme to proceed, eligible AusNet Shareholders must vote in favour of the Scheme by the Requisite Majorities set out in section 3.4(a), and the Scheme must be approved by the Court. The Scheme is also subject to the satisfaction or waiver (where capable of waiver) of the other Conditions Precedent described in section 8.12(a).

If the Scheme is approved by eligible AusNet Shareholders and by the Court, and all other Conditions Precedent are satisfied or waived (where capable of waiver), then AusNet will become a wholly-owned subsidiary of Bidder. Following the implementation of the Scheme, Bidder intends to arrange for AusNet to apply for the termination of the official quotation of AusNet Shares on the ASX and for AusNet to be removed from ASX's official list, with effect on or around the Business Day immediately following the Implementation Date.

If the Scheme is not approved, Scheme Shareholders will not receive the Scheme Consideration and AusNet Shareholders will retain their AusNet Shares.

In these circumstances, AusNet will, in the absence of another proposal, continue to operate as a stand-alone entity listed on the ASX and AusNet Shareholders will retain their AusNet Shares and continue to be exposed to risks and opportunities associated with their current investment in AusNet.

¹⁶ Less any Permitted Dividends to which AusNet Shareholders become entitled on or before the Implementation Date and (if the Scheme is implemented after 31 March 2022) plus the amount of Additional Consideration.

¹⁷ The Interim Dividend is to be paid on 16 December (provided the AusNet Shares were held as at the Interim Dividend record date of 17 November 2021). If an AusNet Shareholder does not hold the AusNet Shares as at the Interim Dividend record date, such AusNet Shareholder will not receive the Interim Dividend, but the amount of the Interim Dividend will still be deducted from the Scheme Consideration.

¹⁸ Pursuant to the Scheme Implementation Deed, any final dividend must be unfranked and may only be up to a maximum of \$0.0475 per AusNet Share. AusNet Shareholders who hold AusNet Shares on any final dividend record date will be entitled to receive any final dividend from AusNet for each of their AusNet Shares.

3.3 Scheme Consideration

(a) Implementation on or before 31 March 2022

As the Bidder's offer price of \$2.65 per AusNet Share is a dividend inclusive figure, the amount payable by Bidder to acquire each AusNet Share will be reduced by AusNet's interim unfranked dividend of \$0.0475 per AusNet Share for the half year ended 30 September 2021 (**Interim Dividend**) (and, in the event the Scheme is implemented after the record date of any final dividend in respect of the financial year ending 31 March 2022, will also be reduced by the amount of such final dividend).¹⁹

Accordingly, if the Implementation Date is on or before 31 March 2022, each person who holds AusNet Shares as at the Scheme Record Date and who also receives AusNet's Interim Dividend to be paid on 16 December 2021 will receive the Total Cash Amount of \$2.65 in relation to each of their AusNet Shares, comprising:

- (i) Scheme Consideration of \$2.6025 per AusNet Share from Bidder for the sale of each of their AusNet Shares to Bidder; and
- (ii) the Interim Dividend of \$0.0475 per AusNet Share.²⁰

If the Scheme is implemented by 31 March 2022 and a Scheme Shareholder acquired their AusNet Shares after the Interim Dividend record date of 17 November 2021, they will receive a total cash amount of \$2.6025 for the sale of each of their AusNet Shares to Bidder (and will not receive the Interim Dividend).

(b) Implementation after 31 March 2022

It is currently expected that the Scheme will be implemented by 31 March 2022. However, if the Scheme is implemented after 31 March 2022, Bidder is required to pay additional purchase consideration of \$0.000260274 per AusNet Share for each day after 31 March 2022 that has elapsed by the date of implementation of the Scheme (ie approximately 0.8 cents for each AusNet Share per month) (the **Additional Consideration**).

In this scenario, each person who holds AusNet Shares as at the Scheme Record Date will be entitled to receive the Additional Consideration for each of their AusNet Shares, in addition to the amounts described in paragraph (a) above.

This adjustment mechanism helps to protect AusNet Shareholders against the risk associated with any delay in the implementation date beyond 31 March 2022 and provides further certainty of value for AusNet Shareholders under the Scheme.

If the Scheme is implemented after the record date of any AusNet final dividend in respect of the full year ending 31 March 2022 (up to a maximum of \$0.0475 per AusNet Share), the amount of such dividend will be deducted from the Scheme Consideration. To the extent any final dividend per AusNet Share is deducted from the Scheme Consideration payable by Bidder, AusNet Shareholders will receive such final dividend payment from AusNet (provided they hold their AusNet Shares on the relevant final dividend record date).

(c) Payment of Scheme Consideration

If the Scheme becomes Effective, the Scheme Consideration will be paid by Bidder to Scheme Shareholders on the Implementation Date, currently expected to be Wednesday, 16 February 2022. Payments will be made by:

- (i) electronic funds transfer on the Implementation Date into the Scheme Shareholder's nominated bank account as advised to the AusNet Share Registry as at the Scheme Record Date; or
- (ii) if no bank account has been nominated, sending an Australian dollar cheque on the Implementation Date, by pre-paid post to the relevant Scheme Shareholder's registered address, as shown on the AusNet Share Register.

AusNet Shareholders can update their payment information online by logging in to www.investorcentre.com/au.

¹⁹ Pursuant to the Scheme Implementation Deed, any final dividend must be unfranked and may only be up to a maximum of \$0.0475 per AusNet Share. AusNet Shareholders who hold AusNet Shares on any final dividend record date will be entitled to receive any final dividend from AusNet for each of their AusNet Shares.

²⁰ AusNet Shareholders will only receive the Interim Dividend if they held their AusNet Shares as at the Interim Dividend record date of 17 November 2021.

3 Overview of the Scheme continued

3.4 Key Steps in the Scheme

(a) Scheme approval requirements

The Scheme will become Effective and be implemented only if the Scheme is approved by:

- (i) the Requisite Majorities of eligible AusNet Shareholders at the Scheme Meeting to be held on Friday, 28 January 2022; and
- (ii) the Court at the Second Court Hearing to be held on Thursday, 3 February 2022.

Approval by the Requisite Majorities of eligible AusNet Shareholders at the Scheme Meeting means approval by:

- (iii) a majority in number (more than 50%) of eligible AusNet Shareholders present and voting at the Scheme Meeting (whether in person or by proxy, attorney or corporate representative) (unless the Court orders otherwise); and
- (iv) at least 75% of the total number of votes cast on the Scheme Resolution by eligible AusNet Shareholders.

The Court has the power to waive the first requirement.

Each AusNet Shareholder who is registered on the AusNet Share Register on the Scheme Meeting Record Date is entitled and eligible to vote at the Scheme Meeting.

(b) Date and time of Scheme Meeting

In accordance with an order of the Court dated 16 December 2021, AusNet has convened the Scheme Meeting to be held virtually through an online platform on Friday, 28 January 2022 commencing at 11.00am (Melbourne time). There will not be a physical meeting where AusNet Shareholders or their proxies, attorneys or corporate representatives can attend in person.

The notice convening the Scheme Meeting is set out in Schedule 4 to this Scheme Booklet and the terms of the Scheme are contained in Schedule 2 to this Scheme Booklet. The purpose of the Scheme Meeting is for eligible AusNet Shareholders to consider whether to approve the Scheme.

The fact that the Court has ordered the Scheme Meeting does not mean that the Court has formed any view as to the merits of the Scheme or as to how AusNet Shareholders should vote on the Scheme Resolution. On these matters, AusNet Shareholders must reach their own decision. In any event, the Court must approve the Scheme at the Second Court Hearing before the Scheme can become Effective.

(c) Second Court Hearing

In the event that the Scheme is approved by the Requisite Majorities of eligible AusNet Shareholders at the Scheme Meeting and all other Conditions Precedent (except Court approval of the Scheme) have been satisfied or waived (where capable of waiver), AusNet will apply to the Court for orders approving the Scheme at the Second Court Hearing.

Each AusNet Shareholder has the right to appear at the Second Court Hearing.

The Court has a broad discretion whether or not to approve the Scheme under section 411(4)(b) of the Corporations Act. The Second Court Hearing is scheduled to occur on the Second Court Date (currently expected to be 9.15am (Melbourne time) on Thursday, 3 February 2022).

(d) Effective Date

If the Court makes orders approving the Scheme and all other conditions have been satisfied or waived (where capable of waiver), then AusNet will lodge a copy of those orders with ASIC under section 411(10) of the Corporations Act. As soon as copies of the Court orders approving the Scheme are lodged with ASIC, the Scheme will become Effective. This is expected to occur on the Effective Date (currently expected to be Friday, 4 February 2022).

If the Scheme becomes Effective, then AusNet, AusNet Shareholders and Bidder will become bound to implement the Scheme in accordance with the terms of the Scheme and the Deed Poll.

AusNet will, on the Scheme becoming Effective, give notice of that event on the ASX. AusNet intends to apply to the ASX for AusNet Shares to be suspended from official quotation on the ASX from close of trading on the Effective Date. It is expected that suspension of trading in AusNet Shares on the ASX will occur from the close of trading on the Effective Date.

(e) Scheme Record Date

Scheme Shareholders will be entitled to receive the Scheme Consideration in respect of the AusNet Shares they hold as at the Scheme Record Date (currently expected to be Wednesday, 9 February 2022, being the third Business Day after the Effective Date).

(f) Dealings on or prior to the Scheme Record Date

For the purpose of establishing the persons who are Scheme Shareholders, dealings in AusNet Shares will be recognised by AusNet provided that:

- (i) in the case of dealings of the type to be effected using CHESS (Clearing House Electronic Subregister System), the transferee is registered in the AusNet Share Register as the holder of the relevant AusNet Shares by the Scheme Record Date; and
- (ii) in all other cases, registrable transfers or transmission applications in respect of those dealings are received by the AusNet Share Registry by 5.00pm on the Scheme Record Date at the place where the AusNet Share Register is located (in which case AusNet must register such transfers or transmission before 7.00pm on that day),

and AusNet will not accept for registration, nor recognise for the purpose of establishing the persons who are Scheme Shareholders nor for any other purpose (other than to transfer to Bidder pursuant to this Scheme and any subsequent transfers by Bidder and its successors in title), any transfer or transmission application in respect of AusNet Shares received after such times, or received prior to such times but not in actionable or registrable form (as appropriate).

(g) Dealings after the Scheme Record Date

AusNet must maintain, or procure the maintenance of, the AusNet Share Register in its form as at the Scheme Record Date until the Scheme Consideration has been paid to the Scheme Shareholders and the name and address of Bidder has been entered in the AusNet Share Register as the holder of all of the Scheme Shares. The AusNet Share Register in this form and the terms of the Scheme will solely determine entitlements to the Scheme Consideration. As from the Scheme Record Date:

- (i) all share certificates and holding statements for Scheme Shares (other than statements of holding in favour of Bidder) will cease to have effect as documents of title in respect of those Scheme Shares; and
- (ii) each entry on the AusNet Share Register as at the Scheme Record Date relating to the Scheme Shares (other than for Bidder following the Implementation Date) will cease to have effect except as evidence of entitlements of the Scheme Shareholders to the Scheme Consideration in respect of those Scheme Shares.

(h) Transfer of Scheme Consideration into Trust Account

On or prior to the Business Day before the Implementation Date, Bidder must pay or procure the payment into an Australian dollar denominated trust account held with an Australian bank operated by AusNet (or by the AusNet Share Registry on behalf of AusNet) as trustee for the Scheme Shareholders, an amount at least equal to the aggregate of the Scheme Consideration payable to Scheme Shareholders.

(i) Implementation Date

The Implementation Date is the fifth Business Day after the Scheme Record Date, which is currently expected to be Wednesday, 16 February 2022.

On the Implementation Date, subject to the deposit of the aggregate Scheme Consideration being made by Bidder:

- (i) AusNet will pay to each Scheme Shareholder their entitlement to the Scheme Consideration for each AusNet Share held by them as at the Scheme Record Date; and
- (ii) the Scheme Shares will be transferred to Bidder without Scheme Shareholders needing to take any further action.

(j) Delisting of AusNet

Following the implementation of the Scheme, Bidder intends to arrange for AusNet to apply for the termination of the official quotation of AusNet Shares on the ASX and for AusNet to be removed from ASX's official list with effect on or around the Business Day immediately following the Implementation Date.

(k) End Date

The Scheme will lapse and be of no further force or effect (and implementation will not occur) if the Effective Date has not occurred on or before the End Date.

3 Overview of the Scheme continued

3.5 Conditions Precedent to implementation of the Scheme

The implementation of the Scheme is subject to Conditions Precedent which must be satisfied or waived (where capable of waiver) for the Scheme to proceed. A summary of the Conditions Precedent is included in section 8.12(a) and the Conditions Precedent are set out in full in clause 3.1 of the Scheme Implementation Deed.

3.6 Timetable

An indicative timetable for the Transaction appears on page 5. All dates and times are indicative only and, among other things, are subject to the Court approval process and satisfaction or, where applicable, waiver of the Conditions Precedent. Any changes to the timetable (which may include an earlier or later date for the Scheme Meeting or Second Court Hearing) will be announced on the ASX and notified on AusNet's Website.

Information about AusNet



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4 Information about AusNet

4.1 Overview

AusNet is a large diversified energy network business in Victoria which owns and operates over \$11 billion of regulated and contracted assets. It owns and operates three core regulated networks, as well as a significant portfolio of contracted energy infrastructure assets. AusNet services over 1.5 million customers across Victoria.

4.2 Overview of operations

AusNet is a diversified energy infrastructure business that owns and operates:

- (a) an electricity transmission network;
- (b) an electricity distribution network;
- (c) a gas distribution network; and
- (d) an unregulated business known as 'Development & Future Networks'.

Each of these operations is described in further detail below. Network statistics and customer numbers are as at 30 September 2021.

(a) Electricity Transmission

AusNet's Electricity Transmission Network consists of approximately 6,852 kilometres of transmission lines and carries electricity at extra-high voltages from generators to terminal stations around Victoria, where the voltage is lowered for the local distribution companies to deliver electricity to homes and businesses.

(b) Electricity Distribution

AusNet distributes electricity to approximately 778,000 customers. AusNet's electricity distribution network spans over 80,000 square kilometres, covering eastern metropolitan Melbourne and eastern Victoria.

(c) Gas Distribution

AusNet distributes gas to approximately 764,000 consumers within its distribution area located in central and western Victoria. AusNet's gas distribution network consists of approximately 12,300 kilometres of distribution mains and 185 kilometres of transmission pipelines.

(d) Development & Future Networks

AusNet's 'Development & Future Networks' business (previously named Mondo) provides unregulated infrastructure services and specialised utility related solutions.

Development & Future Networks is responsible for AusNet's unregulated growth and operates under both the Mondo brand, which was launched in December 2018, and AusNet. The Mondo brand consolidated the pre-existing brands of Mondo Power and Select Solutions.

This Development & Future Networks business is focused on:

- (i) **Negotiated and contracted infrastructure** – The development of negotiated and contracted transmission and distribution connections and other infrastructure; and
- (ii) **Energy Services and Emerging markets** (trading under Mondo) – Maintaining a metering business and the provision of asset intelligence solutions to customers predominantly within the utilities, government and telecommunications sectors while exploring an offering in the evolving distributed energy resources sector and market opportunities arising from the increasing penetration of renewable energy supply.

4.3 People

AusNet employs approximately 1,500 employees, as at 31 October 2021, with the vast majority located in Victoria, Australia.

4.4 Board and Executive Leadership Team

(a) AusNet Board

As at the date of this Scheme Booklet, the AusNet Board comprises the following AusNet Directors.

Name	Current position
Peter Mason	Independent Chair
Tony Narvaez	Managing Director
Alan Chan Heng Loon	Non-Executive Director
Ralph Craven	Non-Executive Director
Li Lequan	Non-Executive Director
Tan Chee Meng	Non-Executive Director
Sally Farrier	Independent Non-Executive Director
Robert Milliner	Independent Non-Executive Director
Nora Scheinkestel	Independent Non-Executive Director

Please see the Directors' Report in the AusNet Annual Report 2021 and the AusNet website for further details on the qualifications and experience of each AusNet Director.

(b) Executive Leadership Team

As at the date of this Scheme Booklet, AusNet's Executive Leadership Team comprises the following individuals.

Name	Current position
Tony Narvaez	Managing Director
Mark Ellul	Chief Financial Officer
Naomi Kelly	Executive General Manager, Governance, General Counsel & Company Secretary
Prue Crawford-Flett	Executive General Manager, Network Operations & Safety
Chad Hymas	Chief Development Officer
Steven Neave	Executive General Manager, Network Management & Digital
Jon D'Sylva	Executive General Manager, Strategy & Regulation
Jo McConnell	Executive General Manager, People, Sustainability & Transformation

Please see the 'Our Executive Leadership Team' section in the AusNet Annual Report 2021 and the AusNet Website for further details on the qualifications and experience of each member of the Executive Leadership Team.

4 Information about AusNet continued

4.5 Capital structure

(a) Capital structure and market capitalisation

As at the date of this Scheme Booklet, AusNet has:

- (i) 3,829,964,486 AusNet Shares on issue;
- (ii) 8,329,089 Performance Rights on issue; and
- (iii) 586,270 Deferred Rights on issue.

See section 8.3(d) for further information on the intended treatment of the Performance Rights and Deferred Rights in connection with the Scheme.

As at the Last Practicable Trading Date, AusNet had a market capitalisation of approximately \$9,651,510,505 (based on a closing price of \$2.52 per AusNet Share and 3,829,964,486 AusNet Shares on issue).

(b) Substantial shareholders

As at the Last Practicable Trading Date, the total number of issued AusNet Shares is 3,829,964,486. Based on substantial shareholder notice filings to the ASX²¹ and information in AusNet's register of beneficial ownership of AusNet Shares, the substantial holders of AusNet Shares are as follows.

Name	Number of AusNet Shares ²²	Percentage
Singapore Power International Pte Ltd and its associates	1,253,935,342	32.74%
State Grid International Australia Development Company Limited and its associates	762,162,932	19.90%

Information in regard to substantial holdings arising, changing, ceasing or becoming available after this time or in respect of which the relevant announcement is not available on the ASX's website (www.asx.com.au) is not included above.

4.6 Recent AusNet Share Price history

AusNet Shares are listed on the ASX under the trading symbol 'AST'.

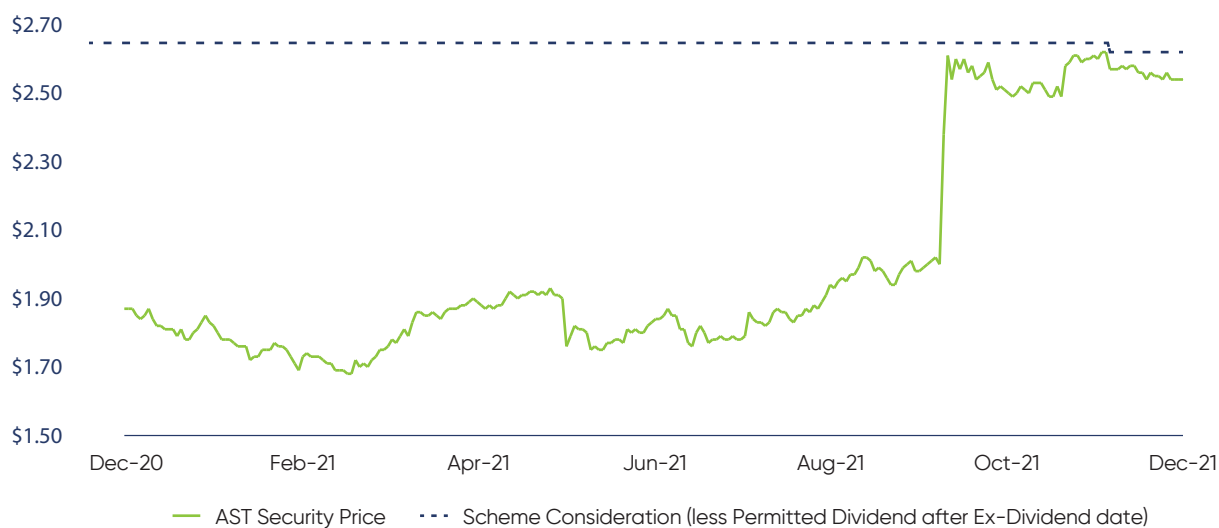
On 20 September 2021, AusNet announced its receipt of Brookfield's indicative non-binding and conditional proposal. The closing share price on 17 September 2021, being the last trading day prior to that announcement, was \$1.98 per AusNet Share.

On 1 November 2021, AusNet announced that it had entered into the Scheme Implementation Deed with Bidder, under which Bidder has agreed to acquire all of the AusNet Shares for the Scheme Consideration, by way of the Scheme. The closing price of AusNet Shares on 29 October 2021 (being the last trading day prior to the announcement of AusNet and Bidder's entry into the Scheme Implementation Deed) was \$2.47.

The graph below shows the closing AusNet Share Price during the 12 months ended on the Last Practicable Trading Date and the Scheme Consideration (including, in respect of the period after the Ex-Dividend Date, as reduced by the Interim Dividend of \$0.0475):

²¹ These substantial notices can be found on AusNet's website at www.ausnetservices.com.au/en/About/Investors/ASX-releases.

²² This refers to the number of AusNet Shares in which the person or any associate has a Relevant Interest as noted in substantial shareholder notices released to the ASX or information in AusNet's register of beneficial ownership of AusNet Shares, which was available to AusNet as at the Last Practicable Trading Date.



Up to and including the Last Practicable Trading Date:

- (a) the last recorded AusNet Share Price on the Last Practicable Trading Date was \$2.52;
- (b) the 1-month volume weighted average price of AusNet Shares was \$2.56;
- (c) the 3-month volume weighted average price of AusNet Shares was \$2.43;
- (d) the 6-month volume weighted average price of AusNet Shares was \$2.23; and
- (e) the lowest and highest AusNet Share Prices during the preceding three months were \$1.96 and \$2.60, respectively.

It should be noted that the above graph and trading statistics include AusNet Share Price data from the period post 20 September 2021, being the day of AusNet's announcement of Brookfield's indicative non-binding and conditional proposal. If the Scheme is not approved, the AusNet Share Price may fall from levels observed post 20 September 2021.

4 Information about AusNet continued

4.7 Historical financial information

(a) Basis of preparation

This section sets out historical financial information about the AusNet Group for the financial years ended 31 March 2020 and 31 March 2021 and the half year ended 30 September 2021. The financial information in this section is a summary only and is prepared for the purpose of this Scheme Booklet. It does not contain all the disclosures, presentations, statements or comparatives that are usually provided in an annual report prepared in accordance with the Corporations Act. The information has been extracted from the audited financial report of AusNet for the financial years ended 31 March 2020 and 31 March 2021 and the audit reviewed accounts for the half year ended 30 September 2021. The financial information has not been subject to further review by an independent accountant.

Further details on AusNet's financial performance and financial statements for the financial year ended 31 March 2021 as announced to the ASX on 12 May 2021 and for the half year ended 30 September 2021 as announced to the ASX on 11 November 2021 can be found in the Company reports section of AusNet's Website.

(b) Historical statement of profit or loss and other comprehensive income

Below is a summary of AusNet's consolidated statement of profit or loss and other comprehensive income for the financial years ended 31 March 2020 and 31 March 2021 and the half year ended 30 September 2021.

	1 Apr 2021 – 30 Sept 2021	1 Apr 2020 – 31 Mar 2021	1 Apr 2019 – 31 Mar 2020
	\$M	\$M	\$M
Statement of Profit and Loss			
Revenue	1,031.8	1,924.5	1,977.6
Use of system and associated charges	(61.5)	(109.5)	(110.1)
Easement and land tax	(91.7)	(168.3)	(176.8)
Employee benefits expenses	(90.3)	(178.4)	(163.3)
External maintenance and contractors' services	(73.9)	(131.7)	(139.4)
Materials	(7.5)	(14.3)	(42.9)
Information technology and communication costs	(27.6)	(47.9)	(49.0)
Administrative expenses	(19.8)	(34.3)	(39.7)
Service level payments	(3.1)	(11.3)	(13.5)
Disposal of property, plant and equipment	(6.7)	(13.5)	(15.5)
Impairment of non-financial assets	-	(30.7)	-
Other expenses	(13.3)	(30.0)	(30.8)
Total expenses excluding depreciation, amortisation, interest and tax	(395.4)	(769.9)	(781.0)
Earnings before interest, tax, depreciation and amortisation	636.4	1,154.6	1,196.6
Depreciation and amortisation	(234.4)	(463.9)	(464.5)
Profit from operating activities	402.0	690.7	732.1
Finance income	19.1	40.0	27.1
Finance costs	(177.0)	(306.6)	(343.8)
Net finance costs	(157.9)	(266.6)	(316.7)
Profit before income tax	244.1	424.1	415.4
Income tax expense	(66.6)	(122.0)	(124.7)
Profit for the period	177.5	302.1	290.7
Basic and diluted earnings per share (cents per share)	4.66	8.04	7.88

Statement of Comprehensive Income	1 Apr 2021 – 30 Sept 2021 \$M	1 Apr 2020 – 31 Mar 2021 \$M	1 Apr 2019 – 31 Mar 2020 \$M
Profit for the period	177.5	302.1	290.7
Other comprehensive income			
Items that will not be reclassified to profit or loss in subsequent periods			
Movement in defined benefit fund	5.3	30.0	(17.7)
Income tax on movement in defined benefit fund	(1.6)	(9.0)	5.3
	3.7	21.0	(12.4)
Items that may be reclassified to profit or loss in subsequent periods			
Movement in hedge reserve	(88.4)	486.3	(457.1)
Income tax on movement in hedge reserve	26.5	(145.9)	137.1
	(61.9)	340.4	(320.0)
Other comprehensive income/(loss) for the period, net of tax	(58.2)	361.4	(332.4)
Total comprehensive income/(loss) for the period	119.3	663.5	(41.7)

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4 Information about AusNet continued

(c) Historical consolidated statement of financial position

Below is a summary of AusNet's consolidated statement of financial position as at 31 March 2020, 31 March 2021 and 30 September 2021.

Statement of Financial Position	As at 30 Sept 2021 \$M	As at 31 Mar 2021 \$M	As at 31 Mar 2020 \$M
ASSETS			
Current assets			
Cash and cash equivalents	330.4	827.9	155.3
Receivables	219.3	184.6	213.2
Other financial assets	164.3	734.5	262.7
Inventories	41.3	43.5	44.2
Derivative financial instruments	32.1	18.1	194.8
Tax receivable	66.5	5.6	-
Other assets	56.0	26.8	23.4
Total current assets	909.9	1,841.0	893.6
Non current assets			
Inventories	23.7	21.6	19.6
Property, plant and equipment	11,442.8	11,388.5	11,105.4
Intangible assets	563.8	503.5	535.1
Other financial assets	466.7	442.3	446.2
Derivative financial instruments	399.5	332.1	1,249.1
Tax receivable	-	37.5	-
Other assets	66.5	63.1	35.8
Total non current assets	12,963.0	12,788.6	13,391.2
Total assets	13,872.9	14,629.60	14,284.8
LIABILITIES			
Current liabilities			
Payables and other liabilities	310.9	314.9	300.7
Lease liabilities	7.7	6.9	6.1
Provisions	93.1	97.2	75.7
Borrowings	415.8	318.4	955.2
Derivative financial instruments	8.9	25.9	6.0
Current tax payable	24.3	-	26.2
Total current liabilities	860.7	763.3	1,369.9
Non-current liabilities			
Deferred revenue	221.9	209.0	218.5
Lease liabilities	74.3	84.4	88.2
Provisions	52.4	51.7	61.2
Borrowings	8,060.5	8,868.8	8,325.5
Derivative financial instruments	457.2	510.0	776.1
Deferred tax liabilities	722.8	707.5	439.8
Total non-current liabilities	9,589.1	10,431.4	9,909.30
Total liabilities	10,449.8	11,194.7	11,279.2
Net assets	3,423.1	3,434.9	3,005.6
EQUITY			
Contributed equity	5,537.1	5,487.8	5,352.8
Reserves	(1,806.1)	(1,744.4)	(2,083.4)
Retained profits	787.2	786.6	831.3
Other equity	(1,095.1)	(1,095.1)	(1,095.1)
Total equity	3,423.1	3,434.9	3,005.6

(d) Historical statement of cash flows

Below is a summary of AusNet's consolidated statement of cash flow for the financial years ended 31 March 2020 and 31 March 2021 and the half year ended 30 September 2021.

	1 Apr 2021 – 30 Sept 2021 \$M	1 Apr 2020 – 31 Mar 2021 \$M	1 Apr 2019 – 31 Mar 2020 \$M
Statement of Cashflows			
Cash flows from operating activities			
Profit for the period	177.5	302.1	290.7
Add back interest, tax, depreciation and amortisation	458.9	852.5	905.9
Earnings before interest, tax, depreciation and amortisation	636.4	1,154.6	1,196.6
Non-cash gifted assets revenue	(22.4)	(44.9)	(81.6)
Other non cash items	6.7	44.8	0.6
Working capital movement	(34.4)	63.9	2.7
Income tax paid	(25.5)	(78.5)	(98.6)
Net interest paid	(157.8)	(295.4)	(299.1)
Net cash inflow from operating activities	403.0	844.5	720.6
Cash flows from investing activities			
Payments for property, plant and equipment	(385.4)	(745.2)	(900.3)
Proceeds from sale of property, plant and equipment	0.8	0.6	16.5
Receipts from other financial assets	569.8	10.0	9.7
Payments for financial assets	5.3	(470.1)	(249.7)
Net cash outflow from investing activities	190.5	(1,204.7)	(1,123.8)
Cash flows from financing activities			
Payments for employee equity plan shares	(1.7)	(0.6)	-
Payments for lease liabilities	(2.7)	(6.1)	(6.1)
Dividends paid	(131.2)	(234.7)	(238.5)
Proceeds from borrowings	-	2,131.9	1,282.1
Repayment of borrowings	(955.4)	(857.7)	(818.4)
Net cash inflow from financing activities	(1,091.0)	1,032.8	219.1
Net increase/(decrease) in cash held	(497.5)	672.6	(184.1)
Cash and cash equivalents at the beginning of the period	827.9	155.3	339.4
Cash and cash equivalents at the end of the period	330.4	827.9	155.3

4.8 Material changes to AusNet's financial position since 30 September 2021

As at the date of this Scheme Booklet, within the knowledge of the AusNet Directors and other than as disclosed in this Scheme Booklet or announced on the ASX, there have been no material changes to the financial position of AusNet since 30 September 2021 being the date of AusNet's audit reviewed accounts for the half-year ending 30 September 2021, except that AusNet will pay the Interim Dividend on 16 December 2021, for a total amount of approximately \$181.9 million, which will be funded by AusNet from cash on deposit. The AusNet dividend reinvestment plan did not operate for the Interim Dividend.

4.9 FY22 dividend guidance

In its announcement to the ASX on 11 November 2021 regarding its results for the half year ending 30 September 2021, AusNet announced the Interim Dividend of \$0.0475 per AusNet Share (unfranked), in line with guidance for the full year dividend for the financial year ending 31 March 2022 of 9.5 cents per AusNet Share (unfranked) (the **FY22 Dividend Guidance**).

As at the date of this Scheme Booklet, AusNet reaffirms the FY22 Dividend Guidance.

4 Information about AusNet continued

4.10 AusNet Directors' intentions for the business

The Corporations Act requires a statement by the AusNet Directors of their intentions regarding the AusNet Group's business, subject to the Scheme becoming Effective. If the Scheme is implemented, Bidder intends to reconstitute the AusNet Board such that all of the AusNet Directors may be replaced with persons nominated by Bidder (see section 5.4(d)).

Accordingly, it is not possible for the AusNet Directors to provide a statement of their intentions after the Scheme is implemented regarding:

- (a) the continuation of the business of the AusNet Group or how the AusNet Group's existing business will be conducted;
- (b) any major changes, if any, to be made to the business of AusNet Group; or
- (c) any future employment of the present employees of AusNet Group.

If the Scheme is implemented, Bidder will own and control all of the AusNet Shares. The AusNet Directors have been advised that the intentions of Bidder with respect to these matters, subject to the Scheme becoming Effective, are as set out in section 5.4.

If the Scheme is not implemented, the AusNet Directors intend to continue to operate AusNet in the ordinary course of the business of AusNet.

4.11 Risks relating to AusNet business

There are existing risks relating to the AusNet Group's business and an investment in AusNet which will continue to be relevant to AusNet Shareholders if the Scheme does not become Effective. A summary of the key risks relating to the AusNet Group's business and an investment in AusNet is set out in section 6.3.

4.12 Publicly available information

AusNet is a listed disclosing entity for the purposes of the Corporations Act and as such, is subject to regular reporting and disclosure obligations. Specifically, as a company listed on the ASX, AusNet is subject to the ASX Listing Rules which require (subject to some exceptions) continuous disclosure of any information AusNet has that a reasonable person would expect to have a material effect on the price or value of AusNet Shares.

ASX maintains files containing publicly disclosed information about all companies listed on the ASX. Information disclosed to the ASX by AusNet is available on the ASX's website at www.asx.com.au.

In addition, AusNet is required to lodge various documents with ASIC. Copies of documents lodged with ASIC by AusNet may be obtained from an ASIC office.

AusNet Shareholders may obtain a copy of:

- (a) AusNet 2021 Annual Report (being the last full financial statements given to the ASX); and
- (b) the financial statements for the half-year ending 30 September 2021,

free of charge, by calling the Shareholder Information Line on 1300 540 303 (within Australia) or +61 2 9066 4083 (outside of Australia) Monday to Friday (excluding public holidays, other than Wednesday, 26 January 2022) between 9:00am and 5:00pm (Melbourne time), or from ASX's website at www.asx.com.au.

AusNet's announcements to ASX since 11 November 2021, being the date it lodged its financial statements for the half-year ending 30 September 2021 with the ASX, to the Last Practicable Trading Date are listed in the table below.

Date	Announcement
12 November 2021	FIRB approval received in relation to proposed Scheme
18 November 2021	AusNet to pay Guaranteed Service Level payments to customers affected by June 2021 Storm Event
25 November 2021	Update – Dividend / Distribution – AST
7 December 2021	Notification regarding unquoted securities – AST
7 December 2021	Appendix 3Y – Mr Tony Narvaez
8 December 2021	Update – Notification regarding unquoted securities – AST

This table does not contain announcements on ASX related to substantial shareholder notices.

Information about Bidder



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5 Information about Bidder

5.1 Introduction

This section 5 has been prepared by Bidder. The information concerning Bidder and the intentions, views and opinions contained in this section 5 are the responsibility of Bidder. AusNet and its officers and advisers do not assume any responsibility for the accuracy or completeness of this information.

5.2 Overview of Bidder

(a) Overview of Bidder ownership structure

Bidder is an Australian special purpose proprietary limited company that was incorporated for the purpose of acquiring the Scheme Shares, and has not conducted any other business.

Bidder has not commenced trading or conducted business, and does not have any assets or liabilities, other than in connection with its incorporation, the entry into transaction documents in connection with the Scheme and the taking of such other actions as are necessary to facilitate the Scheme (including actions in relation to the incurrence of costs, fees and expenses in connection with the Scheme and arranging of finance in connection with the Scheme). If the Scheme becomes Effective, and subject to Bidder having paid the Scheme Consideration, Bidder will acquire all of the Scheme Shares on the Implementation Date.

The direct holding company of Bidder is Australian Energy Holdings No 3 Pty Ltd (ACN 654 673 300) (**HoldCo**), the direct holding company of HoldCo is Australian Energy Holdings No 2 Pty Ltd (ACN 654 672 992) (**MidCo**) and the direct holding company of MidCo is Australian Energy Holdings No 1 Pty Ltd (ACN 654 672 670) (**TopCo**). HoldCo, MidCo and TopCo (together, the **Holding Companies**) are each also Australian special purpose proprietary limited companies and were incorporated for the purpose of holding shares in their relevant subsidiaries and entering into certain financing arrangements.

None of the Holding Companies have commenced trading or conducted business and none of them has any assets or liabilities, other than in connection with its incorporation and the taking of any actions as are necessary to facilitate the Scheme (including the actions in relation to the incurrence of costs, fees and expenses in connection with the Scheme and arranging of finance in connection with the Scheme).

Brookfield Super-Core Infrastructure Partners, Brookfield Infrastructure Partners L.P. and the Brookfield Managed Co-Investors, being a syndicate of institutional investors managed or advised by Brookfield (together, the **Brookfield Managed Investors**), together with Sunsuper Superannuation Fund, Alberta Investment Management Corporation, Investment Management Corporation of Ontario and Healthcare of Ontario Pension Plan (together, the **Equity Partners**) (or one or more of their affiliates), are expected to be the shareholders in TopCo on implementation of the Scheme and have provided equity funding commitments that are expected to be drawn down immediately prior to payment of the Scheme Consideration on the Implementation Date.

The table below sets out the indicative ownership interests in TopCo following funding, and prior to the Implementation Date.

Investor²³	Domicile of control/ management²³	Expected TopCo shareholding
Brookfield Super-Core Infrastructure Partners	Canada	26.7%
Brookfield Infrastructure Partners L.P.	Canada	10%
Brookfield Managed Co-Investors ²⁴	Australia, Canada, Japan, Korea, Sweden, UK, US	18.6%
Total Brookfield Managed Investors		55.3%
Sunsuper Superannuation Fund	Australia	15%
Alberta Investment Management Corporation ²⁵	Canada	9.9%
Investment Management Corporation of Ontario ²⁶	Canada	9.9%
Healthcare of Ontario Pension Plan	Canada	9.9%
Total Equity Partners		44.7%

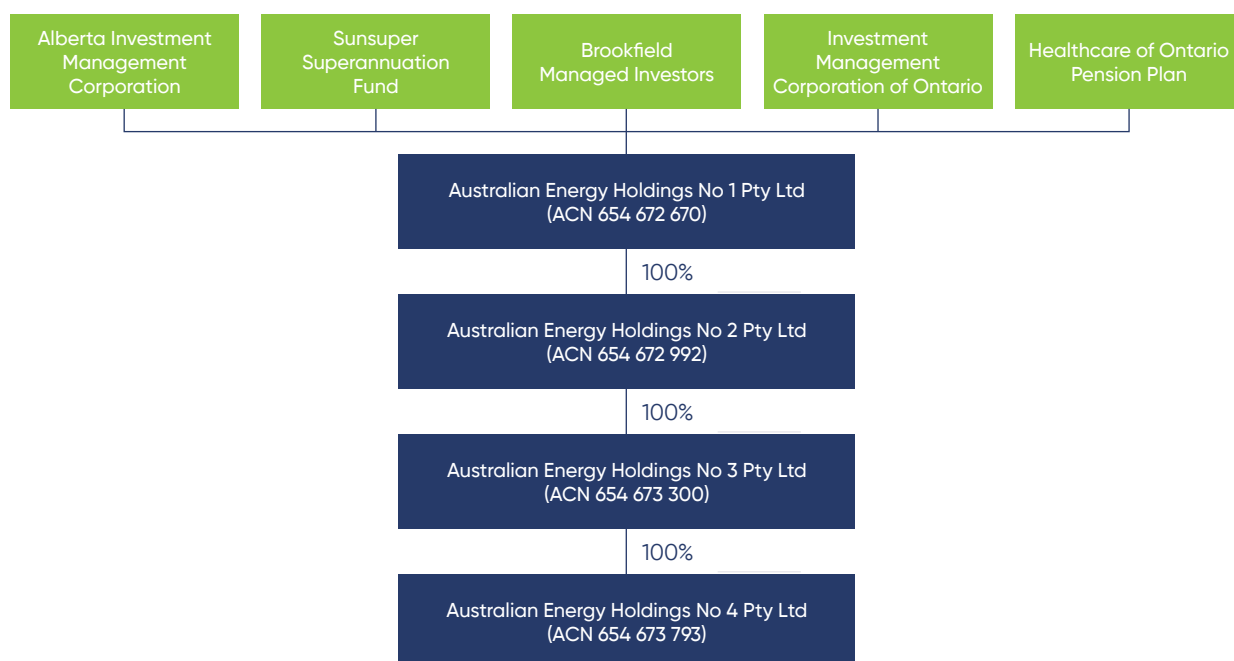
²³ The final identity of the investing entities is yet to be determined but it is anticipated that they, or their ultimate holding entities, will be from these nations (or from some combination of these nations, in the case of the Brookfield Managed Co-Investors).

²⁴ The Brookfield Managed Co-Investors are all institutional investors whose investment in TopCo will be managed by Brookfield or an Affiliate of Brookfield, and who do not have governance rights or influence in respect of investment and management decisions. It is expected that no Brookfield Managed Co-Investor which is not Australian will hold an interest greater than 5% in TopCo.

²⁵ Alberta Investment Management Corporation, or one or more of its affiliates.

²⁶ The investment will be made by applicable public sector clients of the Investment Management Corporation of Ontario (IMCO), through a vehicle managed by IMCO or one of its affiliates on behalf of those applicable public sector clients.

The current proposed ownership structure of Bidder following funding, and prior to the Implementation Date, is illustrated below.



Prior to the Implementation Date, additional third party institutional investors may also acquire shares in TopCo (which may reduce the percentage holdings of some or all of the Brookfield Managed Investors and Equity Partners shown above, but other than one potential additional non-Australian third party institutional investor who may acquire up to a 99% interest in TopCo as an Equity Partner, it is expected that any such additional third party institutional investors will either be Australian or will hold an interest no greater than 5% in TopCo). Whether or not such further acquisitions occur, the Brookfield Managed Investors will continue to control TopCo.

(b) Brookfield Super-Core Infrastructure Partners

Brookfield Super-Core Infrastructure Partners is a global, diversified fund with an investment mandate to pursue true core infrastructure investments that have stable cash flows predominantly from long-term contracted or regulated operations. It is an open-ended fund that was established in May 2018 with approximately US\$5.5 billion in capital commitments (as at 30 September 2021).

(c) Brookfield Infrastructure Partners L.P.

Brookfield Infrastructure Partners L.P. is a large international infrastructure investor listed on the New York Stock Exchange (NYSE:BIP) and the Toronto Stock Exchange (TSX:BIP.UN). It was established on 21 May 2007 under the provisions of the Bermuda Exempted Partnership Act of 1992 and the Bermuda Limited Partnership Act. It is one of the largest owners and operators of critical global infrastructure networks which facilitate the movement and storage of energy, water, freight, passengers and data.

Further information on Brookfield Infrastructure Partners L.P. is available at www.bip.brookfield.com/bip.

(d) Brookfield Asset Management, Inc.

Brookfield is a leading global alternative asset manager with more than US\$650 billion of assets under management across real estate, infrastructure, renewable power, private equity and credit. Brookfield owns and operates long-life assets and businesses, many of which form the backbone of the global economy. Utilising its global reach, access to large-scale capital and operational expertise, Brookfield offers a range of alternative investment products to investors around the world—including public and private pension plans, endowments and foundations, sovereign wealth funds, financial institutions, insurance companies and private wealth investors. Brookfield Asset Management is listed on the New York Stock Exchange (NYSE: BAM) and Toronto Stock Exchange (TSE: BAM.A).

Further information on Brookfield is available at www.brookfield.com.

5 Information about Bidder continued

(e) Sunsuper Superannuation Fund

Sunsuper Superannuation Fund is one of Australia's largest and fastest growing superannuation funds, with over A\$90 billion in funds under management as at 19 November 2021. Being responsible for managing the retirement savings of 1.4 million members, Sunsuper's focus is on delivering strong, long-term investment returns. Sunsuper Superannuation Fund holds over A\$5.5 billion of unlisted infrastructure investments, having invested in the asset class for over 20 years.

Further information on Sunsuper is available at www.sunsuper.com.au.

(f) Alberta Investment Management Corporation

Alberta Investment Management Corporation (or AIMCo) is one of Canada's largest and most diversified institutional investment managers with more than C\$150 billion of assets under management. It invests globally on behalf of 32 pension, endowment and government funds in the Province of Alberta.

Further information on Alberta Investment Management Corporation is available at www.aimco.ca.

(g) Investment Management Corporation of Ontario

The Investment Management Corporation of Ontario (or IMCO) manages over C\$70 billion of assets under management on behalf of its clients. Its mandate is to provide broader public sector institutions with investment management services, including portfolio construction advice, better access to a diverse range of asset classes and sophisticated risk management capabilities. It is an independent organization, operating at arm's length from government and guided by a highly experienced and professional Board of Directors.

IMCO's Global Infrastructure program invests globally across energy, transportation, utilities, social and telecom sectors. The program is differentiated by its strong ESG-orientation with a focus on building a dynamic, future-proof portfolio that actively participates in and enables the global energy transition to a low carbon economy. Its diverse infrastructure team has decades of direct investing experience, is capable of efficiently structuring flexible capital solutions, and works in partnership with other like-minded investors to drive value. As of December 31, 2020, IMCO's Global Infrastructure portfolio had C\$6 billion assets under management. The portfolio is expected to grow to C\$12 billion or more by 2025.

Further information on the Investment Management Corporation of Ontario is available at www.imcoinvest.com.

(h) Healthcare of Ontario Pension Plan

The Healthcare of Ontario Pension Plan (otherwise known as Healthcare of Ontario Pension Trust Fund or HOOPP) is a defined benefit pension plan serving Ontario's hospital and community-based healthcare sector, with more than 610 participating employers and 400,000 active, deferred and retired members with more than C\$104 billion of assets under management. It operates as a private independent trust and is governed by a Board of Trustees with a sole fiduciary duty to deliver the pension.

Further information on the Healthcare of Ontario Pension Plan is available at www.hoopp.com.

(i) Bidder's Directors

As at the date of this Scheme Booklet, the Directors of Bidder are Jonathon Sellar and Raymond Neill, and the Secretary is Michael Ryan.

(j) Officer Profiles

Name	Profile
Jonathon Sellar	<p>Jonathon Sellar is a Managing Director in Brookfield's Infrastructure Group and Operating Partner for Australia and New Zealand, responsible for the asset management function in the region.</p> <p>Mr. Sellar joined Brookfield in 2010, following Brookfield's acquisition of the Australian-listed entity, Prime Infrastructure, where he served in various finance roles since 2002 and as the Chief Financial Officer since 2005. Previously, he held senior roles at InterGen Australia and at PricewaterhouseCoopers.</p> <p>Mr. Sellar holds a Bachelor of Business degree in accountancy from the Queensland University of Technology and has been a member of the Institute of Chartered Accountants in Australia since 1996.</p>
Ray Neill	<p>Ray Neill is a Managing Director in Brookfield's Infrastructure Group, responsible for leading business development and transaction execution in Australia.</p> <p>Mr. Neill joined Brookfield in 2010, following Brookfield's acquisition of the Australian-listed entity, Prime Infrastructure, where he worked as an investment analyst. Mr. Neill serves as a board member on several of Brookfield's operating companies including Patrick Corporation. Previously, Mr. Neill worked in the transport group of the strategy consulting firm Booz and Co.</p> <p>Mr. Neill holds a Bachelor's degree in Engineering from the University of Queensland and a Graduate Diploma in Applied Finance from the Securities Institute of Australia.</p>
Michael Ryan	<p>Michael Ryan is a Managing Director and Counsel in Brookfield's Infrastructure Group, responsible for overseeing the legal function in the Asia Pacific region and the corporate administration of Brookfield Infrastructure Partners.</p> <p>Mr. Ryan joined Brookfield in 2010, following Brookfield's acquisition of the Australian listed entity, Prime Infrastructure, where he served as General Counsel and Company Secretary since 2004. Prior to this role, he was an Associate in the corporate group of a large Australian law firm.</p> <p>Mr. Ryan holds a Graduate Diploma in Applied Finance from the Securities Institute of Australia and dual bachelor's degrees from Griffith University in International Business and Law.</p>

5.3 Funding arrangements**(a) Overview**

The Scheme Consideration will be provided wholly in cash.

Under the terms of the Deed Poll and conditional upon the Scheme becoming Effective, Bidder has undertaken in favour of each Scheme Shareholder to pay the Scheme Consideration into a trust account for the benefit of the Scheme Shareholders no later than the Business Day before the Implementation Date.

If the Scheme becomes Effective, the Scheme Shareholders will receive the Scheme Consideration for each Scheme Share held by them as at the Scheme Record Date, as further described in section 3.3.

The maximum aggregate amount of cash payable on implementation of the Scheme by Bidder to the Scheme Shareholders will be approximately \$10.2 billion.

Bidder will have sufficient funds to purchase all Scheme Shares upon the terms and subject to the conditions in the Scheme Implementation Deed. Bidder intends to fund payment of the Scheme Consideration using a combination of debt and equity financing. The proceeds available to Bidder under the debt and equity financing are in excess of the maximum aggregate amount of cash payable on implementation of the Scheme.

These funding arrangements are described in sections 5.3(b) and 5.3(c) below.

5 Information about Bidder continued

(b) Equity Funding

Bidder has entered into a legally binding equity commitment letter (**Equity Commitment Letter**) with Brookfield and Brookfield Super-Core Infrastructure Partners (which is also enforceable by AusNet) for an amount (**Equity Commitment**) which, together with the amount available to be drawn under the Acquisition Facility, exceeds \$10.2 billion.

As described in section 5.2, Brookfield is a leading global alternative asset manager with more than US\$650 billion of assets under management and Brookfield Super-Core Infrastructure Partners has approximately US\$5.5 billion in capital commitments (as at 30 September 2021).

Under the Equity Commitment Letter, Brookfield and Brookfield Super-Core Infrastructure Partners have irrevocably agreed, subject to the Scheme becoming Effective, that they will cause Bidder to receive the Equity Commitment on the Business Day before the Implementation Date, by way of capital contributions in immediately available AUD denominated funds, for Bidder's use to pay a portion of the aggregate Scheme Consideration.

Brookfield and Brookfield Super-Core Infrastructure Partners have entered or will enter into back-to-back arrangements with the Equity Partners and the Brookfield Managed Investors described in section 5.2 under which those parties have committed or will commit to ultimately provide the equity.

(c) Debt Funding

Bidder has entered into a syndicated facility agreement dated 29 October 2021 (**Acquisition Facility**) under which Australia and New Zealand Banking Group; Bank of America; Bank of Montreal; Chicago Branch; Barclays Bank and Barclays Capital Asia; Canadian Imperial Bank of Commerce; National Australia Bank and Societe Generale, Hong Kong Branch (together, the **Financiers**) have agreed to provide debt funding to Bidder.

Bidder is permitted to use the funds provided under the Acquisition Facility to partially fund the Scheme Consideration, fees and expenses incurred in connection with the Acquisition Facility or the Scheme and certain other amounts.

The amount available to be drawn under the Acquisition Facility, together with the Equity Commitment, is in excess of the maximum aggregate Scheme Consideration and the fees and expenses incurred in connection with the Acquisition Facility and the Scheme.

The Acquisition Facility has been provided on the basis that its availability is subject to mechanical requirements for drawing and the correctness of certain standard representations and the non-occurrence of certain standard events of default. As at the date of this Scheme Booklet, Bidder is not aware of the occurrence of any such misrepresentations or events of default or any other circumstance that would cause the Financiers to withhold their funding.

As at the Last Practicable Trading Date, Bidder is not aware of any reason why the conditions to the Acquisition Facility will not be satisfied so as to enable the Acquisition Facility to be drawn for the purpose of funding the Scheme Consideration.

(d) Provision of Scheme Consideration

On the basis of the arrangements described above, Bidder is of the opinion that it has a reasonable basis for holding the view, and holds the view, that it will be able to satisfy its obligation to pay the Scheme Consideration (including the amount of any Additional Consideration that may be payable up until the End Date) under the Scheme.

While Bidder has available sufficient funds under the Equity Commitment Letter and Acquisition Facility to pay the maximum aggregate Scheme Consideration (and the fees and expenses referred to above), Bidder may further optimise its funding arrangements, although always ensuring that it has available sufficient funds to pay those amounts.

5.4 Bidder's intentions

(a) Introduction

This section 5.4 sets out Bidder's present intentions, if the Scheme is implemented, in relation to:

- (i) the continuation of AusNet's business including any redeployment of significant assets of AusNet;
- (ii) significant changes to be made to AusNet's business and AusNet's management team;
- (iii) the future employment of AusNet's present employees; and
- (iv) the delisting of AusNet from ASX,

assuming Bidder acquires the Scheme Shares as a result of implementation of the Scheme.

The statements in this section 5.4 regarding Bidder's intentions are based on information concerning AusNet Group and the general business environment which are known to Bidder at the time of the preparation of this Scheme Booklet.

The intentions and statements of future conduct set out in this section 5.4 must be read as being subject to the law (including the Corporations Act) and the Listing Rules as well as the legal obligations of AusNet's Directors at the time of the preparation of this Scheme Booklet.

Bidder has reviewed information concerning AusNet, its business and the general business environment which is available at the time of the preparation of this Scheme Booklet. Bidder has also conducted a limited due diligence review of certain non-public information provided to it by AusNet. Bidder does not currently have full knowledge of all material information, facts and circumstances that are necessary to assess all of the operational, commercial, tax and financial implications of its current intentions. Final decisions in relation to these matters will only be reached after Bidder has had an opportunity to undertake a detailed review of AusNet's business and material information, facts and circumstances at the relevant time following implementation of the Scheme. Accordingly, the intentions described below are statements of current intention only and may change as new information becomes available or as circumstances change.

(b) Head Office

Bidder currently intends AusNet to maintain its existing head office following implementation of the Scheme.

(c) Business operations and assets

Bidder currently intends to maintain AusNet's current strategic direction with an investment case based on furthering its position as a leading owner and operator of gas and electricity networks across Victoria by investing in the networks to support and facilitate the energy transition underway in Australia and ensure the reliability and resilience of the networks, and connecting new and decentralised energy sources to bring renewable energy to Victorian communities.

Bidder will undertake a full review of AusNet's business, operations, assets and employees following implementation of the Scheme to determine how best to execute AusNet's strategy and develop and grow AusNet. Decisions relating to future business operations will be made following completion of that review and in light of circumstances at the relevant time.

Consistent with typical strategic investments of this nature, Bidder may seek to 'exit' its investment in AusNet in the future. There are no current plans to do this, and any decision to exit AusNet will be subject to prevailing market conditions, the business' performance and other factors which may be considered relevant at the time. Similarly, Bidder may seek to divest certain sites or asset groupings to streamline its portfolio and efficiently repatriate proceeds to its shareholders, subject to necessary approvals and market conditions at the time.

(d) Board of Directors

If the Scheme is implemented, AusNet's Board will be reconstituted so as to comprise persons nominated by Bidder.

(e) Employees

Bidder views AusNet's operating and management platform as an integral part of the business. While ensuring that the focus is on the current operations and performance, Bidder also intends to evaluate future management and employment requirements as appropriate and with regard to the operation of AusNet's business in the future.

(f) Changes to AusNet's constitution

Bidder has no current intention to alter AusNet's existing constitution following implementation of the Scheme except as appropriate to reflect that AusNet Shares will no longer be listed publicly, and to remove the provision requiring shareholder approval in general meeting for the issue or grant of (or agreement to issue or grant) shares or options.

(g) Equity incentive plan

Bidder acknowledges there is significant value, knowledge and expertise in the staff and management of AusNet. Following implementation of the Scheme, Bidder will consider the establishment of a customary equity incentive plan for eligible management of AusNet.

(h) AusNet's removal from the ASX

Following the implementation of the Scheme, Bidder intends to arrange for AusNet to apply for the termination of the official quotation of AusNet Shares on the ASX and for AusNet to be removed from ASX's official list, with effect on or around the Business Day immediately following the Implementation Date.

5 Information about Bidder continued

5.5 Additional information

(a) Bidder interests in AusNet Shares

Bidder does not hold, nor does it have the power to control voting rights attached to, or the power to dispose of, any AusNet Shares.

(b) Brookfield group interests in AusNet Shares

As at 23 November 2021, Brookfield (and also Bidder, because it is ultimately controlled by Brookfield) had Voting Power in 78,440 AusNet Shares (which represents 0.0020% of AusNet's issued shares) because entities in Brookfield's public securities group have Voting Power in those AusNet Shares. Those other members of the Brookfield group operate on the other side of information barrier arrangements.

(c) Dealings in AusNet Shares in the previous four months

Neither Bidder nor its Associates have provided, or agreed to provide, consideration for AusNet Shares under a purchase or agreement during the period of four months before the date of this Scheme Booklet except for the Scheme Consideration which Bidder has agreed to provide under the Scheme (as reflected in the Scheme Implementation Deed and the Deed Poll).

(d) No inducing benefits given during previous four months

Neither Bidder nor its Associates gave or offered to give or agreed to give, during the period of four months before the date of this Scheme Booklet, a benefit to another person which was likely to induce the other person, or an associate, to:

- (i) vote in favour of the Scheme; or
- (ii) dispose of AusNet Shares,

and which benefit was not offered to all AusNet Shareholders under the Scheme.

(e) No escalation agreements

Neither Bidder nor its Associates have entered into any escalation agreement that is prohibited by section 622 of the Corporations Act.

(f) Benefits to AusNet Directors and others

Neither Bidder nor its Associates are proposing to make any payment or give any benefit to any director, secretary or executive officer of AusNet, or of a related body corporate of AusNet, as compensation for the loss of, or as consideration for or in connection with his or her retirement from, office in AusNet or a related body corporate of AusNet.

(g) No other agreements or inducements/arrangements

Neither Bidder nor its Associates have made any agreement or arrangement with an AusNet Director in connection with or conditional on the outcome of the Scheme.

5.6 No other material information

Other than as disclosed in this section 5, there is no information regarding Bidder, or its intentions regarding AusNet, that is material to the making of a decision by an AusNet Shareholder on whether or not to vote in favour of the Scheme that is within the knowledge of any director of Bidder as at the date of this Scheme Booklet that has not been previously disclosed to AusNet Shareholders.

Risks

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6 Risks

6.1 Introduction

The AusNet Board considers that it is appropriate for AusNet Shareholders, in considering the Scheme, to be aware that there are a number of general risk factors as well as risks specific to AusNet Group and/or the industries in which it operates, which could materially adversely affect the future operating and financial performance of AusNet Group, as well as the value of AusNet Group and the potential for any future dividends.

This section outlines:

- (a) general investment risks (refer to section 6.2); and
- (b) specific risks associated with your current investment in AusNet (refer to section 6.3).

This section 6 is a summary only. Further information regarding risks to the AusNet Group is contained in AusNet's full and half year results, which is available at www.ausnetservices.com.au/About/Investors. There may be additional risks and uncertainties not currently known to AusNet that may also have a material adverse effect on AusNet Group's financial and operational performance now or in the future.

If the Scheme becomes Effective, AusNet Shareholders will receive the Scheme Consideration, cease to be an AusNet Shareholder and also no longer be exposed to the risks set out below (and other risks to which AusNet Group may be exposed). If the Scheme does not proceed, AusNet will continue to operate as a stand-alone entity listed on the ASX, and AusNet Shareholders who will continue to hold AusNet Shares and be exposed to risks and opportunities associated with that investment.

In making your decision to vote on the Scheme Resolution, you should read this Scheme Booklet carefully. You should carefully consider the risk factors outlined below and your individual circumstances. This section 6 is general in nature only and does not take into account your individual objectives, financial situation, taxation position or particular needs.

While the AusNet Board unanimously recommends that eligible AusNet Shareholders vote in favour of the Scheme in the absence of a Superior Proposal and subject to the Independent Expert continuing to conclude that the Scheme is in the best interests of AusNet Shareholders,²⁷ AusNet Shareholders are encouraged to make their own independent assessment as to whether to vote in favour of the Scheme.

6.2 General investment risks

Like many listed companies, the market price of AusNet Shares and the potential for any future dividends to AusNet Shareholders are influenced by a number of factors, including the following:

- (a) the overall performance of the Australian and international stock and credit markets, changes in investor sentiment, recommendations by securities analysts, the operating and trading price performance of other comparable listed entities or the inclusion or removal of AusNet from major market indices;
- (b) changes in government policy (including fiscal, monetary, taxation, foreign investment, employment and environment policies), legislation or regulation (including accounting and reporting standards); and
- (c) the nature of competition in the markets in which AusNet Group operates.

6.3 Risks associated with your current investment in AusNet Shares

Key business-specific risks associated with your current investment in AusNet Shares are set out below. You will only continue to be exposed to these risks if the Scheme does not proceed, in which case, in the absence of a Superior Proposal which is ultimately consummated, AusNet will continue to operate as a stand-alone entity listed on the ASX.

²⁷ Mr Tony Narvaez (AusNet's Managing Director) has previously been granted Performance Rights and Deferred Rights. If the Scheme proceeds, Mr Narvaez will receive a benefit in the sense that he will receive shares in return for the vesting of his existing Performance Rights and Deferred Rights, even though the vesting conditions for those Performance Rights and Deferred Rights will not have been fully satisfied at the relevant time. If the Scheme becomes Effective and is implemented by 31 March 2022, by the Implementation Date, Mr Narvaez will have received, in aggregate, \$4,409,730 in respect of his Performance Rights and Deferred Rights. See sections 8.2 and 8.3(d) for details of the implications of the Scheme for Mr Narvaez's Performance Rights and Deferred Rights. AusNet Shareholders should have regard to these arrangements when considering Mr Narvaez's recommendation on the Scheme. Given the importance of the Scheme and Mr Narvaez's role in the management of AusNet, the other AusNet Directors consider that it is appropriate that Mr Narvaez make a recommendation on the Scheme. Mr Narvaez also considers that it is appropriate that he make a recommendation on the Scheme.

- (a) Regulated industry risks:** AusNet Group is operating in a number of highly regulated industries, and as such the business activities of the company are subject to a range of approvals, licences and permits from various regulatory bodies. The Australian Energy Regulator (**AER**) sets the five-year (or other period) regulatory revenues, while the Australian Energy Market Commission along with a range of State and Federal Government Energy Ministers and regulators are responsible for establishing, amending and monitoring the regulations AusNet Group must adhere to as a commercially operational entity in the energy industry. As such, AusNet Group is exposed to a range of regulatory risks that may occur due to adverse changes in these regulations and/or the cancellation of any approvals, licences and permits the AusNet Group currently maintains.
- (b) Legislative compliance risks:** AusNet Group is exposed to the risk of not complying with the many and varied, industry, environment, planning, safety, greenhouse, employment, security, foreign ownership and critical infrastructure, corporate, governance and financial reporting, among other, legislative requirements. For example, AusNet Group is exposed to risks in respect of underpayments to employees, superannuation and payroll tax, as well as failure to comply with industry code requirements, including with respect to provision of notification to customers registered as requiring life support in advance of planned electricity supply interruption. Failure to comply with applicable legislative requirements, the risk of which may be heightened as a result of the breadth, complexity and pace and nature of change of such requirements (even despite compliance systems or processes), may result in remediation costs, fines or penalties or claims or litigation, which may be material to the operations, financial performance or position of AusNet Group.
- (c) Legislative restrictions and change**
- Legislative restrictions and requirements that apply to AusNet Group due to the domicile, nature and composition of its current shareholder base (which includes foreign government investors), as well as the size and nature of its core energy networks, such as those relating to foreign investment and critical infrastructure, may limit, prohibit or create uncertainty for the growth and other strategic initiatives of AusNet Group. Additionally, the legislative environment is susceptible to change, brought on by a range of factors beyond AusNet Group's control, such as climate change, changing environmental laws and regulations, occupational health and safety incidents, new technical standards brought in by the adoption of new technologies and general regulation relating to land use/ access rights, native title and cultural heritage prerogatives. Any or all of these requirements or changes has the potential to materially impact AusNet Group's operating results.
- (d) Regulatory determinations:** The regulated component of AusNet Group's revenues (approximately 86 per cent of total revenues for the year ended 31 March 2021) is 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. Regulatory control periods are generally five years. AusNet Group's most recent electricity distribution network revenue determination commenced on 1 July 2021 and will run through until 30 June 2026. The upcoming regulatory reset dates for AusNet Group's electricity transmission network and gas distribution network are 1 April 2022 and 1 July 2023 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 Group's costs, this may adversely affect AusNet Group's financial performance and position, including revenues and cash flows. In addition, AusNet 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 to the extent that a regulatory pass through or contingency mechanism does not apply or is not approved by the regulator.
- (e) Changes in traditional energy models:** Traditional energy models and generation mix are changing with the closure of coal-fired power stations, and the increase in renewable and distributed generation and storage. These changes are driven by changes in technology, environmental and regulatory policies, customer expectations and cost. The changes are expected to continue in the future and impact AusNet Group's physical networks and regulatory framework, coupled with increasing the risk of redundant assets, exposure of AusNet Group's gas distribution assets to stranding risk due to changes in demand, and the need to adapt and provide reliable, affordable and secure services to customers.
- (f) Rapid Earth Fault Current Limiter (REFCL) program:** On 1 May 2016, the *Electricity Safety (Bushfire Mitigation) Amendment Regulations 2016 (Amended Bushfire Mitigation Regulations)* came into effect in Victoria. The amended regulations require Victorian distributors to install REFCLs at designated zone substations and, following installation, to be subject to annual testing for compliance. The purpose of the REFCL devices is to reduce the risk of a bushfire caused by a fallen powerline. AusNet Group is one of three electricity distributors required to implement REFCL devices. This program presents several risks to AusNet Group including technology, vendor, compliance, cost and delivery risks. As at 1 November 2021, REFCLs have been installed at 14 of the 22 AusNet zone substations. The remaining REFCLs are proposed to be installed ahead of the 1 November 2022 and 1 May 2023 deadlines.

6 Risks continued

- (g) **Network risks:** AusNet Group's energy transmission and distribution networks and information technology systems are subject to human error in operation, equipment failure, natural disasters (such as bushfires, severe weather, floods and earthquakes), sabotage, terrorist attacks (including cyber-attacks) or other events that can cause service interruptions to customers, network failures, breakdowns or unplanned outages. Certain events may occur that may affect electricity transmission, distribution lines or gas mains in a manner that would disrupt the supply of electricity or gas. Failures in AusNet Group 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 Group, and this could harm AusNet Group's business and reputation.
- (h) **Service providers:** AusNet Group is exposed to risks regarding its use of design and installation, information technology and other service providers. AusNet Group relies on the expertise, qualifications, adequacy and sustainability of financial and other resources of these service providers. AusNet Group is also exposed to the cost of replacing faulty equipment, where adequate warranties and insurances are not in place.
- (i) **Taxation risks:** As a major taxpayer subject to annual Australian Tax Office (**ATO**) reviews, any changes in Australian taxation law may affect the tax liabilities of AusNet Group moving forward and may result in disputes between AusNet Group and the ATO or the imposition of penalties on AusNet Group. Additionally, any changes in the manner in which pre-existing tax laws are interpreted, or differences as between AusNet's and the ATO's interpretation of such laws, may also have a material impact on AusNet Group's future tax liabilities or a material adverse effect on the financial performance of AusNet Group.
- (j) **Inability to pay or frank dividends:** The payment and composition of future dividends (if any) by AusNet will be determined by the AusNet Board at its discretion and in accordance with the Corporations Act from time to time and will be dependent on factors including profitability, gearing position, the need to fund working capital and acquisitions in line with strategic objectives, the cash flow of AusNet Group's business and the balance (if any) of its franking account at the relevant time. AusNet Group's capacity to frank dividends is dependant on the extent to which it pays cash tax and AusNet Group has a number of uncertain tax positions which may have a material impact on AusNet Group's capacity to frank any future dividends. In addition, the hybrid securities issued by AusNet Group include certain restrictions and requirements regarding the payment of dividends by AusNet Group in circumstances involving the deferral of interest payments in relation to those securities. AusNet Group may not pay dividends, or dividends consistent with past practice in the future and any future dividends may not be franked, or franked to the extent of past dividends.
- (k) **Financing covenants:** AusNet Group has covenants pertaining to various financing facilities. While currently some of these facilities remain undrawn, a deterioration in the company's financial performance, operating environment, funding capacity or the financial markets could result in AusNet Group breaching these covenants or lead to review events by the financiers. This could have a range of adverse impacts, including the requirement for immediate repayment of facilities which could expose AusNet Group to further financial and/or market risk in having to source immediate replacement capital. Furthermore, if AusNet Group was required to issue equity in order to meet capital repayment obligations, AusNet Shareholders may be at risk of having their existing equity stakes diluted and the value or price of those shares may be negatively impacted.
- (l) **Capital expenditure and funding risks:** AusNet Group relies on access to funding markets to fund growth capital requirements not covered by operating cash flows. Any external changes that compromise AusNet Group's access to financial markets may, therefore, have a material impact on AusNet Group's ability to fund its growth pipeline. Additionally, any unforeseen capital or other expenditure requirements may impact AusNet Group's financial performance. AusNet Group is also exposed to refinancing risks on existing financing instruments and facilities and may not be able to refinance some or all of them on the same terms. Additionally, AusNet Group has issued a significant amount of hybrid securities, which are factored into credit rating agencies' assessments as equity credit. If credit rating agencies change their methodology and AusNet Group is unable to refinance the hybrids in a timely manner, those securities may lose equity credit status, which may adversely impact AusNet Group's credit ratings and cost of capital. Last, if AusNet Group were required to raise equity in order to fund growth capital requirements, this would be subject to the restriction in AusNet's constitution on issuing shares and other equity interests, which requires the prior approval of AusNet Shareholders. In the case that AusNet Group did issue equity, AusNet Shareholders may be at risk of having their existing equity stakes diluted and the value or price of those shares being negatively impacted.
- (m) **Credit ratings and rating agencies:** The cost, availability and covenants of funding for AusNet Group are also subject to credit rating risk. If a rating agency were to downgrade the solicited ratings of AusNet Group, its borrowing costs may increase and its potential sources of liquidity may decrease. In addition, a downgrade in AusNet Group's ratings below certain thresholds may trigger requirements to comply with additional financial covenants.

- (n) Inflation and interest rates:** Rising interest rates may adversely impact AusNet Group despite reasonable measures taken by the company to hedge interest rate risk. Similarly, inflation may impact operating expenses. While regulated revenues, from which AusNet Group derives the majority of its income, are adjusted annually for interest rate and inflation movements, differences between expected fluctuations and realised ones can contribute to an adverse impact upon AusNet Group's operating revenues and the company's underlying regulated asset base.
- (o) Environmental and climate change risk:** From both a physical and regulatory risk perspective, climate change has the potential to materially impact the performance of AusNet Group. Climate change may increase the frequency and potency of adverse weather events, including but not limited to bushfires, droughts, floods, heat waves and severe storms. These events can impact AusNet Group's electricity and gas networks and at times may prevent the company from maintaining and/or operating them. Climate change may impact government or legislative policy or regulation regime which could result in, or require, material adverse changes to AusNet Group's electricity and/or gas businesses. The increased likelihood of these events and the resultant attention from the regulators may also lead to increased insurance premiums and mitigation costs to the business. Climate change is also likely to continue to affect the availability, affordability and appropriateness of bushfire liability insurance coverage for AusNet Group. Furthermore, the increasing prevalence of renewables and other technologies (eg, batteries and electric vehicles) may lead to increased network constraints, lower network reliability or stability and lower profitability or value.
- (p) Compliance with environmental and technical standards:** Failure to comply with technical operation and maintenance standards could lead to safety issues, service disruptions and adverse publicity and could otherwise result in a material adverse effect on AusNet Group's business. AusNet Group's current and historic facilities handle or contain various materials and substances that are hazardous or environmentally sensitive, and AusNet Group has a number of sites with notifiable levels of historic contamination for which notifications have been provided to the Environmental Protection Authority in accordance with applicable regulations. There is a risk of material cost and reputational damage from the handling of these substances, or from historic contamination, including the potential for those costs to be higher than applicable provisions or any relevant regulatory allowances. Although AusNet Group has implemented risk management systems designed to identify and manage risks to employees, contractors and the community, accidents, including fatalities and severe injuries, may occur in the future. These risks could expose AusNet Group to potential fines and increased expenses if not managed in line with the current risk system or if legislation changes in the future.
- (q) Social, safety and governance risks:** Occupational health and safety is a key risk area in the operation and maintenance of an energy transmission and distribution network. There are risks caused by circumstances beyond AusNet Group's control, as well as the inherently dangerous nature of maintenance and construction work involving electricity and gas transmission and distribution facilities. COVID-19 has also presented significant challenges for the health and wellbeing of AusNet Group's employees. Failure to implement effective workplace health and safety procedures for AusNet Group could give rise to workplace health and safety and/or public safety risks which in turn may create reputational or regulatory risk, or lead to a claim and may have a material adverse effect on the performance of AusNet Group. Furthermore, AusNet Group is subject to modern slavery risks in its operations and supply chains, which are identified and managed through the risk framework set out in AusNet's Modern Slavery Statement.
- (r) Technology and Industry Change:** AusNet Group's core operations across electricity transmission, electricity distribution, and gas distribution have all involved significant integration of both operational and information technologies. The drive to reduce carbon emissions and meet changing customer expectations for higher levels of reliability has brought about and may bring about significant change across the industry in the future. The increased reliance on new and developing technologies may impact AusNet Group's future operations by increasing; future capital expenditure, maintenance requirements, and general technology risks (such as hardware and software operational failures).
- (s) Demand for gas:** There are long-term structural shifts in the energy industry, which may result in a reduction in gas demand and declining revenues from AusNet Group's gas distribution business. In particular, community sentiment to remove all fossil fuels from the economy may drive policy action to transition away from gas. As electrification is encouraged along with increased appliance efficiency, this could cause high rates of residential disconnection and gas demand could fall.
- (t) Cybersecurity risk:** There is an increasing risk of cyber-attacks across the world. The impact of cyber-attacks on critical infrastructure assets, such as those of AusNet Group, may be material in terms of cost, reputation and disruption. The risk of cyber-attacks is of particular concern to Government's around the world, including Australia, resulting in ongoing regulatory reviews and changes designed to protect those assets. The potential impact of such changes on AusNet Group may include additional compliance obligations, costs and Board level responsibilities.

6 Risks continued

In addition, a cyber-attack affecting AusNet Group's digital assets may impact AusNet Group's operations or customers or the business being defrauded. A greater reliance on digital and telecommunications technology due to industry changes may also increase the risk and potential impact of cyber-attacks.

- (u) **Development risk:** AusNet Group's business involves development of infrastructure projects. These projects all involve various risks that could increase development costs, such as: grid issues, fluctuations in underlying input costs and the availability of materials and labour, and technological, physical and/or planning and environmental risks on development sites. Furthermore, the development timeframe on various projects could be subject to delays in commissioning and delays in the necessary planning and regulatory approvals, all of which can further hamper the overall profitability of the AusNet Group.
- (v) **Loss of key people:** Loss of key management personnel could have a material impact on AusNet Group's operating and financial performance during the period until suitable replacements are found.
- (w) **Litigation and disputes:** As with any business, AusNet Group may be exposed to potential legal claims, litigation and disputes in the future. Any such claims, litigation or disputes may, depending on the circumstances (including the size, nature and outcome of the proceedings), have an adverse financial effect on AusNet Group. Even if such matters are successfully disposed of without direct adverse financial effect, they may have an adverse effect on AusNet Group's reputation, divert resources or management attention.
- (x) **Insurance coverage:** AusNet Group carries a range of insurance products for, among other things, workers compensation, public liability (including bushfire liability), industrial special risks, and directors and officers liability. However, AusNet Group's insurance will not cover every potential risk associated with its operations and not all risks are insurable. AusNet Group does not carry insurance for damage to its towers, poles, wires or pipelines. The occurrence of a significant adverse event, the risks of which are not, or are not fully, covered by insurance, could have a material adverse effect on AusNet Group's financial condition or performance. Depending on the type of coverage, AusNet Group may have to incur an excess prior to any payment by the insurer or pay for any difference between full replacement cost and insured amount. AusNet Group may also incur increases to its insurance premium applicable to other areas of cover as a result of the event. AusNet Group may not be able to recover under its insurance if the company or companies providing the insurance (or any reinsurance) are under financial distress or fail.
- (y) **Bushfire risks:** Recent fire events both domestically and overseas have resulted in substantial losses. These events are impacting the availability and pricing of bushfire liability insurance globally. While AusNet Group:
 - (i) has liability insurance which specifically provides cover for bushfire liability; and
 - (ii) annually seeks to obtain cover commensurate with the scale and size of its operations, the risks assessed to be associated with its operations and industry standards and practice,
 recent events have seen some insurers withdraw from the market and premiums rise. This trend will likely continue to occur for future renewals, thereby increasing the risk of not being able to source commensurate cover. In addition, while there are regulatory mechanisms in place under which, in certain circumstances, AusNet Group may apply to the AER for a pass through of any reasonable and prudent residual costs that may be incurred in relation to a bushfire, this mechanism may not respond (in whole or in part) in the circumstances of a bushfire event and it has yet to be tested in practice.
- (z) **Australian Accounting Standards:** AusNet Group's financial statements may be impacted by changes to Australian Accounting Standards and interpretations adopted by the Australian Accounting Standards Board. This may have an adverse impact on the financial position or performance of the financial statements and potentially the perceived value of AusNet securities. Accounting and valuation methodologies of complex items such as hedging activities, may impact reported net income and the valuation of assets and liabilities in the accounts.
- (aa) **Superannuation contributions:** AusNet makes contributions under a defined benefit superannuation plan that provides defined benefit amounts to certain employees or their dependants upon retirement, death, disablement or withdrawal. Each year, AusNet engages an independent actuary to perform actuarial reviews of the defined benefit fund and to also determine the net surplus or deficit position of the fund. These actuarial reviews may result in a movement in the net surplus or deficit of the fund during a financial period.

6.4 Risks relating to the Scheme

- (a) Scheme may not proceed or may be delayed:** As set out in section 8.12 of this Scheme Booklet, the Scheme is subject to a number of Conditions Precedent, including Court approval of the Scheme.

There is a risk that such Court approval of the Scheme may not be obtained or may be delayed. This may result in implementation of the Scheme being delayed or the Scheme not proceeding.

Each of AusNet and Bidder also has the right to terminate the Scheme Implementation Deed, and not proceed with the Scheme, in certain circumstances. These termination rights are summarised in section 8.12(f) of this Scheme Booklet.

- (b) Risks if the Scheme is implemented:** If the Scheme is implemented, AusNet Shareholders will no longer hold AusNet Shares and will forgo any future benefits of being a AusNet Shareholder including future performance of AusNet Group, exposure to AusNet Group's business and investments and the opportunity to share in the value that could be generated by AusNet Group in the future, including any distributions or capital growth. However, there is no guarantee as to AusNet Group's future operating or financial performance, or the future price of AusNet Shares. Also, it may be difficult for Scheme Shareholders to identify or invest in alternative investments that have comparable investment characteristics and asset portfolios to that of AusNet Group, and AusNet Shareholders may incur transaction costs in undertaking any new investment.

- (c) Tax consequences:** There will be tax consequences for the AusNet Shareholders if the Scheme is implemented, which may include tax being payable. For further detail regarding general Australian tax consequences of the Scheme, see section 7 of this Scheme Booklet. The tax consequences will depend on the personal situation of the AusNet Shareholders. Accordingly, AusNet Shareholders should consult their own taxation advisors in relation to their particular circumstances.

- (d) Risks if the Scheme is not implemented:** If the Scheme does not become Effective, AusNet Shareholders will not receive the Scheme Consideration. AusNet will continue, in the absence of another proposal, to operate as a stand-alone company, and remain listed on the ASX. AusNet Shareholders would still be entitled to receive any final dividend in respect of the financial year ending 31 March 2022 (to the extent they continue to hold AusNet Shares on the relevant record date).

In addition, AusNet may be required to pay a break fee of \$101,674,267 to Bidder if the Scheme does not proceed in certain circumstances. However, the break fee is not payable by AusNet to Bidder merely for the reason that eligible AusNet Shareholders do not approve the Scheme at the Scheme Meeting. Further, Bidder may be required to pay a reverse break fee of \$101,674,267 to AusNet if the Scheme does not proceed in certain circumstances. See section 8.12(e) of this Scheme Booklet for further details.

Unless they choose to sell their AusNet Shares on the ASX, AusNet Shareholders will hold their AusNet Shares and will be exposed to both the risks (including those set out in this section 6) and the potential future benefits in retaining exposure to AusNet Group's business and investments. The AusNet Share Price will also remain subject to market volatility and may fall in the absence of another proposal.

Tax Letter

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7 Tax Letter

25 November 2021

The Directors
AusNet Services Ltd.
Level 31
2 Southbank Boulevard
Southbank VIC 3006

Dear Directors,

**AUSNET SERVICES LIMITED PROPOSED SCHEME OF
ARRANGEMENT
AUSTRALIAN INCOME TAX CONSIDERATIONS FOR AUSNET
SHAREHOLDERS**

We have been requested to provide a summary of the Australian income tax considerations for AusNet Shareholders in relation to the proposed acquisition of AusNet by Bidder by way of Scheme of Arrangement. This summary has been prepared for inclusion in the Scheme Booklet, and abbreviations and defined terms used in this summary have the same meaning as they do therein.

1. Introduction

The following is a general summary of the Australian income tax, goods and services tax (**GST**), and stamp duty implications under Australian law as at the date of issue of this Scheme Booklet for AusNet Shareholders who dispose of their AusNet Shares under the Scheme. These comments assume that the Scheme will be implemented in accordance with the terms described in the Scheme Implementation Deed.

All legislative references in this report are to the *Income Tax Assessment Act 1997 (Cth)*.

2. Limited scope of this summary

This summary applies to AusNet Shareholders who hold their AusNet Shares on capital account and are either Australian tax residents or non-Australian tax residents. This summary does not consider the tax consequences for AusNet Shareholders who hold their AusNet Shares on revenue account or as trading stock, or who are exempt from Australian income tax, or who are subject to the Taxation of Financial Arrangements rules in Division 230 in relation to the gains and losses on their AusNet Shares.

WHITE & CASE

White & Case
Level 32, 525 Collins Street
Melbourne VIC 3000
Australia

GPO Box 2756
Melbourne VIC 3001
Australia

T +61 3 8486 8000

ABN 17 847 592 731

whitecase.com

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This summary is general in nature and is not intended to be an authoritative or complete statement of the relevant law or taxation consequences that flow. This summary is not intended to consider the specific objectives, situation or needs of each AusNet Shareholder, which can affect the tax consequences of the Scheme. AusNet Shareholders should not rely only on this summary and should seek appropriate independent professional advice that considers the taxation implications in respect of their own particular circumstances.

3. Disposal of AusNet Shares

(a) Australian tax residents

AusNet Shareholders who dispose of their AusNet Shares will make:

- a capital gain if the capital proceeds exceed the cost base of the relevant AusNet Share; or
- a capital loss if the capital proceeds are less than the reduced cost base of the relevant AusNet Share.

A capital loss may be used to offset any capital gains derived by relevant AusNet Shareholders for the relevant income year or may be carried forward to offset capital gains in future income years. Specific capital loss recoupment rules apply to restrict the ability of some types of AusNet Shareholders to utilise capital losses in future income years.

(i) Capital Proceeds

The capital proceeds on the disposal of the AusNet Shares should be equal to the Scheme Consideration received by the AusNet Shareholders.

The Permitted Dividends should not be included as capital proceeds, but instead should be included in assessable income.

(ii) Cost base

The cost base and reduced cost base of each AusNet Share will depend on the individual circumstances of each AusNet Shareholder. In particular in some circumstances the cost base and reduced cost base are calculated by factors other than the actual cost of acquiring the AusNet Shares.

If you are disposing of AusNet Shares you received from participating in an AusNet distribution/dividend reinvestment plan, the cost base of those AusNet Shares will include the price you paid to acquire those AusNet shares, being the amount of the distribution/dividend reinvested divided by the number of AusNet Shares received.

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Pre-18 June 2015 AusNet securityholders

Where an AusNet Shareholder acquired their AusNet Shares as part of the restructure that occurred on 18 June 2015, their cost base in the AusNet Shares may be impacted by:

- a) whether capital gains tax rollover applied in respect of the AusNet Share. For Australian tax residents please refer to Class Ruling 2015/45;
- b) any returns of capital; and
- c) any distribution reinvestment.

Where capital gains tax rollover applied, AusNet Shareholders' cost base would broadly include the inherited cost base from the time that the AusNet Shareholder acquired their pre-restructure stapled securities *plus* any distribution reinvestment *less* any returns of capital.

Where capital gains tax rollover did not apply, AusNet Shareholders' cost base would broadly include the market value of the AusNet Shares at the time of the restructure, *plus* any subsequent dividend reinvestment *less* any subsequent returns of capital.

The reduced cost base of an AusNet Share is determined in a manner similar to the cost base although some differences in the calculation of reduced cost base do exist depending on the AusNet Shareholder's individual circumstances.

Post-18 June 2015 AusNet Shareholders

The cost base of an AusNet Share will broadly be equal to the cost of acquiring that AusNet Share, plus any dividend reinvestment and incidental costs of acquisition and disposal (such as brokerage fees and legal costs).

The reduced cost base of an AusNet Share is determined in a manner similar to the cost base although some differences in the calculation of reduced cost base do exist depending on the AusNet Shareholder's individual circumstances.

Details of all returns of capital, distribution reinvestment plans and rights issues as provided by AusNet are reproduced at **Appendix 1**.

(iii) CGT discount

AusNet Shareholders who are individuals, trustees or complying superannuation entities and who have held their AusNet Shares for at least 12 months as at the Implementation Date should be entitled to discount the amount of the capital gain (after the application of any current year or carry forward capital losses).

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The amount of the discount is:

- a) In the case of individuals and trustees – 50%; and
- b) For complying superannuation funds – 33.33%.

No discount on a capital gain is available for AusNet Shareholders that are companies.

(b) Non-Australian tax resident AusNet Shareholders

AusNet Shareholders who are not Australian tax residents need to consider both the Australian tax implications and the tax implications in their own jurisdiction. This report does not consider any taxation implications that might arise in jurisdictions other than Australia.

Broadly, a capital gain or loss may arise to a non-Australian tax resident AusNet Shareholder from the disposal of AusNet Shares, in broadly similar fashion to that described for Australian residents, if those AusNet Shares are held on capital account, and the AusNet Shareholder's AusNet Shares constitute an indirect Australian real property interest. The AusNet Shareholder's AusNet Shares will constitute an indirect Australian real property interest if both:

- (i) the AusNet Shareholder and the AusNet Shareholder's associates held more than 10% of the issued capital of AusNet Services Limited at the date of the disposal of the AusNet Shares or through a 12 month period that began no earlier than 24 months before the date of disposal and ended no later than the date of disposal; and
- (ii) more than 50% of the market value of AusNet's assets consists of taxable Australian real property (direct and indirect interests in Australian real property, including leases of Australian land).

White & Case considers that less than 50% of the market value of AusNet's assets are attributable to direct or indirect interests in taxable Australian real property, and therefore the AusNet Shares should not give rise to an indirect Australian real property interest.

A capital gain or loss may also arise for non-Australian tax resident AusNet Shareholders, broadly as described above, if they have held their AusNet Shares in the course of carrying on a business through an Australian permanent establishment.

If the non-Australian tax resident AusNet Shareholder is a tax resident of a country in which a tax treaty exists with Australia, relief may be available under the relevant treaty.

Any non-Australian tax resident individual AusNet Shareholder who was previously a resident of Australia and chose to disregard a capital gain or capital loss on ceasing to be an Australian resident will be subject to Australian CGT consequences on disposal of their AusNet Shares as set out in paragraph 3(a) above, although the CGT discount

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should only be available to the extent of the period that the non-Australian tax resident individual AusNet Shareholder was an Australian resident.

No discount capital gain is otherwise available for non-Australian tax resident AusNet Shareholders.

4. Foreign Resident Capital Gains Withholding Tax

(a) AusNet Shareholder – relevant foreign resident

Australia's foreign resident capital gains withholding tax regime applies to transactions involving the acquisition of certain indirect interests in Australian real property from relevant foreign residents. Bidder is required to determine whether withholding is required.

If the AusNet shares are not indirect Australian real property interests held by relevant foreign residents at the time of the transaction, the foreign resident capital gains withholding tax regime will not apply.

A 'relevant foreign resident' for these purposes is any AusNet Shareholder, at the time the transaction is entered into, who either:

- (i) Bidder:
 - a) knows is a foreign resident;
 - b) reasonably believes is a foreign resident; or
 - c) does not reasonably believe is an Australian resident, and either has an address outside Australia or Bidder is authorised to provide a financial benefit relating to the transaction to a place outside Australia; or
- (ii) has a connection outside Australia of a kind specified in the regulations.

The withholding tax rate is 12.5%.

(b) Declaration Form

If Bidder considers that, it is a possibility that:

- (i) an AusNet Shareholder and the AusNet Shareholder's associates will hold more than 10% of the issued capital of AusNet, or will have held such an interest through a 12 month period that began no earlier than 24 months before the Implementation Date and ending no later than the Implementation Date; and
- (ii) that the AusNet Shareholder will be a 'relevant foreign resident' at the Implementation Date,

that AusNet Shareholder will be provided (either together with this Scheme Booklet or **separately**) a Relevant Foreign Declaration Form to complete.

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If, for whatever reason, an AusNet Shareholder believes that it is a relevant foreign resident but does not receive a Relevant Foreign Declaration Form, the AusNet Shareholder should contact the AusNet Share Registry to request a Relevant Foreign Declaration Form.

In the Relevant Foreign Declaration Form, an AusNet Shareholder may provide Bidder with a declaration that:

- (i) the registered holder of the relevant AusNet Shares is an Australian tax resident (*residency declaration*); or
- (ii) the AusNet Shares are not an indirect Australian real property interest of the registered holder of the relevant AusNet Shares at the Implementation Date (*interest declaration*).

If an AusNet Shareholder receives a Relevant Foreign Declaration Form it should read it in full and follow the instructions provided on the form.

(c) **Withholding payment**

If:

- (i) the AusNet shares are an indirect Australian real property interest held by a relevant foreign resident at the time of the transaction; and
- (ii) no signed residency declaration or interest declaration, or variation notice granted by the Commissioner of Taxation, is provided to Bidder for the AusNet Shareholder,

Bidder may withhold and pay to the Commissioner of Taxation a withholding amount of 12.5% from the Scheme Consideration.

AusNet Shareholders who have an amount withheld should generally be entitled to a credit for the amount withheld upon lodging an Australian income tax return. If you are unsure about whether a credit for the withholding tax may be claimed or how to lodge an Australian income tax return, AusNet recommends you seek independent professional tax advice in this regard.

AusNet Shareholders should seek their own independent tax advice as to the implications of the foreign resident capital gains withholding tax rules and the making of a residency declaration or an interest declaration.

5. GST

There should be no GST payable by AusNet Shareholders in respect of the disposal of AusNet Shares under the Scheme.

Where an AusNet Shareholder is not registered or required to be registered for GST, the disposal will be outside the scope of the GST. Otherwise, the sale of the AusNet Shares will be an input taxed financial supply. Where this is the case, AusNet Shareholders should obtain independent advice in relation to whether there is an ability to claim any input tax credits for

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the costs (such as legal or professional fees) associated with the disposal of the AusNet Shares.

6. Stamp duty

No stamp duty should be payable by AusNet Shareholders on the disposal of AusNet Shares in accordance with the Scheme.

The Scheme Implementation Deed provides that any stamp duty payable in connection with the transfer of the AusNet Shares to Bidder must be paid by Bidder.

7. Disclaimer

This summary is based solely on:

- (a) the representations, information, documents, and facts that we have included or referred to in this summary;
- (b) an assumption that all of the representations, information and facts set out in the Scheme Booklet are accurate and not misleading;
- (c) an assumption that there will be timely execution, delivery and performance as set out in the Scheme Booklet;
- (d) the law, regulations and other tax authorities in effect as of the date of this report. If there are any significant changes in or to these tax authorities (for which we shall have no responsibility to advise you), such changes may result in our opinion being rendered incorrect or necessitate (on your request) a reconsideration of the opinion. Except where expressly mentioned, we have not considered proposed reforms or legislation that has not been enacted; and
- (e) your understanding that this summary is not binding on the ATO or the courts and should not be considered a representation, warranty, or guarantee that the ATO or the courts will concur with our conclusions.

The representatives of White & Case involved in preparing this summary are not licensed to provide financial product advice as defined by the Corporations Act. You may consider seeking advice from an Australian financial services licence holder before making any decision in relation to a financial product. You should also note that taxation is only one of the matters that you need to consider when making a decision on a financial product.

Yours sincerely,



Aldrin De Zilva
Partner
White & Case

7 Tax Letter continued

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APPENDIX 1:

RETURNS OF CAPITAL & DISTRIBUTION/DIVIDEND REINVESTMENT

1. Returns of capital

As provided by AusNet, the following table provides the historical distributions of AusNet, with capital returns per distribution highlighted for reference:

Year	Date Paid	Description	Distribution Components Per Security Cents Per Security / Share			Total Cents Per Security
			Dividend	Interest Income	Capital Distribution	
2006	26-Jun-06	Final Distribution	0.150	0.890	2.210	3.250
	14-Dec-06	Interim Distribution	0.507	1.509	3.619	5.635
2007	28-Jun-07	Final Distribution	0.507	1.584	3.544	5.635
	19-Dec-07	Interim Distribution	0.870	1.618	3.288	5.776
2008	23-Jun-08	Final Distribution	0.736	1.655	3.397	5.788
	18-Dec-08	Interim Distribution	1.911	1.839	2.177	5.927
2009	25-Jun-09	Final Distribution	1.911	2.692	1.324	5.927
	22-Dec-09	Interim Distribution	1.289	1.887	0.824	4.000
2010	29-Jun-10	Final Distribution	1.591	2.261	0.148	4.000
	22-Dec-10	Interim Distribution	1.591	2.228	0.181	4.000
2011	29-Jun-11	Final Distribution	1.333	2.279	0.388	4.000
	21-Dec-11	Interim Distribution	1.333	2.213	0.454	4.000
2012	29-Jun-12	Final Distribution	1.333	2.159	0.508	4.000
	21-Dec-12	Interim Distribution	1.367	2.467	0.266	4.100
2013	28-Jun-13	Final Distribution	1.367	2.649	0.084	4.100
	23-Dec-13	Interim Distribution	1.393	2.396	0.391	4.180
2014	27-Jun-14	Final Distribution	1.393	2.379	0.408	4.180
	24-Dec-14	Interim Distribution	2.200	1.980	0.000	4.180
2015	26-Jun-15	Final Distribution	4.180	0.000	0.000	4.180
	24-Dec-15	Interim Dividend	4.265	0.000	0.000	4.265
2016	22-Jun-16	Final Dividend	4.265	0.000	0.000	4.265
	22-Dec-16	Interim Dividend	4.400	0.000	0.000	4.400
2017	27-Jun-17	Final Dividend	5.400	0.000	0.000	5.400
	21-Dec-17	Interim Dividend	4.630	0.000	0.000	4.630
2018	28-Jun-18	Final Dividend	4.620	0.000	0.000	4.620
	20-Dec-18	Interim Dividend	4.860	0.000	0.000	4.860
2019	27-Jun-19	Final Dividend	4.860	0.000	0.000	4.860
	19-Dec-19	Interim Dividend	5.100	0.000	0.000	5.100
2020	25-Jun-20	Final Dividend	5.100	0.000	0.000	5.100
	17-Dec-20	Interim Dividend	4.750	0.000	0.000	4.750
2021	24-Jun-21	Final Dividend	4.750	0.000	0.000	4.750
	16-Dec-21	Interim Dividend	4.750	0.000	0.000	4.750

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2. Distribution/dividend reinvestment plans and rights issues

As provided by AusNet, the following table provides the historical issue price for securities/shares issued for AusNet distribution/dividend reinvestment plans and rights issues:

Description of Transaction	Issue Price
18 Dec 2008 - Distribution Reinvestment Plan	\$0.96
May 2009 - 1-for- 4 Rights Issue	\$0.78
25 June 2009 - Distribution Reinvestment Plan	\$0.78
22 Dec 2009 - Distribution Reinvestment Plan	\$0.82
29 June 2010 - Distribution Reinvestment Plan	\$0.80
22 Dec 2010 - Distribution Reinvestment Plan	\$0.86
29 June 2011 - Distribution Reinvestment Plan	\$0.89
21 December 2011 - Distribution Reinvestment Plan	\$0.92
May 2012 - 3-for- 20 Rights Issue	\$1.00
29 June 2012 - Distribution Reinvestment Plan	\$1.01
21 December 2012 - Distribution Reinvestment Plan	\$1.05
28 June 2013 - Distribution Reinvestment Plan	\$1.18
23 December 2013 - Distribution Reinvestment Plan	\$1.15
27 June 2014 - Distribution Reinvestment Plan	\$1.33
24 December 2014 - Distribution Reinvestment Plan	\$1.30
26 June 2015 - Dividend Reinvestment Plan	\$1.38
24 December 2015 - Dividend Reinvestment Plan	\$1.45
22 June 2016 - Dividend Reinvestment Plan	\$1.52
22 December 2016 - Dividend Reinvestment Plan	\$1.43
27 June 2017 - Dividend Reinvestment Plan	\$1.69
21 December 2017 - Dividend Reinvestment Plan	\$1.86
28 June 2018 - Dividend Reinvestment Plan	N/A
20 December 2018 - Dividend Reinvestment Plan	\$1.55
27 June 2019 - Dividend Reinvestment Plan	\$1.75
19 December 2019 - Dividend Reinvestment Plan	\$1.68
25 June 2020 - Dividend Reinvestment Plan	\$1.72
17 December 2020 - Dividend Reinvestment Plan	
Non-Underwritten portion of DRP	\$1.83
Underwritten portion of DRP	\$1.87
24 June 2021 - Dividend Reinvestment Plan	\$1.72

Additional information



8 Additional information

8.1 Interests of AusNet Directors in AusNet Shares

The table below lists the Relevant Interests of AusNet Directors in AusNet Shares as at the date of this Scheme Booklet.

AusNet Director	Position	Relevant Interest in AusNet Shares
Peter Mason	Independent Chair	100,000 AusNet Shares (indirect interest)
Tony Narvaez	Managing Director	248,469 AusNet Shares 1,507,455 Performance Rights 181,818 Deferred Rights
Alan Chan Heng Loon	Non-Executive Director	59,280 AusNet Shares
Ralph Craven	Non-Executive Director	75,000 AusNet Shares (indirect interest)
Li Lequan	Non-Executive Director	Nil
Tan Chee Meng	Non-Executive Director	50,000 AusNet Shares
Sally Farrier	Independent Non-Executive Director	121,800 AusNet Shares (indirect interest)
Robert Milliner	Independent Non-Executive Director	Nil
Nora Scheinkestel	Independent Non-Executive Director	115,811 AusNet Shares

AusNet Directors who hold AusNet Shares will be entitled to vote at the Scheme Meeting and receive the Scheme Consideration along with the other eligible AusNet Shareholders.

Each AusNet Director intends to vote (or procure the voting of) all AusNet Shares held or controlled by them in favour of the Scheme, in the absence of a Superior Proposal and subject to the Independent Expert continuing to conclude that the Scheme is in the best interests of AusNet Shareholders.

8.2 Interests of AusNet Directors in Performance Rights and Deferred Rights

Set out below is a table which shows the number of Performance Rights and Deferred Rights held by Mr Tony Narvaez, Managing Director of AusNet, and the maximum amount that he will receive if the Scheme becomes Effective due to his receipt of AusNet Shares in return for the vesting of his existing Performance Rights and Deferred Rights²⁸ and his receipt of dividend equivalent payments payable on the vesting of his existing Deferred Rights. No other AusNet Directors hold any Performance Rights or Deferred Rights.

The proposed treatment of all Performance Rights and Deferred Rights is discussed below in section 8.3(d).

AusNet Director	Performance Rights on issue (granted November 2019, August 2020 and August 2021)	Deferred Rights on issue (granted July 2020 and June 2021)	Number of Performance Rights and Deferred Rights to vest on the Effective Date	Maximum amount to be received if the Scheme becomes Effective ²⁹
Tony Narvaez	1,507,455	181,818	1,689,273 (100%)	\$4,409,730.45

²⁸ Assuming that Mr Tony Narvaez still holds these AusNet Shares on the Scheme Record Date and accordingly, receives the Scheme Consideration in respect of these AusNet Shares on the Implementation Date.

²⁹ This value is equal to the number of Performance Rights and Deferred Rights to vest, multiplied by \$2.6025 (which assumes that the Implementation Date is on or before 31 March 2022), plus the dividend equivalent payments payable on the vesting of his existing Deferred Rights in accordance with the AusNet Deferred Equity Incentive Plan to the value of \$13,397.47.

8 Additional information continued

8.3 AusNet Performance Rights and Deferred Rights

(a) Overview of arrangements

AusNet provides certain employees with equity-based long term incentives and cash and equity-based short term incentives.

As at the Last Practicable Trading Date, AusNet has the following unquoted employee instruments in respect of AusNet Shares on issue:

- (i) 8,329,089 Performance Rights granted under the AusNet Long Term Incentive Plan in the financial years ending 31 March 2020, 31 March 2021 and 31 March 2022, held by current and former employees; and
- (ii) 586,270 Deferred Rights granted under the AusNet Deferred Equity Incentive Plan in the financial years ending 31 March 2021 and 31 March 2022, held by current and former employees.

In addition, of the AusNet Shares currently on issue, 936,207 are restricted shares held by current and former employees, pursuant to offers made under the AusNet General Employee Exempt Share Plan (**GEESP**) in the financial years ending 31 March 2020, 31 March 2021 and 31 March 2022, which are restricted from disposal under the terms of the GEESP. Under the GEESP, eligible AusNet employees may elect to acquire up to \$1,000 worth of AusNet Shares per year, funded by way of salary sacrifice over the course of the following 12 month period. AusNet Shares are registered in the participant's name on the 'allocation date' and the participant's salary sacrificed funds over the following year are used to pay for those allocated shares.

(b) Performance Rights

Each Performance Right vests over a three year period and confers an automatic right (ie there is no exercise mechanism) to receive, on vesting, one AusNet Share (or the cash equivalent value), subject to the achievement of the following vesting conditions:

- (i) a total shareholder return (**TSR**) based performance condition, which measures the TSR of AusNet over a three year performance period relative to the TSR of companies in a comparator group (applicable to all outstanding Performance Rights);
- (ii) a return on invested capital (**ROIC**) based performance condition, which measures returns generated from investments in AusNet operations (applicable to all outstanding Performance Rights);
- (iii) an Earnings Per Share (**EPS**) based performance condition, which measures EPS growth rate over a three year performance period (applicable only to those outstanding Performance Rights granted in 2019 and 2020); and
- (iv) a continuation of service condition, which requires the holder of the relevant Performance Right to remain employed by AusNet until the relevant vesting date (subject to AusNet's absolute discretion in respect of good leavers).

(c) Deferred Rights

Each Deferred Right vests over a two year period and confers an automatic right (ie there is no exercise mechanism) to receive, on vesting, one AusNet Share (or the cash equivalent value), subject to the employee's employment not being terminated for cause prior to the vesting date.

(d) Implications of the Scheme on outstanding Performance Rights and Deferred Rights

The AusNet Board considered AusNet's performance, the impact of the Scheme on the ability to test performance hurdles, the need to incentivise employees during the period prior to implementation of the Scheme, employee retention risks and the alternatives available to the AusNet Board to (among other things) minimise those retention risks.

Having regard to all of those matters, under the terms of the AusNet Long Term Incentive Plan rules and the AusNet Deferred Equity Incentive Plan rules, the AusNet Board has determined that, if the Scheme becomes Effective, all of the Performance Rights and Deferred Rights which remain outstanding at that time will vest (ie any vesting conditions which remain to be satisfied on those Performance Rights will be waived).³⁰ As the existing terms of the Performance Rights and Deferred Rights provide for automatic exercise, the AusNet Board has determined that each holder will be issued or transferred one AusNet Share per vested Performance Right or Deferred Right (as applicable) prior to the Scheme Record Date and will, assuming they still hold those AusNet Shares on the Scheme Record Date, receive the Scheme Consideration in respect of those AusNet Shares on the Implementation Date. ASX has granted AusNet a waiver of ASX Listing Rule 6.23.3 to the extent necessary to enable AusNet to treat the Performance Rights and Deferred Rights in this manner.

³⁰ Except in the case of Performance Rights held by former employees who are 'good leavers', which may vest on different bases.

(e) Implications of the Scheme on outstanding restricted shares

In respect of restricted shares granted under the GEESP, the AusNet Board has determined that, in accordance with the GEESP rules, if the Scheme becomes Effective, to the extent any instalments remain to be paid by the GEESP participants to AusNet on the Effective Date, those outstanding instalments will be waived on the Effective Date (except in respect of Mr Tony Narvaez, where the waiver will not apply). It is estimated that this will involve a waiver of approximately \$240,000 of salary sacrifice instalments that will remain outstanding to AusNet on the Effective Date. All obligations under the GEESP on participants to pay instalments that fall due and become payable during the period up to the Effective Date remain operational and effective.

Under the GEESP rules, a participant must not trade any AusNet Shares (**Disposal Restriction**) held under the GEESP until the earlier of:

- (i) three years after the date of allocation; and
- (ii) the time when the participant ceases to be an employee.³¹

As permitted by the GEESP rules, the AusNet Board has determined that, subject to the Scheme becoming Effective, any remaining Disposal Restriction in relation to an AusNet Share held under GEESP will terminate immediately prior to the time at which the AusNet Shares are to be transferred to Bidder under the Scheme on the Implementation Date.

The Disposal Restriction is imposed so as to comply with the requirements of section 83A-35(1) of the *Income Tax Assessment Act 1997* (Cth), which require that at all times during the plan's 'minimum holding period', it is operated so that participants are not permitted to dispose of the shares. The 'minimum holding period' is three years or such earlier time as the Commissioner of Taxation allows. AusNet has lodged a Class Ruling Application (titled *Modification of Minimum Holding Period for Employee Share Scheme Interests*) with the Australian Taxation Office, requesting the Commissioner exercise his discretion to allow the 'minimum holding period' to end at the time of disposal of the AusNet Shares to Bidder under the Scheme (being the Implementation Date). The Commissioner's decision will not impact the Scheme, and is only relevant to the determination of assessable income for GEESP participants.

The only AusNet Director participating in the GEESP is Mr Tony Narvaez, who is expected to have an outstanding balance of approximately \$400 payable to AusNet under the GEESP on the Effective Date. As noted above, the AusNet Board's determination to, subject to the Scheme being Effective, waive any outstanding instalments on the Effective Date in accordance with the GEESP rules will not apply to any instalments owing by Mr Tony Narvaez.

(f) Implications for incentives and equity arrangements if the Scheme does not become Effective, or is delayed

If the Scheme does not become Effective, AusNet expects that its existing incentive arrangements will remain in place subject to their existing terms and conditions (including the existing incentive arrangements relating to Mr Tony Narvaez). In addition, if the Scheme does not become Effective, a small number of targeted financial retention arrangements to limit possible disruptions to business performance and to preserve value for shareholders have been provided on a discretionary basis to some employees (excluding Mr Tony Narvaez).

If implementation of the Scheme is delayed, employee incentive arrangements in respect of the financial year ending 31 March 2022 will be considered by the AusNet Board in the ordinary course in accordance with the relevant plan rules and subject to the terms of the Scheme Implementation Deed.

Further information about AusNet's incentive and equity arrangements can be found in announcements lodged by AusNet with the ASX, including in AusNet's 2021 Remuneration Report, which can be obtained from the ASX website at www.asx.com.au. If the Scheme does not become Effective, relevant information about AusNet's incentive arrangements in respect of the financial year ending 31 March 2022 and the above targeted financial retention arrangements, will be included in AusNet's 2022 Remuneration Report.

8.4 Marketable securities in Bidder held by, or on behalf of, AusNet Directors

No marketable securities of Bidder are held by, or on behalf of, AusNet Directors as at the date of this Scheme Booklet.

8.5 Interests of AusNet Directors in contracts of Bidder

No AusNet Director has an interest in any contract entered into by Bidder.

³¹ The restricted shares may also be subject to other restrictions, such as trading restrictions under AusNet's internal employee share trading policy.

8 Additional information continued

8.6 Other interests of AusNet Directors

No AusNet Director has any other interest, whether as a director, member or creditor of Bidder or otherwise, which is material to the Scheme, other than in their capacity as a holder of:

- (a) AusNet Shares, being their entitlement to receive the Scheme Consideration for the AusNet Shares they hold; and
- (b) in respect of Mr Tony Narvaez, being his entitlement to receive the Scheme Consideration for the Performance Rights and Deferred Rights that he holds. Further information regarding the proposed treatment of Performance Rights and Deferred Rights is set out in section 8.3.

8.7 Agreements or arrangements with AusNet Directors

Other than as set out in section 8.3 in respect of Performance Rights and Deferred Rights held by Mr Tony Narvaez (Managing Director of AusNet), there is no agreement or arrangement made between any AusNet Director and any other person, including a member of Bidder Group, in connection with or conditional upon the outcome of the Scheme.

8.8 Payments and other benefits to directors, secretaries or executive officers of AusNet

No payment or other benefit is proposed to be made or given to a director, secretary or executive officer of AusNet or any member of the AusNet Group as compensation for loss of, or as consideration for or in connection with their retirement from, office in AusNet or any member of AusNet Group as a result of the Scheme.

8.9 Suspension of trading of AusNet Shares

If the Court approves the Scheme, AusNet will notify the ASX. It is expected that suspension of trading on the ASX in AusNet Shares will occur from close of trading on the Effective Date. This is expected to occur on Friday, 4 February 2022.

8.10 Deed Poll

Bidder has executed the Deed Poll pursuant to which it has undertaken in favour of each Scheme Shareholder that it will observe and perform the obligations contemplated of it under the Scheme, including to pay or procure payment of the Scheme Consideration for each Scheme Share, in accordance with the terms of the Scheme and the Deed Poll, and subject to the Scheme becoming Effective.

A copy of the Deed Poll is contained in Schedule 3.

8.11 Warranties by Scheme Shareholders

The Scheme provides that each Scheme Shareholder is taken to have warranted to Bidder, and to the extent enforceable, to have appointed and authorised AusNet as that Scheme Shareholder's agent and attorney to warrant to Bidder, that all of their Scheme Shares (including all rights and entitlements attaching to those Scheme Shares) will, at the time of the transfer of them to Bidder pursuant to the Scheme, be fully paid and free from all mortgages, charges, liens, encumbrances, pledges, security interests and other interests of third parties of any kind, and restrictions on transfer of any kind, and that they have full power and capacity to sell and transfer their Scheme Shares (together with all rights and entitlements attaching to such Scheme Shares) to Bidder pursuant to the Scheme. AusNet undertakes in favour of each Scheme Shareholder that it will provide such warranty, to the extent enforceable, to Bidder on behalf of that Scheme Shareholder.

8.12 Summary of Scheme Implementation Deed

On 31 October 2021, AusNet and Bidder entered into a binding Scheme Implementation Deed under which AusNet agreed to propose and implement the Scheme and Bidder agreed to assist AusNet to propose and implement the Scheme.

A summary of the key elements of the Scheme Implementation Deed is set out below. A full copy of the Scheme Implementation Deed is attached to the AusNet ASX Announcement on 1 November 2021, which can be obtained from www.asx.com.au or from AusNet's Website.

(a) Conditions

Implementation of the Scheme is subject to satisfaction or waiver (where capable of waiver) of the following conditions:

- (i) **FIRB Approval:** before 8.00am on the Second Court Date, either of the following must occur:³²
 - (A) the Treasurer of the Commonwealth of Australia (or his or her delegate) provides written notice under the FATA stating that, or to the effect that, the Commonwealth Government has no objection to the Transaction either on an unconditional basis or subject only to:
 - (1) 'standard' tax conditions which are in the form, or substantially in the form, of those set out in items 1 to 6 of Part D of the Australian Foreign Investment Review Board's Guidance Note 12 'Tax Conditions' (in the form last updated on 9 July 2021);
 - (2) any other conditions which are of a kind commonly imposed (prior to the date of the Scheme Implementation Deed) by FIRB on transactions of a similar nature involving similar assets to the assets of the AusNet Group (including conditions commonly imposed on such transactions relating to board composition, security clearances, restrictions on access to sensitive data, restrictions on the location of data storage and restrictions on operational involvement by limited partners or other equity investors), provided that, for the avoidance of doubt, the parties agree that the foregoing does not extend to any condition imposed in connection with minimum Australian equity requirements for Bidder that is not acceptable to it;
 - (3) conditions which are similar in nature to the conditions which AusNet Group is already subject to under its licences from Government Agencies; and
 - (4) such other conditions acceptable to Bidder (acting reasonably); or
 - (B) following Bidder giving notice under the FATA of the Transaction, the Treasurer of the Commonwealth of Australia becomes precluded by passage of time from making any order or decision under Division 2 of Part 3 of the FATA in respect of the Transaction,

and in the case of subparagraph (A) above, the notice of no objection has not been withdrawn, suspended or revoked before 8.00am on the Second Court Date;
- (ii) **AusNet Shareholder approval:** AusNet Shareholders approve the Scheme by the requisite majorities under section 411(4)(a)(ii) of the Corporations Act at the Scheme Meeting;
- (iii) **Independent Expert:** the Independent Expert issues an Independent Expert's Report which concludes that the Scheme is in the best interests of AusNet Shareholders and does not publicly change or withdraw that conclusion before 8.00am on the Second Court Date;
- (iv) **Court approval:** the Court approves the Scheme in accordance with section 411(4)(b) of the Corporations Act (either unconditionally and without modification or with modifications or conditions consented to by Bidder in accordance with clause 4.5 of the Scheme Implementation Deed);
- (v) **No restraints:** no applicable law, regulation or rule shall have been enacted and no Order shall be in effect as at 8:00am on the Second Court Date (or the intended date for the Second Court Date, but for such law, regulation, rule or Order) that prevents, makes illegal or prohibits the implementation of the Scheme;
- (vi) **No AusNet Material Adverse Change:** no AusNet Material Adverse Change occurs between the date of the Scheme Implementation Deed and 8:00am on the Second Court Date; and
- (vii) **No AusNet Regulated Event:** no AusNet Regulated Event occurs between the date of the Scheme Implementation Deed and 8:00am on the Second Court Date.

³² The FIRB condition has been satisfied as Bidder has received written confirmation from FIRB that the Commonwealth Government has no objection to the Transaction.

8 Additional information continued

(b) Reasonable steps to implement the Scheme

AusNet must take all steps necessary to propose and implement, and Bidder must take all steps necessary to assist AusNet to propose and implement, the Scheme as soon as is reasonably practicable and must use reasonable endeavours to ensure that each step in the Scheme Implementation Deed is met by the date set out in that step.

Bidder must ensure that no person will be introduced as an equity investor or limited partner in Bidder, or any entity, fund, limited partnership or other collective investment vehicle which has any interest in Bidder, which is likely to hinder the satisfaction of the FIRB approval.

(c) Obligation to recommend the Scheme

In the absence of a Superior Proposal, AusNet must use best endeavours to:

- (i) subject to the Independent Expert opining at all times prior to the Second Court Date that the Scheme is in the best interests of AusNet Shareholders (unless otherwise agreed in writing by the parties), ensure the AusNet Board unanimously recommends that AusNet Shareholders vote in favour of the Scheme at the Scheme Meeting;
- (ii) include a statement in all relevant public announcements to the above effect, including that each AusNet Director will vote all AusNet Shares controlled by them in favour of the Scheme at the Scheme Meeting; and
- (iii) no AusNet Director may change, withdraw, modify or qualify his or her recommendation or make a statement which is inconsistent with the initial recommendation.

One or more executive AusNet Directors may contradict subparagraphs (i) and (iii) above (without recommending against the Scheme) if it is in response to a requirement or request of the Court or a Government Agency.

(d) Exclusivity

The Scheme Implementation Deed contains certain exclusivity arrangements in favour of Bidder. These obligations may be summarised as follows:

- (i) **No Current Discussions:** AusNet represents and warrants that, as at the time of public release of the AusNet announcement of the Scheme Implementation Deed, neither it nor any of its Representatives are in any negotiations or discussions, in respect of any Competing Proposal.
- (ii) **No Shop:** AusNet must not, and must ensure that each of its Representatives does not, solicit, invite, encourage or initiate (including by the provision of non-public information to any Third Party) any Competing Proposal, or any enquiries, proposal, negotiations or discussions with any Third Party in relation to, or that may reasonably be expected to encourage or lead to, any Competing Proposal, or communicate any intention to do any of those things.
- (iii) **No Talk:** AusNet must not, and must ensure that each of its Representatives do not, participate in negotiations or discussions, or enter into any agreement or understanding with any Third Party in relation to, or which may reasonably be expected to encourage or lead to, a Competing Proposal, or communicate any intention to do any of those things.
- (iv) **No Due Diligence:** AusNet must not, and must ensure that each of its Representatives do not, disclose or otherwise make available to any Third Party, any non-public information relating to AusNet or any of its related bodies corporate in connection with, or which may reasonably be expected to encourage or lead to, the formation of a Competing Proposal, or communicate any intention to do any of those things.
- (v) **Notification:** If AusNet or any of its Representatives:
 - (A) receives a Competing Proposal;
 - (B) is approached in relation to a Competing Proposal; or
 - (C) receives any request from a Third Party for non-public information in relation to a Competing Proposal,

AusNet must, as soon as possible (and in any event, within 24 hours), give Bidder written notice of the occurrence. Such notice must include the material terms and conditions of the Competing Proposal and the identity of the Third Party making the Competing Proposal (to the extent of AusNet's knowledge).

- (vi) **Matching right:** Before AusNet or any of its Subsidiaries enter into a legally binding agreement to give effect to a Competing Proposal, the following conditions must be satisfied:
- (A) the Competing Proposal is in a form which will be able to give rise to a legally binding agreement and the AusNet Board determines that the Competing Proposal constitutes, or is reasonably likely to constitute, a Superior Proposal;
 - (B) AusNet must provide Bidder with a notice including:
 - (1) all the material terms and conditions of the Competing Proposal;
 - (2) if the Competing Proposal is not in cash, the cash equivalent value of the Superior Proposal;
 - (3) guidance as to any other terms and conditions Bidder may need to propose in order to match the Competing Proposal; and
 - (4) the identity of the Third Party making the Competing Proposal,
 - (C) AusNet must give Bidder five Business Days after the date of the notice for the purposes of Bidder's matching right to provide AusNet a counter proposal to the Competing Proposal (**Bidder Counterproposal**); and
 - (D) either:
 - (1) Bidder does not provide a Bidder Counterproposal within the five Business Days; or
 - (2) the AusNet Board determines the Bidder Counterproposal does not provide a matching or superior outcome for AusNet Shareholders compared to the Competing Proposal.

If Bidder submits a Bidder Counterproposal and the AusNet Board, acting in good faith, determines the Bidder Counterproposal provides a matching or superior outcome for AusNet Shareholders, then AusNet and Bidder must use their best endeavours to amend the Scheme and the Deed Poll to reflect and implement the Bidder Counterproposal. Once agreed, AusNet must use its best endeavours to procure that each AusNet Director recommends the Bidder Counterproposal to AusNet Shareholders.

However, AusNet is not required to comply with its obligations under the 'No Talk' and 'No Due Diligence' provisions in the Scheme Implementation Deed in relation to a Competing Proposal, provided that the AusNet Board has first determined in good faith, with the advice of external financial and legal Advisers, that:

- (i) the Competing Proposal is, or could reasonably be expected to become, a Superior Proposal; and
- (ii) complying with the 'No Talk' and 'No Due Diligence' provisions would, or would be reasonably likely to, constitute a breach of any of the fiduciary or statutory duties of the AusNet Directors.

(e) Break Fee

- (i) **AusNet Break Fee:** AusNet has agreed to pay Bidder a break fee of \$101,674,267 if:
 - (A) **Change in recommendation:** during the Exclusivity Period, any AusNet Director:
 - (1) fails to make a recommendation that the AusNet Shareholders vote in favour of the Scheme or a public statement that they will vote all AusNet Shares held or controlled by them in favour of the Scheme at the Scheme Meeting (unless it was agreed by the parties in writing);
 - (2) withdraws or adversely changes, modifies or qualifies their recommendation that AusNet Shareholders vote in favour of the Scheme at the Scheme Meeting (unless it was agreed by the parties in writing); or
 - (3) recommends, supports or endorses a Competing Proposal, including by making a public statement recommending that AusNet Shareholders accept or vote in favour of a Competing Proposal of any kind that is announced (whether or not such proposal is stated to be subject to any pre-conditions) during the Exclusivity Period,

other than where the Independent Expert concludes that the Scheme is not in the best interests of AusNet Shareholders (except in circumstances where that conclusion is as a result of a Competing Proposal);
 - (B) **Completion of Competing Proposal transaction:** during the Exclusivity Period, a Competing Proposal is announced by a Third Party or notified to AusNet (whether or not such proposal is stated to be subject to any pre-conditions) and, within nine (9) months after that occurring or after AusNet has given Bidder the last of all

8 Additional information continued

matching rights notices in relation to that Competing Proposal (whichever is later), the Third Party or any one or more Associate(s) of the Third Party:

- (1) completes a transaction of the kind referred to in paragraph (b), (c) or (d) of the definition of Competing Proposal; or
- (2) has a relevant interest in at least 50% of AusNet Shares under a transaction that is or has become wholly unconditional; or

(C) **Bidder termination:** Bidder terminates the Scheme Implementation Deed due to either:

- (1) a material breach of the Scheme Implementation Deed by AusNet;
- (2) a material representation or warranty given by AusNet is not true and correct;
- (3) AusNet makes an application to the Takeovers Panel (for a declaration of unacceptable circumstances) or Court which would reduce or impair Bidder's rights under clause 11 (Exclusivity) or 12 (Break fees) of the Scheme Implementation Deed;
- (4) AusNet fails to make submissions or (where relevant) apply for review or appeal where a Third Party makes an application to the Takeovers Panel (subject to the prospect of success); or
- (5) AusNet breaches any of the requirements listed in subparagraph (A) above.

However, the AusNet Break Fee is not payable in several circumstances, including if the Scheme nevertheless becomes Effective.

- (ii) **Bidder Break Fee:** Bidder has agreed to pay AusNet a break fee of \$101,674,267 if AusNet terminates the Scheme Implementation Deed due to a material breach of the Scheme Implementation Deed by Bidder, or a breach of a material representation or warranty by Bidder. However, the Bidder Break Fee is not payable in several circumstances, including if the Scheme nevertheless becomes Effective.

For full details of the AusNet Break Fee or the Bidder Break Fee, see clause 12 of the Scheme Implementation Deed.

(f) Termination

- (i) Either AusNet or Bidder may terminate the Scheme Implementation Deed at any time before 8:00am on the Second Court Date by notice in writing:
 - (A) if either:
 - (1) the other party is in material breach of any provision of the Scheme Implementation Deed (other than a Bidder Representation and Warranty or an AusNet Representation and Warranty not being true and correct); or
 - (2) a representation and warranty given by the other party (being the Bidder Representations and Warranties where the "other party" is Bidder, and being the AusNet Representations and Warranties where the "other party" is AusNet) is not true and correct, where that breach of representation and warranty is material in the context of the Transaction as a whole; and
 - (3) the relevant circumstances continue to exist for five Business Days from the time the notice of intention to terminate is given (or any shorter period ending at 5:00pm on the Business Day before the Second Court Date); or
 - (B) in certain circumstances where there is an event or occurrence that would, or does, prevent a Condition Precedent being satisfied:
 - (1) which is not waived in accordance with the Scheme Implementation Deed by the time or date specified in the Scheme Implementation Deed for the satisfaction of the relevant Condition Precedent; or
 - (2) by the time and date specified in the Scheme Implementation Deed for the satisfaction of that Condition Precedent, and

after consulting in good faith, AusNet and Bidder are unable to reach an agreement to implement the Scheme within five Business Days' notice of the above by alternative means, to extend the relevant time for satisfaction of the Condition Precedent, to change the date of the First Court Hearing or the Second Court Hearing or to extend the End Date.

- (ii) Bidder may terminate the Scheme Implementation Deed at any time before 8:00am on the Second Court Date by notice in writing if:
 - (A) AusNet makes an application to the Takeovers Panel (for a declaration of unacceptable circumstances) or Court which would reduce or impair Bidder's rights under clause 11 (Exclusivity) or 12 (Break fees) of the Scheme Implementation Deed, or fails to apply for review where a Third Party makes such application and is successful (subject to prospects of success of the review);
 - (B) any AusNet Director:
 - (1) fails to make a recommendation that AusNet Shareholders vote in favour of the Scheme or a public statement that they will vote all AusNet Shares held or controlled by them in favour of the Scheme at the Scheme Meeting (unless otherwise agreed by the parties in writing);
 - (2) has changed, withdrawn or adversely modified or qualified, or made a public statement that is inconsistent with, their recommendation that AusNet Shareholders vote in favour of the Scheme at the Scheme Meeting (unless the withdrawal, change or modification or qualification was otherwise agreed by the parties in writing); or
 - (3) has made a statement indicating that they no longer recommend the Transaction or are recommending, supporting or endorsing another transaction (including any Competing Proposal), and
- (iii) AusNet may terminate the Scheme Implementation Deed by written notice to Bidder at any time before 8:00am on the Second Court Date if a majority of the AusNet Directors withdraw their recommendation that AusNet Shareholders vote in favour of the Scheme at the Scheme Meeting on the basis that the Independent Expert opines that the Scheme is not in the best interests of AusNet Shareholders or the AusNet Board unanimously determines that a Competing Proposal constitutes a Superior Proposal (after Bidder's matching rights have been exhausted).

8.13 Status of FIRB approval

As announced by AusNet to the ASX on 12 November 2021, Bidder has received written confirmation from FIRB that the Commonwealth Government has no objection to the Transaction. The FIRB condition contained in the Scheme Implementation Deed has therefore been satisfied.

8.14 Consents and disclosures

- (a) The following parties have given, and have not withdrawn before the date of this Scheme Booklet, their consent to be named in this Scheme Booklet in the form and context in which they are named:
 - (i) Adara Partners and Citigroup as financial advisers to AusNet;
 - (ii) Computershare as the manager of the AusNet Share Register;
 - (iii) Allens as legal adviser to AusNet in relation to the Scheme; and
 - (iv) White & Case as tax adviser to AusNet in relation to the Scheme.
- (b) The Independent Expert has given and has not withdrawn its consent to be named in this Scheme Booklet and to the inclusion of the Independent Expert's Report in Schedule 1 to this Scheme Booklet and to the references to the Independent Expert's Report in this Scheme Booklet being made in the form and context in which each such reference is included.
- (c) Each Bidder Group member referred to in this Scheme Booklet has given, and has not withdrawn, its consent to be named in this Scheme Booklet and Bidder has given, and has not withdrawn, its consent in relation to the inclusion of the Bidder Information in this Scheme Booklet and to the references to that information in this Scheme Booklet in the form and context in which that information is included.
- (d) Each person named in this section 8.14:
 - (i) has not authorised or caused the issue of this Scheme Booklet;
 - (ii) does not make, or purport to make, any statement in this Scheme Booklet or any statement on which a statement in this Scheme Booklet is based, other than as specified in this section 8.14; and
 - (iii) to the maximum extent permitted by law, expressly disclaims all liability in respect of, makes no representation regarding, and takes no responsibility for, any part of this Scheme Booklet, other than a reference to its name and the statement (if any) included in this Scheme Booklet with the consent of that party as specified in this section 8.14.

8 Additional information continued

8.15 ASX relief

ASX has granted AusNet a waiver of ASX Listing Rule 6.23.3 to the extent necessary to enable AusNet to treat the Performance Rights and Deferred Rights in the manner set out in section 8.3(d).

8.16 ASIC relief

Pursuant to sub-regulation 5.1.01(1)(b) and clause 8302(h) of Schedule 8 of the *Corporations Regulations 2001* (Cth), the explanatory statement required for a Scheme must set out whether, within the knowledge of the AusNet Directors, the financial position of AusNet has materially changed since the date of the last balance sheet laid before the company in general meeting or sent to shareholders in accordance with sections 314 or 317 of the Corporations Act (being 31 March 2021, as the date of AusNet's last full-year financial report laid before the company at its annual general meeting), as well as the full particulars of the changes.

ASIC has granted AusNet relief from this requirement so that this Scheme Booklet only need set out, unless otherwise announced to the market operated by the ASX, all material changes to AusNet's financial position, within the knowledge of the AusNet Directors, since 30 September 2021 (being the last date of the period to which the financial statements for the half year ending 30 September 2021 relate).

AusNet will provide a copy of the financial statements for the half year ending 30 September 2021 free of charge to any AusNet Shareholder who requests a copy.

8.17 No unacceptable circumstances

AusNet believes that the Scheme does not involve any circumstances in relation to the affairs of AusNet that could reasonably be characterised as constituting 'unacceptable circumstances' for the purposes of section 657A of the Corporations Act.

8.18 No other information material to the making of a decision in relation to the Scheme

Otherwise than as contained or referred to in this Scheme Booklet, including the Independent Expert's Report and the information that is contained in the Schedules to this Scheme Booklet, there is no other information that is material to the making of a decision by an AusNet Shareholder whether or not to vote in favour of the Scheme Resolution to approve the Scheme, being information that is known to any AusNet Director and which has not previously been disclosed to AusNet Shareholders.

8.19 Supplementary information

If AusNet becomes aware of any of the following between the date of lodgement of this Scheme Booklet for registration with ASIC and the Court Approval Date:

- a material statement in this Scheme Booklet is false or misleading;
- a material omission from this Scheme Booklet;
- a significant change affecting a matter in this Scheme Booklet; or
- a significant new matter has arisen and it would have been required to be included in this Scheme Booklet if known about at the date of lodgement with ASIC,

depending on the nature and timing of the changed circumstances, and subject to obtaining any relevant approvals, AusNet may circulate and publish any supplementary document by:

- making an announcement to the ASX;
- placing an advertisement in a prominently published newspaper which is circulated generally throughout Australia;
- posting the supplementary document to AusNet Shareholders at their registered address as shown in the AusNet Share Register; or
- posting a statement on AusNet's Website,

as AusNet in its absolute discretion considers appropriate.

8.20 Transaction costs

AusNet will incur external transaction costs in connection with the Scheme. Certain of these costs are conditional on the Scheme proceeding, and if the Scheme is implemented, these will effectively be borne by Bidder which will have acquired AusNet from implementation. If the Scheme is implemented, AusNet expects to pay an aggregate of approximately \$41 million in external transaction costs in connection with the Scheme. If the Scheme is not implemented, AusNet expects that external transaction costs will be approximately \$18 million. These transaction costs are primarily payable to AusNet's financial advisory, legal, tax, accounting, technical and media and communications advisers, the Independent Expert and AusNet's Share Registry.

The transaction costs described in this section 8.20 do not include any break fee that may be payable by AusNet. See section 8.12(e) for information on the circumstances in which the AusNet Break Fee may be payable by AusNet.

Glossary and interpretation



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9 Glossary and interpretation

9.1 Glossary

The meanings of the terms used in this Scheme Booklet are set out below:

Term	Meaning
Acquisition Facility	the syndicated facility agreement dated 29 October 2021 between Bidder, Australia and New Zealand Banking Group Limited (ABN 11 005 357 522) as Agent and the Financiers.
Additional Consideration	where the Implementation Date has not occurred by 31 March 2022, \$0.000260274 per AusNet Share per day for each day after 31 March 2022 that has elapsed by the date on which the Implementation Date occurs.
Adviser	in relation to an entity, a professional adviser engaged (directly or indirectly) by the entity for the purposes of the Transaction (including financial adviser, legal adviser, accounting adviser, or a broker or insurer engaged to provide warranty or indemnity insurance).
AER	Australian Energy Regulator.
Affiliate	<p>in respect of a person (the primary person), a person:</p> <ul style="list-style-type: none"> (a) Controlled directly or indirectly by the primary person; (b) Controlling directly or indirectly the primary person; or (c) who is Controlled, directly or indirectly, by a person or persons who Control the primary person, <p>where Control means, with respect to any person (other than an individual) the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such person whether through the ownership of voting securities, by agreement or otherwise, and for the avoidance of doubt, a general partner is deemed to Control a limited partnership of which it is the general partner and a fund advised or managed directly or indirectly by a person will also be deemed to be Controlled by such person.</p>
APA Group	Australian Pipeline Limited (ABN 99 091 344 704) as responsible entity of Australian Pipeline Trust (ARSN 091 678 778) and of APT Investment Trust (ARSN 115 585 441).
APA Indicative Proposal	the indicative non-binding and conditional proposal from APA Group to acquire all AusNet Shares at an indicative price with a notional value of \$2.60 per share, which AusNet announced to the ASX on 21 September 2021.
ASIC	Australian Securities and Investments Commission.
Associate	has the meaning set out in section 12(2)(b) and (c) of the Corporations Act, where for the purposes of section 12, the 'designated body' is AusNet.
ASX	ASX Limited (ABN 98 008 624 691) or, as the context requires, the financial market known as 'ASX' operated by ASX Limited.
ASX Listing Rules	the official listing rules of the ASX.
AusNet	AusNet Services Ltd (ACN 603 317 559).
AusNet Board	the board of directors of AusNet and as at the date of this Scheme Booklet, the individuals set out in section 4.4(a).
AusNet Break Fee or Bidder Break Fee	\$101,674,267.
AusNet Deferred Equity Incentive Plan	the AusNet Deferred Equity Incentive Plan.
AusNet Director	a member of the AusNet Board.
AusNet Finance Co	AusNet Services Holdings Pty Ltd (ABN 97 086 006 859).
AusNet Financing	any existing financing agreement or arrangement for the provision of financial indebtedness by a third party to a member of the AusNet Group (including swap and derivative agreements or arrangements).

9 Glossary and interpretation continued

Term	Meaning
AusNet Financing Default	any 'event of default' (however described), any other matter, event or circumstance which, with the giving of notice, expiry of a grace period or both would be an 'event of default' (however described), any 'review event' (however described) or any other 'termination event' (however described) under and for the purposes of any AusNet Financing.
AusNet Group	AusNet and each of its Subsidiaries. A reference to a member of the AusNet Group is a reference to AusNet or any such Subsidiary.
AusNet Information	the information contained in this Scheme Booklet, other than the Bidder Information, section 7 (Tax Letter) and the Independent Expert's Report (excluding the information provided by AusNet to the Independent Expert).
AusNet Long Term Incentive Plan	the AusNet Long Term Incentive Plan.
AusNet Material Adverse Change	<p>any event, circumstance, occurrence or matter which has resulted in, or is reasonably likely to result in, either individually or when aggregated with all such events, circumstances, occurrences or matters:</p> <ul style="list-style-type: none"> (a) a diminution in the net assets of the AusNet Group by an amount exceeding \$343,490,000, as compared to what the net assets of the AusNet Group could reasonably be expected to have been but for the relevant events, circumstances, occurrences or matters; or (b) the EBITDAaL of the AusNet Group being reduced (but not only on a one-off basis) by an amount of more than \$118,890,000 as compared to what the consolidated annual EBITDAaL of the AusNet Group could reasonably be expected to have been but for the relevant events, circumstances, occurrences or matters, <p>in each case other than an event, circumstance, occurrence or matter:</p> <ul style="list-style-type: none"> (c) required or expressly permitted by the Scheme Implementation Deed or the Scheme; (d) which Bidder has previously approved or requested in writing; (e) Fairly Disclosed in the Due Diligence Material or the Disclosure Letter; (f) Fairly Disclosed to ASX within three years prior to the date of the Scheme Implementation Deed; (g) arising out of the announcement or implementation of the Transaction or the Scheme (including any loss of or adverse change in the relationship of any member of the AusNet Group with its employees, customers, partners, creditors or suppliers as at the date of the Scheme Implementation Deed, including the loss of any contract and including any consequences of a change of control provision in a contract being triggered, provided that the contract which has given rise to the relevant event, circumstance, occurrence or matter was Fairly Disclosed in the Due Diligence Material or the Disclosure Letter); (h) that is (including its impact) within the actual knowledge of Bidder as at the date of the Scheme Implementation Deed (which does not include mere knowledge of the risk of an event, circumstance, occurrence or matter happening); (i) arising from any change in any law, or rule or regulation of any Government Agency, or any change in generally accepted accounting standards, after the date of the Scheme Implementation Deed, except where such changes affect AusNet more severely than other Australian businesses; (j) arising from accounting market value adjustments to derivatives or debt;

Term	Meaning
AusNet Material Adverse Change continued	<p>(k) constituted by or arising from any determinations, announcements or rulings by:</p> <ul style="list-style-type: none"> (i) the Australian Taxation Office; (ii) the AER, Australian Energy Market Commission, Australian Energy Market Operator, the Essential Services Commission or Energy Security Board; or (iii) any other Government Agency in relation to electricity or gas networks or systems, <p>except where such changes affect AusNet more severely than other Australian businesses;</p> <p>(l) arising from changes in general economic, business or financial market conditions that impact Australian businesses generally, except to the extent such changes affect AusNet more severely than other Australian businesses;</p> <p>(m) arising from an act of terrorism, war (whether or not declared), natural disaster or adverse weather conditions or the like after the date of the Scheme Implementation Deed;</p> <p>(n) arising from the COVID-19 virus (or any mutation, variation or derivative), or from any law, order, rule or direction of any Government Agency in relation thereto; or</p> <p>(o) relating to third party costs and expenses incurred by AusNet associated with the Transaction, including any fees payable to external Advisers of AusNet, to the extent such amounts are Fairly Disclosed in the Due Diligence Material or Disclosure Letter.</p> <p>For the purposes of this definition of AusNet Material Adverse Change, the assessment of the resulting cost of an event, occurrence, circumstance or matter is to be assessed having regard to, where applicable, the ability to recover the cost (in whole or in part) resulting from the event, occurrence, circumstance or matter through a regulatory pass through mechanism applying in relation to the AusNet Group's assets (with any appropriate time value weighting for any such recoveries), having regard to any applicable economic advice obtained and feedback received from any relevant Government Agencies.</p>
AusNet Regulated Event	<p>the occurrence of any of the matters set out in Schedule 3 of the Scheme Implementation Deed, other than an occurrence:</p> <ul style="list-style-type: none"> (a) required or expressly permitted by the Scheme Implementation Deed or the Scheme; (b) Fairly Disclosed in the Due Diligence Material or the Disclosure Letter; (c) Fairly Disclosed to ASX within three years prior to the date of the Scheme Implementation Deed; or (d) with the prior written consent of Bidder. <p>The matters set out in Schedule 3 of the Scheme Implementation Deed are as follows:</p> <ul style="list-style-type: none"> (a) AusNet converts all or any of its shares into a larger or smaller number of shares; (b) any AusNet Group entity resolves to reduce its share capital in any way; (c) any AusNet Group entity: <ul style="list-style-type: none"> (i) enters into a buy-back agreement; or (ii) resolves to approve the terms of a buy-back agreement under the Corporations Act;

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9 Glossary and interpretation continued

Term	Meaning
AusNet Regulated Event continued	<p>(d) any member of the AusNet Group issues shares or other securities (including any AusNet Securities or Rights) to a person, or grants an option over or a right to receive its shares or other securities (including any AusNet Securities or Rights), or agrees to make such an issue or grant such an option or right, other than:</p> <ul style="list-style-type: none"> (i) where the shares or other securities are issued, or where the options are granted, to AusNet or an entity which is a wholly-owned Subsidiary of AusNet, provided that AusNet itself is not the issuing entity; or (ii) the issue of AusNet Shares upon the vesting of Performance Rights or Deferred Rights which are in existence as at the date of the Scheme Implementation Deed in compliance with clause 4.4 of that Deed; <p>(e) any member of the AusNet Group issues, or agrees to issue, convertible notes or any other instrument or security convertible into shares or securities in or of any member of the AusNet Group;</p> <p>(f) any AusNet Group entity disposes, or agrees to dispose, of the whole or a substantial part of the business or property of the AusNet Group (whether by way of single transaction or series of related transaction);</p> <p>(g) any AusNet Group entity grants, or agrees to grant, a security interest in or over the whole or a substantial part of the business or property of the AusNet Group, other than the granting of security interests that are permitted by the AusNet Group's financing documents which are contained in the Due Diligence Material;</p> <p>(h) any member of the AusNet Group agrees to pay, declares, determines, pays or makes, or incurs a liability to pay or make, a dividend or any other form of distribution of profits or capital (whether in cash or in specie), other than:</p> <ul style="list-style-type: none"> (i) the declaration and payment by AusNet of any Permitted Dividend; or (ii) the declaration and payment by any Subsidiary of AusNet of a dividend, where the recipient of that dividend is AusNet or a Wholly-Owned Subsidiary of AusNet; <p>(i) any member of the AusNet Group resolves to be wound up, other than the dormant companies Geomatic Holdings Pty Limited (ACN 062 555 373) and Geomatic Technologies Pty. Ltd. (ACN 081 782 863);</p> <p>(j) a liquidator or provisional liquidator of any member of the AusNet Group is appointed;</p> <p>(k) a court makes an order for the winding up of any member of the AusNet Group;</p> <p>(l) an administrator of any member of the AusNet Group is appointed under section 436A, 436B or 436C of the Corporations Act;</p> <p>(m) any member of the AusNet Group executes a deed of company arrangement;</p> <p>(n) a receiver, or a receiver and manager, is appointed in relation to the whole, or a substantial part, of the property of any member of the AusNet Group;</p> <p>(o) any member of the AusNet Group (other than the dormant companies Geomatic Holdings Pty Limited (ACN 062 555 373) and Geomatic Technologies Pty. Ltd. (ACN 081 782 863)) ceasing, or threatening to cease, carrying on the whole or a material part of the business of the AusNet Group;</p> <p>(p) AusNet Shares cease to be quoted, or are suspended from quotation, on ASX;</p>

Term	Meaning
AusNet Regulated Event continued	<p>(q) any AusNet Group entity makes any change to its constitution;</p> <p>(r) any expenditure or borrowing occurs or is committed which will, or will be likely to, result in the AusNet Group's consolidated net debt (calculated having regard to actual financial indebtedness and not market value of debt, i.e. excluding mark-to-market impacts, including in relation to hedges):</p> <p>(i) at any time from the date of the Scheme Implementation Deed until 31 March 2022, exceeding \$8.2 billion (and the excess remains in place for at least two Business Days); and</p> <p>(ii) at any time from 1 April 2022, exceeding \$8.5 billion (and the excess remains in place for at least two Business Days),</p> <p>(excluding any future increments in net debt which may arise from new financing arrangements to be put in place at or after the implementation of the Scheme).</p> <p>For the purposes of this AusNet Regulated Event only, the exclusions set out in paragraphs (a), (b) and (c) of the definition of AusNet Regulated Event will not apply; and</p> <p>(s) one or more AusNet Financing Defaults arise (in any case other than an AusNet Financing Default which arises as a consequence of the Scheme or the implementation of the Transaction) under AusNet Financings where the aggregate financial indebtedness which may be accelerated, redeemed or otherwise declared due and payable or cancelled earlier than its original scheduled maturity date under those AusNet Financings exceeds \$343,490,000, and the situation has not been remedied to the satisfaction of Bidder (acting reasonably) within five Business Days (or in any event before the Second Court Date).</p>
AusNet Representation and Warranty	a representation and warranty of AusNet set out in Schedule 2 of the Scheme Implementation Deed.
AusNet Share or Share	a fully paid ordinary share in the capital of AusNet.
AusNet Share Price	the price of AusNet Shares as quoted on the ASX.
AusNet Share Register	the register of the members of AusNet maintained in accordance with the Corporations Act.
AusNet Share Registry	Computershare Investor Services Pty Limited.
AusNet Shareholder or Shareholder	a person who is registered in the AusNet Share Register as a holder of AusNet Shares.
AusNet's Website	www.ausnetservices.com.au/About/Investors
Bidder	Australian Energy Holdings No 4 Pty Ltd (ACN 654 673 793).
Bidder Counterproposal	a proposal made by Bidder to counter a Competing Proposal under their matching right in clause 11.5 of the Scheme Implementation Deed.
Bidder Group	Bidder and each of its Related Entities (excluding, at any time, AusNet and its Subsidiaries to the extent that AusNet and its Subsidiaries are subsidiaries of Bidder at that time), being Bidder, HoldCo, MidCo and TopCo as described in section 5.2(a). A reference to a member of the Bidder Group is a reference to Bidder or any such Related Entities.
Bidder Information	information about the Bidder Group provided or approved by Bidder or any of its Advisers to AusNet in writing for inclusion in this Scheme Booklet, as required by clauses 5.3(a) and 5.3(g) of the Scheme Implementation Deed.
Bidder Party	any member of the Bidder Group or any officer, employee or Adviser of any of them.
Bidder Representation and Warranty	a representation and warranty of Bidder set out in Schedule 1 of the Scheme Implementation Deed.
Brookfield	Brookfield Asset Management Inc., and where appropriate, also includes entities controlled by it.

9 Glossary and interpretation continued

Term	Meaning
Brookfield Indicative Proposal	the indicative non-binding and conditional proposal from Brookfield to acquire all AusNet Shares at an indicative price of \$2.50 per share, which AusNet announced to the ASX on 20 September 2021.
Brookfield Managed Co-Investors	institutional investors in TopCo, whose investment will be managed by Brookfield or an Affiliate of Brookfield and who do not have governance rights or influence in respect of investment and management decisions. Refer to section 5.2(a).
Brookfield Managed Investors	has the meaning give in section 5.2(a).
Brookfield Super-Core Infrastructure Partners	Brookfield Super-Core Infrastructure Partners L.P.; Brookfield Super-Core Infrastructure Partners (TE) L.P.; Brookfield Super-Core Infrastructure Partners (NUS) L.P, and Brookfield Super-Core Infrastructure Partners (ER) SCSp.
Business Day	Business Day means any day that is each of the following: <ul style="list-style-type: none"> (a) a Business Day within the meaning given in the ASX Listing Rules; and (b) a day that banks are open for business in Melbourne, Australia.
Competing Proposal	<p>any expression of interest, proposal, offer, transaction or arrangement (other than the Transaction) by or with any person pursuant to which, if the expression of interest, proposal, offer, transaction or arrangement is entered into or completed substantially in accordance with its terms, a Third Party will (other than as custodian, nominee or bare trustee):</p> <ul style="list-style-type: none"> (a) acquire a relevant interest in 10% or more of the shares in, or voting power of 10% or more in, AusNet; (b) directly or indirectly acquire, obtain a right to acquire, or otherwise obtain an economic interest in, all or a substantial part of the assets or business of AusNet; (c) otherwise acquire control (within the meaning of section 50AA of the Corporations Act) of AusNet; (d) otherwise directly or indirectly acquire, merge or amalgamate with, or acquire a controlling shareholding or economic interest in AusNet or in all or substantially all of its assets or business; or (e) require AusNet to abandon, or otherwise fail to proceed with, the Transaction, <p>whether by way of takeover offer, scheme of arrangement, shareholder approved acquisition, capital reduction, share buy-back or repurchase, sale or purchase of assets, joint venture, reverse takeover, dual-listed company structure, recapitalisation, establishment of a new holding company for the Discloser or other synthetic merger or any other transaction or arrangement. For the avoidance of doubt, each successive material modification or variation of any expression of interest, proposal, offer, transaction or arrangement in relation to a Competing Proposal will constitute a new Competing Proposal.</p>
Computershare	Computershare Investor Services Pty Limited (ACN 078 279 277).
Conditions Precedent	each of the conditions set out in clause 3.1 of the Scheme Implementation Deed.
Corporations Act	the <i>Corporations Act 2001</i> (Cth), as amended by any applicable ASIC class order, ASIC legislative instrument or ASIC relief.
Court	the Supreme Court of New South Wales or such other court of competent jurisdiction under the Corporations Act agreed to in writing between AusNet and Bidder.
Court Approval Date	the date when the Court grants its approval to the Scheme under section 411(4) of the Corporations Act.
Deed Poll	a deed poll in favour of all Scheme Shareholders in the form of Schedule 3 (or such other form agreed to in writing between the parties to the Scheme Implementation Deed).
Deferred Right	a performance right granted by AusNet under the AusNet Deferred Equity Incentive Plan, which entitles the holder to receive an AusNet Share in certain circumstances.

Term	Meaning
Disclosure Letter	the letter identified as such provided by AusNet to Bidder and countersigned by or on behalf of Bidder on or prior to execution of the Scheme Implementation Deed and any document identified in that letter as having been disclosed to Bidder subject to such document having been Fairly Disclosed in the Due Diligence Material on or prior to the date of that letter.
Due Diligence Material	the information disclosed by or on behalf of the AusNet Group (including in response to requests for information) to a Bidder Party contained in the electronic data room as at 2.30pm AEDT on 30 October 2021, as included in a digital archive (the URL of which has been sent by Allens to Herbert Smith Freehills via email at about 3.25pm AEDT on 30 October 2021) and consistent with an electronic index sent by Allens to Herbert Smith Freehills via email at about 3.06pm AEDT on 30 October 2021.
EBITDAaL	statutory reported earnings before interest, tax, depreciation and amortisation after lease interest income based on the same methodology as in the AusNet Group's full-year financial report for 31 March 2021.
Effective	the coming into effect under section 411(10) of the Corporations Act of the order of the Court made under section 411(4)(b) (and, if applicable, section 411(6)) of the Corporations Act in relation to the Scheme.
Effective Date	the date on which the Scheme becomes Effective.
End Date	the date that is eight (8) months after the date of the Scheme Implementation Deed or such other date as may be agreed in writing between AusNet and Bidder.
EPS	earnings per share.
Equity Commitment	has the meaning given in section 5.3(b).
Equity Commitment Letter	has the meaning given in section 5.3(b).
Equity Partners	has the meaning given in section 5.2(a).
Exclusivity Period	the period from and including the date of the Scheme Implementation Deed to the earlier of: (a) the termination of the Scheme Implementation Deed; and (b) the End Date.
Executive Leadership Team	as at the date of this Scheme Booklet, the individuals set out in section 4.4(b).
Ex-Dividend Date	the date from which the Interim Dividend is not owed to a new purchaser of an AusNet Share (one day prior to the Interim Dividend record date of 17 November 2021).
Fairly Disclosed	a reference to 'Fairly Disclosed' in relation to a matter is to such matter being disclosed in sufficient detail to enable a reasonable person experienced in the industries in which the AusNet Group operates or transactions similar to the Transaction to identify the nature, substance and scope of the relevant matter and to reach a reasonably informed view on the impact of the relevant matter on the AusNet Group.
FATA	the <i>Foreign Acquisitions and Takeovers Act 1975</i> (Cth).
Financiers	has the meaning give in section 5.3(c).
FIRB	the Australian Foreign Investment Review Board.
First Court Date	the first day on which an application made to the Court for orders under section 411(1) of the Corporations Act that the Scheme Meeting be convened is heard or, if the application is adjourned for any reason, the day on which the adjourned application is heard.
GEESP	the AusNet General Employee Exempt Share Plan.
Government Agency	any Australian or foreign government or governmental, semi-governmental or judicial entity or authority. It also includes any government minister (and his or her delegate), any self-regulatory organisation established under statute or any securities exchange and, for the avoidance of doubt, includes ASIC, ASX, FIRB, Australian Competition and Consumer Commission and equivalent bodies in jurisdictions outside Australia.
Grant Samuel	Grant Samuel & Associates Pty Limited

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9 Glossary and interpretation continued

Term	Meaning
Hedging Novation Transaction	in respect of any existing swap or derivative agreement entered into by AusNet Finance Co: (a) acceptance by AusNet Finance Co of a novation by the existing swap counterparty to a new swap counterparty; (b) agreement by AusNet Finance Co of an ISDA master agreement, ISDA schedule and/or long form confirmation to document the terms of the swap or derivative agreement with the new swap counterparty; or (c) confirmation by the AusNet Guarantors that the terms of its existing guarantee and indemnity apply to a novated swap or derivative agreement with a new counterparty or entry into a new, replacement guarantee in favour of the new swap counterparty.
HoldCo	Australian Energy Holdings No 3 Pty Ltd (ACN 654 673 300).
Holding Companies	HoldCo, MidCo and TopCo.
Implementation Date	the fifth Business Day after the Scheme Record Date or such other date agreed to in writing between Bidder and AusNet.
Independent Expert	Grant Samuel, an independent expert engaged by AusNet.
Independent Expert's Report	a report (including any written updates to such report) of the Independent Expert stating whether or not in its opinion the Scheme is in the best interests of AusNet Shareholders.
Investment Management Corporation of Ontario or IMCO	Investment Management Corporation of Ontario and where appropriate also includes entities managed by it or its affiliates on behalf of applicable public sector clients of Investment Management Corporation of Ontario.
Interim Dividend	AusNet's interim unfranked dividend for the half year ended 30 September 2021 of \$0.0475 per AusNet Share, which is to be paid on 16 December 2021.
Last Practicable Trading Date	10 December 2021, being the last practicable trading date before the date of this Scheme Booklet.
MidCo	Australian Energy Holdings No 2 Pty Ltd (ACN 654 672 992).
Order	any decree, judgment, injunction, direction, writ or other order, whether temporary, preliminary or permanent, made or given by a court of competent jurisdiction or by another Government Agency.
Performance Right	a performance right granted by AusNet under the AusNet Long Term Incentive Plan, which entitles the holder to receive an AusNet Share in certain circumstances.
Permitted Dividends	(a) an unfranked interim dividend of not more than \$0.0475 per AusNet Share in respect of the financial half-year ending 30 September 2021; and (b) if the Implementation Date does not occur on or before 31 March 2022 – an unfranked dividend of not more than \$0.0475 per AusNet Share in respect of the financial year ending 31 March 2022.
Proxy Form	the proxy form in respect of the Scheme Resolution, which accompanies this Scheme Booklet and is attached to the Notice of Meeting in Schedule 4.
R&CAB	Regulated and Contracted Asset Base.

Term	Meaning
Related Entity	<p>in relation to an entity (the first entity):</p> <p>(a) any of:</p> <ul style="list-style-type: none"> (i) a subsidiary of the first entity; (ii) an entity of which the first entity is a subsidiary; or (iii) a subsidiary of another entity of which the first entity is also a subsidiary, <p>where, for the purposes of this definition, subsidiary has the meaning given in the Corporations Act, amended as necessary such that:</p> <ul style="list-style-type: none"> (iv) a body corporate or a trust will also be taken to be a subsidiary of an entity if it is controlled by that entity (as defined in section 50AA of the Corporations Act); (v) a trust, partnership or fund may be a subsidiary, for the purpose of which a unit, partnership interest or other beneficial interest in the trust, partnership or fund will be regarded as a share (ignoring the operation of section 48(2) of the Corporations Act); and (vi) an entity may be a subsidiary of a trust, partnership or fund if it would have been a subsidiary if that trust, partnership or fund were a body corporate; or <p>(b) an Affiliate of the first entity.</p>
Relevant Interest	has the meaning given to it in the Corporations Act.
Representative	<p>in relation to Bidder or AusNet:</p> <ul style="list-style-type: none"> (a) a Related Entity of that party; (b) an Adviser of that party or any of their Related Entities; and (c) a director, officer or employee of that party, or of an Adviser or Related Entity of that party.
Requisite Majority	<p>in relation to the Scheme Resolution to be put to the Scheme Meeting:</p> <ul style="list-style-type: none"> (a) a majority in number (more than 50%) of eligible AusNet Shareholders present and voting at the Scheme Meeting (whether in person or by duly appointed proxy, attorney or corporate representative) (unless the Court orders otherwise); and (b) at least 75% of the total number of votes cast on the Scheme Resolution by eligible AusNet Shareholders, <p>and Requisite Majorities for the Scheme Resolution means the requisite voting majorities set out in paragraphs (a) and (b) above.</p>
ROIC	return on investment capital.
Scheme or Scheme of Arrangement	the scheme of arrangement under Part 5.1 of the Corporations Act between AusNet and the Scheme Shareholders in the form of Schedule 2 (or in such other form agreed to in writing between AusNet and Bidder).
Scheme Booklet	this document.
Scheme Consideration	<p>in respect of each Scheme Share:</p> <ul style="list-style-type: none"> (a) a cash amount of \$2.65; less (b) the cash amount of any Permitted Dividend to which AusNet Shareholders become entitled on or before the Implementation Date;³³ plus (c) the amount of any Additional Consideration.

³³ This includes the value of the Interim Dividend, being \$0.0475 per AusNet Share. The Interim Dividend is to be paid on 16 December (provided the AusNet Shares were held as at the Interim Dividend record date of 17 November 2021). If an AusNet Shareholder does not hold the AusNet Shares as at the Interim Dividend record date, such AusNet Shareholder will not receive the Interim Dividend, but the amount of the Interim Dividend will still be deducted from the Scheme Consideration.

9 Glossary and interpretation continued

Term	Meaning
Scheme Implementation Deed	the Scheme Implementation Deed between AusNet and Bidder dated 31 October 2021. A summary is set out in section 8.12, and a full copy is attached to the AusNet ASX Announcement on 1 November 2021, which can be obtained from www.asx.com.au or from AusNet's Website.
Scheme Meeting	the meeting of AusNet Shareholders ordered by the Court to be convened under section 411(1) of the Corporations Act. The Scheme Meeting will be held virtually through an online platform, details of which are set out in the Notice of Meeting in Schedule 4.
Scheme Meeting Record Date	the time and date for determining eligibility to vote at the Scheme Meeting, currently expected to be 7.00pm (Melbourne time) on Wednesday, 26 January 2022.
Scheme Record Date	7.00pm (AEDT) on the third Business Day after the Effective Date or such other time and date agreed to in writing between AusNet and Bidder.
Scheme Resolution	a resolution of eligible AusNet Shareholders to approve the Scheme, the form of which is set out in the Notice of Meeting in Schedule 4.
Scheme Shareholder	a person registered in the AusNet Share Register as the holder of one or more Scheme Shares at the Scheme Record Date.
Scheme Shares	the AusNet Shares on issue as at the Scheme Record Date.
Second Court Hearing or Second Court Date	the first day on which an application made to the Court for an order under section 411(4)(b) of the Corporations Act approving the Scheme is heard or, if the application is adjourned for any reason, the day on which the adjourned application is heard.
SP Group	Singapore Power International Pte Ltd and SP eResources Pte Ltd.
Subsidiary	<p>has the meaning given in Part 1.2, Division 6 of the Corporations Act, amended as necessary such that:</p> <ul style="list-style-type: none"> (a) a body corporate or a trust will also be taken to be a subsidiary of an entity if it is controlled by that entity (as defined in section 50AA of the Corporations Act); (b) a trust, partnership or fund may be a subsidiary, for the purpose of which a unit, partnership interest or other beneficial interest in the trust, partnership or fund will be regarded as a share (ignoring the operation of section 48(2) of the Corporations Act); and (c) an entity may be a subsidiary of a trust, partnership or fund if it would have been a subsidiary if that trust, partnership or fund were a body corporate.
Sunsuper Superannuation Fund	Sunsuper Pty Ltd as trustee for the Sunsuper Superannuation Fund.
Superior Proposal	<p>a bona fide written Competing Proposal received by AusNet that the AusNet Board determines, acting in good faith and in order to satisfy what the AusNet Board considers to be the AusNet Directors' statutory or fiduciary duties, and after having obtained advice from AusNet's external legal and financial advisers:</p> <ul style="list-style-type: none"> (a) is reasonably capable of being valued and reasonably capable of being completed in accordance with its terms; and (b) would, if completed substantially in accordance with its terms, result in a transaction that is more favourable to AusNet Shareholders than the Transaction, <p>taking into account all aspects of the Competing Proposal (including the identity, reputation and financial condition of the person making such Competing Proposal and any conditions to which it is subject).</p>
Third Party	<p>any person other than the following:</p> <ul style="list-style-type: none"> (a) Bidder or any of its Related Entities; or (b) a consortium, partnership, limited partnership, syndicate or other group in which Bidder or any of its Related Entities has agreed in writing to be a participant.
TopCo	Australian Energy Holdings No 1 Pty Ltd (ACN 654 672 670).

Term	Meaning
Total Cash Amount	if the Scheme is implemented: (a) by 31 March 2022, \$2.65 per AusNet Share; ³⁴ and (b) after 31 March 2022, \$2.65 plus the Additional Consideration per AusNet. ³⁵
TSR	total shareholder return.
Transaction	the acquisition of the Scheme Shares by Bidder through implementation of the Scheme in accordance with the terms of the Scheme Implementation Deed.
Voting Power	has the meaning given in the Corporations Act.
White & Case	White & Case LLP.
Wholly-Owned Subsidiary	in relation to a party, a body corporate, all of the issued shares of which are or will be directly or indirectly owned by that party.

9.2 Interpretation

In this Scheme Booklet:

- (a) words of any gender include all genders;
- (b) words importing the singular include the plural and vice versa;
- (c) an expression importing a person includes any company, partnership, joint venture, association, corporation or other body corporate and vice versa;
- (d) a reference to a section or schedule, is a reference to a section of or schedule of, this Scheme Booklet as relevant;
- (e) a reference to any legislation includes all delegated legislation made under it and amendments, consolidations, replacements or re enactments of any of them;
- (f) headings and bold type are for convenience only and do not affect the interpretation of this Scheme Booklet;
- (g) a reference to time is a reference to Australian Eastern Daylight Time or AEDT unless otherwise specified;
- (h) a reference to dollars and \$ is to Australian currency;
- (i) an accounting term is a reference to that term as it is used in accounting standards under the Corporations Act, or, if not inconsistent with those standards, in accounting principles and practices generally accepted in Australia; and
- (j) the words "include", "including", "for example" or "such as" when introducing an example, do not limit the meaning of the words to which the example relates to that example or examples of a similar kind.

³⁴ The amount of \$2.65 per AusNet Share comprises the cash amount of \$2.6025 per AusNet Share payable by Bidder plus the Interim Dividend of \$0.0475 per AusNet Share, which is to be paid on 16 December (provided the AusNet Shares were held as at the Interim Dividend record date of 17 November 2021). If the AusNet Shares were not held as at the Interim Dividend record date, the total cash amount will be \$2.6025.

³⁵ The amount of \$2.65 per AusNet Share comprises the cash amount of \$2.6025 per AusNet Share payable by Bidder plus the Interim Dividend of \$0.0475 per AusNet Share, which is to be paid on 16 December (provided the AusNet Shares were held as at the Interim Dividend record date of 17 November 2021). If the AusNet Shares were not held as at the Interim Dividend record date, the total cash amount will be \$2.6025 plus the Additional Consideration.

Schedule 1

Independent Expert's Report

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Schedule 1

Independent Expert's Report

GRANT SAMUEL



16 December 2021

The Directors
AusNet Services Ltd
Level 31
2 Southbank Boulevard
Southbank Victoria 3006

Dear Directors

Australian Energy Holdings Proposal

1 Introduction

On 1 November 2021, AusNet Services Ltd ("AusNet") announced that it had entered into a Scheme Implementation Deed with Australian Energy Holdings No 4 Pty Ltd ("Australian Energy Holdings") under which Australian Energy Holdings had agreed to acquire all of the shares in AusNet by way of a scheme of arrangement ("Scheme"). Australian Energy Holdings is an Australian proprietary company which is controlled by Brookfield Asset Management Inc. ("Brookfield").

The total consideration under the Scheme is \$2.65 per share, less the cash amount of any dividend in respect of 1HY22¹ (up to a maximum of \$0.0475 per share)² and in respect of 2HY22³ (up to a maximum of \$0.0475 per share) to which AusNet shareholders become entitled on or before implementation of the Scheme⁴.

Entry into the Scheme Implementation Deed followed AusNet's announcements that it had received unsolicited, indicative, non-binding and conditional proposals from Brookfield at an indicative price of \$2.50 per share (the "Brookfield Indicative Proposal") and APA Group, for a combination of \$1.82 cash and 0.0878 APA Group stapled securities per share (with an implied value at the time of \$2.60 per share) (the "APA Group Indicative Proposal"). The Brookfield Indicative Proposal and the APA Group Indicative Proposal followed earlier indicative proposals from both parties.

The Scheme is subject to a number of conditions which are set out in full in the Scheme Booklet to be sent by AusNet to its shareholders. Other elements of the Scheme include "no-shop" and "no-talk or due diligence access" obligations, break fees and arrangements in relation to outstanding performance rights and deferred rights.

AusNet's major shareholder, Singapore Power International Pte Ltd and SP eResources Pte Ltd (collectively, "SP Group"), which owns 32.7% of AusNet's shares, has confirmed that it supports the Scheme and that it intends to vote the shares that it holds or controls in favour of the Scheme, subject to the Scheme Implementation Deed not being terminated, there not being a superior proposal (as determined by SP Group), an independent expert concluding that the Scheme is in the best interests of AusNet shareholders (and not changing that conclusion) and the Scheme being implemented by 30 June 2022. All else being equal, SP Group has expressed a preference for an all cash consideration.

¹ 1HY22 is the six months ended 30 September 2021.

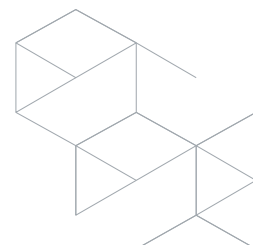
² On 11 November 2021, AusNet announced that the AusNet Board had approved an interim dividend for 1HY22 of \$0.0475 cents per share. This interim dividend is to be paid to shareholders on 16 December 2021. Consequently, if the Scheme is implemented in accordance with the current timetable, the cash amount that will be received by AusNet shareholders is \$2.6025 per share.

³ 2HY22 is the six months ending 31 March 2022.

⁴ If the Scheme is implemented after 31 March 2022, AusNet shareholders will also be entitled to additional consideration of \$0.000260274 per share for each day after 31 March 2022 that has elapsed by the date of implementation.

GRANT SAMUEL & ASSOCIATES PTY LIMITED

ABN 28 050 036 372 AFS Licence No 240985
Level 19 Governor Macquarie Tower, 1 Farrer Place Sydney NSW 2000 GPO BOX 4301 SYDNEY NSW 2001 T +61 2 9324 4211 F +61 2 9324 4301
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Schedule 1

Independent Expert's Report continued

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The AusNet Board unanimously recommends that shareholders vote in favour of the Scheme, in the absence of a superior proposal and subject to an independent expert concluding (and continuing to conclude) that the Scheme is in the best interests of AusNet shareholders. Subject to the same qualifications, each AusNet director intends to vote, or procure the voting of, shares held or controlled by them in their personal capacity in favour of the Scheme.

The directors of AusNet have engaged Grant Samuel & Associates Pty Limited ("Grant Samuel") to prepare an independent expert's report setting out whether, in its opinion, the Scheme is in the best interests of AusNet shareholders. A copy of the report (including this letter) will accompany the Scheme Booklet to be sent to AusNet shareholders. This letter contains a summary of Grant Samuel's opinion and main conclusions.

2 Opinion

Grant Samuel has concluded that the Scheme is fair and reasonable. Accordingly, in Grant Samuel's opinion the Scheme is in the best interests of AusNet shareholders in the absence of a superior proposal.

3 Key Conclusions

- **The equity in AusNet has been valued in the range \$9.4-10.3 billion, which corresponds to a value of \$2.45-2.70 per share**

The valuation is summarised below:

AUSNET - VALUATION SUMMARY (\$ MILLIONS)

	FULL REPORT SECTION REFERENCE	VALUE RANGE	
		LOW	HIGH
Electricity Transmission	5.4	4,400.0	4,600.0
Electricity Distribution	5.5	7,800.0	8,100.0
Gas Distribution	5.6	2,100.0	2,200.0
Development & Future Networks	5.7	3,000.0	3,300.0
Business operations		17,300.0	18,200.0
Capitalised corporate overhead cost savings	5.8	115.0	125.0
Other assets and liabilities	5.9	44.7	90.6
Enterprise value		17,459.7	18,415.6
Adjusted net borrowings	5.10	(8,065.8)	(8,065.8)
Value of equity		9,393.9	10,349.8
Fully diluted shares on issue (millions) ⁵	4.7	3,836.4	3,836.4
Value per share		\$2.45	\$2.70

The valuation represents the estimated full underlying value of AusNet assuming 100% of the company was available to be acquired and includes a premium for control. The value is on a cum dividend basis (i.e. before the interim dividend of \$0.0475 per share that is to be paid on 16 December 2021). The value exceeds the price at which, based on current market conditions, Grant Samuel would expect shares in AusNet to trade on the Australian Stock Exchange ("ASX") in the absence of a change of control proposal.

The value attributed to the business operations of \$17.3-18.2 billion is an overall judgement having regard to a number of valuation methodologies and parameters, including discounted cash flow

⁵ Fully diluted shares on issue assumes that the vesting of the 586,270 deferred rights and 8,329,089 performance rights on issue is satisfied by the issue of new AusNet shares, after allowing for the 2,381,299 AusNet shares held in the employee share trust and using the \$0.2 million of cash held in the employee share trust to acquire shares on market (assuming a share acquisition price of \$2.6025 and the acquisition of 76,849 shares). The result is the issue of an additional 6,457,211 AusNet shares, increasing the shares on issue from 3,829,964,486 to 3,836,421,697.

GRANT SAMUEL



(“DCF”) analysis, capitalisation of earnings or cash flows (multiples of EBITDA⁶ or EBITDAal⁷) and other measures commonly used in the energy infrastructure industry (e.g. multiples of RAB⁸ or contracted asset base). In valuing AusNet’s business operations, the primary focus was on DCF analysis, with multiples analysis (EBITDA, EBITDAal and RAB) used as a cross check.

The value ranges selected for each of AusNet’s business operations are judgements. The objective is to determine a value that both fits with the output of DCF analysis in terms of the various scenarios and their likelihood and is consistent with the market evidence as to multiples.

The valuation allows for:

- synergies that are available to multiple acquirers, including:
 - corporate overhead cost savings that any acquirer of AusNet would be able to achieve (e.g. the costs of being a publicly listed company); and
 - the potential value that arises from the ability of an acquirer to allocate part of their purchase price to tangible assets and (depending on the outcome of the post acquisition valuation process) “step up” the tax depreciable cost base of AusNet’s fixed assets;
 - other assets and liabilities, which are primarily the defined benefit superannuation plan surplus, tax refunds and a tax risk provision, an employee underpayment provision and payments and recoveries resulting from the June 2021 and October 2021 storms across Victoria (see Section 5.9 of the full report for details); and
 - adjustments to the carrying value of net borrowings to allow for derivatives, capitalised borrowing costs and dividend equivalent payments on vested deferred rights (see Section 5.10 of the full report for details).
- **The multiples implied by the overall valuation of AusNet’s business operations are consistent with, albeit at the high end, relative to the available market evidence**

The earnings multiples, regulated and contracted asset base (“R&CAB”) multiples and exit yields implied by the valuation of AusNet’s business operations are summarised below:

AUSNET – IMPLIED VALUATION PARAMETERS

	VARIABLE (\$ MILLIONS)	RANGE OF PARAMETERS	
		LOW	HIGH
Value range (\$ millions)		17.300.0	18.200.0
Multiple of EBITDAal			
FY21 (underlying actual) ⁹	1,226.6	14.1x	14.8x
FY22 (median broker forecast) ¹⁰	1,188.1	14.6x	15.3x
Multiple of R&CAB			
At 30 September 2021	11,323.0	1.53x	1.61x
Exit yield¹¹			
FY21 (actual) and FY22 (guidance)	9.5c	3.9%	3.5%

⁶ EBITDA is earnings before net interest, tax, depreciation and amortisation.

⁷ EBITDAal is EBITDA after lease interest income (see Sections 4.9.4 and 5.2.2 of the full report for further details).

⁸ RAB is regulated asset base.

⁹ Underlying financial performance is before the impairment charge (FY21) and employee underpayment expenses (FY21 and FY22) (see Section 5.2.2 of the full report for details).

¹⁰ AusNet has not included the FY22 Budget in the Scheme Booklet. To provide an indication of AusNet’s expected financial performance, Grant Samuel has considered broker forecasts (see Appendix 1 and Section 5.2.2 of the full report for details). References to the FY22 Budget in this letter do not represent the provision of guidance by AusNet.

¹¹ Exit yield is dividend per share divided by value per share.

Schedule 1

Independent Expert's Report continued

GRANT SAMUEL



The implied multiples are blended multiples for AusNet's regulated electricity and gas networks and its unregulated Development & Future Networks business and reflect:

- the relative size of each business operation. AusNet's regulated electricity distribution business represents almost half of AusNet's earnings. The total exposure to regulated electricity networks (i.e. including AusNet's transmission network) is almost 80% and the total exposure to regulated networks (electricity and gas) is currently almost 95%; and
- the growth potential of AusNet's Development & Future Networks business.

The implied multiples are consistent with, albeit at the high end, relative to the available market evidence for electricity transmission and distribution networks and gas distribution networks, as well as the market evidence for diversified energy infrastructure entities (although evidence on the latter is limited). The valuation implies exit yields in the range 3.5-3.9%, unfranked, which are attractive relative to the exit yields for recent transactions which have been in the range 4-6% (mostly unfranked). In Grant Samuel's view, these relatively high multiples are justified.

The valuation reflects the particular attributes of AusNet's business and takes into account factors such as the:

- scale of AusNet's regulated businesses with "natural monopoly" characteristics;
 - attractive demographics and consumption patterns in its target footprint. Victoria has:
 - the highest population growth rate of any state over the past decade;
 - the highest population density (i.e. its target footprint limits geographic sprawl and arguably capital intensity of the network); and
 - household gas consumption rates that are the highest across the country;
 - strong infrastructure-like characteristics, including high quality asset base, predictable EBITDA margins and stable cash flows;
 - mature and predictable regulatory framework that effectively guarantees a rate of return on AusNet's capital base; and
 - significant growth opportunities for the unregulated business which has attracted increased levels of State and Commonwealth Government support to incentivise further development of renewable energy generation zones and other electricity network augmentation.
- **The DCF analysis generates net present values that support the value range of \$17.3-18.2 billion for AusNet's business operations**

DCF models have been developed for each of AusNet's four business operations (electricity transmission, electricity distribution, gas distribution and Development & Future Networks). The DCF models are based on AusNet's Corporate Model¹² and use AusNet's balance sheet at 30 September 2021 and the second six months of the FY22 Budget¹³ as their starting point. Grant Samuel has considered a number of scenarios based on discussions with AusNet management.

The DCF analysis for each of the business operations:

- allows the key drivers of revenue, earnings and capital expenditure to be modelled;
- projects nominal after tax cash flows from 1 October 2021 to:

¹² A detailed five year corporate model and longer term (~20 year) projections for AusNet's business operations for the period commencing 1 April 2021.

¹³ The budget for the year ending 30 March 2022 prepared by AusNet management (which Grant Samuel has updated for AusNet's actual operating results for 1HY22. References to the FY22 Budget in this letter do not represent the provision of guidance by AusNet.

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- 31 March 2046 for AusNet’s regulated business operations (a period of approximately 25 years); and
- 31 March 2041 for Development & Future Networks (a period of approximately 20 years), with the shorter projection period reflecting the projected timing of “mega” projects and other network augmentation opportunities that are material to the value of Development & Future Networks,

with terminal values calculated at the end of the projection period to represent the value of cash flows in perpetuity (assuming a terminal growth rate of 2.5% for all each the business operations);

- applies a discount rate in a range around 5% (Appendix 3 to the full report sets out a detailed analysis of the selection of this discount rate); and
- considers a number of different scenarios (see Appendix 4 and Sections 5.4.2, 5.5.2, 5.6.2 and 5.7.2 of the full report for a description of the assumptions underlying the scenarios for each business operation).

The net present value (“NPV”) outcomes are depicted diagrammatically below:

AUSNET’S BUSINESS OPERATIONS – NPV OUTCOMES



NPV outcomes from DCF analysis are subject to significant limitations and should always be treated with considerable caution. The range of NPVs produced by the scenarios is wider than the value ranges Grant Samuel has placed on each of AusNet’s business operations. Grant Samuel has considered the outcome of all of the scenarios in determining its value ranges for each of AusNet’s business operations and believes that the values produced by the DCF analysis support a range of values of \$4.4-4.6 billion for electricity transmission, \$7.8-8.1 billion for electricity distribution, \$2.1-2.2 billion for gas distribution and \$3.0-3.3 billion for Development & Future Networks.

- **The multiples implied by the valuation of each of AusNet’s business operations reflect the specific attributes of each business**

The multiples implied by the valuation of each of AusNet’s business operations are summarised below:

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Independent Expert's Report continued

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AUSNET'S BUSINESS OPERATIONS – IMPLIED VALUATION MULTIPLES

	RANGE OF MULTIPLES	
	LOW	HIGH
Electricity Transmission		
FY21 EBITDA (underlying actual) ⁹	12.0x	12.5x
FY22 EBITDA (underlying median broker forecast) ¹⁰	12.6x	13.2x
RAB at 30 September 2021	1.18x	1.23x
Electricity Distribution		
FY21 EBITDA (underlying actual) ⁹	13.7x	14.2x
FY22 EBITDA (underlying median broker forecast) ¹⁰	14.2x	14.8x
RAB as at 30 September 2021	1.58x	1.64x
Gas Distribution		
FY21 EBITDA (underlying actual) ⁹	12.5x	13.1x
FY22 EBITDA (underlying median broker forecast) ¹⁰	13.0x	13.6x
RAB at 30 September 2021	1.20x	1.26x
Development & Future Networks		
FY21 EBITDAal (underlying actual) ⁹	24.5x	26.9x
FY22 EBITDAal (underlying median broker forecast) ¹⁰	nc ¹⁴	nc
Contracted asset base at 30 September 2021	3.29x	3.61x
Electricity Transmission and Development & Future Networks		
FY21 EBITDAal (underlying actual) ⁹	15.1x	16.1x
FY22 EBITDAal (underlying median broker forecast) ¹⁰	15.6x	16.6x
R&CAB at 30 September 2021	1.59x	1.70x

The implied multiples for AusNet's electricity transmission business are relatively low and the implied multiples for Development & Future Networks are very high, relative to available market evidence for electricity infrastructure assets. However, the electricity transmission business does not include any transmission augmentation or other growth prospects (which are part of Development & Future Networks as it is contested and not regulated) and Development & Future Networks is at an early start up stage with the majority of its pipeline more than five years away from commencement. Moreover, Development & Future Networks is effectively an "extension" of AusNet's electricity transmission business and the aggregate implied multiples are consistent with the recent transactions involving TransGrid¹⁵, the sole owner of the electricity transmission network in New South Wales and the subject of two competitive sale processes in 2015 and 2020 (at 15-17 times forecast EBITDA and 1.60-1.66 times RAB/R&CAB).

The lower multiples for AusNet's electricity distribution business (relative to the aggregate implied multiples for electricity transmission and Development & Future Networks) reflect its higher capital intensity, substitution risk (e.g. rooftop solar) and more limited growth potential (i.e. largely limited to new customer connections). These implied multiples are also broadly supported by the available market evidence.

The implied multiples for AusNet's gas distribution business are lower again, reflecting the different long term outlooks for electricity and gas (i.e. long term tailwinds for the increasing penetration of electricity compared to an as yet undefined future role of gas in Australia's energy mix). Recent transactions involving gas distribution assets have generally occurred at lower multiples than transactions involving electricity infrastructure assets.

¹⁴ nc = not calculated.

¹⁵ TransGrid is the registered business name of NSW Electricity Networks Operations Pty Limited as trustee for NSW Electricity Networks Operations Trust.

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- **The Scheme is fair and reasonable. Accordingly, the Scheme is in the best interests of AusNet shareholders, in the absence of a superior proposal**

Grant Samuel has estimated the full underlying value of the equity in AusNet, including a premium for control, to be in the range \$9.4-10.3 billion, which corresponds to \$2.45-2.70 per share¹⁶.

The total consideration of \$2.65 per share falls within the value range of \$2.45-2.70 per share. Accordingly, the Scheme is fair. In fact, the total consideration falls near the top end of the value range, which is likely to reflect a combination of AusNet's strategic value, the competitive bidding process and the need to convince shareholders to give up a high quality investment with limited opportunity to reinvest the after tax proceeds and generate the same level of income (at similar risk levels). Furthermore, fairness is supported by the following:

- while no formal auction process has been undertaken, the total consideration of \$2.65 is the highest price secured through a competitive sale process and therefore is, by definition, the market price and fair; and
- SP Group, an arm's length party not associated with Australian Energy Holdings, has supported the Scheme (in the absence of a superior proposal) and there is no apparent reason why SP Group would accept anything less than fair value for its substantial shareholding.

As the Scheme is fair, it is also reasonable and is therefore in the best interests of shareholders in the absence of a superior proposal.

- **The total consideration offered under the Scheme provides AusNet shareholders with a significant premium for control**

The total consideration of \$2.65 per share represents a 34% premium to the price at which AusNet shares traded in the month prior to announcement of the Brookfield Indicative Proposal. The premium is higher (~42-44%) when compared to prices in the three to six months prior to announcement:

TOTAL CONSIDERATION – PREMIUM OVER PRE-ANNOUNCEMENT PRICES

PERIOD	AUSNET PRICE/VWAP	PREMIUM
Closing price on 17 September 2021	\$1.980	34%
1 week prior to 17 September 2021 – VWAP	\$1.981	34%
1 month prior to 17 September 2021 – VWAP	\$1.963	35%
3 months prior to 17 September 2021 – VWAP	\$1.870	42%
6 months prior to 17 September 2021 – VWAP	\$1.845	44%

The recent share prices are a more appropriate base from which to measure the premium implied by the Scheme. The premiums up to one month prior to announcement of the Brookfield Indicative Proposal are consistent (albeit at the high end) with the level of premiums typically associated with takeovers in Australia (of 20-35%).

Intuitively, the expected premium for a business such as AusNet would be towards the low end of the spectrum. When considering the extent of the premium, shareholders should take the following factors into account:

- since listing on the ASX in December 2005, AusNet shares have never traded at or above \$2.65. The shares reached an all-time high of \$2.10 in mid-October 2020. Over the past five years, AusNet shares have exhibited relatively low price volatility, consistently trading between \$1.50 and \$2.00; and

¹⁶ On a cum dividend basis (i.e. prior to the \$0.0475 per share interim dividend that is to be paid on 16 December 2021).

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- premiums above 35% are not necessarily uncommon, particularly where there is a competitive process or where there are significant strategic and/or synergistic benefits available to an acquirer but which are not available to portfolio investors in the normal course of events on a standalone basis. In this case:
 - the Scheme is the outcome of a competitive process that involved a total of five separate previous offers (ranging from \$2.35 to \$2.60¹⁷) from two credible parties (Brookfield and APA Group). This competitive process in part explains the relatively high premium for control, with the implied premiums for the earlier proposals more consistent with the level of premiums typically associated with takeovers in Australia; and
 - energy infrastructure assets in Australia have long term strategic and scarcity value. The overall premium levels are not dissimilar to the premiums seen in other recent transactions involving strategic listed energy infrastructure businesses in Australia which have also been substantially higher than might have been expected, particularly where there has been a competitive process.

■ **AusNet shares are likely to trade below the total consideration in the absence of the Scheme**

In the absence of the Scheme or a similar transaction, shareholders could only realise their investment by selling on market at a price which does not include any premium for control and would incur transaction costs (e.g. brokerage). It is likely that, under current market conditions and in the absence of the Scheme or a similar transaction (or speculation as to one), AusNet shares would trade at prices materially below \$2.65 (or \$2.6025 since AusNet shares have traded on an ex-dividend basis since 16 November 2021). In the absence of some catalyst for a positive re-rating, it is unlikely that AusNet shares would trade materially above the share price prior to announcement of the Brookfield Indicative Proposal (\$1.95-2.00) in the short term, particularly given the subsequent announcement (on 11 November 2021) of a decline in 1HY22 financial performance compared to the prior period and a dividend in line with FY22 guidance, but unfranked.

■ **The status quo may be more attractive to some shareholders**

The primary disadvantage of the Scheme is that shareholders will be giving up a quality investment that has provided strong historical returns and they will not participate in the future returns or growth from development of AusNet's business.

Many shareholders (at least retail shareholders) are likely to have acquired AusNet shares as a long term, income generating investment and were presumably attracted to the yield (generally around 5-6% in recent years, albeit only partially franked), the secure and predictable income base and, until FY21, the steady growth in dividends over time.

For some of these shareholders, there may be doubts over the benefits of the Scheme notwithstanding the generous premium over pre-announcement prices and the likely drop back towards this level if the Scheme is not implemented. This is because:

- Australian resident shareholders (holding their investment on capital account) will be subject to capital gains tax on the disposal of their AusNet shares. Depending on their acquisition price and the holding period, the capital gains tax liability could be significant (AusNet shares listed on the ASX at \$1.38 in December 2005 and were trading below \$1.50 as recently as March 2020). Shareholders who face significant capital gains tax liabilities may find it challenging to reinvest the after tax proceeds in assets with a similar risk/growth profile and maintain the level of income currently generated from their AusNet investment. However, the premium provides a significant buffer and should cover most tax liabilities leaving a higher capital value to reinvest; and

¹⁷ The indicative offers from APA Group involved consideration that was a combination of cash and scrip. \$2.60 was the implied offer price based on APA Group's security price at the date of its latest proposal.

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- AusNet represents one of the highest quality opportunities in the Australian market for those seeking a long term, secure income stream and with limited tolerance for risk. For such investors, capital value at a point in time may be of less importance and finding alternative opportunities of equal quality may be problematic. At the very least, the Scheme reduces the diversity of available investment options. As the acquisition of Spark has been approved, APA Group will be the only remaining ASX listed energy infrastructure investment. Further, the potential acquisition of Sydney Airport will leave very few opportunities for investment even in the broader infrastructure sector (in Australia).

Shareholders in this situation may prefer the status quo but that does not detract from the Scheme being fair and reasonable.

■ **The Scheme has the support (in the absence of a superior proposal) of AusNet's major shareholder**

An acquisition proposal by a third party could not succeed without the agreement of either SP Group (which has a relevant interest in 32.7% of AusNet's shares) or State Grid (which has a relevant interest in 19.9% of AusNet's shares).

SP Group has confirmed that it supports the Scheme and has indicated that it intends to vote the shares that it holds or controls in favour of the Scheme, subject to certain conditions, including there not being a superior proposal and the Scheme being implemented by 30 June 2022. All other things being equal, SP Group has also expressed a preference for an all cash consideration for the AusNet shares that it holds or controls.

State Grid has not made any public statement as to its voting intentions in relation to the Scheme. However, both SP Group and State Grid have a representative on AusNet's Board and the AusNet Board unanimously recommends that shareholders vote in favour of the Scheme, in the absence of a superior proposal and subject to an independent expert concluding (and continuing to conclude) that the Scheme is in the best interests of AusNet shareholders.

■ **While it is conceivable that a third party could make a higher offer for AusNet, it is unlikely in the circumstances**

The total consideration under the Scheme of \$2.65 per share is the highest offer price received as a result of a competitive process between Brookfield and APA Group. However, it is conceivable that a third party (including APA Group) could make a higher offer for AusNet:

- the Scheme has highlighted the strategic value of AusNet's business operations. AusNet could be an attractive acquisition for a number of major global energy infrastructure investors, particularly those without a major presence in Australia;
- Australian Energy Holdings has no shareholding in AusNet. While AusNet's major shareholder, SP Group, has confirmed its support for the Scheme, this support is subject to there being no superior proposal;
- while there are the usual exclusivity obligations in the Scheme Implementation Deed, there is a fiduciary carve out and AusNet can respond to unsolicited superior proposals from other parties (subject to a disclosure obligation); and
- while the extent of the premium already offered under the Scheme may be a deterrent, it would not necessarily stop a determined bidder.

On the other hand:

- there are relatively few potential acquirers that have the financial capacity to acquire AusNet and the requirement for two (or more) parties to form a consortium could be a challenging task; and
- Australian Energy Holdings has a matching right in respect of any superior proposal received by AusNet.

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Since 21 September 2021, AusNet has not received any further proposals from APA Group. APA Group has not publicly withdrawn the APA Group Indicative Proposal and, following announcement of the Scheme, announced that it still considers AusNet to be highly attractive but while it had received strong support from investors in AusNet and APA Group for its proposal, it will continue to remain financially disciplined.

While APA Group was granted access to due diligence on AusNet on 23 October 2021, this access was terminated on 1 November 2021 in accordance with the terms of the Scheme Implementation Deed. Although this due diligence period was relatively short, it would have provided APA Group with additional information to enable it to submit a superior proposal if it wished to do so.

Furthermore, the APA Group Indicative Proposal involved consideration in the form of cash and scrip, and AusNet's major shareholder, SP Group, has expressed a preference for an all cash consideration.

Since announcement of the Scheme Implementation Deed on 1 November 2021, no superior proposal has been received and, as at the date of this report, the AusNet directors are not aware of any superior proposal that is likely to emerge.

The meeting at which AusNet shareholders will vote on the Scheme is scheduled for 28 January 2022. This should be ample time (since 20 September 2021) for an alternative offeror (including APA Group) to come forward with a superior proposal. In Grant Samuel's view, it would be imprudent for shareholders to vote against the Scheme in the hope of a higher offer subsequent to the Scheme meeting from either APA Group or another party.

4 Other Matters

This report is general financial product advice only and has been prepared without taking into account the objectives, financial situation or needs of individual AusNet shareholders. Accordingly, before acting in relation to their investment, AusNet shareholders should consider the appropriateness of the advice having regard to their own objectives, financial situation and needs. AusNet shareholders should read the Scheme Booklet issued by AusNet in relation to the Scheme.

Grant Samuel has not been engaged to provide a recommendation to shareholders in relation to the Scheme, the responsibility for which lies with the directors of AusNet. In any event, the decision to vote for or against the Scheme is a matter for individual AusNet shareholders based on their own views as to value and business strategy, their expectations about future economic and market conditions and their particular circumstances including risk profile, liquidity preference, investment strategy, portfolio structure and tax position. AusNet shareholders who are in doubt as to the action they should take in relation to the Scheme should consult their own professional adviser.

Grant Samuel has prepared a Financial Services Guide as required by the *Corporations Act, 2001 (Cth)*. The Financial Services Guide is included at the beginning of the full report.

This letter is a summary of Grant Samuel's opinion. The full report from which this summary has been extracted is attached and should be read in conjunction with this summary.

The opinion is made as at the date of this letter and reflects circumstances and conditions as at that date.

Yours faithfully

GRANT SAMUEL & ASSOCIATES PTY LIMITED

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FINANCIAL SERVICES GUIDE
AND
INDEPENDENT EXPERT'S REPORT
IN RELATION TO THE PROPOSAL BY
AUSTRALIAN ENERGY HOLDINGS NO 4 PTY LTD

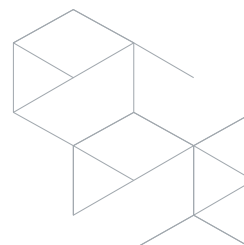
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16 DECEMBER 2021

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FINANCIAL SERVICES GUIDE

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When providing Reports, Grant Samuel's client is the Entity to which it provides the Report. Grant Samuel receives its remuneration from the Entity. In respect of the Report for AusNet Services Limited in relation to proposal by Australian Energy Holdings ("the AusNet Report"), Grant Samuel will receive a fixed fee of \$1.4 million plus reimbursement of out-of-pocket expenses for the preparation of the Report (as stated in Section 7.3 of the AusNet Report).

No related body corporate of Grant Samuel, or any of the directors or employees of Grant Samuel or of any of those related bodies or any associate receives any remuneration or other benefit attributable to the preparation and provision of the AusNet Report.

Grant Samuel is required to be independent of the Entity to provide a Report. The guidelines for independence in the preparation of Reports are set out in Regulatory Guide 112 issued by the Australian Securities & Investments Commission on 30 March 2011. The following information in relation to the independence of Grant Samuel is stated in Section 7.3 of the AusNet Report:

"Grant Samuel and its related entities do not have at the date of this report, and have not had within the previous two years, any business or professional relationship with AusNet or Australian Energy Holdings or any financial or other interest that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Scheme.

Grant Samuel had no part in the formulation of the Scheme. Its only role has been the preparation of this report.

Grant Samuel will receive a fixed fee of \$1.4 million for the preparation of this report. This fee is not contingent on the conclusions reached or the outcome of the Scheme. Grant Samuel's out of pocket expenses in relation to the preparation of the report will be reimbursed. Grant Samuel will receive no other benefit for the preparation of this report.

Grant Samuel considers itself to be independent in terms of Regulatory Guide 112 issued by the ASIC on 30 March 2011."

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Grant Samuel holds professional indemnity insurance which satisfies the compensation requirements of the Corporations Act.

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ABN 28 050 036 372 AFS Licence No 240985
Level 19 Governor Macquarie Tower, 1 Farrer Place Sydney NSW 2000 GPO BOX 4301 SYDNEY NSW 2001 T +61 2 9324 4211 F +61 2 9324 4301
GRANTSAMUEL.COM.AU

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Appendices

- 1 Broker Consensus Forecasts
- 2 Valuation Methodologies
- 3 Selection of Discount Rate
- 4 DCF Model Assumptions

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1 Details of the Scheme

On 1 November 2021, AusNet Services Ltd ("AusNet") announced that it had entered into a Scheme Implementation Deed with Australian Energy Holdings No 4 Pty Ltd ("Australian Energy Holdings") under which Australian Energy Holdings had agreed to acquire all of the shares in AusNet by way of a scheme of arrangement ("Scheme"). The total consideration under the Scheme is \$2.65 per share, less the cash amount of any dividend in respect of 1HY22¹ (up to a maximum of \$0.0475 per share) and in respect of 2HY22² (up to a maximum of \$0.0475 per share) to which AusNet shareholders become entitled on or before implementation of the Scheme. If the Scheme is implemented after 31 March 2022, AusNet shareholders will also be entitled to additional consideration of \$0.000260274 per share for each day after 31 March 2022 that has elapsed by the date of implementation.

On 11 November 2021, AusNet announced that the AusNet Board had approved an interim dividend for 1HY22 of \$0.0475 cents per share. This interim dividend is to be paid to shareholders on 16 December 2021. Consequently, if the Scheme is implemented in accordance with the current timetable³, the cash amount that will be received by AusNet shareholders is \$2.6025 per share.

Australian Energy Holdings is an Australian proprietary company which is controlled by Brookfield Asset Management Inc. ("Brookfield"). Brookfield is a leading global alternative asset manager with over \$625 billion of assets under management across real estate, infrastructure, renewable power, private equity and credit. Australian Energy Holdings will ultimately be owned by a consortium including Brookfield Managed Investors, a syndicate of institutional investors managed or advised by Brookfield, together with co-investors Sunsuper Superannuation Fund (an Australian multi-industry superannuation fund), Alberta Investment Management Corporation (an institutional investment manager for pension, endowment and government funds in the Province of Alberta, Canada), the Investment Management Corporation of Ontario (an investment manager overseeing assets on behalf of public sector institutions in Ontario) and Healthcare of Ontario Pension Plan (a defined benefit pension plan for Ontario healthcare workers) (or one or more of their affiliates).

Entry into the Scheme Implementation Deed followed AusNet's announcements:

- on 20 September 2021, that it had received an unsolicited, indicative, non-binding and conditional proposal from Brookfield to acquire, by way of scheme of arrangement, all of the issued shares in AusNet at an indicative price of \$2.50 cash per share (the "Brookfield Indicative Proposal"). The Brookfield Indicative Proposal followed the receipt of an unsolicited, indicative, non-binding and conditional proposal from Brookfield on 30 August 2021 at an indicative price of \$2.35 cash per share (the "Brookfield Initial Proposal") and a subsequent revised proposal at an indicative price of \$2.45 cash per share.

AusNet agreed to provide Brookfield with the opportunity to conduct due diligence on an exclusive basis for a minimum of eight weeks; and

- on 21 September 2021, that it had received an unsolicited, indicative, non-binding and conditional proposal from APA Group⁴ to acquire, by way of scheme of arrangement, all of the issued shares in AusNet for a combination of \$1.82 cash and 0.0878 APA Group stapled securities per share (with a mix and match facility, subject to caps) (the "APA Group Indicative Proposal"). At the time that the APA Group Indicative Proposal was made, it had an implied value of \$2.60 per share. The APA Group Indicative Proposal followed the receipt of an unsolicited, indicative, non-binding and conditional cash and scrip proposal from APA Group on 1 September 2021 which had an implied value (at the time) of \$2.32 per share (the "APA Group Initial Proposal").

¹ 1HY22 is the six months ended 30 September 2021.

² 2HY22 is the six months ending 31 March 2022.

³ Under the current timetable, the Scheme is expected to be implemented on 16 February 2022.

⁴ APA Group is Australian Pipeline Limited as responsible entity of Australian Pipeline Trust and of APT Investment Trust.



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AusNet stated that it would consider the APA Group Indicative Proposal following completion of Brookfield's exclusivity period. APA Group applied to the Takeovers Panel seeking final orders that the exclusivity arrangements with Brookfield be terminated and/or be made subject to a customary fiduciary out to permit AusNet to respond to the APA Group Indicative Proposal. On 15 October 2021, AusNet announced that it proposed to engage with APA Group on the APA Group Indicative Proposal following the decision and the final orders announced by the Takeovers Panel. AusNet granted due diligence access to APA Group on a non-exclusive basis on 23 October 2021. APA Group also agreed to grant reverse due diligence access to AusNet. However, in accordance with the provisions of the Scheme Implementation Deed (see below), AusNet terminated APA Group's due diligence on 1 November 2021;

The Scheme is subject to a number of conditions which are set out in full in Section 8.12 of the Scheme Booklet to be sent by AusNet to its shareholders ("Scheme Booklet") including approval by AusNet's shareholders under Section 411 of the *Corporations Act 2001 (Cth)* ("Corporations Act") ("Section 411"). The Scheme was also subject to approval under the *Foreign Acquisitions and Takeovers Act 1975 (Cth)*. However, on 12 November 2021, AusNet announced that it had been informed by Brookfield that Australian Energy Holdings had received confirmation from the Foreign Investment Review Board ("FIRB") that the Commonwealth Government had no objection to the proposed acquisition of AusNet by Australian Energy Holdings, and therefore this condition has been satisfied. Other elements of the Scheme Implementation Deed include the following:

- AusNet is subject to customary exclusivity obligations, including "no shop" and "no talk or due diligence access" (subject to customary fiduciary exceptions). AusNet also has notification obligations in relation to competing proposals and Australian Energy Holdings has a matching right in respect of any superior proposal received by AusNet. These provisions apply from 31 October 2021 to the earlier of termination of the Scheme Implementation Deed and 30 June 2022;
- a break fee of \$101.7 million may be payable by AusNet or Australian Energy Holdings in certain circumstances; and
- AusNet must ensure that no performance rights or deferred rights are in existence on the Scheme record date. The AusNet Board may exercise its discretion to accelerate the vesting of all outstanding performance rights and deferred rights and/or make cash equivalent or substitute payments.

AusNet's major shareholder, Singapore Power International Pte Ltd and SP eResources Pte Ltd (collectively, "SP Group"), which owns 32.7% of AusNet's shares, has confirmed that it supports the Scheme and that it intends to vote the shares that it holds or controls in favour of the Scheme, subject to the Scheme Implementation Deed not being terminated, there not being a superior proposal (as determined by SP Group), an independent expert concluding that the Scheme is in the best interests of AusNet shareholders (and not changing that conclusion) and the Scheme being implemented by 30 June 2022. All else being equal, SP Group has expressed a preference for an all cash consideration.

The AusNet Board unanimously recommends that shareholders vote in favour of the Scheme, in the absence of a superior proposal and subject to an independent expert concluding (and continuing to conclude) that the Scheme is in the best interests of AusNet shareholders. Subject to the same qualifications, each AusNet director intends to vote, or procure the voting of, shares held or controlled by them in their personal capacity in favour of the Scheme.

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2 Scope of the Report

2.1 Purpose of the Report

Under Section 411 the Scheme must be approved by a majority in number (i.e. more than 50%) of each class of shareholders present and voting (either in person or by proxy) at the meeting, representing at least 75% of the votes cast on the resolution. If approved by AusNet shareholders, the Scheme will then be subject to approval by the Supreme Court of New South Wales.

Part 3 of Schedule 8 to the Corporations Regulations prescribes the information to be sent to shareholders in relation to schemes of arrangement pursuant to Section 411. Part 3 of Schedule 8 requires an independent expert's report in relation to a scheme of arrangement to be prepared when a party to a scheme of arrangement has a prescribed shareholding in the company subject to the scheme, or where any of its directors are also directors of the company subject to the scheme. In those circumstances, the independent expert's report must state whether the scheme of arrangement is in the best interests of shareholders subject to the scheme and must state reasons for that opinion.

Although there is no requirement in the present circumstances for an independent expert's report pursuant to the Corporations Act or the Australian Securities Exchange ("ASX") Listing Rules, the directors of AusNet have engaged Grant Samuel & Associates Pty Limited ("Grant Samuel") to prepare an independent expert's report setting out whether, in its opinion, the Scheme is in the best interests of AusNet shareholders and to state reasons for that opinion. A copy of the report will accompany the Scheme Booklet to be sent to shareholders by AusNet.

This report is general financial product advice only and has been prepared without taking into account the objectives, financial situation or needs of individual AusNet shareholders. Accordingly, before acting in relation to their investment, shareholders should consider the appropriateness of the advice having regard to their own objectives, financial situation or needs. Shareholders should read the Scheme Booklet issued by AusNet in relation to the Scheme.

Voting for or against the Scheme is a matter for individual shareholders based on their views as to value and business strategy, their expectations about future economic and market conditions and their particular circumstances including risk profile, liquidity preference, investment strategy, portfolio structure and tax position. Shareholders who are in doubt as to the action they should take in relation to the Scheme should consult their own professional adviser.

2.2 Basis of Evaluation

There is no legal definition of the expression "in the best interests". However, the Australian Securities & Investments Commission ("ASIC") has issued Regulatory Guide 111 ("RG111") which establishes guidelines in respect of independent expert's reports. RG111 differentiates between the analysis required for control transactions and other transactions. In the context of control transactions (whether by takeover bid, by scheme of arrangement, by the issue of securities or by selective capital reduction or buyback), the expert is required to distinguish between "fair" and "reasonable". A proposal that was "fair and reasonable" or "not fair but reasonable" would be in the best interests of shareholders (being the opinion required under Part 3 of Schedule 8). For most other transactions the expert is to weigh up the advantages and disadvantages of the proposal for shareholders. If the advantages outweigh the disadvantages, a proposal would be in the best interests of shareholders.

The Scheme is economically the same as a takeover offer. Accordingly, Grant Samuel has evaluated the Scheme as a control transaction and formed a judgement as to whether the proposal is "fair and reasonable".

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Fairness involves a comparison of the offer price with the value that may be attributed to the securities that are the subject of the offer based on the value of the underlying businesses and assets. For this comparison, value is determined assuming 100% ownership of the target and a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm's length. Reasonableness involves an analysis of other factors that shareholders might consider prior to accepting an offer such as:

- the offeror's existing shareholding;
- other significant shareholdings;
- the probability of an alternative offer; and
- the liquidity of the market for the target company's shares.

An offer could be considered "reasonable" if there were valid reasons to accept the offer notwithstanding that it was not "fair".

Fairness is a more demanding criteria. A "fair" offer will always be "reasonable" but a "reasonable" offer will not necessarily be "fair". A fair offer is one that reflects the full market value of a company's businesses and assets. An offer that is in excess of the pre-bid market prices but less than full value will not be fair but may be reasonable if shareholders are otherwise unlikely in the foreseeable future to realise an amount for their shares in excess of the offer price. This is commonly the case where the bidder already controls the target company. In that situation the minority shareholders have little prospect of receiving full value from a third party offeror unless the controlling shareholder is prepared to sell its controlling shareholding.

Grant Samuel has determined whether the Scheme is fair by comparing the estimated underlying value range of AusNet with the offer price. The Scheme will be fair if the offer price falls within the estimated underlying value range. In considering whether the Scheme is reasonable, the factors that have been considered include:

- the existing shareholding structure of AusNet;
- the likelihood of an alternative offer and alternative transactions that could realise fair value;
- the likely market price and liquidity of AusNet shares in the absence of the Scheme; and
- other advantages and disadvantages for AusNet shareholders of approving the Scheme.

2.3 Sources of Information

The following information was utilised and relied upon, without independent verification, in preparing this report:

Publicly Available Information

- the Scheme Booklet (including earlier drafts);
- annual reports of AusNet for FY18⁵ to FY21;
- half year announcement of AusNet for 1HY22;
- press releases, public announcements, media and analyst presentation material and other public filings by AusNet including information available on its website;
- brokers' reports and recent press articles on AusNet and the Australian energy infrastructure industry;

⁵ FYXX is the year end 31 March 20XX (i.e. FY18 is the year ended 31 March 2018).

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- sharemarket data and related information on Australian listed companies engaged in the energy industry and on acquisitions of companies and businesses in the energy infrastructure industry; and
- information relating to the Australian energy industry including supply/demand forecasts and regulatory decisions and pronouncements (as appropriate).

Non Public Information provided by AusNet

- budget for FY22⁶ prepared by AusNet management (which Grant Samuel has updated for AusNet's actual operating results for 1HY22) ("FY22 Budget")⁶;
- FY22-FY26 Strategic and Financial Plan prepared by AusNet management in March 2021 (including the detailed five year corporate model for AusNet and its business operations);
- AusNet corporate model high growth case (incorporating an updated detailed five year model and longer term projections for AusNet and its business operations) prepared by AusNet management in September 2021; and
- other confidential documents, board papers, presentations and working papers.

In preparing this report, Grant Samuel has held discussions with, and obtained information from, senior management of AusNet and its advisers.

2.4 Limitations and Reliance on Information

Grant Samuel believes that its opinion must be considered as a whole and that selecting portions of the analysis or factors considered by it, without considering all factors and analyses together, could create a misleading view of the process employed and the conclusions reached. Any attempt to do so could lead to undue emphasis on a particular factor or analysis. The preparation of an opinion is a complex process and is not necessarily susceptible to partial analysis or summary.

Grant Samuel's opinion is based on economic, sharemarket, business trading, financial and other conditions and expectations prevailing at the date of this report. These conditions can change significantly over relatively short periods of time. If they did change materially, subsequent to the date of this report, the opinion could be different in these changed circumstances.

This report is also based upon financial and other information provided by AusNet and its advisers. Grant Samuel has considered and relied upon this information. AusNet has represented in writing to Grant Samuel that to its knowledge the information provided by it was then, and is now, complete and not incorrect or misleading in any material respect. Grant Samuel has no reason to believe that any material facts have been withheld.

The information provided to Grant Samuel has been evaluated through analysis, inquiry and review to the extent that it considers necessary or appropriate for the purposes of forming an opinion as to whether the Scheme is in the best interests of AusNet shareholders. However, Grant Samuel does not warrant that its inquiries have identified or verified all of the matters that an audit, extensive examination or "due diligence" investigation might disclose. While Grant Samuel has made what it considers to be appropriate inquiries for the purposes of forming its opinion, "due diligence" of the type undertaken by companies and their advisers in relation to, for example, prospectuses or profit forecasts, is beyond the scope of an independent expert.

Accordingly, this report and the opinions expressed in it should be considered more in the nature of an overall review of the anticipated commercial and financial implications rather than a comprehensive audit or investigation of detailed matters.

⁶ References to the budget for FY22 or the FY22 Budget in this report do not represent the provision of guidance by AusNet.

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An important part of the information used in forming an opinion of the kind expressed in this report comprises the opinions and judgement of management. This type of information was also evaluated through analysis, inquiry and review to the extent practical. However, such information is often not capable of external verification or validation.

Preparation of this report does not imply that Grant Samuel has audited in any way the management accounts or other records of AusNet. It is understood that the accounting information that was provided was prepared in accordance with generally accepted accounting principles and in a manner consistent with the method of accounting in previous years (except where noted).

The information provided to Grant Samuel included:

- the budget for FY22⁶ prepared by management and adopted by the directors of AusNet; and
- a detailed five year corporate model and longer term (~20 year) projections for AusNet's business operations for the period commencing 1 April 2021 ("Corporate Model"). The model was prepared by AusNet.

AusNet is responsible for the information contained in the budget for FY22⁶ and the Corporate Model ("the forward looking information"). Grant Samuel has considered and, to the extent deemed appropriate, relied on the forward looking information for the purposes of its analysis. The major assumptions underlying the forward looking information were reviewed by Grant Samuel in the context of current economic, financial and other conditions. It should be noted that the forward looking information and the underlying assumptions have not been reviewed (nor is there a statutory or regulatory requirement for such a review) by an investigating accountant for reasonableness or accuracy of compilation and application of assumptions.

Subject to these limitations, Grant Samuel considers that, based on the inquiries it has undertaken and only for the purposes of its analysis for this report (which do not constitute, and are not as extensive as, an audit or accountant's examination), there are reasonable grounds to believe that the forward looking information has been prepared on a reasonable basis. In forming this view, Grant Samuel has taken the following factors into account that:

- the budget for FY22⁶ was reviewed in detail and has been adopted by the Directors of AusNet;
- Grant Samuel has updated the budget for FY22⁶ for AusNet's actual operating results for the six months ended 30 September 2021;
- the Corporate Model is:
 - managed centrally but based on inputs from management teams with responsibility for each business operation;
 - used by AusNet for general business planning and management purposes (e.g. budgeting, strategic planning, capital management, impairment testing etc); and
 - reviewed and updated regularly;
- AusNet has sophisticated management and financial reporting processes. The prospective financial information (i.e. the budget for FY22⁶ and the Corporate Model) has been prepared through a detailed budgeting process involving preparation of "ground up" forecasts by management of the individual business operations and review by management of AusNet. The Corporate Model has been subject to ongoing analysis and revision to reflect assessments of likely future performance; and
- AusNet's business operations are well established and generate relatively predictable earnings and cash flows which are predominantly set on a regulated revenue cap basis or under long term fixed price contracts.

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While AusNet has made guidance statements about dividends and asset base for FY22, the directors of AusNet have decided not to include the FY22 Budget⁶ or the Corporate Model in the Scheme Booklet and therefore this information has not been disclosed in this report.

To provide an indication of the expected financial performance of AusNet, Grant Samuel has considered brokers' forecasts for AusNet (see Appendix 1). Grant Samuel has used the median of the brokers' forecasts to review the parameters implied by its valuation of AusNet. These forecasts are sufficiently close to AusNet's FY22 Budget⁶ to be useful for analytical purposes.

Grant Samuel has no reason to believe that the forward looking information reflects any material bias, either positive or negative. However, the achievability of the FY22 Budget⁶ and the Corporate Model is not warranted or guaranteed by Grant Samuel. Future profits and cash flows are inherently uncertain. They are predictions by management of future events that cannot be assured and are necessarily based on assumptions, many of which are beyond the control of the company or its management. Actual results may be significantly more or less favourable.

As part of its analysis, Grant Samuel has reviewed the sensitivity of net present value ("NPV") calculations to changes in key variables. The sensitivity analysis isolates a limited number of assumptions and shows the impact of variations to those assumptions. No opinion is expressed as to the probability or otherwise of those variations occurring. Actual variations may be greater or less than those modelled. In addition to not representing best and worst outcomes, the sensitivity analysis does not, and does not purport to, show the impact of all possible variations to the Corporate Model. The actual performance of the business may be negatively or positively impacted by a range of factors including, but not limited to:

- changes to the assumptions other than those considered in the sensitivity analysis;
- greater or lesser variations to the assumptions considered in the sensitivity analysis than those modelled; and
- combinations of different variations to a number of different assumptions that may produce outcomes different to the combinations modelled.

In forming its opinion, Grant Samuel has also assumed that:

- matters such as title, compliance with laws and regulations and contracts in place are in good standing and will remain so and that there are no material legal proceedings, other than as publicly disclosed;
- the assessments by AusNet and its advisers with regard to legal, regulatory, tax and accounting matters relating to the Scheme are accurate and complete;
- the information set out in the Scheme Booklet sent by AusNet to its shareholders is complete, accurate and fairly presented in all material respects;
- the publicly available information relied on by Grant Samuel in its analysis was accurate and not misleading;
- the Scheme will be implemented in accordance with its terms; and
- the legal mechanisms to implement the Scheme are correct and will be effective.

To the extent that there are legal issues relating to assets, properties, or business interests or issues relating to compliance with applicable laws, regulations, and policies, Grant Samuel assumes no responsibility and offers no legal opinion or interpretation on any issue.

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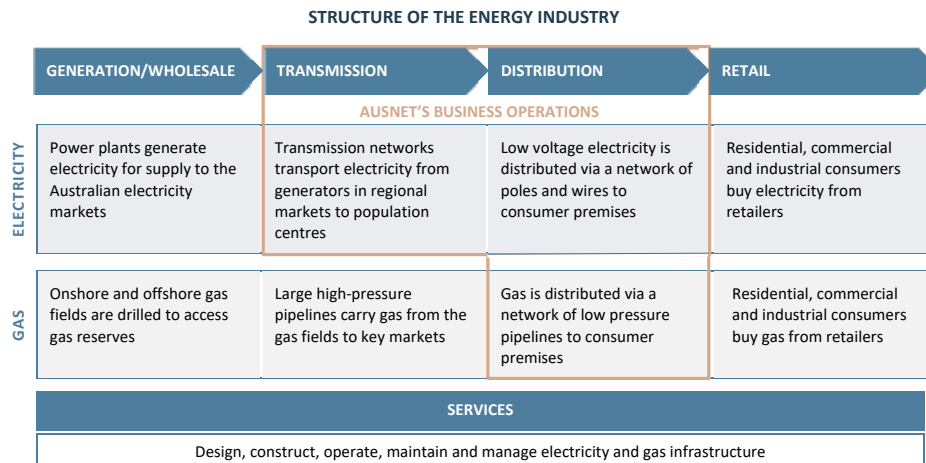
3 The Australian Energy Industry

3.1 Overview

Energy consumption in Australia has increased by an average of 1.2% per annum from 1995 to 2020⁷. Recent years have seen continued growth in overall energy demand, changing geopolitical circumstances, the impact of policy responses to concerns related to climate change, unsettled economic conditions and, most recently, the impact of the COVID-19 pandemic on energy demand and supply.

The past two decades have also seen a shift in the makeup of Australia's energy mix. Most of the country's energy requirements are met from oil, coal and natural gas, although alternative sources, in particular renewables, are growing in importance. The emergence of smaller scale renewable sources (e.g. solar and wind) has introduced increased uncertainty about the future role of traditional carbon-based energy sources such as coal and gas. For instance, the share of coal-fired power in the country's fuel mix declined from ~42% in 2000 to ~28% by 2020. While the share of gas-fired power has also declined, natural gas is expected to continue to play an important role domestically as it is often viewed as a "transition fuel" to facilitate Australia's expected shift from its traditional carbon-based fuel mix to a clean/renewable energy future.

The segments of, and services to, the energy industry can be depicted as follows:



Source: Grant Samuel

The power generation market is susceptible to wholesale energy prices but often establishes long term fixed contracts to hedge exposure to the volatility of spot prices. Power generation assets are typically located in regional markets and require an integrated network of transmission and distribution assets to transport energy to population centres. Similarly, the retail market is exposed to wholesale energy prices, although retailers often mitigate this risk by owning generation assets or by entering into long term supply contracts. The retail market is also highly competitive due to lower barriers to entry (e.g. lower capital requirements and lower regulatory hurdles). In contrast, the markets for both transmission and distribution networks are "natural monopolies" and can generally only support a single operator in a particular region.

⁷ The major sources of statistical and forecast data on the energy sector in this report are "BP Statistical Review of World Energy 2021", BP plc., 2021, "BP Energy Outlook 2020 Edition", BP plc., 2020, Department of Industry, Science, Energy and Resources, Australian Energy Statistics, Table C, September 2021 and State of the Energy Market 2021", AER, July 2021.

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Transmission and distribution businesses do not produce, buy or sell electricity⁸ or gas. Instead, they charge a transportation tariff to retailers and some other large scale businesses that purchase their own energy directly. The remainder of Section 3 focuses on the regulation, structure and market dynamics of these segments, although it also touches on demand for, and supply of, electricity and gas insofar as these dynamics are relevant to the outlook for AusNet's business operations.

3.2 Regulatory Environment

As the management of energy resources, production and supply of energy and stability of energy markets are critical to the economy, the energy sector is subject to substantial regulation.

The Energy National Cabinet Reform Committee and the Energy Ministers' Meeting are responsible for harmonisation of regulatory arrangements and energy market reform. Energy Ministers work closely with Energy Consumers Australia (an independent body representing residential and small business energy consumers), and have oversight of the following institutions responsible for the operation of national energy markets:

- Australian Energy Market Commission ("AEMC"), which is responsible for rule making and market development in the electricity and natural gas markets;
- Australian Energy Regulator ("AER"), which regulates wholesale and retail energy markets and energy networks, under national energy legislation and rules. The AER's functions primarily relate to energy markets in Eastern and Southern Australia (including Victoria);
- Australian Energy Market Operator ("AEMO"), which operates the National Electricity Market ("NEM") (see Section 3.3.1 below for a description of the NEM) and the retail and wholesale gas markets of eastern and southern Australia; and
- Energy Security Board ("ESB"), which is responsible for whole of system oversight for energy security and reliability to drive better outcomes for consumers through the energy market transition.

3.3 Electricity Transmission and Distribution

3.3.1 Overview

Australia's electricity market can be segmented into three regional markets, each supported by its own network of power generators, transmission infrastructure and distribution networks. The East Coast market is the largest of these markets and comprises Victoria, New South Wales, the Australian Capital Territory, South Australia, Queensland and Tasmania, which together form the NEM. The NEM is one of the largest interconnected electricity systems in the world and is a competitive wholesale spot market that is supported by a total generation capacity in excess of 67GW^{9,10}.

Electricity is transmitted via high voltage transmission lines to population centres where it is delivered to customers via local distribution networks. The transmission network of the NEM operates as a connected system (with high voltage interconnector cables running between states). Within the NEM, Victoria is the third largest market with over 40,000GWh¹¹ in electricity transmitted and over 6,700 kilometres in transmission lines¹⁰.

⁸ AusNet does have an immaterial level of generation ownership/activity. AusNet owns and maintains the Ballarat Energy Storage System 30MW, which is operated, and participates in the wholesale and ancillary NEM markets under the direction of Energy Australia. AusNet also uses generation, such as diesel generating sets and distribution scale batteries (such as Mallacoota) for emergency restoration or in connection with maintenance works. Energy Services (part of Development & Future Networks) also provides beyond the meter solar power purchase arrangements to commercial and industrial customers, owns the Deacon University microgrid and is engaged in trials regarding distribution and transmission energy storage network support services and distributed energy markets.

⁹ GW = gigawatts. One gigawatt = 1,000 megawatts.

¹⁰ Source: AER, State of the Energy Market 2021.

¹¹ GWh = gigawatt hours, a unit of energy equivalent to one million kilowatt hours (i.e. one million kilowatts of electricity used continuously for one hour).

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In Australia, electricity networks have either been partly, or fully, privatised. The transmission networks in Victoria and South Australia are owned and operated by AusNet and ElectraNet Pty Limited ("ElectraNet"), respectively, while the transmission network in New South Wales is operated by TransGrid¹² under a 99 year lease from the New South Wales Government. In addition, DirectLink and Murraylink (two major interconnector cables) are owned by APA Group while Basslink¹³ (another interconnector cable) is owned by Singapore-based Keppel Infrastructure Trust. Electricity distribution networks are also largely under private ownership, with Cheung Kong Infrastructure Holdings Ltd ("CK Group"), AusNet and Spark Infrastructure Group ("Spark") among the largest private owners.

While AusNet is the primary provider of electricity transmission services throughout Victoria, electricity distribution is segmented into five separate regional areas across the state:

ELECTRICITY DISTRIBUTION NETWORKS IN VICTORIA – GEOGRAPHICAL LOCATION



Source: AusNet

Powercor is the largest electricity distributor in Victoria:

ELECTRICITY DISTRIBUTION IN VICTORIA – SIZE OF NETWORKS AT 31 DECEMBER 2020

	LINE LENGTH		END USERS	
	KILOMETRES	% OF TOTAL	NUMBER	% OF TOTAL
Powercor	76,306	52%	863,408	28%
AusNet ¹⁴	45,734	31%	776,854	25%
United Energy	13,426	9%	703,119	23%
Jemena	6,699	5%	366,841	12%
CitiPower	4,569	3%	346,468	11%
Total Victorian electricity distribution network	146,734	100%	3,056,690	100%

Source: AER, State of the Energy Market 2021

Although Powercor has over 50% of total network line length, this reflects its regional coverage as it has only around 28% of end users. AusNet is the second largest electricity distributor in the state and its

¹² TransGrid is the registered business name of NSW Electricity Networks Operations Pty Limited as trustee for NSW Electricity Networks Operations Trust.

¹³ On 12 November 2021, the companies that own and operate the Basslink undersea power cable were placed into voluntary administration.

¹⁴ The AER figures for AusNet line length and end users differ from those publicly released by the company (see Section 4.9.2).

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greater exposure to high density areas in metropolitan Melbourne's north and east results in a more even market share 25% of end users.

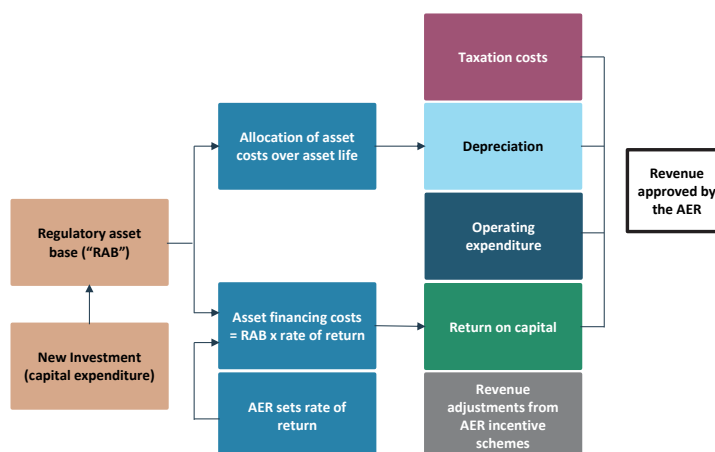
While private participants typically own the underlying network assets and have control over planning, investment and physical operation decisions, the AEMO is responsible for managing the electricity systems to ensure the smooth functioning of the NEM. In Victoria, however, ownership and physical operation of transmission networks is separate from planning and decision making. The AEMO is responsible for planning network augmentation in Victoria and is required to seek contestable bids from transmission providers for any major new transmission assets (although smaller projects or projects that require heavy integration with existing transmission assets may be treated as non-contestable). Contestable transmission augmentation is not subject to regulation (with revenue generally determined under take-or-pay contracts covering the life of the asset).

3.3.2 Revenue and Pricing

Electricity transmission lines and distribution networks have natural geographic monopoly characteristics and are therefore subject to substantial monitoring and economic regulation. Transmission line owners charge regulated tariffs to distributors, who in turn charge regulated tariffs to retailers and other wholesale electricity purchasers. The current regulatory regime provides for periodic reviews under which the regulator determines the maximum revenue a prudent network business would need to cover its efficient costs (including a benchmark return on capital). Network revenues are then capped at this level for the regulatory period which is typically five years. Under this framework, the regulator effectively approves a certain volume and price path for each regulatory period which, in turn, determines the revenue cap for the network owner. To the extent actual volumes of electricity in a regulatory period are lower than (or exceed) initial expectations, there is a subsequent true-up to revenue in the following year. The rules also allow for incentive schemes and allowances encourage transmission network service providers with incentives to spend efficiently and to meet or exceed service quality and reliability targets.

The AER uses a "building blocks" approach to assess a network business' revenue needs, which is illustrated in the chart below:

AER BUILDING BLOCKS APPROACH TO FORECASTING ELECTRICITY NETWORK REVENUES



Source: AER

This approach considers the estimated efficient costs of providing the services and a return on assets to determine a maximum allowable revenue for use of the asset, which is then used to fix transmission or distribution revenues for a five year period. In this way, asset owners are incentivised to improve efficiency

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and retain profits earned by outperforming the forecasts of costs on which the regulatory tariffs were based. However, any change in demand or cost efficiency will be considered at the next regulatory review, potentially reducing the tariff.

Allowable revenues across the NEM peaked in 2013 and 2015 for electricity transmission and distribution networks, respectively. Allowable revenue has subsequently declined due to:

- lower capital expenditure. A period of overinvestment from 2006 to 2014 led to a 67% increase in RAB across the NEM¹⁰, but current investment levels are close to half those seen earlier in the decade. The majority of more recent investment has focused on replacement and maintenance rather than network augmentation;
- lower return on capital. The return on capital is estimated to account for over 40% of allowable revenue. Over the past five years, the allowed rate of return has declined substantially as the risk free rate (i.e. the 10 year Australian Government bond rate) has declined to historically low levels; and
- improving operating efficiencies. Energy rule reforms have explicitly linked network costs to efficiency factors which has encouraged operators to reduce costs (and consequently helped mitigate growth in allowable revenues).

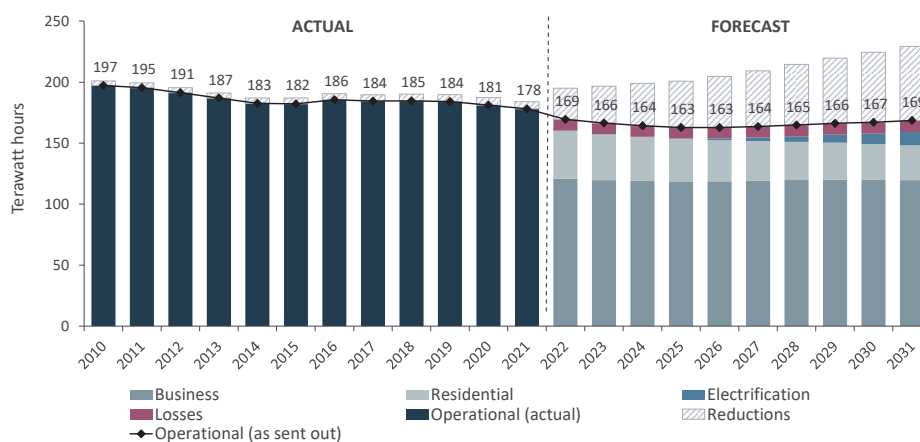
3.3.3 Demand

Demand for electricity is underpinned by the evolving needs of the 10.3 million residential and business customers across the NEM. While overall electricity consumption in the NEM has grown by less than 1% per annum since 2000¹⁰, the growth trend over the last decade has experienced two distinct phases:

- declining grid, or operational, demand (from 2010 to 2014), when consumption declined by 1.8% per annum following the after effects of the global financial crisis and the closure of major industrial customers such as Port Kembla steelworks, Kurri Kurri aluminium smelter and Clyde oil refinery; and
- energy transition (from 2015 to 2020), when overall electricity demand began to recover as grid demand stabilised and rooftop solar generation began to emerge across the country.

The chart below illustrates the historical and forecast electricity consumption in the NEM:

NEM – HISTORICAL AND FORECAST ELECTRICITY CONSUMPTION



Source: AEMO, Electricity Statement of Opportunities, August 2021

- Notes:
1. Operational (as sent out) represents electricity supplied by scheduled, semi-scheduled, and significant non-scheduled generating units. It does not include electricity demand met by non-scheduled wind/solar generation of aggregate capacity less than 30 MW
 2. Reductions include rooftop photovoltaic power systems, small non-scheduled generation and energy efficiencies
 3. Losses represent electricity losses along the grid (e.g. resistance, heat)

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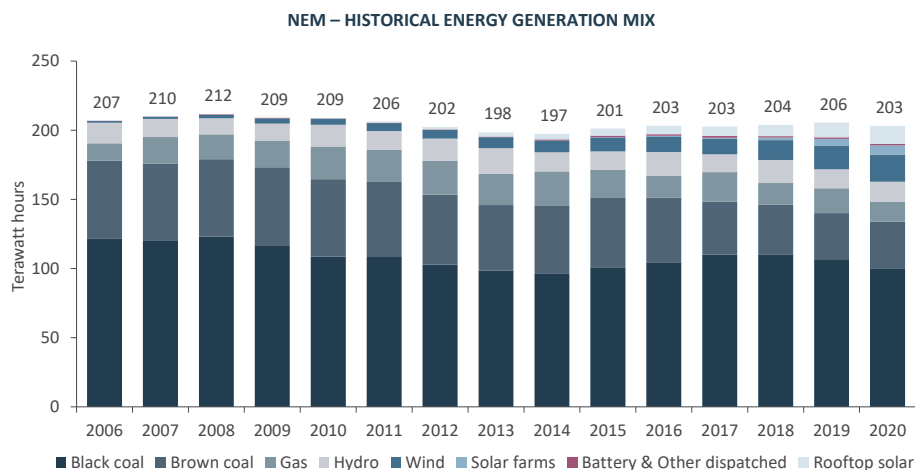
The AEMO expects grid demand to decline by 4.8% in 2022, and then remain relatively flat through to 2031. This pattern of demand is largely a result of a further increase in rooftop solar generation (which is expected to supply up to 55% of total residential demand by 2031¹⁵) and the improving energy efficiency of new technologies as well as growth in small non-scheduled generation, which are collectively expected to offset the expected increase in total electricity consumption.

The increased installation of rooftop solar over the past two decades has altered the patterns of daily grid demand as more customers are able to generate a larger proportion of their electricity needs. This changing pattern of demand has created challenges for grid stability, especially during periods of minimum demand. Distribution networks are also addressing system security issues associated with the significant generation capacity from rooftop solar. In response to these network stability risks, the AEMC released its final determination to, among other things, allow network businesses to charge for transporting electricity both from and into the grid (particularly in relation to surplus electricity generated by rooftop solar)¹⁶. This new tariff is expected to assist in minimising network disruption as the industry navigates the emergence of new grid technologies.

In the longer term, population growth, economic growth, electrification (e.g. electric vehicles) and improving energy efficiencies are likely to have a larger impact on grid demand. However, the domestic energy market remains in transition and the pace of technological improvements is difficult to predict. Based on the range of scenarios prepared by the AEMO, electricity demand could, at worst, be stable over the next 30 years, but a net-zero future (in line with the Commonwealth Government's net-zero by 2050 commitment) presents an opportunity to drive a doubling of demand in the NEM by 2050.

3.3.4 Supply

Total electricity generation is expected to mirror electricity consumption as Australia is able to satisfy its domestic consumption needs with local generation sources. However, the energy mix has shifted over the past decade. The chart below illustrates the historical energy mix in the NEM:



SOURCE: AER, State of the Energy Market 2021.

The NEM energy mix has historically been heavily reliant on carbon-based fuels such as coal and natural gas. These fossil fuels represented as much as 90% of electricity in the NEM prior to 2010 but their share

¹⁵ Source: AEMO, 2021 Electricity Statement of Opportunities.

¹⁶ Source: AEMC, Access, pricing and incentive arrangements for distributed energy resources, Rule determination, 12 August 2021.

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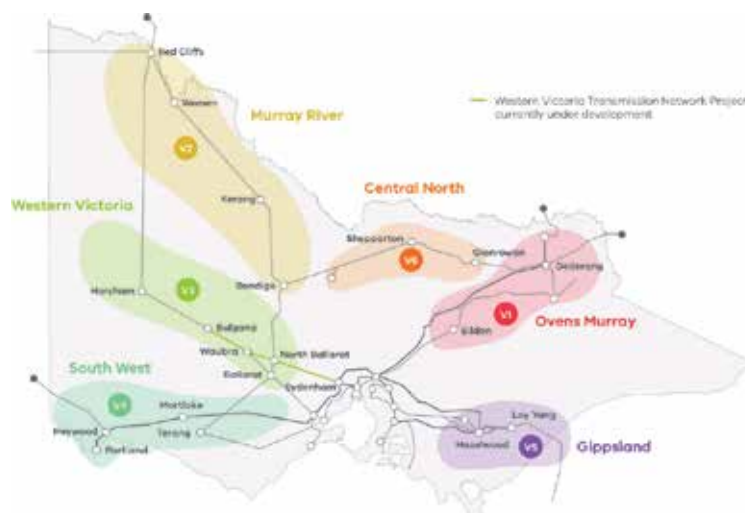
has progressively declined to 73% in 2020 as the energy sector transitions away from carbon-based fuels. In contrast, renewable generation (e.g. wind, solar and hydro) has grown significantly, increasing from 10% of the total NEM generation mix in 2010 to 26% in 2020. Continued development of new, large scale renewable generation capacity and dispatching capacity (e.g. battery storage) has improved the reliability and cost efficiency of renewable power.

The transition in the energy mix in Victoria has been consistent with that in the NEM. Between 2010 and 2020, carbon-based fuel generation in Victoria declined from 92% to 74% of total generation and there was a corresponding increase in renewable based generation from 8% to 26% of total generation. Most industry participants expect that growth in new renewable generation capacity will continue as decarbonisation results in further closures of coal-fired power generation. The AEMO expects that the generation capacity of coal in Victoria will decline to 27% of total capacity by 2031 (a decrease of 8% from 2022), as other generation sources such as hydro, solar and battery storage gain market share.

As the energy system transitions to renewable energy, the market is expected to become more geographically distributed and, due to the remote location of large scale renewable generation capacity, require new connections to the grid.

The Victorian Government is involved in planning and coordinating investments in generation capacity to ensure this capacity is built in locations that enable efficient transmission connection. In November 2020, the Victorian Government announced a \$1.6 billion clean energy package to invest in renewables, grid infrastructure, energy efficiency and decarbonisation projects, including \$540 million to establish renewable energy zones. The Victorian Government's *Renewable Energy Zone Development Plan* proposes an additional 10GW of renewable energy generation capacity across six renewable energy zones in Victoria (V1 to V6 in the map below):

VICTORIA – RENEWABLE ENERGY ZONES



SOURCE: Victorian State Government Department of Environment, Land, Water and Planning

The introduction of renewable energy zones is a key initiative to cluster new wind and solar projects in localised hubs. In August 2021, the Victorian Government commissioned the AEMO to seek tenders for six major projects in the first stage of the Renewable Energy Zone development project, three projects to smooth out energy flow to the grid to allow the entry of more renewable energy and three projects to boost the capacity of existing lines. A total of 21 potential longer terms investments in renewable energy

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zones have been identified as stage two projects but these will require further assessment and stakeholder consultation.

Both the Commonwealth Government and State governments are funding new generation and storage projects to facilitate the transition to renewable energy (e.g. the Victorian Government's 300MW¹⁷ big battery and the Commonwealth Government's proposed Snowy 2.0 Battery of the Nation and 550MW gas powered generator in the Hunter region of New South Wales). These efforts are expected to facilitate the shift in Australia's energy mix and introduce new development opportunities for new transmission infrastructure in greenfield areas.

In addition, the AEMO's Integrated System Plan ("ISP") is a whole of system plan that provides an integrated roadmap for the efficient development of the NEM over the next 20 years. The current 2020 ISP was released in July 2020 and sets out the investment required and the optimal development path to provide an affordable, secure and reliable energy future, while meeting prescribed emission trajectories, through the energy transition period to 2040. The transmission augmentation that is required to support the 26GW of new renewable generation forecast in AEMO's 2020 ISP is summarised below:

AEMO 2020 INTEGRATED SYSTEM PLAN – KEY PROJECTS

CLASSIFICATION/PROJECT	LOCATION	COST RANGE (\$ BILLIONS)	INDICATIVE TIMING
Committed Grid Projects (development in progress)			
SA System Strength Remediation	South Australia	0.2	complete
QNI Minor	New South Wales	0.2	complete
Western Victoria Transmission Network Project	Victoria	0.3-0.6	2025-26
Actionable Grid Projects (progress regulatory approval)			
VNI Minor	Victoria	0.1	2022-23
Project Energy Connect	New South Wales	1.4-2.6	2024-25
HumeLink	New South Wales	1.5-2.7	2025-26
Central-West Orana REZ Transmission Link	New South Wales	0.5-0.9	mid-2020s
VNI West	Victoria/New South Wales	2.9-5.4	2027-28
Marinus Link – Cable 1 ¹⁸	Victoria/Tasmania	1.3-2.4	2028-29 to 2031-32
Marinus Link – Cable 2 ¹⁸	Victoria/Tasmania	2.2-4.1	2031-32 to 2035-36
Preparatory Activities for Future ISP Projects (assess feasibility, explore easements and refine design)			
QNI Medium & Large	Queensland/New South Wales	2.3-4.2	2030s
Central to Southern Qld	Queensland	0.3-0.6	early-2030s
Reinforcing Sydney, Newcastle and Wollongong Supply	New South Wales	uncertain	2026-27 to 2032-33
Gladstone Grid Reinforcement	Queensland	0.3-0.6	2030s
New England REZ Network Expansion	New South Wales	0.9-1.8	2030s
North West NSW Network Expansion	New South Wales	0.6-1.2	2030s
Other Future ISP Projects (no action until the next ISP)			
Far North Qld REZ	Queensland	0.7-1.3	2030s
South East SA REZ	South Australia	0.1	2030s
Mid North SA REZ	South Australia	0.4-0.8	2030s

Source: AEMO 2020 Integrated System Plan, July 2020

A number of these projects are in Victoria, where AusNet is the incumbent transmission network owner and it would expect to tender for these projects. AusNet has already been selected to build, own and operate the contestable, and the majority of the non-contestable assets, for the Western Victoria Transmission Network ("WVTN") project. While much less likely, there is also the potential for AusNet to

¹⁷ MW = megawatts. One megawatt = 1,000 kilowatts.

¹⁸ The timing of the Marinos Link project is dependent on decision rules.

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be involved in projects in other states (although the incumbent in each of those states would be more likely to be successful).

The AEMC recently announced a review to identify critical issues and explore options to improve the timely and efficient delivery of major transmission projects, including the next generation of ISP projects. The AEMO commenced work on the 2022 ISP in October 2020. A draft plan is expected to be released in December 2021.

3.4 Gas Distribution

3.4.1 Overview

Similar to the electricity market, the Australian gas market can be segmented into three distinct regional markets, each supported by its own gas reserves and integrated processing as well as supply transmission and distribution infrastructure. The East Coast market is the largest of these markets and comprises an integrated network across Queensland, New South Wales, Victoria, the Australian Capital Territory, South Australia and Tasmania. This market accounts for more than 50% of domestic gas consumption and about 30% of gas reserves.

As most Australian gas production fields are located in areas remote from major population centres, high pressure steel pipeline infrastructure has been developed to bring gas to the retail market. The transmission system links gas to the distribution networks which in turn deliver gas to the premises of residential, commercial and industrial customers. In some instances, larger industrial users and electricity generators connect directly to the transmission pipelines.

Gas transmission infrastructure (including processing plants, pipelines, compressors and storage facilities) has a long working life if appropriately maintained. Pipelines are a significant capital investment and secure long term supplies of gas and viable markets are required before a commitment to build is made. Consequently, gas transmission typically relies on discrete large projects with long term contracts to underwrite capacity and pipelines are not developed with significant spare capacity. However, once a pipeline is built it can be expanded (e.g. through compression) to meet demand growth. The customer base for transmission is a small number of major gas users including power stations, energy retailers and minerals processors. Services are typically provided under long term arrangements (around 10 years). In Victoria, the Victorian Transmission System ("VTS"), which is owned by APA Group, spans nearly 2,000 kilometres of pipelines and supports almost all natural gas consumption in the state. The VTS is subject to "full economic regulation" which requires APA Group to submit access arrangements (including reference tariffs) to the regulator for approval for a five year period.

Gas distribution networks in eastern Australia span approximately 72,000 kilometres and are extremely capital intensive to build and operate, leading to many pipelines having natural monopoly characteristics. As a result, most of the larger networks are covered under the National Gas Law and Rules. "Covered" distribution networks may be subject to full regulation, requiring owners to submit access arrangements (including reference tariffs) to the regulator for approval for a period of time (typically five years). The regulatory framework also includes a mechanism for reviewing whether a distribution network requires economic regulation and for a 15 year "no coverage" period to be granted in certain circumstances. In contrast, "uncovered" networks are free to determine prices and other terms and conditions on a commercial basis, subject to the general competition provisions of the *Competition and Consumer Act 2010* (Cth) and the potential for an application for coverage. AusNet's gas distribution assets are covered networks and are subject to full regulation.

New South Wales, South Australia, Tasmania and the Australian Capital Territory each have a single regulated gas network serving the state (albeit that the network does not cover the whole state), while Victoria and Queensland have multiple distribution networks, each with a defined coverage area. In Victoria, there are three gas distribution networks each with a defined service area (which also do not

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cover the entire state). The networks are owned by AusNet, Australian Gas Networks Limited (“AGN”) (formerly Envestra Limited (“Envestra”)) and Multinet Gas Limited (“Multinet”) (AGN and Multinet are both part of the Australian Gas Infrastructure Group which is owned by a CK Group led consortium).

The coverage area for each gas distributor is shown below:

GAS DISTRIBUTION NETWORKS IN VICTORIA



SOURCE: AusNet

3.4.2 Revenue and Pricing

Prices (reference tariffs) for covered gas distribution networks may be subject to full regulation, which requires the owner of the network to publish tariffs and other terms and conditions on its website. For these networks, the AER sets reference tariffs under broadly similar rules to those applied to electricity networks.

However, the regulatory framework for gas distribution networks regulates prices (as opposed to revenue) and requires network providers to assume volume risk during a regulatory period. While this framework requires the regulator and the network owner to agree on a certain volume and price forecast for a regulatory period, realised revenues are determined by the volumes of gas actually distributed. Unlike the regulatory framework for electricity transmission and distribution assets, there is no subsequent “true up” for differences between actual and forecast volumes.

Under the full regulation regime, reference tariffs are based on a building block approach. This requires the regulator to assess the revenue needed by the owner to cover efficient costs (including a benchmark return on capital) and derive reference tariffs for the network. In doing so, the regulator takes into account a network’s historical and forecast operating and maintenance costs, capital expenditure, asset depreciation costs and taxation liabilities as well as an allowance for the weighted average cost of capital (return on assets) applied to the RAB. The rules also allow for income adjustments via incentive mechanisms to reward efficient operating practices over each regulatory period. This includes capital expenditure sharing schemes which provide additional incentives for efficient new investment spending that translates to lower tariffs.

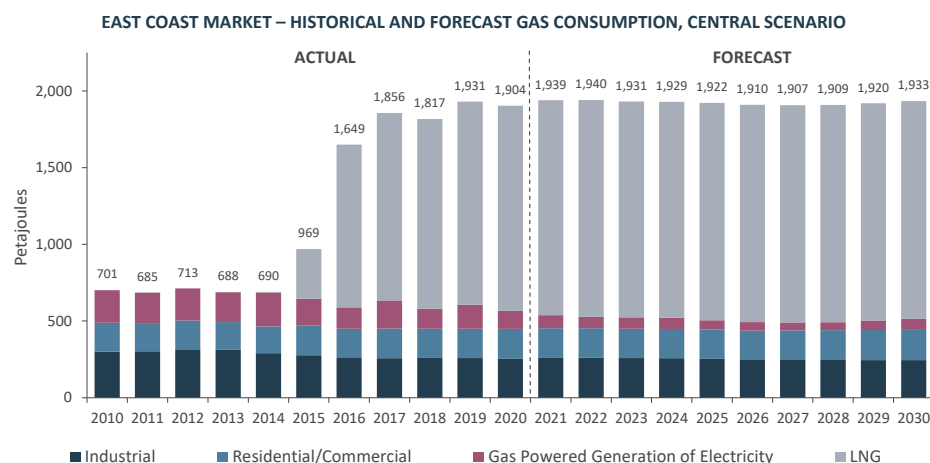
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3.4.3 Demand

Natural gas is widely used across Australian households, especially in Victoria. While gas represents only 18% of overall energy demand across the East Coast market (and approximately 23% of overall energy demand in Victoria), natural gas accounts for over 70% of total energy use across Victorian households¹⁹. Historical gas consumption and the AEMO's projections for gas consumption to 2030 are shown in the graph below:



Source: AEMO, Gas Statement of Opportunities, March 2021

Historically, gas demand on the East Coast was relatively evenly split across industrial customers, residential and commercial customers and electricity generation. Since 2015, the commissioning of three liquefied natural gas ("LNG") export projects at Gladstone in Queensland has led to demand for gas almost tripling over three years. Due to a range of factors, including higher gas prices (which are linked to the LNG export market, see Section 3.4.4 below) and the progressive shift to renewable energy, domestic gas used for electricity generation has declined from 185PJ²⁰ in 2015 to 127PJ in 2020, an average decline of 7% per annum, although the decline mostly occurred in 2020 as a result of the impact of the COVID-19 pandemic. The average decline was only 3% per annum to 2019²¹.

There is far greater reliance on, and demand for, natural gas in Victoria relative to other states, especially for space heating, with the winter load in particular representing an enormous energy requirement:

¹⁹ Source: Grattan Institute, Flame out: the future of natural gas, November 2020

²⁰ PJ = petajoules.

²¹ Source: AER, Wholesale Markets Quarterly, Q2 2021.

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ENERGY USE BY FUEL AND END USE (2017-2018)



Source: Grattan Institute, Flame out: the future of natural gas, November 2020

Note: Use per household is calculated on the basis of all households, not just households with a gas connection. Gas use per gas-connected household will be higher, particularly in states with low gas penetration

The outlook for domestic gas consumption is uncertain. According to the AEMO, gas consumption is more likely to decline or, at best, remain flat due to:

- increasing availability of renewable energy generation in the NEM;
- potential closures of industrial users due to extended weak economic conditions and high gas prices; and
- the long term potential for displacement by renewable gas substitution (e.g. hydrogen fuel).

These factors are offset to some extent by the expected reduction in generation capacity of coal-fired power and customers opting for gas as a fuel of choice (through the energy transition) as well as the requirement for gas fired power to provide seasonal peaking electricity during hot summer months (i.e. high energy needs for cooling) and winter months (i.e. lower efficiency of renewable assets).

3.4.4 Supply

The East Coast market is estimated to hold more than 34,000PJ of 2P²² gas reserves and more than 56,000PJ of 2C²² gas resources. More than 80% of available 2P reserves are located in coal seam gas fields in the Bowen Basin and the Surat Basin in Queensland²³, as mature conventional gas fields in the Victorian gas basins (e.g. the Gippsland Basin and the Otway Basin) have gradually been depleted. As a result, the Queensland gas fields are net exporters of gas into the southern states²⁴, allowing gas distributors located in New South Wales and Victoria to source their gas from Queensland gas fields, if required.

The development of three LNG export facilities in Gladstone, which followed the development of extensive coal seam gas fields in regional Queensland, has profoundly affected the supply/demand dynamics of the East Coast gas market. These LNG facilities introduced an export alternative to selling gas into the domestic market, thereby, at least in part, integrating the eastern Australian gas market with international gas markets. Domestic gas customers now compete with international gas markets, where LNG prices, which

²² 2P represents proven and probable reserves (at 50% probability), 2C represents best estimate contingent reserves.

²³ Source: AEMO, *Gas State of Opportunities*, March 2021.

²⁴ Source: AER, *Wholesale Markets Quarterly*, Q2 2021.

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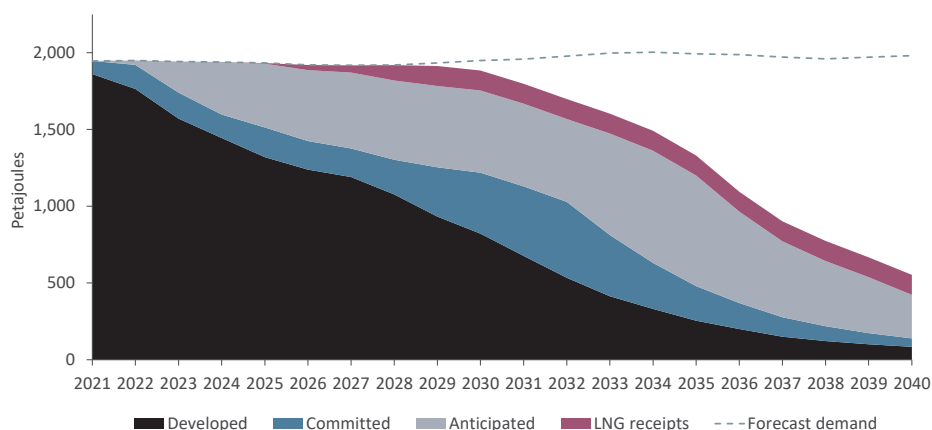


are linked (directly or indirectly) to the oil price, have historically been higher than East Coast gas prices on a net-back basis. Gas producers are incentivised to sell excess uncontracted gas into the domestic market only when local gas prices are competitively aligned with LNG export prices²⁵. This dynamic has led to significant rises in domestic gas prices.

The Australian Domestic Gas Security Mechanism ("ADGSM") was introduced in July 2017 to enable the Commonwealth Government to directly intervene if there is a supply shortfall in the domestic market, requiring LNG projects to limit their exports or find new gas sources. While the ADGSM has not been invoked since its introduction, the Commonwealth Government has entered into Heads of Agreements with LNG exporters to ensure that they first offer sufficient gas to the domestic market on reasonable terms to meet any expected supply shortfall. The current Heads of Agreement is in place until 1 January 2023.

The outlook for gas supply in the East Coast market is summarised below:

EAST COAST MARKET – FORECAST GAS SUPPLY, CENTRAL SCENARIO



Source: AEMO, Gas Statement of Opportunities, March 2021

The short term supply outlook for domestic gas is delicately balanced and will depend on the ability of gas producers to develop new resources in the time frames required to meet demand. Moreover, any fluctuation in LNG export allocation or gas powered electricity generation demand could easily tip the balance into a supply shortfall.

Upstream production is expected to remain constrained due to State Government regulations restricting exploration and development of onshore gas resources (particularly in New South Wales and Victoria) as well as the decline in production from offshore gas resources in Victoria. Consequently, securing gas supply for domestic needs may require proactive measures across the industry such as importing LNG (e.g. the proposed facilities at Crib Point in Victoria and Port Kembla in New South Wales), development of new gas basins and capacity expansion of existing midstream assets and pipelines.

In the medium to long term, potential opportunities with renewable gas (e.g. hydrogen fuel) may help relieve supply pressures for the gas distribution network. However, the technology remains nascent and requires further studies to test the commerciality of this alternative fuel.

²⁵ Source: ACCC, LNG netback review – Final Decision Paper, September 2021.

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4 Profile of AusNet

4.1 Background

AusNet was formed by SP Group in June 2005 to invest in energy and utility assets and businesses in Australia and New Zealand. It listed on the ASX (as SP AusNet) in December 2005 (with a secondary listing on the Singapore Exchange ("SGX-ST")²⁶) with SP Group retaining a 51% interest. At the time of listing, SP AusNet owned and operated Victoria's primary regulated electricity transmission network, an electricity distribution network in eastern Victoria and a gas distribution network in western Victoria. These businesses had been acquired by SP Group over the period from 2000-2004²⁷.

SP AusNet was structured as a triple stapled group, where each stapled security in SP AusNet comprised one share in SP Australia Networks (Transmission) Ltd ("SP AusNet Transmission"), one share in SP Australia Networks (Distribution) Ltd ("SP AusNet Distribution") and one unit in SP Australia Networks (Finance) Trust ("SP AusNet Finance Trust"). The shares and unit were "stapled" to each other and traded on the stockmarket as a single security. Within the group structure, SP AusNet Transmission and SP AusNet Distribution owned and operated the businesses and SP AusNet Finance Trust financed the companies. This structure enabled securityholders to receive cash distributions in excess of accounting profits in the form of pre-tax interest income, franked dividends and capital returns.

In January 2014, a subsidiary of State Grid Corporation of China (referred to in this report as "State Grid") acquired a 19.9% interest in SP AusNet's stapled securities from SP Group.

SP AusNet completed a corporate restructure in June 2015 under which a new company, AusNet Services Limited, became the single head entity of the AusNet Services group and securityholders received one share in AusNet for each stapled security held. The corporate restructure was expected to achieve a number of key benefits including simplification and potential broader investor appeal, reduced administration, greater certainty of the tax position in relation to the capital structure, facilitation of the efficient repayment of certain loans and improved ability to distribute available franking credits.

AusNet combined the operations of three subsidiaries to create the "*Mondo*" business in December 2018. The *Mondo* business provides contracted infrastructure and energy services. The contracted infrastructure business owns and operates a portfolio of assets that fall outside the regulated asset base. The *Mondo* business, along with customer initiated excluded transmission services were combined to form AusNet's "Growth & Future Networks" business during 1HY21²⁸. Growth & Future Networks was renamed "Development & Future Networks" in September 2021 (but without any significant change to its underlying services and operations).

4.2 Business Overview and Strategy

Business Overview

Today, AusNet is the largest diversified energy network business in Victoria, owning and operating over \$11 billion of regulated and contracted assets:

- the statewide primary electricity transmission network that transports electricity from where it is generated to Victoria's five distribution networks. AusNet also assists with power connection to New South Wales, South Australia and Tasmania;
- the electricity distribution network providing electricity to customers across eastern and north-eastern Victoria, and in Melbourne's north and east;

²⁶ AusNet was deregistered from the SGX-ST in July 2018.

²⁷ The businesses owned by SP Group also included an interest in the SEAGas gas transmission pipeline, which was sold in August 2005.

²⁸ 1HY21 is the six months ended 30 September 2020.

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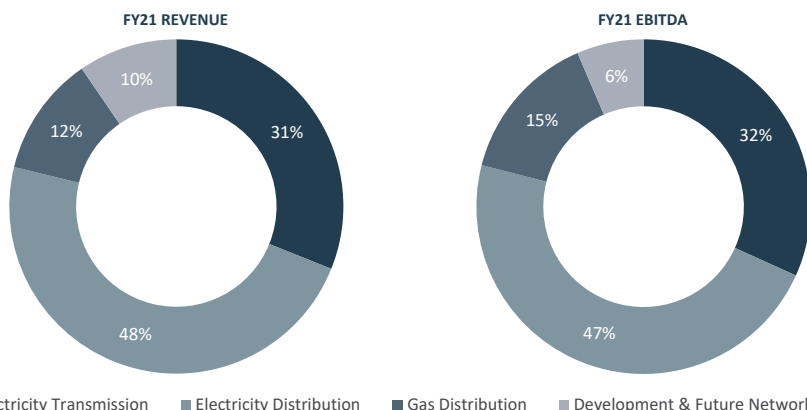


- the gas distribution network supplying natural gas to customers in western Melbourne, and central and western Victoria; and
- Development & Future Networks, an unregulated business focussing on contracted infrastructure and energy services.

AusNet engages over 1,500 employees to service over 1.5 million customers.

The majority of AusNet's revenue and EBITDA is generated by its Electricity Distribution network, which in FY21 represented 48% of AusNet's revenue and 47% of EBITDA:

AUSNET – CONTRIBUTION BY BUSINESS



■ Electricity Transmission ■ Electricity Distribution ■ Gas Distribution ■ Development & Future Networks

Source: AusNet and Grant Samuel analysis

Approximately 85% of AusNet's revenue is regulated, providing predictable and secure cash flows between five year regulatory resets for each of its regulated business operations. In addition, the regulatory resets for each of AusNet's business operations are staggered, minimising the impact of new regulatory regimes in any one financial year.

AusNet's business operations are described, and their operating performance is discussed, in Section 4.9 of this report.

Strategy

AusNet's strategy is to "own and operate the best energy networks, growing through connecting people with new energy", which means:

- providing safe, reliable and affordable energy; and
- adapting, anticipating, responding to and supporting customer choices and the transition to renewable energy.

AusNet delivers its strategy through a focus on four strategic priorities that aim to create long term value for customers, communities and investors and play a role in accelerating to a sustainable energy future:

- customer passion**, evidenced through making clear commitments to improve the customer experience (including, for example, minimising supply disruptions and implementing measures to ease the challenges faced by customers during the COVID-19 pandemic);
- energised people**, thriving and supported to achieve the best outcomes. This aspect of AusNet's strategy is evidenced through the significant change in the composition of the executive leadership team during FY21 and the introduction of a new operating model to support its strategy;

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- **operational excellence**, finding the most effective, efficient, innovative and safest way to do business. A new, multi-year company-wide transformation program commenced in FY21 to reshape the organisation through making holistic changes to the way AusNet operates. This transformation program delivered \$9 million of operating cost savings in FY21 (net of implementation costs); and
- **accelerating growth** through the energy transition. AusNet continues to pursue large scale transmission augmentation and renewable connections projects, targeting a \$13.5 billion asset base (\$11 billion RAB and \$2.5 billion in contracted infrastructure assets) by FY26 (compared to a \$10.4 billion RAB and a \$0.9 billion contracted asset base at 30 September 2021).

These four priorities guide AusNet as it addresses the challenges in its operating environment and inform its business model while it strives to deliver strong financial performance and pursue growth opportunities.

4.3 Financial Performance

Historical Financial Performance

The historical financial performance of AusNet for FY18 to FY21 and for 1HY22 is summarised below:

AUSNET – HISTORICAL FINANCIAL PERFORMANCE (\$ MILLIONS)

	FY18 ACTUAL PRE AASB16	FY19 ACTUAL PRE AASB16	FY20 ACTUAL POST AASB16	FY21 ACTUAL POST AASB16	1HY22 ACTUAL POST AASB16
Revenue	1,909.8	1,861.5	1,977.6	1,924.5	1,031.8
EBITDA ²⁹	1,142.9	1,134.2	1,196.6	1,154.6	636.4
Depreciation and amortisation	(442.4)	(456.4)	(464.5)	(463.9)	(234.4)
EBIT ³⁰	700.5	677.8	732.1	690.7	402.0
Net finance costs	(283.9)	(305.9)	(316.7)	(266.6)	(157.9)
Income tax expense	(125.2)	(118.0)	(124.7)	(122.0)	(66.6)
NPAT ³¹ attributable to AusNet shareholders	291.4	253.9	290.7	302.1	177.5
STATISTICS					
Basic earnings per share	8.08c	7.01c	7.88c	8.04c	4.66c
Dividends per share	9.25c	9.72c	10.20c	9.50c	4.75c
Dividend payout ratio	114%	139%	129%	118%	102%
Amount of dividend franked	0%	42.5%	50%	40%	0%
Total revenue growth	+1.5%	-2.5%	+6.2%	-2.7%	-0.7% ³²
EBITDA growth	+6.5%	-0.8%	+5.5%	-3.5%	-3.8% ³²
EBITA growth	+8.2%	-3.2%	+8.0%	-5.7%	-6.4% ³²
EBITDA margin	59.8%	60.9%	60.5%	60.0%	61.7%
EBIT margin	36.7%	36.4%	37.0%	35.9%	39.0%
Effective tax rate	30.1%	31.7%	30.0%	28.8%	27.3%

 AusNet and Grant Samuel analysis

Although AusNet benefits from predominantly stable and predictable inflation-linked regulated revenue and earnings, its performance over the past four and a half years has fluctuated due to:

- a challenging and rapidly changing external environment including extreme weather (bushfires and storms, particularly in FY20 and 1HY22) and the COVID-19 pandemic (with multiple lockdowns in Victoria during FY21 and 1HY22³³);

²⁹ EBITDA is earnings before net interest, tax, depreciation and amortisation.

³⁰ EBIT is earnings before net interest and tax.

³¹ NPAT is net profit after tax.

³² Growth is over the prior corresponding period (i.e. 1HY21).

³³ The COVID-19 pandemic has impacted customers and how essential services are provided but has not had a material impact on revenue.

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- the impact of revenue resets and declining price paths at the commencement of new regulatory determinations during the period (i.e. for the gas distribution business effective 1 January 2018 and the electricity distribution business effective 1 July 2021);
- variations in incentive revenues that reward network reliability and efficient operating practices (and impose penalties for underperformance) over each regulatory period;
- the impact of one-off and other unusual items, particularly in FY20 and FY21 that resulted in higher revenue and EBITDA in FY20 and lower revenue and EBITDA in FY21:
 - FY20 revenue and EBITDA benefited from additional revenue from recognition of gifted assets received in prior periods but not previously recognised which increased customer contributions by \$19.1 million and revenue from the completion of the West Gate Tunnel relocation project of \$20.7 million, offset in part by \$14.7 million of bushfire remediation costs. There was also an increase in pass-through items in FY20 (that increased revenue and operating expenses but had no impact on EBITDA); and
 - during FY21, AusNet discontinued investment in its geospatial business and considered disposal options. As a result of this decision, AusNet recorded an impairment charge in FY21 of \$30.7 million³⁴ (\$23.8 million of goodwill and \$6.9 million of software).

Excluding these items, FY21 revenue increased by \$24.8 million and FY21 EBITDA increased by \$14.4 million compared to FY20 revenue and EBITDA.

EBITDA in FY21 and 1HY22 was also impacted by cost increases associated with historical employee underpayment (\$7.0 million in FY20 and \$7.4 million in 1HY22); and

- AusNet's ongoing efficiency and transformation programs, which have resulted in a substantial reduction in underlying operating expenses. This impact is particularly evident in the increase in EBITDA margins in FY18 and FY19. Underlying operating expenses have continued to fall in FY20 and FY21, with the declining EBITDA margin in those years a result of the one-off and unusual items referred to above. The focus on transformation continued in 1HY22 to partially offset cost increases associated with expensing of software costs previously capitalised and increases in non-discretionary items and other operating expenditure.

The operating performance of each of AusNet's business operations is discussed in Section 4.9 of this report.

The adoption of AASB16 from FY20 has resulted in a reduction in revenue and a reduction in operating expenses but has had no material impact on AusNet's net profit. The business operation most impacted by the adoption of AASB16 is Development & Future Networks (see Section 4.9.4 for details).

Depreciation and amortisation have increased in line with growth in the asset base (with the relatively flat depreciation and amortisation in FY21 due to lower depreciation on other plant and equipment).

Up until FY20, net finance costs have generally increased in line with an increase in net borrowings. Net finance costs include interest income from the desalination lease receivable and following adoption of AASB16 from FY20, interest income on lessor receivables associated with AusNet's dedicated unregulated customer connection assets (see Section 4.9.4 for details). Contracted infrastructure projects completed in FY20 resulted in a \$9.6 million increase in lease interest income which, in conjunction with a large non-cash hedge accounting gain, resulted in decline in net finance costs in FY21. The increase in net finance costs in 1HY22 was largely due to a movement in non-cash hedge accounting and early hybrid refinancing.

³⁴ \$19.0 million has been allocated to AusNet's electricity distribution business (see Section 4.9.2) and \$11.7 million has been allocated to Development & Future Networks (see Section 4.9.4).

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AusNet has an effective tax rate for accounting purposes approximately equal to the corporate tax rate of 30% (slightly higher in FY19 due to the recognition of an \$11 million tax risk provision and lower in recent years as a result of tax credits from amended returns). Tax paid (see Section 4.5) is materially lower than tax expense for accounting purposes due primarily to depreciation and amortisation for tax purposes being higher than accounting depreciation and amortisation, including the impact of accelerated tax depreciation associated with the Instant Asset Write-Off Incentive announced as part of the 2020-21 Commonwealth Government Budget³⁵. AusNet expects to have lower tax payable in FY22 due to refunds from accelerated capital allowance deductions and non-assessable gifted assets.

AusNet pays out more than 100% of NPAT as dividends which are paid out of free cash flow (operating cash flow less maintenance capital expenditure) (see Section 4.5). Historically, dividends have generally only been partially franked. AusNet does not have any material franking account balance as a result of its relatively low cash tax paid (which increases the cash flow available to support the payment of dividends but results in a relatively low franking account balance).

Outlook

AusNet has not publicly released earnings forecasts for FY22. However, in conjunction with the release of its FY21 results on 12 May 2021, AusNet provided the following commentary:

- FY22 dividend guidance of 9.5 cents per share;
- FY22 franking outcome to be determined when the FY22 tax profile is confirmed;
- targeting a \$13.5 billion asset base by FY26 (\$11.0 billion RAB and \$2.5 billion in contracted infrastructure assets³⁶); and
- forecast net debt to regulated and contracted asset base of <70% to FY26.

On the release of its 1HY22 results on 11 November 2021, AusNet confirmed its FY22 dividend guidance of 9.5 cents per share, unfranked.

To provide an indication of the expected future financial performance of AusNet, Grant Samuel has considered brokers' forecasts for AusNet (see Appendix 1 and Section 5.2.2) as follows:

AUSNET – FORECAST FINANCIAL PERFORMANCE (\$ MILLIONS)

	FY21 ACTUAL	FY22 BROKER CONSENSUS (MEDIAN)
Revenue	1,924.5	1,920.0
Underlying EBITDAal (see Section 5.2.2) ^{37, 38}	1,226.6	1,188.1
Dividend per share	9.5c	9.5c

SOURCE: Grant Samuel analysis (see Appendix 1)

The broker consensus forecasts are sufficiently close to AusNet's FY22 Budget⁶ to be useful for analytical purposes.

³⁵ The Instant Asset Write-Off Incentive allows immediate deduction for the full value of new, eligible depreciable assets of any value that are first used and installed before 30 June 2022.

³⁶ Total value under contract (unconditional), regardless of construction phase.

³⁷ EBITDAal is EBITDA after lease interest income (see Section 4.9.4). Broker forecasts do not (with the exception of one broker) show lease interest income separately. See Appendix 1 for the calculation of broker consensus EBITDAal.

³⁸ Underlying financial performance is before the impairment charge (FY21) and employee underpayment expenses (FY21 and FY22) (see Section 5.2.2).

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4.4 Financial Position

The financial position of AusNet at 31 March 2021 and 30 September 2021 is summarised below:

AUSNET - FINANCIAL POSITION (\$ MILLIONS)

	AT 31 MARCH 2021 ACTUAL	AT 30 SEPTEMBER 2021 ACTUAL
Receivables	184.6	219.3
Inventories	65.1	65.0
Other assets	89.9	122.5
Payables and other liabilities	(314.9)	(310.9)
Deferred revenue	(209.0)	(221.9)
Provisions	(148.9)	(145.5)
Net working capital	(333.2)	(271.5)
Property, plant and equipment (net)	11,306.5	11,371.9
Right of use asset	82.0	70.9
Intangible assets	503.5	563.8
Lessor receivable	290.3	318.9
Desalination licence receivable	166.5	161.9
Cash held by employee share trust	0.2	0.2
Derivative financial instruments (net)	(185.7)	(34.5)
Net tax balances	(664.4)	(680.6)
Total funds employed	11,165.7	11,501.0
Cash and cash equivalents	827.9	330.4
Short term investments	719.8	150.0
Borrowings	(9,187.2)	(8,476.3)
Net borrowings (excluding lease liabilities)	(7,639.5)	(7,995.9)
Lease liabilities	(91.3)	(82.0)
Net borrowings (including lease liabilities)	(7,730.8)	(8,077.9)
Equity attributable to AusNet shareholders	3,434.9	3,423.1
STATISTICS		
Shares on issue at period end (millions)	3,801.2	3,830.0
Net assets per share	0.90c	0.89c
NTA ³⁹ per share	0.77c	0.75c
Gearing ⁴⁰ (including right of use assets and lease liabilities)	69.2%	70.2%
Net debt/Regulated and contracted asset base ⁴¹	66.6%	67.0%

AUSNET AusNet and Grant Samuel analysis

Working capital represents assets and liabilities that are utilised as part of AusNet's day to day operations and are not used for investing purposes. It includes current receivables (including accrued revenue) and payables (including deferred revenue), and current and non-current inventory, other assets and provisions as well as non-current accounts receivable and deferred revenue. Working capital includes:

- a defined benefit surplus of approximately \$66 million. AusNet operates a defined benefit superannuation plan that is closed to new members. Due to the plan being in surplus, AusNet ceased

³⁹ NTA is net tangible assets, which is calculated as net assets less intangible assets.

⁴⁰ Gearing is net borrowings divided by net assets plus net borrowings.

⁴¹ For the purposes of calculation of the net debt/regulated and contracted asset base ratio, net debt is at face value excluding any derivative financial instruments and has been adjusted for equity credits in relation to hybrid securities. The regulated and contracted asset base includes the carrying value of the desalination licence receivable and unregulated transmission connections accounted for as finance lease receivables under AASB16.

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making contributions to the plan from 1 July 2018 and expects this contribution holiday to continue in FY22; and

- provisions for:
 - employee benefits (excluding employee underpayment) of \$71.0 million;
 - environmental rehabilitation of \$36.6 million. The environmental provision represents an estimate of the cost of rehabilitating three sites (including costs to remediate soil and water contamination on gas sites which were previously used as coal gas production facilities) and is a probability weighted calculation of a number of strategies for land use options that are being considered. As a result, there is a risk that in the event of full remediation at all three sites, the cost may significantly exceed the provision;
 - make good of \$17.5 million;
 - employee underpayment of \$13.0 million. The employee underpayment provision represents an estimate of AusNet's current liability for current and former employees identified as being underpaid under an enterprise bargaining agreement based on the review undertaken as at 30 September 2021; and
 - redundancy and other provisions of \$7.4 million.

Property, plant and equipment represents 99% of total funds employed, reflecting the capital intensity of AusNet's business operations. Property, plant and equipment is predominantly the net written down value of AusNet's electricity transmission and distribution and gas distribution networks and represented over 90% of the property, plant and equipment balance at 30 September 2021 (including easements and capital works in progress). Property, plant and equipment in the table above excludes right of use assets (under AASB16), although these are relatively minor (\$70.9 million at 30 September 2021).

At 31 March 2021 (the latest information readily available), the carrying value of AusNet's regulated property, plant and equipment was ~\$10.6 billion, approximately the same the RAB of \$10.3 billion. Due to accelerated tax depreciation, the tax written down value of AusNet's regulated property, plant and equipment is significantly below both its carrying value and the RAB (~\$2.4-2.8 billion lower).

Intangible assets are primarily distribution licences and computer software. Distribution licences (\$354.5 million at 30 September 2021) entitle AusNet to distribute electricity and gas within its licensed regions and are issued in perpetuity (provided that AusNet complies with certain licence requirements). Intangible assets also include \$12.0 million of goodwill (after the \$23.8 million impairment related to AusNet's geospatial business in FY21).

AusNet's financial position includes two financial assets which are part of its Development & Future Networks business:

- a lessor receivable of \$318.9 million at 30 September 2021. This receivable relates to AusNet's dedicated unregulated customer connection assets which, following the adoption of AASB16, have been recognised as finance leases (rather than being included as property, plant and equipment). The receivable represents the present value of the remaining revenue receipts; and
- the desalination licence receivable of \$161.9 million at 30 September 2021, which relates to a 27 year licence agreement to operate and maintain the underground transmission line supplying electricity to the Victorian Desalination Plant. The upfront payment for the licence (\$235 million plus transaction costs of \$1.2 million) has been classified as a receivable. The receivable is interest bearing, and the monthly revenue payments received from the operator (which are fixed, with an annual adjustment for inflation) are allocated between lease interest income and principal repayment.

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AusNet uses a range of derivative financial instruments to manage its exposure to interest rate and currency risks associated with its borrowings. In addition, AusNet's regulated revenues for the transmission and distribution businesses are directly impacted by changes in interest rates⁴². The objective of hedging activities is to:

- minimise the exposure to changes in interest rates by aligning the actual cost of debt with the cost of debt assumed by the regulator. This exposure is managed by maintaining the percentage of fixed rate debt to total debt at 90-100% for the relevant business using interest rate swaps; and
- eliminate all foreign exchange risk on funding activities and material foreign exchange related transaction risk.

At 30 September 2021, AusNet had a net derivative financial instruments liability of \$34.5 million, comprising interest rate swaps, forward foreign currency contracts and cross currency swaps. All of the derivative financial instruments at 30 September 2021 relate to AusNet's borrowings.

Net tax balances represent a deferred tax liability of \$722.8 million and tax payable of \$24.3 million offset by a tax receivable of \$66.5 million. AusNet has several tax positions under review by the Australian Taxation Office ("ATO"), including objections lodged by AusNet:

- seeking a refund of tax paid in relation to certain gifted assets received, which has been recognised as a \$37.5 million current tax receivable (as AusNet expects the refund to be received within the next 12 months); and
- in relation to certain capital allowance positions arising from the corporate restructure completed in June 2015⁴³. At 30 September 2021, these positions comprise:
 - a tax refund of \$29.0 million relating to higher prior year deductions, which has also been recognised as a current tax receivable following the ATO accepting AusNet's amended assessments; and
 - a net tax risk provision of \$26.4 million based on a probability weighted range of possible outcomes which has been recognised as a deferred tax liability.

The balance of the deferred tax liability primarily relates to the impact of accelerated tax depreciation relating to property, plant and equipment offset in part by deferred tax assets relating to derivative financial instruments and fair value adjustments on borrowings and accruals and provisions.

At 30 September 2021, AusNet's gearing (including right of use assets and lease liabilities) was 70.2% and its net debt to regulated and contracted asset base ratio was 67.0%. Its borrowings comprise a diversified portfolio of unsecured senior notes and hybrid securities:

⁴² As a result of the building block approach where interest rates are an input in the determination of the regulatory weighted average cost of capital and consequently regulated revenues. The AER uses a "trailing average portfolio" approach to setting the weighted average cost of capital which assumes that 10% of the debt for each network is refinanced each year. As such, the average cost of capital is reset each year to take into account this assumed refinancing.

⁴³ At 31 March 2021, these positions were shown as an \$11.0 million net tax risk position based on a probability weighted range of possible outcomes for the two separate matters, a \$26.4 million tax risk provision and a \$15.4 million offsetting potential tax refund. Following the ATO accepting AusNet's amended assessments, the full value of the refund (\$29.0 million) has been recognised as a tax receivable (along with a \$6.9 million income tax benefit in the income statement).

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AUSNET – BORROWINGS (\$ MILLIONS)

	AT 31 MARCH 2021 ACTUAL		AT 30 SEPTEMBER 2021 ACTUAL	
	CARRYING VALUE	FACE VALUE	CARRYING VALUE	FACE VALUE
Domestic medium term notes	2,652.6	2,635.0	2,410.4	2,385.0
Senior notes	4,125.7	3,913.0	4,306.2	3,913.0
Hybrid securities	2,408.9	2,437.2	1,759.7	1,731.9
Total borrowings	9,187.2	8,985.2	8,476.3	8,029.9

SOURCE: AusNet

AusNet has senior note facilities in a number of currencies (Australian dollar, Hong Kong dollar, Euro, Japanese Yen, United States dollar and Norwegian kroner) with maturity dates ranging from December 2021 to 2034.

Hybrid securities are in the form of non-convertible subordinated notes which are long term (60 year maturity date but redeemable at par from the first call date five years after issue), subordinated to senior debt, receive a 50% equity credit from Standard & Poor's ("S&P") and Moody's Investor Service ("Moody's") and have no equity conversion capability. AusNet has issued four hybrid securities in various currencies (United States dollar, Singapore dollar, Australian dollar and Euro) and with maturity dates ranging from 2076 to 2081. The United States dollar and Singapore dollar hybrid securities were called and repaid in September 2021 and the Australian dollar and Euro hybrid facilities remain outstanding. These issuances provide funding flexibility, diversify AusNet's capital base, support its credit rating and are secured at a competitive cost of capital. At 31 March 2021, AusNet's debt portfolio had a cost of funds of 4.24% and an average tenor of 7.6 years. Less than 15% of the debt portfolio matures in any one year. At 30 September 2021, AusNet had \$800 million of undrawn but committed unsecured bank overdraft, working capital and bank loan facilities.

Balance sheet borrowings are impacted by a number of non-cash movements and adjustments (see Section 4.5 for the quantum of these adjustments in each period):

- movements in exchange rates from the date each debt transaction was entered into and each balance date ("foreign exchange movements");
- borrowings are initially recognised at fair value, net of transaction costs incurred and are subsequently measured at amortised cost, except borrowings which are part of a fair value hedge relationship which are recognised at amortised cost adjusted for the gain or loss attributable to the hedged risk ("fair value adjustments"); and
- a capitalised funding costs adjustment ("funding costs").

As a result of these adjustments, the carrying value of borrowings differs from the face value (i.e. the principal amount that has to be repaid on maturity excluding any adjustments for loan fees, discounts and interest cash flows). The face value of foreign currency debt in the table above is shown at hedged foreign exchange rates with 100% of the debt hedged for foreign currency risk at draw down.

Prior to announcement of the Scheme, AusNet had investment grade credit ratings from S&P (rating of A-/stable) and Moody's (A3/stable). Following AusNet entering into the Scheme Implementation Deed, S&P has revised AusNet's outlook to negative (but affirmed its A- rating) and Moody's has placed AusNet on review for a downgrade pending the outcome of the Scheme.

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4.5 Cash Flow

AusNet's cash flow for FY18 to FY21 and for 1HY22 is summarised below:

AUSNET - CASH FLOW (\$ MILLIONS)

	FY18 ACTUAL	FY19 ACTUAL	FY20 ACTUAL	FY21 ACTUAL	1HY22 ACTUAL
EBITDA	1,142.9	1,134.2	1,196.6	1,154.6	636.4
Non-cash items	(4.8)	(23.5)	(81.0)	(0.1)	(15.7)
Working capital movement	54.5	18.7	2.7	63.9	(34.4)
Net interest paid	(277.0)	(273.4)	(299.1)	(295.4)	(157.8)
Income tax paid	(29.2)	(42.3)	(98.6)	(78.5)	(25.5)
Operating cash flow	886.4	813.7	720.6	844.5	403.0
Capital expenditure (net)	(725.6)	(891.7)	(883.8)	(744.6)	(384.6)
Receipts from other financial assets ⁴⁴	8.8	8.8	9.7	10.0	5.3
Payments for employee share plans	(10.3)	(3.1)	-	(0.6)	(1.7)
Payments for lease liabilities	-	-	(6.1)	(6.1)	(2.7)
Dividends paid ⁴⁵	(342.2)	(283.2)	(238.5)	(234.7)	(131.2)
Net cash generated/(used)	(182.9)	(355.5)	(398.1)	(131.5)	(111.9)
Net cash/(borrowings) – opening	(6,336.5)	(6,906.9)	(7,607.0)	(8,875.7)	(7,639.5)
Foreign exchange movements	(381.5)	(181.1)	(566.6)	993.5	} (244.5)
Fair value adjustments	(8.0)	(162.0)	(306.8)	366.0	
Funding costs	2.0	(1.5)	2.8	8.2	
Net cash/(borrowings) – closing	(6,906.9)	(7,607.0)	(8,875.7)	(7,639.5)	(7,995.9)
STATISTICS					
Maintenance capital expenditure	50%	35%	35%	37%	39%
Growth capital expenditure	50%	65%	65%	63%	61%
Dividend coverage (free cash flow/gross dividend)	1.32x	1.37x	1.15x	1.41x	1.57x

AusNet and Grant Samuel analysis

Negative cash generated in each year reflects how AusNet funds its growth capital expenditure:

- dividends are paid from free cash flow (which is calculated as operating cash flow after payment of maintenance capital expenditure). AusNet actively manages its dividend settings in accordance with its core principle of providing long term, sustainable returns to shareholders and provides annual dividend guidance for the following year in conjunction with the announcement of its annual results. It has a “guideline” under which it aims to fully fund maintenance capital expenditure and a portion of growth capital expenditure from operating cash flow after payment of the dividend.

Other than in FY18, maintenance capital expenditure has been in the range \$275 million to 335 million per annum, representing 35-40% of total capital expenditure and AusNet has generally maintained a dividend coverage ratio in excess of 1.3 times (except in FY20, see the comments below on FY20 operating cash flow); and

- growth capital expenditure, which has generally ranged from \$470-580 million per annum, is funded by surplus cash generation, borrowings and the impact of AusNet's dividend reinvestment plan (which conserves cash). Most growth capital expenditure is in electricity distribution, followed by Development & Future Networks and covers safety, customer connections and network augmentation.

⁴⁴ Receipts from other financial assets are the cash payments in relation to the lessor receivables relating to certain dedicated unregulated customer connection assets and the desalination licence receivable. See Section 4.4 for details.

⁴⁵ Dividends paid is shown net of proceeds from the dividend reinvestment plan (net of transaction costs).

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The decline in operating cash flow in FY20 (despite higher EBITDA) was due to non-cash items included in the EBITDA and higher tax paid that related to prior years.

4.6 Other Financial Items

Taxation

Under the Australian tax consolidation regime, AusNet and its wholly owned subsidiaries have elected to be taxed as a single entity.

At 30 September 2021, AusNet had no material carried forward income tax or capital losses and approximately \$65 million in franking credits available to shareholders (although this balance will be reduced by the \$29.0 million and \$37.5 million tax refunds expected to be received within the next 12 months).

Contingencies

At 30 September 2021, AusNet had contingent assets and liabilities in the form of:

- an objection lodged by AusNet with the ATO in relation to certain tax consolidation positions arising from the corporate restructure completed in June 2015 (where the potential uplift in tax base has not been recognised by AusNet). AusNet has estimated this potential uplift to be up to \$485 million, which would be realised over the life of the assets (although some of this benefit relates to prior periods and any refund of tax may trigger franking deficit tax). The ATO has not yet made an objection decision and the ultimate outcome of the objection is inherently uncertain;
- the risk of penalties under the Rapid Earth Fault Current Limiter ("REFCL") penalty regime if further compliance points are not met (not quantified as there is no current failure to meet the compliance points). At 1 November 2021, REFCLs are scheduled to be installed at 14 of the 22 AusNet zone substations. The remaining REFCLs are being installed ahead of the 1 November 2022 and 1 May 2023 deadlines; and
- Guaranteed Service Level ("GSL") payments to customers (estimated at \$25 million) triggered by the June 2021 storms across Victoria for which it has sought an exemption from the AER (i.e. so that the payments are not required to be made). However, there was uncertainty as to whether the exemption may be invalidated by an order from the Minister for Energy, Environment and Climate Change ("Minister") to amend AusNet's electricity distribution licence. AusNet has not recognised an obligation in relation to these GSL payments.

However, on 18 November 2021, AusNet announced that a Ministerial Order amending AusNet's electricity distribution licence has been made to the effect that AusNet is required to make GSL payments to eligible customers affected by the June 2021 storms. The Victorian Government has advised that it will reimburse AusNet \$3.1 million of the GSL payments made by AusNet. The remainder will be sought via pass-through cost recovery from the AER under the regulatory framework.

4.7 Capital Structure and Ownership

Capital Structure

AusNet has the following securities on issue:

- 3,829,964,486 ordinary shares (including 936,207 restricted shares and 2,381,299 shares held by the employee share trust);
- 586,270 deferred rights⁴⁶; and
- 8,329,089 performance rights.

⁴⁶ On the date of entry into the Scheme Implementation Deed, there were 834,177 deferred rights in issue. 247,907 deferred rights vested in the ordinary course on 26 November 2021. These deferred rights were settled with shares held by the employee share trust.

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AusNet operates:

- a short term incentive plan under which the Managing Director, Chief Financial Officer, Chief Development Officer and other executive key management personnel receive one-third of any short term incentive award as a share right with a two year deferral period (the remaining two-thirds of any short term incentive award is paid as cash). Subject to meeting this service condition, each deferred right entitles the participant to receive one fully paid ordinary share in AusNet. While the participant is not entitled to receive dividends during the two year deferral period, a cash based "dividend equivalent payment" is made at the conclusion of the deferral period based on the equivalent value of dividends that would have ordinarily been received during the deferral period if the shares were held directly (not adjusted for franking credits); and
- a long term incentive plan under which the Manager Director and other executive key management personnel are granted performance rights. Unvested performance rights have no entitlement to dividends, dividend equivalent payments or voting rights. However, each performance right entitles the participant to receive one fully paid ordinary share in AusNet in three years' time for nil consideration subject to meeting certain performance conditions and ongoing employment with AusNet.

AusNet uses an employee share trust as a delivery mechanism for the short term incentive plan deferred rights and the long term incentive plan performance rights. AusNet has the option to issue equity to meet vested share rights to employees but has up until now primarily purchased shares on-market for this purpose.

AusNet also has a general employee exempt share plan under which eligible employees may elect to acquire up to \$1,000 worth of AusNet shares per year funded by way of salary sacrifice over the following 52 week period, generally over six or 12 monthly instalments. These shares are restricted from disposal (and are called restricted shares) for a period of three years from their allotment date or when the participant ceases to be an employee of AusNet.

AusNet operates a dividend reinvestment plan which enables shareholders to reinvest some or all of their dividends by subscribing for additional AusNet ordinary shares at a discount determined by the AusNet Board. The plan was not operational in relation to the interim dividend for 1HY22.

Ownership

AusNet has more than 18,000 registered shareholders. The top 10 shareholders represent over 90% of the ordinary shares on issue.

AusNet has received notices from the following substantial shareholders:

AUSNET – SUBSTANTIAL SHAREHOLDERS

SHAREHOLDER	DATE OF NOTICE	NUMBER OF SHARES	PERCENTAGE ⁴⁷
SP Group	26 March 2020	1,235,935,342 ⁴⁸	32.7%
State Grid	18 June 2015	762,162,932 ⁴⁹	19.9%

Source: AusNet

Other than SP Group and State Grid, the top 10 beneficial shareholders are investment funds or investment/asset management companies.

⁴⁷ Based on 3,829,964,486 ordinary shares on issue.

⁴⁸ The latest substantial shareholder notice from SP Group dated 26 March 2020 refers to SP Group having relevant interest in 1,196,373,280 (31.2%) of AusNet's shares. The current number of shares held by SP Group is based on information disclosed about beneficial ownership in response to directions issued under Section 672A of the Corporations Act which was available to AusNet.

⁴⁹ The latest substantial shareholder notice from State Grid dated 18 June 2015 refers to State Grid having a relevant interest in 689,915,689 (18.0%) of AusNet's shares. The current number of shares held by State Grid is based on information disclosed about beneficial ownership in response to directions issued under Section 672A of the Corporations Act which was available to AusNet.

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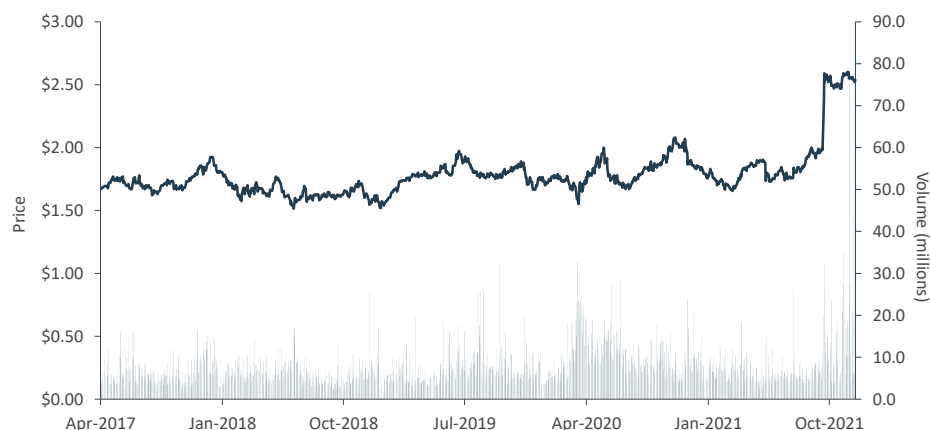
**4.8 Share Price Performance**

AusNet (then SP AusNet) securities were issued at a price of \$1.38 per security but traded at a discount to that price over the 12 months following listing in December 2005. While the security price briefly traded above the issue price early in 2007, it deteriorated over the next three years, falling to a low of \$0.725 (unadjusted) in August 2009 (largely in line with the stockmarket as the implications of the global financial crisis for world economic activity and capital markets emerged). The security price traded below \$1.00 for the next two years before gradually improving. Over the following five and a half years (to March 2017), the security price rose to around \$1.60 (noting that the stapled securities were replaced with shares following the corporate restructure in June 2015).

The graph below illustrates the movement in the AusNet share price and trading volumes since 1 April 2017:

AUSNET – SHARE PRICE AND TRADING VOLUME

1 APRIL 2017 TO 30 NOVEMBER 2021



SML 4021 IRESS

Over the four and a half years prior to the receipt of the Brookfield Indicative Proposal, AusNet shares exhibited a slight upward trend, with trading generally in the range \$1.50-2.00 and periodic declines in the share price corresponding to the payment of interim and final dividends in May/June and November/December each year. The share price reached an all-time intraday high of \$2.10 on 19 October 2020 and 20 October 2020, before closing at \$2.08 on both days. This relatively narrow trading range reflects the nature of AusNet as a listed infrastructure investment, where shareholders invest for yield (i.e. dividend payments) and steady capital growth.

The AusNet share price closed at \$1.98 on 17 September 2021, the last trading day prior to the announcement of receipt of the Brookfield Indicative Proposal. Since announcement of the Brookfield Indicative Proposal, AusNet shares have traded in the range \$2.31-2.62, and at a volume weighted average price ("VWAP") of \$2.54. This relatively wide post announcement trading range reflects trading in the range:

- \$2.31-2.42 on 20 September 2021 following announcement of the Brookfield Indicative Proposal; and
- \$2.49-2.60 on 21 September 2021 following announcement of the APA Group Indicative Proposal.

Following announcement of the Scheme on 1 November 2021, AusNet shares have traded in a much tighter range of \$2.51-2.62, and at a VWAP of \$2.56. This price is below the total consideration under the Scheme of \$2.65 per share, and, in part, reflects that share trading since 16 November 2021 has been on an ex-dividend basis.

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Independent Expert's Report continued

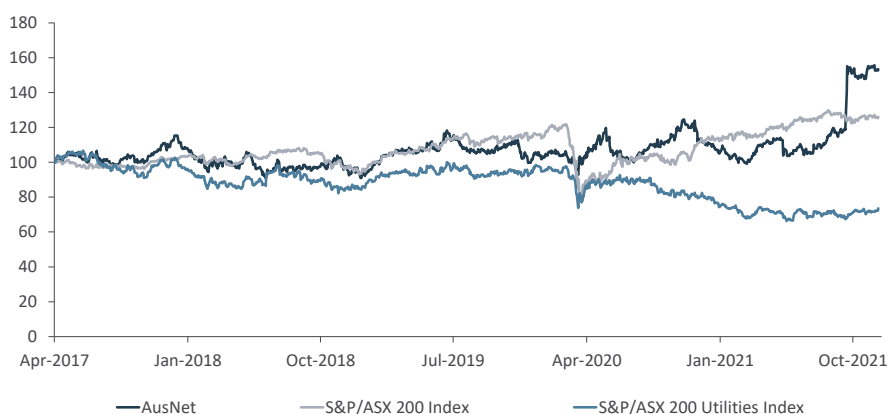
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AusNet is an ASX 100 company and is a member of all major ASX indices including the S&P/ASX 200 Index and the S&P/ASX 200 Utilities Index. The following graph illustrates the performance of AusNet shares since 1 April 2017 relative to the S&P/ASX 200 Index and the S&P/ASX 200 Utilities Index:

AUSNET VS S&P/ASX 200 INDEX VS S&P/ASX UTILITIES INDEX (BASE = 100)

1 APRIL 2017 TO 30 NOVEMBER 2021



Source: IRESS

Since April 2017, AusNet shares have generally tracked the S&P/ASX 200 Index and outperformed the S&P/ASX 200 Utilities Index. AusNet shares did fall below the S&P/ASX 200 in late-2019 following the announcement of 1HY20 results that were slightly down on the prior year (although these results were consistent with expectations). However, AusNet shares were far less impacted by the COVID-19 pandemic than the market generally. The fall in the AusNet share price in late February-early March 2020 was significantly less than the fall in the market generally, and equally, AusNet shares have not benefited from the subsequent post COVID-19 pandemic bounce back from late March 2020.

The outperformance compared to the S&P/ASX 200 Utilities Index reflects its composition. The S&P/ASX 200 Utilities Index includes AGL Energy Limited ("AGL Energy"), which represented close to 40% of the Index in April 2017, but as a result of a substantial decline in its share price (as well as corporate activity involving Spark and AusNet), currently represents only 10% of the Index.

Including dividends, (i.e. total shareholder return), over the past five years to 30 June 2021, AusNet has performed strongly compared to the S&P/ASX 200 Utilities Accumulation Index but has lagged the S&P/ASX 200 Accumulation Index (particularly over the year to 30 June 2021):

AUSNET – COMPARISON TO ACCUMULATION INDICES

	TOTAL AVERAGE ANNUAL RETURNS TO 30 JUNE 2021		
	1 YEAR	3 YEARS	5 YEARS
AusNet ⁵⁰	10.3%	8.7%	7.1%
S&P/ASX 200 Accumulation Index	28.4%	9.6%	11.2%
S&P/ASX 200 Utilities Accumulation Index	-18.6%	-5.5%	0.0%

Source: IRESS, Bloomberg and Grant Samuel analysis

⁵⁰ Assuming reinvestment of net dividends. If it is assumed that gross dividends are reinvested, total returns are 11.2% (1 Year), 32.4% (3 Year) and 46.1% (5 Year).

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AusNet is not a highly liquid stock, primarily due to its limited free float (approximately 50%). Over the twelve months prior to announcement of the Brookfield Indicative Proposal, average weekly volume represented approximately 0.9% of average shares on issue or annual turnover of around 48% of total average issued capital (albeit this represented turnover of almost 100% based on the free float). This level of liquidity is broadly consistent with that of other major listed infrastructure entities (e.g. APA Group, Sydney Airport, Transurban Group ("Transurban")) which also offer annuity style income (i.e. high cash yielding, stable growth) to shareholders and therefore attract long term investors less inclined to trade their positions.

4.9 Business Operations

4.9.1 Electricity Transmission

Overview

AusNet's electricity transmission network is responsible for transporting high voltage electricity from large scale generators to terminal stations, where Victoria's five distribution networks receive lower voltage supply before transporting electricity to households and businesses across Victoria. In certain instances, the transmission network provides a direct connection between the power generators and large industrial customers. The electricity transmission network also connects Victoria to adjacent states in the NEM, including New South Wales, South Australia and Tasmania, to facilitate wholesale electricity trading across the NEM.

AusNet's electricity transmission network was largely developed in the 1960s and 1970s. While AusNet is the sole owner and operator of Victoria's primary transmission network and is responsible for maintaining the existing network, the AEMO is responsible for transmission network planning and augmentation (i.e. new capacity) decisions.

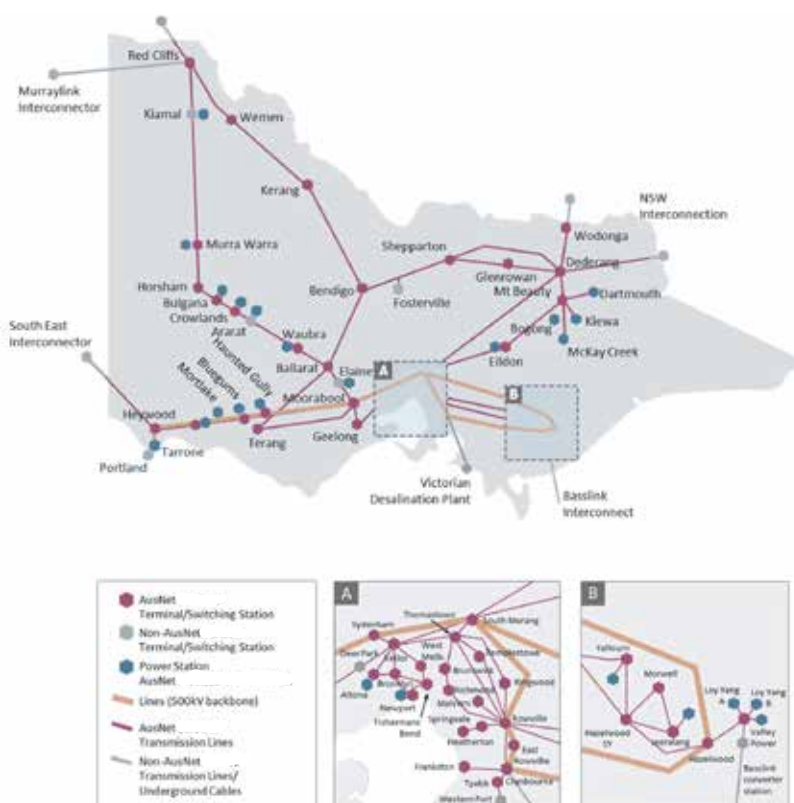
AusNet's electricity transmission network comprises 13,161 transmission towers and 6,852 kilometres of high voltage lines across Victoria:

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Independent Expert's Report continued

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AUSNET'S VICTORIAN ELECTRICITY TRANSMISSION NETWORK



Source: AusNet

The 500kV⁵¹ line that stretches from the Latrobe Valley (southwest) through to Geelong and Melbourne forms the backbone of the network. This line is connected to switching stations along its route that convert electricity to lower voltage (220kV) for safe transmission in major metropolitan areas.

The AEMO is the principal counterparty to AusNet's regulated electricity transmission business, representing almost all of the business' revenue (and approximately 30% of AusNet's total revenue). Under the network agreement between AusNet and the AEMO, AusNet receives network charges from the AEMO for use of the network to transmit electricity to other participants in the market⁵².

AusNet also has separate connection agreements directly with the five Victorian distribution networks and electricity generators in relation to connections and access charges.

The business operates in a fully regulated environment and is subject to "revenue caps" that determine how much revenue it is allowed to earn to cover the costs of providing a safe and reliable electricity network. The current regulatory period commenced on 1 April 2017 and runs for a period of five years to 31 March 2022.

⁵¹ kV = kilovolt, a measure of electromotive force.

⁵² In turn, the AEMO charges electricity distributors for use of the transmission network through Transmission Use of Service ("TUoS") charges which vary depending on usage.

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AusNet is currently negotiating its determination for the next regulatory period. AusNet submitted an initial proposal in October 2020 and received a positive draft decision from the AER on 30 June 2021. AusNet lodged a revised proposal in September 2021. A summary of AusNet's proposals and the AER's draft decision is outlined below:

AUSNET'S ELECTRICITY TRANSMISSION ACCESS DETERMINATION (\$ MILLIONS)

	AUSNET PROPOSAL (29 OCTOBER 2020)	AER DRAFT DECISION (30 JUNE 2021)	AUSNET REVISED PROPOSAL (2 SEPTEMBER 2021)
Return on capital	781.7	828.9	840.8
Regulatory depreciation	545.1	560.2	514.3
Operating expenditure	1,521.5	1,399.8	1,484.0
Revenue adjustments	35.6	38.0	68.2
Net tax allowance	1.1	11.2	6.4
Annual building block revenue requirement¹	2,885.0	2,838.1	2,913.7
Capital expenditure²	797.7	753.8	820.5

Sources: AusNet and AER

Notes: 1. On a nominal and pre smoothed basis
2. On a 2021-22 real basis

The AER's draft decision allows total revenue of \$2,838.1 million for the 2022-2027 regulatory period, which is \$46.9 million (1.6%) lower than AusNet's initial proposal. This reduction was largely driven by the AER's decision to not accept AusNet's proposed operating expenditure step changes relating to cyber security, council rates and *Environmental Protection Act 2017 (Vic)* amendments (which increased operating expenditure by \$121.7 million) due to lack of information. However, this reduction was partially offset by more favourable allowances for return on capital (\$47.2 million) and regulatory depreciation (\$15.1 million).

Allowed capital expenditure was reduced by \$44 million (5.5%) in the AER's draft decision. The AER was broadly supportive of AusNet's capital expenditure program, with the exception of the following projects:

- South-West Comms Loop Upgrade project (\$23 million) as it was not linked to an asset replacement need;
- risk allowances for asset replacement programs (\$14 million) which were able to be avoided; and
- external labour escalation (\$7 million) which was not supported by sufficient evidence and could be mitigated through management of contracted services.

The AER is aware that AusNet is revisiting forecast capital expenditure for its major station renewals, project costs and updated forecasts of demand, which may have material impacts on forecast capital expenditure. Furthermore, the AER is considering whether additional major station projects are necessary to the stability and reliability of the network due to the Yallourn Power Station closure and development of the Victorian Renewable Energy Zones.

AusNet's revised proposal addressed the above issues and updated its proposal for subsequent external events, such as new AEMO demand forecasting, the release of the Victorian Government's \$1.6 billion energy budget and *Renewable Energy Zone Development Plan*, as well as the announcement that closure of the Yallourn Power Station would be brought forward from 2032 to 2028. The final decision will be made by the AER by 31 January 2022.

Strategy

Due to the age of its network infrastructure, AusNet's electricity transmission business is focused on identifying and replacing deteriorating assets to enhance network resilience and reliability. The initial proposal for the upcoming access determination period put forward nearly \$800 million in capital

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expenditure over the five year period, of which almost 90% was dedicated to network replacement. The proposed investment programme also contemplates certain measures to improve the reliability of AusNet's switching stations as the recent closure of large scale coal-fired power generators in Victoria has increased the state's reliance on interstate imports of electricity.

In the longer term, the continued decarbonisation of the energy sector, increasing electrification and the transition to renewable energy is expected to drive growing demand on AusNet's electricity transmission network. This growth in demand is expected to drive network augmentation opportunities for AusNet's electricity transmission network (albeit this is reflected in AusNet's Development & Future Networks business).

Historical Operating Performance

The historical operating performance of AusNet's electricity transmission business for FY18 to FY21 and for 1HY22 is summarised below:

ELECTRICITY TRANSMISSION – HISTORICAL OPERATING PERFORMANCE (\$ MILLIONS)

	FY18 ACTUAL PRE AASB16	FY19 ACTUAL PRE AASB16	FY20 ACTUAL POST AASB16 RESTATED	FY21 ACTUAL POST AASB16	1HY22 ACTUAL POST AASB16
Revenue	601.9	618.2	612.3	601.2	305.1
EBITDA	379.8	390.4	364.1	366.6	175.8
Depreciation and amortisation	(99.4)	(97.5)	(93.6)	(96.1)	(52.8)
EBIT	280.4	292.9	270.5	270.5	123.0
Capital expenditure	163.8	211.1	167.7	150.7	60.0
Regulated asset base	3,498	3,533	3,260	3,690	3,731
STATISTICS					
Revenue growth	+2.7%	+2.7%	-1.0%	-1.8%	+1.2% ³²
EBITDA growth	-0.4%	+2.8%	-6.7%	+0.7%	-2.7% ³²
EBIT growth	+2.1%	+4.5%	-7.6%	-	-5.7% ³²
EBITDA margin	63.1%	63.2%	59.5%	61.0%	57.6%
EBIT margin	46.6%	47.4%	44.2%	45.0%	40.3%
Capital expenditure/EBITDA	43.1%	54.1%	46.1%	41.1%	34.1%

AusNet and Grant Samuel analysis

Over the past four and a half years, AusNet's electricity transmission network revenue and EBITDA have remained relatively stable as the business has operated within the 2017-2022 regulatory period.

Movements in revenue and earnings reflect the following:

- approved price paths under the regulatory access determination that (generally) result in lower prices from year to year;
- approval from the AER to pass-through increases in transmission easement revenue and taxes, which resulted in a \$34 million increase in FY20 revenue, most of the decline in FY21 revenue and the increase in 1HY22 revenue, but which had no impact on EBITDA; and
- the transfer of customer initiated excluded prescribed and excluded negotiated transmission contracts that were previously included in the electricity transmission business to Development & Future Networks in FY21. FY20 operating performance has been restated on the same basis, which explains much of the decline in revenue and EBITDA in FY20 as FY19 and FY18 operating performance have not been restated.

EBITDA margins have fallen from around 63% to 60-61% over the period, reflecting the transfer of higher margin customer initiated excluded prescribed and excluded negotiated transmission contracts to

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Development & Future Networks. The improvement in the EBITDA margin in FY21 reflects a decrease in operating expenditure as a result of cost efficiency initiatives and the decline in the EBITDA margin in 1HY22 is due to lower prices, an increase in non-discretionary operating expenses and employee remediation costs.

In FY20 and FY21, capital expenditure was in the range \$150-170 million (around 41-46% of EBITDA). AusNet's capital expenditure is almost entirely for asset maintenance and replacement to ensure reliability and security of the existing electricity transmission network (as growth capital expenditure relating to augmentation of the transmission network is incurred in Development & Future Networks).

Over the last decade, most critical work has focussed on supply to Melbourne's central business district. The \$17.0 million decline in capital expenditure in FY21 was primarily due to the completion of a major central business district Terminal Station rebuild, partially offset by additional expenditure replacing storm damaged transmission towers in Western Victoria. As a result of ongoing investment in the network, the electricity transmission business' regulated asset base has grown by an average of 1.9% per annum since the beginning of FY18.

Outlook

To provide an indication of the expected future performance of AusNet's electricity transmission business, Grant Samuel has considered broker forecasts (see Appendix 1) as follows:

ELECTRICITY TRANSMISSION – FORECAST OPERATING PERFORMANCE (\$ MILLIONS)

	FY21 ACTUAL	FY22 BROKER CONSENSUS (MEDIAN)
Revenue	601.2	not used
Underlying EBITDA (see Section 5.2.2)	366.7	349.4

SOURCE: Grant Samuel analysis (see Appendix 1)

The broker consensus forecasts for EBITDA and EBIT are sufficiently close to AusNet's FY22 Budget⁶ for the electricity transmission business to be useful for analytical purposes.

4.9.2 Electricity Distribution

Overview

AusNet's electricity distribution network transports low voltage electricity from points of connection with the transmission network to customers. AusNet owns and operates the second largest of five electricity distribution networks in Victoria and delivered over 25% of Victoria's total energy consumption in the year ended 30 June 2020. AusNet's electricity distribution network covers over 80,000 square kilometres across eastern and north-eastern Victoria and parts of Melbourne's north and east and comprises over 53,000 kilometres of power lines, 412,000 distribution poles and 77 zone substations.

The electricity distribution business also provides metering services (the instalment and maintenance of the advanced metering infrastructure⁵³) for all customers in its catchment. These systems facilitate automated communication of on-premise electricity usage between the smart meter and the retailer or utility company.

The chart below illustrates the electricity distribution business' end user mix:

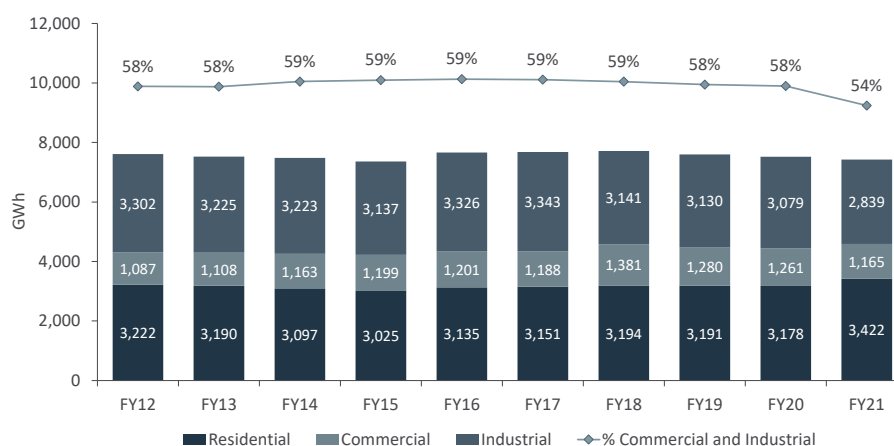
⁵³ In 2006, the Victorian State Government announced its decision to roll out advanced internal meters to all Victorian electricity customers.

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AUSNET – HISTORICAL ELECTRICITY DISTRIBUTION BY END USER



Source: AusNet

AusNet's electricity distribution customers are retailers and utility providers, which on-sell electricity to end users across certain areas in Victoria. Approximately 90% of AusNet's 777,826 end users are residential, with the remainder large commercial and industrial users. Due to the geographic footprint of AusNet's distribution network, nearly 60% of its end users are located in regional areas which results in low densities of less than 20 users per kilometre. While most of electricity distribution end users are residential, AusNet's commercial and industrial end users represent the majority of the volume of electricity distributed.

AusNet charges retailers for use of the electricity distribution network and is not exposed to wholesale electricity prices. Prior to 2015, network access charges (i.e. prices) were regulated and approved by the AER. However, this arrangement exposed AusNet's electricity distribution revenue to volume risk. The last two access determinations (i.e. for the 2016-2020 regulatory period and the recently approved determination for the 2021-2026 regulatory period) amended this approach and applies a revenue cap, removing AusNet's exposure to volume risk. The current access determination for AusNet's electricity distribution business was approved in April 2021 and effective for a period of five years from 1 July 2021 to 30 June 2026.

The electricity metering services business is subject to the same regulations and regulatory reset periods as the electricity distribution network business, but has an independently calculated revenue cap.

Strategy

The recently approved electricity distribution network access determination outlines a number of short term commitments from AusNet to its customers, including minimising price increases, providing steady network reliability, reducing bushfire risks and accommodating the adoption of rooftop solar. Over the next few years, AusNet expects total customer growth to be maintained at current levels of around 13,000 new customers per annum.

Meeting the evolving needs of its growing customer base requires AusNet to continue investing in its network. As part of the recent network access determination, AusNet has committed to nearly \$1.4 billion in capital expenditure across the rollout of new connections, the REFCL program (which required further compliance points to be met by November 2022 for tranche 2) and continued maintenance of its core electricity distribution network. The network access determination also includes modest contributions to enable customers to export more solar power into the grid.

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In the longer term, the emerging trends in the energy transition to renewable generation is likely to require further investment in the flexibility, resilience and capacity of AusNet's electricity distribution network to meet the evolving electricity demands of Victorian consumers.

Historical Operating Performance

The historical operating performance of AusNet's electricity distribution network for FY18 to FY21 and for 1HY22 is summarised below:

ELECTRICITY DISTRIBUTION – HISTORICAL OPERATING PERFORMANCE (\$ MILLIONS)

	FY18 ACTUAL PRE AASB16	FY19 ACTUAL PRE AASB16	FY20 ACTUAL POST AASB16 RESTATED	FY21 ACTUAL POST AASB16	1HY22 ACTUAL POST AASB16
Volume (GWh)	7,716	7,608	7,531	7,426	4,110
Connections (year end)	722,046	736,841	753,601	768,460	777,826
Revenue	891.4	866.2	934.7	922.7	495.7
EBITDA	540.2	528.5	566.4	545.4	302.6
Depreciation and amortisation	(273.9)	(284.4)	(261.7)	(257.9)	(131.3)
EBIT	266.3	244.1	304.7	287.5	171.3
Capital expenditure	439.3	461.0	497.1	405.8	215.5
Regulated asset base	4,185	4,427	4,694	4,874	4,933
STATISTICS					
Connections growth	+2.4%	+2.0%	+2.3%	+2.0%	+2.2% ³²
Revenue growth	+2.7%	-2.8%	+7.9%	-1.3%	-1.3% ³²
EBITDA growth	+15.5%	-2.2%	+7.2%	-3.7%	-5.3% ³²
EBIT growth	+23.4%	-8.3%	+24.8%	-5.6%	-10.6% ³²
EBITDA margin	60.6%	61.0%	60.6%	59.1%	61.0%
EBIT margin	29.9%	28.2%	32.6%	31.2%	34.6%
Capital expenditure/EBITDA	81.3%	87.2%	87.8%	74.4%	71.2%

SOURCE: AusNet and Grant Samuel analysis

AusNet's 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 (evidenced by the relatively high volumes in 1HY22). However, the impact on revenue is limited due to the tariff structure, which includes a fixed component and a contract demand capacity component.

The key drivers of underlying performance for AusNet's electricity distribution business over the past four and a half years have been:

- stable growth in connections of approximately 2% per annum between FY18 and 1HY22;
- customer contributions and gifted assets, which have increased due to new housing developments and other recoverable works;
- regulatory changes, including:
 - regulated price changes, for example, regulated price increases in FY20 (including recovery of higher TUoS costs incurred in FY19 and FY20) resulted in a \$40.2 million increase in revenue;
 - incentive payments (and penalties), which fluctuate from year to year depending on the network's reliability performance. For example, the decline in FY19 revenue is primarily attributable to a \$31 million incentive received in FY18 which was not replicated in the following year;

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- under/over recovery of revenue (as determined under the revenue cap) being built into subsequent years' tariffs; and
- two separate AER approved regulatory price resets⁵⁴, that impacted FY21 and 1HY22 revenue, one for the "stub" period (1 January 2021 to 30 June 2021) and another at the commencement of the new regulatory network access determination that applied from 1 July 2021. Both price resets had electricity distribution tariffs that were lower than the previous regime. These lower tariffs partially offset the upward trend in revenues experienced in the first three quarters of FY21. Tariffs are expected to remain at this lower level for the 2021-26 regulatory period; and
- a large capital expenditure programme, primarily in relation to the REFCL program, which has led to a ~18% increase in the network's RAB since FY18 (an average increase of 4.8% per annum). Electricity distribution is a very capital intensive business, with capital expenditure representing in excess of 80% of EBITDA (and close to 90% of EBITDA in some years). Generally, around 35-40% of capital expenditure each year is for maintenance, while 60-65% is growth capital expenditure (including customer connections and inclusive of customer contributions).

While underlying performance has demonstrated a stable upward trend, the reported performance of the electricity distribution business has been more variable as a result of one-off and unusual items including:

- asset sales relating to the transfer of AusNet's electricity distribution infrastructure maintenance function to Downer EDI Limited which resulted in a non-recurring \$12.8 million uplift to FY20 revenue;
- FY20 revenue and EBITDA benefited from additional revenue from recognition of gifted assets received in prior periods but not previously recognised, offset in part by \$14.7 million of bushfire remediation costs; and
- during FY21, AusNet discontinued investment in its geospatial business and considered disposal options. As a result of this decision, the electricity distribution business recorded an impairment charge in FY21 of \$19.0 million (relating to goodwill).

The transfer of network innovation functions that were previously included in the electricity distribution business to the Growth and Future Networks business in FY21 (with FY20 operating performance restated) had an immaterial impact on the electricity distribution business' performance.

Outlook

In its 1HY22 results announcement, AusNet provided qualitative guidance as to future revenue impacts on its electricity distribution business, which included:

- a cumulative over recovery of revenue (as determined under the revenue cap) at 30 September 2021 of \$17.6 million that will be subject to "true up" through an adjustment to tariffs in future regulatory periods;
- subject to AER approval, recovery of storm response expenditure (operating and capital) of approximately \$29 million in future periods; and
- uncertainty as to whether the exemption for GSL payments to customers (estimated at \$25 million) triggered by the June 2021 storms may be invalidated (see Section 4.6). Since then, a Ministerial Order amending AusNet's electricity distribution licence has been made to the effect that AusNet is required to make GSL payments to eligible customers affected by the June 2021 storm events. The Victorian Government has advised that it will reimburse AusNet \$3.1 million of the GSL payments made by AusNet. The remainder will be sought via pass-through cost recovery from the AER under the regulatory framework.

⁵⁴ As a result of the AER transitioning from a calendar year basis to a financial year basis ending 30 June.

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In addition, in October 2021, a further severe storm damaged parts of AusNet's electricity distribution network. AusNet has estimated reconstruction and reconnection costs in the range \$8-11 million (which it intends to seek approval from the AER for recovery of costs through tariff adjustments within the current 2021-2026 regulatory period) and GSL payments in the range \$9-13.5 million (for which it intends to obtain AER approval to recover in its next regulatory price reset commencing in July 2026).

To provide an indication of the expected future performance of AusNet's electricity distribution business, Grant Samuel has considered broker forecasts (see Appendix 1) as follows:

ELECTRICITY DISTRIBUTION – FORECAST OPERATING PERFORMANCE (\$ MILLIONS)

	FY21 ACTUAL	FY22 BROKER CONSENSUS (MEDIAN)
Revenue	922.7	913.5
Underlying EBITDA (see Section 5.2.2)	569.1	549.1

Source: Grant Samuel analysis (see Appendix 1)

The broker consensus forecasts are sufficiently close to AusNet's FY22 Budget⁶ to be useful for analytical purposes.

4.9.3 Gas Distribution

Overview

AusNet's gas distribution business transports natural gas to residences and businesses and is one of three gas distributors in Victoria. It provides the "last mile" of transport from high pressure transmission lines to individual retail and commercial premises and comprises approximately 12,337 kilometres of underground distribution pipelines, 185 kilometres of transmission pipelines and over 750,000 gas meters across its service area.

AusNet's gas distribution network covers over 60,000 square kilometres and operates across western and central Victoria, including the outer northern and north west metropolitan areas of Melbourne. The gas distribution network covers a number of areas of expected population growth in Melbourne and its surrounding areas.

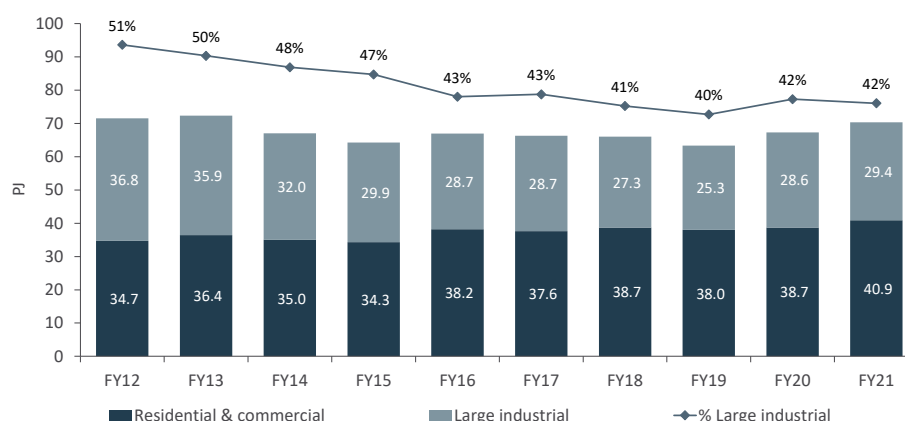
AusNet's gas distribution customers are retailers and utility providers, which on-sell gas product to end users within its service area. The end users comprise residential and commercial users (including offices, hospitals and businesses). Gas consumption is largely concentrated in only a few end users, particularly large industrial users, although the majority of distribution revenue is recovered from residential end users. The chart below illustrates the historical gas distribution mix for end users of AusNet's gas distribution network:

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AUSNET – HISTORICAL GAS DISTRIBUTION BY END USER



Source: AusNet

AusNet's customers (i.e. retailers and utility providers) are charged a regulated tariff for use of the gas distribution network. These charges are regulated under five year access arrangements that are approved by the AER. In contrast to AusNet's electricity transmission and distribution businesses, gas distribution is subject to price regulation (as opposed to revenue cap regulation) which means that while the tariff is based on expected volumes, realised revenue is determined by volumes of gas actually distributed. Under this framework, there is no subsequent "true up" and therefore AusNet is exposed to changes in volumes over the regulated period (at least until the next regulatory reset date). The current access arrangement for AusNet's gas distribution business commenced in January 2018 and will remain in place until June 2023⁵⁵.

AusNet also provides other excluded non-regulated services such as special meter readings, ancillary connection and disconnection services and installation tests.

Strategy

As the energy market remains in transition, the long term strategy for AusNet's gas distribution business continues to evolve. AusNet is committed to being at the forefront of discussions on the future of energy, including participating in hydrogen blending feasibility studies and industry consultations on gas decarbonisation roadmaps.

In the shorter term, AusNet's gas distribution business is committed to meeting its objectives under its existing access arrangement. This includes investing over \$500 million over the 2018-2022 period in new customer connections and mains replacement programmes to maintain the safety, reliability and security of its network. Since FY18, AusNet has developed more than 750 kilometres of new gas pipelines and achieved customer connections growth of over 10% (around 3% per annum). AusNet expects to submit a proposal for the 2023-2028 access arrangement by 1 July 2022.

⁵⁵ In October 2020, the Victorian Government passed legislation which extended the current access arrangement from 31 December 2022 to 30 June 2023.

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**Historical Operating Performance**

The historical operating performance of AusNet's gas distribution network for FY18 to FY21 and for 1HY22 is summarised below:

GAS DISTRIBUTION – HISTORICAL OPERATING PERFORMANCE (\$ MILLIONS)

	FY18 ACTUAL PRE AASB16	FY19 ACTUAL PRE AASB16	FY20 ACTUAL POST AASB16	FY21 ACTUAL POST AASB16	1HY22 ACTUAL POST AASB16
Volume (PJ)	66.0	63.3	68.3	70.2	45.3
Connections (year end)	692,282	711,310	732,479	752,882	764,104
Revenue	224.6	215.1	223.8	224.9	144.8
EBITDA	162.3	152.5	159.0	167.9	113.2
Depreciation and amortisation	(48.6)	(51.8)	(62.1)	(60.5)	(30.0)
EBIT	113.7	100.7	96.9	107.4	83.2
Capital expenditure	96.9	106.8	104.9	100.2	57.8
Regulated asset base	1,569	1,617	1,676	1,708	1,746
STATISTICS					
Connections growth	+2.4%	+2.7%	+3.0%	+2.8%	+2.6% ³²
Revenue growth	+0.1%	-4.2%	+4.0%	+0.5%	-3.0% ³²
EBITDA growth	-1.3%	-6.0%	+4.3%	+5.6%	-5.8% ³²
EBIT growth	-1.7%	-11.4%	-3.8%	+10.8%	-7.0% ³²
EBITDA margin	72.3%	70.9%	71.0%	74.7%	78.2%
EBIT margin	50.6%	46.8%	43.3%	47.8%	57.5%
Capital expenditure/EBITDA	59.7%	70.0%	66.0%	59.7%	51.1%

AusNet and Grant Samuel analysis

AusNet's gas distribution network has generated stable growth in connections of approximately 3% per annum between FY18 and FY21. New connections have largely been driven by newly developed suburbs across metropolitan Melbourne and in coastal regions. While revenue has consistently remained in the range \$215-225 million, revenues declined by 4% in FY19 due to a combination of lower gas volumes and lower gas distribution tariffs under the new access arrangement (which commenced on 1 January 2018). The low interest rate environment at the time translated into a lower rate of return on AusNet's capital base and consequently lower gas distribution tariffs. Revenue was also lower in 1HY22 (compared to 1HY21) due to lower volumes from milder weather, lower industrial demand and lower approved tariffs. While volumes are seasonal (with a peak in winter due to gas demand for heating), the impact on revenue is mitigated due to the tariff structure.

EBITDA margins have also remained relatively stable over the period, in the range 71-75%. However, a step up in capital expenditure under the new access arrangement resulted in a decline in the EBIT margin in FY19 as AusNet committed to carrying out new investments in customer connections and mains replacements.

Capital expenditure has represented more than 50% and up to 60-70% of EBITDA. As a result of these investments, the gas distribution network's regulated asset base grew to more than \$1.7 billion by 1HY22, increasing by more than 16% (almost 3.5% per annum) since the beginning of FY18. Similar to electricity distribution, generally around 35-40% of capital expenditure each year is for maintenance, while 60-65% is growth capital expenditure.

Outlook

To provide an indication of the expected future performance of AusNet's gas distribution business, Grant Samuel has considered broker forecasts (see Appendix 1) as follows:

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GAS DISTRIBUTION – FORECAST OPERATING PERFORMANCE (\$ MILLIONS)

	FY21 ACTUAL	FY22 BROKER CONSENSUS (MEDIAN)
Revenue	224.9	not used
Underlying EBITDA (see Section 5.2.2)	168.2	162.0

 Grant Samuel analysis (see Appendix 1)

The broker consensus forecasts for EBITDA and EBIT are sufficiently close to AusNet's FY22 Budget⁶ for the gas distribution business to be useful for analytical purposes.

4.9.4 Development & Future Networks

Overview

Development & Future Networks comprises AusNet's unregulated business operations and is an integral part of AusNet's future growth strategy.

Prior to 2016, AusNet operated a portfolio of independent brands (e.g. *Select Solutions* and *Geomatic Technologies*) that targeted these unregulated contracted opportunities through infrastructure development and operating services. The *Focus 2021 Strategy* adopted in 2016 outlined AusNet's capabilities in this market and its plans to grow its unregulated business, with an aspirational target of doubling its contracted asset base from \$540 million to \$1 billion by FY21. The business has evolved over the past five years as AusNet refined its go-to-market offering and continued to increase its scale in this market. The continued energy market transition has required AusNet to remain nimble so as to navigate the changing environment. The unregulated business has been restructured and rebranded several times, culminating in the consolidation of the portfolio of independent brands under *Mondo* (as an umbrella brand over the portfolio of legacy brands). The *Mondo* business, along with customer initiated excluded transmission services were combined to form AusNet's "Growth & Future Networks" business during 1HY21. Growth & Future Networks was renamed Development & Future Networks in September 2021 (but without any significant change to its business operations).

Today, Development & Future Networks covers a broad range of offerings across contracted infrastructure asset services and specialist utility and asset services. These services are complemented by AusNet's expertise in its regulated business (e.g. electricity transmission development, construction and operations) and commercial expertise in metering and asset intelligence services.

Development & Future Networks' services can be categorised as follows:

- **negotiated and contracted infrastructure**, which develops, owns and operates (i.e. "build-own-operate" model) a \$0.9 billion portfolio of unregulated infrastructure assets in Victoria. These assets primarily relate to electricity transmission and distribution connections for renewable energy generators, utilities or major load customers. This segment represents the largest driver of future growth for the business given Development & Future Networks' pipeline of potential opportunities;
- **energy services**, which provides unregulated infrastructure services and specialist utility related solutions under the *Mondo* brand. These services include asset intelligence and technical installation, operation and maintenance services as well as a metering business. This segment services various end use customers including governments, energy retailers, other utility owners and industrial and commercial businesses; and
- **emerging energy markets**, which provides new energy services related to the decentralised energy network, including technology and services around energy use, storage and efficiency. Examples of new technology could include electric vehicle management or distributed energy resources networks.

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In contrast to AusNet's regulated business operations, Development & Future Networks has a higher exposure to capital expenditure delivery risk due to its build-own-operate business model. Under this delivery model, AusNet incurs upfront capital investments to develop new transmission connection assets on behalf of its customers. However, Development & Future Networks is compensated for this risk by securing fixed annuity agreements that are structured as long term take-or-pay contracts (e.g. 20+ years). These contracts provide Development & Future Networks with cash flow certainty over the contracted period as the contracted rates are only adjusted for inflation and are independent of wholesale energy prices.

New contracts are often subject to competitive tenders where price and expertise are the critical determinants of success. However, incumbent transmission and distribution network owners can be preferred providers when new tenders are within their existing regions as this allows vendors to work directly with a single network provider once the asset is developed and operational.

The following table summarises Development & Future Networks' key projects:

DEVELOPMENT & FUTURE NETWORKS – KEY PROJECTS

PROJECT	TIMING	ESTIMATED CAPITAL EXPENDITURE (\$ MILLIONS)	DESCRIPTION
Operating Projects			
Victorian Desalination Plant HVAC Licence Agreement	FY13	~235	87 kilometres of 220kV underground transmission line to the Victorian Desalination Plant in Wonthaggi
Ballarat Energy Storage System ("BESS")	FY19	~33	30MW/30MWh ⁵⁶ battery energy storage system in Ballarat, owned and operated by AusNet (operated by Energy Australia)
Salt Creek Wind Farm Connection Assets	FY19	~25	51 kilometre transmission line to Terang terminal station for Sale Creek Wind Farm (54MW)
Stockyard Hill Wind Farm Connection Assets	FY20	~140	70 kilometre transmission line from Stockyard Hill Wind Farm (530MW) to new 500/132kV terminal station
Bulgana Wind Farm Connection Assets	FY19	~50	17 kilometre transmission line from Bulgana Wind Farm (194MW) to new 33/220kV terminal substation
Crowlands Eond Farm Connection Assets	FY19	~30	Crowlands Wind Farm (80MW) to new 33/220kV terminal substation
Dundonnell Wind Farm Connection Assets	FY20	~80	38 kilometre transmission line from Dundonnell Wind Farm (336MW) to new 500/220kV substation
Murra Warra I & II Wind Farm Connection Assets	FY20 and FY21	~40	Murra Warra I & II Wind Farm (226MW and 203MW) 33/220kV terminal substation
Awarded/Under Development			
Ryans Corner & Hawkesdale Wind Farm Connection Assets	FY22-FY26	~800-1,000	Augmentation and new 500kV/132kV substation and internal line works to support Ryans Corner & Hawkesdale Wind Farm (315MW)
Golden Plains Wind Farm Connection Assets			New 220kV/500kV substation and internal works to support Golden Plains Wind Farm (800-1,000MW) across western Victoria
Western Victoria Transmission Network ⁵⁷			190 kilometre high voltage transmission line, new terminal station and several electricity infrastructure upgrades in western Victoria

 AusNet

⁵⁶ MWh = megawatt hour. One megawatt hour is equal to 1,000 kilowatt hours (i.e. 1,000 kilowatts of electricity used continuously for one hour).

⁵⁷ The final details of this project are dependent on the current initial stage activities and approvals. Among other customary terms and conditions, the AEMO retains the right not to proceed with the project and AusNet will have its costs reimbursed up to an agreed cap in this event.

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Since 2017, Development & Future Networks has connected ~1,900MW of new renewable generation. It has also developed a significant pipeline of opportunities, representing more than 8,000MW of additional augmentation and connection projects.

Development & Future Networks also includes excluded and negotiated transmission services that were previously part of AusNet's electricity transmission business. This revenue is generated from assets that are excluded from the RAB but are controlled under a regulated negotiated framework. These contracts are based on fixed fees over the life of the asset and performance obligations that are satisfied over time. Revenue from the provision of various asset and utility services to customers are recognised at a point in time as the services are rendered.

Strategy

Development & Future Networks is an integral component of AusNet's broader long term strategy of capitalising on the energy transition and providing the infrastructure required to deliver on the increasing penetration of electricity as an energy source across Australia. Development & Future Networks remains focused on growing its portfolio of contracted infrastructure assets and is targeting a \$2.5 billion contracted asset base (signed contracts) by FY26. To achieve this target, Development & Future Networks has identified strategic priorities including:

- **radial connection opportunities.** Development & Future Networks has built a significant pipeline of around 8,000MW of grid connection opportunities, including the Golden Plains, Ryans Corner & Hawkesdale wind farm connections, offshore wind projects and various other connection and storage projects across Victoria; and
- **"mega" projects.** Mega projects (which would require Development & Future Networks to scale up and enhance its capabilities) include:
 - the WVTN project (the announcement of a single corridor during 1HY22 was an important step towards determining the final proposed route)⁵⁸;
 - transmission augmentation required to support the 26GW of new renewable generation forecast in AEMO's 2020 ISP. The 2020 ISP presents a significant opportunity for AusNet with \$4.0-6.8 billion⁵⁹ of long term, large scale transmission opportunities available. A number of priority projects are located in Victoria (in addition to the WVTN project); and
 - development of up to an additional 10GW of renewable energy generation capacity under the Victorian Government's *Renewable Energy Zone Development Plan* which will require new transmission infrastructure to connect these assets to the grid.

In addition, Development & Future Networks continues to selectively invest in its energy services business, including investing in a behind-the-meter solution and actively participating in university and industry research partnerships. However, these activities are at an early stage.

⁵⁸ The WVTN is currently in the planning and approvals stage. The expenditure incurred during the current stage is reimbursable from the AEMO (up to a threshold) in the event the AEMO elects to terminate the project.

⁵⁹ Source: AEMO 2020 Integrated System Plan, July 2020.

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**Historical Operating Performance**

The historical operating performance of AusNet's Development & Future Networks business for FY20 to FY21 and for 1HY22 is summarised below:

DEVELOPMENT & FUTURE NETWORKS – HISTORICAL OPERATING PERFORMANCE (\$ MILLIONS)

	FY18 ACTUAL PRE AASB16	FY19 ACTUAL PRE AASB16	FY20 ACTUAL POST AASB16 RESTATED	FY21 ACTUAL POST AASB16	1HY22 ACTUAL POST AASB16
Revenue	206.2	172.1	217.3	185.2	91.0
EBITDA	60.6	62.8	107.1	74.7	44.8
Lease interest income	12.2	11.7	24.7	34.3	17.3
EBITDAal⁶⁰	72.8	74.5	131.8	109.0	62.1
Depreciation and amortisation	(20.5)	(22.7)	(47.1)	(49.4)	(20.3)
EBITal⁶¹	52.3	51.8	84.7	59.6	41.8
Capital expenditure	50.2	190.9	219.4	108.5	59.2
Contracted asset base ⁶²	560	712	867	892	913
STATISTICS					
Revenue growth	-6.9%	-16.5%	+26.3%	-14.8%	-0.3% ³²
EBITDAal growth	+0.3%	+2.3%	+76.9%	-17.3%	+5.1% ³²
EBITal growth	-3.5%	-1.0%	+63.5%	+29.6%	+15.8% ³²
EBITDAal margin	35.3%	43.3%	60.7%	58.9%	68.2%
EBITal margin	25.4%	30.1%	39.0%	32.2%	45.9%
Capital expenditure/EBITDAal	69.0%	256.2%	166.5%	99.5%	95.3%

SOURCE: AusNet and Grant Samuel analysis

It is difficult to analyse Development & Future Networks' reported financial performance given the changes to its business operations, the impact of one off items and changes to accounting standards over the period shown above. In particular, Development & Future Networks' operating performance has been impacted by:

- divestment/impairment of non-core businesses:
 - AusNet rebranded and restructured its core offering in FY18 which resulted in it exiting certain lower margin field services contracts; and
 - during FY21, AusNet discontinued investment in its geospatial business and considered disposal options. As a result of this decision, the Development & Future Networks business recorded an impairment charge in FY21 of \$11.7 million (\$4.8 million of goodwill and \$6.9 million of software);
- substantial one-off revenues in FY20 relating to the West Gate Tunnel relocation project (\$20.7 million);
- the adoption of AASB16 from 1 April 2020 and the treatment of dedicated customer connection assets as lease receivables. Proceeds received from these assets were previously accounted for as revenue but from FY20 have been split between revenue, lease interest income and principal repayments. As a result, revenue, EBITDA and EBIT are lower (as lease interest income is recorded below the EBIT line) relative to prior periods; and

⁶⁰ EBITDAal is EBITDA after lease interest income.

⁶¹ EBITal is EBIT after lease interest income.

⁶² Contracted assets in service or currently under construction.

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- the expansion of the business in FY21 to include 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 (note that Development & Future Networks' FY20 operating performance in the table above has been restated to reflect this change but FY18 and FY19 financial results have not been restated). Prior to FY20, the operating performance shown in the table above represents AusNet's *Mondo* business only.

In 1HY22, revenue was relatively flat (compared to 1HY21) but earnings and margins increased due to lower labour costs from a work force restructuring implemented during 1HY21.

Given the nature of Development & Growth Networks' business operations, capital expenditure is generally around or in excess of 100% of EBITDA and is almost exclusively growth capital expenditure.

The adoption of AASB16 from FY20 has reduced the relevance of EBITDA and EBIT as financial metrics for Development & Future Networks. Given the number of projects accounted for as financial assets (which generate lease interest income), EBITDAal and EBITal are regarded as a better reflection of the operating performance of Development & Future Networks and these financial metrics have been included in the table above. These projects, once operational, are expected to reduce the variations in Development & Future Networks' operating performance due to their fixed annuity style returns.

Lease interest income also includes (in all of the periods shown above) interest income on the desalination licence receivable relating to the Victorian Desalination Plant (see Section 4.4 for details).

Lease interest income has increased materially in FY20 and FY21, reflecting the adoption of AASB16 and the completion of several renewable connection projects such as the Stockyard Hill Wind Farm and the Dundonnell Wind Farm connection projects.

Outlook

In addition to the WVTN project, Development & Future Networks has several large transmission connection projects which are in stakeholder engagement, planning and early works stages (including connection works for Ryans Corner & Hawkesdale and Golden Plains wind farms) and are expected to reach financial close within the next six to 12 months.

To provide an indication of the expected future performance of the Development & Future Networks business, Grant Samuel has considered broker forecasts (see Appendix 1). However, the broker consensus forecasts differ materially from AusNet's FY22 Budget⁶ for Development & Future Networks and have therefore not been included in this section of the report.

In any event, given the focus of Development & Future Networks on the development, ownership and operation of negotiated and contracted infrastructure where significant upfront capital expenditure is incurred prior to securing long term fixed annuity payments, the short term earnings outlook is not necessarily reflective of Development & Future Networks' longer term prospects.

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5 Valuation of AusNet

5.1 Valuation Summary

Grant Samuel has valued the equity in AusNet in the range \$9.4-10.3 billion which corresponds to a value of \$2.45-2.70 per share. The valuation is summarised below:

AUSNET - VALUATION SUMMARY (\$ MILLIONS)

	REPORT SECTION REFERENCE	VALUE RANGE	
		LOW	HIGH
Electricity Transmission	5.4	4,400.0	4,600.0
Electricity Distribution	5.5	7,800.0	8,100.0
Gas Distribution	5.6	2,100.0	2,200.0
Development & Future Networks	5.7	3,000.0	3,300.0
Business operations		17,300.0	18,200.0
Capitalised corporate overhead cost savings	5.8	115.0	125.0
Other assets and liabilities	5.9	44.7	90.6
Enterprise value		17,459.7	18,415.6
Adjusted net borrowings	5.10	(8,065.8)	(8,065.8)
Value of equity		9,393.9	10,349.8
Fully diluted shares on issue (millions) ⁶³	4.7	3,836.4	3,836.4
Value per share		\$2.45	\$2.70

The valuation represents the estimated full underlying value of AusNet assuming 100% of the company was available to be acquired and includes a premium for control. The value is on a cum dividend basis (i.e. before the interim dividend of \$0.0475 per share that is to be paid on 16 December 2021).

The value exceeds the price at which, based on current market conditions, Grant Samuel would expect AusNet shares to trade on the ASX in the absence of a change of control proposal. Shares in a listed company normally trade at a discount of 15-25% to the underlying value of the company as a whole (but this discount does not always apply).

The value attributed to the business operations of \$17.3-18.2 billion is an overall judgement having regard to a number of valuation methodologies and parameters, including discounted cash flow ("DCF") analysis, capitalisation of earnings or cash flows (multiples of EBITDA) and other measures commonly used in the energy infrastructure industry (e.g. multiples of RAB or contracted asset base). A general discussion of valuation methodologies is set out in Appendix 2.

The principal approach to valuing AusNet's business operations was by DCF analysis. The DCF analysis was based on cash flow models provided by AusNet. The financial models developed by Grant Samuel use as their starting point the balance sheet of AusNet at 30 September 2021 and project ungeared after tax cash flows from 1 October 2021. The cash flows were discounted to a NPV using nominal after tax discount rates appropriate for each business operation. Appendix 3 sets out a detailed analysis of the selection of this discount rate.

The overall earnings multiples, regulated and contracted asset base ("R&CAB") multiples and exit yields implied by the valuation of AusNet's business operations are summarised below:

⁶³ Fully diluted shares on issue assumes that the vesting of the 586,270 deferred rights and 8,329,089 performance rights on issue is satisfied by the issue of new AusNet shares, after allowing for the 2,381,299 AusNet shares held in the employee share trust and using the \$0.2 million of cash held in the employee share trust to acquire shares on market (assuming a share acquisition price of \$2.6025 and the acquisition of 76,849 shares). The result is the issue of an additional 6,457,211 AusNet shares, increasing the shares on issue from 3,829,964,486 to 3,836,421,697.

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AUSNET – IMPLIED VALUATION PARAMETERS

	VARIABLE (\$ MILLIONS)	RANGE OF PARAMETERS	
		LOW	HIGH
Value range (\$ millions)		17,300.0	18,200.0
Multiple of EBITDA⁶⁴			
FY21 (underlying actual) ⁶⁴	1,226.6	14.1x	14.8x
FY22 (median broker forecast) ⁶⁵	1,188.1	14.6x	15.3x
Multiple of R&CAB			
At 30 September 2021	11,323.0	1.53x	1.61x
Exit yield⁶⁶			
FY21 (actual)	9.5c	3.9%	3.5%
FY22 (guidance)	9.5c	3.9%	3.5%

The implied multiples are blended multiples for AusNet's regulated electricity and gas networks and its unregulated Development & Future Networks business and reflect:

- the relative size of each business operation. AusNet's regulated electricity distribution business represents almost half of AusNet's earnings. The total exposure to regulated electricity networks (i.e. including AusNet's transmission network) is almost 80% and the total exposure to regulated networks (electricity and gas) is around 95%; and
- the growth potential of AusNet's Development & Future Networks business.

The implied multiples are consistent with, albeit at the high end, relative to the available market evidence for electricity transmission and distribution networks and gas distribution networks, as well as the market evidence for diversified energy infrastructure entities (although evidence on the latter is limited). The valuation implies exit yields in the range 3.5-3.9%, unfranked, which are attractive relative to the exit yields for recent transactions which have been in the range 4-6% (mostly unfranked).

In Grant Samuel's view, these relatively high multiples are justified.

The valuation reflects the particular attributes of AusNet's business and takes into account factors such as the:

- scale of AusNet's regulated businesses with "natural monopoly" characteristics;
- attractive demographics and consumption patterns in its target footprint. Victoria has:
 - the highest population growth rate of any state over the past decade;
 - the highest population density (i.e. its target footprint limits geographic sprawl and arguably capital intensity of the network); and
 - household gas consumption rates that are the highest across the country;
- strong infrastructure-like characteristics, including high quality asset base, predictable EBITDA margins and stable cash flows;
- mature and predictable regulatory framework that effectively guarantees a rate of return on AusNet's capital base; and
- significant growth opportunities for the unregulated business which has attracted increased levels of State and Commonwealth Government support to incentivise further development of renewable energy generation zones and other electricity network augmentation.

⁶⁴ Underlying financial performance is before the impairment charge (FY21) and employee underpayment expenses (FY21 and FY22) (see Section 5.2.2).

⁶⁵ AusNet has not included the FY22 Budget in the Scheme Booklet. To provide an indication of AusNet's expected financial performance, Grant Samuel has considered broker forecasts (see Appendix 1). References to the FY22 Budget in this report do not represent the provision of guidance by AusNet.

⁶⁶ Exit yield is dividend per share divided by value per share.

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5.2 Valuation Approach

5.2.1 Overview

Grant Samuel's valuation of AusNet has been estimated by aggregating the estimated market value of its business operations (electricity transmission, electricity distribution, gas distribution and Development & Future Networks) together with the realisable value of non-trading assets and deducting external borrowings and non-trading liabilities. The values of the business operations have been estimated on the basis of fair market value as a going concern, defined as the maximum price that could be realised in an open market over a reasonable period of time assuming that potential buyers have full information.

In valuing AusNet's business operations, the primary focus was on DCF analysis, with earnings multiples analyses used as a cross check. Industry rules of thumb (e.g. multiples of RAB or contracted asset base) have also been considered. Grant Samuel's approach to DCF analysis for AusNet is described in Section 5.2.2 of this report. The market evidence considered by Grant Samuel is summarised in Section 5.3.

The value ranges selected for AusNet's business operations are judgements. The objective is to determine a value that both fits with the output of DCF analysis in terms of the various scenarios and their likelihood and is consistent with the market evidence as to multiples.

5.2.2 Specific Issues

The following factors should be noted when considering the value ranges assessed by Grant Samuel:

Valuation Date

AusNet has been valued as at 30 September 2021 and the DCF analysis has been prepared from 1 October 2021. The primary reference point for the valuation is the balance sheet at 30 September 2021. While adjustments have been made for significant events post balance date (such as the Ministerial order requiring AusNet to make GSL payments in relation to the October 2021 storm), no adjustments have been made for movements in balance sheet items, in particular, the "mark to market" of derivative financial instruments and of capital markets debt as these vary daily and will continue to do so prior to implementation of the Scheme (but, in any event, should have minimal impact on net value as they are used as hedging instruments).

Single Business or Sum of the Parts Valuation

Each of AusNet's business operations has been valued separately. There are a number of reasons for this approach:

- they are structured and operated as separate business divisions:
 - each of the regulated business operations:
 - target a separate and mutually exclusive sector of the energy market, albeit they all operate in Victoria; and
 - is subject to a separate regulatory framework and regulated revenue regime with different underlying returns, RABs and renewal dates; and
 - Development & Future Networks is an unregulated business. This business is an integral part of AusNet's future growth strategy and receives a high level of management focus and resources;
- while the overarching economic drivers of each of the regulated business are similar (i.e. underlying demand for energy and regulated returns on capital), the key drivers of operating performance are different:
 - the positive long term outlook for electricity consumption in Australia differs from the increased uncertainty around the future role of gas in the country's energy mix;

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- electricity distribution is reliant on new customer connections (e.g. new residences or new commercial premises) to drive growth whereas electricity transmission is more dependent on the development of new renewable generation capacity and other network augmentation opportunities; and
- on one hand, the electricity transmission network and Development & Future Networks can be viewed as a single integrated business comprising a stable mature component (electricity transmission) and a high growth component (Development & Future Networks). However, this approach would obscure the underlying growth drivers for each business:
 - the electricity transmission network is subject to full regulation and is focused on maintaining the integrity and safety of the network (as opposed to pursuing growth); and
 - Development & Future Networks has a positive growth outlook due to its unregulated nature but faces higher levels of project risk. Separate valuation of this business enables a wider range of operating scenarios (and value potential) to be taken into account;
- transaction evidence is available for Australian regulated energy infrastructure assets across electricity transmission and distribution and gas distribution; and
- while the number of comparable listed companies that own and operate regulated infrastructure assets in Australia is limited, the pre announcement share prices of Spark and AusNet still provide a useful indication of the prevailing market parameters.

Cum Dividend Valuation

The valuation is on a cum dividend basis to align with the total consideration under the Scheme of \$2.65 per share (i.e. it is before the interim dividend of \$0.0475 per share that is to be paid on 16 December 2021).

Synergies

Normal valuation practice is to include (either implicitly or explicitly) a value for synergies that are available to multiple acquirers but to exclude synergy value that is unique to a particular acquirer.

Grant Samuel has explicitly included in the valuation:

- corporate overhead cost savings that any acquirer of AusNet would be able to achieve; and
- the potential value that arises from the ability of an acquirer to allocate part of their purchase price to tangible assets and (depending on the outcome of the post acquisition valuation process) "step up" the tax depreciable cost base of AusNet's fixed assets to its fair value. In this regard:
 - the gap between Australian Energy Holdings' purchase price for AusNet's regulated assets and the tax written down value of AusNet's regulated assets (at 31 March 2021, the latest information readily available) is in the order of \$7.0 billion (assuming Grant Samuel's valuation range for Development & Future Networks is deducted from the purchase price to determine an estimated purchase price for AusNet's regulated assets). A portion of this uplift may be allocated to identifiable intangible assets (such as distribution licences) and goodwill and the RAB may be a constraining factor. While the analysis is necessarily high level (as the process will be entirely in the hands of the acquirer), Grant Samuel has assumed a reasonable "step-up" for the purposes of its valuation in the range \$1.7-3.3 billion across AusNet's regulated networks (primarily the electricity transmission and distribution networks); and
 - the value of the "step-up" is in the 30% tax shield on depreciation, which is captured over the estimated useful life of the relevant assets.

Other synergy benefits such as operational cost savings potentially available to Australian Energy Holdings (e.g. through the ownership of other energy infrastructure assets in Australia or globally) or the impact of using higher financial leverage have been excluded.

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It should be noted that where earnings multiples from comparable transactions represent primary valuation evidence, adding synergies to earnings or making a further multiple adjustment for synergies would potentially result in “double counting” of value as the multiples from the comparable transactions are usually based on “standalone” earnings (either reported or forecast) and the value of synergies is therefore reflected in the multiple (i.e. the transaction multiple would be lower if based on earnings including synergy benefits). However, in this case, the most relevant transactions for AusNet were not listed companies and therefore their implied multiples do not reflect listed company cost savings.

Earnings for Valuation Purposes

While EBITDA is generally the most commonly observed financial metric used in evaluating the financial performance and implied multiples of participants in the energy infrastructure sector, the recent introduction and adoption of AASB16 reduces the reliability of EBITDA in assessing AusNet’s financial performance (specifically the financial performance of Development & Future Networks).

As outlined in Section 4.9.4 of this report, a growing number of AusNet’s income generating projects are accounted for as financial assets under AASB16 and generate lease income (which is below the EBITDA line). Consequently, EBITDA does not represent an accurate measure of AusNet’s financial performance and Grant Samuel has used EBITDAal in the earnings multiple analysis.

Grant Samuel has reviewed the transaction evidence and listed comparable companies and none of the selected benchmarks have any material financial assets or lease income as a result of adopting AASB16. On this basis, it is appropriate to compare the implied EBITDAal multiples for AusNet against the implied EBITDA multiples for precedent transactions and listed peers.

For valuation purposes, Grant Samuel has used as its starting point the FY21 historical and FY22 median broker forecasts for AusNet and each of its business operations. In addition to including lease interest income, adjustments have been made to the FY21 historical earnings and the FY22 broker median forecasts to remove the impact of the following one off or unusual items:

- the \$30.7 million impairment charge recorded in FY21 following AusNet discontinuing investment in its geospatial business and considering disposal options; and
- the expensed amount relating to employee underpayment (\$7.0 million in FY21 and \$7.4 million in 1HY22).

The adjustments made to FY21 earnings and the FY22 broker median forecasts are set out below:

AUSNET – CALCULATION OF EARNINGS FOR VALUATION PURPOSES (\$ MILLIONS)

	REPORT SECTION REFERENCE	FY21 ACTUAL	FY22 BROKER CONSENSUS (MEDIAN)
Electricity Transmission			
EBITDA	4.9.1	366.6	348.5
Employee underpayment		0.1	0.9
Underlying EBITDA for valuation purposes		366.7	349.4
Electricity Distribution			
EBITDA	4.9.2	545.4	545.4
Impairment		19.0	-
Employee underpayment		4.7	3.7
Underlying EBITDA for valuation purposes		569.1	549.1
Gas Distribution			
EBITDA	4.9.3	167.9	161.5
Employee underpayment		0.3	0.5
Underlying EBITDA for valuation purposes		168.2	162.0

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AUSNET – CALCULATION OF EARNINGS FOR VALUATION PURPOSES (\$ MILLIONS) (CONT)

	REPORT SECTION REFERENCE	FY21 ACTUAL	FY22 BROKER CONSENSUS (MEDIAN)
Development & Future Networks			
EBITDA	4.9.4	74.7	89.2
Lease interest income		34.3	34.7
EBITDAal		109.0	123.9
Impairment		11.7	-
Employee underpayment		1.9	2.3
Underlying EBITDAal for valuation purposes		122.6	126.2
Consolidated⁶⁷			
EBITDA	4.3	1,154.6	1,146.0
Lease interest income		34.3	34.7
EBITDAal		1,188.9	1,180.7
Impairment		30.7	-
Employee underpayment		7.0	7.4
Underlying EBITDAal for valuation purposes		1,226.6	1,188.1

⁶⁷ AusNet, broker reports and Grant Samuel analysis

These earnings figures are referred to in Sections 4.3 (Financial Performance) and 4.9 (Business Operations and Sections 5.4.3, 5.5.3, 5.6.3 and 5.7.3 (valuation of each of the business operations) as “underlying” earnings. Note that the broker forecast for Development & Future Networks (shaded in orange in the table above) is not sufficiently close to AusNet’s FY22 Budget⁶ to be useful for analytical purposes and has not been used to cross check Grant Samuel’s valuation of Development & Future Networks. It is included in the table above for completeness.

Discounted Cash Flow Analysis

OVERVIEW

The DCF models use AusNet’s balance sheet at 30 September 2021 and the second six months of the FY22 Budget⁶ as their starting point and project ungeared nominal after tax cash flows for a period with terminal values calculated at the end of the projected period to represent the value of cash flows in perpetuity. The terminal values have been calculated by capitalising net after tax cash flows using perpetual growth assumptions.

Grant Samuel has used AusNet’s Corporate Model as the basis for its DCF models. The Corporate Model:

- is a 24 year model developed on a “bottom-up” basis, but with more detailed analysis in the short to medium term (5-10 years). While a ten year projection period would typically be sufficient for mature, regulated assets such as those owned by AusNet, AusNet expects to undertake another large scale asset replacement programme for its electricity transmission and distribution networks over the period from FY29 to FY35. These investments are critical, not only for future-proofing the network, but also for ensuring the safety and reliability of the assets. AusNet (and the AER) have made safety and reliability a priority in the capital investment programs for these assets. The 25 year model allows for these programs to complete and be captured in the subsequent revenue reset period; and
- comprises separate divisional models for each of AusNet’s business operations:
 - the divisional models for AusNet’s regulated networks (i.e. electricity transmission, electricity distribution and gas distribution) are a useful basis for DCF analysis as the forecast cash flows are relatively certain (based on assumptions around future renewal of regulated access arrangements).

⁶⁷ The broker consensus forecast for AusNet on a consolidated basis is calculated as the median of the broker forecasts on a consolidated basis and as a result there is an immaterial discrepancy between the sum of the business operations and the consolidated earnings.

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Accordingly, Grant Samuel's detailed DCF analysis for these businesses involved review of the Corporate Model and discussions with AusNet in relation to the:

- characteristics of each business and the nature of its activities;
- current status of access arrangements and determinations, including current views on the recent draft decision for electricity transmission and the upcoming gas access arrangement review in 2023;
- the operating environment relevant to each asset; and
- assumptions underlying forecast revenue, operating expenses and capital expenditure.

The DCF models project cash flows for a period of approximately 25 years to 31 March 2046⁶⁸ with terminal values calculated at 31 March 2046; and

- the DCF analysis for Development & Future Networks is based on a simplified, high level financial model developed by Grant Samuel. Grant Samuel has developed a number of scenarios based on the Corporate Model. The projected cash flows are based on broad assumptions in relation to project wins. The DCF model for Development & Future Networks projects cash flows for a period of approximately 20 years to 31 March 2041 with a terminal value calculated at 31 March 2041. The shorter projection period reflects the projected timing of "mega" projects and other network augmentation opportunities that are material to the value of Development & Future Networks.

These DCF models allow the key drivers of revenue, earnings and capital expenditure to be modelled and are based on a number of assumptions that Grant Samuel considers reasonable. While Grant Samuel is responsible for the integrity of the DCF models, these models are based on key inputs sourced from the Corporate Model, which has been prepared by AusNet. AusNet takes responsibility for the Corporate Model. The DCF models do not constitute a forecast or projection by Grant Samuel of the future performance of AusNet's business operations and no assurance or warranty is given that future performance will be consistent with the assumptions adopted in the DCF models.

LIMITATIONS

The DCF models are based on a number of assumptions and are subject to significant uncertainties and contingencies, many of which are outside the control of AusNet. Key assumptions regarding future operational performance are highly uncertain and there is scope for significant differences of opinion in relation to these assumptions. As a result of these uncertainties, there is a wide range of potential outcomes that could occur, both positive and negative (and an even greater number of possible combinations of those outcomes).

Moreover, DCF analysis is subject to significant limitations and NPV outcomes need to be treated with considerable caution. The calculated NPVs are extremely sensitive to small changes in assumptions regarding regulated returns, capital expenditure and pipeline success rates for many years into the future. This sensitivity to assumptions regarding future operational performance is accentuated by the fact that the terminal value (the value contributed by cash flows generated after the end of the explicit cash flow forecast period) normally contributes a high proportion of the overall value, especially for Development & Future Networks.

SCENARIO ANALYSIS

Grant Samuel has considered a number of scenarios for each of AusNet's business operations to reflect the impact on value of key assumptions relating to capital expenditure and pipeline success rates. These scenarios have been developed following discussions with AusNet's management. The assumptions underlying the various scenarios are discussed in more detail in Appendix 4 to this report (for Scenario A) and in the valuation sections for each business (Sections 5.4 to 5.7).

⁶⁸ The Corporate Model runs from 1 April 2021 to 31 March 2045. Grant Samuel has extended the Corporate Model by one year for the purposes of its DCF analysis, based on broad assumptions consistent with those in the Corporate Model in its later years.

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It should be recognised that the scenarios are highly simplified and focus on a limited number of key value drivers (e.g. capital expenditure and pipeline success rate), rather than detailed “bottom up” parameters. Nevertheless, Grant Samuel considers that the analysis does provide some useful insight into value. The scenarios analysed are, to some extent, arbitrary. However, they reflect the range of judgements that potential buyers of the businesses could make. The scenarios do not, and do not purport to, represent the range of potential outcomes for AusNet’s business operations or Grant Samuel’s forecasts of the future financial performance of AusNet. They are simply theoretical indicators of the sensitivity of the NPVs derived from the DCF analysis.

The scenarios do not represent Grant Samuel’s forecasts of the future financial performance of AusNet. Grant Samuel gives no undertaking and makes no warranty regarding the future financial performance of AusNet. Such future performance is subject to fundamental uncertainty. Rather, the scenarios have been developed purely to allow Grant Samuel to assess the impact on calculated NPVs of alternative assumptions regarding the future growth and financial performance of AusNet’s business operations.

5.3 Market Valuation Parameters

5.3.1 Overview

Valuation analysis involves the review of earnings and other multiples that buyers have been willing to pay for similar businesses in the recent past and a review of the multiples at which shares in comparable listed companies trade on share markets. This analysis will not always lead to an obvious conclusion of an appropriate range of multiples as there will often be a wide spread of multiples. It is necessary to consider the particular attributes of the business operation being valued (relative to the peers) as well as the prevailing regulatory framework and economic conditions under which the business operates.

As AusNet owns and operates a portfolio of regulated energy infrastructure assets in Australia, Grant Samuel’s review of the market evidence has considered transactions and listed companies involved in similar regulated (and unregulated) activities in Australia as well as in New Zealand where appropriate.

In particular, Grant Samuel has:

- separated the analysis of multiples into electricity transmission and distribution and gas distribution to better reflect the different growth prospects and risks in each sector and also separately considered diversified energy infrastructure (i.e. transactions involving companies with business operations across a number of energy infrastructure sectors); and
- calculated EBITDA multiples and RAB or R&CAB multiples for comparable transactions and comparable listed companies, where appropriate. Other than distribution yield, these multiples are generally viewed as the most common valuation metrics for regulated energy infrastructure businesses. EBITDA multiples remove the distortion of differences in depreciation and amortisation policies and are therefore regarded as a more appropriate valuation metric than EBIT multiples. To the extent RAB or R&CAB multiples are not available, Grant Samuel has considered ungeared net tangible asset (“ungeared NTA”) multiples as a proxy (noting that ungeared NTA multiples are generally, but not always, higher than RAB and R&CAB multiples because ungeared NTA multiples are based on historical asset cost whereas RAB and R&CAB multiples are effectively based on replacement asset cost).

5.3.2 Transaction Evidence

In considering the transaction evidence, it should be noted that:

- with the exception of the acquisition of Spark by a consortium comprising Kohlberg Kravis Roberts & Co. L.P., Ontario Teachers’ Pension Plan Board and Public Sector Pension Investment Board and the acquisition of a 20% interest in TransGrid by Ontario Municipal Employees’ Retirement System (“OMERS”), all of the transactions occurred prior to the introduction of AASB16 (and are therefore on a pre AASB16 basis). However, given the nature of energy infrastructure companies as owners of network assets, it would not be expected that the introduction of AASB16 would have any material impact on the multiples implied by the earlier transactions;

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- while the majority of transactions involving regulated Australian energy infrastructure assets were for controlling interests in the target company, a number of more recent transactions involved the acquisition of only a minority interest in the target business. Transactions involving minority interests are typically excluded from transaction evidence due to the lack of a full “control” premium being incorporated in the sale prices of these interests.

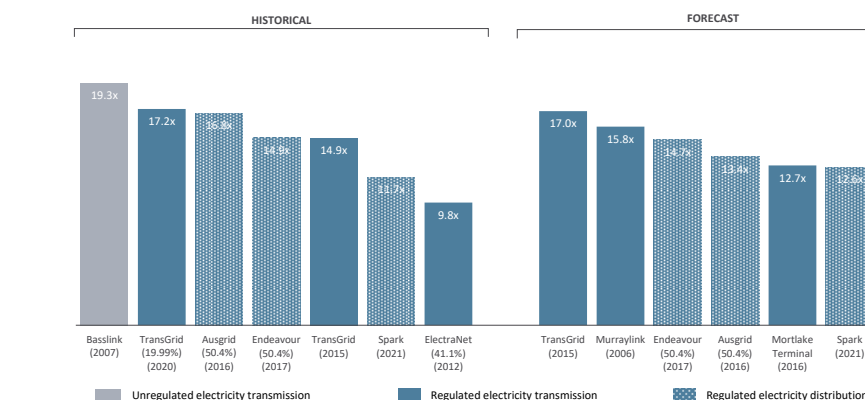
However, market evidence suggests that even minority interests in structured infrastructure assets tend to trade at close to pro rata of 100% value (particularly when demand for the asset is high). Moreover, Grant Samuel has observed that infrastructure investors (particularly in regulated assets) generally assess price based on DCF analysis (which is a “control” value) rather than through the prism of the theoretical valuation framework (e.g. minority and marketability discounts) reflecting the nature of the cash flow stream (regulated and “ring fenced” with limited ability to transform or generate synergies). However, the evidence for control and minority transactions involving the same mature energy infrastructure assets in Australia is insufficient to clearly articulate this distinction and specific factors, such as declining interest rates, may also contribute to the higher multiples observed (e.g. in the TransGrid transactions). Due to the “scarcity” value attributed to these assets (evidenced by the relatively small number of observed transactions) and the approach to valuation, Grant Samuel has considered these transactions in the analysis of market valuation parameters; and

- a number of selected transactions involve companies that derive a significant proportion of their revenue from unregulated energy infrastructure operations. Unregulated energy infrastructure businesses generally operate in less “capital constrained” businesses where growth investments (and expected returns) are not governed by a regulator or framework.

Electricity Transmission and Distribution

The following charts summarise the market parameters implied by selected transactions involving the acquisition of electricity transmission and electricity distribution businesses since 2006:

RELEVANT COMPARABLE TRANSACTIONS – ELECTRICITY TRANSMISSION AND DISTRIBUTION
HISTORICAL AND FORECAST EBITDA MULTIPLES



Grant Samuel analysis⁶⁹

- Notes:
- Ausgrid's forecast EBITDA multiple is based on its annualised trading results for the five months ended 30 November 2016 (i.e. pre transaction)
 - Spark's EBITDA has been calculated on a look through basis

⁶⁹ Grant Samuel analysis based on data obtained from IRESS, S&P Global Market Intelligence, company announcements, transaction documentation and, in the absence of company published financial forecasts, broker reports. Where company financial forecasts are not available, the median of the financial forecasts prepared by a range of brokers has generally been used to derive relevant forecast value parameters. The source, date and number of broker reports utilised for each transaction depends on analyst coverage, availability and corporate activity. All of the available information for each transaction has been included in the charts. As a number of the transactions do not involve publicly listed entities, less information is generally available and may be limited to only a historical EBITDA multiple (i.e. Basslink, ElectraNet) or a forecast EBITDA multiple (i.e. Murraylink, Mortlake Terminal) or a RAB multiple (i.e. DirectLink).

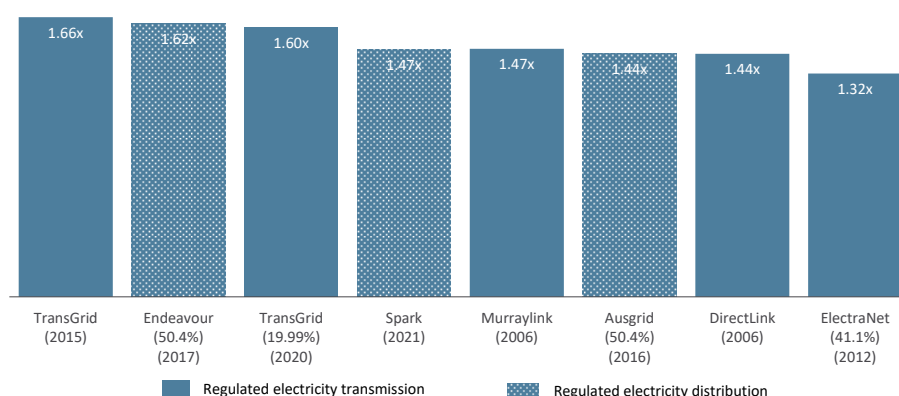
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RELEVANT COMPARABLE TRANSACTIONS - ELECTRICITY TRANSMISSION AND DISTRIBUTION

RAB AND R&CAB MULTIPLES



Source: Grant Samuel analysis⁶⁹

Note: Spark (2021) and TransGrid (2020) are R&CAB multiples

The most recent and relevant transaction involving an electricity transmission and distribution business is the acquisition of Spark by a consortium comprising Kohlberg Kravis Roberts & Co. L.P., Ontario Teachers' Pension Plan Board and Public Sector Pension Investment Board (which was approved by shareholders on 22 November 2021 and is expected to be implemented on 22 December 2021). Spark is an energy infrastructure investment company that owns minority interests in SA Power Networks (regulated electricity distribution in South Australia) (49%), Victoria Power Networks Pty Ltd (49%), which owns CitiPower Pty Ltd and Powercor Australia Pty Ltd (regulated electricity distribution in Victoria) and TransGrid (regulated electricity transmission in New South Wales) (15%). Spark also has an unregulated renewables business that owns the Bomen Solar Farm in Wagga Wagga (New South Wales) and various greenfield renewable developments (renewable generation). While the renewables business has considerable growth potential, it currently makes a negligible contribution to earnings. Spark generates the majority of its earnings from its minority interests in electricity distribution businesses.

The relatively low EBITDA multiples implied by the transaction (which was the third proposal received from the consortium) (of 11.7 times historical and 12.6 times forecast EBITDA) are likely to reflect:

- the non-controlling interests held in each of its key energy infrastructure assets (while acquisitions of minority interests in single assets do tend to trade at close to pro rata of 100% value, a number of non-controlling interests held under a trust structure adds an additional layer of complexity);
- the decline in performance in 2020 as a result of recent regulatory resets and the expectation of lower earnings for the foreseeable future; and
- that Spark's operating assets are already some of the most efficiently operated electricity infrastructure assets on the East Coast of Australia and therefore there is limited ability to improve operating performance (even if that is only available for a single regulatory reset period).

These factors offset the geographical diversification benefits from ownership of interests in energy infrastructure businesses across different states which mitigate exposure to regional risks (e.g. demand and weather) and strong growth opportunities across each of its investments.

In contrast, the R&CAB multiple implied by the consortium's offer for Spark is towards the middle of the range of RAB and R&CAB multiples for comparable transactions. This reflects a higher rate of return and

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possibly reflects a history of efficient operation and strong outperformance (compared to regulated allowances).

Other than the Spark transaction, most transactions for electricity transmission or distribution companies have generally occurred at:

- 15-17 times historical EBITDA;
- 13-16 times forecast EBITDA; and
- a reasonably wide range of RAB/R&CAB multiples, although these multiples have generally trended higher in recent years, increasing from 1.4-1.5 times in 2006 to 1.6-1.7 times over the 2015 to 2020 period.

The variations in multiples can be attributed to a wide range of factors. The transactions that occurred at the upper end of the range generally involved businesses exhibiting the following characteristics:

- larger target population centres. Energy infrastructure businesses in larger and more densely populated states such as New South Wales have typically commanded higher multiples. The transactions involving TransGrid and Endeavour Energy ("Endeavour") (both based in New South Wales) have consistently been towards the upper end of the range at 14.9-17.2 times historical EBITDA, 14.7-17.0 times forecast EBITDA and 1.60-1.66 times RAB/R&CAB;
- scale and greater geographical diversification. Most of the acquisitions involved large electricity transmission or distribution businesses with broad geographical footprints across different states which mitigate exposure to regional risks (e.g. demand and weather). In contrast, the acquisitions of Mortlake Terminal Station, DirectLink and MurrayLink involved much smaller, single infrastructure assets. These smaller transactions occurred at lower EBITDA and RAB multiples compared to the acquisitions of larger businesses;
- competitive processes. The scarcity value of quality infrastructure assets translates into strong demand (and higher implied multiples) from competitive sales processes. While the New South Wales Government historically wholly owned the electricity transmission and distribution networks across the state, the asset recycling strategy announced in 2011 was the catalyst for a wave of privatisations of the electricity network. Due to the relative scarcity of these high quality assets with entrenched market positions, the auctions for Endeavour and TransGrid attracted a number of large institutional and strategic investors from across the globe, resulting in high transaction values and high implied EBITDA and RAB multiples.

In contrast, the implied multiples for Ausgrid are generally towards the low end of the range of multiples, despite it having similar operating and commercial characteristics to Endeavour and TransGrid. While these multiples reflect a number of factors, including likely expected operational efficiency improvements and an AER final determination for 2014-2018 that set out a substantial decrease in regulated revenues but which was subject to a review process, they are also likely to reflect a more restricted pool of potential acquirers. The auction for the New South Wales Government's interest in Ausgrid initially attracted competing bids from State Grid and Hong Kong's Cheung Kong Infrastructure, but these two parties were effectively blocked by the Commonwealth Government on national security grounds, reducing the competitive tension in the sale process; and

- lower costs of capital. Due to the stable and recurring nature of cash flows for mature infrastructure assets, implied yields (and consequently value) are inherently sensitive to variations in interest rates. The prevailing low interest rate environment in recent years has increased the servicing capacity of prospective buyers and driven a highly contested search for yield (in excess of interest rate returns). Consequently, values and transaction prices (and therefore implied multiples) have increased compared to transactions that have taken place in higher interest rate environments.

The two transactions involving minority interests in TransGrid demonstrate the impact these characteristics collectively have on sale price. Despite minimal improvements to TransGrid's financial and operating

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performance between 2015 and 2020, the implied historical EBITDA multiple rose from 15 times to 17 times (although the implied RAB/R&CAB multiple was relatively steady).

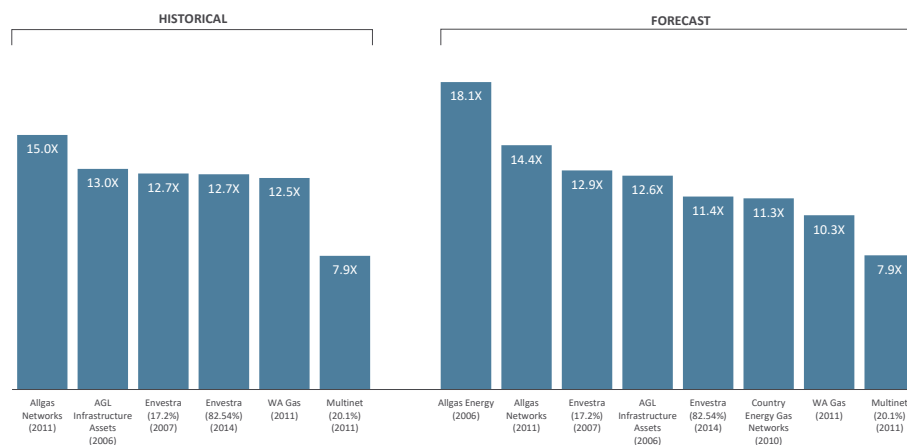
State Grid's acquisition of a 41.1% interest in ElectraNet occurred at comparatively low multiples (which are regarded as outliers). These low multiples arguably reflect a combination of the small size of South Australia's transmission network (and population) and the large capital expenditure requirements across the electricity infrastructure industry between 2009 and 2014.

Gas Distribution

The number of transactions involving gas distribution assets since 2006 is limited. The available transaction evidence for regulated gas distribution businesses is summarised in the following charts:

RELEVANT COMPARABLE TRANSACTIONS – REGULATED GAS DISTRIBUTION

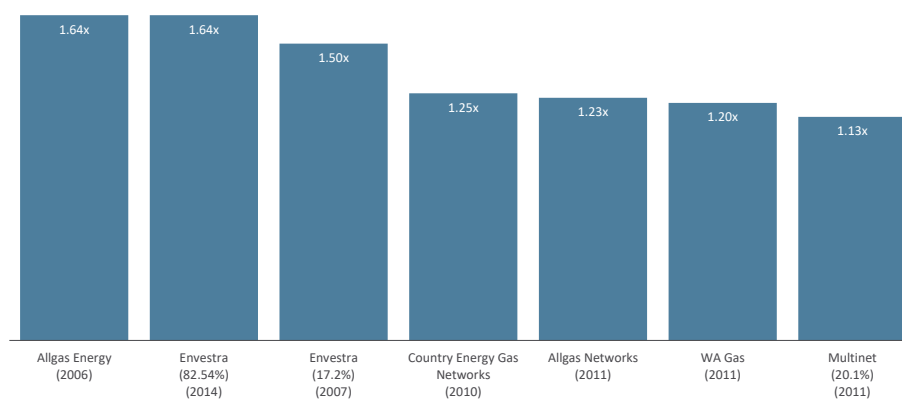
HISTORICAL AND FORECAST EBITDA MULTIPLES



Source: Grant Samuel analysis⁶⁹

RELEVANT COMPARABLE TRANSACTIONS – REGULATED GAS DISTRIBUTION

RAB MULTIPLES



Source: Grant Samuel analysis⁶⁹

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The transaction evidence indicates a clear distinction between the implied EBITDA and RAB multiples for gas distribution businesses and the implied multiples for electricity transmission and electricity distribution businesses. While this difference could be attributed to a wide range of factors, the differing long term outlooks for gas and electricity in the energy transition to renewable energy and the increasing electrification (e.g. electric vehicles) of Australia are likely to have played some part in the relatively lower multiples for gas infrastructure assets.

In relation to the completed transactions:

- they have taken place at relatively consistent historical EBITDA multiples of 12.5-13 times. Implied forecast EBITDA multiples have been in a much wider range, but excluding outliers, have generally been in the range 10-13 times.

The majority of the transactions involved gas distribution businesses of scale that were strategic in nature. Of particular relevance are the transactions involving Envestra Limited ("Envestra"), the largest and most recent completed transaction for an Australian regulated gas distribution business. Envestra owned a portfolio of gas distribution networks and associated gas transmission pipelines across Australia:

- CK Group's 2014 acquisition of Envestra took place at implied multiples of 12.7 times historical EBITDA, 11.4 times forecast EBITDA and at a RAB multiple of 1.64 times. The transaction attracted a number of interested parties in a competitive process and culminated with the CK Group outbidding APA Group. The multiples reflect a blend of Envestra's operations which had differing outlooks (mix of regulated and unregulated revenue, capital investment plans, growth profiles and regulatory periods and rates of return); and
- while APA Group's acquisition of a 17.2% interest in Envestra in 2007 was a minority interest and at a discount to Envestra's share price, it was a strategic acquisition as APA Group became Envestra's largest shareholder. At the same time, APA Group acquired the operation and management agreement for Envestra which continues until June 2027. Despite being a minority interest, the implied EBITDA multiples are consistent with other larger scale acquisitions (but this may in part reflect the inclusion of the long term operation and management agreement);
- transactions that have occurred at higher or lower multiples reflect the specific attributes and circumstances of the businesses being acquired:
 - the high earnings multiples implied by the sale of APA Group's Queensland Gas Network ("Allgas Network") (15.0 times historical EBITDA and 14.4 times forecast EBITDA) reflect Allgas Network's position as one of only two gas distributors in Southeast Queensland, particularly in the high population growth areas across Brisbane, Gold Coast and Toowoomba;
 - the high earnings multiples implied by APA Group's 2006 acquisition of Allgas Energy Pty Ltd ("Allgas Energy") (18.1 times forecast EBITDA) reflect its acquisition from a government owned energy company and the expectation of operational efficiency improvements and increased utilisation across APA Group's gas transmission businesses; and
 - the low earnings multiples implied by DUET Group's ("DUET") acquisition of a 20.1% interest in Multinet Gas (7.9 times historical and forecast EBITDA), although increasing DUET's shareholding to 100%, was effectively an acquisition of a minority interest and unlikely to have included a full premium for control. Furthermore, it was part of a wider transaction undertaken to simplify the ownership structures of several Australian gas utilities businesses (WA Gas Networks, Multinet Gas and Dampier Bunbury Pipeline) and the multiples of individual components may be less meaningful; and

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- the RAB multiples implied by these transactions are in a wide range from 1.13 to 1.64 times, although with some consistency at around 1.2 times (1.22-1.25 times) and at around 1.5 times (1.47-1.50 times). In this regard, the following observations can be made:
 - the lowest RAB multiple (1.13 times) relates to the acquisition of a minority 20.1% interest in Multinet Gas (albeit this acquisition increased DUET's interest in Multinet Gas to 100%); and
 - the highest RAB multiple (1.64 times) relates to the CK Group's acquisition of Envestra in 2014 and APA Group's 2006 acquisition of Allgas Energy:
 - at the time of the Envestra transaction, the company was undertaking an accelerated mains replacement program which, on completion, would result in a significant increase in RAB. If this program is taken into consideration, the RAB multiple implied by the transaction would be lower; and
 - Allgas Energy's implied RAB multiple is consistent with its high EBITDA multiples, reflecting the expectation of operational efficiency improvements (as discussed above).

There is not always correlation between EBITDA multiples and RAB multiples. For example, Allgas Networks was acquired at relatively high EBITDA multiples (15 times historical EBITDA and 14.4 times forecast EBITDA) but at a relatively low RAB multiple (1.23 times). While RAB multiples are a commonly used valuation metric for regulated energy infrastructure businesses and are a reflection of capital investment, they do not reflect the operating performance of the infrastructure business. High earnings multiples combined with low RAB multiples reflect poor operating efficiency (e.g. in the case of government owned assets).

The largest and most recent transaction for a gas infrastructure business was CK Group's proposed acquisition of APA Group in June 2018. APA Group received an unsolicited, indicative and non-binding proposal from a consortium led by CK Group to acquire 100% of its securities at an implied equity value of \$13.0 billion. The proposed consideration implied multiples of:

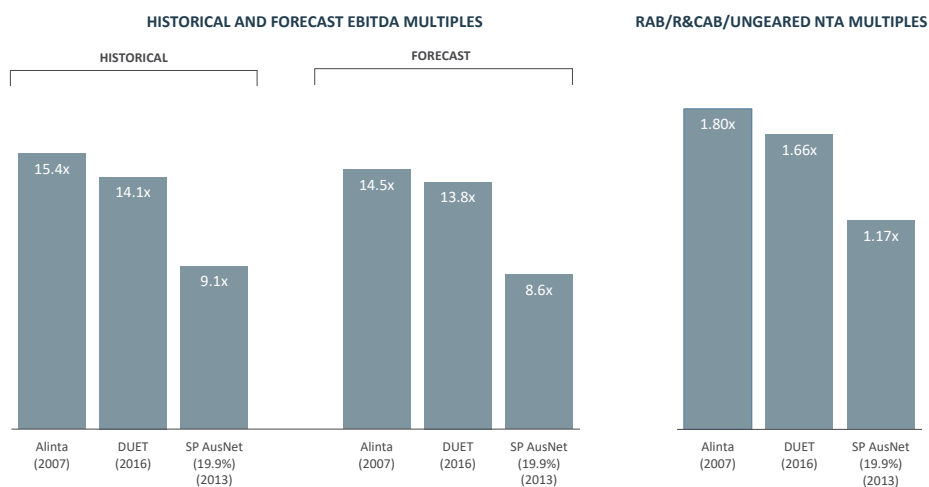
- 14.5 times historical EBITDA and 14.1 times forecast EBITDA; and
- 2.4 times ungeared NTA (ungeared NTA multiples are generally higher than RAB multiples).

The implied transaction multiples are at the upper end of the range of multiples for recent transactions involving gas distribution businesses. While primarily a gas transmission and distribution business (gas transmission and distribution represented around 85% of EBITDA), the relatively high multiples reflect APA Group's national scale, vertically integrated operations (i.e. gas transmission and distribution), diversified operating footprint across Australia and its predominantly unregulated asset base (regulated activities represented less than 10% of revenue). Although the transaction was ultimately blocked by FIRB on national security grounds, the implied transaction multiples reflect a commercially agreed value for the business and consequently, is considered a relevant market parameter in the assessment of value for gas distribution businesses.

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**Diversified Energy Infrastructure**

The following charts summarise the market evidence implied by selected transactions involving the acquisition of diversified electricity infrastructure businesses since 2006:

RELEVANT COMPARABLE TRANSACTIONS – DIVERSIFIED ENERGY INFRASTRUCTURE

Source: Grant Samuel analysis⁶⁹

- Notes:
1. Historical multiples for DUET are less meaningful as they include only eight months of contribution from the acquisition of Energy Developments Limited and one month of contribution from the acquisition of Landfill Gas & Power Pty Limited
 2. The implied multiples for the Alinta transaction have been based on the final terms of the transaction announced in May 2007 which valued Alinta at approximately \$8 billion (\$16.06 per Alinta share). As a result of movements in the value of the scrip portions of the consideration, the value received by Alinta shareholders on completion of the transaction on 31 August 2007 had declined to \$7.6 billion (implying a current year EBITDA multiple of 14.8 times and an ungeared NTA multiple of 1.71 times)
 3. The Alinta historical multiple relates to the year ending 31 December 2007 (i.e. current year) as no historical earnings were available
 4. An ungeared NTA multiple has been calculated for Alinta
 5. Not all of DUET's assets are regulated. The RAB multiple has been calculated by deducting the values attributed by the independent expert to DUET's unregulated businesses from the enterprise value implied by the transaction terms
 6. A R&CAB multiple has been calculated for SP AusNet

The following factors are relevant to consideration of this transaction evidence:

- there are limited recent transactions for diversified energy infrastructure businesses in Australia with all of the other transactions occurring more than five years ago. Transactions involving businesses with predominantly regulated operations are even more limited (i.e. only DUET and SP AusNet in the chart above); and
- these transactions involved diversified businesses with interests across both gas and/or electricity assets that operate along different stages of the energy supply chain (e.g. generation, distribution, transmission, retail). Therefore, the implied multiples are blended multiples reflecting the different mix of each business.

The most relevant of these transactions is State Grid's acquisition of a 19.9% interest in SP AusNet (now AusNet) in 2013, which occurred at relatively low multiples of 9.1 times historical and 8.6 times forecast EBITDA and a R&CAB multiple of 1.17 times. The reasons for these low multiples are unclear, although increased uncertainty at the time as to future electricity demand (given rising electricity spot prices), an increasing requirement for network upgrades and the recently introduced carbon emissions tax (subsequently repealed) may have had an impact. In addition, State Grid acquired its 19.9% interest from SP Group (which retained a controlling 31.1% interest in SP AusNet).

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The other diversified energy infrastructure transactions are diversified across geography, energy type and segment of the energy industry:

- the acquisition by the CK Group of DUET, an owner and operator of energy utilities businesses in Australia (gas transmission, gas distribution and electricity distribution) together with electricity generation businesses in Australia and other international locations. Just under 50% of EBITDA was generated by gas energy infrastructure, with a further ~25% of EBITDA from electricity distribution and the majority of earnings was from regulated assets (~70%). The view of market commentators at the time was that the offer represented a full price (particularly for a predominantly regulated, gas energy infrastructure business); and
- the acquisition of Alinta by the Babcock & Brown/SPI consortium, which followed a competitive process with Macquarie Group. The high implied multiples reflected Alinta's scale and diversified operations across the gas infrastructure supply chain (including retail) and in electricity distribution and its predominantly unregulated operations. Ungeared NTA multiples are also generally higher than RAB or R&CAB multiples. In addition, the consideration offered was a combination of cash and scrip and the implied multiples are lower (and more consistent with those of DUET) based on share prices at completion of the transaction.

5.3.3 Sharemarket Evidence

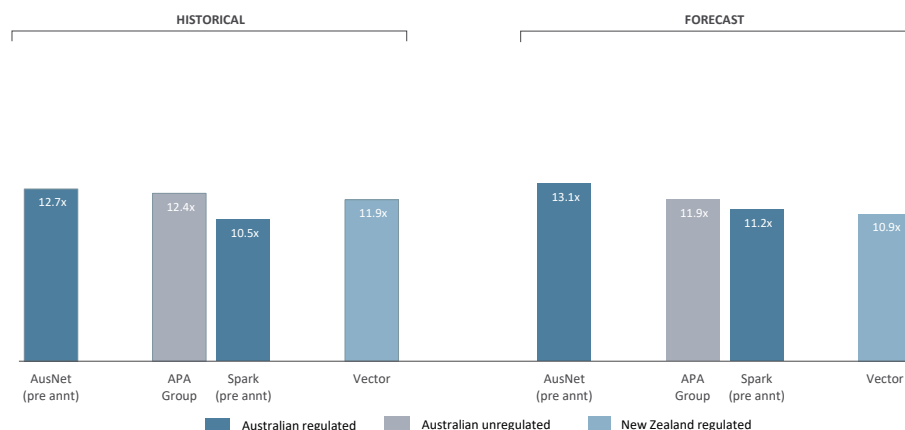
There are only three energy infrastructure entities (AusNet, APA Group and Spark) listed on the ASX, and two of these entities (AusNet and Spark) are the subject of corporate activity (refer above for commentary on the Spark transaction). The number of listed energy infrastructure entities has declined over the past 10 years through acquisition due to the attractive investment characteristics of their assets (particularly in a low interest rate environment). As a consequence, Grant Samuel has also considered the sharemarket ratings of Vector Limited ("Vector"), a New Zealand listed owner of a portfolio of regulated electricity and gas networks.

Grant Samuel has considered but excluded from its analysis:

- other listed entities in the Australian energy sector, such as AGL Energy Limited and Origin Energy Limited. Both companies are susceptible to higher levels of earnings volatility than infrastructure assets due to their direct exposure to the wholesale gas price market through their portfolio of generation assets;
- other Australian listed infrastructure entities such as Sydney Airport, Aurizon Holdings Limited and Dalrymple Bay Infrastructure Limited. These entities are subject to different growth drivers, competitive dynamics and regulatory regimes than energy infrastructure, and in some cases (e.g. Sydney Airport) have been severely impacted by the COVID-19 pandemic; and
- geographically diversified listed infrastructure owners such as Transurban Group, which is also subject to a different set of growth drivers including a growing contribution from its international portfolio of toll roads and motorways.

The following chart sets out the historical and forecast EBITDA multiples implied by the security prices of the selected listed entities at 9 November 2021, except AusNet and Spark, which are based on security prices at 17 September 2021 and 13 July 2021 respectively, being the closing price the day prior to announcement of the receipt of initial proposals for these entities:

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RELEVANT COMPARABLE LISTED ENTITIES
HISTORICAL AND FORECAST EBITDA MULTIPLES

Source: Grant Samuel analysis⁷⁰

Note: AusNet and Vector⁷¹ multiples are calculated using EBITDAal

In considering the sharemarket evidence, it is important to note:

- the analysis is based on security prices and therefore does not include a premium for control;
- the comparable listed entities each have a different financial year end:
 - APA Group and Vector have a June year end, while AusNet has a March year end and Spark has a December year end; and
 - the data presented for each company is the most recent annual historical result and the one year forecast (the 2022 financial year). The financial data has not been adjusted to align the year end for each company.

The different year ends are unlikely to produce materially different results notwithstanding the impact of recent events such as the COVID-19 pandemic. Due to the regulated nature of the majority of the assets owned by the listed entities (other than APA Group), prices (and to a larger extent revenues) are protected and year to year variations in earnings are generally limited within regulatory reset periods;

- despite their exposure to differing operating risks, long term growth outlooks and regulatory risks, the comparable listed entities have trading multiples in a reasonably tight range of 11-13 times EBITDA (historical or forecast):
 - AusNet's trading multiples have been calculated using EBITDAal. Grant Samuel has not identified any material financial assets or lease interest income for any of the other comparable entities (other than Vector, which has also been adjusted⁷¹) and therefore EBITDA for these entities is comparable to EBITDAal for AusNet. Prior to announcement of the Brookfield Indicative Proposal

⁷⁰ Grant Samuel analysis based on data obtained from IRESS, S&P Global Market Intelligence, company announcements and, in the absence of company published financial forecasts, brokers' reports. Where company financial forecasts are not available, the median of the financial forecasts prepared by a range of brokers has generally been used to derive relevant forecast value parameters. The source, date and number of broker reports utilised for each company depends on analyst coverage, availability and recent corporate activity.

⁷¹ Vector's 2021 annual report discloses an economic interest in the Kapuni plant with the net present value of future income recognised as a \$81.7 million receivable on the balance sheet and \$6.3 million of interest income included in earnings. The trading multiples shown in the chart above have been adjusted to include this lease interest income in EBITDA.

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on 20 September 2021, AusNet shares were trading at multiples of 12.7 times historical and 13.1 times forecast EBITDAal;

- Spark, while also having a significant exposure to electricity transmission and distribution (including electricity distribution in Victoria), traded at lower multiples than AusNet. This is likely to reflect Spark's portfolio of non-controlling interests in its networks and the less developed nature of its growth potential. Its only unregulated operating asset is Bomen Solar Farm (which is Spark's initial entry into the renewable generation sector) whereas AusNet's Development & Future Networks is an extension of its existing electricity transmission business and makes a material contribution to earnings;
- APA Group is predominantly involved in the gas supply chain, with highly diversified activities across gas transmission, gas storage and processing, and gas-fired and renewable energy power generation businesses. Its higher trading multiples will, in part, reflect the largely unregulated nature of its assets; and
- Vector owns and manages a portfolio of regulated electricity and gas networks in New Zealand which has a substantially different regulatory environment than Australia. In addition, more than 75% of Vector's shares are held by a single controlling shareholder which may limit the reliability of its trading multiples given the potential impact of a restricted free float.

5.4 Value of Electricity Transmission

5.4.1 Summary

Grant Samuel has valued AusNet's electricity transmission business in the range \$4.4-4.6 billion.

5.4.2 DCF Analysis

DCF Scenarios

The key general and specific operational assumptions underlying Scenario A are set out in Appendix 4.

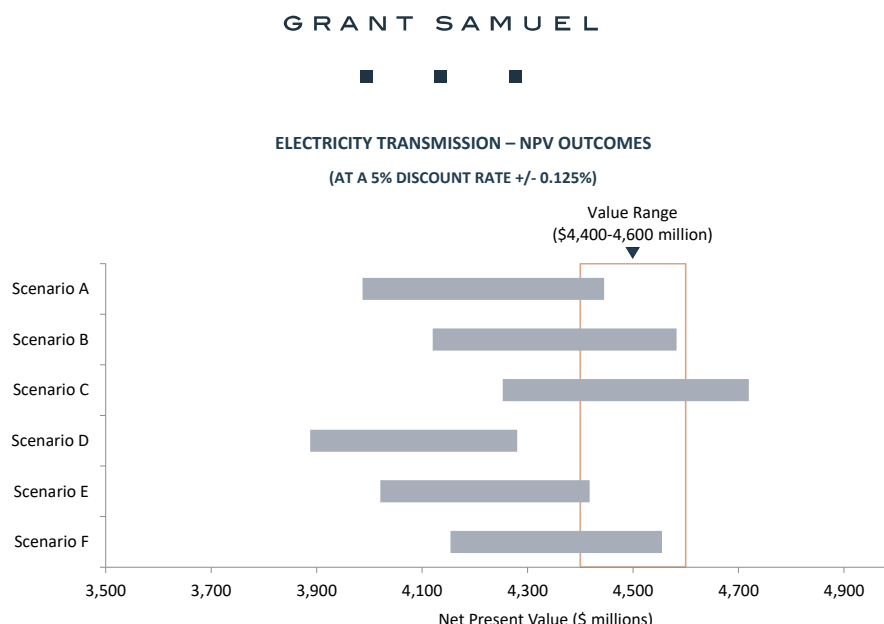
The key assumptions underlying each of the scenarios considered are outlined below:

ELECTRICITY TRANSMISSION - DCF SCENARIOS

SCENARIO	DESCRIPTION
Scenario A	As set out in Appendix 4
Scenario B	Scenario A with a "step up" in tax depreciable cost base of \$1.0 billion
Scenario C	Scenario A with a "step up" in tax depreciable cost base of \$2.0 billion
Scenario D	Scenario A, except with 20% lower capital expenditure than Scenario A
Scenario E	Scenario D with a "step up" in tax depreciable cost base of \$1.0 billion
Scenario F	Scenario D with a "step up" in tax depreciable cost base of \$2.0 billion

NPV Outcomes

Grant Samuel's selected value range of \$4.4-4.6 billion for AusNet's electricity transmission business reflects a subjective balancing of the scenarios and a view that the appropriate discount rate to apply is in a range around 5%. This is depicted diagrammatically below:



Grant Samuel's value range incorporates the top ends of Scenarios A and E, the top portion of Scenarios B and F and the middle section of Scenario C. The NPV outcome for Scenario D sits below the value range. Grant Samuel has considered the NPV outcomes for all the scenarios in determining its value range for AusNet's electricity transmission business. In this regard:

- Scenario A represents a credible operating scenario. Capital expenditure is projected to remain at similar, if not higher levels than during the previous regulatory period and represents around 40% of EBITDA. Network replacement and asset renewal represent (i.e. maintenance capital expenditure) almost all investment over the projection period (other than a small amount for information technology). However, this Scenario does not allow for a potential "step up" in the tax depreciable asset cost base that would be available to any acquirer of AusNet. As a result, it is not unreasonable that only the top end of the NPV of Scenario A is included in the selected value range.

In contrast, Scenarios B and C do allow for a potential uplift in NPV for the "step up" in the tax depreciable asset cost base of \$1-2 billion. While the actual "step up" is unknown, based on discussions with AusNet's management it would be expected that the electricity transmission network would receive the majority of any step-up in AusNet's tax depreciable asset cost base. On this basis, the selected value range incorporates a large proportion of the NPV outcomes for Scenario B, and more particularly, Scenario C; and

- in contrast, Scenario D illustrates the impact on NPV of a low capital expenditure environment with capital requirements 20% lower than Scenario A (noting that capital expenditure flows into regulated return and future revenue). This outcome is regarded as a less likely scenario for AusNet. The aging network infrastructure and immediate upgrades required to Victoria's electricity transmission network would likely prevent AusNet from deferring capital expenditure for too long. As a result, Scenario D sits outside the selected value range.

While Scenarios E and F allow for a "step up" in the tax depreciable asset cost base from Scenario D and fall within the selected value range, these scenarios are considered to be less probable.

Grant Samuel also developed other scenarios to assess the sensitivity of the NPV to other operating drivers. However, these have not been shown in the table and the chart above due to their de minimis impact on value. These scenarios included:

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- operating efficiencies. Short term productivity gains are retained by the business and the regulatory framework (e.g. through the efficiency carryover mechanism and the capital expenditure savings scheme) provides a direct incentive for AusNet to achieve these savings. However, the regulatory framework also caps the ability of AusNet to sustain excess returns generated through cost savings or efficiencies over the long term as these savings are absorbed as lower revenues in subsequent regulatory reset periods. The scenarios above include nominal levels of operating efficiencies. However, given the short term nature and relative quantum of these savings, even if achieved, do not have a material impact on the NPV of the electricity transmission business; and
- potential rises in interest rates. Changes in the risk free rate (and in turn, the regulated rate of return) at future reset dates have a material impact on allowable revenues and cash flows. However, they do not have a significant impact on the NPV as any change in the risk free rate should also be reflected in the discount rate. In other words, an increase in the risk free rate may result in higher cash flows, but if that scenario is assumed, a higher discount rate should be used to calculate the NPV of the cash flows.

Taking these factors into account, Grant Samuel believes that the NPV outcomes produced by the DCF analysis support a value range for AusNet's electricity transmission business of \$4.4-4.6 billion.

5.4.3 Implied Multiples

Based on the adjusted earnings set out in Section 5.2.2, the value range of \$4.4-4.6 billion represents the following multiples:

ELECTRICITY TRANSMISSION – IMPLIED VALUATION PARAMETERS

	VARIABLE (\$ MILLIONS)	RANGE OF PARAMETERS	
		LOW	HIGH
Value range (\$ millions)		4,400	4,600
Multiple of EBITDA			
FY21 (underlying actual) ⁶⁴	366.7	12.0x	12.5x
FY22 (underlying median broker forecast) ⁶⁵	349.4	12.6x	13.2x
Multiple of RAB			
At 30 September 2021	3,731.0	1.18x	1.23x

The multiples implied by the value attributed to AusNet's electricity transmission business are low relative to the available market evidence for electricity transmission or other electricity infrastructure assets. However, Grant Samuel considers these multiples to be reasonable given the lack of transmission augmentation or other growth prospects included in the cash flows (this growth is included in the cash flows of Development & Future Networks as it is contestable and not regulated). All of the available market evidence in relation to electricity transmission businesses reflects a blend of value attributed to the mature existing network as well as potential value from transmission augmentation (albeit this growth is regulated in markets other than Victoria) and other growth opportunities. While capital expenditure representing a relatively lower proportion of EBITDA would usually justify higher EBITDA multiples, this is counterbalanced by the lack of growth in future earnings.

Nonetheless, quality infrastructure assets with predictable cash flows and a regulated monopoly position have demonstrated the ability to attract a "scarcity" premium. Despite the lack of growth from network augmentation, the implied multiples are supported by:

- broader industry trends such as Victoria's transition from being a net exporter to a net importer of electricity. This transition is expected to increase the state's dependence on the electricity transmission network; and:

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- the underlying attributes of AusNet’s electricity transmission business including:
 - its position as the sole owner and operator of Victoria’s primary electricity transmission network. All electricity transmission network owners in Australia are state-based monopolies. In this respect, it is most similar to TransGrid (albeit with growth opportunities removed and valued separately);
 - its large target population. Victoria is one of the most populated states and territories in Australia (second only to New South Wales) and also has the highest population density of all states; and
 - the increased focus on network replacement and maintenance capital expenditure to future proof the network ahead of the energy transition.

The implied multiples are higher when AusNet’s electricity transmission business is aggregated with Development & Future Networks (see Section 4.9.4), at:

- 15.1-16.1 times historical EBITDA;
- 15.6-16.6 times forecast EBITDA; and
- 1.59-1.70 times R&CAB.

Grant Samuel has also considered these aggregated implied multiples in assessing the reasonableness of its valuation of AusNet’s electricity transmission business. While these implied aggregated multiples are relatively high, they are justified based on the medium to long term upside potential in Development & Future Networks (see Section 5.7.3 for discussion of the rationale for this view).

5.5 Value of Electricity Distribution

5.5.1 Summary

Grant Samuel has valued AusNet’s electricity distribution network in the range \$7.8-8.1 billion.

5.5.2 DCF Analysis

DCF Scenarios

The key general and specific operational assumptions underlying Scenario A are set out in Appendix 4.

The key assumptions underlying each of the scenarios considered are outlined below:

ELECTRICITY DISTRIBUTION - DCF SCENARIOS

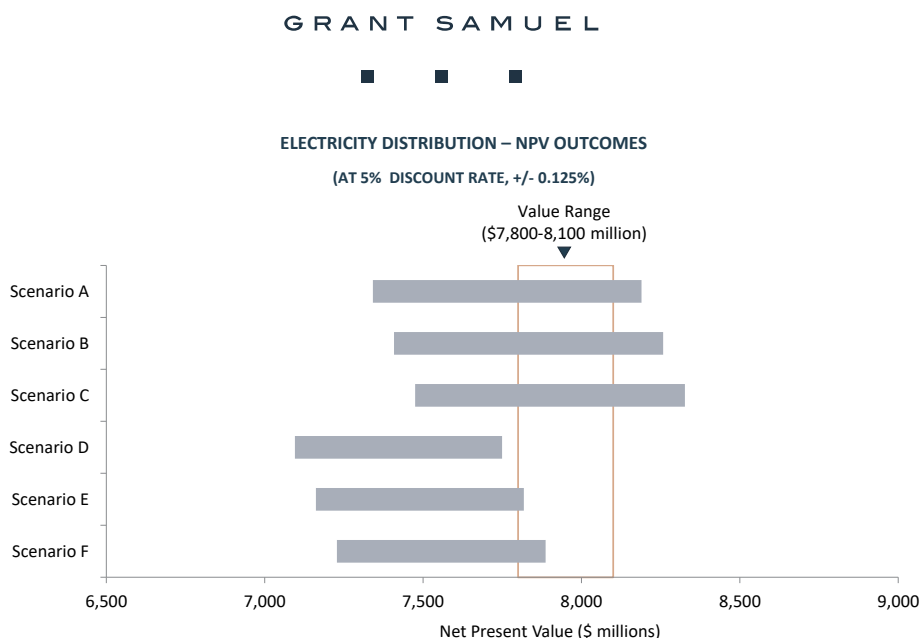
SCENARIO	DESCRIPTION
Scenario A	As set out in Appendix 4
Scenario B	Scenario A with a “step up” in tax depreciable cost base of \$0.5 billion
Scenario C	Scenario A with a “step up” in tax depreciable cost base of \$1.0 billion
Scenario D	Scenario A, except with lower capital expenditure than Scenario A (~50% of EBITDA)
Scenario E	Scenario D with a “step up” in tax depreciable cost base of \$0.5 billion
Scenario F	Scenario D with a “step up” in tax depreciable cost base of \$1.0 billion

NPV Outcomes

Grant Samuel’s selected value range of \$7.8-8.1 billion for AusNet’s electricity distribution network reflects a subjective balancing of the scenarios and a view that the appropriate discount rate to apply is in a range around 5%. This is depicted diagrammatically below:

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Grant Samuel's value range incorporates the top portions of Scenarios A and B (and to a lesser extent, E and F) and spans Scenario C. The NPV outcome for Scenario D sits below the selected value range. Grant Samuel has considered the NPV outcomes for all the scenarios in determining its value range for AusNet's electricity distribution business. In this regard:

- Scenario A represents a credible operating scenario. Capital expenditure (including growth capital expenditure to cover increasing connections and future-proofing the network) is ~65% of EBITDA (roughly evenly split between maintenance capital expenditure and growth capital expenditure over the projected period and peaking between FY29 and FY35 due to expected network upgrades and lines replacements). Capital expenditure as a proportion of EBITDA is lower than the historical trend (an average of more than 80% of EBITDA over the past four years) but reflects the new price review determination recently approved by the AER. The previous price review determination was not a traditional "maintain and operate" case. Targeted investments to reduce bushfire risk and future proof the network against peak demand requirements resulted in historically high levels of investment. As a result, projected capital requirements are expected to decline as material phases of the REFCL rollout conclude in the short term and new customer connections and network enhancements to meet peak demand requirements are limited to pockets of the network. However, this scenario does not allow for a potential "step up" in the tax depreciable asset cost base that would be available to any acquirer of AusNet. As a result, it is not unreasonable that only the top end of the NPV of Scenario A is included in the selected value range.

In contrast, Scenarios B and C do allow for a potential uplift in NPV for the "step up" in the tax depreciable asset cost base. The actual "step up" in the tax depreciable cost base is unknown at this stage but is likely to be much lower than the "step up" for the electricity transmission network and this is reflected in the assumptions made in Scenarios B and C. It is appropriate that the selected value range incorporates the NPV outcomes for Scenario B and, more particularly, Scenario C; and

- Scenario D illustrates the impact on NPV of a low capital expenditure environment with capital expenditure of 50% of EBITDA, substantially lower than Scenario A. This scenario reflects a "business as usual" projection where customer connections would continue but investment that would be needed to future-proof the network (e.g. communications upgrades and lines replacements) is excluded. While this investment could arguably be deferred for a period of time (or be replaced by increased levels of maintenance), it is unlikely to be deferred indefinitely. Recent investments in

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reducing bushfire risks and other safety measures are illustrative of AusNet's responsibility to ensure the safety and reliability of its network. As a result, Scenario D is considered an unlikely outcome and sits outside the selected value range.

While Scenarios E and F allow for a "step up" in the tax depreciable asset cost base from Scenario D and the top end of these NPVs are within the selected value range, these scenarios are considered to be unlikely outcomes.

While a higher capital expenditure scenario was contemplated by Grant Samuel, running such a scenario is arguably of limited merit. The previous access determination (i.e. 2016-20) already reflected an above average level of capital expenditure which is not expected to be replicated (outside of unforeseen events). Based on the historical price review determinations and the information available to date, including a scenario with a higher level of capital expenditure over an extended period would not produce sensible NPV outcomes.

Grant Samuel also developed other scenarios to assess the sensitivity of the NPV to other operating drivers (i.e. operating efficiencies and fluctuations in risk free rates). However, these have not been shown in the table and the chart above due to their de minimis impact on value (see Section 5.4.2).

Taking these factors into account, Grant Samuel believes that the NPV outcomes produced by the DCF analysis support a value range for AusNet's electricity distribution business of \$7.8-8.1 billion.

5.5.3 Implied Multiples

Based on the adjusted earnings set out in Section 5.2.2, the value range of \$7.8-8.1 billion represents the following multiples:

ELECTRICITY DISTRIBUTION – IMPLIED VALUATION PARAMETERS

	VARIABLE (\$ MILLIONS)	RANGE OF PARAMETERS	
		LOW	HIGH
Value range (\$ millions)		7,800.0	8,100.0
Multiple of EBITDA			
FY21 (underlying actual) ⁶⁴	569.1	13.7x	14.2x
FY22 (underlying median broker forecast) ⁶⁵	549.1	14.2x	14.8x
Multiple of RAB			
At 30 September 2021	4,933.0	1.58x	1.64x

The multiples implied by Grant Samuel's valuation of AusNet's electricity distribution business are below the implied multiples for AusNet's combined electricity transmission business and Development & Future Networks. There are a number of reasons for this differential:

- higher capital intensity. The electricity distribution business has historically been more capital intensive than the electricity transmission business. Since FY18, capital expenditure has been in the range 70-90% of EBITDA for the electricity distribution business compared to ~40-50% of EBITDA for the electricity transmission business (or ~65% for the combined electricity transmission and Development & Future Networks business). In recent years, this has been accentuated by rising peak demand requirements, new customer connections and REFCL instalments and this higher capital intensity is expected to continue;
- substitution risk. Increasing penetration of rooftop solar is expected to gradually reduce the demands on the electricity grid albeit at the margin. The electricity transmission network does not face the same degree of substitution risk as new renewable generation capacity is still reliant on the electricity transmission network to connect the generators to the NEM; and

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- growth potential. While the electricity distribution business has delivered higher revenue growth in the past decade, Development & Future Networks (i.e. the unregulated electricity transmission business) is expected to be the major growth driver for AusNet in the future.

Grant Samuel believes that the ~10% discount to the multiples implied by the valuation of AusNet's combined electricity transmission business and Development & Future Networks adequately reflects these factors.

Moreover, the implied multiples are broadly supported by the available market evidence. In this regard, the multiples are:

- higher than those implied by the current proposed acquisition of Spark (at 9.8 times historical and 12.6 times forecast EBITDA), which generates almost 90% of its look through EBITDA from electricity distribution. It would be expected the Spark acquisition (announced just two months prior to the Brookfield Indicative Proposal) should reflect value at a similar point in the regulatory cycle (notwithstanding Spark's exposure to regulatory cycles in other states) and macroeconomic climate (e.g. interest rate environment). However, in Grant Samuel's view, AusNet's electricity distribution business warrants a premium to Spark given some of its unique characteristics, including:
 - the nature and structure of Spark's investments (a portfolio of non-controlling interests held under a trust structure);
 - its exposure to South Australia (which has lower population density, smaller target population and lower growth rates than Victoria); and
 - the limited scope to improve operating performance of its electricity infrastructure assets (even if only for a single regulatory reset period).

On the other hand, the implied R&CAB multiple for the Spark acquisition (of 1.47 times) is only slightly below the implied RAB multiples for AusNet's electricity distribution business (of 1.58-1.64 times), reflecting Spark's higher return on capital (e.g. from its history of efficient operation and outperformance compared to regulated allowances);

- not inconsistent with multiples implied by transactions involving electricity infrastructure businesses (other than Spark).

In Grant Samuel's view, the most relevant transactions to compare to AusNet's electricity distribution business are those that involve similar assets in New South Wales given the comparable catchment sizes and high population densities. Compared to these transactions, the implied multiples for AusNet's electricity distribution business are:

- towards the high end of the range of multiples implied by transactions involving electricity distribution companies such as Ausgrid and Endeavour, which have taken place at forecast EBITDA multiples of 13.4-14.7 times and the RAB multiples of 1.44-1.62 times. These relatively high implied multiples are supportable due to the following factors:
 - higher new customer growth rates in Victoria. Over the past five years, total customer connections have grown by an average of 1.8% per annum in Victoria compared to around 1.1% per annum in New South Wales; and
 - increasing clarity on the role of electricity in Australia's future energy mix over the past five years.

These positive attributes are offset to some extent by the following considerations:

- higher consumer densities in the distribution footprints of Ausgrid and Endeavour. Both networks serve more than 25 customer per kilometre of distribution lines (compared to around 17 customers per kilometre for AusNet's electricity distribution business); and

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- increasing penetration of solar rooftop generation and other alternative renewable technologies such as battery storage. Between 2015 and 2020, installed solar capacity increased more than fourfold from 700MW to more than 3,000MW. This accelerating trend may reduce overall demand on the electricity grid or require electricity distribution networks to adapt their infrastructure to accommodate increasing solar exports; and
- at a discount to the transactions involving TransGrid, which took place at 15-17 times EBITDA (historical and forecast) and 1.60-1.66 times RAB. In addition to TransGrid being an electricity transmission business with lower capital intensity, these higher multiples likely reflect its larger size and scale and its monopoly position across New South Wales, the largest state in Australia; and
- at a premium to listed comparable company multiples, which are broadly trading in the range 11-13 times EBITDA (historical and forecast), although these multiples do not incorporate a premium for control.

5.6 Value of Gas Distribution

5.6.1 Summary

Grant Samuel has valued AusNet's gas distribution network in the range \$2.1-2.2 billion.

5.6.2 DCF Analysis

DCF Scenarios

The key general and specific operational assumptions underlying Scenario A are set out in Appendix 4.

The key assumptions underlying each of the scenarios considered are outlined below:

GAS DISTRIBUTION - DCF SCENARIOS

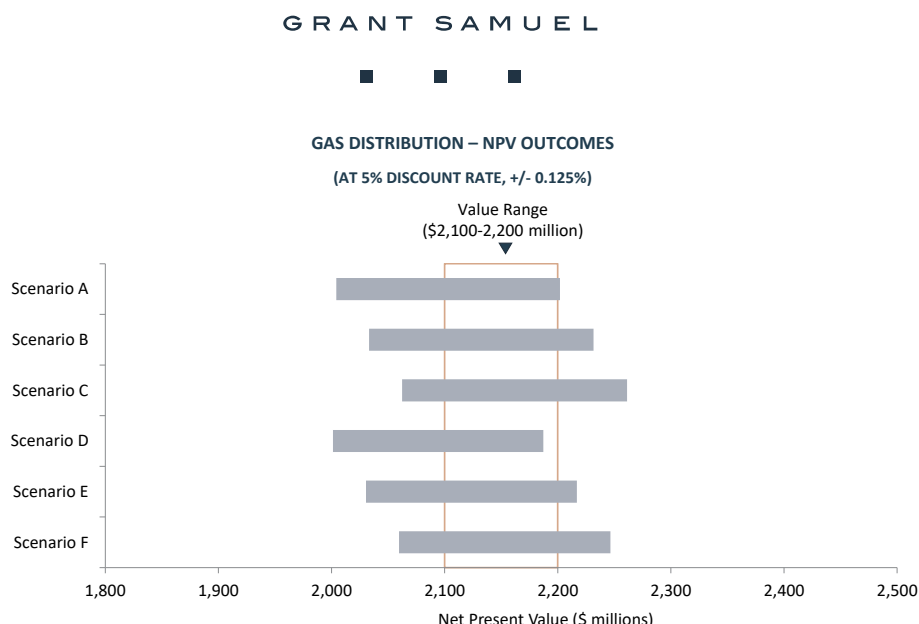
SCENARIO	DESCRIPTION
Scenario A	As set out in Appendix 4
Scenario B	Scenario A with a "step up" in tax depreciable cost base of \$150 million
Scenario C	Scenario A with a "step up" in tax depreciable cost base of \$300 million
Scenario D	Scenario A, except with lower capital expenditure over the projection period with the RAB reaching \$1.8 billion in 2031
Scenario E	Scenario D with a "step up" in tax depreciable cost base of \$150 million
Scenario F	Scenario D with a "step up" in tax depreciable cost base of \$300 million

NPV Outcomes

Grant Samuel's selected value range of \$2.1-2.2 billion for AusNet's gas distribution network reflects a subjective balancing of the scenarios and a view that the appropriate discount rate to apply is in a range around 5%. This is depicted diagrammatically below:

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Grant Samuel's value range incorporates the majority of all of the scenarios. Grant Samuel has considered the NPV outcomes for all scenarios in determining its value range for AusNet's gas distribution and makes the following observations:

- the NPV outcomes for all scenarios fall within a relatively narrow range of \$2.0-2.3 billion, reflecting the regulated nature of the gas distribution network. The NPV outcomes appear to be most sensitive to:
 - the expected "step up" in the tax depreciable cost base. While the actual "step up" is unknown, Grant Samuel considers the levels contemplated in the DCF analysis to be realistic; and
 - the timing of capital expenditure (albeit this has a more limited impact);
- Scenarios A and D reflect credible operating scenarios for AusNet's gas distribution business as it approaches the next regulatory reset in July 2022. In particular:
 - Scenario A is a high capital expenditure scenario where the mains replacement program from the prior access arrangement continues into the new 2022-2027 regulatory period and capital expenditure remains at approximately \$100 million per annum over the new regulatory period; and
 - Scenario D is a low capital expenditure scenario where AusNet defers the mains replacement program and, as a result, capital expenditure falls to ~\$80 million per annum in the new 2022-2027 regulatory period. This scenario assumes that capital expenditure reverts to historical levels in subsequent reset periods. The deferral in capital expenditures results in a marginally lower NPV outcome than Scenario A.

On balance, Grant Samuel believes Scenario A presents a more realistic view of the future capital requirements for the gas distribution business. Over the past decade, AusNet has incurred average capital expenditure of more than \$97 million per annum primarily on mains replacements and new customer connections. AusNet began its mains replacement program in 2003 and has since replaced nearly 1,700 kilometres of its most deteriorated assets. Continuation of this program will ensure that AusNet maintains the integrity and safety of its network. In addition, new customer connections have also contributed to higher levels of recurring investment as Victoria's population growth has outpaced

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that of other states over the past decade. On this basis, it is appropriate that the selected value range incorporates the upper end of Scenario A; and

- Scenarios B, C, E and F allow for the NPV uplift associated with a “step up” in the tax depreciable asset base (although the impact is less material than it is for AusNet’s electricity transmission and electricity distribution networks given the much smaller asset base of the gas distribution network). Given the relative NPVs of Scenarios A and D, it is understandable that the selected value range includes the mid sections of these four scenarios.

Grant Samuel developed other scenarios to assess the sensitivity of the NPV to other operating drivers (i.e. operating efficiencies and fluctuations in risk free rates). However, these have not been shown in the table and the chart above due to their de minimis impact on value (see Section 5.4.2 for discussion of why this is the case).

For AusNet’s gas distribution business, Grant Samuel also considered the sensitivity of the NPV to variations between the demand forecast in future access arrangements and actual volumes of gas transported to reflect the volume risk assumed by network providers (see Section 3.4.2). However, in Grant Samuel’s view, AusNet’s gas distribution business is equally likely to exceed the demand forecast as it is to fall below the forecast within each five year regulatory period. In any event, these short term variations would be reflected in the following access arrangement (therefore reducing their long term cash flow and value impact). Any sustained over (or under) performance would, in Grant Samuel’s view, be an unlikely scenario and is therefore not included in table and the chart above.

Taking these factors into account, Grant Samuel believes that the NPV outcomes produced by the DCF analysis support a value range for AusNet’s gas distribution business of \$2.1-2.2 billion.

5.6.3 Implied Multiples

Based on the adjusted earnings set out in Section 5.2.2, the value range of \$2.1-2.2 billion represents the following multiples:

GAS DISTRIBUTION – IMPLIED VALUATION PARAMETERS

	VARIABLE (\$ MILLIONS)	RANGE OF PARAMETERS	
		LOW	HIGH
Value range (\$ millions)		2,100.0	2,200.0
Multiple of EBITDA			
FY21 (underlying actual) ⁶⁴	168.2	12.5x	13.1x
FY22 (underlying median broker forecast) ⁶⁵	162.0	13.0x	13.6x
Multiple of RAB			
At 30 September 2021	1,746.0	1.20x	1.26x

The multiples implied by Grant Samuel’s valuation of AusNet’s gas distribution business are below the multiples implied for its electricity distribution business (and its electricity transmission business when combined with Development & Future Networks). There are valid reasons for this differential:

- transactions involving gas distribution assets have generally occurred at lower multiples than transactions involving electricity infrastructure assets (although the majority of the transactions involving gas distribution assets occurred more than five years ago);
- the different long term outlooks for electricity and gas:
 - long term tailwinds for the increasing penetration of electricity in Australia’s energy mix are expected to drive increased reliance on the electricity grid; whereas

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- the future role of gas is yet to be defined due to the increasing availability of renewable energy generation in the NEM and the long term potential for gas to be displaced by hydrogen fuels. There is a risk that AusNet's gas distribution assets could become redundant or "stranded" as structural changes in the energy industry result in a reduction in gas demand and declining revenue for the gas distribution business.

On the other hand:

- the gas distribution business is expected to require lower long term maintenance capital expenditure as a percentage of EBITDA (~20%) compared to the electricity transmission and distribution networks (~35% and 30%, respectively);
- the ongoing reduction in generation capacity of coal-fired power is likely to reaffirm the role of gas-fired power in Australia's energy mix over the short to medium term;
- gas-fired power remains one of the primary sources for seasonal peaking energy demand during hot summer months (i.e. high energy needs for cooling) and especially winter months (i.e. lower efficiency of renewable assets); and
- early studies on repurposing gas pipelines to transport hydrogen may ensure that gas distribution networks can continue to play a pivotal role in both the energy transition and the future energy mix.

Grant Samuel believes that the lower multiples for AusNet's gas distribution business compared to its electricity infrastructure businesses represents a fair balancing of these factors.

In addition, the implied multiples are considered to be appropriate when compared to the available market evidence. The primary benchmark is evidence from historical acquisitions of gas distribution assets. However, some caution is warranted:

- with the exception of Envestra and AGL Infrastructure, the transactions are substantially smaller than AusNet's gas distribution business;
- the proposed acquisition of APA Group in June 2018 involved a business that was much larger, diversified and benefited from a predominantly unregulated operating environment; and
- the number of completed transactions over the last five years is limited.

Nevertheless, the data provides a reasonably consistent picture. A significant number of acquisitions took place at 12.5-13 times historical and 10-13 times forecast EBITDA and, while RAB multiples have been across a wider range, the majority of small-to-medium sized transactions (i.e. less than \$2.5 billion implied enterprise value) have occurred at around 1.2-1.3 times RAB.

Higher multiples (14-18 times EBITDA or more than 1.45-1.6 times RAB) have been paid in a number of instances but these reflected the specific attributes and circumstances of the businesses being acquired which do not apply to AusNet's gas distribution business (e.g. operational efficiencies from privatising a government owned business and larger scale).

In Grant Samuel's view, implied multiples of 12.5-13.1 times historical and 13.0-13.6 times forecast EBITDA and 1.20-1.26 times RAB, while at the high end of the range of comparable transactions, are justified by the specific attributes of AusNet's gas distribution business, such as:

- it is a scarce infrastructure asset with a regulated monopoly position in select regions across Victoria;
- it is the largest of three gas distribution networks in Victoria and has delivered the highest growth rates in total customer connections and pipeline length over the last five years⁷²;

⁷² Source: AER, State of the Energy Market 2021.

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- its operating footprint covers attractive demographics that are expected to maintain continued demand for gas on its distribution network. Victoria has been the fastest growing state (by population) over the past ten years and AusNet's gas distribution network covers a number of areas of expected population growth in Melbourne and its surrounding areas; and
- the high reliance on natural gas in Victoria. Victoria has the highest household gas consumption rates across Australia. Due to the colder Victorian climate, many households are equipped with central gas heaters or single-room gas wall furnaces and heavily reliant on gas fired power especially during winter months.

5.7 Value of Development & Future Networks

5.7.1 Summary

Grant Samuel has valued Development & Future Networks in the range \$3.0-3.3 billion.

5.7.2 DCF Analysis

DCF Scenarios

The key general and specific operational assumptions underlying Scenario A are set out in Appendix 4.

The key assumptions underlying each of the scenarios considered are outlined below:

DEVELOPMENT & FUTURE NETWORKS - DCF SCENARIOS

SCENARIO	DESCRIPTION
Scenario A	As set out in Appendix 4 (total pipeline conversion of \$3.0 billion over the projection period and the contracted asset base reaches \$2.5 billion by FY26) ⁷³
Scenario B	Scenario A, except a delay in the project pipeline by 1 year. The contracted asset base reaches \$2.2 billion in FY26 and meets the \$2.5 billion contracted asset base target by the following year
Scenario C	Scenario A, except a delay in the project pipeline by 2 years. The contracted asset base reaches \$1.9 billion in FY26 and meets the \$2.5 billion contracted asset base target by FY28
Scenario D	Scenario A, except total pipeline conversion of \$3.5 billion over the projection period. The contracted asset base reaches \$2.75 billion by FY26
Scenario E	Scenario A, except total pipeline conversion of \$4.0 billion over the projection period. The contracted asset base reaches \$3.0 billion by FY26
Scenario F	Scenario E, except total pipeline conversion of \$5.0 billion over the projection period. Consistent with Scenario E, the contracted asset base reaches \$3.0 billion by FY26
Scenario G	Scenario E, except total pipeline conversion of \$6.0 billion over the projection period. Consistent with Scenario E, the contracted asset base reaches \$3.0 billion by FY26

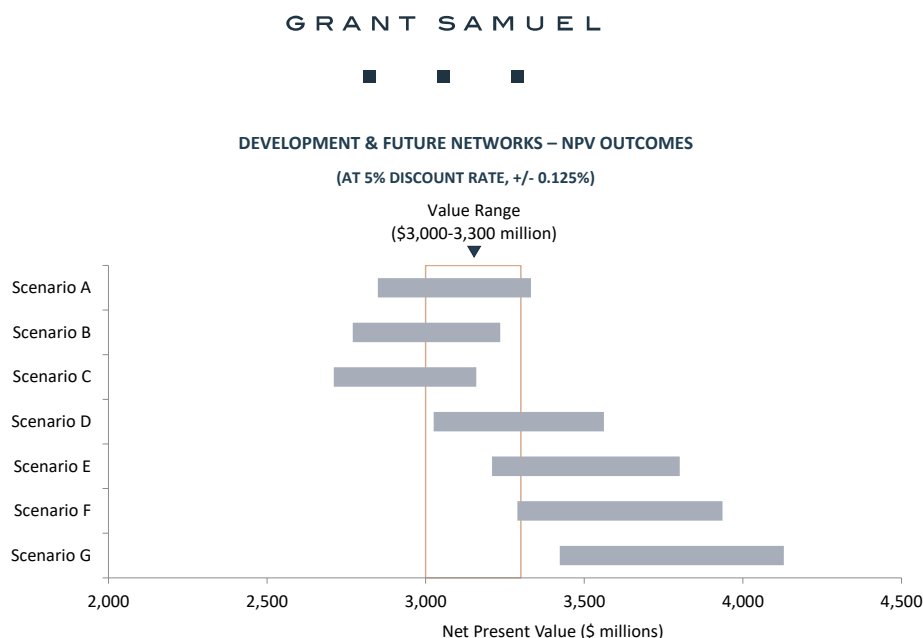
NPV Outcomes

Grant Samuel's selected value range of \$3.0-3.3 billion for AusNet's Development & Future Networks business reflects a subjective balancing of the scenarios and a view that the appropriate discount rate to apply is in a range around 5%. This is depicted diagrammatically below:

⁷³ AusNet has secured \$913 million out of the \$2.5 billion contracted asset base targeted by FY26. The total pipeline conversion over the projection period is based on an assumed "win" rate for AusNet on potential contestable connections projects in Victoria. Based on the AEMO's estimates, the total pipeline value could range from \$6.5 to \$12 billion (depending on timing, cost estimation uncertainty and allocation of project spend between states). See Section 3.3.4 for further discussion of the pipeline.

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The rationale for adopting the same discount rate for Development & Future Networks as for AusNet's regulated businesses is set out in Appendix 3. In summary, rather than adopting a higher discount rate to reflect the greater uncertainty and volatility (given the large fixed upfront capital expenditure) of future cash flows, Grant Samuel has taken these risks into account:

- in the DCF scenarios it has considered for the Development & Future Networks business; and
- by selecting a value range for the Development & Networks business that is towards the lower end of the range of NPV outcomes.

Grant Samuel's value range for AusNet's Development & Future Networks business incorporates the upper portions of Scenarios A to C and the lower portions of Scenarios D to E. The NPV outcomes for Scenario G and, for all practical purposes, Scenario F, sit above the selected value range. Grant Samuel has considered the NPV outcomes for all the scenarios in determining its value range for AusNet's Development & Future Networks business. In this regard:

- Scenarios A, B and C illustrate the NPV impact of Development & Future Networks reaching its target contracted asset base of \$2.5 billion over different timeframes. Due to AusNet's incumbent position in Victoria's electricity transmission market, any uncertainty in the pipeline is more likely to be driven by potential delays or projects not proceeding (rather than lack of success in project tenders).

Under these scenarios, AusNet wins an additional \$3.0 billion in projects over the projection period. The \$2.5 billion contracted asset base target is reached, albeit it is delayed by one year (under Scenario B) and two years (under Scenario C), all of which are plausible outcomes and are included in the selected value range for Development & Future Networks; and

- Scenarios D to G consider a wide range of project delivery outcomes for the Development & Future Networks business. This range of outcomes reflects the uncertainty in timing and quantum of potential projects but also demonstrates the earnings potential (and value) of the business:
 - Scenarios D and E project a faster rollout of new renewables projects and connections opportunities. AusNet exceeds its FY26 target of achieving a \$2.5 billion contracted asset base and leverages that success into future pipeline wins. While achieving these milestones is possible, these scenarios have considerable timing and delivery risk; and

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- Scenarios F and G are aspirational scenarios where AusNet's Development & Future Networks business achieves even higher rates of project pipeline conversion. AusNet's ability to achieve these levels of revenue and EBITDAal is extremely uncertain given its reliance on policy decisions and timely launch of project tenders. These scenarios imply that AusNet secures nearly all of the projects that are contemplated in Victoria.

Taking these factors into account, Grant Samuel believes that the NPV outcomes produced by the DCF analysis support a range of values for the Development & Future Networks business of \$3.0-3.3 billion.

5.7.3 Implied Multiples

Based on the adjusted earnings set out in Section 5.2.2, the value range of \$3.0-3.3 billion represents the following multiples:

DEVELOPMENT & FUTURE NETWORKS – IMPLIED VALUATION PARAMETERS

	VARIABLE (\$ MILLIONS)	RANGE OF PARAMETERS	
		LOW	HIGH
Value range (\$ millions)		3,000	3,300
Multiple of EBITDAal			
FY21 (underlying actual) ⁶⁴	122.6	24.5x	26.9x
FY22 (underlying median broker forecast) ⁶⁵	not used	nc ⁷⁴	nc
Multiple of contracted asset base			
At 30 September 2021	913.0	3.29x	3.61x

The multiples implied by the value attributed to Development & Future Networks are very high relative to the available market evidence for electricity transmission or other electricity infrastructure assets. However, assessing standalone implied earnings multiples or multiples of contracted asset base for Development & Future Networks is difficult given:

- the business is still in its early start up stage. AusNet has doubled its contracted asset base since 2016 and delivered early contract wins and completions. However, AusNet remains focused on its target of more than doubling the contracted asset base to \$2.5 billion by FY26. In this regard:
 - the business is expected to generate negative cash flows in the short term due to high upfront capital investment and development costs; and
 - current EBITDAal, while positive, does not fully reflect the earnings potential of the business once it reaches maturity or a "steady state"; and
- the majority of the pipeline is more than five years away from commencement. Notwithstanding the FY26 target contracted asset base, a large proportion of the investment pipeline is in the late 2020s and early-to-mid 2030s. This long tail of investment means that a material portion of the value of Development & Future Networks sits outside the current five year target.

In this regard, the future earnings and value are extremely sensitive to:

- the pace of new transmission connection projects in Victoria and the overall pace of renewable energy development in Victoria; and
- the timing and quantum of the projects that are put to tender, which are subject to significant policy change risk.

The implied multiples will decline as the business executes its growth strategy. The implied FY26 multiples (assuming that the target \$2.5 billion contracted asset base is achieved) are approximately 15-17 times

⁷⁴ nc = not calculated.

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EBITDAal and 1.20-1.32 times contracted asset base. These implied EBITDA multiples are more in line with the market evidence (refer below) and while the implied multiples of contracted asset base are relatively low, this reflects the inclusion in the contracted asset base of assets currently under construction (and which are not yet contributing to EBITDA).

Moreover, Development & Future Networks is effectively an "extension" of AusNet's electricity transmission business, representing the unregulated growth options for the electricity transmission network, which is unique to Victoria (in other jurisdictions, transmission network augmentation is regulated). The multiples for comparable transactions and listed peers are blended multiples that reflect both the mature network business plus growth opportunities (albeit these growth opportunities are regulated in other markets). Consequently, the standalone multiples implied by Grant Samuel's valuation of Development & Future Networks would be expected to be materially higher than the market evidence.

Aggregating the values (as well as the earnings and the total asset base) of AusNet's electricity transmission business and Development & Future Networks enables more meaningful analysis of implied multiples relative to the available market evidence:

ELECTRICITY TRANSMISSION AND DEVELOPMENT & FUTURE NETWORKS – IMPLIED VALUATION PARAMETERS

	VARIABLE (\$ MILLIONS)	RANGE OF PARAMETERS	
		LOW	HIGH
Value range (\$ millions)		7,400	7,900
Multiple of EBITDAal			
FY21 (underlying actual) ⁶⁴	489.3	15.1x	16.1x
FY22 (underlying median broker forecast) ⁶⁵	not used	15.6x	16.6x
Multiple of R&CAB			
At 30 September 2021	4,644.0	1.59x	1.70x

These implied aggregated multiples are:

- consistent with the recent transactions involving TransGrid, the sole owner of the electricity transmission network in New South Wales and the subject of two competitive sale processes in 2015 and 2020 (at 15-17 times historical EBITDA and 1.60-1.66 times RAB/R&CAB);
- above the multiples implied by recent acquisitions of electricity distribution networks (generally at 12-15 times historical and forecast EBITDA and 1.4-1.6 times RAB); and
- at a slight premium to the multiples implied by Grant Samuel's valuation of AusNet's electricity distribution business (see Section 5.5).

In Grant Samuel's view, the relatively high aggregated implied multiples are justified based on the medium to long term upside potential in Development & Future Networks, including:

- the energy transition that is expected to create opportunities for companies such as AusNet to develop the new infrastructure required to connect contemplated renewable energy generation capacity to the grid;
- increasing penetration of electricity as an energy source across Australia (including in Victoria) which is also expected to drive demand to augment the existing transmission infrastructure;
- the extensive project pipeline which, to date, has received strong support from all levels of government. Based on recent estimates, Victoria is expected to account for anywhere between \$6 billion and \$11 billion in new opportunities for transmission connections and network augmentation over the coming decades. These opportunities include the Victorian Government's clean energy package and *Renewable Energy Zone Development Plan* to install an additional 10GW of renewable energy generation capacity across the state;

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- that, as the incumbent provider of Victoria's electricity transmission network, AusNet is well positioned to capture a large share of the new transmission and connection projects in the state. It has already been awarded the Western Victoria Transmission Network Project⁷⁵. Development commenced in 2020 and remains on track to be delivered in the mid-2020s; and
- prospective returns on capital that should be higher than the regulated returns generated by its electricity transmission business.

On the other hand:

- the future pipeline of opportunities is subject to a range of risks, including timing, quantum and policy risks, not all of which are under AusNet's control. Investments in new generation capacity, particularly for the Victorian *Renewable Energy Zones*, will ultimately be at the discretion of the Victorian Government and, to a lesser extent, the Commonwealth Government. This flexibility could impact the timing of approval or even the number of projects available for tender;
- project delivery represents a large execution risk. Most "mega" projects have project values in excess of \$100 million and are subject to upfront funding risks as well as the tail risks of developing the project on time and within budget. Upfront capital expenditure will delay AusNet's ability to generate breakeven (and positive) cash flows; and
- competition, while arguably not a significant factor within Victoria, is still present in most if not all project tenders. Interstate competitors have demonstrated some (albeit limited) ability to secure contract wins over AusNet in a select number of tenders. While these wins have typically been attributed either to cost or existing relationships with the project proponent (e.g. having delivered on a similar project in a different state), AusNet will not be immune to competition and will need to ensure that it continues to provide a compelling service offering.

While the future is inherently uncertain, AusNet has a track record of delivering on its targets for the Development & Future Networks business. Consistent with its *Focus 2021 Strategy* in 2016, AusNet achieved the target of doubling its contracted asset base⁷⁵ to \$1.0 billion by FY21.

Grant Samuel's value range reflects a subjective balancing of these factors.

5.8 Corporate Overheads

AusNet incurs corporate overhead costs which represent costs associated with running AusNet's head office and include:

- the AusNet executive office (such as costs associated with the offices of the Managing Director and Chief Financial Officer, company secretarial and legal, planning and development, corporate affairs, treasury, tax etc.);
- being a listed company (such as directors fees, annual reports and shareholder communications, share registry and listing fees and dividend processing); and
- certain group shared services (such as human resources, information technology etc.).

These corporate overheads are fully allocated to AusNet's business operations for the purposes of financial reporting and have been included in the cash flow models upon which the valuations of AusNet's businesses are primarily based. Consequently, no separate allowance has been made for corporate overheads.

Any acquirer of 100% of AusNet would be able to save the costs associated with being a publicly listed company. AusNet has estimated that it incurs costs associated with being a publicly listed company of

⁷⁵ Contracted assets in service or currently under construction.

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approximately \$4 million per annum. The ability to save other corporate overhead costs is less clear given AusNet's size and position in the Victorian energy infrastructure sector (it is, for example, in quite a different position compared to Spark as an investment holding company, where corporate cost savings of \$12 million per year were identified). In any event, allowing for such savings would potentially double count them given the earnings multiples from comparable transactions reflect (to some extent) synergies available to the acquirer.

Based on discussions with AusNet, Grant Samuel has estimated total potential cost savings for any acquirer of AusNet at \$8 million per annum (representing publicly listed company costs and an element of savings across senior group executives and shared services costs) and has made allowance for the capitalised value of these corporate cost savings in its valuation of AusNet. The potential cost savings have been capitalised at an EBITDAal multiple of 14.6-15.3 times (the forecast FY22 EBITDAal multiple implied by the combined value of AusNet's business operations) (say \$115-125 million).

5.9 Other Assets and Liabilities

AusNet's other assets and liabilities have been valued in the range \$44.7-90.6 million:

AUSNET – OTHER ASSETS AND LIABILITIES (\$ MILLIONS)

	SECTION REFERENCE	VALUE RANGE	
		LOW	HIGH
Defined benefit superannuation plan surplus (after tax)	4.4	46.2	46.2
Tax refund – gifted assets	4.4	37.5	37.5
Tax refund – capital allowances	4.4	29.0	29.0
Tax risk provision – capital allowances	4.4	(26.4)	(26.4)
Employee underpayment provision (after tax)	4.4	(9.1)	(9.1)
June 2021 storms – recovery of storm response expenditure	4.9.2, refer below	-	19.7
June 2021 storms – GSL payments	4.6, refer below	(15.3)	-
October 2021 storms – reconstruction and reconnection costs	4.9.2, refer below	(7.7)	-
October 2021 storms – GSL payments	4.9.2, refer below	(9.5)	(6.3)
Net other assets and liabilities		44.7	90.6

AusNet's other assets and liabilities include adjustments relating to expenditure incurred or to be incurred as a result of the storms across Victoria in June 2021 and October 2021 which have not been reflected in the cash flow models used for the DCF analysis as follows:

- June 2021 storms:
 - recovery of storm response expenditure of \$29 million (\$7 million operating expenditure and \$22 million capital expenditure). These expenses have already been incurred and AusNet intends to seek approval from the AER for recovery of the expenditure through tariff adjustments within the current 2021-2026 regulatory period (from 1 July 2022). As approval from the AER to pass-through these costs is not guaranteed, the estimated net present value of the expenditure to be recovered (after tax) has been included as an asset only at the top end of the value range; and
 - GSL payments of \$25 million which have not yet been paid to customers (the Ministerial Order requiring payment was received on 18 November). These payments, net of the \$3.1 million contribution from the Victorian Government and after tax, have been included as a liability at the low end of the value range as AusNet intends to seek approval from the AER for recovery of payments through tariff adjustments within the current 2021-2026 regulatory period (from 1 July 2022). If approval is obtained, the overall impact on AusNet would be immaterial (other than the time value of money). While there are a number of precedents for pass-through of costs more broadly (e.g. in relation to the 2019-20 bushfires) there are none specifically relating to GSL

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payments as AusNet has historically been exempt from making GSL payments for these types of weather events. As a result, the ability to recover these costs from 1 July 2022 is uncertain; and

- October 2021 storms (these storms occurred after 30 September 2021, the date of the balance sheet used for valuation purposes):
 - estimated reconstruction and reconnection costs in the range \$8-11 million. The upper end of these costs (after tax) has been included as a liability at the low end of the value range as AusNet intends to seek approval from the AER for recovery of the costs through tariff adjustments within the current 2021-2026 regulatory period (from 1 July 2022). If approval is obtained, the overall impact on AusNet would be immaterial (other than the time value of money); and
 - estimated GSL payments in the range \$9-13.5 million (\$6.3-9.5 million after tax) have been included as a liability. AusNet intends to obtain approval from the AER to recover these payments, but this recovery will not be until the next regulatory price reset for AusNet's electricity distribution business, commencing in July 2026. As the ability to recover the costs is uncertain, the impact is relatively small and the recovery period is well into the future, the net present value of the payment recovery would be immaterial (so no asset has been shown at the top end of the value range).

AusNet has a number of other assets and liabilities either on, or off, its balance sheet that have not been included in other assets and liabilities for the following reasons:

- the net derivatives position at 30 September 2021 of \$(34.5) million has been included as an adjustment to net borrowings (see Section 5.10 below);
- potential REFCL penalties as there is no current failure to meet the compliance points and the remaining REFCLs are being installed ahead of the 1 November 2022 and 1 May 2023 deadlines; and
- a number of assets and liabilities have specifically been included in the cash flow models used for the DCF analysis:
 - the annual cash receipts over the contracted period associated with the lessor receivable of \$318.9 million and the Desalination licence receivable of \$161.9 million;
 - other provisions, in particular, the make good provision of \$17.5 million and the environmental provision of \$36.6 million; and
 - the potential uplift in tax base arising from the corporate restructure completed in June 2015 (estimated by AusNet at \$485 million), which would be realised over the life of the assets. This potential upside is superseded by the "step-up" in tax depreciable asset cost base available to an acquirer which has been incorporated into scenarios that form part of the DCF analysis.

5.10 Adjusted Net Borrowings

AusNet's adjusted net borrowings for valuation purposes are \$(8,065.8) million. This amount reflects AusNet's net borrowings (before lease liabilities) adjusted for capitalised borrowing costs, net derivatives and cash used to make dividend equivalent payments on vested deferred rights:

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AUSNET – ADJUSTED NET BORROWINGS (\$ MILLIONS)

	SECTION REFERENCE	VALUE
Borrowings (at carrying value)	4.4	(8,476.3)
Cash and short term investments	4.4	480.4
Net borrowings at 30 September 2021 (before lease liabilities)	4.4	(7,995.9)
Derivatives (net)	4.4	(34.5)
Capitalised borrowing costs	refer below	(35.3)
Cash used to make dividend equivalent payments on vested deferred rights	4.7, refer below	(0.1)
Adjusted net borrowings		(8,065.8)

Adjusted net borrowings has been calculated on a pre AASB16 basis, which is consistent with the basis on which AusNet's business operations have been valued (i.e. the operating cash flows are net of the lease payments relating to leased assets). While most of the comparable transactions are also pre AASB16, the most recent transactions and the comparable trading multiples have been calculated on a post AASB16 basis. However, leased assets are not material to energy infrastructure entities and any overall impact on multiples would be negligible.

The carrying value of borrowings at 30 September 2021 of \$(8,476.3) million includes a non-cash adjustment of \$(480.8) million relating to the cumulative impact of foreign exchange movements and the fair value change for borrowings that are in a fair value hedge. This adjustment is offset by a gain in AusNet's derivatives used to hedge the borrowings. In addition, a derivative loss of \$515.3 million exists in relation to cash flow hedges (recorded as a derivative liability in the balance sheet, refer below) which is also reflected in AusNet's hedge reserve. While the hedge reserve is a non-cash adjustment, it is effectively the same as a derivative liability for the purposes of valuation (i.e. an estimate of the cash outflow if all borrowings were repaid at the balance sheet date) and has therefore been included in the calculation of adjusted net borrowings.

Adjustments have been made to net borrowings at 30 September 2021 (before lease liabilities) to reflect:

- net derivatives at their "marked-to-market" value at 30 September 2021 of \$(34.5) million (representing a \$480.8 million gain on fair value hedges offset by a \$515.3 million derivative loss on cash flow hedges);
- capitalised borrowing costs of \$(35.3) million, which have been added back to net borrowings as they are accounting assets (i.e. cash amounts incurred previously but capitalised and amortised over the life of the relevant borrowings); and
- cash of \$0.1 million used to make dividend equivalent payments on vested deferred rights.

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6 Evaluation of the Scheme

6.1 Summary of Opinion

Grant Samuel has concluded that the Scheme is fair and reasonable. Accordingly, in Grant Samuel's opinion the Scheme is in the best interests of AusNet shareholders in the absence of a superior proposal.

6.2 Fairness

Grant Samuel has estimated the full underlying value of AusNet to be in the range \$9.4-10.3 billion, which corresponds to \$2.45-2.70 per share⁷⁶.

The value range of \$2.45-2.70 per share includes a premium for control and exceeds the price at which, based on current market conditions, Grant Samuel would expect AusNet shares to trade on the ASX in the absence of a change of control proposal (or speculation as to such a proposal).

The value is the aggregate value of the underlying value of AusNet's business operations together with the realisable value of non-trading assets less external borrowings and non-trading liabilities. The value of the business operations was estimated having regard to DCF analysis, with multiples of earnings/cash flows and multiples of RAB (or contracted asset base) used as a cross check. The valuation and the basis for it are set out in detail in Section 5 of this report.

Quality infrastructure assets have been one of the most sought after investment classes over the past decade with the substantial inflow of investment into the sector driving up asset prices and driving down expected investor returns. AusNet has a number of highly attractive features that underpin its investment appeal and its value including the:

- quality of its asset base that underpins its predictable EBITDA margins and long term, stable cash flows;
- strategic (and scarcity) value of its:
 - diversified portfolio across electricity and gas infrastructure assets;
 - scale and "natural monopoly" characteristics within Victoria; and
 - key role within the NEM, which will benefit from the increasing penetration of electricity as an energy source across Australia (including in Victoria);
- significant potential value creation from its Development & Future Networks business through a pipeline of large scale network augmentation and new transmission connections opportunities that are supported by:
 - the energy transition and new investment in renewable power generation projects;
 - Victorian Government and Commonwealth Government initiatives including the Victorian *Renewable Energy Zones*; and
 - AusNet's position as the primary electricity transmission network across in Victoria that enables it to leverage its existing platform to capture a large share of the intrastate opportunities; and
- the scope for cost savings and other synergies available to multiples acquirers.

These attributes are captured in Grant Samuel's valuation:

- the DCF analysis utilises relatively low discount rates⁷⁷ in a range around 5.0% for AusNet's business operations. While it could be argued that AusNet's unregulated Development & Future Networks

⁷⁶ On a cum dividend basis (i.e. prior to the \$0.0475 per share interim dividend that is to be paid on 16 December 2021).

⁷⁷ Post tax nominal weighted average cost of capital.

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business warrants a higher discount rate to reflect the greater uncertainty and volatility of its cash flows, these risks are:

- taken into account in the scenario analysis and the weighting towards the lower end of the range of NPV outcomes; and
- mitigated by long term, inflation-linked contracts and the integration into AusNet's electricity transmission business;
- incremental cash flows from completion of current and potential future projects in the Development & Future Networks business have been included;
- the valuation allows for synergies that are available to multiple acquirers of AusNet;
- the DCF analysis considers scenarios that incorporate assumptions as to:
 - capital expenditure requirements for regulated assets to reflect network replacement and upgrades required to future-proof the network; and
 - the "step up" in the tax depreciable value of AusNet's asset base that should be achievable by an acquirer.

The selected value range for AusNet's business operations effectively incorporates a risk weighted allowance for this upside potential; and

- the value range represents overall multiples for AusNet's combined business operations of 14.1-14.8 times FY21 and 14.6-15.3 times FY22 EBITDAal and 1.53-1.61 times R&CAB. In Grant Samuel's opinion, these multiples are consistent with the available market evidence.

At the same time, it is important that shareholders recognise that:

- AusNet's business operations are concentrated in Victoria. While Victoria benefits from its inclusion in the NEM and has attractive demographic characteristics (e.g. population growth and household consumption patterns), this geographical concentration limits AusNet's ability to mitigate exposure to regional risks (e.g. demand and weather);
- there is ongoing political pressure to reduce overall energy prices through any means available. While electricity and gas transportation costs make up a relatively small proportion of the final delivered energy price, pressure is being applied through:
 - the allowable revenue framework, which provides incentives for operational outperformance but removes any sustained level of benefits at the commencement of each new regulatory period;
 - monitoring of approved capital investment programs to ensure that the capital base is commensurate with the level of service required to deliver stable, reliable and secure energy (which flows through to allowable revenue); and
 - the Victorian Government's recent position on GSL payments (which AusNet had previously been exempt from paying in relation to the impact of certain natural disasters); and
- the unsettled state of government energy and environmental policies (at both a Commonwealth and State level) is creating uncertainty as Australia grapples with the challenges of the energy transition and future questions on sustainability and energy security.

The Commonwealth Government's commitment to reach net-zero by 2050 sets out a long term vision for the future energy mix but has mixed implications for AusNet:

- increased reliance on the electricity grid (from increasing electrification and improvements in battery storage technologies) may result in network constraints and lower network reliability unless the network is adequately future-proofed (i.e. through upgrades or mains replacements); and

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- there is uncertainty as to the future role of gas in the energy mix. There is the risk that a structural shift in gas demand results in gas distribution assets becoming “stranded assets”. On the other hand, early studies on repurposing gas pipelines to transport cleaner fuels (e.g. hydrogen) may ensure that gas distribution networks continue to play an important role in the energy transition and future energy mix.

The total consideration of \$2.65 per share falls within the value range of \$2.45-2.70 per share. Accordingly, the Scheme is fair. In fact, the total consideration falls near the top end of the value range, which is likely to reflect a combination of AusNet’s strategic value, the competitive bidding process and the need to convince shareholders to give up a high quality investment with limited opportunity to reinvest the after tax proceeds and generate the same level of income (at similar risk levels). Furthermore, fairness is supported by the following:

- while no formal auction process has been undertaken, the total consideration of \$2.65 is the highest price secured through a competitive sale process and therefore is, by definition, the market price and fair; and
- SP Group, an arm’s length party not associated with Australian Energy Holdings, has supported the Scheme (in the absence of a superior proposal) and there is no apparent reason why SP Group would accept anything less than fair value for its substantial shareholding.

6.3 Reasonableness

As the Scheme is fair, it is also reasonable. In any event, there are a number of other factors that support the reasonableness of the Scheme and which AusNet shareholders should consider in determining whether to vote for or against the Scheme. These factors are set out in the following sections.

6.3.1 Premium for Control

The total consideration of \$2.65 per share represents a 34% premium to the price at which AusNet shares traded in the month prior to announcement of the Brookfield Indicative Proposal. The premium is higher (~42-44%) when compared to prices in the three to six months prior to announcement:

TOTAL CONSIDERATION – PREMIUM OVER PRE-ANNOUNCEMENT PRICES

PERIOD	AUSNET PRICE/VWAP	PREMIUM
Closing price on 17 September 2021	\$1.980	34%
1 week prior to 17 September 2021 – VWAP	\$1.981	34%
1 month prior to 17 September 2021 – VWAP	\$1.963	35%
3 months prior to 17 September 2021 – VWAP	\$1.870	42%
6 months prior to 17 September 2021 – VWAP	\$1.845	44%

The premiums up to one month prior to announcement of the Brookfield Indicative Proposal are consistent with (albeit at the high end), and the premiums over longer time frames are above, the level of premiums typically associated with takeovers in Australia (of 20-35%). The recent share prices are a more appropriate base from which to measure the premium implied by the Scheme as the three and six month VWAPs simply reflect lower share prices prevailing earlier in those periods (including the fall in the share price associated with the release of AusNet’s FY21 results on 12 May 2021). AusNet’s share price had been on a steady upward trajectory since the announcement of its FY21 results.

However, it is important to recognise that premiums for control:

- are an outcome not a determinant of value; and

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- vary widely depending on the individual circumstances of the target (such as the existence of competing offers). The premiums in a substantial proportion of transactions actually fall outside (either above or below) the 20-35% range.

Intuitively, the expected premium for a business such as AusNet would be towards the low end of the spectrum because:

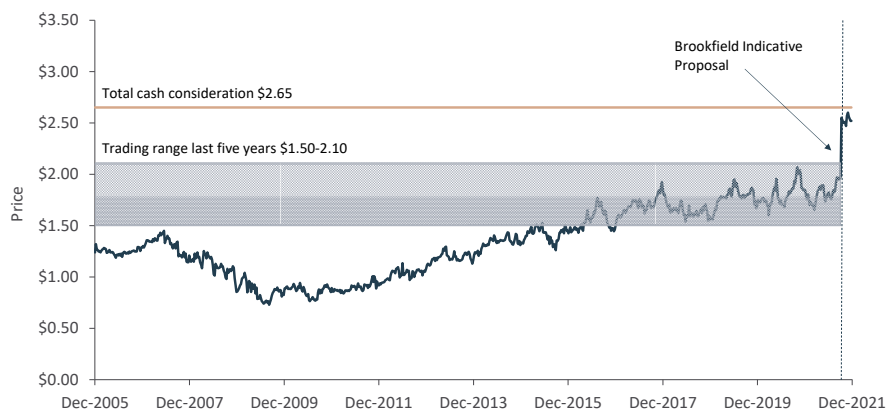
- cash flows for regulated assets are stable and predictable with long run growth generally limited to economic growth and inflation and earnings profiles are reasonably transparent with a considerable level of publicly available information on volumes, revenues, operating costs and capital investment;
- dividends typically represent a substantial proportion of available cash flow and high payout ratios mean that share prices are usually underpinned by the dividend yield;
- while there are likely to be some operating cost synergies there is usually little opportunity for integration with other assets and therefore there is limited scope for an acquirer to achieve significant levels of synergies (or retain them in the longer term if the assets are regulated); and
- energy infrastructure entities are typically reasonably highly leveraged and there is limited scope to enhance returns by increasing debt.

Nevertheless, the Scheme provides a premium at the high end of the 20-35% range. When considering the extent of the premium, shareholders should take the following factors into account:

- since listing on the ASX in December 2005, AusNet shares have never traded at or above \$2.65:

AUSNET – TOTAL CASH CONSIDERATION VS CLOSING PRICE

DECEMBER 2005 TO DECEMBER 2021



SOURCE: IRESS

The shares reached an all-time intraday high of \$2.10 in mid-October 2020. Over the past five years, AusNet shares have exhibited relatively low price volatility, consistently trading between \$1.50 and \$2.00. While AusNet shares are not highly liquid, there is around 100% turnover of the free float over any 12 month period and AusNet is followed by a number of broker analysts (albeit AusNet arguably has less coverage than other, more widely held, S&P/ASX 200 companies). AusNet provides detailed information on each of its business operations in its half year and full year results announcements. Grant Samuel is not aware of any specific events or issues that might have artificially or temporarily negatively affected the AusNet share price prior to announcement of the Brookfield Indicative

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Proposal and there is no reason to believe that the AusNet share price represents anything other than a fair reflection of current market expectations; and

- premiums above 35% are not necessarily uncommon, particularly where there is a competitive process or where there are significant strategic and/or synergistic benefits available to an acquirer but which are not available to portfolio investors in the normal course of events on a standalone basis. In this case:
 - the Scheme is the outcome of a competitive process that involved a total of five separate previous offers from two credible parties:

AUSNET – COMPETITIVE PROPOSALS

PROPOSAL	DATE	TYPE	OFFER PRICE	PREMIUM ⁷⁸
Brookfield Initial Proposal	30 August 2021	Cash	\$2.35	19-29%
APA Group Initial Proposal	1 September 2021	Scrip/Cash	\$2.32 ⁷⁹	18-28%
Subsequent Brookfield proposal	13 September 2021	Cash	\$2.45	24-33%
Brookfield Indicative Proposal	19 September 2021	Cash	\$2.50	26-36%
APA Group Indicative Proposal	21 September 2021	Scrip/Cash	\$2.60 ⁷⁹	31-41%

Although APA Group only become aware that there was a competitive process when the Brookfield Indicative Proposal was announced on 20 September 2021, this led to the APA Group Indicative Proposal and further increases in the offer price prior to announcement of the Scheme. This competitive process in part explains the relatively high premium for control, with the implied premiums for the earlier proposals more consistent with the level of premiums typically associated with takeovers in Australia of 20-35%; and

- energy infrastructure assets in Australia have long term strategic and scarcity value. The overall premium levels are not dissimilar to the premiums seen in other recent transactions involving strategic listed energy infrastructure businesses in Australia which have also been substantially higher than might have been expected, particularly where there has been a competitive process:

ENERGY INFRASTRUCTURE – RECENT ACQUISITION PREMIUMS

TARGET	REGULATION	ACQUIRER	DATE	TYPE	PREMIUM ⁸⁰
Spark	Mostly regulated	KKR/Ontario Teachers/ PSP Investments	August 2021	Cash	28%
Infigen	Unregulated	Iberdrola	June 2020	Cash	56%
APA Group ⁸¹	Mostly unregulated	CK Group	August 2018	Cash	33%
DUET	Regulated/unregulated	CK Group	December 2016	Cash	29%
Envestra	Regulated	CK Group	May 2014	Cash	25%

These recent premiums for control indicate that non-competitive acquisitions of energy infrastructure assets (i.e. Spark, APA Group, DUET and Envestra) have generally been completed at control premiums in the range 25-30% (i.e. within the typical range). By contrast, Infigen was the subject of competitive proposals, initially from UAC Energy Holdings Pty Ltd (which was at a 36% premium to Infigen's last trading price) and successive offers from Iberdrola Renewables Australia Pty Ltd (starting at a 46% premium and increasing to the final 56% premium to Infigen's last trading price).

⁷⁸ Premiums have been calculated based on AusNet's closing price the day prior to receipt of the proposal but no later than 17 September 2021 and VWAPs over one week, one month, three months and six months from that date.

⁷⁹ Implied offer price based on APA Group security price at the date of the relevant proposal.

⁸⁰ Premium is calculated over last closing price prior to announcement of initial approach.

⁸¹ The acquisition of APA Group by CK Group was ultimately blocked by FIRB and did not proceed.

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Lower premiums for control can sometimes be justified where scrip is offered as part (or all) of the consideration as the target shareholders retain an exposure to the growth opportunities of the target's business operations (albeit on a diluted basis) as well as the benefit from any acquisition synergies. They may also benefit from capital gains tax rollover relief in certain circumstances.

6.3.2 Share Trading in the Absence of the Scheme

The Scheme enables shareholders to realise their investment in AusNet at a cash price which incorporates a significant premium for control and takes into account the inherent value of AusNet's existing electricity and gas infrastructure assets, the potential upside from the energy transition to renewables and reflects synergies available to any acquirer.

In the absence of the Scheme or a similar transaction, shareholders could only realise their investment by selling on market at a price which does not include any premium for control and would incur transaction costs (e.g. brokerage). It is likely that, under current market conditions and in the absence of the Scheme or a similar transaction (or speculation as to one), AusNet shares would trade at prices materially below \$2.65 (or \$2.6025 since AusNet shares have traded on an ex-dividend basis since 16 November 2021). In the absence of some catalyst for a positive re-rating, it is unlikely that AusNet shares would trade materially above the share price prior to announcement of the Brookfield Indicative Proposal (\$1.95-2.00) in the short term, particularly given the subsequent announcement (on 11 November 2021) of a decline in 1HY22 financial performance compared to the prior period and a dividend in line with FY22 guidance, but unfranked.

6.3.3 Status Quo

The primary disadvantage of the Scheme is that shareholders will be giving up a quality investment that has provided strong historical returns and they will not participate in the future returns or growth from development of AusNet's business.

Many shareholders (at least retail shareholders) are likely to have acquired AusNet shares as a long term, income generating investment and were presumably attracted to the yield (generally around 5-6% in recent years, albeit only partially franked), the secure and predictable income base and, until FY21, the steady growth in dividends over time.

For some of these shareholders, there may be doubts over the benefits of the Scheme notwithstanding the generous premium over pre-announcement prices and the likely drop back towards this level if the Scheme is not implemented. This is because:

- Australian resident shareholders (holding their investment on capital account) will be subject to capital gains tax on the disposal of their AusNet shares. Depending on their acquisition price and the holding period, the capital gains tax liability could be significant (AusNet shares listed on the ASX at \$1.38 in December 2005 and were trading below \$1.50 as recently as March 2020). Shareholders who face significant capital gains tax liabilities may find it challenging to reinvest the after tax proceeds in assets with a similar risk/growth profile and maintain the level of income currently generated from their AusNet investment. However, the premium provides a significant buffer and should cover most tax liabilities leaving a higher capital value to reinvest; and
- AusNet represents one of the highest quality opportunities in the Australian market for those seeking a long term, secure income stream and with limited tolerance for risk. For such investors, capital value at a point in time may be of less importance and finding alternative opportunities of equal quality may be problematic. At the very least, the Scheme reduces the diversity of available investment options. As the acquisition of Spark has been approved, APA Group will be the only remaining ASX listed energy infrastructure investment. Further, the potential acquisition of Sydney

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Airport will leave very few opportunities for investment even in the broader infrastructure sector (in Australia).

Shareholders in this situation may prefer the status quo but that does not detract from the Scheme being fair and reasonable.

6.3.4 Major Shareholders

An acquisition proposal by a third party could not succeed without the agreement of either SP Group (which has a relevant interest in 32.7% of AusNet's shares) or State Grid (which has a relevant interest in 19.9% of AusNet's shares).

SP Group has confirmed that it supports the Scheme and has indicated that it intends to vote the shares that it holds or controls in favour of the Scheme, subject to certain conditions, including there not being a superior proposal and the Scheme being implemented by 30 June 2022. All other things being equal, SP Group has also expressed a preference for an all cash consideration for the AusNet shares that it holds or controls.

State Grid has not made any public statement as to its voting intentions in relation to the Scheme. However, both SP Group and State Grid have a representative on AusNet's Board and the AusNet Board unanimously recommends that shareholders vote in favour of the Scheme, in the absence of a superior proposal and subject to an independent expert concluding (and continuing to conclude) that the Scheme is in the best interests of AusNet shareholders.

6.3.5 Alternative Proposals

In deciding whether to vote in favour of or against the Scheme, shareholders need to have regard to the alternatives that are realistically available to them. The total consideration under the Scheme of \$2.65 per share is the highest offer price received as a result of a competitive process between Brookfield and APA Group. However, it is conceivable that a third party (including APA Group) could make a higher offer for AusNet:

- the Scheme has highlighted the strategic value of AusNet's business operations. AusNet could be an attractive acquisition for a number of major global energy infrastructure investors, particularly those without a major presence in Australia;
- Australian Energy Holdings has no shareholding in AusNet⁸². While AusNet's major shareholder, SP Group, has confirmed its support for the Scheme, this support is subject to there being no superior proposal;
- while there are the usual exclusivity obligations in the Scheme Implementation Deed, there is a fiduciary carve out and AusNet can respond to unsolicited superior proposals from other parties (subject to a disclosure obligation); and
- while the extent of the premium already offered under the Scheme may be a deterrent, it would not necessarily stop a determined bidder.

On the other hand:

- there are relatively few potential acquirers that have the financial capacity to acquire AusNet and the requirement for two (or more) parties to form a consortium could be a challenging task; and

⁸² As at 23 November 2021, Brookfield (and also Australian Energy Holdings because it is ultimately controlled by Brookfield) had voting power in 78,440 AusNet shares (which represents 0.0020% of AusNet's issued shares) because entities in Brookfield's public securities group have voting power in those AusNet shares. Those other members of the Brookfield group operate on the other side of information barrier arrangements.

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- Australian Energy Holdings has a matching right in respect of any superior proposal received by AusNet.

Since 21 September 2021, AusNet has not received any further proposals from APA Group. APA Group has not publicly withdrawn the APA Group Indicative Proposal and, following announcement of the Scheme, announced that:

- it still considers AusNet to be highly attractive; but
- while it had received strong support from investors in AusNet and APA Group for the Indicative APA Group Proposal, it will continue to remain financially disciplined.

While APA Group was granted access to due diligence on AusNet on 23 October 2021, this access was terminated on 1 November 2021 in accordance with the terms of the Scheme Implementation Deed. Although this due diligence period was relatively short, it would have provided APA Group with additional information to enable it to submit a superior proposal if it wished to do so.

Furthermore, the APA Group Indicative Proposal involved consideration in the form of cash and scrip, and AusNet's major shareholder, SP Group, has expressed a preference for an all cash consideration.

Since announcement of the Scheme Implementation Deed on 1 November 2021, no superior proposal has been received and, as at the date of this report, the AusNet directors are not aware of any superior proposal that is likely to emerge.

The meeting at which AusNet shareholders will vote on the Scheme is scheduled for 28 January 2022. This should be ample time (since 20 September 2021) for an alternative offeror (including APA Group) to come forward with a superior proposal.

In summary, while it is conceivable that a third party could make a higher offer, it is unlikely in the circumstances. In Grant Samuel's view, it would be imprudent for shareholders to vote against the Scheme in the hope of a higher offer subsequent to the Scheme meeting on 28 January 2022 from either APA Group or another party.

6.3.6 Other Matters

Taxation Consequences

If the Scheme is implemented, shareholders will be treated as having disposed of their AusNet shares for tax purposes. A capital gain or loss may arise on disposal depending on the cost base for the AusNet shares, the length of time held, whether the shares are held on capital or revenue account and whether the shareholder is an Australian resident for tax purposes. The cost base for AusNet shares will also depend on whether the shareholder acquired their AusNet shares as part of the corporate restructure completed in June 2015 or after that date. For capital gains tax purposes, the capital proceeds on disposal of AusNet shares will be \$2.65 per share less the \$0.0475 1HY22 dividend to be paid to AusNet shareholders on 16 December 2021 (assuming the Scheme is implemented by 31 March 2022). Details of the Australian taxation consequences for shareholders who are Australian resident individuals and hold their shares on capital account are set out in Section 7 of the Scheme Booklet. Shareholders should consult their own professional adviser in relation to the taxation consequences.

Transaction Costs

If the Scheme is not approved by shareholders or otherwise not implemented, it is estimated that AusNet will incur costs (including legal and other adviser's fees as well as printing and mailing costs) of approximately \$18 million (~0.005 cents per share). Furthermore, in certain circumstances, AusNet will be liable to pay Australian Energy Holdings a \$101.7 million break fee. If the Scheme is implemented, all transaction costs (estimated by AusNet to be approximately \$41 million) will effectively be borne by Australian Energy Holdings.

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Potential Additional Consideration

The total consideration under the Scheme of \$2.65 per share is inclusive of any dividends paid by AusNet in respect of FY22 (i.e. the cash amount received by shareholders will be reduced by these dividends if they are declared and paid prior to implementation of the Scheme).

An interim dividend of \$0.0475 per share is to be paid on 16 December 2021. Based on the current timetable, the Scheme is expected to be implemented on 16 February 2022, and shareholders will receive a cash payment of \$2.6025.

If the Scheme is not implemented by 31 March 2022, AusNet shareholders will be entitled to additional consideration of \$0.000260274 per share for each day after 31 March 2022 that has elapsed by the date of implementation. Consequently, if the Scheme is implemented:

- after 31 March 2022 but prior to the AusNet Board declaring a dividend in relation to 2HY22 (which would normally be declared around 12 May 2022), shareholders will receive the cash amount of \$2.6025 plus \$0.00026274 per share for each day from 1 April 2022 to implementation of the Scheme; and
- after 31 March 2022 and after payment of a final dividend in relation to FY22 (which would normally be paid around 20 May 2022), shareholders will receive:
 - the final dividend (up to a maximum of \$0.0475 cents per share);
 - the cash payment will be reduced by the amount of the final dividend paid. Assuming a final dividend of \$0.0475 per share, shareholders will receive a cash amount of \$2.555; plus
 - \$0.00026274 per share for each day from 1 April 2022 to implementation of the Scheme.

The impact of the additional consideration is illustrated below (assuming a final dividend in relation to FY22 of the maximum of \$0.0475 per share):

ADDITIONAL CONSIDERATION – ILLUSTRATIVE EXAMPLE

IMPLEMENTATION DATE	31 MARCH 2022	30 APRIL 2022	31 MAY 2022	30 JUNE 2022
FY22 interim dividend	0.0475	0.0475	0.0475	0.0475
FY22 final dividend (maximum payable)	-	-	0.0475	0.0475
Cash amount	2.6025	2.6025	2.5550	2.5550
Total Scheme consideration	2.6500	2.6500	2.6500	2.6500
Additional consideration	-	0.0078	0.0159	0.0237
Total cash payment received by shareholders	2.6500	2.6578	2.6659	2.6737

This adjustment compensates shareholders for AusNet's earnings in the event the Scheme is not implemented in a timely manner.

In any event:

- consideration adjustments for dividends paid by the target are common in takeover offers; and
- the Scheme is currently scheduled to be implemented prior to 31 March 2022 in which case no additional consideration will be paid.

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6.4 Shareholder Decision

Grant Samuel has been engaged to prepare an independent expert's report setting out whether in its opinion the Scheme is in the best interests of shareholders and to state reasons for that opinion. Grant Samuel has not been engaged to provide a recommendation to shareholders in relation to the Scheme, the responsibility for which lies with the directors of AusNet.

In any event, the decision whether to vote for or against the Scheme is a matter for individual shareholders based on each shareholder's views as to value and business strategy, their expectations about future economic and market conditions and their particular circumstances including risk profile, liquidity preference, investment strategy, portfolio structure and tax position. In particular, taxation consequences may vary from shareholder to shareholder. If in any doubt as to the action they should take in relation to the Scheme, shareholders should consult their own professional adviser.

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7 Qualifications, Declarations and Consents

7.1 Qualifications

The Grant Samuel group of companies provide corporate advisory services in relation to mergers and acquisitions, capital raisings, debt raisings, corporate restructurings and financial matters generally. The primary activity of Grant Samuel & Associates Pty Limited is the preparation of corporate and business valuations and the provision of independent expert's reports in connection with mergers and acquisitions, takeovers and capital reconstructions. Since inception in 1988, Grant Samuel and its related companies have prepared more than 575 public independent expert and appraisal reports.

The persons responsible for preparing this report on behalf of Grant Samuel are Jaye Gardner BCom LLB (Hons) CA SF Fin GAICD and Stephen Wilson MCom (Hons) CA SF Fin. Both have a significant number of years of experience in relevant corporate advisory matters. Shaun Yu BBA CFA, Mitchell Skene BEng (Hons) B Com and Nick Laidlaw B Com assisted in the preparation of the report. Each of the above persons is a representative of Grant Samuel pursuant to its Australian Financial Services Licence under Part 7.6 of the Corporations Act.

7.2 Disclaimers

It is not intended that this report should be used or relied upon for any purpose other than as an expression of Grant Samuel's opinion as to whether the Scheme is in the best interests of shareholders. Grant Samuel expressly disclaims any liability to any AusNet shareholder who relies or purports to rely on the report for any other purpose and to any other party who relies or purports to rely on the report for any purpose whatsoever.

Grant Samuel has had no involvement in the preparation of the Scheme Booklet issued by AusNet and has not verified or approved any of the contents of the Scheme Booklet. Grant Samuel does not accept any responsibility for the contents of the Scheme Booklet (except for this report).

7.3 Independence

Grant Samuel and its related entities do not have at the date of this report, and have not had within the previous two years, any business or professional relationship with AusNet or Australian Energy Holdings or any financial or other interest that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Scheme.

Grant Samuel had no part in the formulation of the Scheme. Its only role has been the preparation of this report.

Grant Samuel will receive a fixed fee of \$1.4 million for the preparation of this report. This fee is not contingent on the conclusions reached or the outcome of the Scheme. Grant Samuel's out of pocket expenses in relation to the preparation of the report will be reimbursed. Grant Samuel will receive no other benefit for the preparation of this report.

Grant Samuel considers itself to be independent in terms of Regulatory Guide 112 issued by the ASIC on 30 March 2011.

7.4 Declarations

AusNet has agreed that it will indemnify Grant Samuel and its employees and officers in respect of any liability suffered or incurred as a result of or in connection with the preparation of the report. This indemnity will not apply in respect of the proportion of any liability found by a court to be primarily caused by any conduct involving negligence or wilful misconduct by Grant Samuel. AusNet has also agreed to indemnify Grant Samuel and its employees and officers for time spent and reasonable legal costs and

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expenses incurred in relation to any inquiry or proceeding initiated by any person. Any claims by AusNet are limited to an amount equal to the fees paid to Grant Samuel. Where Grant Samuel or its employees and officers are found to have been negligent or engaged in wilful misconduct Grant Samuel shall bear the proportion of such costs caused by its action.

Advance drafts of this report were provided to AusNet and its advisers. Certain changes were made to the drafting of the report as a result of the circulation of the draft report. There was no alteration to the methodology, evaluation or conclusions as a result of issuing the drafts.

7.5 Consents

Grant Samuel consents to the issuing of this report in the form and context in which it is to be included in the Scheme Booklet to be sent to shareholders of AusNet. Neither the whole nor any part of this report nor any reference thereto may be included in any other document without the prior written consent of Grant Samuel as to the form and context in which it appears.

7.6 Other

The accompanying letter dated 16 December 2021 and the Appendices form part of this report.

Grant Samuel has prepared a Financial Services Guide as required by the Corporations Act. The Financial Services Guide is set out at the beginning of this report.

GRANT SAMUEL & ASSOCIATES PTY LIMITED

16 December 2021

Grant Samuel & Associates

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APPENDIX 1

BROKER CONSENSUS FORECASTS

AusNet has not publicly released detailed earnings forecasts for FY22. Accordingly, the prospective multiples implied by the valuation of AusNet in Grant Samuel's report are based on median broker forecasts. Set out below is a summary of forecasts prepared by brokers that follow AusNet in the Australian stockmarket:

AUSNET – BROKER FORECASTS (\$ MILLIONS)

BROKER	DATE	FY22	
		REVENUE	EBITDA
Broker 1	11 Nov 21	1,950.0	1,165.0
Broker 2	11 Nov 21	1,890.0	1,097.0
Broker 3	20 Sep 21	1,887.0	1,127.0
Broker 4	11 Nov 21	1,959.0	1,192.0
Minimum		1,887.0	1,097.0
Maximum		1,959.0	1,192.0
Median		1,920.0	1,146.0
Lease interest income			34.7
			EBITDAal
Median		1,920.0	1,180.7

Source: Broker reports, Grant Samuel analysis

When reviewing this data, the following should be noted:

- the forecasts presented above represent the latest available broker forecasts for AusNet following announcement of the Brookfield Indicative Proposal on 20 September 2021. While AusNet announced its 1HY22 results on 11 November 2021, not all brokers have published updated research on AusNet since announcement of the Brookfield Indicative Proposal, and some that have published updated research have not updated their forecasts;
- as far as Grant Samuel is aware, AusNet is currently followed by seven brokers, of which four are presented above. Two of the three brokers not shown above have not published research on AusNet since May/June 2021 (and at least one of these brokers has suspended coverage of AusNet) and the other broker does not publish earnings by business operation (and omitting this broker provides more consistency between the consolidated and the business operation forecasts);
- only one broker has provided forecasts of EBITDAal (i.e. EBITDA including lease interest income). To provide a median estimate of EBITDAal, Grant Samuel has added AusNet's forecast lease interest income to the median broker forecast for EBITDA; and
- as far as is possible to identify from a review of the brokers' reports, Grant Samuel believes that the earnings forecasts do not incorporate any other one-off adjustments or non-recurring items.

The median broker forecasts for FY22 are sufficiently close to AusNet's FY22 Budget¹ to be useful for analytical purposes.

Set out below is a summary of forecasts of EBITDA (or EBITDAal where appropriate) for AusNet's business operations prepared by brokers that follow AusNet in the Australian stockmarket. When reviewing this data the following should be noted:

¹ References to the FY22 Budget in this report do not represent the provision of guidance by AusNet.

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- only three of the four brokers that have published research since announcement of the Brookfield Indicative Proposal have provided FY22 forecasts of EBITDA by business operation. The other broker has provided FY22 forecasts of EBIT by business operation (but not EBITDA). Grant Samuel has allocated the consolidated depreciation and amortisation forecast by each broker to each business operation in the same proportion as depreciation and amortisation has been forecast by AusNet; and
- only one broker has provided forecasts of EBITDAal. To provide a median estimate of EBITDAal for AusNet's Development & Future Networks business, Grant Samuel has added AusNet's forecast lease interest income to the median broker forecast for EBITDA.

ELECTRICITY TRANSMISSION – BROKER FORECASTS (\$ MILLIONS)

BROKER	DATE	FY22	
		REVENUE	EBITDA
Broker 1	11 Nov 21	595.0	345.0
Broker 2	11 Nov 21	579.0	352.0
Broker 3	20 Sep 21	585.0	343.0
Broker 4	11 Nov 21	607.0	360.0
Minimum		579.0	343.0
Maximum		607.0	360.0
Median		590.0	348.5

Broker reports, Grant Samuel analysis

The median broker forecasts of EBITDA for AusNet's electricity transmission business are sufficiently close to AusNet's FY22 Budget¹ to be useful for analytical purposes.

ELECTRICITY DISTRIBUTION – BROKER FORECASTS (\$ MILLIONS)

BROKER	DATE	FY22	
		REVENUE	EBITDA
Broker 1	11 Nov 21	968.0	574.0
Broker 2	11 Nov 21	894.0	509.0
Broker 3	20 Sep 21	884.0	521.0
Broker 4	11 Nov 21	933.0	569.9
Minimum		884.0	509.0
Maximum		968.0	574.0
Median		913.5	545.4

Broker reports, Grant Samuel analysis

The median broker forecasts of EBITDA for AusNet's electricity distribution business are sufficiently close to AusNet's FY22 Budget¹ to be useful for analytical purposes.

GAS DISTRIBUTION – BROKER FORECASTS (\$ MILLIONS)

BROKER	DATE	FY22	
		REVENUE	EBITDA
Broker 1	11 Nov 21	215.0	155.0
Broker 2	11 Nov 21	211.0	151.0
Broker 3	20 Sep 21	229.0	168.0
Broker 4	11 Nov 21	239.0	174.6
Minimum		211.0	151.0
Maximum		239.0	174.6
Median		222.0	161.5

Broker reports, Grant Samuel analysis

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The median broker forecasts of EBITDA for AusNet's gas distribution are sufficiently close to AusNet's FY22 Budget¹ to be useful for analytical purposes.

DEVELOPMENT & FUTURE NETWORKS – BROKER FORECASTS (\$ MILLIONS)

BROKER	DATE	FY22	
		REVENUE	EBITDA
Broker 1	11 Nov 21	182.0	91.0
Broker 2	11 Nov 21	216.0	85.0
Broker 3	20 Sep 21	194.0	95.0
Broker 4	11 Nov 21	189.0	87.5
<i>Minimum</i>		<i>182.0</i>	<i>85.0</i>
<i>Maximum</i>		<i>216.0</i>	<i>95.0</i>
Median		191.5	89.2
Lease interest income			34.7
			EBITDAal
Median		191.5	123.9

 Broker reports, Grant Samuel analysis

The median broker forecasts of EBITDA for Development & Future Networks differ materially from AusNet's FY22 Budget¹ for Development & Future Networks and have therefore not been used to calculate implied multiples for valuation purposes.

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APPENDIX 2

VALUATION METHODOLOGIES

1 Overview

The most reliable evidence as to the value of a business is the price at which the business or a comparable business has been bought and sold in an arm's length transaction. In the absence of direct market evidence of value, estimates of value are made using methodologies that infer value from other available evidence. There are four primary valuation methodologies that are commonly used for valuing businesses:

- capitalisation of earnings or cash flows;
- discounting of projected cash flows;
- industry rules of thumb; and
- estimation of the aggregate proceeds from an orderly realisation of assets.

Each of these valuation methodologies has application in different circumstances. The primary criterion for determining which methodology is appropriate is the actual practice adopted by purchasers of the type of business involved.

2 Capitalisation of Earnings or Cash Flows

Capitalisation of earnings or cash flows is the most commonly used method for valuation of industrial businesses. This methodology is most appropriate for industrial businesses with a substantial operating history and a consistent earnings trend that is sufficiently stable to be indicative of ongoing earnings potential. This methodology is not particularly suitable for start-up businesses, businesses with an erratic earnings pattern or businesses that have unusual capital expenditure requirements. This methodology involves capitalising the earnings or cash flows of a business at a multiple that reflects the risks of the business and the stream of income that it generates. These multiples can be applied to a number of different earnings or cash flow measures including EBITDA, EBITA, EBIT or NPAT. These are referred to respectively as EBITDA multiples, EBITA multiples, EBIT multiples and price earnings multiples. Price earnings multiples are commonly used in the context of the sharemarket. EBITDA, EBITA and EBIT multiples are more commonly used in valuing whole businesses for acquisition purposes where gearing is in the control of the acquirer but are also used extensively in sharemarket analysis.

Where an ongoing business with relatively stable and predictable cash flows is being valued, Grant Samuel uses capitalised earnings or operating cash flows as a primary reference point.

Application of this valuation methodology involves:

- estimation of earnings or cash flow levels that a purchaser would utilise for valuation purposes having regard to historical and forecast operating results, non-recurring items of income and expenditure and known factors likely to impact on operating performance; and
- consideration of an appropriate capitalisation multiple having regard to the market rating of comparable businesses, the extent and nature of competition, the time period of earnings used, the quality of earnings, growth prospects and relative business risk.

The choice between parameters is usually not critical and should give a similar result. All are commonly used in the valuation of industrial businesses. EBITDA can be preferable to EBITA or EBIT if depreciation or non-cash charges distort earnings or make comparisons between companies difficult. On the other hand, EBIT can better adjust for differences in relative capital expenditure intensity. The impact of AASB16 (capitalisation of leases) on EBITDA, EBITA and EBIT also needs to be taken into account.

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Determination of the appropriate earnings multiple is usually the most judgemental element of a valuation. Definitive or even indicative offers for a particular asset or business can provide the most reliable support for selection of an appropriate earnings multiple. In the absence of meaningful offers it is necessary to infer the appropriate multiple from other evidence.

The usual approach used by valuers is to determine the multiple that other buyers have been prepared to pay for similar businesses in the recent past. A pattern may emerge from transactions involving similar businesses with sales typically taking place at prices corresponding to earnings multiples within a particular range. This range will generally reflect the growth prospects and risks of those businesses. Mature, low growth businesses will, in the absence of other factors, attract lower multiples than those businesses with potential for significant growth in earnings.

An alternative approach in valuing businesses is to review the multiples at which shares in listed companies in the same industry sector trade on the sharemarket. This gives an indication of the price levels at which portfolio investors are prepared to invest in these businesses. However, share prices reflect trades in small parcels of shares (portfolio interests) rather than whole companies and it is necessary to adjust for this factor.

In interpreting and evaluating such data it is necessary to recognise that:

- multiples based on listed company share prices do not include a premium for control and are therefore often (but not always) less than multiples that would apply to acquisitions of similar companies. However, while the premium paid to obtain control in takeovers is observable (typically in the range 20-35%) it is inappropriate to simply add a premium to listed multiples. The premium for control is an outcome of the valuation process, not a determinant of value. Premiums are paid for reasons that vary from case to case and may be substantial due to synergy or other benefits available to the acquirer. In other situations, premiums may be minimal or even zero. There are transactions where no corporate buyer is prepared to pay a price in excess of the prices paid by sharemarket investors;
- acquisition multiples from comparable transactions are therefore usually seen as a better guide when valuing 100% of a business but the data tends to be less transparent and information on forecast earnings is often unavailable;
- the analysis will give a range of outcomes from which averages or medians can be determined but it is not appropriate to simply apply such measures to the company being valued. The most important part of valuation is to evaluate the attributes of the specific company being valued and to distinguish it from its peers so as to form a judgement as to where on the spectrum it appropriately belongs;
- acquisition multiples are a product of the economic and other circumstances at the time of the transaction. However, each transaction will be the product of a unique combination of factors, including:
 - economic factors (e.g. economic growth, inflation, interest rates) affecting the markets in which the company operates;
 - strategic attractions of the business - its particular strengths and weaknesses, market position of the business, strength of competition and barriers to entry;
 - the company's own performance and growth trajectory;
 - rationalisation or synergy benefits available to the acquirer;
 - the structural and regulatory framework;
 - investment and sharemarket conditions at the time; and
 - the number of competing buyers for a business;

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- acquisitions and listed companies in different countries can be analysed for comparative purposes, but it is necessary to give consideration to differences in overall sharemarket levels and ratings between countries, economic factors (economic growth, inflation, interest rates) and market structures (competition etc.) and the regulatory framework. It is not appropriate to adjust multiples in a mechanistic way for differences in interest rates or sharemarket levels;
- acquisition multiples are based on the target's earnings but the price paid normally reflects the fact that there were synergies available to the acquirer (at least if the acquirer is a "trade buyer" with existing businesses in the same or a related industry). If the target's earnings were adjusted for these synergies, the effective multiple paid by the acquirer would be lower than that calculated on the target's earnings; and
- while EBITDA multiples are commonly used benchmarks they are an incomplete measure of cash flow. The appropriate multiple is affected by, among other things, the level of capital expenditure (and working capital investment) relative to EBITDA. In this respect:
 - EBITA or EBIT multiples can in some circumstances be a better guide because (assuming depreciation is a reasonable proxy for capital expenditure) they effectively adjust for relative capital intensity and present a better approximation of free cash flow. However, capital expenditure is lumpy and depreciation expense may not be a reliable guide (especially in a post AASB16 environment). In addition, there can be differences between companies in the basis of calculation of depreciation; and
 - businesses that generate higher EBITDA margins than their peer group companies will, all other things being equal, warrant higher EBITDA multiples because free cash flow will, in relative terms, be higher (as capital expenditure is a smaller proportion of earnings).

The analysis of comparable transactions and sharemarket prices for comparable companies will not always lead to an obvious conclusion as to which multiple or range of multiples will apply. There will often be a wide spread of multiples and the application of judgement becomes critical. Moreover, it is necessary to consider the particular attributes of the business being valued and decide whether it warrants a higher or lower multiple than the comparable companies. This assessment is essentially a judgement.

3 Discounted Cash Flow

Discounting of projected cash flows has a strong theoretical basis. It is the most commonly used method for valuation in a number of industries, including resources, and for the valuation of start-up projects where earnings during the first few years can be negative but it is also widely used in the valuation of established industrial businesses. DCF valuations involve calculating the net present value of projected cash flows. This methodology is able to explicitly capture depleting resources, development projects and fixed terms contracts (which are typical in the resources sector), the effect of a turnaround in the business, the ramp up to maturity or significant changes expected in capital expenditure patterns. The cash flows are discounted using a discount rate which reflects the risk associated with the cash flow stream.

Considerable judgement is required in estimating future cash flows and it is generally necessary to place great reliance on medium to long term projections prepared by management. The discount rate is also not an observable number and must be inferred from other data (usually only historical). None of this data is particularly reliable so estimates of the discount rate necessarily involve a substantial element of judgement. In addition, even where cash flow forecasts are available, the terminal or continuing value is usually a high proportion of value. Accordingly, the multiple used in assessing this terminal value becomes the critical determinant in the valuation (i.e. it is a "de facto" cash flow capitalisation valuation). The net present value is typically extremely sensitive to relatively small changes in underlying assumptions, few of which are capable of being predicted with accuracy, particularly beyond the first two or three years. The arbitrary assumptions that need to be made and the width of any value range mean the results are often

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not meaningful or reliable. Notwithstanding these limitations, DCF valuations are commonly used and can at least play a role in providing a check on alternative methodologies, not least because explicit and relatively detailed assumptions as to expected future performance need to be made.

4 Industry Rules of Thumb

Industry rules of thumb are commonly used in some industries. These are generally used as a “cross check” of the result determined by a capitalised earnings valuation or by discounting cash flows. While they are only used as a cross check in most cases, industry rules of thumb can be the primary basis on which buyers determine prices in some industries. In the case of energy infrastructure businesses a common rule of thumb parameter is the multiple of RAB, which is the value of the fixed assets set by the relevant regulator as the basis for determining tariffs. However, it should be recognised that rules of thumb are usually relatively crude and prone to misinterpretation.

5 Net Assets/Realisation of Assets

Valuations based on an estimate of the aggregate proceeds from an orderly realisation of assets are commonly applied to businesses that are not going concerns. They effectively reflect liquidation values and typically attribute no value to any goodwill associated with ongoing trading. Given the capital intensity of energy infrastructure businesses, multiples of ungeared NTA can be considered as a proxy for RAB multiples where the business is unregulated.

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APPENDIX 3

SELECTION OF DISCOUNT RATE

1 Overview

A discount rate in a range around 5.0% has been selected as appropriate to apply to the forecast nominal ungeared after tax cash flows for AusNet's business operations.

Selection of the appropriate discount rate to apply to the forecast cash flows of any business enterprise is fundamentally a matter of judgement. The valuation of an asset or business involves judgements about the discount rates that may be utilised by potential acquirers of that asset. There is a body of theory which can be used to support those judgements. However, a mechanistic application of formulae derived from that theory can obscure the reality that there is no "correct" discount rate. Despite the widespread acceptance and application of various theoretical models, it is Grant Samuel's experience that many companies rely on less sophisticated approaches. Businesses and investors often use relatively arbitrary "hurdle rates" which do not vary significantly from investment to investment or change significantly over time despite movements in interest rates. Valuation is an estimate of what real world buyers and sellers of assets would pay and must therefore reflect parameters that will be applied in practice even if they are not theoretically correct. Grant Samuel considers the rates adopted to be reasonable discount rates that acquirers would use irrespective of the outcome of any particular model.

The discount rate represents an estimate of the weighted average cost of capital ("WACC") appropriate for these business operations. Grant Samuel has calculated a WACC based on a weighted average of the cost of equity and the cost of debt. This is the relevant rate to apply to ungeared cash flows. There are three main elements to the determination of an appropriate WACC:

- cost of equity;
- cost of debt; and
- debt/equity mix.

The cost of equity has initially been derived, in the first instance, from application of the capital asset pricing model ("CAPM") methodology. The CAPM is probably the most widely accepted and used methodology for determining the cost of equity capital. There are more sophisticated multivariate models which utilise additional risk factors but these models have not achieved any significant degree of usage or acceptance in practice. However, the cost of equity is not a precise or provable number nor can it be estimated with any degree of reliability. The cost of equity capital is not directly observable and models such as the CAPM do no more than infer it from other data using one particular theory about the way in which security prices behave. The usefulness of any estimate therefore depends on the efficacy of the theory and the robustness of the data but the available tools such as CAPM involve:

- models that have questionable empirical validity (and competing formulations);
- simplifying assumptions;
- the use of historical data as a proxy for estimates of forward looking parameters;
- data of dubious statistical reliability; and
- unresolved issues (such as the impact of dividend imputation).

It is easy to overengineer the process and to credit the output with a precision that it does not warrant. The reality is that any cost of capital estimate or model output should be treated as a broad guide rather than the absolute truth. The cost of equity capital is fundamentally a matter of judgement, not merely a calculation.

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The cost of debt has been determined by reference to the pricing implied by the debt markets in Australia and the United States. The cost of debt represents an estimate of the expected future returns required by debt providers. In determining the appropriate cost of debt over the period of the cash flows, regard was had to debt ratings of comparable companies.

Selection of an appropriate debt/equity mix is a matter of judgement. The debt/equity mix represents an appropriate level of gearing, stated in market value terms, for the assets over the forecast period. The relevant proportions of debt and equity have been determined having regard to the financial gearing of comparable companies and the infrastructure and utilities industries in general, and judgements as to the appropriate level of gearing considering the nature and quality of the cash flows.

The following sections set out the basis for Grant Samuel's determination of the discount rate for AusNet's business operations and the factors that limit the accuracy and reliability of the estimates.

2 Definition and Limitations of the CAPM and WACC

The CAPM provides a theoretical basis for determining a discount rate that reflects the returns required by diversified investors in equities. The rate of return required by equity investors represents the cost of equity of a company and is therefore the relevant measure for estimating a company's WACC. CAPM is based on the assumption that investors require a premium for investing in equities rather than in risk free investments (such as Australian Government Bonds). The premium is commonly known as the market risk premium and notionally represents the premium required to compensate for investment in the equity market in general.

The risks relating to an asset or a business can be divided into specific risks and systematic risks. Specific risks are risks that are specific to a particular asset or business and are unrelated to movements in equity markets generally. While specific risks will result in actual returns varying from expected returns, it is assumed that diversified investors require no additional returns to compensate for specific risk, because the net effect of specific risks across a diversified portfolio will, on average, be zero. Portfolio investors can diversify away all specific risk.

However, investors cannot diversify away the systematic risk of a particular asset or business. Systematic risk is the risk that the return from an asset or business will vary with the market return in general. If the return on an investment was expected to be completely correlated with the return from the market, then the return required on the investment would be equal to the return required from the market (i.e. the risk free rate plus the market risk premium).

Systematic risk is affected by the following factors:

- financial leverage: additional debt will increase the impact of changes in returns on underlying assets and therefore increase systematic risk;
- cyclicity of revenue: projects and companies with cyclical revenues will generally be subject to greater systematic risk than those with non-cyclical revenues; and
- operating leverage: projects and companies with greater proportions of fixed costs in their cost structure will generally be subject to more systematic risk than those with lesser proportions of fixed costs.

CAPM postulates that the return required on an investment or asset can be estimated by applying to the market risk premium a measure of systematic risk described as the beta factor. The beta for an investment reflects the covariance of the return from that investment with the return from the market as a whole. Covariance is a measure of relative volatility and correlation. The beta of an investment represents its systematic risk only. It is not a measure of the total risk of a particular investment. An investment with a beta of more than one is riskier than the market as a whole and an investment with a beta of less than one

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is less risky. The discount rate appropriate for an investment which involves zero systematic risk would be equal to the risk free rate.

The formula for deriving the cost of equity using CAPM is as follows:

$$R_e = R_f + \text{Beta} (R_m - R_f)$$

Where:

- R_e = the cost of equity capital;
- R_f = the risk free rate;
- Beta = the beta factor;
- R_m = the expected market return; and
- $R_m - R_f$ = the market risk premium.

The beta for an asset or a business is normally estimated by observing the historical relationship between returns from the investment or comparable companies and returns from the market in general. The market risk premium is estimated by reference to the actual long run premium earned on equity investments by comparison with the return on risk free investments.

The formula conventionally used to calculate a WACC under a "classical tax system"¹ is as follows:

$$WACC = (R_e \times E/V) + (R_d \times (1-t) \times D/V)$$

Where:

- E/V = the proportion of equity to total value (where $V = D + E$);
- D/V = the proportion of debt to total value;
- R_e = the cost of equity capital;
- R_d = the cost of debt capital; and
- t = the corporate tax rate

The models, while simple, are based on a sophisticated and rigorous theoretical analysis. Nevertheless, application of the theory is not straightforward and the discount rate calculated should be treated as no more than a general guide. The reliability of any estimate derived from the model is limited. Some of the issues are discussed below.

Overall Validity of the Model

The CAPM has been subject to intense criticism over many years with numerous empirical studies demonstrating that it does not accurately portray movements in individual share prices and has limited explanatory power. There are also competing formulations (such as the Sharpe-Lintner, Black, Brennan-Lally, Officer or Monkhouse models) which can give different results.

In addition:

- the CAPM is a single period model rather than one developed specifically for valuing long term cash flows. It has been adapted to a multi-period model (usually annually) to calculate the value of long term cash flows. Theoretically, the analysis should use a forecast of each of the parameters for each period in question (annual is no more correct than any other period) but, typically, a long term average is assumed for the sake of practicality;
- the CAPM assumes investors are diversified and therefore are not (and should not be) concerned with the specific risk of a particular investment. Behavioural economics suggests while this may be theoretically sensible, it doesn't actually reflect how investors behave or how they price risk; and

¹ A tax system not featuring dividend imputation or other variants such as advance corporation tax (i.e. dividends are paid out of after tax income and are subject to full tax in the hands of investors).

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- it ignores all investor taxes, which may or may not have an impact in the real world. Even where models do attempt to reflect taxation effects, adjustments are usually based on assumed averages which may not be accurate or appropriate given the diversity of individual tax positions.

Risk Free Rate

Theoretically, the risk free rate used should be an estimate of the risk free rate in each future period (i.e. the one year spot rate in that year if annual cash flows are used). There is no official “risk free” rate but, in developed economies such as Australia, rates on government securities are typically used as an acceptable substitute. In practice, the long term Australian Commonwealth Government Bond rate is used as the most practical estimate in (even though rates for individual years could be interpolated). However, it should be recognised that the yield to maturity of a long term bond is only an average rate and where the yield curve is strongly positive (i.e. longer term rates are significantly above short term rates) the adoption of a single long term bond rate has the effect of reducing the net present value where the major positive cash flows are in the initial years. The long term bond rate is therefore only an approximation.

The ten year bond rate is a widely used and accepted benchmark for the risk free rate. Where the forecast period exceeds ten years, an issue arises as to the appropriate bond to use. While longer term bond rates are available, the ten year bond market is the deepest long term bond market in Australia and is a widely used and recognised benchmark. There is a limited market for bonds of more than ten years although the Australian government has more recently issued 30 year bonds in volume. The 30 year bond rate would be a better benchmark for longer term cash flows. However, long term rates accentuate the distortions of the yield curve on cash flows in early years. In any event, a single long term bond rate matching the term of the cash flows is no more theoretically correct than using a ten year rate. More importantly, the ten year rate is the standard benchmark used in practice.

Market Risk Premium

The market risk premium ($R_m - R_f$) represents the “extra” return that investors require to invest in equities as a whole over risk free investments. This is an “ex-ante” concept. It is the expected premium and, as such, it is not an observable phenomenon. There is no generally accepted approach to estimating a forward looking market risk premium and therefore the historical premium is used as the best available proxy measure. The premium earned historically by equity investments is usually calculated over a time period of many years, typically at least 30 years. This long time frame is used on the basis that short term rates of return are highly volatile and that a long term average return would be a fair indication of what most rational investors would expect to earn in the future from an investment in equities with a five to ten year time frame.

In the absence of controls over capital flows, differences in taxation and other regulatory and institutional differences, it is reasonable to assume that the market risk premium should be approximately equal across markets which exhibit similar risk characteristics after adjusting for the effects of expected inflation differentials. Accordingly, it is reasonable to assume similar (inflation adjusted) market risk premiums for first world countries enjoying political economic stability, such as Australia, New Zealand, the United States, Japan, the United Kingdom and various western European countries.

In the United States, it is generally believed that the historical premium is in the range 4-6% but there are widely varying assessments (from 3% to 9%). For example, Damodaran’s² latest estimate (1 November 2021) is 4.5%.

Australian studies have been more limited and mainly derive from the Officer Study³ which was based on data for the period 1883 to 1987 (prior to the introduction of dividend imputation in Australia) and indicated that the long run average premium was in the order of 8% using an arithmetic average but

² Online at stern.nyu.edu. Published by Aswath Damodaran, a professor at the Stern School of Business at NYU.

³ R.R. Officer in Ball, R., Brown, P., Finn, F. J. & Officer, R. R., “Share Market and Portfolio Theory: Readings and Australian Evidence” (second edition), University of Queensland Press, 1989 (“Officer Study”).

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subject to significant statistical error. More recently, the Officer Study data has been updated to 2017⁴ with the long term average declining to around 6.5%. Due to concerns about the earlier market data, emphasis is now placed on the average risk premium since 1958, which is estimated to be 6.0% ignoring the impact of imputation (where imputation credits are valued at 100% the market risk premium over the same period is 6.9%).

However, even the measurement or use of long term historical returns is subject to considerable debate:

- there are multiple different outcomes for the historical market risk premium depending on time period, basis (over long term bonds or shorter term bills), method (arithmetic or geometric averages) and estimation approach;
- the measures of historical returns typically have extremely high statistical error measures. For a, say, 6% average measured premium the "true" figure will typically lie in a range of 2-10% at a 95% confidence level;
- the methodology is inflexible and tends to fail when market conditions change materially. Market volatility is the reality of financial markets. Clearly, following the outbreak of the COVID-19 pandemic in March 2020, investors' perceptions of risk and the pricing of that risk rose significantly and rapidly. This can be demonstrated by the observable data from the pricing of lowly rated corporate bonds (which sit on the risk spectrum between risk free assets and equities) over this period. Yields to maturity rose sharply in March 2020 (albeit the increase was short lived as government stimulus and Reserve Bank of Australia support was put in place). However, long term average historical data will not flex to reflect these changes – an average of, say, 50 years of data will not move much even with 2-3 years of "new" data;
- the longer the period of measurement (and therefore the greater the "robustness" of the average) the more likely it is to reflect economic and market circumstances that have little resemblance to the present (is it really likely that investor returns prior to World War II are relevant to the kinds of returns investors expect today?); and
- the historical data also contains a logical contradiction – when the equity return required by investors is lower than the returns implied by market prices, investors respond by bidding the price of equities higher. A rising market translates to a higher measured historical risk premium, contrary to the lower return expectations driving the upwards movement in prices.

Beta Factor

The beta factor is a measure of the expected covariance (i.e. volatility and correlation of returns) between the return on an investment and the return from the market as a whole. The expected beta factor cannot be observed. The conventional practice is to calculate an historical beta from past share price data and use it as a proxy for the future but it must be recognised that:

- the expected beta is not necessarily the same as the historical beta. A company's relative risk does change over time and measured historical betas can often reflect structural changes in an industry or in the company over the time period rather than its inherent correlation to the market;
- the starting point is normally to measure the historical correlation of a company's share price against its local market index. However:
 - the composition of indices varies substantially between markets. For example, the Australian index is dominated by banks and resources compared to other markets; and

⁴ S. Bishop, A. Carlton and T. Pan, "Market Risk Premium: Australian Evidence", Research Paper prepared for the Chartered Accountants Australia and New Zealand Business Valuation Specialists Conference, August 2018, Department of Applied Finance, Macquarie University. This paper is based on earlier work by J.C. Handley in 2012 and T. Brailsford, J.C. Handley and K. Maheswaran in 2008.

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- where a company is extensively traded by global investors it can be argued that the regression against an index such as the Morgan Stanley Capital International Developed World Index (“MSCI”), an international equities market index that is widely used as a proxy for the global stockmarket as a whole, is more relevant but it:
 - depends on who the “price setting” investors are;
 - can give materially different results to measures based on the local index; and
 - raises a related issue as to whether a global risk premium is also appropriate and, if so, what that global premium is;
- the appropriate beta is the beta of the company being valued rather than the beta of the acquirer (which may be in a different business with different risks). Betas for the particular subject company may be utilised but these are seldom regarded as reliable enough (and may not be available if the company is not listed). Accordingly, it is common practice to utilise betas for comparable companies and sector averages (particularly as those may be more reliable). However, none of these other companies is likely to be exactly comparable to the subject entity (e.g. it may operate in other jurisdictions with different economic drivers, regulatory regimes and benchmark index composition). In any event, the comparable company data seldom yields a tight and consistent range from which a precise estimate can be derived;
- there are very significant measurement issues with betas which mean that only limited reliance should be placed on such statistics. There is no “correct” beta. For example:
 - over the last four years AusNet’s beta as measured by the Securities Industry Research Centre of Asia-Pacific (Rozetta Institute Ltd (“Rozetta”)) has varied between 0.26 and 0.87 and was measured at 0.28 at 30 June 2021 (in all cases, excluding March 2020⁵). The median beta over the four years to 30 June 2021 was 0.63 (excluding March 2020⁵);
 - the standard error of the Rozetta’s estimate of AusNet’s beta has generally been in the order of 0.20 meaning that for a beta of, say, 0.63, even at a 68% confidence level, the true beta is somewhere in the range 0.43 to 0.83 (and for 95% confidence is between 0.23 and 1.03);
 - Rozetta’s latest estimate of 0.28 (excluding March 2020⁵) compares to 0.31 measured by MSCI Barra Inc. (“Barra”) and 0.40 measured by Bloomberg; and
 - estimates of “predicted” betas made by providers such as Barra can be significantly different to the historically calculated beta. In the case of AusNet, its predicted beta is 0.83 compared to its historical beta (as measured by Barra) of 0.31.

Debt/Equity Mix

The relevant measure of the debt/equity mix is based on market values (not book values). As beta is normally considered in the context of comparable companies as well as the subject company, the debt/equity mix should involve similar analysis. Accordingly, the relevant proportions of debt and equity are usually determined having regard to the financial gearing of the subject company, comparable companies and the industry in general as well as assessments of the appropriate level of gearing taking into account the nature and quality of the cash flow stream. However:

- a simple debt/equity mix is usually used for practicality but it represents a simplification of what are usually much more complex financial structures (e.g. hybrids, convertibles and lease obligations);
- a constant degree of leverage is typically assumed but this is seldom the case in practice;

⁵ Rozetta estimates exclude return observations for the single month of March 2020, which experienced the second largest negative values for the entire market of any month since January 1974 (attributable to the emerging COVID-19 pandemic).

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- the debt/equity mix (measured over the same period as the historical beta is measured) can be volatile over time at an individual company level. Averages across time may give a more meaningful guide but in some circumstances this may not be appropriate;
- there is often a wide diversity of debt/equity ratios across companies in an industry. Moreover, there is often inconsistency between gearing ratios and betas (e.g. those with higher gearing may exhibit lower betas than their peers); and
- the measured beta factors for listed companies are “equity” betas and reflect the financial leverage of the individual companies. It is possible to unleverage beta factors to derive asset betas and releverage betas to reflect a more appropriate or comparable financial structure. In Grant Samuel’s view, this technique is subject to considerable estimation error. Deleveraging and releveraging betas exacerbates the estimation errors in the original beta calculation and gives a misleading impression as to the precision of the methodology. Indeed, there are competing deleveraging formulae which give different results. Deleveraging and releveraging is also commonly calculated based on debt levels at a single point in time. This is incorrect as it is leverage over the same period as the beta was measured that is relevant (although this can be difficult to estimate accurately given that data points may be, at best, quarterly). Recent advice to the AER stated that leverage adjustments were a “worthless pursuit of spurious precision” and recommended a raw estimate of the industry beta (if gearing is similar)⁶.

Corporate Tax

The WACC calculation generally assumes a constant rate of corporate tax, typically the standard corporate rate. However, the tax position of many corporates, particularly multinationals, is usually much more complex and can change significantly over time. Further, in capital intensive industries the effective rate of cash tax payable can be significantly less because of higher tax depreciation charges (i.e. the tax may not be paid for many years).

Dividend Imputation

The conventional WACC formula set out above was formulated under a “classical” tax system. The CAPM model is constructed to derive returns to investors after corporate taxes but before personal taxes. Under a classical tax system, interest expense is deductible to a company but dividends are not. Investors are also taxed on dividends received.

Under Australia’s dividend imputation system, domestic equity investors receive a taxation credit (franking credit) for any tax paid by a company. The franking credit attaches to any dividends paid out by a company and the franking credit offsets personal tax. To the extent the investor can utilise the franking credit to offset personal tax, then the corporate tax is not a real impost. It is best considered as a withholding tax for personal taxes. It can therefore be argued that the benefit of dividend imputation should be incorporated into any analysis of value.

There is no generally accepted method of allowing for dividend imputation. In fact, there is considerable debate within the academic and financial communities as to the appropriate adjustment or even whether any adjustment is required at all. Some suggest that it is appropriate to discount pre-tax cash flows, with an increase in the discount rate to “gross up” the market risk premium for the benefit of imputation credits that are on average received by shareholders. On this basis, the discount rate might increase by approximately 2% but it would be applied to pre-tax cash flows. However, not all of the necessary conditions for this approach exist in practice:

⁶ G. Partington and S. Satchell, “Issues in releveraging beta and testing for structural breaks”, September 2017.

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- not all shareholders can use franking credits. In particular, foreign investors gain no benefit from franking credits (except in relation to withholding taxes in some cases⁷). If foreign investors are the marginal price setters in the Australian market there should be no adjustment for dividend imputation;
- not all franking credits are distributed to shareholders; and
- capital gains tax operates on a different basis to income tax. Investors with high marginal personal tax rates will prefer cash to be retained and returns to be generated by way of a capital gain.

Others have proposed a different approach involving an adjustment to the cost of equity by a factor reflecting the effective use or value of franking credits (i.e. allowing for the proportion of taxed income paid out as dividends and the utilisation by investors). The proponents of this approach have in the past suggested a factor in the range 40-65% as representing the appropriate adjustment (gamma)⁸ although more recent commentary suggests a lower level (~25%). The gamma can be applied to the cost of capital or, alternatively, the tax charge in the forecast cash flows can be decreased to incorporate the expected value of franking credits distributed (the usual approach by regulators).

In Grant Samuel's opinion, it is not appropriate to allow for dividend imputation for business valuation purposes:

- the underlying concept of gamma is flawed. The gamma is meant to represent some kind of complex market weighted average but the value of franking credits is essentially binary. They have 100% value to some (or many) domestic investors and 0% to foreign investors⁷. There is nobody to whom franking credits have a value equal to, say, 50% of their face value (i.e. there is no spectrum of outcomes to determine a meaningful "weighted average");
- there is no direct evidence that imputation credits are factored into market prices of listed companies or the prices paid in acquisitions. The primary "proof" appears to be based on dividend drop off studies but these face serious questions as to reliability of data and the interpretation of the outcome never mind that it does not address risk and other issues associated with the ability to use them over the longer term; and
- it is not consistent with what is happening in real world markets. The adoption of a gamma factor (of, say, 0.5) must, by definition, mean that companies in the Australian market are valued such that:
 - domestic investors (who can use 100% of imputation credits) earn a higher return than their cost of capital; and
 - offshore investors earn less than their required return.

As such there should be no offshore investors in Australia (unless they have a lower cost of capital than domestic investors through some other means). It would also suggest that overseas acquirers of businesses in Australia would not be able to compete effectively with local acquirers. Rather, the evidence demonstrates that:

- marginal sharemarket prices are not set using any value for gamma; but that
- domestic investors enjoy a higher after tax return than comparably taxed offshore investors.

In summary, it is clear that dividend imputation affects returns to investors. However, the evidence gathered to date does not demonstrate or prove that franking credits are factored into the market price of

⁷ Withholding tax on unfranked distributions will generally apply to portfolio investors in listed Australian entities but foreign companies (depending on their jurisdiction) are generally not subject to withholding tax on unfranked dividends of wholly owned Australian subsidiaries.

⁸ Under this construct the cost of equity is scaled by gamma ("δ") (i.e. $Adjusted\ Re = Re \times \delta / (1 - \delta)$). Assuming the standard Australian corporate tax rate of 30% and $\delta = 0.5$, Re is multiplied by 0.82 (i.e. 0.70 divided by 0.85).

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listed companies or the prices paid in acquisitions. While acquirers are undoubtedly attracted by franking credits there is no clear evidence that they will actually pay extra for them or build it into values based on long term cash flows.

Specific Risk

The CAPM/WACC discount rate is designed to be applied to "expected cash flows" which are effectively a weighted average of the likely scenarios. The theoretical underpinning of CAPM is that there is no need or requirement to recognise specific (unsystematic) risks. To the extent that a business is perceived as being particularly risky, this specific risk should be dealt with by adjusting the cash flow scenarios. This avoids the need to make arbitrary adjustments to the discount rate which can dramatically affect estimated values, particularly when the cash flows are of extended duration or much of the business value reflects future growth in cash flows. In addition, risk adjusting the cash flows requires a more disciplined analysis of the risks that the valuer is trying to reflect in the valuation.

However, it is nevertheless common in practice to allow for certain classes of specific risk (particularly sovereign and other country specific risks) by adjusting the discount rate although it must be recognised that such adjustments compromise the theoretical integrity of the methodology. Moreover, there is little evidentiary base for measuring determining the size of any adjustments.

3 Calculation of WACC

3.1 Cost of Equity Capital

Risk Free Rate

Grant Samuel has adopted a risk free rate of 1.8%. The risk free rate approximates the yield to maturity on 10 year Australian Government bonds at the end of November 2021.

Market Risk Premium

Grant Samuel has consistently adopted a market risk premium of 6% and believes that this continues to be a reasonable estimate. It:

- is not statistically significantly different to the premium suggested by long term historical data;
- is similar to that used by a wide variety of analysts and practitioners as well as regulators (typically in the range 5-7%); and
- makes no explicit allowance for the impact of Australia's dividend imputation system.

Beta Factor

Grant Samuel has adopted a beta factor in the range 0.6-0.7 for AusNet's energy infrastructure business operations.

The historical beta factors for a range of energy and energy infrastructure entities have been considered in determining an appropriate beta. They have been calculated on two bases – relative to each entity's home exchange index and relative to an international index (the aggregated world market for Barra and the MSCI for Bloomberg). A summary of betas for selected comparable listed entities is set out in the table below:

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EQUITY BETA FACTORS FOR SELECTED LISTED ENERGY AND INFRASTRUCTURE ENTITIES

Company	Market Capitalisation ⁹ (\$ billions)	Barra			Monthly Observations over 4 years			Weekly Observations over 2 years	
		Historical ¹⁰	Predicted ¹¹		Rozetta ¹²	Bloomberg ¹³		Bloomberg	
			Local Beta	Global Beta ¹⁴		Local Index	MSCI ¹⁵	Local Index	MSCI
AusNet	7.6	0.31	0.83	0.76	0.28	0.33	0.25	0.40	0.39
AUSTRALIA									
Regulated Energy Infrastructure									
APA Group	10.4	0.19	0.86	0.78	0.62	0.61	0.49	0.72	0.58
Spark	4.0	0.12	0.73	0.62	0.38	0.61	0.55	0.60	0.47
Other Energy									
Origin Energy	8.9	0.62	0.96	1.02	2.05	1.58	1.44	1.33	1.08
AGL Energy	3.7	1.15	1.30	1.51	0.39	0.60	0.56	0.78	0.59
Other Infrastructure									
Transurban	41.2	0.18	0.82	0.77	0.67	0.85	0.70	1.01	0.97
Sydney Airport	15.7	0.34	0.82	0.80	0.92	1.07	1.04	1.07	1.17
Aurizon	6.3	0.25	0.91	0.89	0.86	0.82	0.65	0.93	0.84
NEW ZEALAND									
Vector	3.9	0.03	0.84	0.48		0.78	0.68	0.63	0.52

Source: Rozetta, Barra, Bloomberg

AusNet's measured historical beta factors are mostly between 0.3 and 0.4 but differ materially from the Barra predicted beta of ~0.8.

The prime comparable entities for AusNet are Spark, APA Group and Vector. The other entities are included for reference. The betas for the other entities provide confirmation that energy infrastructure entities have betas that are:

- lower than other energy companies (not least as a result of their predominantly regulated activities that provide predictable and stable cash flows); and
- at least slightly (if not more materially) lower than other infrastructure entities (which will reflect, in part, the extent of regulated relative to unregulated cash flows for each entity).

The data in the table raises a number of issues:

- the betas for AusNet vary significantly depending on the measurement source (Rozetta, Barra, Bloomberg etc) and, as discussed above, have varied significantly over time;

⁹ Based on share prices as at 5 November 2021 except for entities that are currently the subject of corporate activity (i.e. AusNet, Spark and Sydney Airport), in which case the share price is the last trading price prior to announcement of the proposed corporate transaction. Vector's market capitalisation has been converted to A\$ at an exchange rate of A\$1 = NZ\$0.95.

¹⁰ Historical beta factors calculated by Barra as at 29 October 2021 over a period of 60 months using ordinary least squares regression.

¹¹ Barra predicted beta is a "fundamental" beta based on a multi-factor model, which regresses historical company returns against the returns of a market index using company-risk and industry-risk factors, re-estimated on a monthly basis, within the regression equation.

¹² The Australian beta factors calculated by Rozetta as at 30 June 2021 over a period of 48 months using ordinary least squares regression, excluding return observations for the single month of March 2020.

¹³ Bloomberg betas have been calculated up to 5 November 2021. Grant Samuel understands that betas estimated by Bloomberg are not calculated strictly in conformity with accepted theoretical approaches to the estimation of betas (i.e. they are based on regressing total returns rather than the excess return over the risk free rate). However, in Grant Samuel's view the Bloomberg beta estimates can still provide a useful insight into the systematic risks associated with companies and industries. The figures used are the Bloomberg "adjusted" betas.

¹⁴ Global beta is the predicted beta of the asset with respect to the aggregated world market.

¹⁵ MSCI is calculated using local currency so that there is no impact of currency changes in the performance of the index.

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- the data is riddled with inconsistencies. Individual entity betas (for the same source/period) vary significantly relative to similar businesses (e.g. AusNet's historical betas compared the historical betas for Spark, APA Group and Vector). It would have been expected that the betas for AusNet would be similar to those for Spark and lower than those for APA Group (which owns largely unregulated assets), but this is not always the case:
 - other than those sourced from Barra, AusNet's betas are all materially lower than Spark's but AusNet's historical (and even predicted) Barra betas are higher than Spark's; and
 - AusNet's betas are generally lower than APA Group's betas except those sourced from Barra, where AusNet's historical beta is higher than APA Group's and the predicted betas are around the same level as APA Group's.

There is also limited consistency with Vector's betas, with AusNet's betas materially lower other than its Barra betas.

In any event, AusNet's historical betas are lower than might be intuitively expected, in that they are well below:

- the beta of 0.6 adopted by the AER in its latest final decisions for regulated electricity and gas transmission/distribution businesses; and
- industry historical betas for the utilities sector, which are generally around 0.6-0.7. Sector average indices can be more reliable as they smooth out the vagaries of the circumstances of individual entities (although it should be recognised that the indices include a number of (higher risk) unregulated entities):

BETA FACTORS FOR UTILITY INDICES

	MONTHLY		WEEKLY	
	LOCAL INDEX	MSCI ¹⁵	LOCAL INDEX	MSCI ¹⁵
Utilities sector (Rozetta)	0.57			
S&P/ASX 200 Utilities Index (Bloomberg)	0.57	0.50	0.69	0.55

Source: Rozetta (June 2021, excluding March 2021), Bloomberg (5 November 2021)

- an equity beta of 0.3 would result in an asset beta of (i.e. unlevered) that is unrealistically low (<0.2);
- some individual entity betas (including APA Group, Spark and Vector but not AusNet) vary depending on which market index is utilised (local or international, with local betas generally being 0.1 higher than international betas);
- it may have been expected that the two year betas would be lower than the four year betas given that energy infrastructure entities should have had relatively lower volatility compared to the market as a whole through the COVID-19 pandemic, but this is not consistently the case. AusNet and APA Group have two year betas that are higher than their corresponding four year betas; and
- gearing levels vary significantly but this is not always consistent with beta factors. AusNet and Spark have similar gearing levels but quite different betas. APA Group and Vector have lower gearing than AusNet but their betas are generally higher.

In summary, the evidence does not provide a clear outcome. However, it does indicate that entities operating in the energy infrastructure sector have betas well below 1.0 (indicating less risk than the overall market). Intuitively, this makes sense given their predictable and stable cash flows from predominantly regulated assets.

In addition, the appropriate beta factor is the expected beta but conventional practice is to use historical beta as a proxy for the future. However, historical beta is not the same as expected beta and relative risk does change over time. Barra does attempt to calculate "fundamental" or predicted betas based on a

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multi-factor regression model. Overall, Barra's predicted betas are higher than the historical betas, although this is not always the case (e.g. Vector's predicted global beta is lower than most of its historical betas). It is arguable that more weight should be placed on these predicted betas.

Taking all of these factors into account as well as the nature of AusNet's energy infrastructure assets, Grant Samuel believes that a beta in the range 0.6-0.7 is a reasonable estimate of the appropriate beta to each AusNet's regulated business operations. There is insufficient evidence to demonstrate that transmission and distribution assets or electricity and gas assets warrant different beta factors outside of this range. This approach is consistent with that adopted by the AER in selecting equity betas, which, in recent regulatory determinations, has adopted the same equity beta for electricity transmission and distribution networks and, in relation to gas networks, has stated that its preliminary view is to adopt single benchmark across electricity and gas businesses¹⁶ because, among other factors:

- electricity and gas service providers are similar because both face limited systematic risk by virtue of being regulated monopolies; and
- it does not regard the potential "stranded asset risk" for gas infrastructure assets as a systematic risk and therefore does not consider that it should be accounted for in the equity beta or the regulated rate of return (but rather it should be reflected in the cash flows).

Calculation

Using the assumptions set out above, the cost of equity capital can be calculated as follows:

COST OF EQUITY CAPITAL

	LOW	HIGH
<i>Formula</i>	<i>Re = Rf + Beta (Rm – Rf)</i>	
Outcome	= 1.8% + (0.6 x 6%) = 5.4%	= 1.8% + (0.7 x 6%) = 6.0%

3.2 Cost of Debt

A cost of debt of 4.3%, which implies a margin of 2.5% over the risk free rate, has been assumed. This margin takes into account:

- Grant Samuel's understanding of current market margins that AusNet is achieving (on average across a range of markets and maturities and taking into account hedging) (i.e. an FY21 cost of funds of 4.24% with an average tenor of 7.6 years) and:
 - is broadly consistent with margins achieved by companies of a comparable credit standing to AusNet (A- (S&P)/A3 (Moody's));
 - allows for the margin between government bonds (i.e. the risk-free rate) and lending benchmarks (i.e. interbank lending/swap rates); and
 - allows for debt issuance costs and the cost of maintaining a level of cash liquidity.

While a number of AusNet's recent debt issuance has been at considerably lower rates (e.g. the March 2021 €700 million 60 year subordinated hybrid (subordinated non-convertible notes) issue at a fixed rate of 1.625%, subject to successive step-ups commencing on the first call date on 2026), the debt is denominated in Euros. After hedging into A\$, the effective rate is considerably higher. AusNet minimises its exposure to changes in interest rates by aligning the actual cost of debt with the cost of debt assumed by the regulator (currently 4.64-5.04% based on original regulatory determinations,

¹⁶ AER, Rate of Return Equity Omnibus Draft Working Paper, July 2021.

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although the cost of debt is reset each year assuming that 10% of the debt for each network is refinanced each year);

- current spreads for Australian A and BBB rated bonds over Australian Government bonds of similar tenor as published by the Reserve Bank of Australia (30 September 2021):
 - 95 basis points (A rated) and 168 basis points (BBB rated) for 10 years; and
 - 89 basis points (A rated) and 153 basis points (BBB rated) for 7 years,
 taking into account AusNet's A- rating from S&P; and
- the debt margin (over the risk free rate) of approximately 3.2% assumed by the AER in its latest determinations for electricity distribution infrastructure (including AusNet's recent regulatory determination for its electricity distribution network effective from 1 July 2021)¹⁷. The AER uses a blended A/BBB debt margin and does not distinguish between debt margins for individual BBB/BBB+ rated borrowers and A- rated borrowers).

3.3 Debt/Equity Mix

In determining an appropriate debt/equity mix, regard was had to gearing levels of AusNet and the peer group entities used in the beta analysis. Gearing levels (based on market values) for these entities for the past five years are set out below:

GEARING LEVELS FOR SELECTED LISTED ENERGY AND INFRASTRUCTURE ENTITIES

	NET DEBT/(NET DEBT + MARKET CAPITALISATION)								
	FINANCIAL YEAR ENDED					CURRENT ¹⁸	2 YEAR AVERAGE	4 YEAR AVERAGE	5 YEAR AVERAGE
	HISTORICAL 5	HISTORICAL 4	HISTORICAL 3	HISTORICAL 2	HISTORICAL 1				
AusNet	51.1%	53.3%	54.0%	58.5%	52.6%	50.5%	55.6%	54.6%	53.9%
AUSTRALIA									
Regulated Energy Infrastructure									
APA Group	47.7%	45.1%	43.9%	42.8%	47.1%	48.4%	44.9%	44.7%	45.3%
Spark	58.9%	50.6%	54.8%	56.9%	57.0%	55.2%	57.0%	54.8%	55.6%
Other Energy									
Origin Energy	40.8%	29.2%	30.8%	33.3%	34.9%	32.3%	34.1%	32.1%	33.8%
AGL Energy	16.0%	14.5%	17.2%	21.8%	37.7%	45.7%	29.8%	22.8%	21.5%
Other Infrastructure									
Transurban	33.4%	33.5%	29.3%	32.1%	25.4%	24.3%	28.8%	30.1%	30.7%
Sydney Airport	37.8%	34.7%	38.9%	33.1%	32.2%	34.0%	32.6%	34.7%	35.3%
Aurizon	23.0%	28.7%	23.7%	28.3%	35.2%	37.3%	31.8%	29.0%	27.8%
NEW ZEALAND									
Vector	39.4%	41.1%	42.2%	46.5%	43.2%	43.2%	44.9%	43.3%	42.5%

SOURCE: IRESS, S&P Global Market Intelligence, Bloomberg, Grant Samuel analysis

AusNet's gearing has been between 50% and 60% over the past 4-5 years. This level of gearing is:

- slightly higher than the gearing level for APA Group and Vector (~40-45%) reflecting its ability to sustain higher gearing levels because of the higher degree of certainty in AusNet's regulated cash flows; and

¹⁷ For the first year of the tariff period. The rate will be reset annually. This is the 10 year weighted average cost of debt less the current risk free rate and overstates the debt margin (which would require a comparison of on the day debt rates for the last 10 years less the risk free rate at the time).

¹⁸ Current gearing levels are based on the most recent balance sheet information and on share prices as at 5 November 2021, except for entities that are currently the subject of corporate activity (i.e. AusNet, Spark and Sydney Airport), in which case the share price is the last trading price prior to announcement of the proposed corporate transaction.

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- consistent with the gearing level of Spark (on a look through basis). As regulated entities AusNet and Spark are able to sustain a higher level of gearing because of their more secure cash flows. The AER currently prescribes gearing of 60% in its tariff setting for regulated energy transmission and distribution assets (although as the 60% is, conceptually, applied to the regulated asset value and most regulated entities are valued at premiums to regulated asset value, the implied market based gearing is lower).

AusNet has publicly stated that it is targeting a net debt/regulated and contracted asset base ratio of less than 70% though to FY26, which is equivalent to gearing of less than ~52% on a market value basis (based on pre-announcement share prices).

The selection of an appropriate gearing level is highly judgemental. Having regard to the above, the debt/equity mix has been estimated as 50% debt and 50% equity. This is regarded as being broadly consistent with a beta factor of 0.6-0.7.

3.4 Dividend Imputation

For the reasons set out in Section 2 of this Appendix, no adjustment has been made to the cost of equity for dividend imputation. In any event, it should be noted that AusNet has historically paid dividends that are, at best, partly franked to only 40-50% (0% in FY18 and 1HY22). Future levels of franking on a stand alone basis are difficult to predict but they are unlikely to be significant at least for some years (and would be even lower for an acquirer because of the “step-up” in the tax depreciable value of AusNet’s asset base).

3.5 Calculated WACC

On the basis of the parameters outlined above and assuming a corporate tax rate of 30%, the nominal WACC can be calculated to be in the range 4.2-4.5%:

CALCULATED WACC		
	LOW	HIGH
<i>Formula</i>	$= (Re \times E/V) + (Rd \times (1-t) \times D/V)$	
Outcome	$= (5.4\% \times 50\%) + (4.3\% \times 0.7 \times 50\%)$ $= 2.7\% + 1.5\%$ $= 4.2\%$	$= (6.0\% \times 50\%) + (4.3\% \times 0.7 \times 50\%)$ $= 3.0\% + 1.5\%$ $= 4.5\%$

4 Selection of Discount Rates

Grant Samuel considers a discount rate above the calculated WACC of 4.2-4.5% to be a more appropriate measure of the cost of capital. In addition to the issues with use of CAPM to calculate the cost of equity (see Section 2 for a detailed discussion):

- measurement of the risk premium is open to debate, even at the best of times. Most practitioners opt for using a “stable” risk premium and around 6% is a relatively common benchmark. However, equity markets are inherently volatile, and the “true” risk premium rises and falls. There was considerable press and other comment that the risk premium went up at the height of the COVID-19 pandemic in March 2020 but the subsequent strong recovery on global equity markets and relative stability in recent months suggest much of this additional risk may have dissipated;
- strict application of the CAPM at the present time (using current parameters) gives results that are arguably unrealistically low and understate the true cost of capital (primarily because of extremely low government bond rates). While the broad expectation is that government bond rates across the globe will remain extremely low for several years as the world economy seeks to recover from the impacts of the COVID-19 pandemic. The discount rates produced by CAPM do not seem to accord with

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how investors set their expected returns and are often inconsistent with other measures such as the Gordon Growth Model (which is based on observable dividend yield plus a long term growth rate).

Some academics and valuation practitioners consider it to be inappropriate to add a "normal" market risk premium (e.g. 6%) to a temporarily depressed bond yield and therefore advocate that a "normalised" risk free rate should be used. This practice has become increasingly common among broker analysts with an assumed risk free rate of around 2.5% not uncommon. Assuming a risk free rate of 2.5% would result in a CAPM WACC of 4.8-5.1%. Alternatively, there is some evidence that risk premiums are higher when risk free rates are lower (i.e. implying a more stable overall cost of equity);

- AusNet's networks are long life assets. 30 year bonds issued by the Australian Government are trading at yields approximately 0.6% (60 basis points) higher than equivalent ten year bonds; and
- analysis of research reports indicates that brokers (that do publish their estimates) are currently adopting a WACC in a wider range of 4.2% to 5.4% for AusNet.

Having regard to these matters, Grant Samuel has adopted a discount rate (WACC) in a range around 5.0% for AusNet's electricity and gas business operations.

While AusNet is managed as an integrated business rather than a portfolio of separate assets, it does have asset/businesses that have different risk profiles. AusNet's business operations can be segmented as follows:

- network assets subject to full economic regulation, comprising the Victorian electricity transmission and electricity and gas distribution networks. These regulated assets:
 - deliver highly predictable revenues based on the tariffs set by the AER; and
 - have their allowable returns adjusted on a regular basis to reflect changes in market volumes and movements in financial returns (annually for debt, generally five yearly for equity).

In general, they are regarded as less risky than unregulated assets/businesses.

The discount rate for AusNet's regulated assets is above the post tax nominal cost of capital currently prescribed by the AER (~4.7-4.8%) but Grant Samuel considers a range around 5.0% to be more realistic from an investment perspective (it is equivalent to a cost of equity of 7.0%); and

- the unregulated Development and & Future Growth business. The Development & Future Networks business is able to generate higher returns than AusNet's regulated assets but it could be argued that a higher discount rate be selected for the Development & Future Networks business to reflect:
 - the greater uncertainty about forecast cash flows; and
 - the greater volatility of net cash flows because of the large fixed upfront cash outlays (i.e. capital expenditure).

However, on the other hand, its projects are supported by long term (20-30 years plus) contracts that are generally indexed to inflation.

Development & Future Networks is, put simply, the growth arm of its electricity transmission business (which is a contested market in Victoria in contrast to other states) and, prior to FY20, was part of AusNet's electricity transmission business. Rather than adopting a higher discount rate, Grant Samuel has taken the risks outlined above into account:

- in the DCF scenarios it has considered for the Development & Future Networks business; and
- by selecting a value range for the Development & Networks business that is towards the lower end of the range of NPV outcomes.

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APPENDIX 4

DCF MODEL ASSUMPTIONS

1 General Assumptions

The following general assumptions have been made in the DCF models developed by Grant Samuel to value AusNet's operating businesses (electricity transmission, electricity distribution, gas distribution and Development & Future Networks):

- inflation of 2.5% per annum;
- a risk-free rate that averages approximately 2.8% per annum over the projection period. However, risk free rates are assumed to be lower (around 1.2%) in the first ten years of the projections before reverting to long term historical averages by 2040;
- corporate tax rate of 30% applied to EBIT (being EBITDA less tax depreciation, non-taxable gift assets and capitalised overheads);
- working capital based on recent parameters for days receivable and payable;
- no significant changes in legislation or in the policies or procedures of regulatory bodies; and
- no acquisitions or divestments.

The rationale for the discount rate applied to nominal ungeared after tax cash flows is set out in detail in Appendix 3.

2 Operational Assumptions

The key operational assumptions underlying Scenario A are set out below:

Electricity Transmission

- total revenue growth of approximately 4% per annum over the projection period, reflecting the terms of future revenue reset renewals:
 - the increase in revenue is primarily driven by operating cost pass-through (primarily easement taxes and other land and council taxes), which are assumed to grow at an average rate of 7% per annum;
 - regulated returns decline to ~4% for the 2022-27 access arrangement, in line with the lower regulated returns observed in recent AER decisions. Regulated returns recover to ~6.0% by FY40 as risk free rates revert to long term historical averages; and
 - the RAB grows by approximately 2.3% per annum over the projection period (slightly below inflation), reflecting continued asset renewals and lines replacements especially from FY28 onwards;
- corporate overheads (e.g. governance, finance and information technology) grow at ~1.5% per annum (below inflation) due to continued cost discipline and transformation initiatives (primarily in network operations and technology);
- the result of the above assumptions is average annual EBITDA growth of 1.3% over the projection period. Notwithstanding the EBITDA growth, EBITDA margins decline due to the increasing proportion of revenue and operating costs represented by the pass-through of easement taxes. EBITDA margins excluding the impact of easement taxes are in the range 72-77% (consistent with the historical trend);

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- capital expenditure from 1 April 2022 to 31 March 2027 is based on AusNet's revised proposal (see Section 4.9.1 of the full report) and takes into account expected efficiencies. Capital expenditure prior to 1 April 2022 is in line with the current regulatory determination. Total capital expenditure over the projection period is approximately 52% of EBITDA, slightly above the historical trend in FY20 and FY21 of 41-46%. This higher average level of capital expenditure reflects higher capital expenditure in the initial years related to major station projects (i.e. connection and switching station upgrades) and mains replacement programs, with capital expenditure requirements over the longer term declining to approximately 37-40% by FY40 as these major projects and programs conclude;
- working capital is approximately 8% of revenue, which reflects the collection of almost all receipts within a month of invoice; and
- a terminal growth rate of 2.5% (in line with inflation). The implied EBITDA exit multiple is 16-18 times, which is higher than the multiples implied by comparable transactions. Current levels of maintenance capital expenditure are expected to decline as investment in network replacement subsides by the end of the projection period. While this investment is "maintenance" in nature, these large scale replacement programmes are not continuously required at the same scale that AusNet has undertaken in recent years. As a result, cash flow conversion rates (i.e. free cash flow as a percentage of EBITDA) are assumed to improve towards the end of the projection period and in the terminal year, resulting in a higher implied EBITDA exit multiple.

Electricity Distribution

- total revenue growth of approximately 3% per annum over the projection period, reflecting the terms of future price review renewals:
 - regulated returns decline to ~4% for the 2022-27 access arrangement, in line with the lower regulated returns observed in recent AER decisions. Regulated returns recover to ~6.0% by FY40 as risk free rates revert to long term historical averages; and
 - the RAB grows by approximately 3.8% per annum over the projection period, reflecting marginal real growth above inflation which is attributable to new customer connections;
- corporate overheads (e.g. governance, finance and information technology) grow at ~1.5% per annum (below inflation) due to continued cost discipline and transformation initiatives (primarily in network operations and technology);
- the result of the above assumptions is average annual EBITDA growth of 3.5% over the projection period. EBITDA margins are assumed to remain in the range of 60-63% over the projection period (consistent with historical trends);
- capital expenditure of ~65% of EBITDA over the projection period. Capital expenditure is a higher proportion of EBITDA in the initial years due to higher growth related or non-recurring investments in relation to continued new customer connections, the current REFCL rollout and future replacement and network upgrade investments;
- environmental rehabilitation costs of approximately \$50 million through to FY30, with the majority (i.e. more than \$40 million) payable before FY25;
- working capital is approximately 8% of revenue, which reflects the collection of almost all receipts within a month of invoice; and
- a terminal growth rate of 2.5% (in line with inflation). The implied EBITDA exit multiple is 12-13 times.

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Gas Distribution

- total revenue growth of approximately 2% per annum over the projection period, reflecting the terms of future access arrangement renewals:
 - regulated returns decline to ~4% for the 2022-27 access arrangement, in line with the lower regulated returns observed in recent AER decisions. Regulated returns recover to ~6.0% by FY40 as risk free rates revert to long term historical averages;
 - the RAB grows at approximately 1.3% per annum over the projection period (below inflation) as the majority of invested capital is for maintenance or replacement;
 - customer contributions grow at 2% per annum and continue to represent only a small proportion of gas distribution revenues (i.e. ~5%);
- distribution costs are predominantly variable in nature and remain at ~1% of revenue;
- corporate costs grow at ~1.5% per annum (below inflation) due to continued cost discipline and transformation initiatives;
- the result of the above assumptions is average annual EBITDA growth of around 2% over the projection period. EBITDA margins remain in the range 75-77% (consistent with the recent historical trend);
- capital expenditure of ~50% of EBITDA through to FY40 due to upfront investment in mains replacements and new customer connections before progressively tapering to slightly under ~50% of EBITDA by FY46. This is lower than recent historical trends (of capital expenditure representing more than 50% and as high as 60-70% of EBITDA) as mains replacements decline and new customer connections requirements stabilise;
- working capital of approximately 12-13% of revenue, reflecting the longer average days sales outstanding for the gas distribution business (relative to other AusNet business operations); and
- a terminal growth rate of 2.5% (in line with inflation), applied to a terminal year cash flow adjusted downwards (by ~10%) to reflect the uncertainty of the future role of gas in Australia's energy mix and potential reduction in cash flows to allow for investment in repurposing the network for hydrogen fuel transport. The implied EBITDA exit multiple is 11-12 times.

Development & Future Networks

- total revenue (including lease income) grows at an average rate of approximately 6.5% per annum over the projection period, with higher growth over the first ten years reflecting:
 - contracted assets, including the Desalination Plant, growing at an average rate of 2.5% per year annum (in line with inflation). Due to the nature of these contracts, revenue is largely fixed and indexed to inflation only. The Desalination Plant contract concludes in FY40;
 - completion of the Western Victoria Transmission Network by FY26, which then begins generating a fixed annuity income stream that is indexed to inflation;
 - total pipeline conversion of \$3.0 billion over the projection period. This pipeline includes:
 - delivering short term radial connection opportunities such as the Golden Plains and Ryans Corner & Hawkesdale wind farm projects. The contracted asset base reaches \$2.5 billion by FY26, in line with AusNet's current target; and
 - over the longer term, successfully tendering for and delivering "mega" projects such as transmission augmentation to support new renewable capacity and the Victorian Government's *Renewable Energy Zone* developments. Project returns are at a slight premium over regulated asset returns (~4.5%) for new projects through to FY28 before increasing to 5.0% in line with an increase in interest rates. New pipeline contracts are

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assumed to have a term of 30 years, consistent with the long term nature of AusNet's current contracts; and

- minimal growth from legacy businesses (i.e. assets and digital services and energy services) and the emerging markets business. These businesses collectively break even on an EBITDA basis;
- corporate overheads grow at approximately 4% per annum over the projection period, reflecting inflation as well as an increase in support costs as the business increases in scale;
- these assumptions result in an increase in EBITDAal margins from 63% to circa 70% by FY41. Growth in EBITDAal is primarily attributable to the increasing scale of the business and its fixed operating cost base;
- capital expenditure of approximately \$4.7 billion over the projection period, reflecting the upfront capital required to construct and develop the pipeline projects, Western Victoria Transmission Network and other committed developments. More than 70% of capital expenditure is incurred in the first ten years in line with the expected launch of project tenders identified by the AEMO;
- working capital assumed to be approximately 10% of total revenue, which reflects the collection of approximately half of receipts within a month of invoice and the remainder within the second month of invoice; and
- a terminal growth rate of 2.5% (in line with inflation), applied to a terminal year cash flow adjusted downwards (by ~15%) to reflect the fixed price nature of the annuity contracts which grow at inflation and the expected reduction in the annuity payments at the end of the initial contracted period.

Schedule 2

Scheme of Arrangement

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Schedule 2

Scheme of Arrangement

Scheme of Arrangement pursuant to section 411 of the Corporations Act 2001 (Cth)

Between

AusNet Services Ltd (ACN 603 317 559) of Level 31, 2 Southbank Boulevard, Southbank, Victoria, 3006 (**AusNet**).

And

Each holder of AusNet Shares recorded in the AusNet Share Register as at the Scheme Record Date (each a **Scheme Shareholder** and, together, the **Scheme Shareholders**).

Recitals

- A AusNet is an Australian public company limited by shares, registered under the Corporations Act, and has been admitted to the official list of the ASX. AusNet Shares are quoted for trading on the ASX.
- B Australian Energy Holdings No 4 Pty Ltd (ACN 654 673 793) is a company incorporated in Victoria, Australia (**Bidder**).
- C AusNet and Bidder have entered into a Scheme Implementation Deed dated 31 October 2021 (the **Scheme Implementation Deed**) pursuant to which:
 - (a) AusNet has agreed to propose this Scheme to AusNet Shareholders; and
 - (b) AusNet and Bidder have agreed to take certain steps to give effect to this Scheme.
- D If this Scheme becomes Effective, then:
 - (a) all of the Scheme Shares and all of the rights and entitlements attaching to them on the Implementation Date will be transferred to Bidder; and
 - (b) the Scheme Consideration will be provided to the Scheme Shareholders in accordance with the terms of this Scheme and the Deed Poll; and
 - (c) AusNet will enter the name and address of Bidder in the AusNet Share Register as the holder of all of the Scheme Shares.
- E By executing the Scheme Implementation Deed, AusNet has agreed to propose and implement this Scheme, and Bidder has agreed to assist with that proposal and implementation, on and subject to the terms of the Scheme Implementation Deed.
- F Bidder has entered into the Deed Poll for the purpose of covenanting in favour of the Scheme Shareholders that Bidder will observe and perform the obligations contemplated of it under this Scheme.

It is agreed as follows.

1 Definitions and interpretation

1.1 Definitions

In this document, unless the context requires otherwise:

Additional Consideration means, where the Implementation Date has not occurred by 31 March 2022, \$0.000260274 for each day after 31 March 2022 that has elapsed by the date on which the Implementation Date occurs.

ASIC means the Australian Securities and Investments Commission.

ASX means ASX Limited (ABN 98 008 624 691) or, as the context requires, the financial market known as 'ASX' operated by it.

ASX Listing Rules means the official listing rules of the ASX.

AusNet Share Register means the register of members of AusNet maintained in accordance with the Corporations Act.

AusNet Share Registry means Computershare Investor Services Pty Limited of level 3, 60 Carrington Street, Sydney, New South Wales, 2000, or any replacement share registry services provider to AusNet.

AusNet Shares means fully paid ordinary shares issued in the capital of AusNet.

AusNet Shareholder means a person who is registered in the AusNet Share Register as a holder of AusNet Shares.

Business Day means any day that is each of the following:

- (a) a Business Day within the meaning given in the ASX Listing Rules; and
- (b) a day that banks are open for business in Melbourne, Australia.

CHES means the Clearing House Electronic Subregister System for the electronic transfer of securities, operated by ASX Settlement Pty Limited (ABN 49 008 504 532).

Constitution means the constitution of AusNet, as amended from time to time.

Corporations Act means the *Corporations Act 2001* (Cth), as amended by any applicable ASIC class order, ASIC legislative instrument or ASIC relief.

Court means the Supreme Court of New South Wales or such other court of competent jurisdiction under the Corporations Act agreed to in writing between AusNet and Bidder.

Deed Poll means the deed poll executed on 13 December 2021 by Bidder in favour of the Scheme Shareholders.

Effective means, when used in relation to this Scheme, the coming into effect, pursuant to section 411(10) of the Corporations Act, of the orders of the Court under section 411(4)(b) (and, if applicable, section 411(6)) of the Corporations Act in relation to this Scheme.

Effective Date means the date on which this Scheme becomes Effective.

End Date means the date which is eight (8) months after the date of the Scheme Implementation Deed, subject to any extension under clause 3.7 of the Scheme Implementation Deed.

Government Agency means any Australian or foreign government or governmental, semi-governmental or judicial entity or authority. It also includes any government minister (and his or her delegate), any self-regulatory organisation established under statute or any securities exchange and, for the avoidance of doubt, includes ASIC, ASX, Foreign Investment Review Board, Australian Competition and Consumer Commission and equivalent bodies in jurisdictions outside Australia.

Implementation Date means the fifth Business Day after the Scheme Record Date, or such other date as AusNet and Bidder may agree in writing.

Schedule 2

Scheme of Arrangement continued

Permitted Dividends means:

- (a) an unfranked interim dividend of not more than \$0.0475 per AusNet Share in respect of the financial half-year ending 30 September 2021; and
- (b) if the Implementation Date does not occur before 31 March 2022 – an unfranked dividend of not more than \$0.0475 per AusNet Share in respect of the financial year ending 31 March 2022.

Registered Address means, in relation to a Scheme Shareholder, the address of that Scheme Shareholder shown in the AusNet Share Register as at the Scheme Record Date.

Scheme means this scheme of arrangement under Part 5.1 of the Corporations Act between AusNet and the Scheme Shareholders as set out in this document, subject to any alterations or conditions made or required by the Court and agreed to by Bidder and AusNet (such agreement not to be unreasonably withheld or delayed) made or required by the Court under section 411(6) of the Corporations Act and agreed to by AusNet and Bidder.

Scheme Consideration means the consideration to be provided to each AusNet Shareholder for the transfer to Bidder of each Scheme Share being, in respect of each Scheme Share:

- (a) a cash amount of \$2.65; less
- (b) the cash amount of any Permitted Dividend to which Scheme Shareholders become entitled on or before the Implementation Date; plus
- (c) the amount of any Additional Consideration.

Scheme Meeting means the meeting of AusNet Shareholders ordered by the Court to be convened under section 411(1) of the Corporations Act in relation to this Scheme, and includes any adjournment or postponement of that meeting.

Scheme Orders means the orders of the Court made under section 411(4)(b) of the Corporations Act (and if applicable, section 411(6) of the Corporations Act) in relation to this Scheme.

Scheme Record Date means 7:00pm on the third Business Day after the Effective Date or such other time and date agreed to in writing between AusNet and Bidder.

Scheme Shares means the AusNet Shares on issue as at the Scheme Record Date.

Scheme Transfer means, in relation to each Scheme Shareholder, a proper instrument of transfer of their Scheme Shares for the purpose of section 1071B of the Corporations Act.

Second Court Date means the first day of hearing of an application made to the Court for orders pursuant to section 411(4)(b) of the Corporations Act approving this Scheme or, if the hearing of such application is adjourned for any reason, means the first day of the adjourned hearing.

Trust Account means an Australian dollar denominated trust account held with an Australian bank operated by AusNet (or by the AusNet Share Registry on behalf of AusNet) as trustee for the Scheme Shareholders.

1.2 Interpretation

- (a) Headings are for convenience only and do not affect interpretation.
- (b) Mentioning anything after includes, including, for example, or similar expressions, does not limit what else might be included.
- (c) The following rules apply unless the context requires otherwise.
 - (i) The singular includes the plural, and the converse also applies.
 - (ii) A gender includes all genders.
 - (iii) If a word or phrase is defined, its other grammatical forms have a corresponding meaning.
 - (iv) A reference to a person includes a corporation, trust, partnership, unincorporated body or other entity, whether or not it comprises a separate legal entity.
 - (v) A reference to a clause is a reference to a clause of this Scheme.

- (vi) A reference to an agreement or document (including a reference to this document) is to the agreement or document as amended, supplemented, novated or replaced, except to the extent prohibited by this document or that other agreement or document.
- (vii) A reference to writing includes any method of representing or reproducing words, figures, drawings or symbols in a visible and tangible form.
- (viii) A reference to a person includes the person's successors, permitted substitutes and permitted assigns (and, where applicable, the person's legal personal representatives).
- (ix) A reference to legislation or to a provision of legislation includes a modification or re enactment of it, a legislative provision substituted for it and a regulation or statutory instrument issued under it.
- (x) A reference to dollars or \$ is to Australian currency.
- (xi) Words and phrases not specifically defined in this Scheme have the same meanings (if any) given to them in the Corporations Act.
- (xii) A reference to time is to Sydney, Australia time.
- (xiii) If the day on which any act, matter or thing is to be done is a day other than a Business Day, such act, matter or thing must be done on the immediately succeeding Business Day.

2 Conditions

2.1 Conditions Precedent

This Scheme is conditional upon, and will have no force or effect until, the satisfaction of each of the following conditions precedent:

- (a) as at 8:00am on the Second Court Date each of the conditions precedent set out in clause 3.1 of the Scheme Implementation Deed (other than the condition precedent relating to the approval of the Court set out in clause 3.1(d) of the Scheme Implementation Deed) has been satisfied or waived in accordance with the Scheme Implementation Deed;
- (b) as at 8:00am on the Second Court Date, neither the Scheme Implementation Deed nor the Deed Poll has been terminated in accordance with its terms;
- (c) the Court makes orders approving this Scheme under section 411(4)(b) of the Corporations Act, including with such alterations made or required by the Court under section 411(6) of the Corporations Act and that are agreed to AusNet and Bidder (such agreement not to be unreasonably withheld or delayed);
- (d) such other conditions made or required by the Court under section 411(6) of the Corporations Act in relation to this Scheme and that are agreed to AusNet and Bidder (such agreement not to be unreasonably withheld or delayed) having been satisfied or waived; and
- (e) the orders of the Court made under section 411(4)(b) (and, if applicable, section 411(6)) of the Corporations Act approving this Scheme come into effect, pursuant to section 411(10) of the Corporations Act on or before the End Date.

2.2 Lapsing

This Scheme will lapse and be of no further force or effect if:

- (a) the Effective Date does not occur on or before the End Date; or
- (b) the Scheme Implementation Deed or the Deed Poll is terminated in accordance with its terms unless AusNet and Bidder otherwise agree in writing.

3 Scheme becoming Effective

Subject to clause 2, this Scheme will take effect on and from the Effective Date.

Schedule 2

Scheme of Arrangement continued

4 Implementation of Scheme

On the Implementation Date, subject to Bidder having satisfied its obligations in clause 5.2, all of the Scheme Shares, together with all rights and entitlements attaching to the Scheme Shares as at the Implementation Date, will be transferred to Bidder, without the need for any further act by any Scheme Shareholder (other than acts performed by AusNet or any of its directors and officers as attorney and agent for Scheme Shareholders under this Scheme), by:

- (a) AusNet delivering to Bidder for execution duly completed (and, if necessary, stamped) Scheme Transfers to transfer all of the Scheme Shares to Bidder (and one or more Scheme Transfers can be a master transfer of all or part of all of the Scheme Shares), duly executed by AusNet (or any of its directors and officers) as the attorney and agent of each Scheme Shareholder as transferor under clause 8.3;
- (b) Bidder executing the Scheme Transfers as transferee and delivering them to AusNet for registration; and
- (c) AusNet, immediately after receipt of the Scheme Transfers under clause 4(b), entering, or procuring the entry of, the name and address of Bidder in the AusNet Share Register as the holder of all of the Scheme Shares.

5 Scheme Consideration

5.1 Entitlement to Scheme Consideration

Subject to the terms of this Scheme, each Scheme Shareholder will be entitled to the Scheme Consideration for each Scheme Share held by that Scheme Shareholder.

5.2 Deposit of Scheme Consideration

Bidder must, by no later than the Business Day before the Implementation Date, deposit (or procure the deposit) in cleared funds into the Trust Account an amount at least equal to the aggregate amount of the Scheme Consideration payable to each Scheme Shareholder provided that any interest on the amounts deposited (less bank fees and other charges) will be credited to Bidder's account.

5.3 Payment to Scheme Shareholders

- (a) On the Implementation Date, subject to Bidder having satisfied its obligations in clause 5.2, AusNet must pay or procure the payment, from the Trust Account, to each Scheme Shareholder the Scheme Consideration as that Scheme Shareholder is entitled under this clause 5.
- (b) The obligations of AusNet under clause 5.3(a) will be satisfied by AusNet (in its absolute discretion):
 - (i) where a Scheme Shareholder has, before the Scheme Record Date, made a valid election in accordance with the requirements of the AusNet Share Registry to receive dividend payments from AusNet by electronic funds transfer to a bank account nominated by the Scheme Shareholder, paying, or procuring the payment of, the relevant amount in Australian currency by electronic means in accordance with that election; or
 - (ii) otherwise, whether or not the Scheme Shareholder has made an election referred to in clause 5.3(b)(i), dispatching, or procuring the dispatch of, a cheque for the relevant amount in Australian currency to the Scheme Shareholder by prepaid post to their Registered Address (as at the Scheme Record Date), such cheque being drawn in the name of the Scheme Shareholder (or in the case of joint holders, in accordance with the procedures set out in clause 5.4).

5.4 Joint holders

In the case of Scheme Shares held in joint names:

- (a) any cheque required to be sent under this Scheme will be made payable to the joint holders and sent to either, at the sole discretion of AusNet, the holder whose name appears first in the AusNet Share Register as at the Scheme Record Date or to the joint holders; and
- (b) any other document required to be sent under this Scheme, will be forwarded to either, at the sole discretion of AusNet, the holder whose name appears first in the AusNet Share Register as at the Scheme Record Date or to the joint holders.

5.5 Fractional entitlements

Where the calculation of the Scheme Consideration to be paid to a Scheme Shareholder would result in the Scheme Shareholder becoming entitled to a fraction of a cent, that fractional entitlement will be rounded down to the nearest whole cent.

5.6 Unclaimed monies

- (a) The *Unclaimed Money Act 2008* (VIC) will apply in relation to any Scheme Consideration which becomes 'unclaimed money' (as defined in section 3 of the *Unclaimed Money Act 2008* (VIC)).
- (b) AusNet may cancel a cheque issued under this clause 5 if the cheque:
 - (i) is returned to AusNet; or
 - (ii) has not been presented for payment within six months after the date on which the cheque was sent.
- (c) During the period of one year commencing on the Implementation Date, on request in writing from a Scheme Shareholder to AusNet (or the AusNet Share Registry) (which request may not be made until the date which is 20 Business Days after the Implementation Date), AusNet must reissue a cheque that was previously cancelled under this clause 5.6.

5.7 Remaining monies (if any) in Trust Account

To the extent that, following satisfaction of AusNet's obligations under the other provisions of this clause 5 and provided Bidder has by that time acquired the Scheme Shares in accordance with this Scheme, there is a surplus in the Trust Account, then subject to compliance with applicable laws, the other terms of this Scheme, the Deed Poll and the Scheme Implementation Deed, that surplus (less any bank fees and related charges) shall be paid by AusNet (or the AusNet Share Registry on AusNet's behalf) to Bidder.

5.8 Orders of a court

- (a) If written notice is given to AusNet (or the AusNet Share Registry) of an order or direction made by a court of competent jurisdiction or another Government Agency that:
 - (i) requires consideration to be provided to a third party (either through payment of a sum or the issuance of a security) in respect of Scheme Shares held by a particular Scheme Shareholder, which would otherwise be payable or required to be issued to that Scheme Shareholder by AusNet in accordance with this clause 5, then AusNet shall be entitled to procure that provision of that consideration is made in accordance with that order or direction; or
 - (ii) prevents AusNet from providing consideration to any particular Scheme Shareholder in accordance with this clause 5, or the payment or issuance of such consideration is otherwise prohibited by applicable law, AusNet shall be entitled to (as applicable) retain an amount equal to the number of Scheme Shares held by that Scheme Shareholder multiplied by the Scheme Consideration, until such time as payment in accordance with this clause 5 is permitted by that (or another) court or direction or otherwise by law.
- (b) To the extent that amounts are so deducted or withheld in accordance with clause 5.8(a), such deducted or withheld amounts will be treated for all purposes under this Scheme as having been paid to the person in respect of which such deduction and withholding was made, provided that such deducted or withheld amounts are actually remitted as required.

6 Dealings in AusNet Shares**6.1 Dealings in AusNet Shares by Scheme Shareholders**

For the purpose of establishing the persons who are Scheme Shareholders, dealings in AusNet Shares will be recognised by AusNet provided that:

- (a) in the case of dealings of the type to be effected using CHESS, the transferee is registered in the AusNet Share Register as the holder of the relevant AusNet Shares by the Scheme Record Date; and
- (b) in all other cases, registrable transfers or transmission applications in respect of those dealings are received by the AusNet Share Registry by 5.00pm on the day which is the Scheme Record Date at the place where the AusNet Share Register is located (in which case AusNet must register such transfers or transmission applications before 7.00pm on that day),

and AusNet will not accept for registration, nor recognise for the purpose of establishing the persons who are Scheme Shareholders nor for any other purpose (other than to transfer to Bidder pursuant to this Scheme and any subsequent transfers by Bidder and its successors in title), any transfer or transmission application in respect of AusNet Shares received after such times, or received prior to such times but not in actionable or registrable form (as appropriate).

Schedule 2

Scheme of Arrangement continued

6.2 Register

- (a) AusNet will, until the Scheme Consideration has been provided and the name and address of Bidder has been entered in the AusNet Share Register as the holder of all of the Scheme Shares, maintain, or procure the maintenance of, the AusNet Share Register in accordance with this clause 6, and the AusNet Share Register in this form and the terms of this Scheme will solely determine entitlements to the Scheme Consideration.
- (b) As from the Scheme Record Date (and other than for Bidder following the Implementation Date), each entry in the AusNet Share Register as at the Scheme Record Date relating to Scheme Shares will cease to have any effect other than as evidence of the entitlements of Scheme Shareholders to the Scheme Consideration in respect of those Scheme Shares.
- (c) As soon as possible on or after the Scheme Record Date, and in any event within two Business Days after the Scheme Record Date, AusNet will ensure that details of the names, Registered Addresses and holdings of AusNet Shares for each Scheme Shareholder as shown in the AusNet Share Register are available to Bidder in the form Bidder reasonably requires.

6.3 Effect of share certificates and holding statements

As from the Scheme Record Date (and other than for Bidder following the Implementation Date), all share certificates and holding statements for Scheme Shares (other than statements of holding in favour of Bidder) will cease to have effect as documents of title in respect of those Scheme Shares.

6.4 No disposals after Record Date

If this Scheme becomes Effective, each Scheme Shareholder, and any person claiming through that Scheme Shareholder, must not dispose of or purport or agree to dispose of any Scheme Shares or any interest in them after 5.00pm on the Scheme Record Date (other than to Bidder in accordance with this Scheme and any subsequent transfers by Bidder and its successors in title), and any attempt to do so will have no effect and AusNet shall be entitled to disregard any such disposal, purported disposal or agreement.

7 Suspension and termination of quotation of AusNet Shares

- (a) AusNet must use best endeavours to ensure that ASX suspends trading of the AusNet Shares on ASX with effect from the close of business on the Effective Date.
- (b) On a date after the Implementation Date to be determined by Bidder, AusNet must apply to ASX for termination of official quotation of the AusNet Shares on ASX and the removal of AusNet from the official list of ASX.

8 General provisions

8.1 Further assurances

- (a) Each Scheme Shareholder and AusNet will do all things and execute all deeds, instruments, transfers or other documents as may be necessary or desirable to give full effect to the terms of this Scheme and the transactions contemplated by it.
- (b) Without limiting AusNet's other powers under this Scheme, AusNet has power to do all things that it considers necessary or desirable to give effect to this Scheme and the transactions contemplated by it.

8.2 Scheme Shareholders' agreements and consents

Each Scheme Shareholder:

- (a) irrevocably agrees to the transfer of their Scheme Shares, together with all rights and entitlements attaching to those Scheme Shares, to Bidder in accordance with the terms of this Scheme;
- (b) acknowledges and agrees that this Scheme binds AusNet and all Scheme Shareholders (including those that did not attend the Scheme Meeting or did not vote at that meeting or voted against this Scheme at that Scheme Meeting) and, to the extent of any inconsistency, overrides the Constitution; and
- (c) irrevocably consents to AusNet and Bidder doing all things and executing all deeds, instruments, transfers or other documents as may be necessary or desirable to give full effect to the terms of the Scheme and the transactions contemplated by it,

without the need for any further act by that Scheme Shareholder.

8.3 Appointment of AusNet as attorney for implementation of Scheme

Each Scheme Shareholder, without the need for any further act by that Scheme Shareholder, irrevocably appoints AusNet as that Scheme Shareholder's agent and attorney for the purpose of:

- (a) doing all things and executing all deeds, instruments, transfers or other documents as may be necessary or desirable to give full effect to the terms of this Scheme and the transactions contemplated by it, including the effecting of a valid transfer or transfers (or the execution and delivery of any Scheme Transfers) under clause 4(b); and
- (b) enforcing the Deed Poll against Bidder,

and AusNet accepts such appointment. AusNet, as agent and attorney of each Scheme Shareholder, may sub-delegate its functions, authorities or powers under this clause 8.3 to all or any of its directors and officers (jointly, severally, or jointly and severally).

8.4 Warranty by Scheme Shareholders

Each Scheme Shareholder is deemed to have warranted to Bidder, and, to the extent enforceable, to have appointed and authorised AusNet as that Scheme Shareholder's agent and attorney to warrant to Bidder, that all of their Scheme Shares (including all rights and entitlements attaching to those Scheme Shares) will, at the time of the transfer of them to Bidder pursuant to this Scheme, be fully paid and free from all mortgages, charges, liens, encumbrances, pledges, security interests (including 'security interests' within the meaning of section 12 of the *Personal Property Securities Act 2009* (Cth)) and other interests of third parties of any kind, whether legal or otherwise, and restrictions on transfer of any kind, and that they have full power and capacity to sell and to transfer their Scheme Shares (together with any rights and entitlements attaching to those Scheme Shares) to Bidder pursuant to this Scheme. AusNet undertakes in favour of each Scheme Shareholder that it will provide such warranty, to the extent enforceable, to Bidder on behalf of that Scheme Shareholder.

8.5 Title to and rights in Scheme Shares

- (a) To the extent permitted by law, the Scheme Shares (including all rights and entitlements attaching to the Scheme Shares) transferred under this Scheme to Bidder will, at the time of transfer of them to Bidder, be fully paid and free from all mortgages, charges, liens, encumbrances, pledges, security interests (including 'security interests' within the meaning of section 12 of the *Personal Property Securities Act 2009* (Cth)) and other interests of third parties of any kind, whether legal or otherwise, and restrictions on transfer of any kind.
- (b) Immediately upon the deposit of the Scheme Consideration in the manner contemplated by clause 5.2, Bidder will be beneficially entitled to the Scheme Shares transferred to it under this Scheme pending registration by AusNet of the name and address of Bidder in the AusNet Share Register as the holder of the Scheme Shares.

8.6 Appointment of Bidder as attorney and agent for Scheme Shares

- (a) From the time that Bidder has satisfied its obligations in clause 5.2 and until Bidder is registered in the AusNet Share Register as the holder of all Scheme Shares, each AusNet Shareholder:
 - (i) without the need for any further act by that AusNet Shareholder, irrevocably appoints Bidder as its proxy to (and irrevocably appoints Bidder as its agent and attorney for the purpose of appointing any director or officer of Bidder as that AusNet Shareholder's sole proxy and, where applicable or appropriate, its corporate representative to):
 - (A) attend shareholders' meetings of AusNet;
 - (B) exercise the votes attaching to the AusNet Shares registered in the name of the AusNet Shareholder; and
 - (C) sign any AusNet Shareholders' resolution or document;
 - (ii) must not attend or vote at any of those meetings or sign any resolutions, whether in person, by proxy or by corporate representative (other than pursuant to clause 8.6(a));
 - (iii) must take all other action in the capacity of an AusNet Shareholder as Bidder reasonably directs; and
 - (iv) acknowledges and agrees that in exercising the powers referred to in clause 8.6(a), Bidder and any person nominated by Bidder under clause 8.6(a) may act in the best interests of Bidder as the intended registered holder of the Scheme Shares.
- (b) From the time that Bidder has satisfied its obligations in clause 5.2 until Bidder is registered in the AusNet Share Register as the holder of all Scheme Shares, no AusNet Shareholder may attend or vote at any meetings of AusNet Shareholders or sign any AusNet Shareholders' resolution (whether in person, by proxy or by corporate representative) other than under this clause 8.6.

8.7 Alterations and conditions to Scheme

If the Court proposes to approve this Scheme subject to any alterations or conditions, AusNet may, by its counsel or solicitors, and with the prior written consent of Bidder:

- (a) consent on behalf of all persons concerned, including each AusNet Shareholder, to those alterations or conditions; and
- (b) each Scheme Shareholder agrees to any such alterations or conditions which AusNet has consented to.

8.8 Enforcement of Deed Poll

AusNet undertakes in favour of each Scheme Shareholder that it will enforce the Deed Poll against Bidder on behalf of and as agent and attorney for the Scheme Shareholders.

8.9 Consent

Each of the Scheme Shareholders consents to AusNet doing all things necessary or incidental to the implementation of this Scheme, whether on behalf of the Scheme Shareholders, AusNet or otherwise.

8.10 Notices

- (a) Where a notice, transfer, transmission application, direction or other communication referred to in this Scheme is sent by post to AusNet, it will not be deemed to be received in the ordinary course of post or on a date other than the date (if any) on which it is actually received at AusNet's registered office or by the AusNet Share Registry, as the case may be.
- (b) The accidental omission to give notice of the Scheme Meeting or the non-receipt of such notice by an AusNet Shareholder will not, unless so ordered by the Court, invalidate the Scheme Meeting or the proceedings of the Scheme Meeting.

8.11 Duty

Bidder will:

- (a) pay all duty (including stamp duty and any related fines, penalties and interest) payable on or in connection with this Deed Poll and any instrument executed under or any transaction evidenced by this Deed Poll (including, the transfer by Scheme Shareholders of the Scheme Shares to Bidder pursuant to this Scheme); and
- (b) indemnify each Scheme Shareholder against any liability arising from failure to comply with clause 8.11(a).

8.12 Governing law and jurisdiction

This document is governed by the laws of New South Wales. Each party submits to the non-exclusive jurisdiction of courts exercising jurisdiction there and courts of appeal from them in connection with matters concerning this document. The parties irrevocably waive any objection to the venue of any legal process in these courts on the basis that the process has been brought in an inconvenient forum.

8.13 No liability when acting in good faith

Each Scheme Shareholder agrees that neither AusNet, nor Bidder nor any director, officer, secretary or employee of any of those companies shall be liable for anything done or omitted to be done in the performance of this Scheme or the Deed Poll in good faith.

Schedule 3

Deed Poll

For personal use only



Schedule 3

Deed Poll

Allens & Linklaters

Deed Poll

This Deed Poll is made on 13 December 2021

By

Australian Energy Holdings No 4 Pty Ltd (ACN 654 673 793) (**Bidder**)

In favour of

Each Scheme Shareholder

Recitals

- A Bidder and AusNet Services Ltd (ACN 603 317 559) of Level 31, 2 Southbank Boulevard, Southbank, Victoria, 3006 (**AusNet**) have entered into a Scheme Implementation Deed dated 31 October 2021 (the **Scheme Implementation Deed**).
- B AusNet has agreed in the Scheme Implementation Deed to propose the Scheme, pursuant to which, subject to the satisfaction or waiver of certain conditions precedent, Bidder will acquire all of the Scheme Shares from Scheme Shareholders for the payment of the Scheme Consideration.
- C In accordance with the Scheme Implementation Deed, Bidder is entering into this Deed Poll for the purpose of covenanting in favour of the Scheme Shareholders that Bidder will observe and perform the obligations contemplated of it under the Scheme.

It is agreed as follows.

1 Definitions and interpretation

1.1 Definitions

Terms defined in the Scheme Implementation Deed have the same meaning in this Deed Poll, unless the context requires otherwise.

1.2 Interpretation

The provisions of clause 1.2 of the Scheme Implementation Deed form part of this Deed Poll as if set out in full in this Deed Poll, and on the basis that references to 'this deed' in that clause are references to 'this Deed Poll'.

2 Nature of Deed Poll

Bidder acknowledges that:

- (a) this Deed Poll may be relied on and enforced by any Scheme Shareholder in accordance with its terms, even though the Scheme Shareholders are not party to it; and
- (b) under the Scheme, each Scheme Shareholder appoints AusNet as its agent and attorney to enforce this Deed Poll against Bidder on behalf of that Scheme Shareholder.

3 Conditions precedent and termination

3.1 Conditions precedent

This Deed Poll and the obligations of Bidder under this Deed Poll are subject to the Scheme becoming Effective.

3.2 Termination

If the Scheme Implementation Deed is terminated before the Effective Date or the Scheme does not become Effective on or before the End Date, the obligations of Bidder under this Deed Poll will automatically terminate and the terms of this Deed Poll will be of no further force or effect, unless AusNet and Bidder otherwise agree in writing.

3.3 Consequences of termination

If this Deed Poll is terminated under clause 3.2, then, in addition and without prejudice to any other rights, powers or remedies available to it:

- (a) Bidder is released from its obligations under this Deed Poll, except those obligations under clause 8.6; and
- (b) each Scheme Shareholder retains any rights, powers or remedies that Scheme Shareholder has against Bidder in respect of any breach of Bidder's obligations under this Deed Poll that occurred before termination of this Deed Poll.

4 Compliance with Scheme obligations**4.1 Obligations of Bidder**

Subject to clause 3, Bidder covenants in favour of each Scheme Shareholder that it will observe and perform all obligations contemplated of Bidder under the Scheme, including the relevant obligations relating to the provision of the Scheme Consideration, subject to and in accordance with the terms of the Scheme.

5 Representations and warranties

Bidder makes the following representations and warranties in respect of itself.

- (a) **(Status)** It is a corporation duly incorporated and validly existing under the laws of the place of its incorporation.
- (b) **(Power)** It has the power to enter into and perform its obligations under this Deed, and to carry out the transactions contemplated by this Deed.
- (c) **(Corporate authorisations)** It has taken all necessary corporate action to authorise the entry into and performance of this Deed Poll by it and to carry out the transactions contemplated by this Deed Poll.
- (d) **(Document binding)** This Deed Poll is its valid and binding obligation enforceable in accordance with its terms.
- (e) **(Transactions permitted)** The execution and performance by it of this Deed Poll and each transaction contemplated by this Deed Poll did not and will not violate in any respect a provision of:
 - (i) a law or treaty or a judgment, ruling, order or decree binding on it; or
 - (ii) its constitution or other constituent documents.

6 Continuing obligations

This Deed Poll is irrevocable and, subject to clause 3, remains in full force and effect until the earlier of:

- (a) Bidder having fully performed its obligations under this Deed Poll; and
- (b) termination of this Deed Poll under clause 3.

Schedule 3

Deed Poll continued

Allens & Linklaters

7 Further assurances

Bidder will, on its own behalf and, to the extent authorised by the Scheme, on behalf of each Scheme Shareholder, do all things and execute all deeds, instruments, transfers or other documents as may be necessary to give full effect to the provisions of this Deed Poll and the transactions contemplated by it.

8 General

8.1 Notices

Any notice, demand, consent or other communication (a **Notice**) given or made under this Deed Poll:

- (a) must be in writing and signed by the sender or a person duly authorised by the sender;
- (b) must be sent by regular ordinary post (airmail if appropriate) to the addresses referred to below, or sent by email to the addresses referred to below:

(i) to Bidder: Address: Level 19, 10 Carrington Street,
Sydney NSW 2000

Email: Ray.Neill@brookfield.com;
Michael.Ryan@brookfield.com

Attention: Ray Neill, Michael Ryan

with a copy to (which by itself does not constitute a Notice) to:

philippa.stone@hsf.com; nick.baker@hsf.com ;
ken.ooi@hsf.com

- (c) will be conclusively taken to be duly given or made:
 - (i) in the case of delivery in person, when delivered;
 - (ii) in the case of delivery by post, six Business Days after the date of posting (if posted to an address in the same country) or ten Business Days after the date of posting (if posted to an address in another country); and
 - (iii) in the case of email, at the earliest of:
 - (A) the time that the sender receives an automated message from the intended recipient's information system confirming delivery of the email;
 - (B) the time that the intended recipient confirms receipt of the email by reply email; and
 - (C) two hours after the time the email is sent (as recorded on the device from which the sender sent the email) unless the sender receives, within that two hour period, an automated message that the email has not been delivered,

but if the result is that a Notice would be taken to be given or made:

- (iv) in the case of delivery by hand or post, at a time that is later than 5pm;
- (v) in the case of delivery by email, at a time that is later than 7pm; or
- (vi) on a day that is not a business day,

in the place specified by the intended recipient as its postal address under clause 8.1(b), it will be conclusively taken to have been duly given or made at the start of business on the next business day in that place.

8.2 No waiver

No failure to exercise nor any delay in exercising any right, power or remedy by Bidder or by any Scheme Shareholder operates as a waiver. A single or partial exercise of any right, power or remedy does not preclude any other or further exercise of that or any other right, power or remedy. A waiver of any right, power or remedy on one or more occasions does not operate as a waiver of that right, power or remedy on any other occasion, or of any other right, power or remedy. A waiver is not valid or binding on the person granting that waiver unless made in writing.

8.3 Remedies cumulative

The rights, powers and remedies of Bidder and of each Scheme Shareholder under this Deed Poll are in addition to, and do not exclude or limit, any right, power or remedy provided by law or equity or by any agreement.

8.4 Amendment

No amendment or variation of this Deed Poll is valid or binding unless:

- (a) either:
 - (i) before the Second Court Date, the amendment or variation is agreed to in writing by AusNet and Bidder (which such agreement may be given or withheld without reference to or approval by any Scheme Shareholder); or
 - (ii) on or after the Second Court Date, the amendment or variation is agreed to in writing by AusNet and Bidder (which such agreement may be given or withheld without reference to or approval by any Scheme Shareholder), and is approved by the Court; and
- (b) Bidder enters into a further deed poll in favour of the Scheme Shareholders giving effect to that amendment or variation.

8.5 Assignment

The rights and obligations of Bidder and of each Scheme Shareholder under this Deed Poll are personal. They cannot be assigned, encumbered or otherwise dealt with and no person may attempt, or purport, to do so without the prior consent of Bidder and AusNet.

8.6 Duty

Bidder will:

- (a) pay all duty (including stamp duty and any related fines, penalties and interest) payable on the transfer by Scheme Shareholders of the Scheme Shares to Bidder pursuant to the Scheme; and
- (b) indemnify each Scheme Shareholder against any liability arising from failure to comply with clause 8.6(a).

8.7 Governing law and jurisdiction

This Deed Poll is governed by the laws of Victoria. Bidder submits to the non-exclusive jurisdiction of courts exercising jurisdiction there in connection with matters concerning this Deed Poll.

Schedule 3

Deed Poll continued

Allens < Linklaters

Executed and delivered as a Deed Poll.

Executed as a deed in accordance with
section 127 of the *Corporations Act 2001*
(Cth) by **Australian Energy Holdings No 4**
Pty Ltd:



Director Signature
Ray Neill

Print Name



Director/Secretary Signature
Michael Ryan

Print Name

Schedule 4

Notice of Meeting

For personal use only



Schedule 4

Notice of Meeting

AUSNET SERVICES LTD

NOTICE OF MEETING OF REGISTERED HOLDERS OF FULLY PAID ORDINARY SHARES IN AUSNET.

NOTICE IS HEREBY GIVEN, that a Scheme Meeting of AusNet Shareholders will be held virtually at 11.00am (Melbourne time) on Friday, 28 January 2022.

As a result of the potential health risks associated with large gatherings and the ongoing COVID-19 pandemic, the Scheme Meeting will be a virtual (online only) meeting. The health of AusNet Shareholders, employees and other meeting attendees is of paramount importance and, therefore, there will not be a physical meeting where AusNet Shareholders or their proxies, attorneys or corporate representatives can attend in person.

Instead, AusNet Shareholders are invited to participate in the Scheme Meeting using an online platform. This online platform will enable participants to view the Scheme Meeting live, ask questions online and vote on the Scheme Resolution in real time.

The Court has directed that Mr Peter Mason or, failing him, Mr Robert Milliner, act as chair of the meeting and has directed the chair to report the result of the meeting to the Court.

BUSINESS

The purpose of the Scheme Meeting to be held pursuant to this Notice of Meeting is to consider, and if thought fit, to agree (with or without modification) to a scheme of arrangement proposed to be made between AusNet and AusNet Shareholders.

SCHEME RESOLUTION

To consider and, if thought fit, to pass the following resolution:

That, pursuant to and in accordance with section 411 of the Corporations Act 2001 (Cth), the scheme of arrangement proposed between AusNet Services Ltd ("AusNet") and the holders of its fully paid ordinary shares, the terms of which are contained in and more particularly described in the Scheme Booklet of which the notice convening the Scheme Meeting forms part, is approved (with or without alteration or conditions as approved by the Supreme Court of New South Wales and agreed to by AusNet and Australian Energy Holdings No 4 Pty Ltd ("Bidder")) and, subject to approval of the Scheme by the Court, the AusNet Board is authorised to implement the Scheme with any such alterations or conditions.

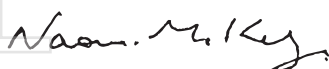
VOTING EXCLUSION STATEMENT

Bidder and its associates (as defined in section 12 of the Corporations Act 2001 (Cth)) are excluded from voting on the Scheme Resolution, unless:

- the vote is cast by the associate as proxy for a person who is not excluded from voting, in accordance with that person's directions on the Proxy Form; or
- the associate is acting solely as an investment manager, custodian, nominee, trustee, responsible entity or other fiduciary on behalf of a third party beneficiary or third party investor, who is not an associate of Bidder.

AUSNET BOARD'S RECOMMENDATION

For the reasons set out in the Scheme Booklet, the AusNet Board unanimously recommends that eligible AusNet Shareholders vote in favour of the Scheme Resolution, in the absence of a Superior Proposal and subject to the Independent Expert continuing to conclude that the Scheme is in the best interests of AusNet Shareholders.³⁶



Naomi Kelly
Company Secretary

AusNet Services Ltd

³⁶ Mr Tony Narvaez (AusNet's Managing Director) has previously been granted Performance Rights and Deferred Rights. If the Scheme proceeds, Mr Narvaez will receive a benefit in the sense that he will receive shares in return for the vesting of his existing Performance Rights and Deferred Rights, even though the vesting conditions for those Performance Rights and Deferred Rights will not have been fully satisfied at the relevant time. If the Scheme becomes Effective and is implemented by 31 March 2022, by the Implementation Date, Mr Narvaez will have received, in aggregate, \$4,409,730 in respect of his Performance Rights and Deferred Rights. See sections 8.2 and 8.3(d) for details of the implications of the Scheme for Mr Narvaez's Performance Rights and Deferred Rights. AusNet Shareholders should have regard to these arrangements when considering Mr Narvaez's recommendation on the Scheme. Given the importance of the Scheme and Mr Narvaez's role in the management of AusNet, the other AusNet Directors consider that it is appropriate that Mr Narvaez make a recommendation on the Scheme. Mr Narvaez also considers that it is appropriate that he make a recommendation on the Scheme.

NOTES TO THE NOTICE OF MEETING

These notes should be read in conjunction with the Notice of Meeting and the information in the Scheme Booklet of which that notice forms part. Unless the context requires otherwise, terms used in the Notice of Meeting and in these notes have the same meaning as set out in section 9 (Glossary and interpretation) of the Scheme Booklet.

Requisite Majorities

In accordance with section 411(4)(a)(ii) of the *Corporations Act 2001* (Cth) (**Corporations Act**), the Scheme Resolution must be passed by:

- more than 50% in number (unless the Court orders otherwise) of eligible AusNet Shareholders who are present and voting, either in person or by proxy, by attorney or, in the case of a corporation, by its duly appointed corporate representative at the Scheme Meeting; and
- at least 75% of the total number of votes cast on the Scheme Resolution by eligible AusNet Shareholders.

Entitlement to vote

The time for the purposes of determining voting entitlements pursuant to regulation 7.11.37 of the *Corporations Regulations 2001* (Cth) will be 7.00pm (Melbourne time) on Wednesday, 26 January 2022 (being the Scheme Meeting Record Date).

Accordingly, share transfers registered after that time will be disregarded in determining entitlements to attend and vote at the Scheme Meeting.

Voting at the Scheme Meeting

You can vote in either of the following ways:

- by virtually attending the Scheme Meeting scheduled to be held at 11.00am (Melbourne time) on Friday, 28 January 2022 through an online platform (details of which are set out below); or
- by appointing a proxy, attorney or, if you are a body corporate, a duly appointed corporate representative to virtually attend and vote at the Scheme Meeting on your behalf.

Voting will be conducted by poll.

Voting yourself

You will be able to attend and vote at the Scheme Meeting through an online platform by using **a web browser** at www.meetnow.global/AST2022 on your smartphone, tablet or computer. You will need the latest versions of Chrome, Safari, Edge or Firefox. Please ensure your browser is compatible.

Your **username** is your SRN/HIN.

Your **password** is the postcode of your registered address for your holding if you are an Australian shareholder. If you are an overseas shareholder, no password is required and instead please select your country from the drop-down list.

Please refer to the online meeting user guide at www.computershare.com.au/ASTmeetingguide for further details.

If you attend the online Scheme Meeting and vote in your capacity as an AusNet Shareholder, any votes cast by your proxy or attorney (if any) will not be counted.

Proxies

If you are unable to attend the online Scheme Meeting, you are encouraged to appoint a proxy to attend online and vote on your behalf. If you wish to appoint a proxy, please complete the enclosed Proxy Form.

AusNet Shareholders are notified that:

- a member who is entitled to attend and cast a vote at the meeting may appoint a proxy to attend and vote for the member;
- the appointment may specify the proportion or number of votes that the proxy may exercise;
- a member who is entitled to cast two or more votes at the meeting may appoint two proxies and may specify the proportion or number of votes each proxy is entitled to exercise. If you appoint two proxies and the appointment does not specify the proportion or number of votes each proxy may exercise, each proxy may exercise half of the votes; and

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Notice of Meeting continued

- a proxy may be an individual or a body corporate and need not be a member of AusNet. If an eligible AusNet Shareholder appoints a body corporate as a proxy, the body corporate will need to ensure that it appoints an individual as the corporate representative and provides satisfactory evidence of that appointment.

Voting by Proxy

You can direct your proxy to vote by following the instructions on the Proxy Form.

If the Chair of the Scheme Meeting is appointed as your proxy (or is appointed your proxy by default), he can be directed how to vote by ticking the relevant boxes next to the Scheme Resolution on the Proxy Form (i.e. 'for', 'against' or 'abstain'). The Chair of the Scheme Meeting is required to cast all votes as directed. The Chair of the Scheme Meeting intends to vote all undirected and available proxies in respect of the Scheme Resolution in favour of the Scheme Resolution.

Any directed proxies that are not voted on a poll at the online Scheme Meeting by a AusNet Shareholder's appointed proxy will automatically default to the Chair of the Scheme Meeting, who is required to vote proxies as directed on a poll.

If you appoint a person other than the Chair of the Scheme Meeting as your proxy, the proxyholder will need to contact the Computershare Call Centre on +61 3 9415 4024 and provide their email address. An e-mail invitation that contains a personalised URL will then be sent to the proxyholder. The proxyholder will be able to attend and vote at the Scheme Meeting by clicking on the personalised URL, which allows the proxyholder to access the Scheme Meeting without needing to enter a username or password.

Lodging by proxies

The Proxy Form must be received by AusNet or Computershare by 11.00am (Melbourne time) on Wednesday, 26 January 2022. The completed Proxy Form may be submitted:

- online to AusNet's Share Registry by visiting the website, www.investorvote.com.au. You will need your Holder Identifier (Securityholder Reference Number (SRN) or Holder Identification Number (HIN) as shown on your Proxy Form) and your six-digit control number. You will be taken to have signed the Proxy Form if you lodge in accordance with the instructions on the website;
- by mail (using the reply paid envelope included with the Scheme Booklet) to AusNet Services Ltd, C- Computershare Investor Services Pty Limited, GPO Box 242, Melbourne, VIC 3001; or
- by fax to Computershare Investor Services Pty Limited on 1800 783 447 within Australia or +61 3 9473 2555.

AusNet Shareholders should contact the Shareholder Information Line on 1300 540 303 (callers in Australia) or +61 2 9066 4083 (callers outside Australia) between 9.00am and 5.00pm (Melbourne time) Monday to Friday (excluding public holidays, other than Wednesday, 26 January 2022) with any queries regarding the number of AusNet Shares they hold, how to vote at the Scheme Meeting or how to lodge the Proxy Form. The Shareholder Information Line will be open on the last day for proxy forms to be received by AusNet or Computershare, being Wednesday, 26 January 2022.

A replacement Proxy Form may be obtained by calling the Shareholder Information Line.

Further details in respect of the Scheme Resolution to be put to the Scheme Meeting are set out in the accompanying Scheme Booklet.

Lodging Online

At www.investorvote.com.au

You can lodge a proxy and access the Notice of Meeting and other meeting documentation by visiting www.investorvote.com.au and entering the meeting control number, your SRN or HIN and your postcode (or country of origin if located outside of Australia).

Voting by corporate representative

If you are a body corporate, you can appoint a corporate representative to attend and vote at the online Scheme Meeting on your behalf. The appointment must comply with section 250D of the Corporations Act.

To vote by corporate representative, a corporate representative must provide written evidence of their appointment by obtaining and completing an 'Appointment of Corporate Representative' form from Computershare or online at www.investorcentre.com.au under the help tab, 'Printable Forms'. Corporate representative forms must be provided to the AusNet Share Registry prior to the Scheme Meeting by 11.00am (Melbourne time) on Wednesday, 26 January 2022. A corporate representative form may be submitted in the same manner as a completed Proxy Form, as described above.

A validly appointed corporate representative wishing to attend and vote at the online Scheme Meeting will require the name, Shareholder Number and postcode of the body corporate that appointed it in order to access the online platform.

Voting by attorney

Certified copies of powers of attorney must be received by the AusNet Share Registry by no later than 11.00am (Melbourne time) on Wednesday, 26 January 2022. A certified copy of a power of attorney may be submitted in the same manner as a completed Proxy Form, as described above.

Court approval

In accordance with section 411(4)(b) of the Corporations Act, the Scheme (with or without modification) must be approved by an order of the Court. If the Scheme Resolution put to the Scheme Meeting is passed by the Requisite Majorities and the other conditions are satisfied or waived (if applicable), AusNet intends to apply to the Court on or around Thursday, 3 February 2022 for approval of the Scheme.

Changes to the current arrangement

Due to the constantly evolving response to COVID-19 pandemic and potentially unforeseen circumstances, AusNet may be required to make changes to the arrangements for the Scheme Meeting. If there are any updates, AusNet will ensure that AusNet Shareholders are given as much notice as possible. Further information will also be made available at www.ausnetservices.com.au/About/Investors.

Corporate Directory

Registered office and principal place of business

AusNet Services Ltd

Level 31
2 Southbank Boulevard
Southbank VIC 3006

Legal adviser

Aliens

101 Collins Street
Melbourne VIC 3000

Tax adviser

White & Case
Level 32
525 Collins Street
Melbourne VIC 3000

Financial advisers

Adara Partners (Australia) Pty Limited

Level 2, 117 Harrington Street
The Rocks
Sydney NSW 2000

Citigroup Global Markets Australia Pty Ltd

Citigroup Centre
2 Park Street
Sydney NSW 2000

Independent Expert

Grant Samuel & Associates Pty Limited

Level 19 Governor Macquarie Tower
1 Farrer Place
Sydney NSW 2000

AusNet Share Registry

Computershare Investor Services Pty Limited

Yarra Falls
452 Johnston Street
Abbotsford VIC 3067

Share registry telephone: 1800 420 909

Stock exchange listing

AusNet Services Ltd shares are listed on the Australian Securities Exchange (ASX Code: AST)

Company Website

www.ausnetservices.com.au

Investor Website

www.ausnetservices.com.au/About/Investors

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