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Open Briefing with MD Nino Ficca and CFO Geoff Nicholson

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In this Open Briefing®, MD Nino Ficca and CFO Geoff Nicholson discusses

- Revenues up 14% with growth in regulated networks and Select Solutions
- Delivery on distribution guidance of 8.0 cents per security
- Focus on financial structure with increased demand for energy infrastructure in Victoria

Open Briefing interview:

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SP AusNet (SPN) today announced net profit after tax of A$209.0 million for the year ended March 2010, up 17.9 percent from the previous year's underlying result. This primarily reflects growth in regulated revenue, with total revenues up 14.0 percent to A$1,333.6 million and lower management company fees. Is this level of revenue growth sustainable in the current year ending March 2011?

MD Nino Ficca

We're very pleased to have delivered such a solid result for the full year, especially in light of the fragile global economic recovery, milder weather, bushfires and storms.

A key aspect of the result was lower management company fees, which were $26m lower than the previous year as a result of a favourable year on year variance in the Defined Benefit Plan. In addition, operating revenues were stronger with good contributions from our regulated businesses, which continue to provide growth in line with the regulatory price path and from Select Solutions.

Whilst we recognise the recovering economic conditions in Australia and globally, we have not experienced a material impact on our business. The transmission network is insulated from volume risk and growth in connections to our distribution networks remains strong. While we believe that through the economic cycle, demand for electricity and gas is relatively

inelastic, we have seen a modest increase in volumes in the second half of FY10 as a result of stronger economic activity.

Lower management company fees in FY10 were a direct result of strong investment returns in the Defined Benefit Plan, up from the lows of the global financial crisis. Less volatile markets in the future are expected to generate more stable investment returns and stable management fees.

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You've announced a final distribution of 4 Australian cents per security for 2010, bringing the full-year distribution to 8 cents, down from 11.854 cents in 2009, as previously flagged. You've indicated you expect FY11 distributions to at least match distributions in FY10. What assumptions regarding revenue and regulated returns underlie this guidance and what are the risks?

CFO Geoff Nicholson

Our FY11 distribution guidance is predicated on sustainable growth in regulated revenues as per our regulatory submissions; with some modest 'outperformance' flowing from our 'A' range credit rating. We also see revenues and margins from Select Solutions improving over time. Maintaining sustainable growth in our regulated asset base ('RAB') is also very important. All these factors are fundamental in terms of at least matching FY10 distributions in FY11.

Our electricity distribution network is subject to a regulatory price reset, effective 1 January 2011. Our submission to the Australian Energy Regulator focuses on growth and transformational capex requirements, resulting in a 38% increase in capex requirements. SP AusNet is subject to regulatory risk and unfavourable regulatory determinations, which may limit RAB growth and our ability to meet distribution growth guidance.

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Cash flow from operations, after interest and tax, was A$420 million in 2010, versus A$352 million in the previous year. Total distributions were A$232 million, with A$47 million retained via the DRP, compared with total distributions in the previous year of A$245 million, with A$27 million retained. You've indicated that cash coverage of distributions will be 100 percent. Is this level of cash flow growth sustainable? To what extent is your capex program dependent on a higher level of DRP uptake?

CFO Geoff Nicholson

The regulated nature of our business gives us a high degree of certainty as to the predictability and timing of cash flows. As a result of the capital raising in May 2009 and the alignment of distributions to the underlying cash flows of the business we are confident that we can sustainably fund distributions from operating cash flows after servicing 100% of maintenance capex and a portion of our growth capex.

Our DRP is a mechanism for securityholders to reinvest their distributions at no cost. It should be noted that our DRP is not underwritten and the discount is a modest 2.5%. The take up has been strong, though SP AusNet is not reliant on the sort of take up rates seen for the interim FY10 distribution of 33%.

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Capex for 2010 was A$581 million, up 23 percent from the previous year. Growth capex accounted for 62 percent of the total spend, up from 56 percent in the prior year. The increase in capex appears to have been larger than expected earlier in the year. You've flagged continuing strong capex growth, particularly in the electricity distribution business. How will the planned capex be funded? What is the expected level of "equity" contribution to growth capex going forward?

CFO Geoff Nicholson

In 2010/11 we are expecting to spend around 5% more on our capital program than we did in 2009/10. We are continuing to see strong demand for capacity in Victoria which is contributing to our significant capex portfolio and this contributed to capex being slightly above forecast. In terms of RAB growth, we expect this to continue at similar rates as we continue to deliver on our capex programs. Total capex will continue to be funded via a mixture of operating cash flows, debt and DRP. We expect to fund 100% of our maintenance capex via operating cash flows. Growth capex will be predominantly funded via additional borrowings, retained cash flows and DRP, with the exact proportions varying from year to year.

Growth capital expenditure in our existing networks is driven by increasing peak energy demands in four of Melbourne's five growth corridors, the rollout of the Advanced Metering Infrastructure program and network improvements and upgrades. Additional growth capital expenditure projects include addressing the energy infrastructure needs for Victorian government initiated and renewable energy projects and investing in growing our niche services business into the broader Australian market.

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To what extent will the government's moratorium on "time of use" tariffs impact the expected returns from the AMI investment?

MD Geoff Ficca

The government's temporary moratorium on "time of use" tariffs will not impact the expected returns from AMI. The time of use tariffs that SP AusNet has proposed to the AER, increases network prices at peak times and reduces them at off-peak times. This provides an incentive for people to change their behaviours around energy use and for manufacturers to produce smarter and more efficient appliances. As a broad rule of thumb, 85% of the time, tariffs will be cheaper, whilst for peak times; tariffs could be dearer. These tariff changes do not change SP AusNet's overall revenues.

The AMI Cost Recovery Order in Council establishes a building block cost pass-through regime for the setting of the prices for the regulated metering services and provides for exit charges to be paid to the distribution business by retailers. This allows SP AusNet to recover all investments in the programme in full, even if competitive activities were to occur and retailers supplied their own meters in the future.

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As at the end of March 2010 SP AusNet had cash in hand of A$545 million, up from A$7.2 million a year earlier. Net debt was A$3.9 billion, down from A$4.5 billion, and net debt to net debt plus equity was 62 percent, down from 67 percent. What is the rationale for

maintaining so much cash? In light of continuing high levels of investment in the networks, what do you see as a sustainable level of gearing going forward?

CFO Geoff Nicholson

SP AusNet is maintaining a portion of the proceeds from its recent bond issues as cash, to ensure we have funding in place to meet our requirements for maturing debt, capital expenditure and working capital purposes over the next twelve months.

SP AusNet has recently undertaken a number of capital management initiatives, in order to ensure the financial sustainability of the business in light of the increased demand for energy infrastructure in Victoria. These initiatives include:

- an accelerated non-renouncable entitlement offer in May/June 2009, which raised a total of $408m;
- the introduction of a DRP, which has operated since December 2008 raising funds of approximately $73.5m; and,
- a revised distribution policy, under which distributions will be funded from operating cash flows after funding 100 per cent of maintenance capital expenditure and a portion of growth capital expenditure

SP AusNet's policy is to maintain a prudent capital structure that allows appropriate and sustainable securityholder returns, whilst ensuring the lowest cost of capital available to the entity. An important credit metric which assists management to monitor the Group's capital structure is the debt to RAB ratio, which is, indebtedness as a percentage of RAB. The movement of this metric over time demonstrates how the business is funding its capital expenditure in terms of debt versus income generating assets. SP AusNet targets a debt to RAB ratio of less than 85 per cent. The net debt to RAB as at 31 March 2010 was 73%, down from 79% in FY09. This is calculated on the basis of debt, net of term deposits.

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SP AusNet has completed debt raisings totalling A$920 million in recent months, and has substantially met its refinancing commitments for the current year of A$960 million. How does the cost of this new debt compare with existing facilities? Given over A$1 billion of SP AusNet’s debt matures in 2012 and 2013, how are recent rises in interest costs and bank funding margins expected to impact your overall debt servicing costs in future?

CFO Geoff Nicholson

The pricing of our recent debt raisings ranged from equivalent rates of 152 to 170 basis points over BBSW, for funding ranging from 5.5 to 10 years. We were extremely pleased with this result, which again demonstrated our ability to access competitively priced debt and to diversify our sources of funding. Although this debt is more expensive than the debt it replaces, it reflects the current cost of corporate credit and will ensure that the business is protected against refinancing risk in the event that conditions worsen.

We anticipate that the forthcoming Electricity Distribution Price Review will also reflect the higher cost of credit, via the debt risk premium in the WACC that will be applied during the regulatory period. Although overall debt financing costs may be expected to increase in the future, we are comfortable that this additional cost will be compensated for via the regulatory WACC. Following the final WACC decision last year, the methodology for

determining these parameters is locked in for each of the next regulatory determinations for the SP AusNet's three networks.

We hedge our underlying interest rate exposure for each regulated business in line with our regulatory determinations, so we do not anticipate any significant adverse impact from rising interest rates.

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SP AusNet's total operating costs and depreciation increased A$121 million or 18.1 percent. To what extent is this level of cost increase covered within your regulatory agreements and how do you see costs trending given signs of increasing inflationary pressure?

CFO Geoff Nicholson
Of the $121 million rise in operating costs and depreciation, approximately $70 million is attributable to Select Solutions. As Select Solutions is unregulated, it is not covered by the same regulatory arrangements as the majority of our business. Our regulated operating costs do have a degree of inflation protection, insofar as the regulator does make some assumptions around inflation when determining the appropriate level of returns, capital and operating expenditure at each regulatory reset. Furthermore, our RAB is indexed to inflation so the asset base which forms the basis our regulatory returns increases with inflation after allowing for capital expenditure and depreciation.

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SP AusNet paid Singapore Power International Management Services a management services charge of A$13.8 million in 2010, down from A$39.7 million. In FY09 performance fees totalled A$12.2 million and were flat year on year. How indicative are these fees of the expected level going forward?

MD Nino Ficca
The Management Service Charge is a pass through of senior management costs. These costs were $26m lower as a result of the improvement in equity markets post GFC, which contributed to a year on year positive variance in the cost of the Defined Benefit Plan. The performance fee will fluctuate given it is based on various factors including security price, performance relative to budget, additions to the RAB, network performance and capital efficiency. It should be noted that performance fees are capped at 0.50% of market capitalisation.

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The Australian Energy Regulator (AER) is due this month to release its draft decision on the Victorian electricity distribution price review for the five year period starting January 2011. Do you have any indications regarding the AER's support for your proposed increase in capex in the new regulatory period to A$1,372 million, up from A$996 million in the current period?

MD Nino Ficca
SP AusNet made its submission to the AER in November 2009 and is awaiting the draft decision in June. You will note a number of electricity distributors around the country have requested higher capex allowances as part of their regulatory submissions. These higher levels of capex reflect increased population, demand growth and most notably, higher levels of peak demand. In addition, much of the network is nearing the end of its useful life and many parts of the network require significant capital expenditure to maintain reliability and

safety. With this in mind, we believe the AER is receptive to the needs of the networks and remains cognisant of the need to create incentives for electricity distributors to invest capital.

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Part of your growth strategy focuses on development of your capabilities in "smart networks." What is SP AusNet's advantage in this area and what is the strategic fit with your core regulated networks business and the relatively new Select Solutions Services business?

MD Nino Ficca
SP AusNet's strength in pursuing growth strategies in "Smart Networks" arises from its planning, engineering, operational and asset management expertise in the existing electricity supply networks. There is already a solid foundation within the company of intelligent applications that have been developed and successfully implemented within both the electricity transmission and distribution areas.

In terms of the strategic fit with the SP AusNet core regulated networks business, this represents a logical extension of the existing business model whereby many "Smart Network" applications that can be developed are able to create benefits not just for the consumer, but which also have a value-adding affect on the traditional electricity supply network.

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There has been recent speculation that Singapore Power, the 51 percent owner of SP AusNet, was seeking to sell its Jemena gas and electricity transmission and distribution business. Given the common ownership, what is the likelihood of a merger of SP AusNet with Jemena? Would you consider acquiring the Jemena assets?

MD Nino Ficca
Any decision by Singapore Power to divest part or all of Jemena is a matter for Singapore Power. Whilst Jemena and SP AusNet share majority common ownership, both entities are separate businesses and are run accordingly. A transaction was proposed by SP AusNet to acquire part of the ex Alinta assets in 2007, but was later rejected by the SP AusNet board as not being in the interest of all securityholders.

SP AusNet would look at the relevant acquisition of any relevant asset, provided it was in the interests of all securityholders. However, any acquisition would have to be balanced against the growing capital expenditure requirements

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Thank you Nino and Geoff.

For more information about SP AusNet, visit www.sp-ausnet.com.au or call Manager, Investor Relations, John Nicolopoulos on (+61 3) 9695 6301 or +61 0409 672 912.

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