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SP AusNet
Level 31
2 Southbank Boulevard
Southbank, Victoria 3006

Date of lodgement: 12-May-2009

Title: Open Briefing®. SP AusNet. FY 09 Results & Capital Raising

Record of interview:

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SP AusNet today announced underlying net profit after tax for its continuing operations of A$177.2 million for the year ended March 2009, up 5.4 percent from the previous year, reflecting growth of 9.5 percent in underlying EBITDA to A$709.6 million, offset to some extent by a 20.9 percent rise in net interest charge to A$288.9 million. Can you comment on how the business has been impacted by the slowdown in the broader economy?

CFO Geoff Nicholson
We're pleased to have delivered a strong result driven by a 10.8 percent uplift in revenues resulting from favourable price and volume impacts and the commencement of new regulatory periods for our electricity transmission and gas distribution networks. The result reflects the robust, regulated nature of our underlying cash flows.

In the 2009 financial year we saw a 7.1 percent increase in gas volumes and a 4.7 percent increase in electricity volumes driven by both a colder winter in Victoria during 2008 and increased customer connections to our distribution networks, with approximately 26,400 new customers. Therefore, despite a slowdown in the broader economy, we've not yet seen an impact on customer connections to, or energy usage on, our networks.

We recognise that financial markets continue to be challenging, as evidenced by equity market volatility and reduced access to global debt markets. While we continue to have comparatively strong access to debt funding, as demonstrated by our recently completed A$275 million bank facility and the A$537 million 10 year bond we issued in the UK during the financial year, in order to continue to sustainably fund our significant future capital expenditure, we've launched a range of capital management initiatives to strengthen our balance sheet and support our A-range credit rating.

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SP AusNet has announced that it will raise up to A$415 million via an accelerated non-renouncable pro-rata entitlement offer. To what extent was the capital raising necessitated by the recent final decision of the Australian Energy Regulator (AER) on the WACC parameters that will apply in calculating the allowable returns on SP AusNet's regulated electricity distribution network assets and what were your main considerations in deciding the size of the raising?

MD Nino Ficca
Since our half year results announcement in November last year, financial markets have remained challenging – equity markets continue to be volatile and the availability of debt capital has become more constrained.

As you note, the AER also recently released its final decision on the capital parameters it proposes to adopt for future electricity distribution and transmission network regulatory resets, providing clarity around the future returns expected on those networks. We're also continuing to see unprecedented demand for energy in Victoria, driving growth opportunities across our regulated and unregulated businesses.

We've always been a stable business, and a stable investment opportunity. Stability is enormously important to us – we need to be financially strong in order to provide a reliable, long-term investment for our securityholders and we need to be operationally stable in order to ensure our customers receive highly reliable energy supply.

For these reasons, we made a decision to come to the market to raise up to A$415 million of equity in order to sustainably fund our significant capital expenditure program, support our existing A-range credit rating and continue to be a stable investment.

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SP AusNet announced a final distribution of 5.927 Australian cents per security for 2009, bringing the full-year distribution to 11.854 cents, up 2.5 percent, but you've flagged a cut in the distribution to 8.00 cents in the current year ending 2010. How will the AER decision impact your distribution growth profile?

MD Nino Ficca
Distribution guidance of 8.00 cents per security for the 2010 financial year was determined based on our continued ability to sustainably fund growth in the business. Beyond 2010, future distributions will be determined by operating cash flow after funding 100 percent of maintenance capital expenditure and a portion of growth capital expenditure. The AER decision provides greater clarity as to the

regulatory returns expected on our networks, operating cash flows and the sustainable level of distributions in the future.

In addition to the secure revenues we see on our regulated networks, we're also expanding our focus on niche asset services with the aim of growing these services over time, in particular metering and technical services. Typically these services are capital light and have the potential to contribute significant margins to supplement our regulated revenues. The operational agreements with the Jemena group of companies we announced in September last year provide us with a footprint in New South Wales and the contribution from these arrangements is expected to increase over time as we leverage our skills and experience in these areas.

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The AER final decision incorporates an equity beta of 0.8, versus 1.0 applied in past resets, and implies a nominal "vanilla" WACC of 8.82 percent versus 9.14 percent previously. Will the change in your regulated return metrics resulting from the AER final decision require a write-down in the balance sheet value of your regulated electricity assets?

CFO Geoff Nicholson
We have three regulated networks, each with its own existing regulatory decision regarding WACC parameters and allowable revenue. The AER's final decision relates to electricity networks only, and therefore will affect two of our three networks. The outcomes of the AER final decision will first apply to our electricity distribution network from 1 January 2011. Our transmission network has revenues locked in until 1 April 2014 and our gas distribution business, which is not directly affected by the decision, has revenues locked in until 1 January 2013. Therefore, the returns on almost 60 percent of our business are locked in for the next four years.

We undertook an impairment review of our assets following the release of the AER decision earlier this month and determined that no impairment is required to be taken on our regulated networks.

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As at the end of March 2009 SP AusNet had net debt of A$4.49 billion and net debt to net debt plus equity was 66.8 percent, up from A$3.67 billion and 58.4 percent respectively a year earlier. Gearing is expected to fall to 62.9 percent following the capital raising. What implications does the AER decision have for your credit ratings and for your ability to return to higher levels of gearing?

CFO Geoff Nicholson
It should be noted that the gearing levels you quote are based on the debt on the balance sheet as at balance date. Under the accounting standards, foreign debt is valued at the spot exchange rate on balance date, and thus any foreign currency debt will increase or decrease with fluctuations in the Australian dollar exchange rate. This method of valuing debt doesn't take into account any currency hedges we have in place to protect against fluctuations in the Australian dollar. We've therefore published an alternative method of calculating gearing using the face

value of debt, which we believe is a more reasonable metric for understanding the real movement in debt levels. This method of calculating gearing shows it falling from 64 percent at 31 March 2009 to around 58 percent following the capital raising.

The capital raising we're undertaking will strengthen our balance sheet and support our A-range credit rating. Importantly, the rating agencies and lenders don't look just at gearing, but also at measures such as interest cover, debt to regulated asset base (RAB) and funds from operations as a percentage of debt, all of which will be strengthened following the capital raising and will remain consistent with our A-range credit rating.

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SP AusNet had capex of A$471.5 million in 2009, up from A$402.2 million in the previous year. Growth capex accounted for 56 percent of the total spend, down from 63 percent. How will the AER final decision affect your capex plans going forward? How will growth in the RAB be affected versus historical levels?

MD Nino Ficca
A key reason for undertaking the capital management initiatives is to sustainably fund our significant capital expenditure program across both our regulated and unregulated businesses. In the March 2010 year we're expecting to spend around 18 percent more on our capital program than we did in 2009 – and in 2009 we spent 15 percent more than the prior year.

We're continuing to see strong demand for energy in Victoria which is contributing to our significant capex program. We're concerned, however, that the AER final decision doesn't encourage the most efficient investment in network infrastructure.

Growth capital expenditure for our existing networks relates to increasing energy demand in four of Melbourne's five growth corridors, the roll-out 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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Excluding a A$43.3 million impairment charge relating to the write-down of meters that will be replaced under the Victorian State Government's Advanced Metering Infrastructure roll-out program, SP AusNet's total operating costs and depreciation were up A$61.1 million or 10 percent. How do you see costs trending given signs of decreasing inflationary pressure?

CFO Geoff Nicholson
Operating costs and depreciation were higher this year and included in the A$61 million increase are two amounts that weren't in the prior year. The first related to the pass-through of around A$17 million of actuarial losses on the defined benefits plan for Singapore Power International Management Services (SPIMS) employees

and the second was around A$7 million of accelerated depreciation on meters. We also experienced increased operating costs in respect of the bushfire recovery efforts and incurred additional operating costs for the niche services we now provide to the Jemena businesses which are offset by related revenues.

We remain committed to maintaining as low a cost base as possible and containing future operating cost pressures by consistently reviewing operations to ensure we're as efficient as possible.

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SP AusNet paid SPIMS a management services fee of A$39.7 million in 2009, up $17.1 million or 68.2 percent. Performance fees totalled A$12.3 million, down 32.8 percent. How indicative are these fees of the expected level under your recently renegotiated agreement with Singapore Power Group?

MD Nino Ficca
The increase in the management services charge largely related to the pass-through of actuarial losses on the defined benefits plan for SPIMS employees, as Geoff mentioned, and the accrual of long-term incentive plan benefits to senior management. The pass-through of actuarial losses was due to the volatility experienced in equity markets and to the extent this improves, we don't expect to continue to incur these pass-through costs.

The performance fees were A$6.0 million lower than the prior year which is a great outcome for securityholders. The decrease was due to the waiving of the business incentive fee (0.1 percent of market capitalisation) and the reduction of the performance fee cap from 0.75 percent to 0.5 percent of market capitalisation. The fee cap was reached this year, therefore securityholders directly benefited from the more conservative cap.

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SP AusNet also booked revenue of A$25.0 million on sale of goods and services to Singapore Power Group, up from A$6.5 million. To what extent does this reflect your agreement to provide end-to-end network metering, technical and vegetation management services to networks owned and managed by Jemena, a Singapore Power owned entity? What is the outlook for this revenue going forward?

CFO Geoff Nicholson
We commenced performing niche services for the Jemena businesses earlier this calendar year and therefore corresponding revenue was earned for a short period in the year ended 31 March 2009.

We have a strong focus internally on growing our niche services into the broader Australian market and we now have a footprint in New South Wales on which to leverage our growth. Whilst we don't have a stated growth target, we've recently re-branded our niche services business and look forward to the significant growth opportunities available to this business within both Australian and global markets.

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Given a tighter regulatory regime, can you comment on the longer term outlook for SP AusNet?

MD Nino Ficca

Organic growth on the networks has continued to be strong, with high levels of demand for energy infrastructure from new housing developments within our distribution network areas and the continued roll-out of gas infrastructure to rural towns. New renewable energy and gas fired generation connections on the transmission network will also ensure growth in our RAB, providing improved revenues in future periods. As mentioned earlier, we also expect our niche services business to contribute increased revenues over the long term.

The capital management initiatives we're undertaking will enable us to maintain our focus on sustainable growth, ensuring we continue to provide a stable business for employees and customers and a stable investment opportunity for securityholders.

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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 Lucinda Kerr on (+61 3) 9695 6633 or +61 421 387 687.

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