

# 30 JUNE 2017 HALF YEAR RESULTS

MONDAY, 28 AUGUST 2017



# HY 2017 – CORPORATE STRATEGY AND FOCUS

## SPARK INFRASTRUCTURE

### HIGHLIGHTS

- Distributions from portfolio of \$132.3 million, up 5.3% on HY 2016
- 2017 distribution guidance of 15.25 cps confirmed, up 5.2% on 2016
- Aggregated proportional EBITDA growth of 3.0% to \$390.7m. After adjusting for net external finance costs, EBTDA growth of 7.0% to \$305.7m
- Funding value accretive growth in portfolio
- Submitted fully funded bid for Endeavour Energy at a disciplined price and was to be significantly involved in the transition and transformation work streams and compensated through a Technical Service Agreement
- Portfolio distributions weighted towards 2H - standalone payout ratio for FY 2017 expected to be below 100%

### AREAS OF FOCUS

- Ensure our networks maintain their focus on efficiency
- Continued TransGrid execution against the acquisition business plan
- Promoting grid interconnectivity e.g. new NSW/SA interconnector; increased connection to renewable energy zones
- Ensuring networks are not restricted from providing valuable system strength and inertia services
- Supporting proactive evolution of network businesses with expansion into niche areas associated with 'behind the meter' customer solutions, battery storage and consulting services
- Influencing policy and regulation through proactive participation

# HY 2017 – FOCUS ON EFFICIENCY AND GROWTH

## VICTORIA POWER NETWORKS

- Significant productivity and efficiency gains realised through the now completed World CLASS program. Total identified savings of ~\$151m p.a.
- New continuous improvement program initiated with savings of \$27m identified in HY 2017
- Final Determination for 2016-20 delivers \$180m revenue relative to Preliminary Determination being recovered from 1 Jan 2017
- In August 2017, the AER approved Powercor's Contingent Project Application in relation to Tranche 1 REFCL Program. Additional revenues of \$28.5m will be recognised over years 2018-2020

## SA POWER NETWORKS

- "Powering Ahead" program targeting benefits of \$40m p.a.
- Continued efficient delivery of NBN roll-out in South Australia (revenue of \$225m since inception)
- Final Determination for 2015-20 delivers \$626m Standard Control Services revenue relative to Preliminary Determination being recovered from 1 July 2016

## TRANSGRID

- Increased number of infrastructure connections opportunities than was initially expected while maintaining appropriate returns – ongoing growth in contracted asset base
- New executive team members in place and business transformation progressing
- Regulatory proposal for 2018-23 submitted 31 January 2017, providing for real price reductions
- "ACE" program – Accountable, Energised, Efficient

# **SPARK INFRASTRUCTURE**

## **FINANCIAL RESULTS**

# OPERATING CASH FLOW

## Investment Portfolio Distributions

Victoria Power Networks

SA Power Networks

TransGrid

## Total Investment Portfolio Distributions

Net interest received/(paid)

Corporate expenses

Project expenses

## Standalone OCF

## Standalone OCF Per Security

	HY 2017	HY 2016	% Change
	\$m	\$m	%
Victoria Power Networks	73.5	68.8	6.8
SA Power Networks	54.2	56.8	(4.6)
TransGrid	4.6	-	n/m
<b>Total Investment Portfolio Distributions</b>	<b>132.3</b>	<b>125.6</b>	<b>5.3</b>
Net interest received/(paid)	0.2	(3.4)	(105.9)
Corporate expenses	(7.2)	(6.2)	16.1
Project expenses	(3.4)	(1.2)	183.3
<b>Standalone OCF</b>	<b>121.9</b>	<b>114.8</b>	<b>6.2</b>
<b>Standalone OCF Per Security</b>	<b>7.2cps</b>	<b>6.8cps</b>	<b>6.2</b>

- Victoria Power Networks distributions include both interest on and repayment of shareholder loans. Repayments of loan principal are classified as investing activities for statutory reporting purposes
- HY 2016 figures exclude distributions from and finance costs paid on derivative contracts associated with the DUET interest of \$15.2m (net) (exited in HY 2016)
- On a profit and loss basis, corporate expenses have reduced 4.7% in HY 2017

**SPARK INFRASTRUCTURE OPERATING CASH FLOWS HAVE GROWN BY 6.2%**

# AGGREGATED PROPORTIONAL FINANCIAL PERFORMANCE

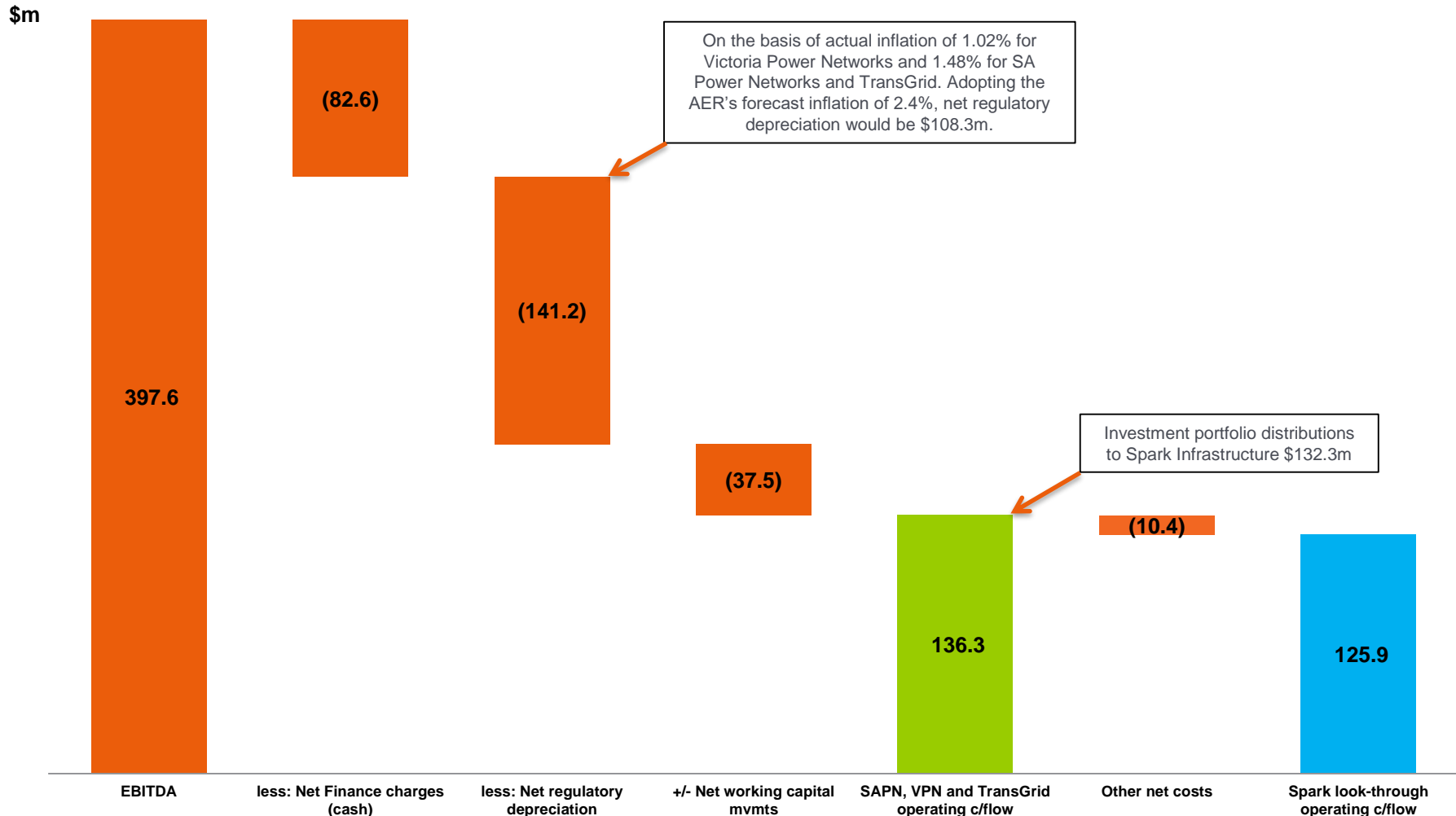
Proportional Results (Spark share)	Adjusted			Adjustments		Non-Adjusted (statutory)	
	HY 2017	HY 2016	Change	HY 2017 <sup>1</sup>	HY 2016 <sup>2</sup>	HY 2017	HY 2016
	\$m	\$m	%	\$m	\$m	\$m	\$m
Distribution & Transmission Revenue	460.9	445.0	3.6		(12.7)	460.9	457.7
Other Revenue	127.1	135.2	(6.0)		(10.0)	127.1	145.2
<b>Total Revenue</b>	<b>588.0</b>	<b>580.2</b>	<b>1.3</b>			<b>588.0</b>	<b>602.9</b>
Operating Costs	(197.3)	(200.9)	(1.8)	(6.9)	(3.9)	(190.4)	(197.0)
<b>EBITDA</b>	<b>390.7</b>	<b>379.3</b>	<b>3.0</b>			<b>397.6</b>	<b>405.9</b>
Net External Finance Costs	(85.0)	(93.5)	(9.1)			(85.0)	(93.5)
<b>EBTDA</b>	<b>305.7</b>	<b>285.8</b>	<b>7.0</b>			<b>312.6</b>	<b>312.4</b>

- HY 2017 adjustments:
  - SA Power Networks release of excess December 2016 storm provisions, ultimately not required \$6.9m
- HY 2016 adjustments :
  - Victoria Power Networks power line replacement fund provision benefit \$4.4m
  - TransGrid recovery of pre-acquisition regulated revenue \$8.3m
  - Victoria Power Networks one-off recovery of costs incurred in tax matters \$10.0m
  - Victoria Power Networks release of 2015 provisions \$3.9m

**SPARK INFRASTRUCTURE AGGREGATED PROPORTIONAL EBTDA GROWTH OF 7.0%**

# LOOK-THROUGH OPERATING CASH FLOW

## PROPORTIONAL OWNERSHIP BASIS



EBITDA excludes customer contributions and gifted assets and includes 'true-up' of DUOS/TUOS to revenue cap

# OUR NETWORKS

## FINANCIAL RESULTS



# VICTORIA POWER NETWORKS

## Financial<sup>1</sup>

	HY 2017	HY 2016	Change
	\$m	\$m	%
Regulated revenue - DUOS	441.2	458.0	(3.7)
Prescribed metering (AMI)	50.4	53.6	(6.0)
Semi-regulated revenue	21.9	21.0	4.3
Unregulated revenue	55.4	83.7	(33.8)
<b>Total revenue</b>	<b>568.9</b>	<b>616.3</b>	<b>(7.7)</b>
Operating costs	(195.3)	(189.4)	3.1
<b>EBITDA</b>	<b>373.6</b>	<b>426.9</b>	<b>(12.5)</b>
<b>EBITDA margin</b>	<b>65.7%</b>	<b>69.3%</b>	<b>(3.6%)</b>
Depreciation and amortisation	(145.0)	(155.0)	(6.5)
Net finance costs	(76.7)	(82.6)	(7.1)
Interest on subordinate debt	(73.1)	(81.0)	(9.8)
Tax expense	(26.3)	(28.8)	(8.7)
<b>Net profit after tax</b>	<b>52.5</b>	<b>79.5</b>	<b>(34.0)</b>
Net capex (Inc. AMI)	174.5	176.6	(1.2)
	<b>HY 2017</b>	<b>HY 2016</b>	<b>Change %</b>
Customer numbers	1,120,718	1,104,245	1.5
FTE numbers	1,890	2,052	(7.9)

1. 100% basis

2. HY 2017 includes six months under the Final Determination (Year 2)

HY 2016 includes six months under the Preliminary Determination (Year 1)

3. Whilst referred to as "CPI-X", the actual tariff increase formula used by the regulator is:  $(1+CPI)^*(1-x)-1$ . Source: AER

## ► HY 2017 DUOS revenue:

- ❑ CPI-X<sup>3</sup> at 1 January 2017: CitiPower 0.62% (increase), Powercor -3.71% (decrease)
- ❑ STPIS benefit \$10.3m (HY2016 - \$4.8m penalty)
- ❑ Prior Period \$9m powerline replacement fund provision benefit

► **Semi-regulated revenue up 4.3%**, primarily due to increased design work for new customer connections

► **Unregulated revenue – Beon Energy Solutions (Beon) down 20% to \$37.7m**

- ❑ HY 2016 included \$24m earned on the Ararat Wind Farm project (completed 2016)
- ❑ No equivalent sized project in HY 2017

► **Other unregulated revenue (underlying) up 14.2% to \$17.7m**

- ❑ Income earned on property sales and insurance recoveries
- ❑ Excludes a Prior Period one-off recovery of costs incurred in tax matters \$20.5m

► **Underlying opex down 1.0%**

- ❑ Reduced external consultancy and FTE numbers
- ❑ Excludes release of 2015 provisions (~\$8m) in HY 2016
- ❑ Reduced BEON opex, in line with revenue volumes

► **Net capex efficiencies delivered through continued operational improvements**

# VICTORIA POWER NETWORKS OPERATIONAL EXCELLENCE

**2014 – 2016  
WORLD CLASS OPERATIONS**

**2017 +  
STRATEGY, PROGRAMS AND CHANGE**

## HIGHLIGHTS

### World CLASS Operations Objective:

**A more commercial, lean and structured organisation  
Program delivered sustained totex savings of ~ \$151m p.a.**

### Strategy, Programs and Change Objective:

**Continuous improvement aligned with five strategic pillars  
Current run rate \$27m p.a. of benefits being delivered**

### Key Initiatives:

- Savings in field delivery through successful negotiation of lower rates/contractor hours
- Brought management of vegetation in-house
- Deployed iPads for field use, reducing administration and paperwork
- Streamlined procurement processes and savings through renegotiating contracts
- Simplified maintenance processes and updated maintenance policies to avoid unnecessary work
- Rightsizing corporate functions (first wave)

### Key Initiatives:

- Rightsizing IT function and outsourcing
- Corporate functions optimisation (based on BCG benchmarking)
- Automated workforce scheduling
- Asset management
- Network property optimisation
- Customer initiated augmentation works

**MANAGEMENT TEAM DELIVERING MATERIAL AND SUSTAINED COST AND EFFICIENCY  
SAVING INITIATIVES ACROSS THE BUSINESS**

# SA POWER NETWORKS

## Financial<sup>1</sup>

	HY 2017	HY 2016	Change
	\$m	\$m	%
Regulated revenue – DUOS	387.3	346.2	11.9
Semi-regulated revenue	40.9	55.8	(26.7)
Unregulated revenue	79.7	74.6	6.8
<b>Total revenue<sup>2</sup></b>	<b>507.9</b>	<b>476.6</b>	<b>6.6</b>
Operating costs	(162.8)	(184.5)	(11.8)
<b>EBITDA</b>	<b>345.1</b>	<b>292.1</b>	<b>18.1</b>
<b>EBITDA margin</b>	<b>67.9%</b>	<b>61.3%</b>	<b>6.7%</b>
Depreciation and amortisation	(110.8)	(108.6)	2.0
Net finance costs	(63.7)	(75.4)	(15.5)
Interest on subordinate debt	(35.9)	(36.1)	(0.6)
<b>Net Profit</b>	<b>134.7</b>	<b>72.0</b>	<b>87.1</b>
Net capex	164.0	121.3	35.2

	HY 2017	HY 2016	Change %
Customer numbers	859,913	854,742	0.6
FTE numbers	2,100	2,117	(0.8)

## ► HY 2017 DUOS revenue:

- CPI-X<sup>3</sup> at 1 July 2016: 8.9% (increase)
- STPIS recovery of \$8.3m (nil in Prior Period)

## ► 2015/16 STPIS benefit of \$27.5m to be recovered from July 2017

## ► Semi regulated revenue decrease of 26.7% reflects decreased asset relocation works activity on major roads upgrade projects

## ► Unregulated revenues up by 6.8% reflecting higher projects activity, largely Electranet

## ► Total opex down 11.8%, due to

- Reduced asset relocation activity
- Release of excess December 2016 storm provisions, ultimately not required (\$14m)

## ► Underlying opex (excl storm provision release) down 4.0%

## ► Net capex up 35.2% in line with the Final Determination

1. 100% basis

2. HY 2017 includes six months under the Final Determination (Year 2)

HY 2016 includes six months under the Preliminary Determination (Year 1)

3. Whilst referred to as "CPI-X", the actual tariff increase formula used by the regulator is:  $(1+CPI)^*(1-x)-1$ . Source: AER

# SA POWER NETWORKS

## “POWERING AHEAD” EFFICIENCY PROGRAM

### IMPROVEMENTS TO DATE

### “POWERING AHEAD”

### HIGHLIGHTS

Productivity and efficiency improvements to date have delivered ongoing annual benefits of ~ \$110m p.a.

Powering Ahead is the next stage of SA Power Network’s business wide improvement program, launched in August and focused on the highest-value opportunities

Powering Ahead aims to deliver ~\$40m p.a. of benefits

#### Key Initiatives:

- Innovative procurement outcomes leading to material and services cost savings across the organisation
- Improved debt refinancing, more efficient fleet operation
- Innovative asset management practices facilitating improved asset management strategy, use of innovative line hardware
- Depot realignment and implementation of standard operating model
- Reduced external labour spend, successful improvement ideas and corporate lean campaigns
- Lean/agile IT function

#### Key initiatives:

- Strengthen capital management and planning
- Ensure optimal work selection and work flow
- Implement field productivity metrics to improve performance
- Reviews of highest value processes to improve efficiency via automation, standardisation and centralisation
- Improve customer outcomes, especially faster restoration for network operations
- Enhanced customer processes and systems
- Identifying cross-functional and corporate function opportunities for automation and efficiency
- Continue driving procurement improvements

**MANAGEMENT TEAM DELIVERING MATERIAL AND SUSTAINED COST AND EFFICIENCY SAVING INITIATIVES ACROSS THE BUSINESS**

# TRANSGRID

## Financial<sup>1,2</sup>

	HY 2017	HY 2016	Change
	\$m	\$m	%
Regulated revenue - TUOS	366.0	423.7	(13.6)
Unregulated revenue	29.3	23.9	22.6
Investment property revaluation	6.8	0.9	655.6
<b>Total revenue</b>	<b>402.1</b>	<b>448.5</b>	<b>(10.3)</b>
Operating costs	(99.4)	(91.8)	8.3
<b>EBITDA</b>	<b>302.7</b>	<b>356.7</b>	<b>(15.1)</b>
<b>EBITDA margin</b>	<b>75.3%</b>	<b>79.5%</b>	<b>-4.2%</b>
Depreciation and amortisation	(163.0)	(158.5)	2.8
Net finance costs	(108.0)	(107.3)	0.7
Interest on subordinate debt	(42.0)	(46.8)	(10.3)
<b>Net Profit</b>	<b>(10.3)</b>	<b>44.1</b>	<b>(123.4)</b>
Capex <sup>3</sup>	138.3	100.6	37.5

## Operational

	HY 2017	HY 2016	Change %
FTE numbers <sup>4</sup>	1,046	1,026	1.9

1. 100% basis

2. HY 2017 results are based on TransGrid's financial statements for the year ended 30 June 2017. HY 2016 results are based on TransGrid's financial statements covering the period from acquisition (16 December 2015) to 30 June 2016. Results have been adjusted by Spark Infrastructure to reflect the 6 month periods to 30 June 2016 and 30 June 2017

3. HY 2016 capex covers the period from acquisition of TransGrid (16 December 2015) to 30 June 2016

4. In accordance with IPART reporting

5. Whilst referred to as "CPI-X", the actual tariff increase formula used by the regulator is:  $(1+CPI)^x(1-x)-1$ . Source: AER

6. Network Capability Incentive Parameter Action Plan (component of transmission related STPIS for current 4 year regulatory period)

## ► HY 2017 TUOS revenue:

- CPI-X<sup>5</sup> at 1 July 2016: -2.06% (decrease)
- STPIS recovery of \$6.1m (HY 2016 \$6.5m benefit)

## ► STPIS result for 2016 (calendar yr) of \$15.5m to be recovered from 1 July 2017

## ► Unregulated revenue 22.6% higher reflecting increased connection applications and line modifications activities

- Infrastructure services \$22.9m
- Property \$2.4m
- Telco services \$4.0m

## ► Opex up 8.3%, due to

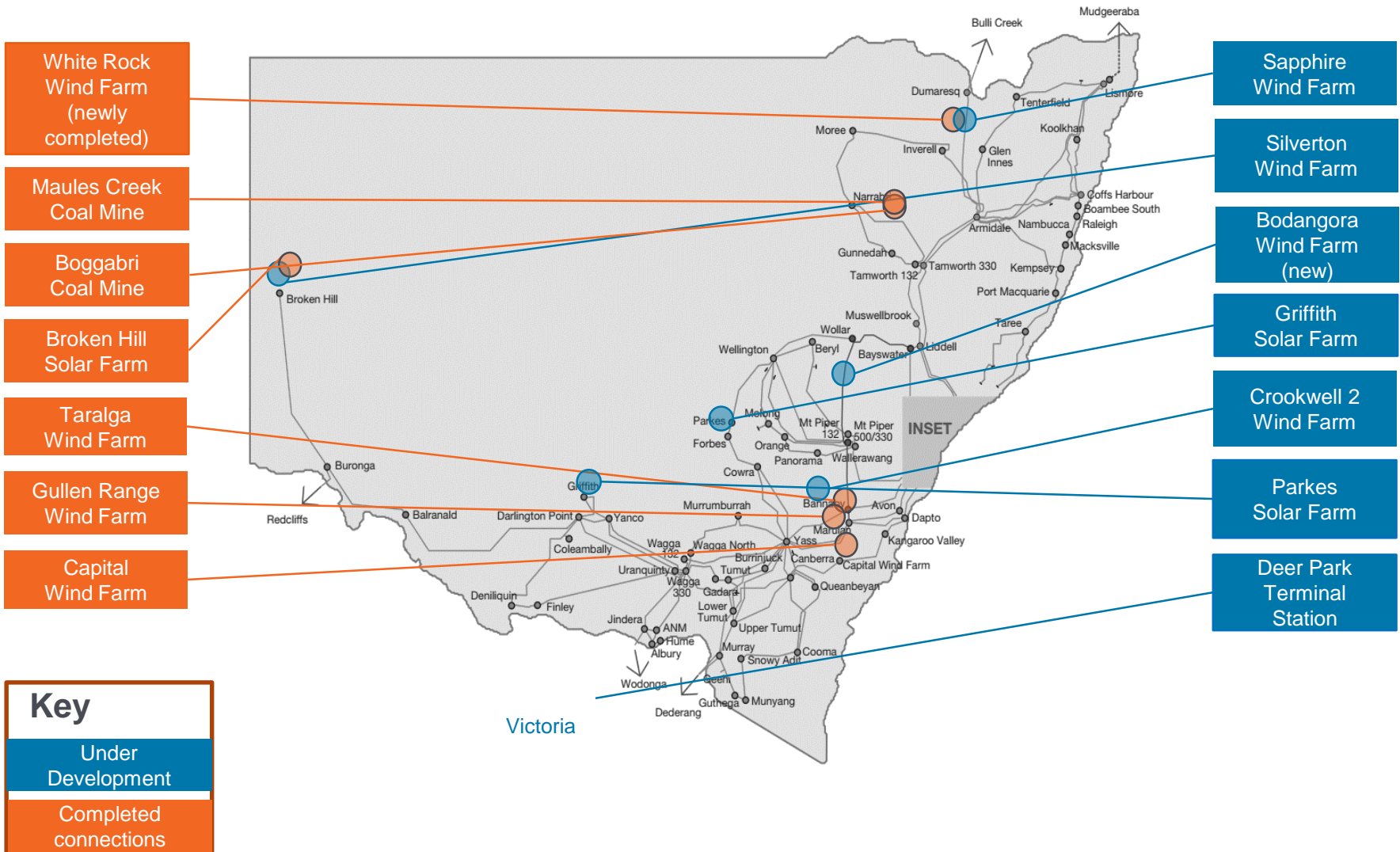
- Increased unregulated activity - \$3.4m
- Timing differences between periods and increased compliance obligations
- Opex for the 30 June 2017 regulatory year in line with the base year

## ► Capex up 37.5%, comprising

- Regulated capex \$101.4m (replex \$80.5m, augex \$3.5m, NCIPAP<sup>6</sup> \$2.5m, non network \$14.9m)
- Unregulated capex \$36.9m (infra \$33.1m, telco \$3.8m)

# TRANSGRID NON-PREScribed INFRASTRUCTURE

TRANSGRID IS WELL PLACED TO SIGN ADDITIONAL CONNECTION AGREEMENTS



# TRANSGRID - ACHIEVEMENT THROUGH EMPOWERMENT

## “ACE” PROGRAM – ACCOUNTABLE, ENERGISED, EFFICIENT

- TransGrid performed well in several independent benchmarking studies
- TransGrid achieved 9% gross savings in 12 months to 30 June 2017 and is focused on delivering a further 3% reduction in next 12 months
- Higher internal labour utilisation
- Process streamlining and reduced duplication of roles
- Improved contract management and improved procurement practices
- Improved scoping of works and management of internal and external service providers
- Optimising routine maintenance frequency, vegetation management and patrolling of overhead lines
- Application of life cycle management approaches to manage capital replacement requirements over the long term

## NEW EXECUTIVE TEAM IN PLACE AND DELIVERING ON CULTURAL CHANGE AND OPERATIONAL EFFICIENCIES

# INVESTMENT GRADE FUNDING

ISSUER	VICTORIA POWER NETWORKS	SA POWER NETWORKS	TRANSGRID
Weighted Average Maturity (Yrs) <sup>1</sup>	5.0 yrs	5.4 yrs	4.7 yrs
Net Debt at 30 June 2017 (31 December 2016)	\$4.161bn (\$4.152bn)	\$2.884bn (\$2.822bn)	\$5.474bn (\$5.554bn)
Net Debt/RAB at 30 June 2017 (31 December 2016)	72.4% (72.4%)	72.5% (71.4%)	87.1% (88.4%)
Credit Rating (S&P / Moody's)	A- / -	A-/A3	-/Baa2 (on USPP notes)

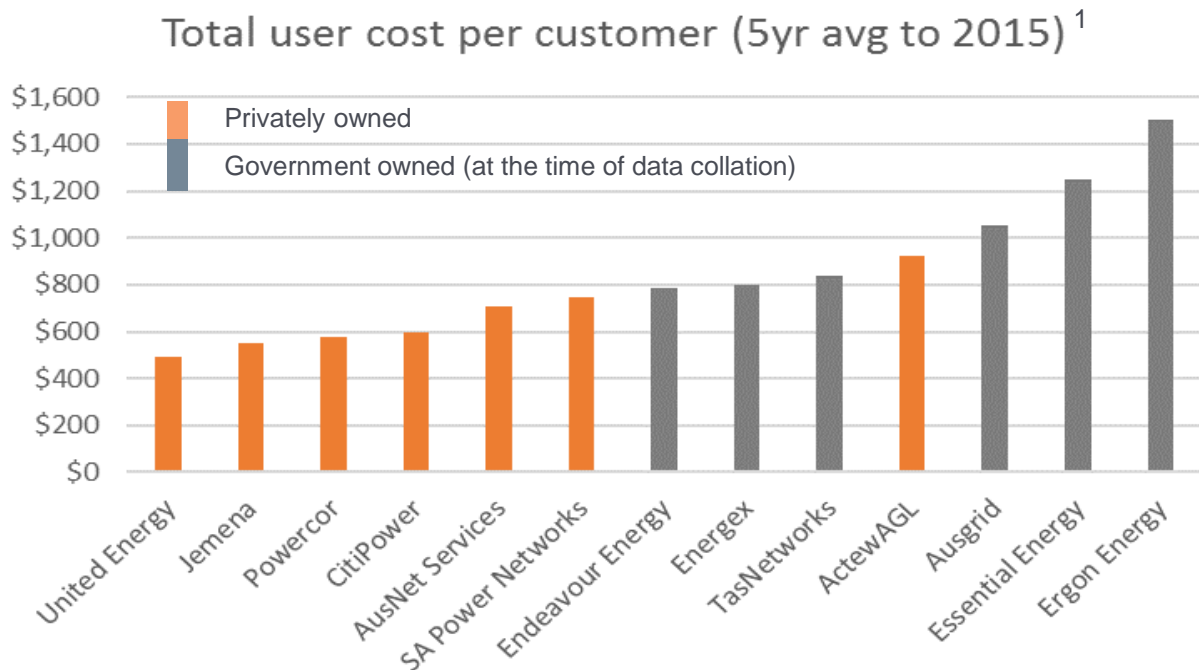
VICTORIA POWER NETWORKS	SA POWER NETWORKS	TRANSGRID
<ul style="list-style-type: none"> <li>February 2017 – HKD\$1.75bn (~A\$296m) and HKD\$600m (~A\$102m) of 10-year bonds maturing in 2027</li> <li>March 2017 – US\$80m (~A\$106m) of 10-year bonds maturing in 2027</li> <li>August 2017 – A\$150m of Australian Medium Term Notes maturing in August 2027</li> </ul>	<ul style="list-style-type: none"> <li>June 2017 – A\$250m 4-year syndicated debt facility</li> <li>August 2017 - \$550m Australian Medium Term Notes (\$375m 7-year fixed rate and \$175m 5-year floating rate)</li> </ul>	<ul style="list-style-type: none"> <li>July 2017 – US\$727m and A\$25m senior secured notes into USPP market               <ul style="list-style-type: none"> <li>US\$390m maturing in October 2027 (10-year)</li> <li>US\$134m maturing in October 2029 (12-year)</li> <li>US\$203m maturing in October 2032 (15-year)</li> <li>A\$25m maturing in October 2034 (17-year)</li> </ul> </li> </ul>

1. Weighted average maturity calculation is based on drawn debt at 30 June 2017



# **GROWTH OPPORTUNITIES IN THE CHANGING ENERGY LANDSCAPE**

# AER BENCHMARKING CONFIRMS PRIVATE DISTRIBUTION NETWORKS ARE BETTER VALUE FOR CUSTOMERS



Source: AER distribution partial performance indicator trends.xls, 2015

- ▶ On a 2016 State by State comparison, electricity distribution in the privatised States were ranked the most efficient - South Australia No.1 and Victoria No.2, Queensland was ranked No.3, Tasmania No.4 and NSW No.5.

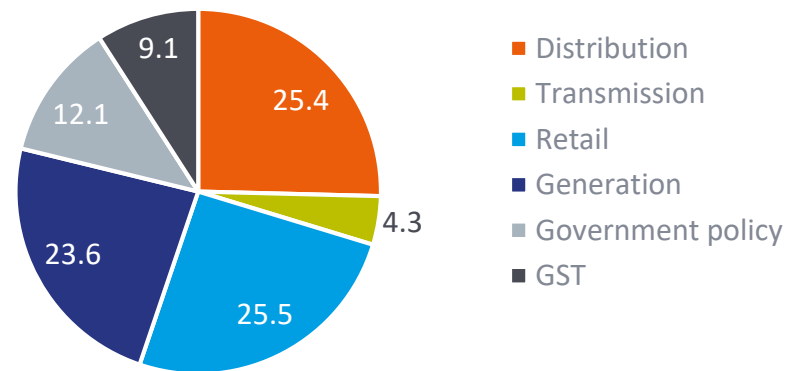
**‘GOVERNMENT OWNED’ NETWORKS COST CONSUMERS TWICE AS MUCH AS PRIVATISED NETWORKS**

1. Note that on 'per customer' metrics, large rural DNSPs will perform more poorly. The longer and sparser a DNSP's network, the more assets it must operate and maintain per customer because of the need to connect the few customers in such a sparse area

# EFFICIENT GRIDS ARE DELIVERING BENEFITS TO CUSTOMERS

- ▶ In Victoria, distribution network costs account for 25.4% of the typical household bill. Down from 42.7% since privatisation in 1995<sup>1</sup>.
- ▶ In South Australia, distribution network costs account for 27.1% of the typical household bill. Down from 49.4% since privatisation in 1999<sup>2</sup>.
- ▶ In both Victoria and South Australia, distribution network costs have risen by less than CPI since they were privatised.

Typical household bill  
in Victoria

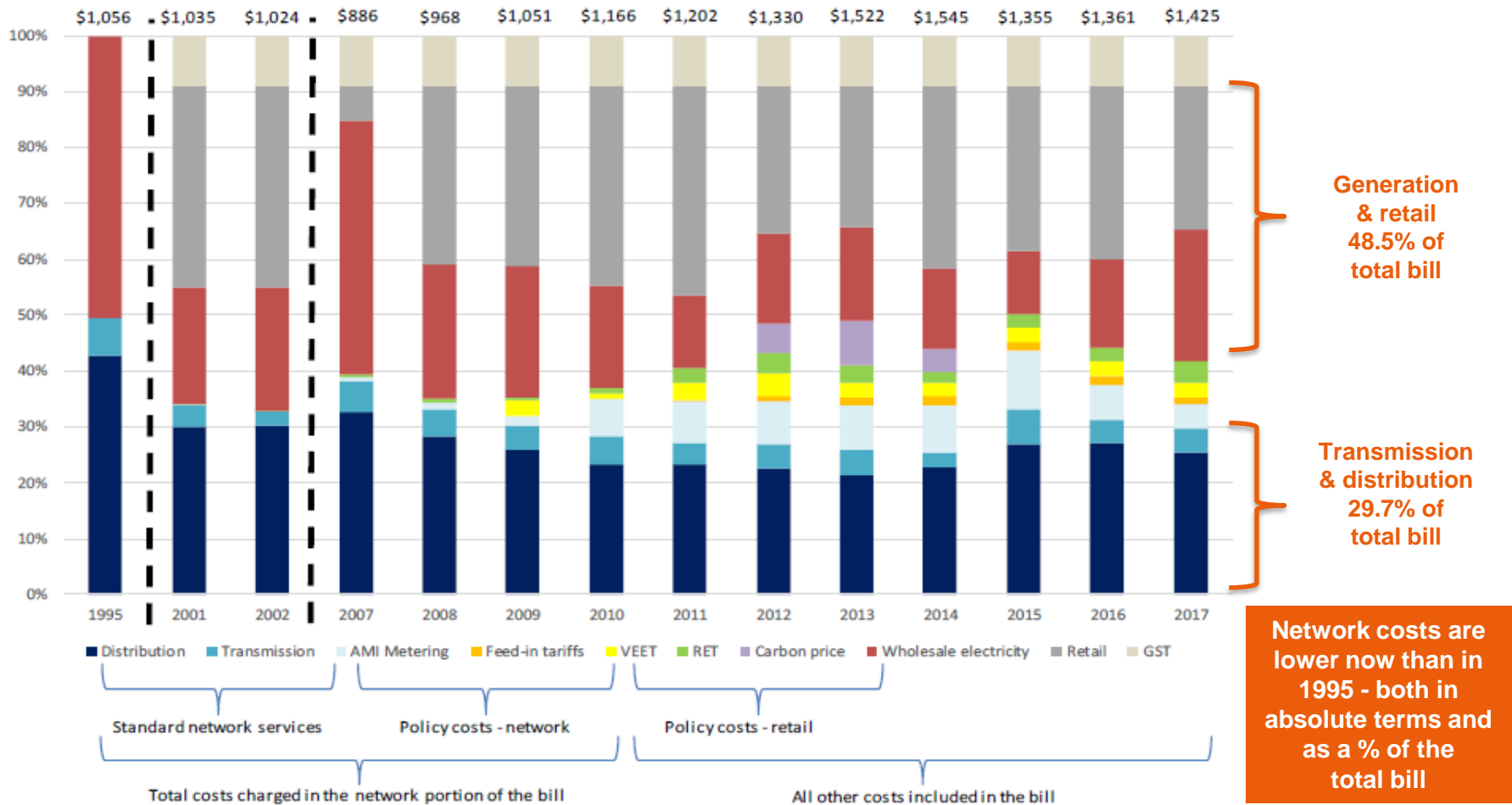


**PRIVATISED NETWORK BUSINESSES ARE NOT THE CAUSE OF RECENT PRICE INCREASES**

1. "Causes of residential electricity bill changes in Victoria, 1995 to 2017" - Oakley Greenwood, Jun 2017  
2. "Final report, residential electricity price trends" for 2015/16 year – AEMC, Dec 2016

# RETAIL MARGINS AND GENERATION COSTS ARE DRIVING ELECTRICITY PRICE INCREASES

Composition (%) of the annual residential electricity bill in Victoria<sup>1</sup>



1. Electricity Distribution Businesses: submission to the ACCC inquiry into retail electricity supply and pricing - Oakley Greenwood, June 2017

# THE GRID IS CRITICAL TO DELIVERING NEW ENERGY SOLUTIONS AND COST EFFECTIVE ELECTRICITY

**INCREASED PHYSICAL INTERCONNECTION MINIMISES CONSTRAINTS AND ENSURES WHOLESALE TRADING MARKET OPERATES EFFICIENTLY**

## T&D SPINE

- Enables an orderly transition away from aging coal fired generation to geographically diversified renewables
- Enables peer to peer trading for residential and business consumers

## CONNECTIONS

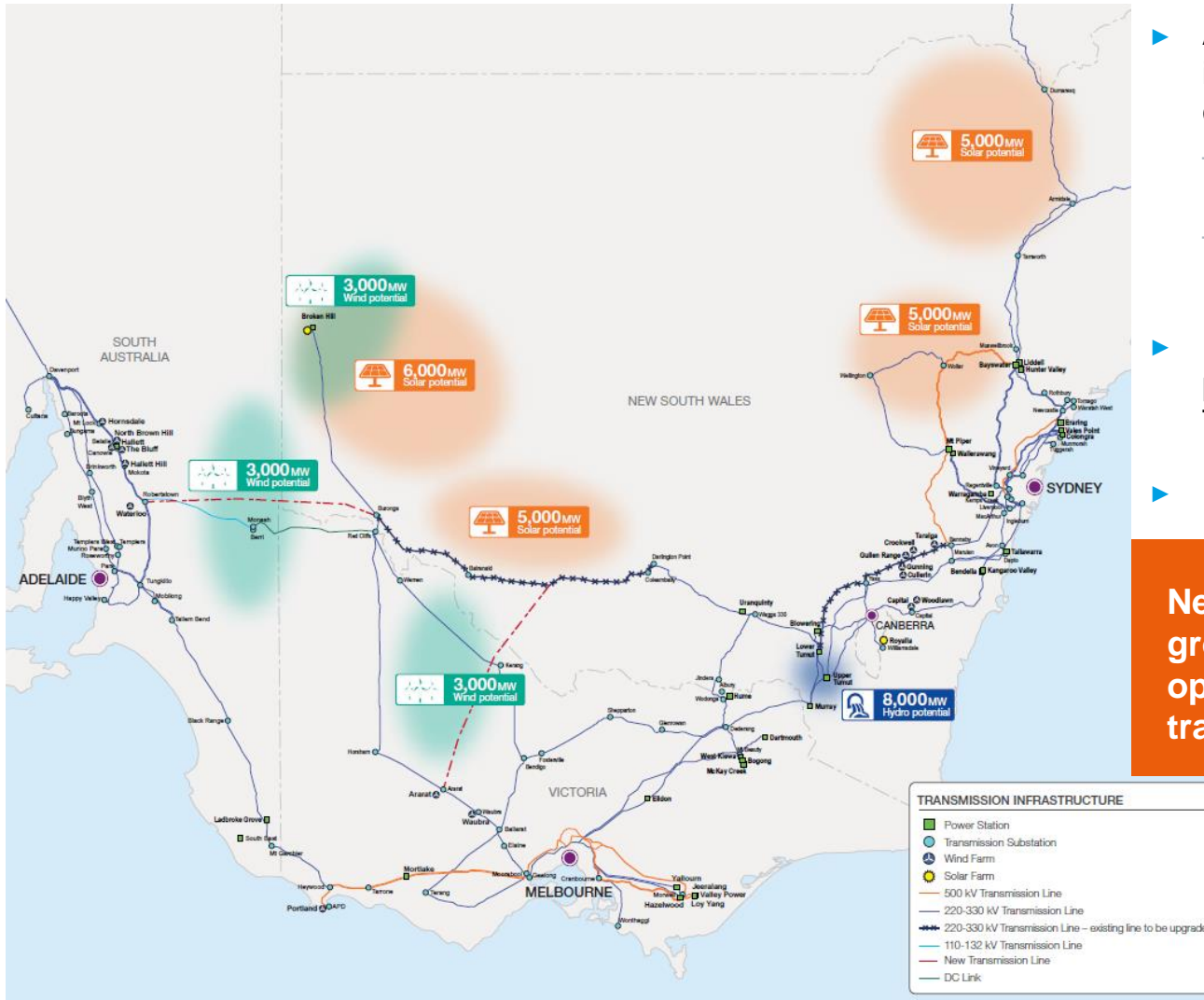
- Connecting renewable generation
- Connect future pump-hydro storage developments e.g. Snowy 2.0

## SYSTEM SECURITY

- Meet new regulatory responsibility for system strength and inertia
- Support non-dispatchable renewable generation by integrating batteries at residential and utility scale levels

**THE CHANGING ENERGY MARKET LANDSCAPE INCREASES THE CRITICAL IMPORTANCE OF NETWORKS**

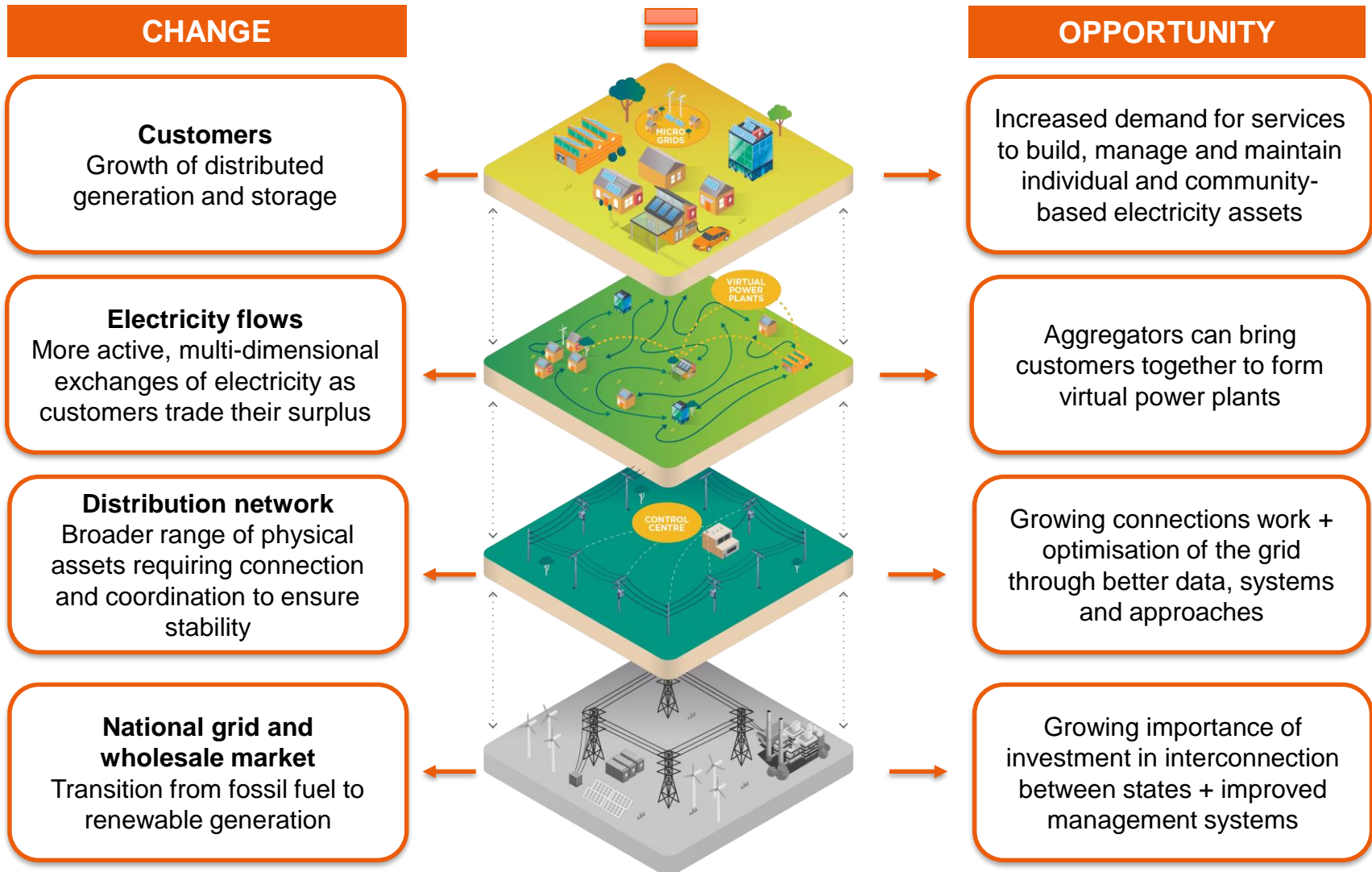
# GROWTH IN RENEWABLE GENERATION IS FACILITATED BY TRANSMISSION NETWORKS AND ENERGY STORAGE



- ▶ AEMO and TNSPs are working to identify the priority renewable corridors
  - Will include areas in Western Victoria and NSW
  - More than 27,000 MW of solar and wind in NSW renewable zones
- ▶ Pumped-hydro energy storage proposals being assessed in SA, TAS, NSW and QLD
- ▶ Increasing battery installations

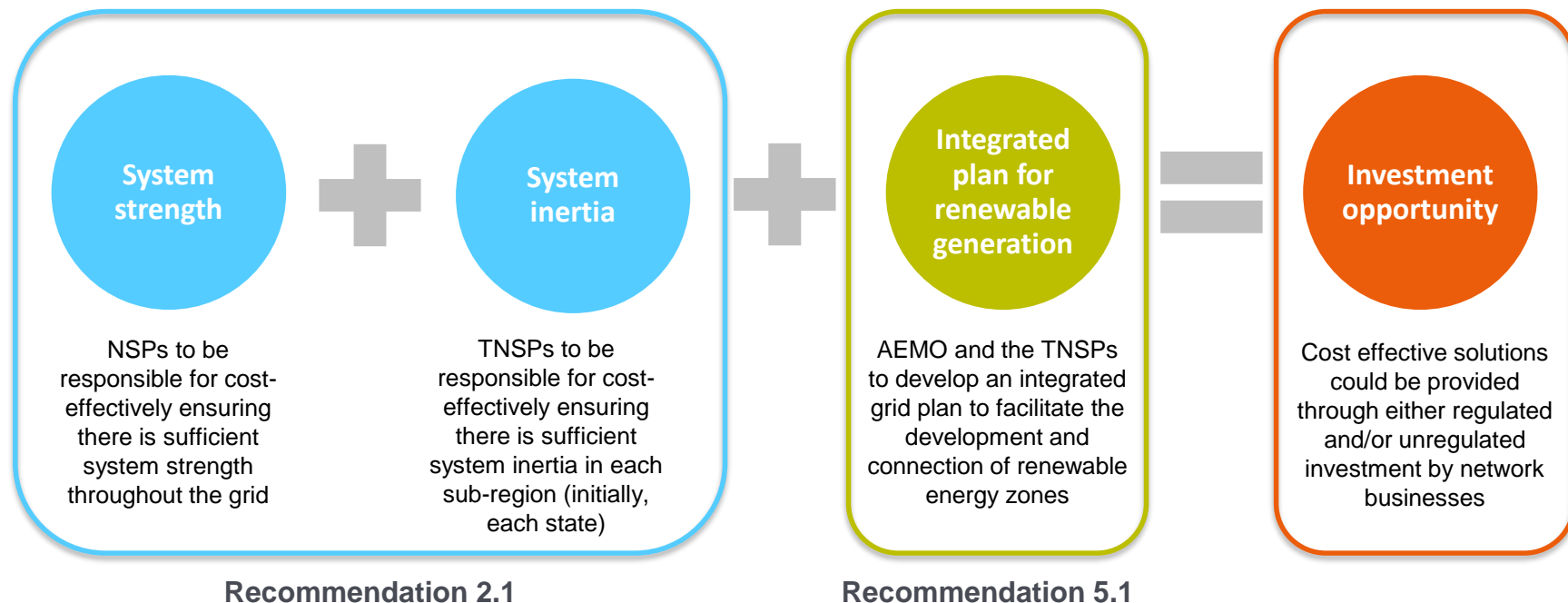
**Networks can expect strong growth in connections business opportunities straddling transmission lines of the NEM**

# CUSTOMER AND TECHNOLOGY LED CHANGE IS CREATING OPPORTUNITY FOR NETWORKS



# THE FINKEL REPORT RECOGNISES THE CENTRAL ROLE FOR NETWORK BUSINESSES

Finkel recommendations support existing AEMC rule change proposals



**THE FINKEL REPORT PROVIDES A PATHWAY FOR NETWORKS TO PARTICIPATE IN EMERGING BUSINESS OPPORTUNITIES**



# OUR NETWORKS ARE DELIVERING ON GROWTH IN THE CHANGING ENERGY MARKET

## VICTORIA POWER NETWORKS

### Dominant presence in Victorian commercial solar and storage

- Beon revenue of \$37.7m in HY 2017
- Expanding product lines
  - B2B power quality and energy efficiency solutions
  - Services to retailers and embedded network operators
- Long term AusNet Service maintenance contract delivering around \$10m p.a. (\$4.0m at HY 2017)

## SA POWER NETWORKS

### Unrivalled operational footprint and reputation in South Australia

- NBN contract extended to 2019 - more than \$225m revenue since inception (\$23.0m at HY 2017)
- ElectraNet maintenance contract in place until at least 2021- around \$35m p.a. (\$17.3m at HY 2017)
- Government work and windfarm mining connections \$25.4m at HY 2017

## TRANSGRID

### TransGrid is the backbone of the NEM placing it at the centre of the changing energy market

- Powering Sydney's Future - \$331m (\$ June 2018) of capex proposed
- Transmission spine to enable renewable energy zones and facilitate connections work
- Infrastructure services business expecting strong growth - \$22.9m revenue in HY 2017

**STRONG PIPELINE OF OPPORTUNITIES ACROSS THE NEM, WELL POSITIONED IN GROWING MARKET AND GOOD TRACK RECORD OF DELIVERY**

# INDUSTRY REGULATION ISSUES

# INDUSTRY REGULATORY ISSUES

## Limited merits review (LMR)

- The Commonwealth Government has introduced a bill to remove the ability of the Australian Competition Tribunal (ACT) or any other State or Territory body to review decisions of the AER
- Future AER determinations will be subject to judicial review of errors of law only

## Regulatory treatment of inflation

- The AER is reviewing the method and regulatory treatment of inflation
- The approach should ensure that consumers pay no more or less than the efficient costs of providing services and that investors have the ability to earn the regulated return on investment

## Ring fencing

- Complications identified by distribution businesses are now being addressed in amendments to the obligations
- 11 businesses have applied for waivers from the obligations
- Ring fencing should not inadvertently stifle competition, innovation and efficiency

## Regulatory investment tests

- The Regulatory Investment Test – Transmission (RIT-T) remains unnecessarily onerous and protracted and does not give fair and equal treatment to potential network solutions
- Greater interconnection is world's best practice and consistent with Finkel recommendations

## Rate of return guideline

- The AER is consulting on the process for reviewing the guideline
- A consultation paper on substantive issues is expected in October 2017
- A new guideline is expected to be in place by December 2018

**THE REGULATORY REGIME SHOULD NOT UNNECESSARILY INCREASE RISK OR REDUCE THE ABILITY OF NETWORKS TO PROVIDE COST EFFECTIVE SOLUTIONS**

# BUSINESS SPECIFIC REGULATORY ISSUES

## VICTORIA POWER NETWORKS

- The Victorian Government deferred the introduction of metering contestability until 2021 and signalled that it will conduct a review in 2020 on whether or not to introduce metering contestability at all
- Victoria Power Networks proposal for the regulatory period commencing on 1 January 2021 is due on 31 July 2019
- The framework and approach process will commence in the second quarter next year
- The ACT decision on Victoria Power Networks appeal matters has been deferred to 27 October 2017 – Victoria Power Networks has withdrawn on gamma

## SA POWER NETWORKS

- SA Power Network's proposal for the 1 July 2020 to 30 June 2025 regulatory period is due on 31 January 2019
- The framework and approach process will commence by Q4 of this year
- A decision from the Federal Court on SA Power Network's review of the ACT decision has been deferred and is not expected before September 2017

## TRANSGRID

- TransGrid's revenue reset process is well underway with the AER nearing the end of its review
- The AER's Draft Decision is expected at the end of September 2017, with a revised proposal from TransGrid due in early December 2017
- The Final Decision is expected in April 2018. TransGrid submission:
  - Real price reductions
  - Strategic investment to protect Sydney CBD
  - Contingent investment for greater interconnectivity
  - Delivery of opex savings from current period
- New RIT-T rule for replacement capex greater than \$6 million will increase public consultation on the investment program

# OUTLOOK

# OUTLOOK AND GUIDANCE

## Distribution growth

- ❑ DPS guidance for 2017 of 15.25 cps and 2018 of 16.0 cps reaffirmed based on expected distributions from investment portfolio and subject to business conditions

## Regulated T&D revenues

- ❑ Regulated electricity distribution revenues are expected to increase further in years 3-5 of the current regulatory periods – the AER’s CPI-X revenue sculpting method provides for increases in revenues for CitiPower and Powercor (from 1 January 2018) and SA Power Networks (from 1 July 2016) through the remainder of the current regulatory periods
- ❑ TransGrid’s regulated transmission revenue is expected to be flat for the remainder of its regulatory period which ends 30 June 2018

## Business growth

- ❑ The transition to a higher proportion of renewable energy generation is creating investment opportunities in both the regulated and unregulated areas in all businesses

## Cost out

- ❑ Demonstrated success of portfolio business cost-out programs – Continuous improvement (Victoria Power Networks), Powering Ahead (SA Power Networks) and ACE (TransGrid)
- ❑ Portfolio businesses management teams incentivised to continue to deliver efficiencies

## Cashflows

- ❑ Strong pipeline of value accretive business opportunities may require TransGrid to retain additional cash to fund strong growth in unregulated capex (infrastructure connections)

# FOR FURTHER INFORMATION

## Please contact

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# APPENDICES



# INVESTMENT PROPOSITION

## GROWTH IN ASSETS DELIVERING SUSTAINABLE GROWTH IN DISTRIBUTIONS

- ▶ Organic growth in the existing investment portfolio is a core part of the investment proposition and an enduring priority, including:
  - Active management of quality assets
  - Regulator approved capital expenditure in accordance with business requirements and priorities
  - Continual focus on improving efficiency, productivity and managing costs
  - Maintenance of high standards of safety and reliability
  - Agile response to changing business conditions and new technology
  - Incentivised management teams at both the fund and asset levels
- ▶ External growth and diversification opportunities will be considered that:
  - Offer predictable earnings and reliable cashflows
  - Offer scope for active management and performance improvement
  - Are subject to independent and transparent regulation or are supported by long term contractual arrangements
  - Are value accretive over the long term
  - Are yield accretive, either immediately or within a relatively short time frame
  - Provide long-term growth in the equity of investments
  - Display a similar risk profile to the assets in the existing portfolio
  - Offer the opportunity for strategic diversification by asset class, geography, regulatory regime, timing, and/or partners

# KEY METRICS – HY 2017

## SECURITY METRICS

Market price at 25 August 2017 (\$) 2.58

Market capitalisation (\$) 4.34 billion

## DISTRIBUTIONS

HY 2017 actual 7.625cps

Comprising

- Loan Note interest 3.50cps

- Tax deferred amount 4.125cps

FY 2017 Guidance 15.25cps

FY 2018 Guidance 16.00cps

## CREDIT RATINGS

Investment portfolio credit ratings

Spark Infrastructure level credit rating

## SPARK INFRASTRUCTURE

Total RAB (Spark Infrastructure share) 5,706

Gross debt at Spark Infrastructure level Nil

## SA POWER NETWORKS

RAB<sup>1</sup>

Net Debt

Net Debt/RAB

## VICTORIA POWER NETWORKS

RAB<sup>1</sup> (Including AMI)

Net Debt

Net Debt/RAB

## TRANSGRID

RAB<sup>1</sup>

CAB<sup>1,2</sup>

Investment Property<sup>1</sup>

Total Asset Base<sup>1</sup>

Net Debt

Net Debt/RAB

Net Debt/Total Asset Base

\$m

3,975

2,884

72.5%

\$m

5,744

4,161

72.4%

\$m

6,287

215

77

6,579

5,474

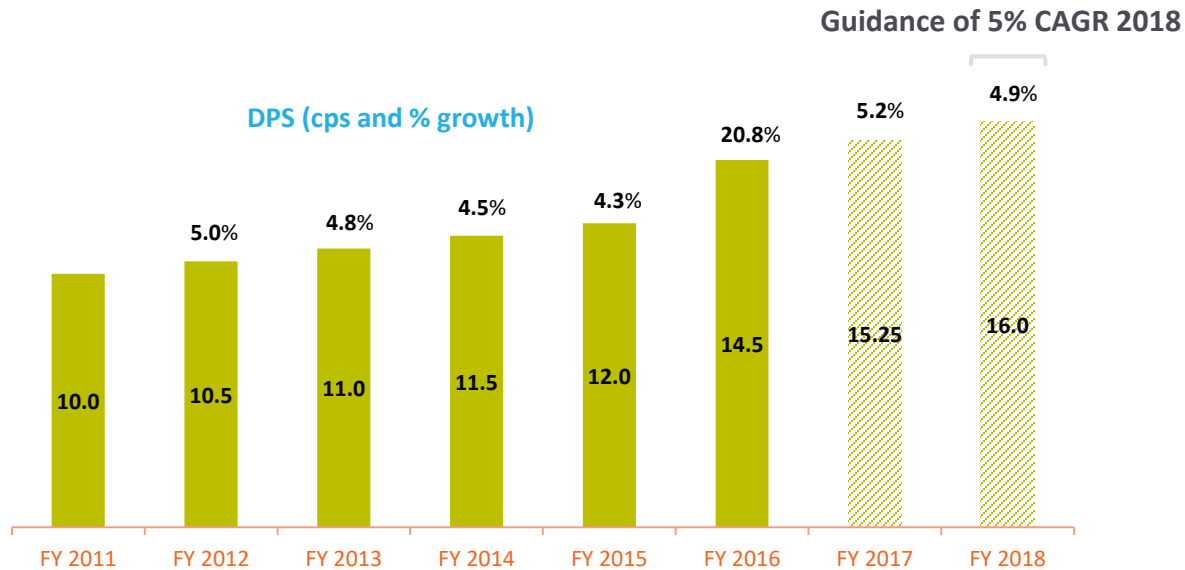
87.1%

83.2%

<sup>1</sup> June 2017 estimate

<sup>2</sup> Includes WIP/partially completed assets

# 2017 – 2018 DISTRIBUTION GUIDANCE REAFFIRMED



- ▶ Interim distribution of 7.625 cps to be paid on 15 September 2017, total distributions for 2017 of 15.25 cps
- ▶ The Directors have reaffirmed distribution guidance for 2018 of 16.0cps (~5% higher than 2017)
- ▶ Guidance based on expected distributions from asset portfolio and subject to business conditions

# RECONCILIATION: SHARE OF EQUITY PROFITS TO NPAT

100% Basis \$m	Victoria Power Networks	SA Power Networks	TransGrid	Spark Infrastructure Share
Regulated revenue	441.2	387.3	378.5	462.7
Other revenue	127.7	120.6	36.1	127.1
<b>Total Income</b>	<b>568.9</b>	<b>507.9</b>	<b>414.6</b>	<b>589.9</b>
Operating Costs	(195.3)	(162.7)	(99.5)	(190.4)
<b>EBITDA</b>	<b>373.6</b>	<b>345.1</b>	<b>315.2</b>	<b>399.5</b>
Depreciation and amortisation	(145.0)	(110.8)	(163.0)	(149.8)
<b>EBIT</b>	<b>228.6</b>	<b>234.3</b>	<b>152.2</b>	<b>249.7</b>
Net interest expense (excl subordinated debt)	(76.7)	(63.7)	(108.0)	(85.0)
Subordinated debt interest expense	(73.1)	(35.9)	(42.0)	(59.7)
<b>Net profit before tax</b>	<b>78.8</b>	<b>134.7</b>	<b>2.1</b>	<b>104.9</b>
Tax expense	(26.3)	-	-	(12.9)
<b>Net profit after tax</b>	<b>52.5</b>	<b>134.7</b>	<b>2.1</b>	<b>92.1</b>
Less: additional share of profit from preferred partnership capital (PPC) <sup>1</sup>	-	(34.5)	-	(16.9)
<b>Net Profits for Equity Accounting</b>	<b>52.5</b>	<b>100.1</b>	<b>2.1</b>	<b>75.1</b>
<b>Spark Infrastructure Share</b>	<b>25.7</b>	<b>49.1</b>	<b>0.3</b>	<b>75.1</b>
Add: additional share of profit from PPC <sup>1</sup>	-	34.5	-	34.5
Less: additional adjustments made to share of equity accounted profits <sup>2</sup>	(1.4)	0.8	(1.9)	(2.5)
<b>Share of equity accounted profits</b>	<b>24.3</b>	<b>84.4</b>	<b>(1.5)</b>	<b>107.2</b>
Add: interest income from associates	35.8	-	6.3	42.1
<b>Total Income from Investments included in Spark Profit &amp; Loss</b>	<b>60.2</b>	<b>84.4</b>	<b>4.7</b>	<b>149.3</b>
Interest income				0.9
Interest expense				(1.3)
Interest expense – Loan Notes				(58.9)
General and administrative expenses				(10.3)
<b>Profit for the period before tax</b>				<b>79.8</b>
Income tax expense				(30.9)
<b>Net profit for the period attributable to Securityholders</b>				<b>48.9</b>

Financial reporting for TransGrid is based on special purpose financial statements for the year ended 30 June 2017. Results have been adjusted by Spark Infrastructure to reflect the 6 month period to 30 June 2017.

- Under the partnership agreement, Spark Infrastructure is entitled to an additional share of profit in SA Power Networks
- Amounts in excess of/under the regulated revenue cap are not deferred/accrued by TransGrid. Spark Infrastructure makes an adjustment to its share of equity accounted profits in order to reflect that these amounts will be returned to/recovered from electricity consumers in future periods

# REGULATED PRICE PATH

## CPI minus X<sup>1</sup>

- ▶ Regulated electricity network revenues are determined by a price path set according to the CPI-X<sup>1</sup> formula. A negative X-Factor means a real increase in distribution tariffs
- ▶ The regulatory pricing period commences on 1 January each year for Victoria Power Networks (CitiPower and Powercor) and 1 July each year for SA Power Networks and TransGrid
- ▶ Whilst CPI-X is the key underlying driver for revenue movements, the revenue movements in reported results includes adjustments for other factors

<b>CitiPower</b>	<b>CPI (%) Actual (Forecast)</b>	<b>X-Factor</b>	<b>Expected movement in revenue<sup>3</sup> %</b>
<b>Year 1<sup>2</sup></b> (1 Jan 16)	2.50 (2.50)	-	-
<b>Year 2</b> (1 Jan 17)	1.02 (2.32)	0.40	<b>0.62</b>
<b>Year 3</b> (1 Jan 18)	1.93 (2.32)	-0.06	<b>1.99</b>
<b>Year 4</b> (1 Jan 19)	(2.32)	-1.20	<b>3.55</b>
<b>Year 5</b> (1 Jan 20)	(2.32)	-2.40	<b>4.78</b>

<b>Powercor</b>	<b>CPI (%) Actual (Forecast)</b>	<b>X-Factor</b>	<b>Expected movement in revenue<sup>3</sup> %</b>
<b>Year 1<sup>2</sup></b> (1 Jan 16)	2.50 (2.50)	-	-
<b>Year 2</b> (1 Jan 17)	1.02 (2.32)	4.68	<b>-3.71</b>
<b>Year 3</b> (1 Jan 18)	1.93 (2.32)	-0.82	<b>3.08</b>
<b>Year 4</b> (1 Jan 19)	(2.32)	-1.80	<b>4.16</b>
<b>Year 5</b> (1 Jan 20)	(2.32)	-2.60	<b>4.98</b>

1. Whilst referred to as "CPI-X", the actual tariff increase formula used by the regulator is:  $(1+CPI)^*(1-x)-1$ . Source: AER
2. No CPI-X was applied in 2016. The AER calculated the revenue cap as a dollar amount
3. Excludes over or under recovery and S factor revenue

# REGULATED PRICE PATH

## CPI minus X<sup>1</sup>

SA Power Networks	CPI (%) Actual (Forecast)	X-Factor	Expected movement in revenue <sup>2</sup> %
<b>Year 1</b> (1 Jul 15)	1.72 (2.50)	28.00	<b>-26.80</b>
<b>Year 2</b> (1 Jul 16)	1.69 (2.50)	-7.13	<b>8.90</b>
<b>Year 3</b> (1 Jul 17)	1.48 (2.50)	-0.94	<b>2.40</b>
<b>Year 4</b> (1 Jul 18)	(2.50)	-1.00	<b>3.50</b>
<b>Year 5</b> (1 Jul 19)	(2.50)	-1.10	<b>3.60</b>

TransGrid	CPI (%) Actual (Forecast)	X-Factor	Expected movement in revenue <sup>2</sup> %
<b>Year 1</b> (1 Jul 14)	2.38 (2.38)	11.61	-9.51
<b>Year 2</b> (1 Jul 15)	1.70 (2.38)	15.03	-13.59
<b>Year 3</b> (1 Jul 16)	1.70 (2.38)	3.70	-2.06
<b>Year 4</b> (1 Jul 17)	1.48 (2.38)	3.94	-1.66

1. Whilst referred to as "CPI-X", the actual tariff increase formula used by the regulator is:  $(1+CPI)^x(1-x)-1$ . Source: AER

2. Excludes over or under recovery and S factor revenue

# SEMI REGULATED REVENUES (100% BASIS)

Victoria Power Networks	HY 2017	HY 2016	Variance
	(\$m)	(\$m)	(\$m)
Public Lighting	6.1	6.1	0.0
New Connections	5.9	5.7	0.2
Special Reader Activities	2.3	2.9	(0.5)
Service Truck Activities	2.1	1.7	0.3
Recoverable works	0.6	0.8	(0.1)
Specification and Design	2.7	2.0	0.7
Other	2.1	1.8	0.3
<b>TOTAL</b>	<b>21.9</b>	<b>21.0</b>	<b>0.9</b>

SA Power Networks	HY 2017	HY 2016	Variance
	(\$m)	(\$m)	(\$m)
Public Lighting	7.5	8.7	(1.2)
Asset Relocation	15.8	39.0	(23.2)
Metering Services	6.6	6.3	0.3
Feeder Standby / Excess kVAR	1.9	1.3	0.6
Pole/Duct Rental	0.9	0.6	0.3
Other Excluded Services <sup>1</sup>	8.2	(0.1)	8.3
<b>TOTAL<sup>2</sup></b>	<b>40.9</b>	<b>55.8</b>	<b>(14.9)</b>

1. Includes profit/loss on asset disposals

2. Does not include Alternative Control Services (ACS) revenue, which is reported as part of DUOS revenue

# UNREGULATED REVENUES (100% BASIS)

<b>Victoria Power Networks</b>	<b>HY 2017</b>	<b>HY 2016</b>	<b>Variance</b>
	<b>(\$m)</b>	<b>(\$m)</b>	<b>(\$m)</b>
BEON Energy Solutions	30.0	38.5	(8.4)
BEON Energy Solutions Transmission and Distribution - AusNet Services	4.0	5.4	(1.5)
SLA Revenue - SA Power Networks	7.7	7.6	0.0
Material Sales	3.3	3.2	0.1
Telecommunications	0.6	0.6	(0.0)
Wellington Management Fees	1.2	1.2	0.0
Joint Use of Poles	1.7	1.6	0.1
Other <sup>1</sup>	6.9	25.6	(18.7)
<b>TOTAL</b>	<b>55.4</b>	<b>83.7</b>	<b>(28.3)</b>

1. Includes approximately \$20m received in HY 2016 in respect of a one-off reimbursement of certain prior year tax-related costs



# UNREGULATED REVENUES (100% BASIS)

SA Power Networks	HY 2017	HY 2016	Variance
	(\$m)	(\$m)	(\$m)
Construction and Maintenance Services (CaMS) T&D - ElectraNet	17.3	16.2	1.1
Other CaMS	25.4	22.1	3.3
Material Sales (non NBN)	7.7	6.1	1.6
Asset rentals	1.8	1.8	0.0
NBN	23.0	23.3	(0.3)
Other Telecommunications	0.8	0.4	0.4
Facilities Access / Dark Fibre	1.2	1.2	0.0
Sale of Salvage	1.0	0.5	0.5
Other	1.5	3.0	(1.5)
<b>TOTAL</b>	<b>79.7</b>	<b>74.6</b>	<b>5.1</b>

TransGrid	HY 2017	HY 2016	Variance
	(\$m)	(\$m)	(\$m)
Infrastructure services	22.9	18.6	4.3
Property Services	2.4	2.3	0.1
Telecommunication Services	4.0	3.0	1.0
<b>TOTAL</b>	<b>29.3</b>	<b>23.9</b>	<b>5.4</b>

# CAPITAL EXPENDITURE (100%)

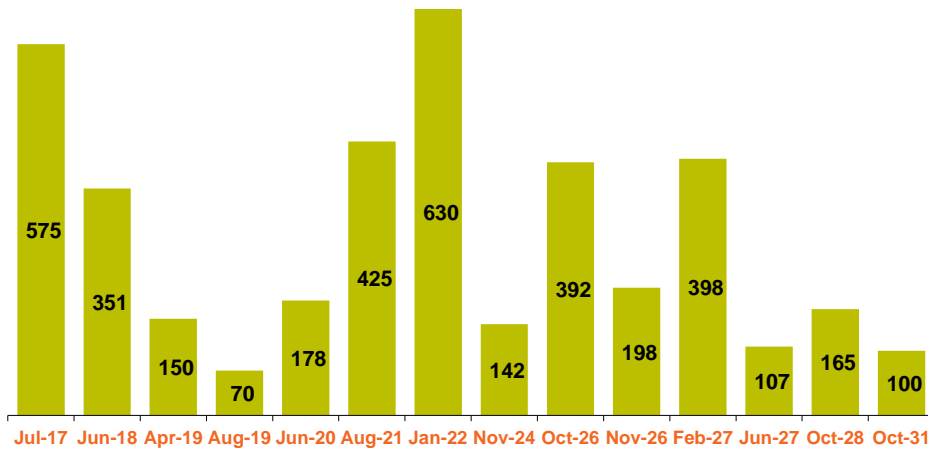
\$m	Victoria Power Networks		SA Power Networks		TransGrid		TOTALS	
	HY 2017	HY 2016	HY 2017	HY 2016	HY 2017	HY 2016	HY 2017	HY 2016
Growth capex	121.7	134.9	65.9	51.4	3.5	3.6	<b>191.1</b>	<b>189.9</b>
Growth capex - non prescribed	-	-	-	-	36.9	10.0	<b>36.9</b>	<b>10.0</b>
Non-network capex	-	-	-	-	17.4	14.8	<b>17.4</b>	<b>14.8</b>
Maintenance capex	52.7	41.7	98.1	69.9	80.6	72.2	<b>231.4</b>	<b>183.8</b>
<b>Total</b>	<b>174.5</b>	<b>176.6</b>	<b>164.0</b>	<b>121.3</b>	<b>138.3</b>	<b>100.6</b>	<b>476.8</b>	<b>398.5</b>
Spark share	85.5	86.5	80.4	59.4	20.8	15.1	186.6	161.1
Change vs pcp (%)	-1.2%		35.2%		37.5%		19.6%	

\$m	Maintenance capex spend		Regulatory depreciation		Less inflation uplift on RAB		Net regulatory depreciation	
	HY 2017	HY 2016	HY 2017	HY 2016	HY 2017	HY 2016	HY 2017	HY 2016
Victoria Power Networks	52.7	41.7	170.0	119.8	(29.0)	(64.2)	141.1	55.6
SA Power Networks	98.1	69.9	147.5	109.0	(29.0)	(32.6)	118.4	76.4
TransGrid	80.6	72.2	139.9	130.9	(46.4)	(52.3)	93.5	78.7
<b>Totals</b>	<b>231.4</b>	<b>183.8</b>	<b>457.4</b>	<b>359.7</b>	<b>(104.4)</b>	<b>(149.1)</b>	<b>353.0</b>	<b>210.6</b>
Spark share	86.0	65.5	176.6	131.8	(35.4)	(55.3)	141.2	76.5

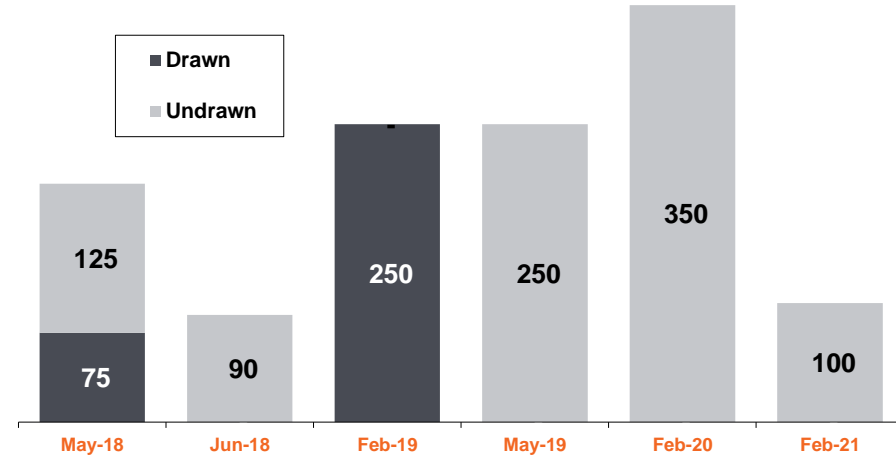
1. TransGrid capex includes NCIPAP capex

# VICTORIA POWER NETWORKS DEBT MATURITIES AND HEDGING AS AT 30 JUNE 2017

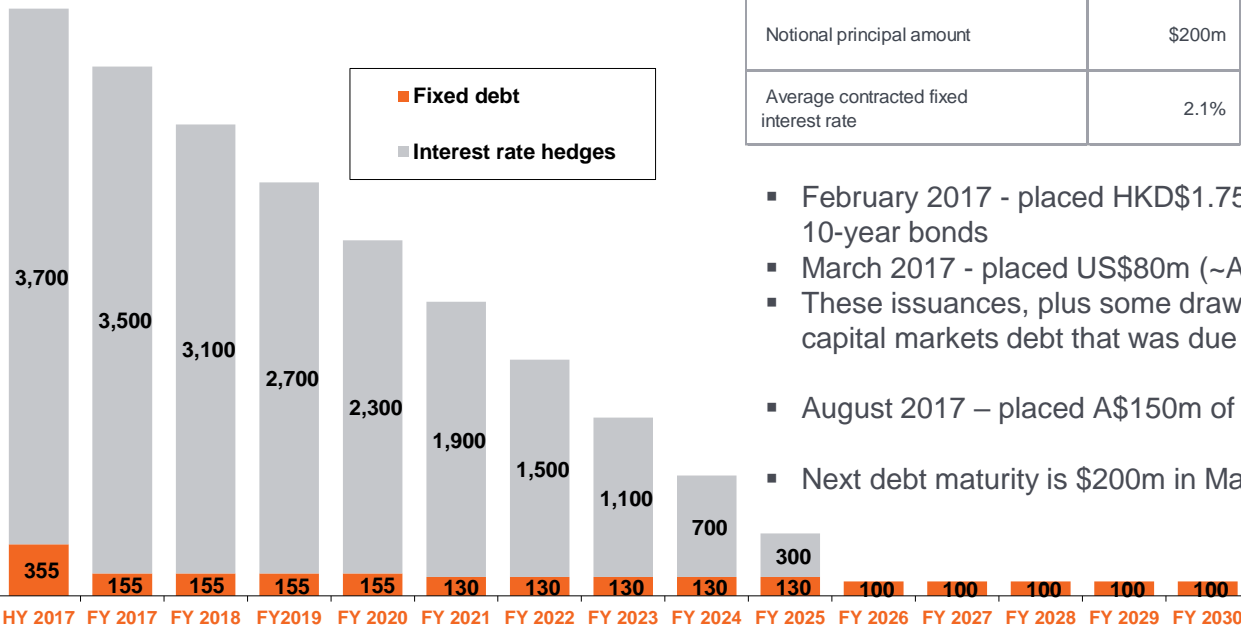
VPN - Capital Markets Debt (\$m 100%)



VPN Bank Debt Facilities (\$m 100%)



VPN Interest Rate Hedging (\$m 100%)

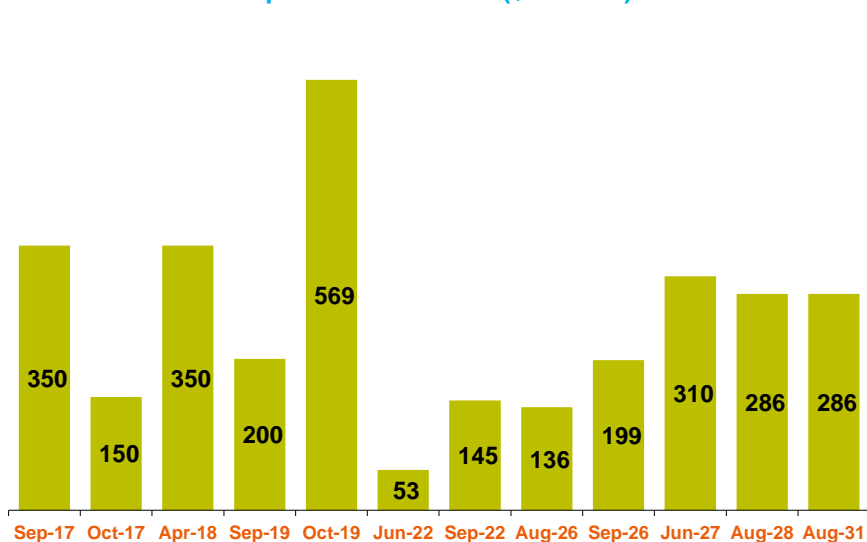


Interest Rate Swaps	Less than 1 year	1 to 2 years	2 to 5 years	5 years +	Total
Notional principal amount	\$200m	\$400m	\$1,600m	\$1,500m	\$3,700m
Average contracted fixed interest rate	2.1%	2.1%	2.3%	2.5%	2.3%

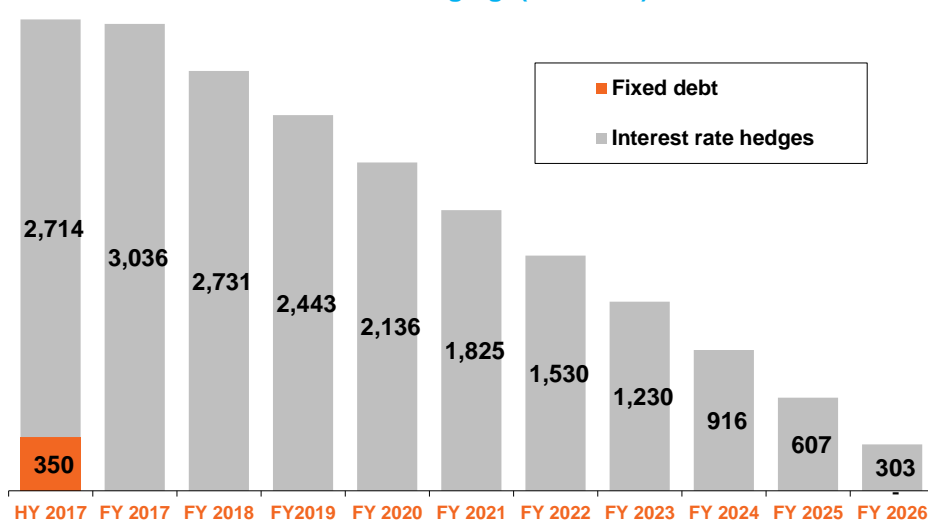
- February 2017 - placed HKD\$1.75bn (~A\$296m) and HKD\$600m (~A\$102m) of 10-year bonds
- March 2017 - placed US\$80m (~A\$106m) of 10-year bonds
- These issuances, plus some drawn debt facilities, have been used to refinance capital markets debt that was due to expire in July 2017
- August 2017 – placed A\$150m of 10-year notes
- Next debt maturity is \$200m in May 2018

# SA POWER NETWORKS DEBT MATURITIES AND HEDGING AS AT 30 JUNE 2017

Capital Markets Debt (\$m 100%)



Interest Rate Hedging (\$m 100%)

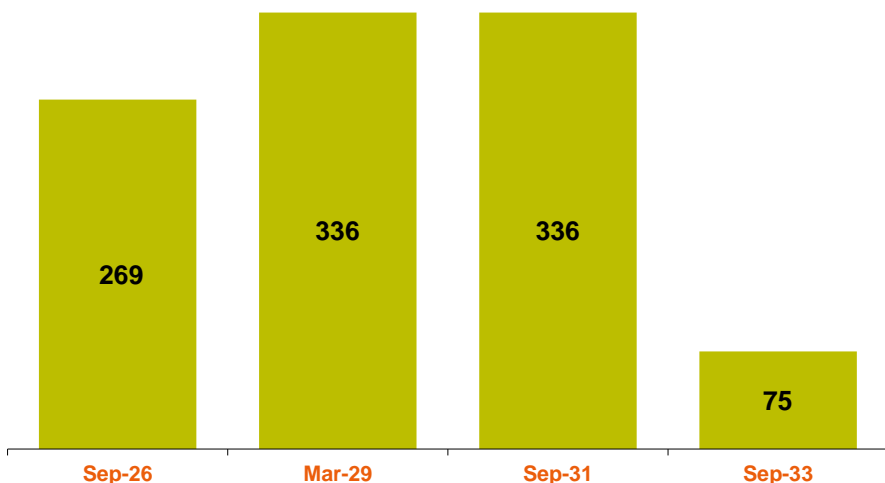


Interest Rate Swaps	Less than 1 year	1 to 2 years	2 to 5 years	5 years +	Total
Notional principal amount	\$305m	\$288m	\$912m	\$1,530m	\$3,035m
Average contracted fixed interest rate	2.2%	2.4%	2.8%	3.1%	2.8%

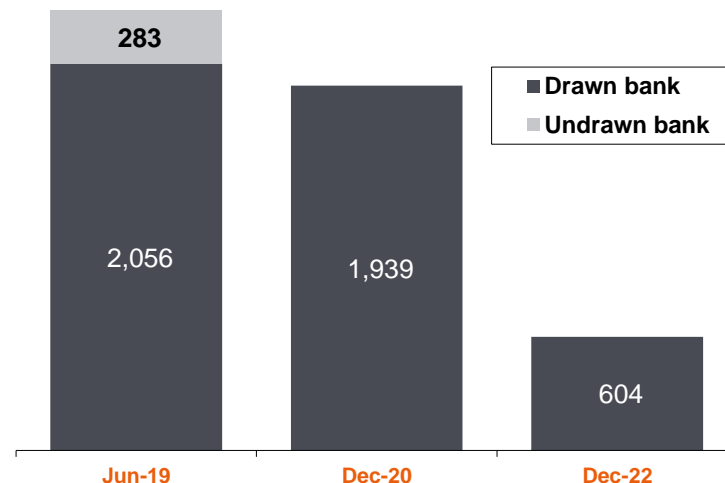
- June 2017 – A\$250m 4-year syndicated debt facility
- August 2017 - A\$550m notes (A\$375m 7-year fixed rate and A\$175m 5-year floating rate) issued
- Total funds of \$800m cover all but \$50m of outstanding debt until September 2019 (\$200m)

# TRANSGRID DEBT MATURITIES AND HEDGING AS AT 30 JUNE 2017

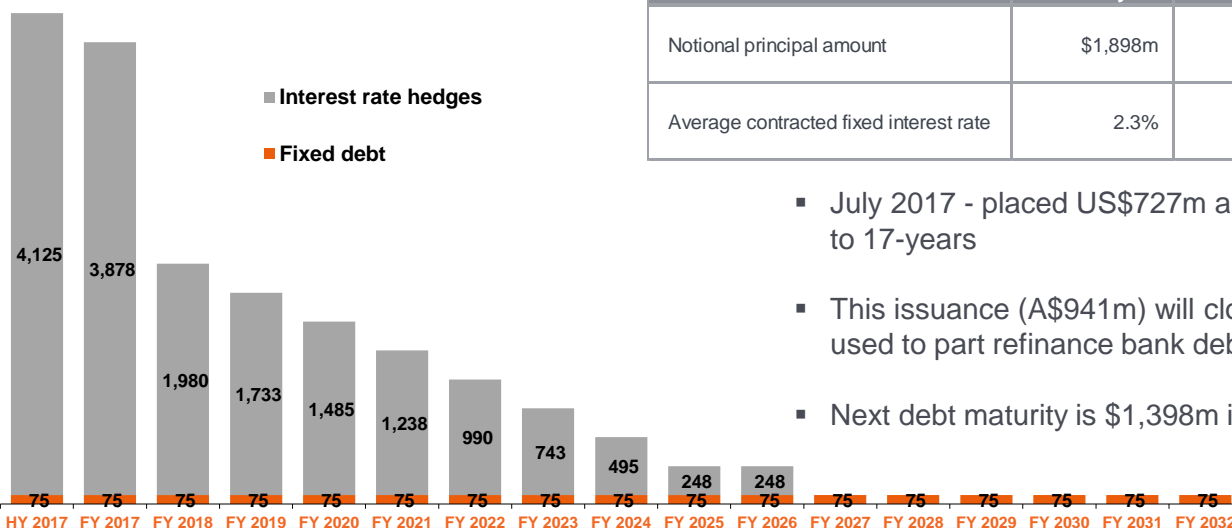
Capital Markets Debt (\$m 100%)



Bank Debt Facilities (\$m 100%)



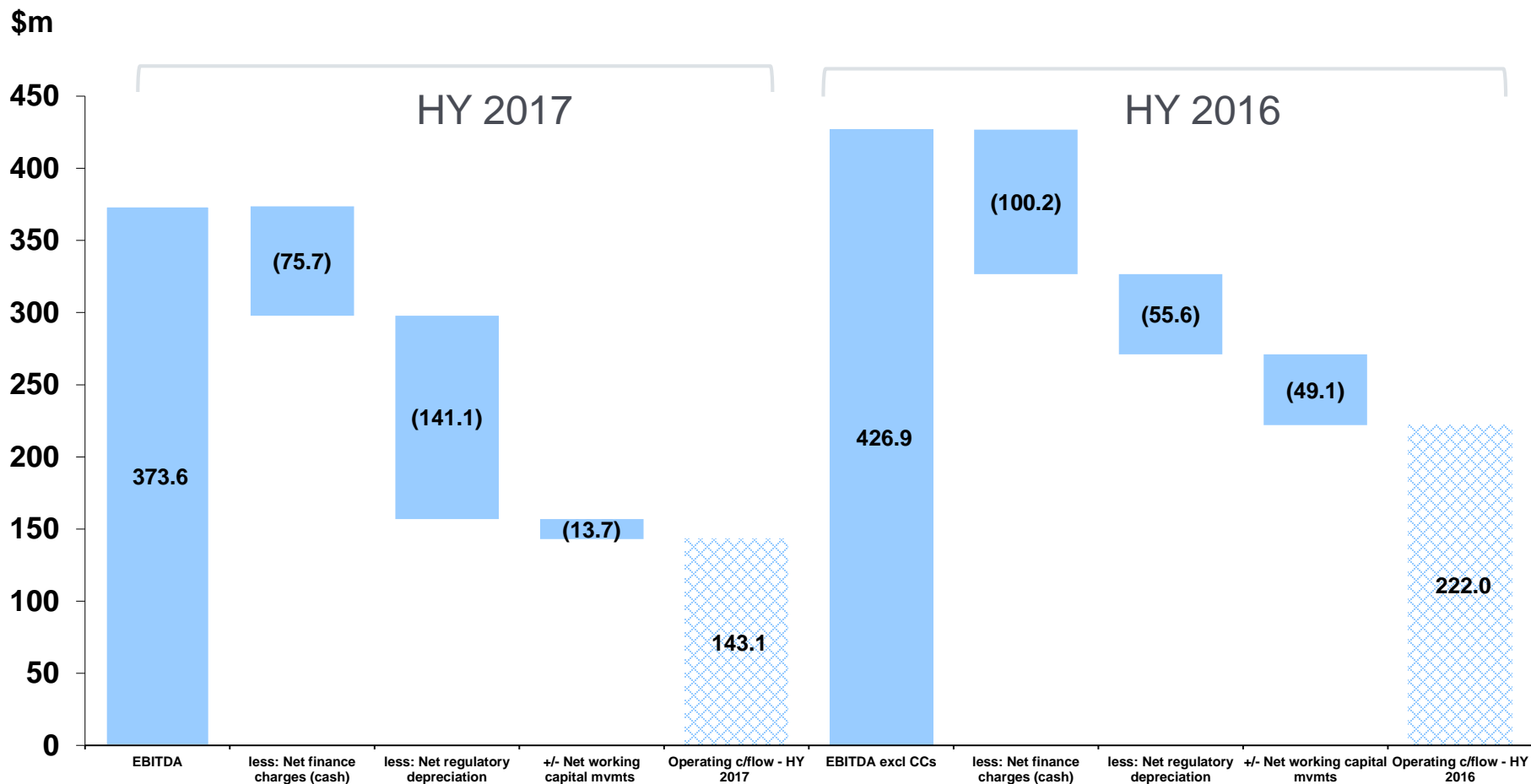
Interest Rate Swaps (\$m 100%)



Interest Rate Swaps	Less than 1 year	1 to 2 years	2 to 5 years	5 years +	Total
Notional principal amount	\$1,898m	\$248m	\$743m	\$1,238m	\$4,125m
Average contracted fixed interest rate	2.3%	2.4%	2.7%	3.0%	2.6%

- July 2017 - placed US\$727m and A\$25m of notes with terms 10-years to 17-years
- This issuance (A\$941m) will close in October 2017 and funds will be used to part refinance bank debt facilities due to expire in June 2019
- Next debt maturity is \$1,398m in June 2019

# VICTORIA POWER NETWORKS LOOK THROUGH OCF(100%)



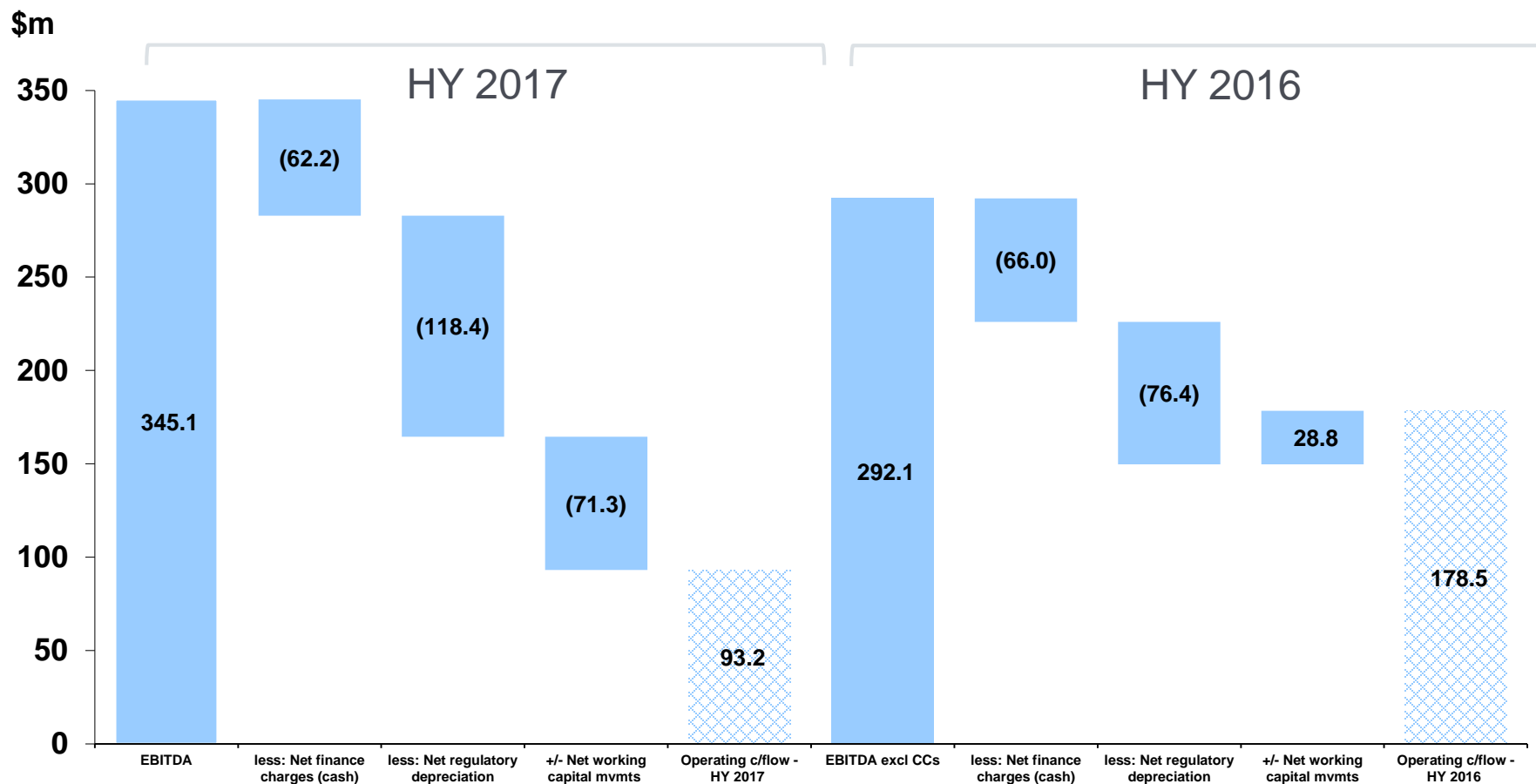
Note re maintenance capex:

Net regulatory depreciation is a proxy for maintenance capex. It is calculated as regulatory depreciation net of actual CPI uplift on RAB.

CPI uplift on RAB for DUOS for the HY 2017 is 1.02% as per updates to the Final Determination on opening RAB, with 50% assumed to apply to H1 2017

CPI is based on 'All groups CPI' for weighted average of 8 capital cities, not seasonally adjusted (Source: ABS). June 2016 on June 2015 (released July 2016)

# SA POWER NETWORKS LOOK THROUGH OCF(100%)



Note re maintenance capex:

Net regulatory depreciation is a proxy for maintenance capex. It is calculated as regulatory depreciation net of actual CPI uplift on RAB.

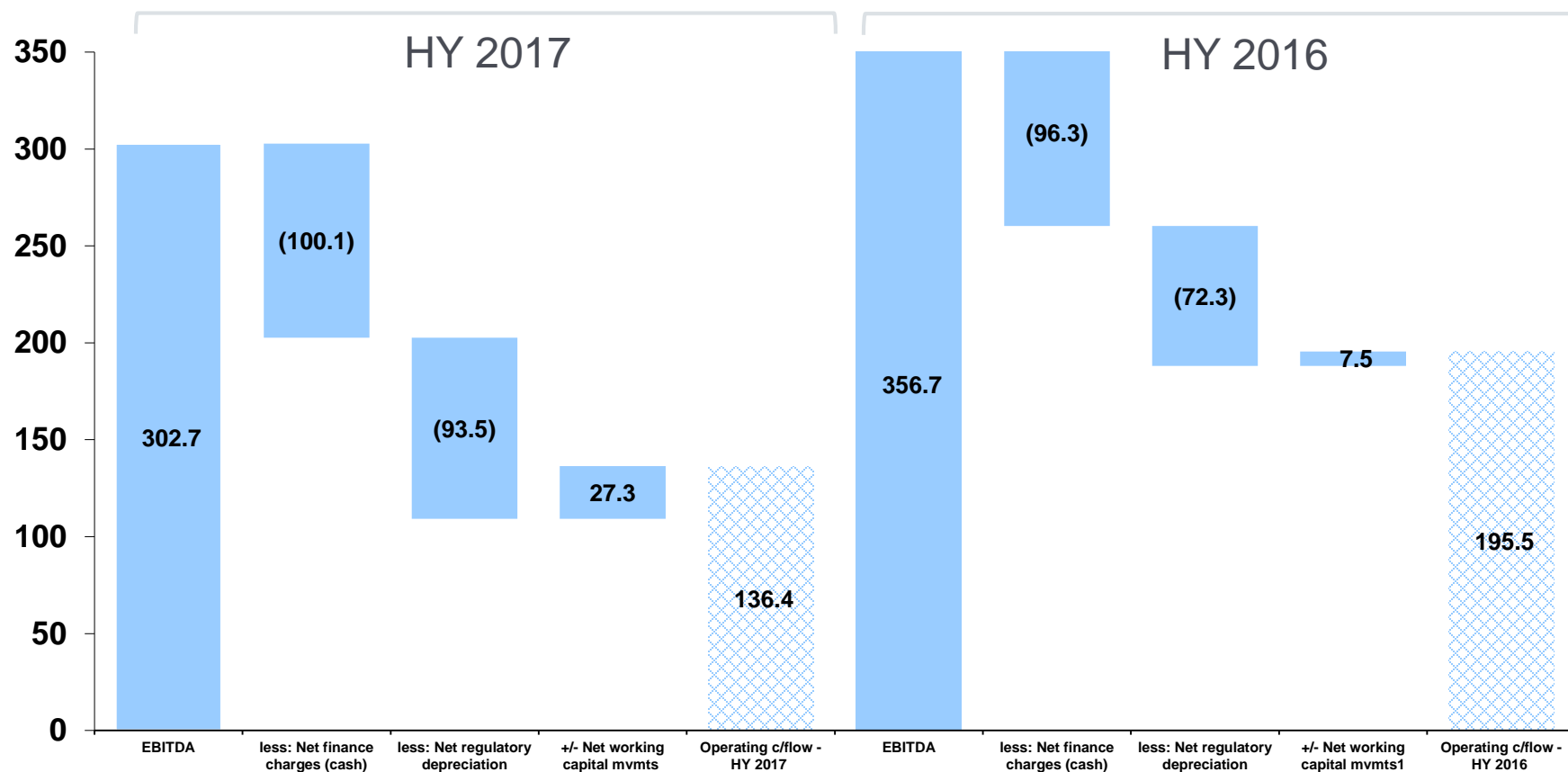
CPI uplift on RAB is estimated by:

In H1 2017: actual December 2016 CPI of 1.48% on opening RAB, with 50% assumed to apply to H1 2017

CPI is based on 'All groups CPI' for weighted average of 8 capital cities, not seasonally adjusted (Source: ABS). December on December (released January) for the regulatory period commencing 1 July 2016.

# TRANSGRID LOOK THROUGH OCF(100%)

\$m



**Notes:**

Working capital – adjusted for one-off movements including those in relation to the TransGrid asset lease transaction

Maintenance capex – Net regulatory depreciation is a proxy for maintenance capex. It is calculated as regulatory depreciation net of actual CPI uplift on RAB.

CPI uplift on RAB is estimated by:

In H1 2017: Actual December 2016 CPI of 1.48% on opening RAB (1 July 2016), with 50% assumed to apply to H2 2016

CPI is based on 'All groups CPI' for weighted average of 8 capital cities, not seasonally adjusted (Source: ABS). December on December (released January) for the regulatory period commencing 1 July.



# DISCLAIMER & SECURITIES WARNING

**Investment company financial reporting – TransGrid.** The financial reporting is based on TransGrid's special purpose financial statements for the year ended 30 June 2017. Results have been adjusted by Spark Infrastructure to reflect the 6 month period to 30 June 2017.

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