

19 July 2018

## Chairman's Address and Annual General Meeting Presentation

The Chairman's Address and the presentation, to be given at today's Annual General Meeting, are attached.

**Claire Hamilton**  
Company Secretary

## **2018 CHAIRMAN'S ADDRESS**

### **Mr Peter Mason AM, Chairman, AusNet Services**

Good afternoon and welcome to AusNet Services' Annual General Meeting.

I would like to take this opportunity to thank you, as shareholders, for your continued support of our company during the past year.

As you will be aware, the energy industry continues to experience a period of unprecedented change. This includes the transition to renewable generation and decarbonisation, increasing customer choice and price sensitivity, regulatory and government intervention and accelerating advances in technology.

AusNet Services is committed to anticipating and responding to these changes. We are actively involved in the national energy debate and we are very keen to see additional policy clarity to facilitate a clear direction for our industry and our customers.

The ACCC Inquiry into the electricity industry has recommended changes to the network sector. We are pleased that the inquiry found no overinvestment in Victoria. The inquiry also highlights further work on future policy settings for network asset investment through the energy transition.

We see the need for urgent investment in the north west of Victoria to provide confidence to the renewable energy projects that are coming forward in unprecedented numbers. We are working hard with AEMO and the Victorian government to meet community expectations. Of course, the economics and timing must be consistent with our regulatory obligations and in all our customer's best interests, balancing cost and security of supply. Taking all that into account, we still see the urgent need.

We are also investing resources to realign networks to support new large scale renewable generation and are working with communities on innovative Mini-Grid projects, to increase customer choices. Just recently, in May, we signed a long-term agreement to build, own and operate connection assets from the Stockyard Hill Wind Farm in western Victoria– the largest wind farm in Australia.

Indeed, earlier this week AEMO released its Integrated System Plan, which highlights an ongoing need for significant network investment in the coming decades to provide energy security, modernise infrastructure and to facilitate renewables. Along with our industry peers, AusNet Services believes policy certainty and consistency are essential to incentivise this investment.

We welcome progress on the National Energy Guarantee. Specifically, the technology neutral approach in the draft detailed design will ensure the lowest cost for customers for any chosen abatement path. The possible solutions are wide ranging: gas, diverse renewables in different locations, pumped hydro storage, co- and tri-generation, batteries, power to gas hydrogen storage, and a whole host of other technologies. But importantly for us, electricity transmission, network options and perhaps most significantly demand management.

As we continue to advocate for constructive policy settings representing the interests of our stakeholders, we remain focused on transforming our business and strengthening our customer focus.

## **Financial Performance**

We are very pleased to have delivered a solid financial performance this year. We have seen a decrease in operating expenses driven by our cost efficiency program and an increase in operating cash flow, which have underpinned dividend growth to shareholders of 5.1 per cent.

Cash flow from operations increased 19.3 per cent to \$886 million despite minimal growth in revenues, and was achieved by disciplined cost management.

Our efficiency program has delivered significant savings this year, and contributed to a 6.5 per cent increase in Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA) to \$1,143 million. Net Profit After Tax (NPAT) grew 14.2 per cent to \$291.4 million.

Our robust balance sheet and active capital management framework will continue to underpin sustainable shareholder returns, as well as funding our growth strategy. The revenue path for the business will remain stable, given that there are no revenue resets until January 2021.

## **Board Composition**

In May, Mr Ho Tian Yee resigned from the Board after almost ten years of dedicated service to the company as a Non-Executive Director. Tian was a valued and important member of the Board during his tenure.

On behalf of the Board, I would like to express our gratitude to Tian for his significant contribution and commitment to our business and we wish him well for his future endeavours.

We also welcome Mr Alan Chan Heng Loon as a Non-Executive Director. This is Alan's first Annual General Meeting of the company today. Mr Chan has been nominated by Singapore Power and the Board looks forward to his contribution to the company. I note that Mr Chan's election as a Director is for your consideration later in today's AGM.

## **Looking Ahead**

Our objective is to deliver sustainable and growing returns to shareholders, through continued investment in our regulated and contracted asset base, with an ongoing focus on cost management.

In the coming year we will build on our focus on efficiency to improve the performance of our portfolio and organisation, to realise customer outcomes, leverage technology and focus on our growth strategy.

I would like to thank our shareholders, customers, employees, management and my fellow directors for their contribution to AusNet Services' ongoing transformation.

Our Managing Director, Nino Ficca, will now provide a more detailed insight into AusNet Services' operations.

# AusNet Services Ltd

## Annual General Meeting



19 July 2018

**mission**zero

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# Chairman's address

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*Peter Mason AM*



# Managing Director's address

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*Nino Ficca*



# Safety Mission & Performance



**17%**

Reduction in Recordable Injury  
Frequency Rate (FY18 RIFR 5.46)

**39%**

Reduction in Lost Time Injury  
(FY18 LTI 2.23)

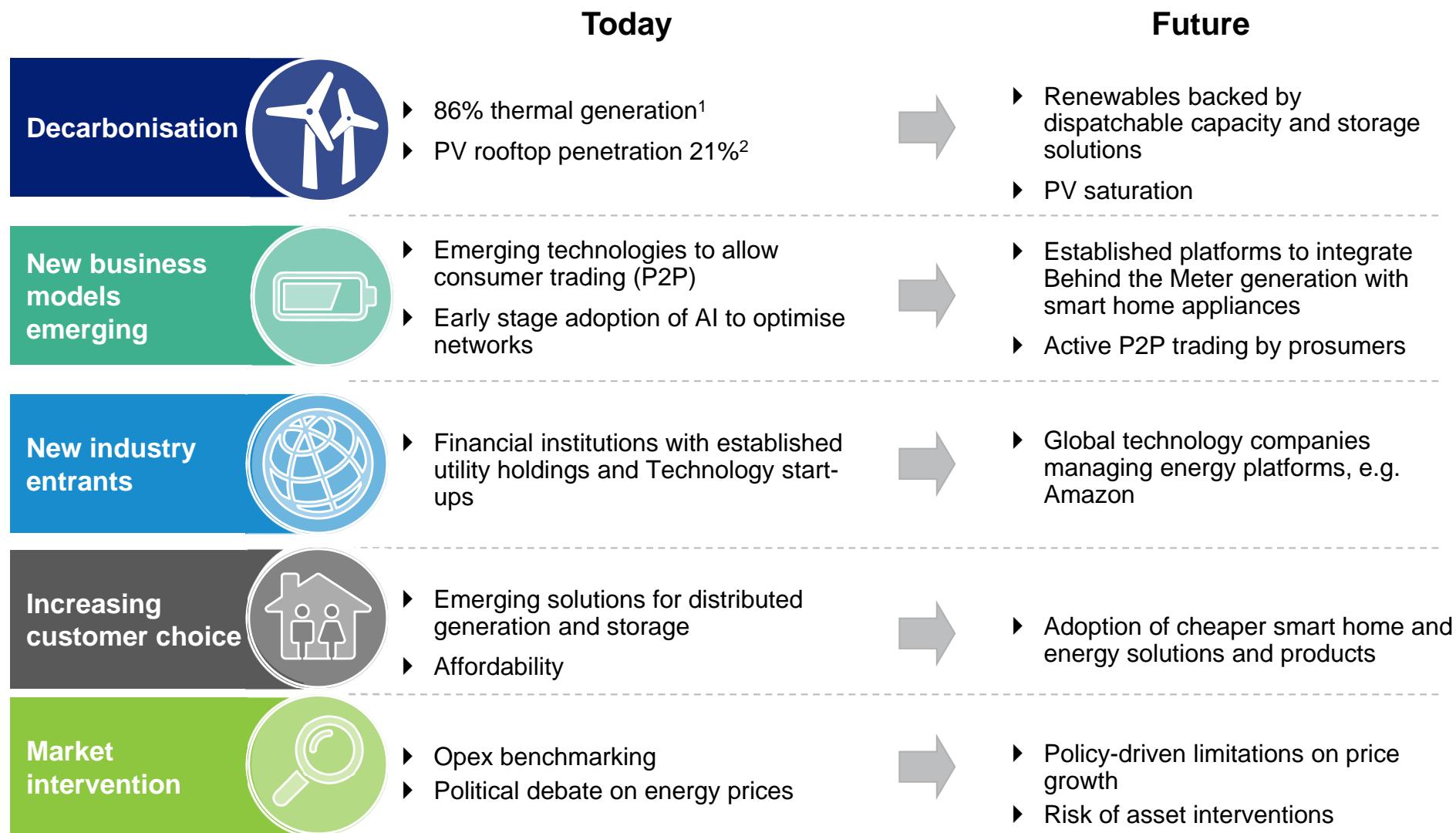
**24,834**

missionZero conversations





# Megatrends are changing our industry



(1) FY17 NEM generation (AER)

(2) Penetration of suitable rooftops, April 2017, [reneweconomy.com.au](http://reneweconomy.com.au)

# EDPR 2021-25 Customer Forum

*Ground-breaking trial that will see AusNet Services negotiate its proposed service offerings and expenditure directly with highly-skilled, qualified individuals appointed to formally represent the perspectives of customers.*

- 1 Lead a transformational shift in customer relations**
- 2 Identify the perspectives and preferences of our customers**
- 3 A more transparent regulatory process**
- 4 Negotiate and agree elements of regulatory proposal**

## Our People

- ▶ Launched our Diversity & Inclusion Statement with supporting strategy to strengthen our commitment to these areas.
- ▶ Increased female representation in senior management roles to 33%, an increase of 10% from January 2017.
- ▶ First ever all female apprentice and trainee intake program.
- ▶ Delivery of Career Transition programs to support employees approaching retirement age.
- ▶ Continuation of Switched on Leadership, Women's Career Development Program and Women in Power Engineering Scholarships.
- ▶ Implementation of new performance and incentive framework to align employee outcomes more closely to business results.



# High Quality Asset Base



## Electricity Transmission

- › **\$3.5bn** regulated asset base
- › Critical energy delivery role in National Electricity Market
- › Interconnections with NSW, SA and Tasmania



## Electricity Distribution

- › **\$4.2bn** regulated asset base
- › 722,000 customers
- › Improved reliability ~45% from 2007 to 2017



## Gas Distribution

- › **\$1.6bn** regulated asset base
- › 692,000 customers
- › Improved reliability ~12% from 2007 to 2017



## Commercial Energy Services

- › **\$865m\*** contracted asset base and commitments
- › Diversified portfolio of energy assets supported by asset intelligence and energy management platforms

**Regulated Asset Base growth guidance of around 3.5% p.a. to FY21**

**Targeting \$1bn Contracted Asset Base by FY21**

\* Includes around \$310m of contracted infrastructure investments under construction.

# Focus 2021

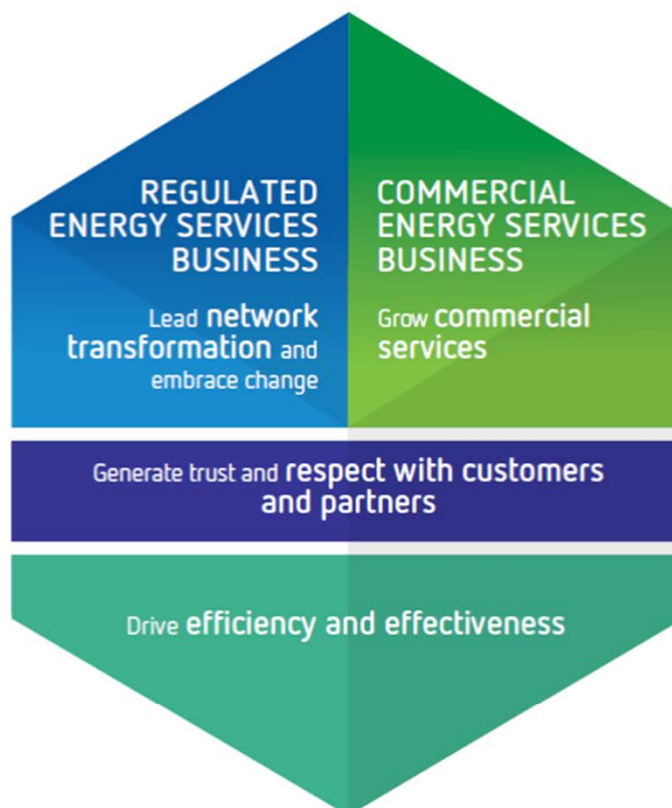
*FY18 marked year two of our five year strategy*



**Build a portfolio of high performing and sustainable *Regulated* and *Commercial Energy Services* businesses**

- ▶ Commenced Mallacoota battery storage project
- ▶ Continued significant investment in bushfire mitigation

- ▶ Continued top quartile performance in Electricity Transmission and Gas Distribution
- ▶ Improved Electricity Distribution benchmarking performance



- ▶ Since July 2017, signed five new wind farm connections, Deakin University micro grid partnership and battery energy storage system at Ballarat Terminal Station, combined value of approx. \$310m.

- ▶ Customer Forum established, first energy utility in Australia to trial new process for price review
- ▶ Industry awards & recognition for Mooroolbark and Yackandandah mini-grids

# Financial Performance



- ▶ Higher easement tax pass-through revenues in Electricity Transmission (↑\$25m).
- ▶ Higher customer contributions (↑\$24m).
- ▶ Decrease in operating expenses driven by efficiency program.
- ▶ Strong cash performance underpinning dividend growth.

A\$M	FY 2018	FY 2017	Variance
<b>Statutory Result</b>			
Revenues	<b>1,909.8</b>	1,881.5	↑ 1.5%
EBITDA	<b>1,142.9</b>	1,073.3	↑ 6.5%
EBIT	<b>700.5</b>	647.4	↑ 8.2%
PBT	<b>416.6</b>	363.3	↑ 14.7%
NPAT	<b>291.4</b>	255.1	↑ 14.2%
Cash flow from operations	<b>886.4</b>	742.8	↑ 19.3%
Ordinary Dividends (cps)	<b>9.25</b>	8.80	↑ 5.1%



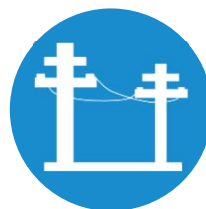
# Regulated Energy Services

## Electricity Transmission



- › CBD rebuilds on track. Richmond and West Melbourne terminal station rebuilds ~ 89% and ~ 30% complete.
- › Initiated replacement of communications infrastructure in North West Victoria.
- › Connected Ararat wind farm (250MW) and delivering 4 new wind farm connections (550MW).
- › Summer peak period completed without any major outages.

## Electricity Distribution



- › Commenced Mallacoota battery storage project.
- › Compliant with Ring-Fencing Guideline from 1 January 2018.
- › Established EDPR 2021-25 Customer Forum.
- › No material impact from outages on 28<sup>th</sup> January.
- › Working on 9 REFCL sites.

## Gas Distribution



- › Highest peak consumption since July 2012.
- › Accepted GAAR 2018-22 Final Decision
  - › Gas tariff reduction of 15% over 5 years
- › Gas meter reading transition to Downer delivering operating efficiencies.

# Industry Developments

## Industry Reviews

- ▶ ACCC report into retail electricity prices recommends some NSW, QLD and Tasmanian networks address prior over-investment via write down of RAB values.
- ▶ AEMC and AER to consider a range of measures to improve affordability for customers and manage the energy transition.

## Regulatory Reforms

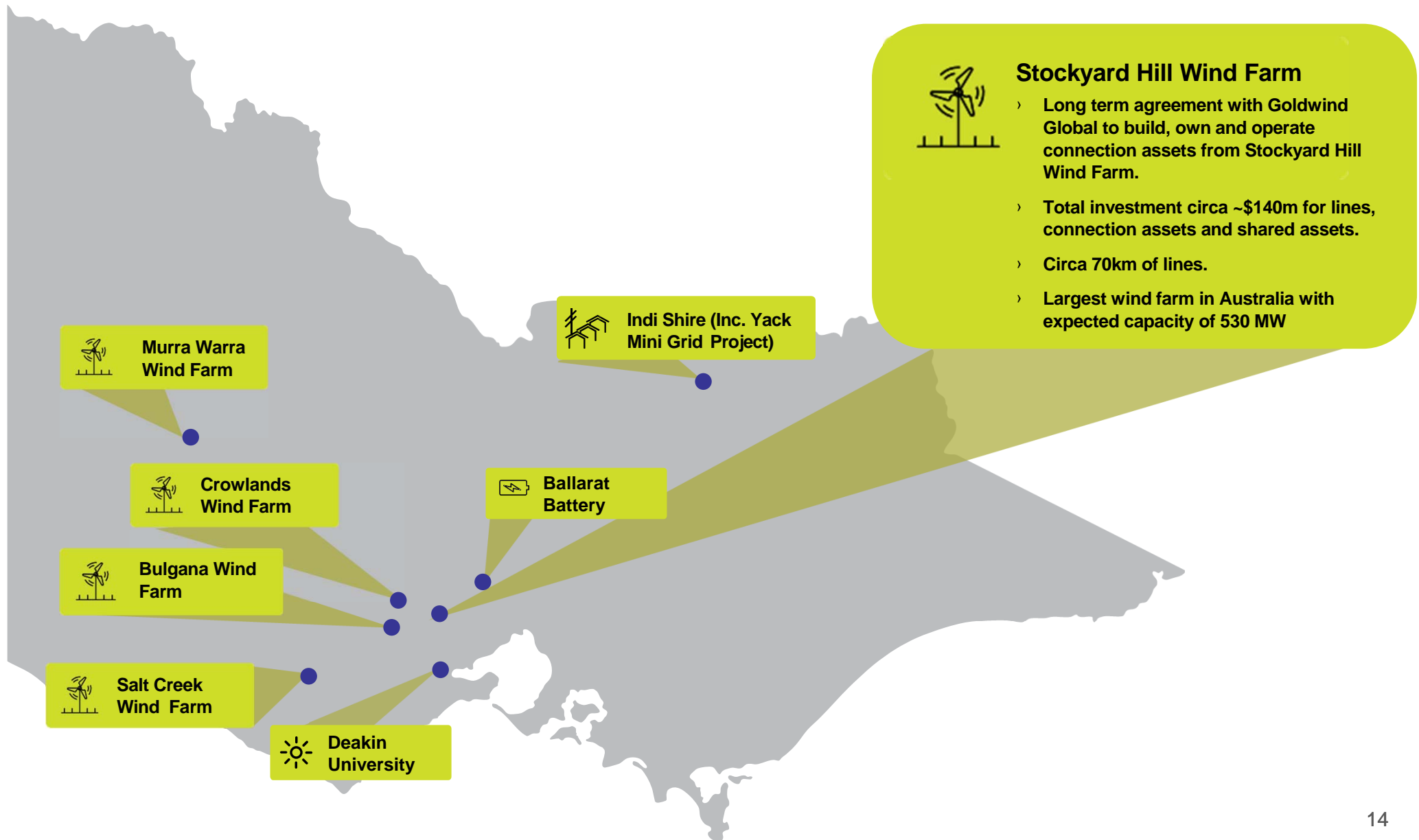
- ▶ AER Draft rate of return guideline disappointing. AusNet Services to work with the AER to provide further evidence to improve the guideline.
- ▶ Federal Government initiated AER investigation into the corporate tax allowance component of the regulatory building block model.
- ▶ COAG proposing to make the rate of return guideline binding on networks.

## Market Developments

- ▶ National Energy Guarantee (NEG) intended to support investment in renewable generation.
- ▶ AEMO's Integrated System Plan provides a roadmap for transmission investment nationally for the next 20 years.



# Commercial Energy Services



# Outlook

## Stability



- ▶ Inflation protected revenues, no regulated revenue resets until 1 Jan 2021
- ▶ Forecast Net Debt to Regulated and Contracted Asset Base of <70% to FY21

## Shareholder focus



- ▶ FY19 dividend guidance of 9.72cps, up 5%, expected to be franked around 40%-50% (subject to business conditions)
- ▶ Regulated Asset Base growth forecast at around 3.5% p.a. to FY21

## Focus 2021 strategy



- ▶ Targeting \$1bn of contracted energy infrastructure assets by FY21
- ▶ Operate all three core networks in the top quartile of efficiency benchmarks
- ▶ Underpinned by culture, capability and partnerships

## Further information and contacts

- ▶ AusNet Services is the largest diversified energy network business in Victoria, owning and operating \$12.5 billion of assets.
- ▶ The company owns and operates three regulated networks - electricity distribution, gas distribution and the state-wide electricity transmission network. The company also has a Commercial Energy Services division, focusing on unregulated opportunities, including contracted infrastructure, asset intelligence and energy services.
- ▶ Headquartered in Melbourne, Australia, AusNet Services employs 1,900 people to service 1.4 million customers and is listed on the Australian Securities Exchange (ASX: AST).
- ▶ For more information visit [www.ausnetservices.com.au](http://www.ausnetservices.com.au)

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