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Chairman’s Address and Remuneration Committee Chairman’s Address

The Chairman’s Address and the Remuneration Committee Chairman’s Address, to be given at today’s Annual General Meeting, are attached.

Susan Taylor
Company Secretary

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2015 CHAIRMAN'S ADDRESS

Mr Ng Kee Choe, Chairman, AusNet Services

Thank you for taking the time to attend this year's Annual General Meeting.

I would also like to take this opportunity to thank all shareholders for their continued support of the Company throughout the year.

The 2015 financial year was one of significant change. In August, "SP AusNet" was relaunched as "AusNet Services", following the sale by Singapore Power of 19.9% of its securities to State Grid International and the termination of the Management Services Agreement between AusNet Services and Singapore Power. The name "AusNet Services" was chosen to reflect both the continuity of our core business and our market position as a service delivery business.

More recently, in May this year, securityholders approved a simplification of the corporate structure of AusNet Services. Under the restructure, a new company called AusNet Services Ltd became the single head entity of AusNet Services in place of the existing triple stapled structure. We believe that this simpler, more efficient operating model will assist us to continue to deliver value to shareholders by reducing the administrative burden, providing greater certainty in relation to the tax position of the capital structure and improving the ability to distribute available franking credits.

In FY15, AusNet Services continued to deliver strong underlying results driven by a total revenue increase of 1.9 percent to $1.83 billion and an increase in Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) of 2.9 percent to $1.05 billion.

In May, we announced our full year results for the year ended 31 March 2015. NPAT was $22.6 million, which reflected a reduction compared to the previous year.

The NPAT variance to the prior corresponding period was principally due to the following one-off items:

- an impact of $183.3 million due to a binding agreement reached with the Australian Taxation Office (ATO) to settle all matters concerning the intra-group financing review and rights to future income issues;
- a recognition of $84.1 million of net exposure in relation to the Intellectual Property dispute with the ATO;
- charges of $60.6 million associated with the Advanced Metering Infrastructure (AMI) Program relating to a provision for customer rebates of $32.5 million and asset write-off of $28.1 million; and
- prior period inclusion of $57.7 million termination of the Management Services Agreement (MSA) and associated costs, performance fees in relation to the MSA of $22.2 million and $86.7 million recognition of amounts potentially payable under the Section 163AA ATO impost dispute.

Adjusted EBITDA, including the $28.1 million AMI asset write-off, decreased by 1.6 percent to $1.08 billion and adjusted NPAT decreased by 2.5 percent to $312.8 million.

AusNet Services paid shareholders a final distribution of 4.18 cents per share, delivering on the full year distribution guidance of 8.36 cents per security. This final distribution was 60% franked, made possible by the corporate restructure and simplification that I mentioned earlier. The 12 month total securityholder return to 31 March 2015 was 18.5 percent. An increase of 1.5 percent on the prior year.

We continue to exercise financial prudence, maintaining a well diversified debt portfolio by maturity and source. We are rated A3 by Moodys and A- by S&P, reflecting our strong underlying financial position and allowing us ready access to debt market in Australian and offshore.

New South Wales Electricity Assets

As was recently reported, AusNet Services has lodged an expression of interest for participation in the privatisation of TransGrid, the New South Wales power transmission company. We see this as a strategic investment for AusNet Services, which will yield synergies of scale. This will increase value for both businesses within the regulated industry framework.

The privatisation process in New South Wales is in its very early stages. Like all transactions of this kind involving a State government, there are strict confidentiality obligations to which we must adhere. However, we will keep the market appropriately informed of key information about our participation in the process when we are able to do so.

Bushfire Update

In February this year, AusNet Services and the other parties to the Murrindindi Bushfire Class Action agreed to settle the proceeding. The settlement was without admission of liability by AusNet Services or any other party.

The events of Black Saturday had tragic consequences, and AusNet Services continues to extend its deepest sympathies to those affected. AusNet Services was a defendant in three separate class actions arising from those events, all of which have now been concluded.

AusNet Services endeavoured to conduct its defence in each case in a manner to avoid adding to the group members' pain, while necessarily seeking to demonstrate that it managed its network competently and efficiently, and in the interests of those who rely on electricity, and the community more generally.

AusNet Services maintains that there was no negligence on its part which caused, or contributed to, the Murrindindi bushfire, nor any of the other Black Saturday fires.

I can confirm that AusNet Services' contributions and costs in all three class action settlements arising from the Black Saturday bushfires have been, or will be, paid by its liability insurers under the insurance cover available to the Company for the events of Black Saturday. AusNet Services reviews its insurance cover annually and ensures it is commensurate with the scale and size of its operations, the risks assessed to be associated with its operations and with industry standards and practice.

AusNet Services remains a party to two smaller bushfire class actions which relate to fires which occurred in February 2014. AusNet Services intends to vigorously defend these claims. AusNet Services strongly holds the belief that it has consistently complied with its regulatory obligations, including throughout the period in which the 2014 fires occurred.

Taxation Matters

In March 2015, AusNet Services and the ATO executed a settlement deed to settle all matters concerning intra-group financing arrangements and rights to future income issues. The impact of this settlement was:

- a $25 million payment to the ATO on 9 April 2015;
- cancellation of $506.5 million of carried-forward tax losses. Of this, $393.2 million were previously recognised in the statement of financial position and as such have been written off; and
- the cessation of interest deductions in respect of AusNet Services Finance Trust loans from 1 April 2014.

While this settlement provides tax certainty with the ATO, concluding all audit activity for the years up to and including 31 March 2014, AusNet Services presently has two significant unresolved issues with the ATO. These are:

- Intellectual Property – deductions claimed in respect of intellectual property (specifically, copyright) in the 2001 to 2010 income years; and
- Section 163AA impost – deductions claimed in the 1999 to 2001 tax years in respect of licence fees imposed under Section 163AA of the Electricity Industry Act.

Intellectual Property

In relation to the Intellectual Property matter, in March 2014, the Federal Court found in favour of AusNet Services. The ATO filed an appeal against the judgment and, in May 2015, the Full Court of the Federal Court of Australia allowed the ATO appeal in respect of the pre-tax consolidation years (1998 to October 2005). AusNet Services has sought leave to appeal this decision, and we will update the market when it is known whether an appeal can proceed.

The Federal Court's decision to remit the $2.3 million penalty imposed in respect of this period was not overturned. In relation to the post tax consolidation years (October 2005 to 2010), the Full Court ordered that the matter be remitted back to the primary judge of the Federal Court for further hearing and determination.

In light of this judgment from the Full Court, and the significant uncertainty that has arisen, AusNet Services has recognised an $84.1 million tax charge for the year ended 31 March 2015. This represents the net exposure of the total dispute, after taking into account the deductibility of the interest component and excluding the $2.3 million of penalties.

Section 163AA impost

In April 2014, the Full Court of the Federal Court of Australia delivered judgment against AusNet Services in an appeal against disputed tax amended assessments relating to deductions claimed for amounts imposed under Section 163AA of the Electricity Industry Act.

On 9 April 2015 an appeal was heard by the High Court of Australia and a decision is expected soon. We will update the market when the decision is handed down.

Further details regarding these matters are contained in Note 23 of the AusNet Services Distribution financial statements for the year ended 31 March 2015.

AMI Program

The most significant challenge for AusNet Services remains the delivery of the AMI Program. AMI has had a negative impact on AusNet Services' financial results through the recognition of customer rebates and asset write-offs, as well as additional spend required to deliver a compliant metering system.

In September 2014, AusNet Services announced that a technical review of the solution had been completed and a plan had been developed to stabilise the existing end-to-end metering system and to complete the network coverage. AusNet Services believes that this approach is prudent and will yield a workable and cost-effective solution on an ongoing basis.

AusNet Services still expects to complete work on its core systems by the end of 2016, although it is anticipated that some meters will not be converted to remotely provide meter data to market until early 2017.

Nino will address this topic in more detail shortly.

Election & Retirement of Directors

As foreshadowed at the 2014 AGM, Mr Ian Renard will retire as a Director of AusNet Services at the conclusion of today's meeting.

Mr Renard has been a Director of AusNet Services since its listing in 2005. AusNet Services has benefitted extensively from his counsel and contributions, particularly as Chairman of the Bushfire Litigation Committee. I would like, on behalf of shareholders and the Board, to express our deep appreciation to Ian for his many years of dedicated service to AusNet Services. Please join me in thanking him and wishing him abundant good health and happiness in the years ahead.

Ian's advance notice of his retirement allowed a good lead time to conduct a search for a suitable candidate to join the Board as Ian's replacement and I am pleased to welcome Mr Robert Milliner to the meeting today. Your vote on Mr Milliner's appointment will be conducted shortly. Mr Milliner is a Senior Adviser, International Affairs at Wesfarmers Limited, Senior Adviser at UBS and Senior Adviser to the ICC Secretary General. He is also Chairman of the Board of the Foundation for Young Australians and a director of the Australian Charities Fund. From 2004 to 2011 he was Chief Executive Partner of law firm Mallesons Stephen Jaques (now King & Wood Mallesons). He retired from Mallesons in January 2012 after 28 years as a partner. He would be a valuable addition to the AusNet Services Board.

[Note that supportive words relating to re-election of HTY and TI will be said prior to taking the vote on those matters and not here in the Chairman's address.]

Conclusion

AusNet Services remains committed to the safe, efficient and reliable delivery of electricity and gas to more than 1.3 million residential and business customers across Victoria. The Company continues to be a stable and secure investment for shareholders as it pursues growth opportunities in regulated as well as unregulated businesses.

I will now hand you over to our Managing Director, Nino Ficca, to provide an insight into AusNet Services' operations.

Thank you, once again, for your support.

Remuneration Speech
AusNet Services Annual General Meeting 2015
Mr Ian Renard, Chairman – Remuneration Committee

Good morning.

The Remuneration Committee is responsible for reviewing and recommending to the Board the remuneration policy, strategy, and structure for AusNet Services' Board, the Managing Director, and senior executives. In so doing, it seeks external, independent advice and information from its appointed advisor regarding market practice, remuneration structure and competitive analysis of the executive market.

Our remuneration philosophy and strategy is designed to:

- attract and retain top-class Board and executive talent;
- create a high-performance culture by driving and rewarding executives for the achievement of the company's strategy and business objectives; and
- link incentives to the creation of security holder value.

In summary, AusNet Services' remuneration strategy is intended to align directly with security holders' interests.

Fixed Pay is set following market comparison for jobs of comparable complexity, impact and scale. The Board conducted a fixed pay review with effect from 1 April 2014, with the Managing Director receiving a 4.5 percent adjustment in fixed remuneration in consideration of his performance and market positioning.

Other Key Management personnel received adjustments in their fixed remuneration, also consistent with their performance in roles over the performance period.

Short-term incentives, including individual performance requirements, are based on stretch targets that ensure executives' remuneration is linked directly to the business strategy. Payments are linked to financial and non-financial performance measures.

At the corporate level, performance against the Key Performance Indicators for the year ended 31 March 2015 delivered a payout at 56.2 percent of target, which was below the prior year outcome of 80 percent. This outcome was impacted by lower than target performance in six areas: Safety, Earnings (measured before interest, tax or depreciation), Return on Equity, the Advanced Metering Infrastructure Program, Duration of Unplanned interruptions to Electricity Supply, and Turnover of Talent.

In brief, the reasons for failing to meet those targets are as follows:
In relation to safety, the business had set a target for a 20 percent improvement in its Recordable Injury Frequency Rate for the year, aligned to the long-term missionZero safety program objective to deliver 'best in class' safety performance. Regrettably, the safety performance did not improve, but was in line with the prior year – namely, a Recordable Injury Frequency Rate outcome of 6.7.

In relation to Earnings, the outcome was impacted by unbudgeted Advanced Metering Infrastructure rebates and write-offs and unbudgeted charges associated with the closure of the Point Henry smelter.

In relation to Return on Equity, the outcome was impacted by the matters I have already mentioned, together with charges recognised for the settlement with the Australian Taxation Office and the adverse Full Federal Court Decision on the Intellectual Property dispute with the ATO.

The Advanced Metering Infrastructure program did not meet its target due to difficulties previously advised to the market associated with completion of the program roll-out.

The Turnover of Talent target was narrowly missed, with an increase in employee turnover during the past year, despite concerted Management efforts to retain key talent.

The electricity supply target failed to meet the level required for payment, largely due to an unusually large number of major storm events.

Long-term incentives will only reward executives if performance measures for relative Total Security holder Return and/or earnings per security growth are met. The vesting schedule is designed to assess performance and deliver the rewards at the end of the three-year performance period.

The current LTI plan does not allow for retesting of performance measures in subsequent years. Executives must also invest the after-tax long-term incentive payments in AusNet Services shares, and hold them for a further year. This is the seventh year when our LTI scheme has paid out to executives.

For the period 1 April 2012 to 31 March 2015, our shareholder return achieved a percentile ranking of 62.3.

AusNet Services Earnings per Security compound annual growth, covering the same three year period, achieved a negative return of 58%, influenced by adverse court decisions in litigation with the Tax Office, the Tax Settlement, the Advanced Metering Infrastructure program and the May 2012 Entitlement Offer which increased the number of securities on issue. Consequently, there was no vesting for the Earnings per Security component of the 2012 Long Term Incentive Award.

The net result was that, for participating executives, other than the Managing Director, 33.5 percent of the LTI Plan target vested for the period 2012-2015.

For the Managing Director, his 2012 LTI Plan invitation carried a target opportunity of 100 percent of Fixed Annual Reward. This was based on four Key Performance Indicators of:

- Total Security Holder Return and Earnings Per Security, each accounting for 37.5 percent of his target; and
- Interest Cover Ratio and Return on Invested Capital, each accounting for 12.5 percent of his target.

As for other executives, the Managing Director's Total Securityholder Return target was achieved, whereas his Earnings Per Securityholder target was not met. A maximum vesting of 15.25 percent was achieved on his Interest Cover Ratio target and a zero vesting outcome achieved on his Return on Invested capital target. Overall, the Managing Director achieved a 40.7 percent vesting of his LTI Plan target for the 2012-2015 period.

As noted in the Remuneration Report, AusNet Services has recently adopted a new equity based long-term incentive plan, to operate for offers made to employees from 1 April 2015.

Shareholders will be aware that an item appears in the notice of Meeting seeking approval for the 2015 Invitation to be issued to the Managing Director. As the new Long Term Incentive Plan is a Share Rights based plan involving "on market" purchase and allocation of vested Share Rights (and not the allotment of new shares), such approval is not strictly necessary – but it is being sought on a voluntary basis in the interests of good governance.

The Board retains absolute discretion to vary or withhold payments made to executives under the Company's Short Term Incentive and Long Term incentive program, although we did not use that discretion during the past year.

While incentive outcomes for the past two years have been heavily impacted by ATO-related matters that relate to a time that pre-dated the current Management team, the Remuneration Committee and Board took the view that as these matters had impacted securityholder returns, it was also appropriate that the impacts be reflected in executive pay outcomes.

However, the Board has also acknowledged that should AusNet Services achieve a positive outcome in its financial performance resulting from successful appeals in relation to the taxation disputes or from the net tax effect of the recent company restructure, these benefits would also flow through to shareholders and therefore employee incentive outcomes.

What then, in summary, is the net effect of all these outcomes on the Managing Director's total remuneration? Mr Ficca is rewarded for the role he plays in developing the business strategy, and in guiding and driving business outcomes agreed with the Board.

As you will see from the Remuneration Report, his total reportable remuneration for the year ended 31 March 2015 was just under $1.7 million. This represents a 17.5 percent decrease on the reported figure for 2014, due to a lower payout for his Short term Incentive Plan and a lower recognised value of his LTI Plan benefits.

I must emphasise that Reportable Remuneration is different to 'take home' pay and takes into consideration accounting valuations for current and historical Long Term Incentive grants that may or may not ultimately vest.

In conclusion, and as the Chairman has already mentioned, after ten years as a member of the Board, I will be retiring effective from the end of today's Annual General Meeting. I wish to extend my thanks to Shareholders, my fellow Board members, but most particularly to the Senior Executive team and employees of AusNet Services for their support and unwavering commitment to the delivery of effective business outcomes, guided at all times by AusNet Services' values and corporate governance principles.

I commend the report to you.

Thank you.