

ASX & SGX-ST Release



20 July 2017

TO: ASX Limited
Singapore Exchange Securities Trading Limited

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



2017 CHAIRMAN'S ADDRESS

Mr Peter Mason AM, Chairman, AusNet Services

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

During my first 12 months as Chairman, we have seen the energy market emerge as a central focus for our country.

Our company was already responding to changes to how electricity is generated and consumed, as more renewable and distributed energy such as solar and batteries are combined with traditional generation.

However, since the South Australian blackout in September last year and this year's closure of Hazelwood power station, the national debate has shifted to security and reliability as well as affordability.

As a result, our industry is understandably experiencing greater intervention from policy and lawmakers.

Last month, a report by Australia's Chief Scientist Dr Alan Finkel into the future security of the National Electricity Market was released.

Its key objective was to provide recommendations to government on how best to tackle issues of reliability, affordability and address the transition to a low carbon economy.

As part of our increased focus on advocacy, we put forward our views during the review process on what we believe needs to be done to reform the market. We will continue to work constructively with State and Federal Governments on what recommendations to accept and how to implement them.

Consumers need access to affordable, reliable and sustainable energy. To do this, we need a consistent, collaborative and long term approach to climate and energy policy.

We continue to view the Finkel Review as a once-in-a-generation opportunity to facilitate political consensus and put the policy framework in place to support the future of Australia's electricity system.

Political and ideological debate will not keep the lights on, reduce carbon emissions or drive down prices.

We want the community to have confidence in our industry and government's ability to address what are crucial issues that underpin our economy.

It is up to governments and the industry to make the difficult decisions that will, in the long run, benefit Australians.

We are working through what this report means for our business and the broader industry.

All industry stakeholders, including ourselves, have a role to play in making sure our electricity and gas markets are keeping up with what customers want and need.

Focus 2021 Strategy

Our Focus 2021 strategy is allowing our company to respond to the rapid changes happening in the external environment such as technological advancements, shifting customer expectations and changing roles and responsibilities in the energy market.

This strategy was launched in April last year.

Our strategy's central objective is to deliver sustainable returns for our shareholders through investment in our regulated and contracted asset base and an emphasis on cost management.

We have set targets to operate all three networks in the top quarter of industry efficiency benchmarks.

In 2017, we realised \$47m of efficiency benefits.

We recognise that we need to do more, and we are fully committed to identify and execute programs that have the greatest capacity to deliver results for shareholders.

On growth, our target is to grow the contracted asset base to \$1 billion by 2021.

In June last year, we purchased the Mortlake Terminal Station from Origin Energy for \$116m. AusNet Services has operated and maintained the terminal station on behalf of Origin Energy since its commissioning in 2011.

Providing infrastructure services such as these, which are closely aligned to our core capabilities and generating attractive long-term returns, is an exciting opportunity.

Shareholder returns

This year, we delivered sound financial performance. We have increased cash flow from operations and returns to our shareholders.

In May, Directors approved a final 2017 dividend of 5.4 cents per share, comprising a final ordinary dividend of 4.4 cents and a 1 cent special dividend.

The special dividend arose as a result of lower than expected income tax payable for the 2017 year.

Total dividends for the full year amounted to 9.8 cents, which represents a 3.2 per cent increase, excluding the special dividend.

Our 12 month Total Shareholder Returns to 31 March 2017 was 21 per cent, compared to 8 per cent in the previous year.

Net Profit After Tax (NPAT) was \$255.1 million, down 47.9 per cent. This decline, primarily relates to one-off tax benefits recognised in 2016, associated with the corporate restructure and completion of Australian Tax Office disputes and the impact of the new Electricity Distribution Price Review.

At an operating level, EBITDA was \$1,073 million, down 6.1%. This metric is more reflective of the underlying performance of the business.

Cash flow from operations was \$743 million, up 4.6% from \$710 million in 2016.

Board Governance

Since our AGM last year, we reviewed and consequently made some changes to the composition of the Board and membership of the Board committees.

In November, the Board welcomed Dr Nora Scheinkestel as an Independent Non-Executive Director.

Dr Scheinkestel brings more than 20 years' experience as a company director across a number of sectors including the utility sector.

As previously advised, Non-Executive Director, Ms Tina McMeckan is not seeking re-election and will retire from the Board at the end of this meeting.

On behalf of the Board, I would like to express my gratitude for Ms McMeckan's significant contribution and commitment to our business.

Following Ms McMeckan's retirement, if elected today, Dr Scheinkestel will assume the role of Chairman of the Audit and Risk Management Committee. In addition, if re-elected today, Ms Sally Farrier will become a member of the Audit and Risk Management Committee. These appointments will ensure that the Committee continues to comprise of a majority of independent non-executive directors, in line with ASX good governance principles.

Conclusion

During the next 12 months, we will continue to see debate on the future of the electricity and gas market.

We will be part of this debate. We need to ensure we get the right outcome for our customers, community and shareholders.

Importantly, we will remain focused on the safe, efficient and reliable delivery of electricity and gas to homes and businesses across Victoria.

We want to lead network transformation, grow our commercial energy services business, generate trust and respect with customers and partners, and drive efficiency and effectiveness.

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

AusNet Services Ltd Annual General Meeting

20 July 2017



missionzero

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Chairman's address

Peter Mason AM

Managing Director's address

Nino Ficca

Safety Mission & Performance

▶ About missionZero

- › Symbolises our safety vision and values. When it comes to the safety of our people our target is ZERO injuries
- › Strategy focused on strong safety leadership and safe behaviour, creation of safe work environments and improved systems and measurement.

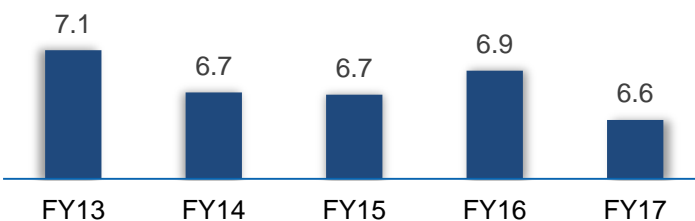
▶ **FY17 Recordable Injury Frequency Rate (RIFR) = 6.59, lowest on record**

▶ Prevention activities define performance:

- › Critical Risk Statement development
- › >33,000 missionZero conversations
- › >500 people complete missionZero training programs
- › 33% reduction in >10 day injuries from 12 to 8.



**mission
zero**



Our People



- ▶ Focus on a strong and agile workforce and delivery partner network to respond to our changing environment
- ▶ Reviewed and refreshed performance and development framework
- ▶ Second phase of 'Switched On' Leadership program rolled out to 350 leaders
- ▶ 21% of women in workforce, women hired in more than half of all vacant roles
- ▶ Launched 'Women in Geospatial Science' Scholarship program and continued 'Women in Power Engineering' Scholarships.
- ▶ **New 2022 gender diversity targets:**
 - › 30% of women in the workplace;
 - › 40% of women in senior management; and
 - › 25% of women in engineering roles.

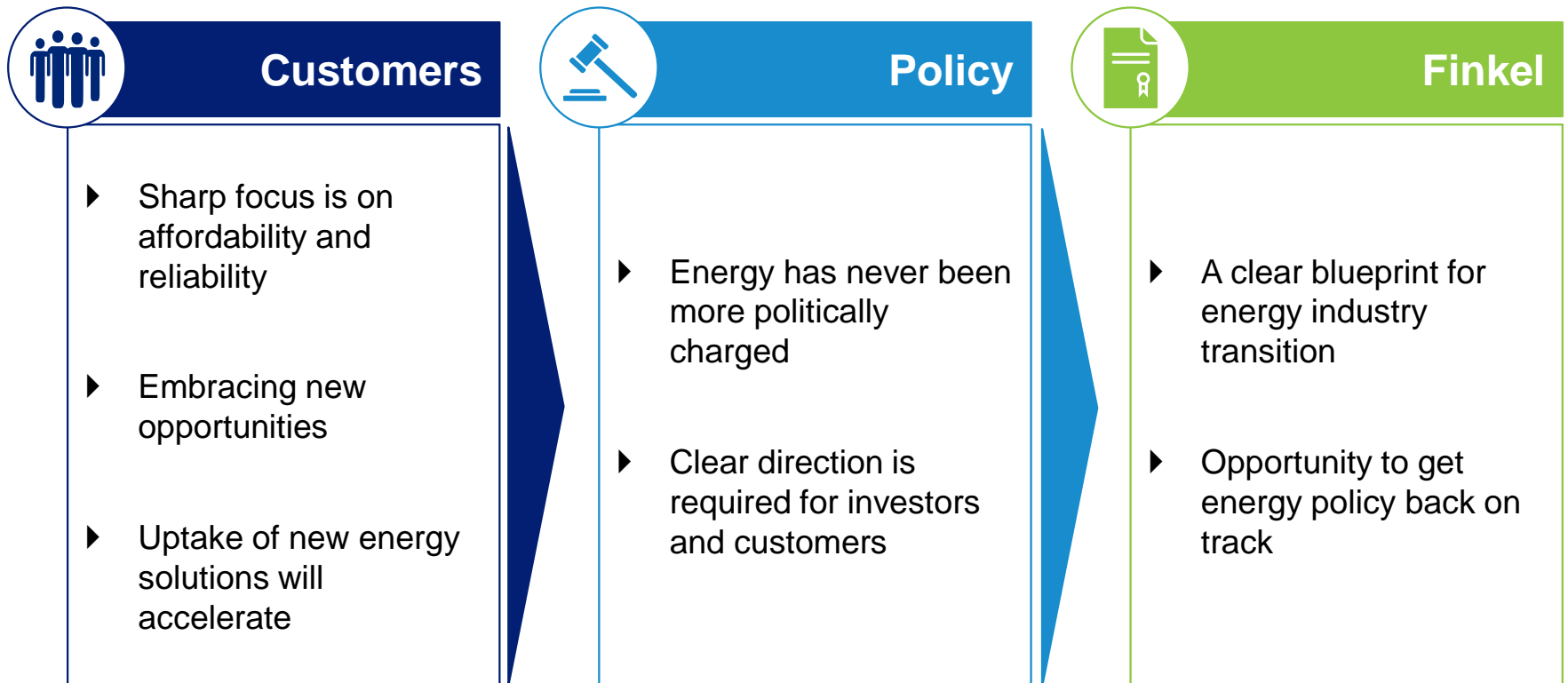
Our Customers

Empowering communities and their energy future



- ▶ Connected 28,919 new electricity and gas customers
- ▶ Established a Customer Consultative Committee
- ▶ Launched Outage Tracker and new website
- ▶ Created a Customer Services Hub
- ▶ Significant improvement in key customer service measures, including a 53% decrease in planned outage complaints.

A once in a generation opportunity for the Energy Market



AusNet Services' strategy is to lead network transformation

Window to the future - Network modernisation



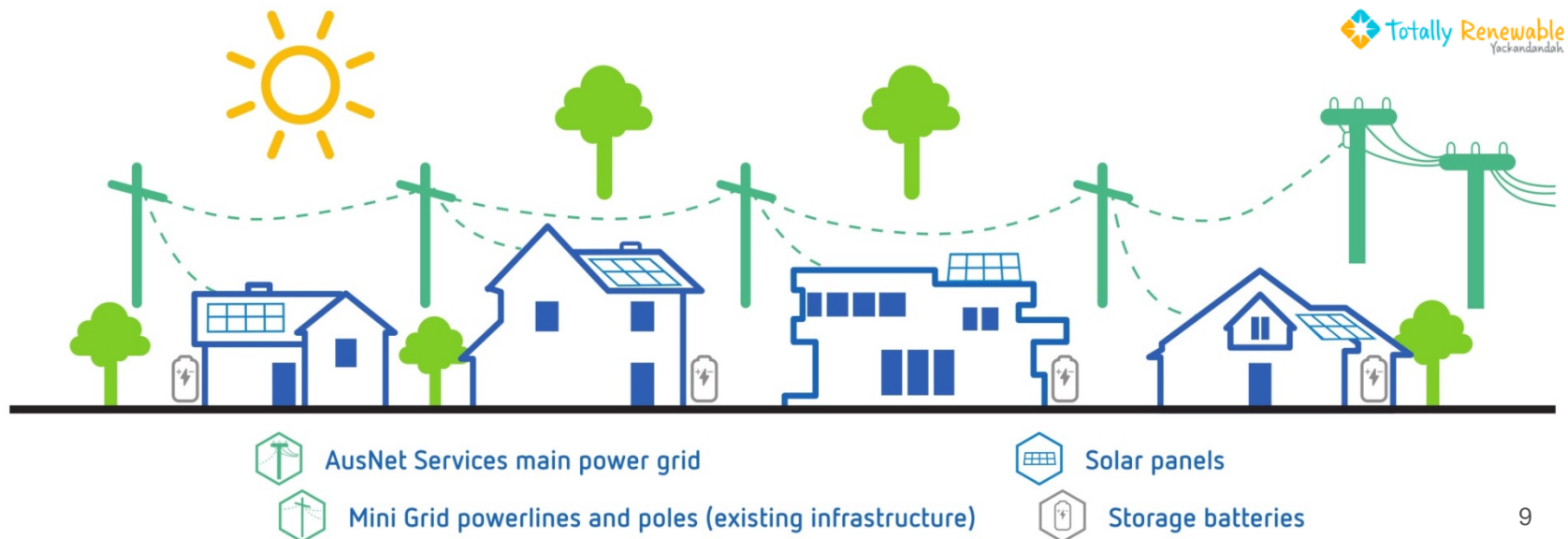
Mini Grid Projects

► Mooroolbark

- › 14 co-located grid connected homes equipped with solar panels, battery storage, energy portfolio management systems and a customer web-portal
- › Individual participants capture, store and optimise the use of both solar and grid energy and have the ability to operate with other participants or being either grid connected or temporarily islanded during network outages
- › In March 2017, we successfully separated and re-integrated the Mooroolbark mini grid to and from the main grid.

► Yackandandah

- › Partnering with Totally Renewable Yackandandah, supporting their vision of becoming 100% renewable.



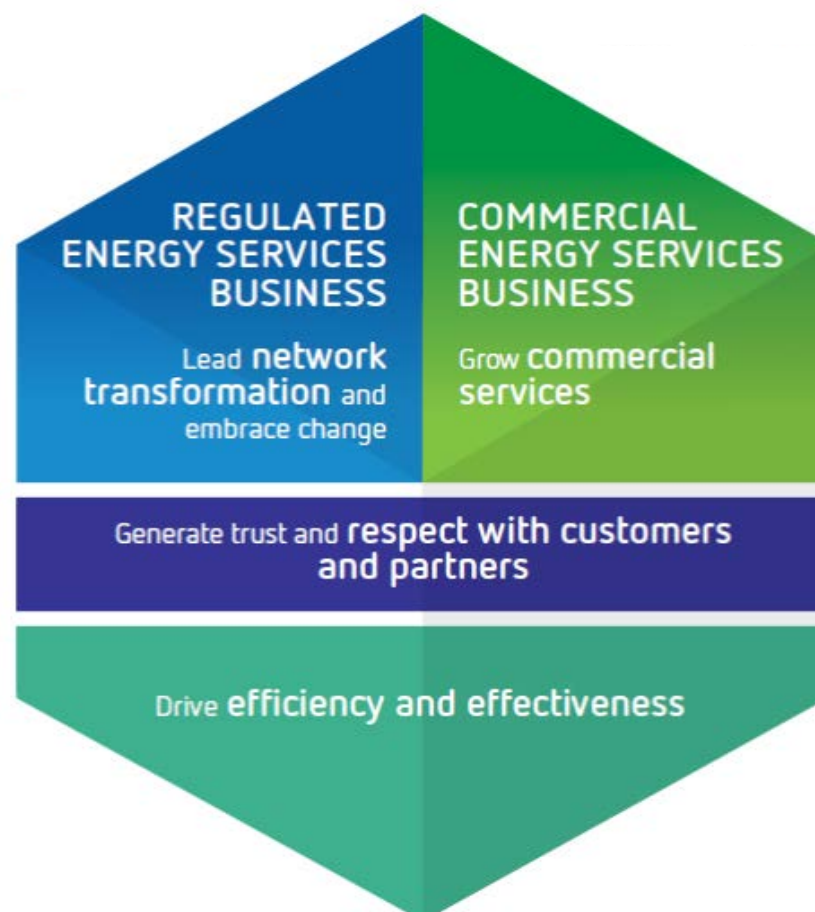
Focus 2021

FY17 was year one of our five year plan

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

Focus 2021 targets:

- ▶ Operate all three core networks in the top quartile of efficiency benchmarks
- ▶ Grow our:
 - › contracted energy infrastructure asset base to \$1bn
 - › specialist services to essential infrastructure operators.



Productivity & Efficiency

Realised \$47m of efficiency benefits (capex / opex) in FY17

Cost reduction levers



Contracted Infrastructure Growth

Opportunity Pipeline >2,300 MW



Investment Criteria

Term	A useful life of 10+ years
Counterparty	Credible and Long Term
Investment Priorities	Capitalise on AusNet Services' core expertise
	Secure attractive returns with stable, long-term cash flows
	Seek strategic partnerships with aligned values
	A focus on renewable technology and HV assets
	A focus on geographical spread of assets across the NEM
Recent Investments	Secured an agreement with Tilt Renewables to develop a new transmission line (\$22m) for the 54 MW Salt Creek Wind Farm project in western Victoria



Investment Proposition & FY17 Highlights

Stable and predictable

- ▶ ~85% of total revenues are regulated and inflation-protected
- ▶ 100% control, own and operate asset base, through simple and transparent structure
- ▶ Long-term maintenance of A-range credit rating, underpinned by prudent and sustainable financial settings
- ▶ ~70% of total revenues locked-in until FY20 under current regulatory determinations.

Shareholder returns

- ▶ 12-month total shareholder returns of 21% to 31 March 2017 (8% to 31 March 2016)
- ▶ Approved 1cps special final FY17 dividend, as a result of lower than expected income tax payable
- ▶ FY17 dividend growth of 3%, excluding special dividend
- ▶ FY18 dividend growth guidance of 5% (based on FY17 dividend of 8.80cps), subject to business conditions.

Asset base growth

- ▶ \$8.8bn Regulated Asset Base, forecast growth of 3% p.a. to FY20
- ▶ \$0.54bn Contracted Asset Base, targeting \$1bn by FY21
- ▶ Asset Base represents critical energy delivery infrastructure in the National Electricity Market (NEM).

Operational outperformance

- ▶ Electricity Transmission and Gas Distribution networks currently efficient
- ▶ Targeting top-quartile performance for Electricity Distribution by FY20
- ▶ Realised \$47m in efficiency benefits in FY17 (capex/opex)
- ▶ Outperforming network safety and reliability targets.

Financial Performance

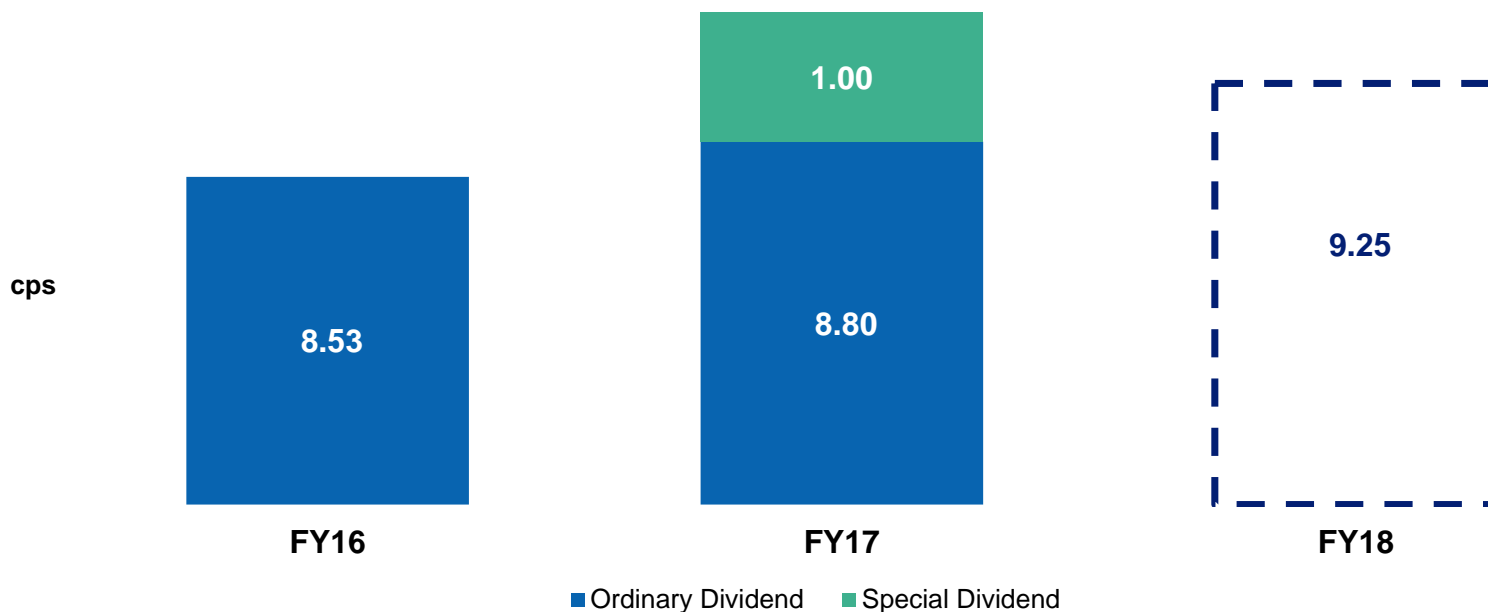


- ▶ Revenues impacted by EDPR 2016-20 WACC reset
- ▶ Lower statutory NPAT driven by one-off benefits in prior year (Restructure and ATO Settlement)
- ▶ A number of items impacted costs during the year:
 - › October storm (\$11m)
 - › IT asset write-off (\$9m)
 - › IT and BPO outsourcing costs (\$17m)
- ▶ Cash flow from operations up due to lower cash tax (↓\$92m) and lower net finance costs (↓\$12m).

A\$M	FY 2017	FY 2016	Variance
Statutory Result			
Revenues	1,881.5	1,919.0	-2.0%
EBITDA	1,073.3	1,142.5	-6.1%
EBIT	647.4	750.2	-13.7%
PBT	363.3	457.9	-20.7%
NPAT	255.1	489.3	-47.9%
Cash flow from operations	742.8	710.0	4.6%
Adjusted NPAT	255.1	326.2	-21.8%
Ordinary dividends (cps)	8.80	8.53	3.2%
Special dividend (cps)	1.00	0.00	100%

Dividends

- ▶ FY17 ordinary dividends of **8.80cps**, comprising:
 - › 4.4cps interim dividend (50% franked)
 - › 4.4cps final dividend (unfranked)
- ▶ FY17 special dividend of **1.0cps** (unfranked), as a result of lower than expected income tax payable
- ▶ DRP in operation for final FY17 dividend (ordinary and special), at **0%** discount
- ▶ FY18 dividend guidance of **9.25cps up 5% on 8.80cps**, subject to business conditions
- ▶ FY18 dividend expected to be unfranked, based on estimated net income tax payable.



Sound Fundamentals



Financial Metrics	31-Mar-17	31-Mar-16
Market Capitalisation	\$6.1bn	\$5.3bn
Total Assets	\$11.8bn	\$11.7bn
Regulated / Contracted Asset Base	\$9.4bn	\$8.9bn
Total Borrowings	\$6.7bn	\$6.9bn
Net Debt ¹	\$6.3bn	\$6.5bn
Net Gearing (CV) ²	63%	64%
Net Debt (FV) to Regulated / Contracted Asset Base ³	68%	67%
Interest Cover ⁴	3.2x	3.0x
Credit Ratings (S&P / Moody's)	A- / A3	A- / A3

Note

1. Net debt is debt at carrying value. Includes full amount of \$A706m in Hybrids, despite receiving 50% equity credit.
2. Calculated as net debt at carrying value divided by net debt at carrying value plus equity.
3. Debt at face value less cash divided by Regulated / Contracted Asset Base. Demonstrates how AusNet Services funds its capex in terms of debt vs. income generating assets. Includes full amount of \$A706m in Hybrids, despite receiving 50% equity credit.
4. Calculated as EBITDA less customer contributions and tax paid, divided by net interest expense (including return on desalination licence receivable). This is how interest cover is measured for internal management purposes, as it provides an accurate reflection of how after-tax operating cash flows are used to meet interest payments. Includes full amount of \$A706m in Hybrids, despite receiving 50% equity credit.

Outlook



- During this time of unprecedented change in the energy sector, we will continue to work with policy makers to ensure our critical infrastructure assets can continue to deliver secure, sustainable and affordable energy to our customers
- FY18 dividend guidance of 9.25cps up 5% on 8.80cps, subject to business conditions. FY18 dividend expected to be unfranked, based on estimated net income tax payable
- Forecast net debt to Regulated and Contracted Asset Base of <70% to FY20
- Regulated Asset Base growth forecast at around 3% p.a. to FY20
- Build a portfolio of high performing and sustainable regulated and contracted energy infrastructure businesses
- Targeting \$1bn of contracted energy infrastructure assets by FY21
- Targeting top quartile of efficiency benchmarks for all three core networks.