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SP AusNet
Level 31
2 Southbank Boulevard
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Date of lodgement: 24-May-2007

Title: Open Briefing®. SP AusNet. MD & CFO on FY 07 Results

Record of interview:

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SP AusNet today announced net profit after tax for its continuing operations of $161.2 million for the year ended 31 March 2007, compared with a prospectus forecast of A$156.2 million. Compared with the forecast, revenues were $21.6 million higher and net finance charges $6.5 million lower, offsetting the negative impact of a $10.7 million legal claim and $10.8 million higher than forecast operating costs and depreciation. How sustainable are the higher revenues and how do you reconcile the full-year cost outcome with the reported cost savings achieved in the first half?

CFO Geoff Nicholson
The $21.6 million higher than forecast revenue can be split into two parts: recurring revenue of around $6.2 million and non-recurring revenue of around $15.5 million. The non-recurring revenue included $5 million from the impact of favourable weather and price-volume mix on our electricity distribution network in the second half of the year. Additional operations and maintenance work at the third-party owned Rowville Transmission Facility (RTF) and additional transmission use-of-system revenue recovery together contributed around $9 million in one-off revenue.

At the half-year, we reported that operating costs were $7.1 million less than forecast, excluding the legal provision. The movement from the half year can be attributed to a number of significant one-offs incurred in the second half. They include additional operational costs of approximately $5 million to achieve the one-off increase in the RTF revenue, around $5 million in additional grid-fee costs, around $4 million relating to our operational restructure and additional environmental rehabilitation costs of approximately $2 million at some of our regional sites.

We worked hard to contain our controllable operating costs and despite these unexpected costs arising, we're very pleased to have delivered a full-year net profit from continuing operations that was 3.2 percent above the prospectus forecast.

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SP AusNet announced a final distribution of 5.635 Australian cents, bringing the full-year 2007 distribution to 11.27 cents, as forecast in the prospectus. You expect to deliver growth in distributions of around 2.5 percent, implying a distribution of around 11.55 cents in the current year ending March 2008. Is this an indication you expect cash flow to grow by 2.5 percent? What will be the key drivers of distribution growth in the current year?

MD Nino Ficca
Our aim is to deliver sustainable and stable distribution growth to securityholders, and we're very pleased to have delivered the 2007 full-year distribution in line with our prospectus forecast. Our continued focus on organic growth and meeting customer demand from new connections to our networks will deliver strong growth in our regulated asset base (RAB) of around 7 percent this year. Growth in our RAB ultimately leads to growth in regulated revenues, thereby increasing the earnings of our business and delivering additional securityholder value.

On top of the organic growth, we're also increasing our focus on unregulated revenues. We'd expect, over time, to see both these growth avenues contribute to improved cash flows. Our aim is to ensure we continue to generate earnings and cash flow that will provide a stable and predictable stream of distributions to our securityholders.

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The 2007 distribution comprises a 7.163 cent tax deferred capital return, an interest payment of 3.093 cents and a fully franked dividend of 1.014 cents. What is the expected make-up of the distribution in future years and is it your intention to maintain the capital return component at over 60 percent of the total?

CFO Geoff Nicholson
The stapled structure of our securities enables us to deliver tax efficient distributions to both Australian and Singapore investors. The tax deferred component of the 2007 distribution represents 64 percent of the total and ensures our yield is very attractive to retail investors.

The capital return component represents repayment of inter-company loans by SP Australia Networks (Distribution) Limited and SP Australia Networks (Transmission) Limited to SP Australia Networks (Finance) Trust. The inter-company loan balance at the end of March 2007 was $2 billion, and the capital return component of the 2007 full-year distribution is $150 million. On this basis, we'd be able to continue making returns of capital at current levels for quite some time.

It should be noted that where possible, we'll aim to increase the fully franked component of our distributions. At the moment, only SP Australia Networks (Transmission) is in a tax paying position. When SP Australia Networks (Distribution) becomes a tax paying entity in the next few years, we may be able to deliver additional fully franked dividends.

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You've indicated that you've submitted initial proposals to the regulators in relation to the upcoming revenue resets of your gas distribution network and electricity transmission network, which are scheduled for January 2008 and April 2008 respectively. Can you comment on your capex and operating expenditure proposals for the new five-year regulatory periods?

MD Nino Ficca
Our regulatory team has worked tirelessly to submit detailed proposals to the regulators in accordance with the required timetables. We'll continue to work with the regulators over the next six months to achieve a satisfactory outcome from the resets.

In both the gas distribution and electricity transmission businesses, spending has been above the customer initiated capital allowances set out for the current regulatory periods due to increased customer demand for new gas connections and requested augmentations to the transmission network. We expect to see this customer demand continue during the next regulatory period and as such, the proposals include increases in capital expenditure allowances on both networks.

With respect to network operating costs, we've achieved operating efficiencies through the merger of our transmission and distribution businesses. These efficiencies are reflected in our submissions, with underlying operating costs forecast to remain relatively stable. We expect to incur a step change in wage increases over the course of the next regulatory period but overall the submissions propose positive outcomes for both customers and network reliability.

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The gas distribution and electricity transmission networks account for almost two thirds of your total assets. To what extent will the level of future growth in distributions to securityholders be dependent on the outcome of the resets?

MD Nino Ficca
When we're preparing our business plans and determining distribution growth forecasts, our aim is to smooth the impact of reset years and other potential fluctuations on our earnings. The upcoming revenue and price resets may have an impact on our revenues from January 1, 2008 and April 1, 2008 onwards but we're not expecting any significant reductions.

Our guidance on distribution growth of around 2.5 percent is in line with our aim to deliver stable and sustainable growth in distributions. We don't currently foresee any significant deviation from our forecasts as a result of the upcoming resets.

It’s also important to note that we’re negotiating a six-year regulatory period for our transmission business, which will further diversify our regulatory reset periods and lessen any potential future earnings volatility.

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SP AusNet’s gross capex for the March 2007 year was A$406.0 million, compared with a prospectus forecast of A$363.6 million. Most of the higher than forecast spending was customer initiated. What level of certainty do you have that the customer initiated capital works will be rolled into your RAB at future regulatory resets? What is your capex plan for the current year and what is the expected breakdown of growth and replacement spending?

MD Nino Ficca
Over the past year, we’ve experienced significant customer demand for capital expenditure. As an essential service provider in monopoly regions, we’re unable to turn away customers who initiate capital expenditure. We are however, very prudent in our investment decisions so we have no reason to believe regulators would disallow any of our capital expenditure. Historically, virtually all our capital expenditure has been included in our RAB, and this translates into increased revenues in future periods, which will benefit securityholders in years to come.

In relation to the current year, we’re expecting to continue to grow our RAB at around 7 percent, which is similar to our growth of over $400 million in the year just completed. This year, we’re also allocating additional expenditure to improving the reliability of supply to our electricity distribution customers through the implementation of innovative technologies.

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Management fees paid to SPI Management Services, the manager of the SP AusNet businesses, totalled A$34.3 million in the March 2007 year. The fees included a performance fee of A$12.9 million. What hurdles were associated with the performance fee and what is the expected level of management fees in the current year?

CFO Geoff Nicholson
The performance fee has been structured to ensure the interests of SPI Management Services align with the interests of our securityholders and takes network performance, financial performance and market performance into account.

Fees for network performance essentially relate to network reliability and capital works management. Financial performance fees are calculated based on 0.75 percent of actual EBITDA, and an additional 0.25 percent of EBITDA where budgeted EBITDA is exceeded.

It’s important to note that the performance fee paid in the March 2007 year represents less than 0.4 percent of SP AusNet’s market capitalisation, and that fees are capped at a total of 0.75 percent of market capitalisation in any year.

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You’ve indicated you’re undertaking an operational restructure. Can you explain in more detail the skills and experience you’re seeking to bring inhouse through the operational restructure and how they differ from those you out-source to SPI Management Services? What do you hope to achieve through the restructure and what impact will it have on your operating expenses in the current year and going forward?

MD Nino Ficca
The aim of the operational restructure is to strengthen our core skills and take increased control of key decision making by bringing more expertise in house. Core skills such as engineering, detailed design, customer management and project management will now be delivered by SP AusNet employees. These skills represent the day-to-day delivery of our works program. The services provided by SPI Management Services focus on the strategic management of the business over the long term.

We’re on target to complete the operational restructure by 2008. It will provide a stronger platform for the delivery of our works program to support our strategic growth objectives. It will also provide a clearer foundation on which to build an integrated systems capability. We expect to achieve economies of scale in purchasing and material supply, synergies associated with bundling works across our three networks, and operational benefits from more direct control of field resources in fault response scenarios.

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As at the end of March, SP AusNet had total debt of A$3.6 billion and gearing of 57 percent. Of your total borrowings, about $940 million, or 26 percent, mature before the end of March 2009. How might the uncertainty posed by the upcoming regulatory resets impact your ability to refinance this debt and will the stronger Australian dollar impact your refinancing activities in the shorter term?

CFO Geoff Nicholson
The regulatory reset process is very well established. These regulated assets have faced numerous regulatory resets in the past, and none have impacted our ability to refinance maturing debt. Of the $940 million maturing before March 2009, we’ll need to refinance approximately $563 million of medium term notes prior to the regulatory resets. An additional $320 million matures in November 2008, after the commencement of the new regulatory periods.

The level of the Australian dollar has negligible impact on our refinancing activities. We hedge any off-shore debt we raise against fluctuations in exchange rates. It’s also important to note that approximately 95 percent of our debt is hedged against interest rate fluctuations.

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Part of your growth strategy is to seek business extension growth through Data and Measurement Solutions (DMS) and through the Victorian Government's Advanced Metering Infrastructure (AMI) program. What are the opportunities in these areas and what is SP AusNet's competitive positioning?

MD Nino Ficca
As I mentioned earlier, non-regulated revenue growth will be a strong focus for us in coming years. Our metering service business, DMS, is a multi-utility service provider, and its main focus is effective data management in the meter-to-cash cycle for energy markets across electricity, gas and water. DMS operates in both regulated and non-regulated market segments, and we view it as a strategic vehicle to grow revenues that will contribute long-term value. The recent win of the City West Water contract demonstrates DMS's ability to grow in the competitive metering market.

The AMI program is a State Government initiative to provide every household with an advanced interval meter with two-way communication and the capability to provide half-hourly readings. We're currently undertaking metering infrastructure trials and we're actively pursuing unregulated revenue opportunities that may arise from the implementation of the new metering technology.

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SP AusNet is also seeking to grow via value accretive acquisitions and you've indicated that you're currently discussing with Singapore Power the assets you might acquire if Singapore Power, in conjunction with Babcock & Brown, is successful in the Alinta sale process. What are your investment parameters with regard to the Alinta assets and how would you fund any such transaction?

MD Nino Ficca
With regard to the Alinta assets, we've established a Board committee to oversee an independent review process for the assessment of this opportunity. The process includes the appointment of independent advisors to assist in the review.

The assets that may be acquired by Singapore Power and subsequently offered to us are consistent with our existing portfolio of energy transmission and distribution assets. As with any acquisition, we'll assess the assets in terms of their capacity to increase value for our securityholders.

The opportunity to expand our operations outside the geographic boundaries of Victoria, as well as into gas transmission, is one we've been working on for some time. The assets are considered to be of the same high quality as our existing assets and are predominantly regulated.

Should Singapore Power be successful in the bid, and we choose to acquire some or all of the assets, our funding requirements will be assessed at the appropriate time.

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Can you comment on the performance of your businesses in the two months since the start of the current year? To what extent are the milder than normal weather conditions impacting revenues?

CFO Geoff Nicholson
The milder than normal weather conditions experienced in April have impacted volumes delivered through our gas distribution network, resulting in slightly lower than budgeted gas revenues. Revenues in our electricity distribution and electricity transmission networks are currently on target.

Capital expenditure on the rollout of gas to new towns is already slightly ahead of schedule due to continued reticulation in Barwon Heads, Maiden Gully and Romsey. Customer demand for new connections continues to be strong and our internal replacement program is tracking well.

We're very much looking forward to continuing to deliver value for our securityholders and providing a reliable network for our customers in the year ahead.

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Thank you Nino and Geoff.

For more information about SP AusNet, visit www.sp-ausnet.com.au or call Adrian Hill, General Manager Corporate Development & Investor Relations, on (+61 3) 9695 6701 or +61 438 533 193

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