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Presentation

OPERATOR: Thank you for standing by. Good morning and welcome to the SP AusNet result presentation and conference call for the full year ended March 31, 2014. At this time all participants are in a listen only mode. Today's presentation will be followed by a question and answer session. (Operator instructions).

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I must advise you that this conference is being recorded today. So presenting today we have Mr. Nino Ficca , Managing Director of SP AusNet and Mr. Adam Newman , Chief Financial Officer. I'd now like to hand the conference over to your first speaker today, Mr. Nino Ficca . Please go ahead.

NINO FICCA , MD, SP AUSNET: Good morning, everybody and welcome our SP AusNet 2014 results announcement. I'd just like to start with a brief discussion on safety and as you'd know from our past that safety is an enormous priority, in fact our number one priority within the business. And when it comes to safety of our people and contractors and visitors zero injuries is really the only acceptable target that we maintain.

Mission Zero is the headline program and it has been in place for a few years now and we've seen some consistent improvements in our safety record and we're very, very proud of that achievement and while we're a long way from that we expect to maintain that improvement in the years to come.

Just moving on to our next slide in 5 and before getting to the results we were just talking about investment proposition and some of the key highlights and attributes which contribute to a clear and predictable and attractive investment proposition. So we maintain around an AUD8.2 **billion** regulated and contracted asset base and that represents critical infrastructure in **energy** deliver.

Our asset base provides a significant predictable long term regulated cash flows or contracted cash flow. We do have prudent gearing metrics, we have continued access to competitive financing from a diverse source of debt and we have the progressive extension of our maturity profiles and that increases SP AusNet 's resilience to external shocks and our focus does remain on maintaining a standalone 'A' range credit rating.

Our focused strategy on exploring unregulated opportunities whilst becoming a customer focused organisation provides for a strong platform for the future growth of our business.

If I turn to slide 6 and just before we get into the results I would like to just briefly touch on some key changes through the year. And firstly we saw the **sale** of 19.9% of SP AusNet 's securities by Singapore Power to State Grid of **China** and that was completed on January 3, 2014. As a result on January 24, 2014 two State Grid nominees, Mr. Sun Jianxing and Dr. Ralph Craven were appointed to the SP AusNet Board .

Unrelated to the State Grid transaction on the same day, on January 24 this year, Sally Farrier was appointed to the SP AusNet Board as an independent Non-Executive Director to replace the retired independent Non-Executive Director, Dr. George Lefroy. So we look forward very much to working with our new directors but also take the opportunity to thank George for his outstanding efforts over a very long period of time.

Moving across to slide 7, also we note on March 31 this year, SP AusNet and Singapore Power entered into a termination deed. And that was pursuant to which they agreed to terminate the management services agreement; with effect from March 31, 2014 for a total fee of AUD50 **million**.

In addition there was some AUD7.7 million was recognised relating to IT restructure costs and other associated internalisation costs. All the previous employees of the external manager of SPI Management Services have now transitioned to SP AusNet and continue to carry out their normal activities and duties.

The transaction means that from full year 2015 onwards SP AusNet no longer will pay an annual performance fee which yields significant savings for security holders and brings SP AusNet into line with our peer group.

If I move across to slide 8 and turning to our advanced metering infrastructure program. Recently we advised the market that we'd encountered some periods of significant instability in our AMI systems or in part thereof. As a result we'll only have about 390,000 of our fleet of 686,000 meters, so over half of our meters, fully operational by the end of June 2014; by which time we would have expected to complete the program.

So it's a very disappointing development but we do note that half that fleet is working. In recognition that this is a very large and complex IT project providing essential data to the electricity market and consumers we believe it is very prudent to resolve these AMI performance issues prior to making any remaining meters operational. As such we've really decided to delay these meter conversions while we address the system stability and scaling issues.

On the next slide I will try to provide some detail around what we've achieved to date and some of the technical issues that are under review. I'm sure like us you'd like some clarity around costs and timescales and we've not yet finished our review of the program. We still need to work through a number of issues with our vendors and we won't speculate on this at this stage.

There are a number of commercial issues to work through to determine the best strategy forward. As you're aware the AMI program is covered under a separate regulatory framework where we'll seek approval for the expenditure after it's been incurred. We'll only incur these expenditures if we consider them prudent but there is a risk that the AER will not provide approval. And finally in relation to customer rebates we also note the Victorian Government is still assessing its various options.

If I go across to slide 9, this slide provides, or tries to provide, an overview of our end to end AMI system. The smart meters communicate with our IT systems via our comms network or WiMAX or 3G network card. The data from these meters is managed and processed and warehoused by our AMI network management system and it is passed through to a meter data management system and then finally the data is passed on to the market through our customer information system.

At the top of that chart you will see some green call out bubbles and that provides information of where we are today. So we've physically installed 686,000 meters of our full fleet which is 713,000. The remainder being no access situations or they're outside plan coverage and we've installed all but two of the WiMAX towers for communication.

The AMI network management system is currently achieving 97% of timely performance and either through the existing AMI systems for the operational meters or the manual processes for the remaining fleet 100% of the installed meters are providing the required information to market. However, if you look now at the bottom at the blue call out bubbles we are not meeting the mandate of service levels for providing 95% of real meter data to the market by 6.00 am the following morning and that's one example of a stability issue that we're facing.

In particular as we've escalated the conversion of meters from installed to operational the AMI system has been unable to reliably perform at that scale. So it's very much a scale and stability issue. To address this we need to improve our reliability of comms cards. We probably need to improve signal strength at a number of our meter sites and work with vendors to enable reliability and timely data processing for the whole fleet as it's converted.

In summary, it's essential to minimise the downstream data processing issue as it flows through end to end of that system. As highlighted in our recent ASX announcement we expect to take two or three months to develop a remedial strategy which will identify the additional investment required and the timing at which point we will further update the market.

If I now go across, starting with our full year results on slide 10. Adam Newman will go through the financial results in detail but you will note that revenues have increased by 9.8% during the period, reflecting regulated price increases mainly on the electricity distribution network.

The non-regulated revenue streams from the underground power supply to the Victorian desalination plant and new terminal stations at the AGL wind farm near Macarthur have provided a full 12 month revenue contribution for this year end.

EBITDA growth was lower than in recent years due to the termination of the management services agreement and IT restructure and the other associated management internalisation costs. However, if you just stick to these one off movements EBITDA has increased by around 10.4%.

The statutory net profit after tax has declined due to SP AusNet now recognising AUD87 million in relation to the amounts potentially payable in respect to the section 163AA dispute with the ATO. And the directors have announced a final distribution of AUD0.0418 per security bringing the annual distribution per security to AUD0.0836.

If I go across to slide 11 we continue to provide a stable and tax effective distribution to our security holders. Importantly our distributions are fully covered by operating cash flows. Franking remains a significant and valuable component of the overall distribution accounting for around one third of the total distribution and remains unique to SP AusNet within the regulated utilities sector. Importantly, we expect to maintain a franked distribution component over time. For the 2015 financial year SP AusNet expects to maintain distributions of AUD0.0836 per security.

We also note that the distribution reinvestment plan remains in operation for the final 2014 distribution at a 2% discount. So with that I might hand over to Adam now to go through the financial results in a bit more detail.

ADAM NEWMAN , CFO, SP AUSNET: Thanks, Nino. Thanks, everyone for your time today. Following on from when we last spoke in November I'm pleased to say that the underlying financial performance of the business was again solid in the second half.

Statutory net profit for FY14 was AUD178 million however adjusting for the impact of internalisation and the section 163AA tax charge that we took in September net profit after tax was AUD305 million. This is an increase of AUD31 million or 11.7% on the prior period. Despite warmer weather and lower volumes revenue rose roughly AUD160 million or roughly 10%. As Nino mentioned this is driven principally by distribution revenue which rose on the back of an approximate 14% tariff increase in calendar year 2014.

It's worthwhile noting that we had an increase in desalination revenue for the period of AUD10 million. We also had an increase in the net solar revenue of AUD24 million year-on-year. Gas revenue included AUD25 million of customer contributions versus AUD4 million in FY13. And AMI revenues for the period were up AUD22 million on last year.

OpEx increased AUD62 million. Other than labour, IT and select solution costs which we highlighted at the half we also saw an additional AUD8 million provision that was taken in relation to remediation of non-operating gas sites. AUD5 million of costs associated with a Company-wide ERP program and an increase in visitation and asset management costs of around AUD5 million.

It's probably worthwhile pausing just for a second there, if I can bring you up to speed with the three tax cases that we discussed at the half year. In relation to the 163AA case, the Full Federal Court found against SP AusNet in a two to one judgment. Subsequently we have sought special leave to appeal to the High Court and we expect to hear in August if that application was successful or not. If ultimately we prove unsuccessful in relation to this impost net cash exposure as at March 31 is AUD56 million.

Secondly, in relation to the copyright case the Federal Court found in SP AusNet 's favour in March. Subsequently the ATO has appealed to the Full Federal Court and a hearing date has been set as November. The current receivable we have on the books in relation to this case from the ATO is AUD17 million and our net cash exposure if we are ultimately unsuccessful is AUD27 million as at March 31.

Lastly, in relation to the ATO audit; it is still ongoing and not expected to be finalised until the second half of this calendar year and there's not much more I can allude to in relation to that.

If we can now turn to slide 14, the gross capital expenditure slide. At the half year we provided guidance of AUD880 million in spending for financial year 2014. We ended up higher than this at AUD922 million. This was due principally to the gas business and earlier than expected customer contribution in relation to the regional rail link project and in distribution we saw accelerated bushfire mitigation work.

Our guidance for FY15 CapEx spend is approximately AUD865 million and this excludes any additional AMI remediation CapEx.

If we can turn now to slide number 15, we were pleased to see strong underlying cash performance with operating cash flows up 28%. This allows us to satisfy distribution, cover our maintenance CapEx and fund a portion of our growth capital expenditure. Put another way 50% of our total CapEx was funded by cash flows from operations after distribution.

Please note that the internalisation payment due to Singapore Power was made in early April and will therefore be reflected in next year's cash flows.

If we move to slide number 16, our regulated and contracted asset base growth, you can see there on the slide that this year we've broken down RAB by network and we've highlighted our contracted asset base. This comprises primarily the desalination investment of roughly AUD230 **million** and numerous smaller investments.

Our asset base growth has averaged around 9% since FY10; this has been driven primarily by spending on AMI, our desalination investment and bushfire mitigation and asset replacement. Given the strong levels of CapEx in recent years we anticipate a moderation in spending growth going forward. This is reflected in the updated guidance of 6% growth from FY14 through to FY17. This guidance excludes any additional AMI remediation expenditure again.

If we can now turn to slide 17, which is revenue profile and regulated investment, we thought it might be useful given the RAB growth that we've highlighted on the previous slide just to reinforce our regulated revenue profile and the impact of indexation.

This slide shows the revenue profile of AUD1000 invested over the 50 year life of a regulated network asset. Look, I appreciate that there's quite a bit of information here so we've also included a table in the appendix for those who prefer to look at the numbers.

Indexation reduces cash returns through lower regulated revenue for the first 11 or 12 years, after which this reverses and starts to add to revenue. You can see this on the graph where the black line representing regulated revenue crosses above the blue bar at about the 11 or 12 year life mark for an asset.

This highlights the timing lag between the benefits of CapEx investments and when they flow into revenues as a consequence of indexation. But in summary returns on RAB are not lineal and the regulatory regime is designed to spread them over a long time frame. Thus, in the initial phases of an elevated CapEx program, like we've been undertaking in the past four or five years, returns are often less given upfront funding needs.

If we can now move to slide 18 which is our diversified debt portfolio. And our focus remains on maintaining our credit metrics, as Nino mentioned earlier, that provide access to diversified sources of debt and cost effective rates to support regulatory outperformance.

During the year we raised AUD1.7 **billion** in funds to support the business needs and repay maturing facilities. We were also able to extend the tenor of the debt portfolio to 5.4 years.

We also executed AUD2.3 **billion** of transmission three year swaps late last year for the period April 2014 through to April 2017. Given interest rates have fallen since the previous TRR regulatory reset in 2007 the swaps were executed at a significantly lower interest rate than the swaps for the previous TRR.

The AUD200 **million** in bank debt that's seen on the chart was repaid in April of 2014 utilising a new AUD450 **million** bank debt facility established in March. We have a AUD400 **million** multi-term note due for repayment in November, and currently have AUD409 **million** of cash on hand.

If I move now to the last side in the financial section, slide 19, on our fundamentals, you will note that gearing has increased from 58% in FY13 to 62% in FY14. The key driver of this movement has been depreciation in the Australian dollar during the period, and as you know, we hedge all of our accounting exposure on foreign debt when it's issued, and as a result there's offsetting derivative movements in the balance sheet which are not captured in this net gearing calculation.

Probably the only other thing of note that I'll point out on this slide is in relation to the interest cover at the end of March. That's reflective of the charge in relation to the payment to Singapore Power . If you back that out it's more in line with 2.7 times.

So in conclusion, SP AusNet remains on a solid financial footing to support both future investment in our asset base and distribution. I'll now hand you back to Nino to provide an update on our **operations**.

NINO FICCA : Thanks Adam. I'll go to slide 21 initially and really this is to give you an overview of what's been happening on each of the three networks and within Select Solutions over the course of the year.

On slide 21, just remind ourselves of the scale of our business and the fact that it covers electricity distribution, gas distribution and transmission. We do cover 1.3 **million** customers between electricity and gas distribution, we cover the whole of Victoria with our transmission network and 100% of our assets are owner/operated by ourselves.

On slide 22, just to profile the regulatory revenue splits and the regulatory resets for the individual networks. Particularly of note for transmission we're currently operating in a three year transitional period where we transition to the new AER guidelines and that was part of the Australian **Energy** Markets Commission process. So that transitional period will apply through till March 31, 2017 and then five year periods we would apply beyond that period.

The new AER guidelines, particularly the WACC or rate of return reforms, will apply to us for the first time in our distribution price review which starts on January 1, 2016. We are well underway in our preparation for that electricity distribution price review between 2016 and 2020. Our submissions are due early 2015.

I'll now take you to slide 24 and start with electricity transmission network. It has benefitted from high revenues under the annual regulated revenue reset and from growth in the unregulated and contestable transmission projects. We continue to see new opportunities by leveraging our transmission capabilities.

In January this year we signed an agreement with AEMO, the Australian **Energy** Markets Operator, to install and operate a third transformer at the Heywood terminal station which is the interconnector between Victoria and South Australia. Importantly, the project was contestable and SP AusNet submitted a successful bid to AEMO to undertake the development and ownership of that asset.

Work is also continuing on major CBD station redevelopments at our Richmond facility, entering a very heavy construction phase, while site demolition works have recently completed at our Brunswick facility.

In the full year 2014 SP AusNet recovered AUD8.44 **million** in relation to the transmission service target performance or the way our transmission network performed via its incentive scheme, and expects to recover around AUD10.76 **million** in 2015. And that underlines the performance of our transmission network.

During the period, the AER handed down its final decision also on the transmission revenue reset for the 2014 to 2017 period, and I'll just go to that on the next slide and just highlight how that's turned out for us.

So if you go to slide 25, this decision for this three year period was the last AER decision under the existing regulatory framework that applied prior to the major reforms that were implemented by the AEMC or the Australian **Energy** Markets Commission. As such, the AEMC decided that the current decision cover that shorter three year period and that was in order to accelerate the application of the new national electricity rules to our business, to SP AusNet transmission business in or commencing April 2017.

Importantly, the AER has provided funding for key transmission projects, particularly the replacement and refurbishment of several major terminal stations which underpin the electricity supply to the Melbourne CBD.

In addition to the existing incentive schemes, the AER also introduced a new incentive scheme called the Network Capability Improvement Parameter and made some alterations to the existing scheme. So some further details are in the appendices as to how those schemes work.

If I move across to slide 27 on our electricity distribution network. So revenues from the electricity distribution network increased as a result of the regulated price increases, but you'll note volumes continue their downward movement and there was a decline in the period of about 1.9%. So we've still seen -- witnessing change in customer behaviour and technology and also warmer winters was also a significant contributor to that lower average volume during the first half of 2014 at least.

In February in Victoria we had quite a significant heatwave and we did see volumes spike and the network recorded its highest peak volume since 2010. I think importantly despite that heatwave, the network performed very strongly and highlights the significant investments we made over the past few years and enable **energy** to be supplied safely and reliably in very difficult periods, so a significant improvement over that period of time.

In terms of the Kilmore East class action, I don't, in fact I can't speak a great deal more at length on that matter other than to say the current court timetable indicates that the hearings would conclude by the end of June, and we'd also expect a decision in the early part of next year. We also expect the Murrindindi class action to commence in 2015 and there's a bit more information included in the appendices on those two cases.

On slide 28, just focus on a couple of network related issues and particularly **solar** penetration's always of interest and regarding to demand as well. So around 10% of our network customers have **solar** installed and often times we hear how effective **solar** is at reducing costs to consumers. However, any reduction in a particular customer's bill due to **solar** exports is recovered by increased tariffs in everyone else's.

If you look at this slide it particularly highlights that the solar is ineffective at mitigating peak demand, and you'll see the solar peak production period is around 12.00pm, about the middle of the day, and whilst peak consumption really is about 6.00pm when most people arrive home from work and they switch on their air-conditioners and TVs et cetera.

We've also done a bit more analysis from our metering data, from our AMI metering data, which indicates consumers with solar have a higher peak than consumers without solar, so it's an interesting correlation that we're starting to see.

If I move to slide 29, you can see from this slide there's a strong correlation between summer temperatures and peak demand, and whilst energy volumes have been declining in recent years, peak demand continues to rise, it increased by about 0.8% per annum between 2009/2014. This is mainly as a result of increased penetration of air-conditioning.

Our analysis also indicates that even when we weather normalise the data, peak demand is still indicating other factors such as customer growth and larger houses are also driving peak demand.

As part of managing network peak demand, we are trialling several demand management options. These include the 10 megawatt inverter generation system, a one megawatt grid-level battery storage pilot and a residential solar PV and storage trial and some other demand management initiatives that support the network by reducing commercial and industrial demand at periods of high peak.

If I can move onto slide 31 and focus on our gas distribution network. Connections continue to be very solid in terms of their growth. We added another 13,000 customers or around 2.1% which is a good strong growth in our gas distribution network. However, volumes were down by 7.5%. Underlying that, there's a slowing economic activity of our industrial customer base decline by about 10%. That accounted for about half the volume decline during that period.

Whilst the decline in the industrial consumption was a key driver in the volumes, it has minimal impact on revenue as the industrial prices are set based on a maximum demand, so industrial customers accounts for about 50% of the gas volumes. However, that comprises less than 6% of the total revenues. The remainder of the volume movement is predominantly due to warmer weather which saw record temperatures in September 2013 and resulted in lower residential volumes.

If I go to slide 33 and touch on Select Solutions, you will note that Select Solutions recorded a decrease in EBITDA during the period. This is due to a prior period accounting adjustment and a changed contract profile.

During the period, Select was able to win new contracts in contestable metering and asset solutions, and SP AusNet through Select acquired Geomatic Technologies for AUD27 million. Geomatic is a leading national provider of IT integrated solutions and services. It leverages advanced mobile and spacial technologies.

Having covered off the networks and Select, if I move to slide 35 and just focus briefly on our strategy. The underlying business continues to perform strongly, supported by an expanded asset base and strong cashflows. We remain quite focused on the changing operating environment, technology and regulatory change in our key relationships with stakeholders to deliver security holder value.

Our continued transformation into an organisation that can better deliver value in the core business and explore unregulated growth is taking shape, so increasingly we are becoming a more customer-focused organisation. I'm quite passionate about this direction, and I'm confident that our strategy of transformation will deliver real value to our security holders.

Now I'll just conclude on slide 36 with an outlook. So looking forward, our regulated networks underpinned by continued investment are in very good shape, enable us to provide distribution guidance for the full year 2015 of AUD0.0836 and continued regulated and contracted asset base growth of about 6.5% till full year 2017, whilst maintaining some capacity in the balance sheet to support future growth and unforeseen circumstances.

So with that, I'll conclude my presentation and Adam's and ask for any questions.

Questions and Answers

OPERATOR: Thank you. We'll now begin the question and answer session. (Operator Instructions). Your first question comes from the line of Hugh Morgan from Deutsche Bank . Please go ahead.

HUGH MORGAN, ANALYST, DEUTSCHE BANK : Oh good morning Nino, good morning Adam. A couple of questions from me around the issues that you're facing with the AMI program. Nino you mentioned that you're working with vendors. Is there any ability or any recourse where some of the additional costs could be shared by vendors or are we still too early in that review stage to get a sense where the issues might lie?

NINO FICCA : Oh Hugh our focus at the moment really is on dealing with the challenge that we have with our vendors. It's really about getting that stability issue and that scaling issue resolved. Any other decisions we'll face down the track, but our primary focus is dealing with getting a working system stable at the scale that we need it.

It's important to emphasise it is working well over the halfway mark, so the near term issue is to get the stability at the full fleet.

HUGH MORGAN: Just another one if I could around the AMI just I guess to try and get a better sense of exactly how these issues have come about. Is it a geographic issue where certain towers just aren't performing up to scratch or is it more that perhaps each tower is just being overloaded, for want of a better term, and needs to have that improvement in signal strength? How is the geography, if I can use that word, of the issue looking?

NINO FICCA : Look it's potentially one area that we need to look at, but the design of the system obviously when the solution or the technology was selected five, six years ago, we thought we had good coverage. It's an area we're focusing on, as I said, so we're looking at the signal strength increase in some areas, but there's no one single area that we highlighted being a silver bullet here. There's a number of things that we need to deal with. It's an end to end solution so we need to focus on other areas as well as that signal strength area, but that is one area certainly we're looking at Hugh.

HUGH MORGAN: I guess just finally, I mean obviously at the time that you chose the WiMAX technology that was a different technology that some of your peers in Victoria have elected to use. You are still confident that that technology can deliver what is required of the AMI program?

NINO FICCA : Sure. I think at the time our belief, and we have no other motivating force, was that it provided the best solution to achieve the mandated requirements that were outlined by the government and still remain of that view.

Obviously over the five year period since it's happened, if you're making that decision today you might do different things. I don't know and I wouldn't speculate, but we remain confident that this would be the -- our solution still maintains it meets all the obligations and just we're working towards that now.

HUGH MORGAN: Okay, great, thank you.

OPERATOR: Your next question comes from the line of Chris Laybutt from JP Morgan . Please go ahead.

CHRIS LAYBUTT, ANALYST, JP MORGAN : Oh good morning all, just a quick question on tax. I just wanted to ask your views on the announcement from Spark last night in relation to their 974 case and they've obviously had a bit of a win there. Do you think that'll impact your case and has any bearing on SP AusNet tax position and I'm just wondering whether you could possibly expand on what we can expect coming up and timing and I guess various issues like that?

ADAM NEWMAN : Hi Christopher it's Adam here. Look, obviously we saw the announcement from Spark overnight. They're a bit further down the path. We're obviously still in an audit stage with the ATO and nothing's been finalised and not expected to be finalised until later this year. So I'm not sure that we're really in a position to be able to comment whether that's a positive or a negative for us, and their fact patterns may or may not be a little bit different from our position as well.

CHRIS LAYBUTT: Fantastic, thank you Adam, and maybe just one follow up question for you unrelated, just in terms of your net finance charges which looked very good in the second half. I'm just wondering if we took a run rate from the second half and applied that moving forward, is that the right number that we should be using in terms of finance costs across your debt portfolio?

ADAM NEWMAN : Yes, look obviously the big thing that's happened is the TRR swaps in that interest rate. I mean they only happened really towards the back end of the year so the run rate for the full year won't necessarily reflect the impact of the TRR swaps. I don't want to go into all of the nitty-gritty of it, but if you looked at the decisions and we've got a slide on the back that shows that previously -- there is free rein under the previous TRR, was roughly 6% and the current one was 4.3%.

The market risk premium was 2.48% this time was 2.11% last time, mindful of the fact that the regulator has a 10 year look through process that it uses. This was for a three year transitional reset.

If you work across those, mindful of the fact that it's only part of our debt portfolio, that's probably a better way of trying to get a handle on where interest charges are going then using the second half run rate I think.

CHRIS LAYBUTT: Very good. Last time you provided some colour in terms of consensus and a little bit of guidance. I'm just wondering whether we could tease a bit out of you today or not.

ADAM NEWMAN : Yes, look I think last time the guidance was at the half and I think that we've looked at it now and it's obvious the gap has closed. As you know with guidance it can vary, but it's certainly getting within ballpark now.

CHRIS LAYBUTT: Thanks Adam, that's great. Thank you.

OPERATOR: Your next question comes from the line of Ian Myles from Macquarie. Please go ahead.

IAN MYLES, ANALYST, MACQUARIE EQUITIES: Hi guys, just can we go back to AMI firstly. Can you just give a bit more clarity at what part of that chain which you present on page 9 is the actual system breaking down? Is it actually in the collection of the data or is it actually in the management of that data in the data management system?

NINO FICCA : Ian it's Nino. Firstly, when you say it's breaking down, it's actually working well for 390,000 meters so it proves its way through. The issue is its scalability and it doesn't -- using your words, it doesn't break down per se in any one location, it's how it accumulates those events through that end to end process.

So, as I said, the best way for me to answer, it's an immensely technical issue and I don't profess to be an expert and nor do we want to necessarily go through it today, but it is an end to end process and there is no one single fix. So I can't point to one location and say this is where -- if we fix this it would fix the remaining fleet of meters.

So the most responsible thing to do is to take the approach that we believe is quite prudent and sort of sit back from it, have a think about how we do this over the next few months and we'll certainly clarify that in coming months.

IAN MYLES: Okay. From July 1 obviously you've meant to have delivered this program. How much revenue's at risk or is there an additional cost burden to maintain a certain level of service even if you haven't met that requirement?

NINO FICCA : In terms of the costs going forward, we will have a lot of work done around the remediation in what needs to be done to make this fully operational. I've got Alistair Parker here who's probably got a better hand on the regulation side who might be able to help as well Ian.

ALISTAIR PARKER , GENERAL MANAGER, ASSET MANAGEMENT, SP AUSNET: Yes I guess one cost we'll continue to incur will be meter reading but that's about AUD3 **million** or AUD4 **million** a year so it's not hugely material setting aside the remediation. The government, as we flag in the slides, is speaking about a customer rebate, but the nature of that hasn't been settled yet. So those are really the two things I would highlight additionally.

NINO FICCA : Yes other than that I don't think there's anything else that we're aware of.

ALISTAIR PARKER : No.

IAN MYLES: Okay. Just a couple of other questions if I may. You make a comment about the electricity distribution, I think it's slide 29, and you provide the peak demand. I was wondering how close is the peak demand actually to the system capacity peak because you've been investing a lot in this network and growing this network, so it sort of becomes a little bit difficult to think whether the network's being stressed or not?

NINO FICCA : Actually I might -- Alistair's here, he can probably help with that as well.

ALISTAIR PARKER : Yes, look we came close in a number of areas over summer too , because it's local issues that -- it's a little bit misleading to talk about a single network peak. We're actually concerned with the flows over the (inaudible) network and I would say we were in good shape this summer, but we didn't have fat there in the network. We were able to deal with a few incidents but largely we performed well.

So there's not -- if you look at that, there's not 200 or 500 megawatts of spare capacity there, we run it pretty tight.

NINO FICCA : I think I'd say from my point of view, and I do look back over a long period of time, if you go back quite a number of years the events that we had in January this year which were 40 degree days plus would have probably seen significant outages not only in our network but others but particularly in ours. As Alistair said, these are very -- at times can be very local issues.

Having done a fair bit of reinvestment, correctly to your point, while it wasn't an easy few days but the network hung together. There were certainly some minor outages and some issues for customers which we had to manage, but clearly the investments are paying off in terms of the performance of the network.

IAN MYLES: For the final question, just on your dividend being a flat dividend, it breaks from pretty much being inflationary growth in the past few years across the industry, and I was wondering should we be interpreting that that more is a signal of where you see the potential outcomes of regulatory resets and you've been conservatively positioning your balance sheet?

NINO FICCA : Look I might start. From my point, I totally understand the question and appreciate it. I guess our view's always to look at -- and particularly around yield growth, but our view's always been to look at this in a long term sustainable position. This year we've got some one-off expenses or some one-off issues around the MSA or the internationalisation, some uncertainty around tax litigation and AMI. We've still got a significant -- I think as Adam said, in excess of AUD860 **million** CapEx program.

We still maintain a focus on an 'A' range credit rating which we think has some good value to us and therefore managing those credit metrics is very important. So in balance we think it's a prudent place to be in terms of having that guidance at AUD0.0836. I wouldn't overly interpret, in my view, in terms of being an ongoing long term trend. These are matters that we're dealing with currently and, as I said, our focus usually is around and historically has always been on a long term sustainability of our distributions.

IAN MYLES: Okay, thank you very much.

OPERATOR: Your next question comes from the line of Paul Mason from Royal Bank of Canada . Please go ahead.

PAUL MASON, ANALYST, ROYAL BANK OF CANADA : Hi guys, I just have a question on the slide about your RAB growth and the contracted transmission RAB. So my -- well just what I understood to be the contracted RAB was the desalination line which was about AUD230 **million** and then there's some terminal works at Brunswick Terminal.

I thought the timetable for that was only going to be about AUD110 **million** spent in FY14 and then the remainder of the upfront CapEx in 2015. So could you fill the gap for me on what the remaining AUD300 **million** odd of contracted assets is in that part of your RAB?

ADAM NEWMAN : Yes hi it's Adam here. The detail you're correct, it is a variety of other contestable investments in the transmission space. It's not Brunswick. Brunswick doesn't fall into that particular category so things like the Tyrone Terminal Station which is a connection to the Macarthur **wind** farm. So there's nothing particularly material, they're in the AUD20 **million** to AUD30 **million** range and, as I said, I mean you can work out the maths in terms of what that -- desal is the largest one, but Brunswick isÂ not in there.

NINO FICCA : I might just add just some background for those who don't appreciate maybe that in Victoria it's a very unique arrangement where our transmission growth-- so SP AusNet largely manages the replacement of its existing asset base. Growth is determined by an independent planner. AEMO in Victoria perform the planning function.

Some of that planning function we do as a matter of course because of its value -- its monetary value. Other projects are contestable and goes out to the marketplace. So since our privatisation that process has been in place. So there's an accumulation of a number of AUD10 **million** to AUD20 **million** to AUD30 **million** projects that have been accumulated over that period of time which we've successfully won. So they don't roll into the asset base. They become contracted 25, 30 year take-or-pay type contracts.

PAUL MASON: Just a follow on question on that -- so the returns on that are they more akin to what you guys got for the desalination line or should we think about the returns on those assets as basically in line with your transmission RAB returns?

NINO FICCA : We don't normally disclose the margins on those external contracts. There would be-- the floor to those would be similar to the transmission review but some of those may have some upside potential.

PAUL MASON: Alright that's it from me thanks.

OPERATOR: Your next question comes from the line of David Leech from UBS . Please go ahead.

DAVID LEECH, ANALYST, UBS : Hi, thanks. Just a couple of quick questions from me too and I guess I just wanted to follow on from the last one and ask about those assets. They're included in the RAB calculation or the graph there but they're not actually technically part of the RAB, is that what you're saying?

ADAM NEWMAN : Yes that's correct.

DAVID LEECH: Okay good, thanks. Secondly I guess I just wanted to ask about the CapEx for the year ahead which is broadly -- could you just outline where that is? It was a little higher than we were looking for.

ADAM NEWMAN : The question is the spending for --

DAVID LEECH: Yes, the AUD800 and something **million** that you'll be spending this year I just wondered broadly if you could outline which of the three segments; where it's going to fall? Like will it be in transmission and distribution, gas distribution or electricity distribution?

ADAM NEWMAN : Yes in terms of the step up in the year, the majority of the increase is actually in -- well you can see it from the graph there that the majority of the step up is in relation to transmission and less of a growth in distribution. Sorry I'**m** looking at the wrong way around -- I'**m** looking at 2015 ---yes so you're looking at the spend for 2015 sorry?

DAVID LEECH: Yes I was just trying to understand where the CapEx in 2015 was going to be spent in total. What percentage of it was going into transmission? What percentage of it was going into electricity distribution? What percentage of that total was going into gas distribution?

ADAM NEWMAN : We don't really get into that level of guidance but it would be fair to say with the terminals station rebuilds that we're going through, a larger proportion of it is going into transmission.

NINO FICCA : David it's Nino here. What Adam just finished off with is right. We've got three large station -- terminal station rebuilds and by their very nature as we've discussed before, they're quite lumpy. They'll -- once they're done they won't be done for another 40 odd years. So in the shorter term they'll be a probably a higher amount in the transmission segment than otherwise would be on normal basis I would imagine.

DAVID LEECH: Good that'll do me. Thank you.

OPERATOR: Your next question comes from the line of Baden Moore from CLSA. Please go ahead.

BADEN MOORE, ANALYST, CLSA: Thanks guys. I was just wondering on your flat distribution guidance you mentioned that there were some one off impacts factored into the guidance. Can you confirm then that if you were as successful with the ATO in August that I should be factoring in that the one off impact would effectively fall straight through to distributions?

I had one other question on your cash flow coverage of interest. You mentioned that it's 2.5 times but ex--splitting one offs probably 2.7 times so continuing to improve. Can you give some guidance on what you think is an appropriate cash coverage of interest? I mean assuming you get through some of these one off items does that imply a step up in distributions or can you talk to that a little bit please?

NINO FICCA : I might just start and hand over to Adam but certainly from a distribution point of view -- from a policy perspective we don't have a ratio that we use but certainly the directors will always at the half and full year determine the applicable distribution and that's always been the case. Our principal policy is to cover off maintenance CapEx and a proportion of our growth CapEx. So I wouldn't draw a direct linear correlation that you've drawn but as I've said at the half and full year the directors will determine that distribution. In terms of the cash coverage I might ask Adam to help with that.

ADAM NEWMAN : Yes so interest coverage ratio obviously is part of our overall credit rating. They target 2.75 times or above and so from our perspective that's where we'll be targeting to be able to be above that level going forward.

BADEN MOORE: Thanks guys.

OPERATOR: Your next question comes from the line of Simon Chan from Merrill Lynch . Please go ahead.

SIMON CHAN, ANALYST, BANK OF AMERICAMERRILL LYNCH : Hi guys I've just got one question. Nino can you just remind us when we're expected to-- sorry when you're expected to find out whether or not you're successful on those disallowed AMI cost appeal in the Federal Court?

NINO FICCA : Again there is a broad sort of approach to this whether it be with the AER or the court process. Now I might ask Alistair just on that court process?

ALISTAIR PARKER : Yes my understanding is the hearing date was put back to August. We're still actually awaiting part of the Tribunal decision and that will really determine the timing on the court case itself. So it's a got a little way to go.

SIMON CHAN: So you're only looking to appeal about half of that and you've just decided to cop it on the **chin** for the remaining what AUD45 **million** or so. Is that right?

ALISTAIR PARKER : Yes we've persisted in a claim for I think AUD43.5 **million** and the remainder we may choose to re-litigate with the AER in future applications but not through the appeals process.

SIMON CHAN: Okay so of that total amount of AUD89 **million**, how much of that cost is CapEx and how much of that is OpEx related?

ALISTAIR PARKER : Two-thirds CapEx.

SIMON CHAN: It's all CapEx?

ALISTAIR PARKER : Two-thirds CapEx.

ADAM NEWMAN : Approximately.

SIMON CHAN: Okay. Alright that's all I've got thanks.

OPERATOR: There's one question remaining in queue. (Operators instructions) We will now go to a question from the line of William Allitt from CBA. Please go ahead.

WILLIAM ALLITT, ANALYST, COMMONWEALTH BANK OF AUSTRALIA : Thanks guys. Just a question on-- back to distribution policy. Obviously a big step up or maintaining a high level of CapEx next year and I think it's almost 60% of the CapEx you're guiding for the next three years. It kind of suggests that on this -- on your new distribution policy of paying out operating cash flow less maintenance, less a portion that there's going to be a pretty substantial step change in available free cash from at least the years 2016/2017 assuming earnings don't come off a cliff.

Does that sort of **lead** to a situation where we are going to get much more lumpy distributions? I realise it's sort of a new policy however generally you see fairly consistent growth and that's why it's sort of interesting to see today that there's no growth. I understand you've got a high amount of CapEx but should we start sort of factoring in that there is going to be much more -- I wouldn't call it seasonality but variability year-to-year?

NINO FICCA : Will it's Nino here but no I wouldn't be saying that again. Again our approach usually is to focus on the long term and having a steady outlook and we'd say even though there's not a 2% increase and certainly understand the issue around the lack of growth in that but over the longer term we would prefer to much have a stable outlook in terms of our distribution profile.

WILLIAM ALLITT: Even with sort of CapEx coming off quite substantially in 2016 and 2017?

NINO FICCA : Again we're probably not going to forecast a great deal in terms of what distributions would look like then but we would typically look for a fairly consistent profile. I wouldn't expect us to -- we've never provided lumpy sort of approach to distributions. I can't see that happening now.

WILLIAM ALLITT: Okay. Thanks guys.

OPERATOR: Your remaining question in queue comes from the line of [Lachlan Kerr] from Aberdeen Asset Management . Please go ahead.

LACHLAN KERR, ANALYST, ABERDEEN ASSET MANAGEMENT : Hi guys. Just two quick questions for me. Just firstly after some colour around the role that State Grid has played just since the two Board members came on in January? Then secondly just on slide 15 you spoke to about funding CapEx around the 50% level. Is there scope to increase that and where do you see that ratio going in the medium term?

NINO FICCA : I'll take the first one Lachlan. The role of State Grid really has been limited to Board participation. So as I outlined there's two nominee directors from State Grid being Mr. Sun Jianxing and Ralph Craven . I think pursuant to the FIRB process one of the directors was an Australian resident and citizen and that is Ralph Craven who is known to the industry and has been involved in other utilities previously and I think was previously Chairman of Ergon.

So they're involvement really has been a few Board meetings and active participation, learning about the environment -- certainly Ralph is very aware of that and Jianxing is learning to understand our business as well but other than that it's been restricted to Board level and just understanding a bit about the business.

LACHLAN KERR: Sure yes.

NINO FICCA : Adam would you like to deal with the second question?

ADAM NEWMAN : Yes so look I think Nino has kind of covered that ground in terms of how we look at our distribution policy and it's quite holistic taking into account our credit metrics and obviously we've kind of moved up in our credit metrics on an S&P basis from BBB+ to A-.

So we're just grappling with just a bit of an underlying change there enabling us to maintain A- on a standalone basis. Look I don't have a whole heap to add to what Nino has already said in relation to the way we look at our distributions policy and we'll continue to do that going forward and assess that at the same time as we look at the overall business and we look at what we need to do to maintain an appropriate credit metric.

LACHLAN KERR: Alright thanks guys.

OPERATOR: There are no further questions in queue. Please continue.

NINO FICCA : If there are no further questions, thanks very much to everyone. Certainly thanks to Adam and Alistair at this end and thank you all for participating in all your questions. Thank you.

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