

18 July 06

Chairman's Address and Managing Director's Address

TO: Company Announcements Office
Australian Stock Exchange

BY: e-Lodgement

Dear Sir/Madam,

Please find attached the Chairman's Address and Managing Director's Address to be given at today's Annual General Meetings and Meeting of Unitholders.

Yours sincerely,

Elizabeth Mildwater
Company Secretary
SP AusNet

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SP AusNet Chairman's Address

Over the past year, SP AusNet has had many successful achievements and I'd like to start off by providing you with a broad overview of these milestones. I will then hand to the Managing Director, Nino Ficca to provide you with a more detailed account of SP AusNet's operations. Following Nino's presentation, we will commence the formal business of the meeting.

It has been a busy year for everyone at SP AusNet – a year in which we integrated and re-branded our Transmission and Distribution businesses, and listed on both the Australian Stock Exchange (ASX) and Singapore Exchange Securities Trading Limited (SGX-ST).

There was strong demand from institutional investors globally and retail investors in both Australia and Singapore at the time of the IPO, and I am confident we will continue to be a sought after investment.

Following the listing, SP AusNet was included in the S&P/ASX200 index. This was a positive development for our business and our investors alike.

In June we released our first accounts since listing, reporting a net profit after tax (NPAT) of \$335.2 million for the 12 months ending 31 March 2006.

Of this, \$175.7 million was from continuing operations and \$159.5 million was from businesses divested during the year.

Our earnings before interest and tax (EBIT) of \$446.1 million was 3.8% higher than the prospectus forecast.

These positive results were largely due to our commitment to deliver sustainable and stable income from our regulated assets and our continued focus on the integration of the transmission and distribution businesses.

The Board approved payment of a distribution of 3.25 cents per security comprising 27.4% income distribution, 68.0% capital return distribution and 4.6% fully franked dividend. The payment is in line with the forecast distribution at the time of our listing.

The Board also reaffirmed the forecast distribution for 2006/2007 of 11.27 cents per security.

Our financial position remains strong with a Standard and Poor's credit rating of 'A'. In addition, Moody's Investors Service has assigned an A1 Corporate Family Rating to SP AusNet.

I would like to inform you that we have hedged approximately 95% of our financing, in line with the regulatory reset period. This means our interest rates are fixed or 'locked in', and we are therefore not adversely affected by recent interest rate increases.

Our revenues, which are mainly regulated, are indexed to the Consumer Price Index (or CPI) thus providing a high degree of certainty to our earnings.

I also think it is important to make note of the changes taking place in the regulatory environment with the move to a national regulatory body, the Australian Energy Regulator (AER). We have a positive relationship with the AER and have already commenced discussions regarding the price reset for our Electricity Transmission business. SP AusNet continues to pride itself on regulatory relations and compliance and, as a result, we have been invited to contribute to the development of a National Energy Strategy.

SP AusNet is positioned in the growth corridors of Victoria, allowing us to expand our networks to service more homes and businesses in the state. This year, we welcomed a total of 25,000 new customers to our networks.

Our total capital works program for the year was in excess of \$370 million. Some of our major projects were: the natural gas extension program to 12 Victorian regional towns, and upgrades to the transmission stations at Rowville and Moorabool.

Such projects serve to meet the growing energy needs of consumers in Victoria and provide the organic growth to our business, which will translate into future sustainable income streams.

Going forward, we will continue to focus on organic growth and selectively examine potential inorganic growth opportunities.

I will now hand you over to Nino Ficca to provide an insight into SP AusNet's operations in greater detail.

SP AusNet Managing Director's Address

On behalf of SP AusNet and our 1,100 employees, I'd like to welcome you to our inaugural annual general meeting.

I would also like to acknowledge the Australian Shareholders Association whom we met with earlier this month in preparation for this AGM.

Although SP AusNet only recently listed in December last year, the journey we have made to get where we are today has been significant.

SP AusNet provides key networks that support the efficient operation of the energy market and reliable delivery of energy in Victoria. We are confident that there will be additional opportunities to expand our role in the provision of energy networks, both in Victoria and other States.

Our focus over the past year has been on making a successful transition to a listed company and ensuring that we continue with our strategy of providing a solid investment for our Securityholders, a reliable energy service to our customers, and a safe environment for our employees and the public.

The business has achieved a number of substantial milestones since listing and I will go through these in some detail with you today:

- We have reported our first results as a listed company, meeting prospectus forecasts on all metrics and improving upon our forecast EBIT for 2005/2006
- We have been awarded two major transmission network augmentation contracts
- We have seen continued high levels of organic growth in our Regulated Asset Base (RAB)
- We have improved our network reliability and performance
- We have continued to achieve health, safety and environmental standards which are above our industry's average
- We have achieved operational cost efficiencies through integrating the two network businesses

- And lastly, we have achieved a satisfactory outcome in the final Electricity Distribution Price Review (EDPR) and, through this, provided essential funding for our work programs

We are very proud of the achievements of our business to date. Let me walk you through each of our key business operations and the contribution these operations have made to your company's performance during the year.

Let me start off with our **Electricity Transmission Network** – a key piece of energy infrastructure, centrally located amongst the five eastern states of Australia that form the National Electricity Market.

The Electricity Transmission network consists of over 6,500 km of transmission lines operating at voltages ranging from 66 kV up to 500 kV. Supported on more than 12,800 towers, the lines carry electricity from power stations to electricity distributors and large customers around Victoria.

The network is integral because it links the electricity transmission networks of South Australia, New South Wales and now Tasmania.

In 2005/2006 financial year, electricity transmission contributed \$145.6 million in revenues to SP AusNet.

The overall performance of the network was excellent, despite severe weather conditions during January and February 2006. We experienced an average of 0.56 customer minutes off supply – significantly outperforming our target of minutes off supply of 1.15 minutes.

Our **Electricity Distribution Network** covers the eastern half of Victoria including Melbourne's eastern metropolitan area and carries electricity from the high voltage transmission grid to substations for distribution to customers. In the past 12 months, the number of customers connected to the network grew by approximately 1.6% to over 580,000.

In 2005/2006 financial year, electricity distribution contributed \$425.3 million in revenues to the company. And, given the forecast levels of demand, we expect our electricity distribution revenues to grow at a further 3 to 4% per annum.

More than 7,000 GWh of energy was delivered through the electricity distribution network in the past year, representing an increase of 1.7%. This improvement was largely due to strong customer growth and a favourable summer air-conditioning load.

For the regulatory year, we experienced an average of 162 minutes of supply - our best performance in 5 years.

SP AusNet's **Gas Distribution Network** is expanding throughout western Victoria and reaches approximately 510,000 gas customers across central and western Victoria.

Over the past year more than 13,000 new connections were made to SP AusNet's gas distribution network, expanding the distribution main total length by 131 km.

This increase was driven by continuing demand for natural gas in Victoria's growth corridors, particularly in the outer western metropolitan area of Melbourne. A total of 66.3 PJ of gas energy was delivered through the SP AusNet gas distribution network during the financial year, despite milder weather conditions.

SP AusNet's gas network also experienced its best reliability performance in five years, recording an average 0.89 minutes of unplanned interruptions over the course of the 2005 calendar year compared to our target of 1.1 minutes.

Gas distribution contributed \$143.8 million to the Company's revenues.

Unregulated business accounts for approximately 13% of SP AusNet's total revenue and offers growth potential derived from our considerable expertise. Our business operations that fall outside our key transmission and distribution networks are:

- *Data and Measurement Solutions* which is a wholly-owned subsidiary of SP AusNet Distribution and one of the top three metering and data managers in Australia.
- *Site leasing* to third parties who wish to install telecommunications antennas on transmission towers or distribution poles.
- *Technical services* such as chemical testing and analysis of insulating oils, gases and other materials, asset condition monitoring, metering maintenance and equipment calibration and repairs.

Through the operation of each of these significant assets and business units, we aim to maintain a high-quality energy network that holds value for both customers and Securityholders over the long term.

SP AusNet's strategy is to deliver that long-term value through:

- Asset maintenance and sustainability;
- Achieving growth through both organic and acquisitive opportunities; and
- Generating ongoing, sustainable synergies and efficiencies.

Our networks operate within vastly diverse geographic locations, ranging from high density suburban areas to remote regions.

In the past year we have undertaken maintenance, reliability and vegetation clearing programs ensuring that we continue to meet the mandated reliability and environmental targets.

Our ability to deliver these programs with due consideration for community expectations has been strengthened through the formation of the Stakeholder Consultative Committee in late 2005.

Long-term asset management strategies have been developed for our transmission and distribution networks, including investment in new transmission stations, substations, distribution powerlines and gas infrastructure.

These plans outline our key priorities in terms of maintenance and upgrades to ensure the sustainability of our networks and the integrity of our assets.

In the past year we have invested heavily in the **electricity transmission** network, funding programs such as:

- Transmission sub-station rebuilding and refurbishing throughout Victoria;
- State of the art wind monitoring technology on our transmission lines; and
- Asset condition monitoring equipment.

In order to sustain the performance of our **electricity distribution** assets, we invested in many major projects to improve reliability and quality as well as expand this network to meet growing demand.

The funding went towards:

- Two new zone substations at Barnawatha and Morwell West;
- New powerlines and feeders connecting existing power stations;
- The replacement of older fuse units with new technology to improve network reliability and safety;
- Network augmentations in Leongatha, Sale and Traralgon;
- Network upgrades in the northern Melbourne growth corridor as a result of new water and sewerage infrastructure needs; and
- Boosting network capacity at Monbulk and Rowville to meet growing supply demands.

Investment in the gas distribution network included major projects such as:

- Extension of the reticulated gas network to 12 regional towns in Western Victoria;
- Expansion of the existing gas reticulation network including connection of approximately 13,000 new customers; And
- Mains renewal involving the replacement of cast iron pipe with polyethylene-based pipes in order to improve supply capacity, reliability and network safety.

Our commitment to maintaining and expanding our existing asset base ensures that we deliver safe, reliable network services to industrial, commercial and domestic customers.

We expect steady load growth and replacement of ageing assets will continue to drive ongoing investments in our networks. In fact, VENCORP (the Victorian energy system planner) estimates that over the next 25 years around \$1.25 to 2.2 billion will be required to maintain service levels in electricity and gas transmission.

We believe SP AusNet is ideally located to take advantage of organic growth opportunities as we are currently operating in 4 of Victoria's 5 identified population growth corridors.

The three networks owned by SP AusNet are regulated, providing stable and predictable revenues. One of our principal drivers of revenue is the returns earned on the regulated asset base (RAB).

Growth in our regulated asset base leads to growth in revenue. All SP AusNet's networks are growing at rates that are greater than average for the regulated infrastructure industry in

Victoria. We are focused, therefore, on running and growing a sustainable operation that delivers long-term value to our Securityholders.

In December 2005, SP AusNet was successful in a competitive tendering process for two major transmission network augmentation projects at Rowville and Moorabool. The two competitive contracts were awarded by VENCorp and are intended to support growth in Victoria's metropolitan and regional areas. Our experience in delivering large capital projects, coupled with our technical and commercial expertise, enabled us to secure these contracts.

Sizeable urban growth in Melbourne's outer south-eastern corridor contributed to the significant number of electricity distribution customers joining our network over the last year. Some 9,000 new connections were made across the network area, which also takes in the rapidly growing outer northern suburbs, where we are committing significant capital investment needed to support the expected population growth.

The roll-out of our \$40 million project to supply 12 regional towns in Victoria with natural gas commenced in 2005, with customer connections already made in Creswick and a further five towns on track for completion by the end of 2006. Across our gas network, we connected over 13,000 new customers, reaching our landmark 500,000th connection in May 2005.

In addition to the strong organic growth profile of the business, SP AusNet is dedicated to evaluating future opportunities for investment and acquisition in Australia and New Zealand. Our commitment to building a sustainable, long-term business will always shape our decisions and acquisition strategy. Our objective is to maintain a solid and reliable business that generates steady, long-term value for our investors.

The decision of the Queensland government to privatize its energy infrastructure is a positive step and one which we believe may provide opportunities for players such as SP AusNet, down the track.

History has shown with the Victorian privatisation that this first step may lead to other opportunities for network acquisition. SP AusNet has an excellent track record of managing networks and ensuring a high degree of reliability for customers. This makes the group ideally placed to take advantage of any privatisations and further energy network sales in Australia or New Zealand.

The integration of our electricity transmission business and our electricity and gas distribution business continues to generate synergies and efficiencies which benefit our customers and Securityholders.

In mid 2005 we re-branded the transmission and distribution business 'SP AusNet', signalling the integration between the former SPI PowerNet and TXU businesses. We have also since consolidated our corporate headquarters in Southbank, Melbourne.

SP AusNet is committed to continuous improvement. Our people are key to our business success and our ability to sustain this capability relies on strong succession planning.

Skilling for the future is an initiative that we take seriously. We are committed to the recruitment and ongoing development of technical skill in the industry. In the last few years, we have employed and trained:

- 14 apprentices and 14 trainees for our transmission assets;
- 12 trainees for our distribution assets; and
- 19 graduates across the business.

SP AusNet also currently provides funding and on the job training for 39 apprentices in our distribution business.

Each participant in our program is given tailored rotation and training to suit both the needs of the business and the individual.

We are also sponsors of the Victorian Electrical Education Training Program, which aims to promote employment in the industry by funding the Educutions of participants as well as providing work experience opportunities and guidance from our highly skilled employees.

I note also that our commitment to efficiency and continuous improvement extends to the matters of health and safety. SP AusNet's safety performance was better than the industry average, however we were unable to achieve our target of a 'zero' lost-time injury frequency rate for the 12-month period. We recorded a result of 2.32 injuries per million hours worked and there is still room for improvement.

SP AusNet employees and contractors share a commitment to achieving an accident-free workplace. SP AusNet has a Health, Safety and Environment (HS&E) Policy, a Strategy Committee, three Workplace Committees and eight local Employee Consultative Groups.

This structured health, safety and environment process gives the workforce a forum for raising issues and seeing them through to resolution.

In late 2005, the Victorian Essential Services Commission released the *Electricity Distribution Price Review (2006–2010)* (EDPR) final decision. The outcomes resulted in sufficient revenue to provide funding for the key works program. It also ensured a stable revenue stream from our electricity distribution business until the end of 2010, when the next regulatory period is due to commence.

On the topic of regulation, it is worthwhile noting that SP AusNet remains closely involved with changes to the regulatory framework.

The Ministerial Council on Energy (MCE) has assumed responsibility for overseeing energy sector policy, and two new independent institutions have been established:

- the Australian Energy Regulator (AER); and
- the Australian Energy Market Commission (AEMC).

In addition to these structural changes, the MCE is reviewing network pricing principles for the energy sector, with a view to establishing a national framework.

The AER has succeeded the ACCC in economic regulation of electricity transmission, and will absorb the economic regulation of electricity and gas distribution progressively from 1 January 2007. However, during this transitional period, SP AusNet's gas distribution price review will be conducted by the Victorian jurisdictional regulator, the Victorian Essential Services Commission.

We believe the move to national energy regulation is a positive one, and consider that it will contribute to a more consistent regulatory framework.

I would like to conclude by saying that I am very pleased with the progress SP AusNet has made in the past few months since listing. I believe there are many opportunities for us in the future and we are positive about our continued ability to operate and grow a stable business.

I will now hand back to the Chairman to commence the formal business of the meeting.