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SP AusNet
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SP AusNet today announced Net Profit after tax of A$175.7 million from continuing operations for the year ended March 31, 2006. Where did operating conditions and performance diverge from your expectations?

General Manager Finance Terry Fowler
Total revenues were above our expectations due to stronger electricity distribution volume growth and further revenues from customer initiated projects in the transmission business. This more than offset the fall in revenue from the gas distribution business due to the milder weather conditions in Victoria's autumn, winter and spring periods.

The pro forma EBIT, with a full 12 months' earnings from both SP AusNet Transmission and SP AusNet Distribution, was A$446.1 million, which was 3.8 percent higher than the pro forma prospectus 2006 EBIT forecast of A$429.9 million. The higher EBIT was mainly due to lower depreciation and operating expenses resulting from further efficiencies associated with business integration programs.

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Your prospectus forecast for EBITDA for the current year ending March 2007 was A$624.7 million. What is the current performance of the businesses and is there any reason to change the assumptions on which the prospectus forecast was based?

MD Nino Ficca
Based on the performance of the energy network businesses to date there's no reason for us to change our forecasts for the current financial year. We're experiencing higher levels of demand for capital investment to meet the demands of the growing Victoria energy market. This is very positive as such capital investment will grow our future asset base and earnings.

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SP AusNet announced a distribution of 3.25 Australian cents, its first since listing on the ASX and SGX on 14 December 2005. The distribution is equivalent to an annualised payment of 10.97 cents and you've reaffirmed the prospectus forecast of a distribution of 11.27 cents for the current year. What will be the key drivers of any increase in distributions going forward?

MD Nino Ficca
There are three areas which will contribute to increasing our distributions going forward. Firstly, we're in the process of pulling together two distinct businesses: the transmission and distribution businesses, and extracting synergies from the operation of those businesses.

Secondly, we'll continue to have strong organic growth and that's borne out in the size of our capital investment, where we're replacing and refurbishing our assets and also experiencing strong growth in new connections and new augmentations as requested by our customers. That adds significantly to the asset base of the business.

Thirdly, we're focussing on acquisition opportunities both in Australia and New Zealand.

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To what extent might your distributions be impacted in the medium term by the recent interest rate rise and growing pressure on the CPI?

General Manager Finance Terry Fowler
Our business, and therefore our capacity to pay distributions, is well protected against any adverse impact from the recent increase in interest rates because we have approximately 95 percent of our interest rate exposure hedged in line with the regulatory resets. Our interest rates are basically locked in. Additionally, our regulated revenues are indexed in line with increases in the CPI.

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The first distribution announced by SP AusNet comprises 2.21 cents tax deferred return of capital, 0.15 cents fully franked dividend and 0.89 cents from income. What is the expected make-up of the current year distribution and how sustainable is the capital return component of over 60 percent?

General Manager Finance Terry Fowler
In our prospectus we forecast a capital return component of 65 percent, i.e. a significant component of the total distribution. We're not in a position to provide

longer-term forecasts; suffice to say the tax deferred capital return component is expected to be a significant part of the total distribution for a number of years.

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SP AusNet's total operating expenses were A$245.2 million for the year ended March 2006. In your analysis of the difference between the pro forma actual EBIT of A$446.1 million, relating to a full 12 months' earnings from both SP AusNet Transmission and SP AusNet Distribution, and the pro forma prospectus 2006 EBIT forecast of A$429.9 million, you identified A$8.3 million of operating cost savings. In which areas were these savings generated and what scope is there for further savings?

General Manager Finance Terry Fowler
Some of the reasons for the lower costs relate to our drive to further improve processes and systems. The network businesses and the corporate head office are focussing on reducing costs and improving efficiencies through the business integration program. This program is ongoing and we expect to see further benefits in our preparation for other potential acquisition and integration opportunities.

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Can you detail the fees paid to SPI Management Services, the manager of the SP AusNet businesses, in relation to the year ended March 2006 and clarify how they appear in the accounts?

General Manager Finance Terry Fowler
The management services fees are disclosed in the notes to the statutory accounts under related party transactions. The level of management fees since the date of listing to the end of the March 2006 financial year was around A$11.8 million and comprised A$2.5 million in an interim management fee, A$6.3 million in a management services charge and a further A$3 million in performance fees. The total fees payable to SPI Management Services are well within forecasts.

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What incentive is there for SPI Management Services to reduce its costs in line with the demands of the regulators and in the best interests of security holders?

General Manager Finance Terry Fowler
The efficiency opportunities and incentives to pursue them are provided in the way the various performance fees have been structured. The management company is incentivised not only to improve overall performance from a financial and network performance perspective, but also to ensure that it meets the capital investment plans submitted to the regulator.

MD Nino Ficca
It's worthwhile mentioning that from a security holder's perspective the incentives and costs of SPI Management Services are overseen by the independent directors who sit on the Audit and Risk Management Committee. All related party transactions are reviewed by this committee.

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Your forecast for capex in the year ending March 2007 is around A$360 million for a full year of SP AusNet Transmission and SP AusNet Distribution. You've indicated that growth related capex accounts for about 70 percent of the total in the distribution network and 30 percent in the transmission network. How is growth capex funded and how much of it relates to the regulatory asset base versus the non-regulated assets? What are the expected respective returns?

General Manager Finance Terry Fowler
The capital works will be funded in the current financial year through an appropriate mix of internally generated funds and debt while ensuring that we maintain our A range credit rating.

MD Nino Ficca
Most of the unregulated assets are only classified as such in the interim period between regulatory resets; at the next reset they effectively become regulated. The rates of return are then identical to those for regulated assets. We don't foresee any significant shift in the percentage of regulated verses non-regulated assets in the near term.

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What are your future organic growth opportunities and what level of annual capex is required to achieve them?

MD Nino Ficca
Our distribution network operations are in four of the five fastest growing areas in Victoria and certainly we've committed to significant investment in the northern part of the electricity distribution network, with A$35 million going into the Epping, South Morang and Doreen areas over the next five years. We've also successfully bid for two major network augmentation projects in the transmission business in the order of A$60 million. In gas distribution, we're continuing to roll out our network in regional centres in western Victoria.

We see a continuation of the strong organic growth in all three sectors – electricity transmission, electricity distribution and gas distribution. That's underpinned by increasing penetration in the gas market and growing demand due to the air conditioning load in our electricity distribution and transmission networks. In its 2005 Planning Report, VENCorp, the Victorian state energy planner, has forecast summer electricity demand growth of 2.5 percent per annum over the next four to five years.

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What opportunities are there to expand the non-regulated business and what is the expected contribution to revenue and profit from non-regulated business in the foreseeable future?

MD Nino Ficca
Our non-regulated activities largely leverage our existing regulated asset base, for example the provision of facilities for mobile phone providers, condition monitoring, and some meter-data services. We certainly wouldn't expect the mix

of regulated versus unregulated revenues and profits to change significantly over the immediate term. Regulated revenues comprise around 90 percent of the total and will remain at roughly that level.

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You've indicated you intend to grow not only organically but also through acquisitions. With a number of federal and state government owned energy assets expected to be sold in the short to medium term, how are you positioned as an acquirer?

MD Nino Ficca
We're positioned very well. We are both an investor and an operator. We have an efficient capital structure and cost of capital. We have the skills and talented people to be able to directly manage energy assets across technical, regulatory and financial disciplines to optimise benefits to security holders in a sustainable manner. We'll maintain the discipline of investing in regulated infrastructure assets.

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Your acquisition strategy is to buy assets at the "right price." How do you determine the right price and given evidence that industry consolidation is causing infrastructure assets to become overpriced, don't you run the risk of missing out on opportunities by setting strict acquisition criteria?

MD Nino Ficca
We have a very strong discipline in acquiring assets; there is a right price and ultimately being a patient investor will pay off. As I mentioned earlier, our advantages are a competitive cost of capital, an efficient structure, and the expertise in financial, regulatory and technical areas to manage assets that may be privatised in the future. We have the operational track record to deliver sustainable benefits as and when those businesses are privatised or sold.

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To what extent might value accretion in SP AusNet be impaired if appropriate acquisition opportunities do not arise?

MD Nino Ficca
Our capital works program of about A$360 million a year provides significant ongoing increases to our asset base. We're significantly growing the business, but growing it by paying the equivalent of one times the regulated asset base as opposed to potentially paying a premium for an acquisition. That's ultimately going to add to the returns and the profits of the business for our security holders.

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As of the end of March, SP AusNet had net debt of around A$3.5 billion and gearing of about 58 percent. When do you anticipate accessing the available A$500 million line of bank revolving credit and how will your level of gearing and interest cover be affected? What impact will this have on your credit ratings?

General Manager Finance Terry Fowler
We've drawn down the A$500 million facility by a couple of hundred million dollars to refinance some maturing bank debt. That was done earlier in the year. Looking forward, we intend to draw down further on that facility not only to meet other debt maturities, but also to fund part of our capital works program. We don't anticipate our gearing is going to shift significantly in the short term and we certainly will be complying with all covenants under our loan agreements.

We anticipate that our credit rating will remain unchanged given our gearing and the relative stability of our business.

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How will the formation of a single regulator, the Australian Energy Regulator (AER), affect the energy sector? Do you foresee any major impact to your business under the new national regulator?

MD Nino Ficca
We think that achieving some consistency and certainty in terms of regulatory frameworks is a very positive outcome. We have an existing relationship with the AER through our transmission business, which was previously regulated by the Australian Competition and Consumer Commission (ACCC).

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You've indicated that preparations are underway in advance of the regulatory reviews relating to your gas distribution network and electricity transmission network in January and April 2008 respectively. Can you comment on the current regulatory framework reviews and whether your preparations have been affected by recent draft reports such as the Australian Energy Market Commission (AEMC) draft rule proposal for transmission revenue regulation?

MD Nino Ficca
The regulatory framework reviews that are in progress are aimed at developing a consistent well defined national regulatory regime for each network sector. We've made detailed submissions for each review, and we're participating in the associated consultation processes. This includes the Ministerial Council of Energy's (MCE) review of network pricing principles for the energy sector and the AEMC's draft rule proposal for transmission revenue regulation which was released in February 2006. The draft is a positive development that will produce a more clearly defined regulatory framework and subsequently provide the support necessary for continued investment in energy infrastructure.

We don't expect our preparations for the transmission and gas distribution reviews to be impacted by the AEMC draft rule proposal, but we believe the AER and the Victorian Essential Services Commission (ESC) will take the AEMC review processes into account as we go forward in both reviews.

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What assurance can security holders have regarding the ongoing commitment to SP AusNet of Singapore Power (SP), your 51 percent shareholder?

MD Nino Ficca

It's worth noting that SP has owned infrastructure assets in Australia since 2000. Its ownership and involvement in electricity and gas infrastructure assets is of a strategic nature and as such, is expected to continue over the longer term. SP AusNet is the investment or growth vehicle in Australia and New Zealand for SP and it currently intends to retain the majority stake in SP AusNet.

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At the current security price level of A$1.245 (as at close of the ASX on Wednesday May 31, 2006) and on the forecast distribution for the current year of 11.27 Australian cents, SP AusNet is trading on an expected yield of 9.05 percent. Compared with other high yielding infrastructure investment vehicles, what do you see as the key differentiators of SP AusNet for longer-term investors?

MD Nino Ficca

We have a very simple ownership structure. Investors own a piece of a real business with real assets. The management who are accountable to our investors are the same managers who run the business, who deal with the regulator and financial institutions. We're protected from interest rate movements, our revenues are CPI indexed and we have strong organic growth in our asset base. Lastly, we believe we're well placed to compete for new assets as the industry continues to consolidate and privatise.

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Thank you Nino and Terry.

For more information about SP AusNet, visit www.sp-ausnet.com.au or call Andrew Gould, Director Investor Relations, on (+61 3) 9695 6358

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