

17 July 2014

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**TO:** ASX Limited  
Singapore Exchange Securities Trading Limited

## Chairman's Address and Remuneration Committee Chairman's Address

The Chairman's Address and the Remuneration Committee Chairman's Address, to be given at today's Annual General Meetings and Meeting of Unitholders, are attached.

**Susan Taylor**  
Company Secretary

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## **2014 CHAIRMAN'S ADDRESS**

### **Mr Ng Kee Choe, Chairman, SP AusNet**

Thank you for taking the time to attend this year's Annual General Meeting.

I would also like to take this opportunity to thank all securityholders for their continued support of the Company throughout the year.

SP AusNet continued to deliver strong underlying results driven by a total revenue increase of 9.8 per cent to \$1.8 billion and a regulated / contracted asset base of \$8.2 billion.

In May, we announced our full year results for the year ended 31 March 2014. NPAT was \$178.3 million, a drop of 34.8% compared to the previous year. The NPAT was impacted by the following one-off items:

- recognition of the amount potentially payable in respect of the Section 163AA impost dispute against the Australian Taxation Office (ATO), with a net impact of \$86.7 million; and
- recognition of the amount payable to Singapore Power for the termination of the Management Services Agreements (MSA) between SP AusNet and Singapore Power, and the recognition of IT restructure and other associated management internalisation costs, with a net impact of \$40.4 million.

Excluding the impact of these one-off items, NPAT would have increased by 11.7% to \$305.4 million.

SP AusNet paid securityholders a final distribution of 4.18 cents, delivering on the full year distribution guidance of 8.36 cents per security. The 12 month total securityholder return to 31 March 2014 was 17 per cent.

We continue to exercise financial prudence, maintaining a well diversified debt portfolio with average maturity lengthening to 5.1 years as at 31 March 2014. And we are rated A3 by Moodys and A- by S&P, reflecting our strong underlying financial position.

At the 2013 Annual General Meeting, we announced that State Grid International Development Limited, which is a subsidiary of State Grid Corporation of China, had agreed to acquire from Singapore Power Limited a 19.9% stake in SP AusNet. This agreement was finalised in January 2014. We welcome State Grid Corporation of China as a major securityholder to their first Annual General Meeting of SP AusNet.

Following this transaction, Singapore Power now holds 31.1% of SP AusNet which it considers to be a strategic investment. Singapore Power has reaffirmed its ongoing commitment and support for SP AusNet.

The Management Services Agreement (MSA) between SP AusNet and Singapore Power was



terminated in March 2014 by mutual consent. Senior management of SP AusNet are now directly employed by SP AusNet, and information technology services, previously provided by Singapore Power on a shared basis, are being transitioned to SP AusNet.

### New Corporate Name

With the termination of the MSA, we are launching a new name and brand. The Board, subject to securityholder approval, has chosen "AusNet Services" as our new name, which reflects both the continuity of our core business and our market position as a service delivery business. A new "Brand Promise" has also been developed and we plan to unveil a new brand logo in early August.

### Bushfire Update

The litigation of the Kilmore East class action has come to an end. Throughout the defence of the Kilmore East class action, SP AusNet maintained its position that no negligence was involved in the tragic circumstances leading to the Kilmore East-Kinglake bushfire of February 2009. As you will recall, scientific expert evidence supports the conclusion that lightning undermined the fail-safety mechanism that exists within the network, and the horrific conditions of Black Saturday conspired to bring down the ill-fated line.

Nonetheless, litigation carries with it considerable risk, and although we remained at all times confident of our position, we recognised that settling the matter was a pragmatic response, supported by our insurers, who picked up all costs and expenses associated with the settlement.

With this said, SP AusNet expresses its deep sympathy for the people who suffered loss and damage as a consequence of the Kilmore East fire. Our lawyers have paid considerable attention to making sure that under the terms of settlement, uninsured members of the class recover a fair portion of the settlement proceeds.

We thank all of our dedicated staff who stepped up to take on the task of appearing as witnesses in the class action, and who spent many hours working to support the defence of the matter.

This leaves us with the Murrindindi class action. Preparation is well underway for our defence of this claim, and again, we strongly maintain that no negligence was involved in the events that led to this particular fire. As this matter is yet to come before the Court and is due to commence in the first half of 2015, I will say no more about it at this stage. We will of course keep the market informed of key developments as they arise.

The Board considers that SP AusNet's remaining available insurance and, if required, a claim to the regulator for pass-through of residual costs ultimately incurred in relation to the Murrindindi proceeding, should be sufficient to cover SP AusNet's liability, if any, associated with the Murrindindi bushfire. However, the ultimate resolution of this matter cannot be known with certainty.

## **Taxation Matters**

As you are aware, SP AusNet has been engaging the ATO on the following matters:

- Intellectual Property – deductions claimed in respect of intellectual property (specifically, copyright) in the 2001 to 2010 income years; and
- Section 163AA impost – deductions claimed in the 1999 to 2001 tax years in respect of licence fees imposed under Section 163AA of the Electricity Industry Act.

In relation to the Intellectual Property matter, in March 2014, the Federal Court found in favour of SP AusNet. The ATO has filed an appeal against the judgment. As at 31 March 2014, the accumulated net cash exposure was \$27.3m.

In relation to the Section 163AA impost matter, in April 2014, the Full Court of the Federal Court of Australia found against SP AusNet by a split decision of 2:1. As a result, SP AusNet recognised \$86.7m potentially payable to the ATO in the 2014 full year result. SP AusNet has filed a special leave application to appeal to the High Court of Australia.

Further details regarding these matters are contained in Note 23 of the SP AusNet Distribution financial statements for the year ended 31 March 2014.

SP AusNet is vigorously defending these disputes and will advise the market of the outcome of appeal proceedings, in due course.

As previously disclosed, the ATO is conducting an audit of SP AusNet intra-group loan arrangements, to consider the application of debt and equity rules under Division 974 of the Tax Act. This is still in progress.

## **AMI Program**

We have installed all the meters in accordance with the timetable. We have experienced some issues relating to the system stability.

We are working to implement a remediation strategy, ensuring at all times that we fund the project prudently, and we intend to seek regulatory recovery of this expenditure.

Nino will address this topic in more detail shortly.

## **Election & Retirement of Directors**

Professor Jeremy Davis and Mr Eric Gwee will both retire as Directors of SP AusNet at the conclusion of today's meeting.

SP AusNet has benefitted extensively from their counsel and contributions. I would like, on behalf of securityholders and the Board, to express our deep appreciation to Jeremy and Eric for their many years of dedicated service to SP AusNet. Please join me in thanking them and wishing them abundant good health and happiness in the years ahead.

You will note that Ms Tina McMeckan and Mr Ian Renard both retire at this Annual General Meeting and, being eligible, offer themselves for re-election.

Ian has advised the Board that, for personal reasons, he will retire at the conclusion of the 2015 Annual General Meeting. However, Ian has kindly agreed to offer himself for re-election at the 2014 Annual General Meeting so as to avail SP AusNet of his continued service, albeit for one more year. Ian's advance notice of his retirement will allow a good lead time to secure a replacement.

We also welcome three new Directors, namely, Ms Sally Farrier, Dr Ralph Craven, and Mr Sun Jianxing.

Ms Farrier is an independent Director and is currently a Director of Meridian Energy Limited and a founding Director of Farrier Swier Consulting Pty Limited.

Dr Craven and Mr Sun are nominees of State Grid of China. Dr Craven brings with his extensive experience of the Australian electricity industry.

Mr Sun is also an experienced industry veteran and is presently the Head of State Grid Corporation of China Australia Representative Office.

## **Conclusion**

SP AusNet remains committed to the safe, efficient and reliable delivery of electricity and gas to more than 1.3 million residential and business customers across Victoria. The Company continues to be a stable and secure investment for securityholders as it pursues growth opportunities in regulated as well as unregulated businesses.

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

Thank you, once again, for your support.



## 2014 REMUNERATION SPEECH

Mr Ian Renard, Chairman – SP AusNet Remuneration Committee

Good morning.

The Remuneration Committee is responsible for reviewing and recommending to the Board the remuneration policy, strategy, and structure for SP AusNet's Board, the Managing Director, and senior executives. In so doing, it seeks external, independent advice and information from its appointed advisor regarding market practice, remuneration structure and competitive analysis of the executive market.

Our remuneration philosophy and strategy is designed to:

- attract and retain top-class Board and executive talent;
- create a high-performance culture by driving and rewarding executives for the achievement of the company's strategy and business objectives; and
- link incentives to the creation of security holder value.

In summary, SP AusNet's remuneration strategy is intended to directly align with security holders' interests.

Fixed Pay is set following rigorous market comparison for jobs of comparable complexity, impact and scale. The Board conducted a fixed pay review with effect from 1 April 2013, with the Managing Director receiving a 5.7 percent adjustment in fixed remuneration in consideration of his performance and market positioning.

Other Key Management personnel received adjustments in their fixed remuneration, which reflected their appointment to new or expanded roles following the implementation of a new organisational structure on 1 April 2013.

Short-term incentives, including individual performance requirements, are based on stretch targets that ensure executives' remuneration is linked directly to the business strategy. Payments are linked to a Balanced Scorecard, which incorporates financial and non-financial performance measures.

At the corporate level, performance against the Balanced Scorecard KPI's for the FY14 year delivered a payout at 80 percent of target, which was below the FY13 outcome of 144.6 percent. This outcome was impacted by lower than target performance in three key areas: Safety, Return on Equity, and Capital Efficiency.

In relation to safety, the business recorded a 5 percent improvement in its Recordable Injury Frequency Rate for the year, which while continuing a positive safety improvement trend in recent years, was below the target for a 20 percent improvement.

In relation to Return on Equity, the KPI outcome was impacted by an \$86.7M charge recognised in the Income Statement for the s163aa taxation dispute.

The Capital efficiency KPI did not achieve the target level of performance largely due to two projects in the capital works program not being delivered according to approved budget and schedule.



Long-term incentives will only reward executives if performance measures for relative Total Security holder Return and/or earnings per security growth are met. The vesting schedule is designed to assess performance and deliver the rewards at the end of the three-year performance period.

The LTI plan does not allow for retesting of performance measures in subsequent years. Executives must also invest the after-tax long-term incentive payments in SPN securities, and hold them for a further year. This is the sixth year when our LTI scheme has “vested” and paid out to executives.

For the period 1 April 2011 to 31 March 2014, our shareholder return achieved a percentile ranking of 88.1.

SP AusNet’s Earnings per Security, covering the same three year period, actually fell by 16.91 percent, influenced by the charge (mentioned earlier by the Chairman) relating to the dispute with the Australian Tax Office and the May 2012 Entitlement Offer which increased the number of securities on issue. Consequently, there was no vesting for the Earnings per Security component of the 2011 Long Term Incentive Award.

The net result was that, for participating executives, other than the Managing Director, 50 percent of target LTIP vested for the period 2011-2014.

For the Managing Director, his 2011 LTIP invitation carried a total LTIP opportunity of 100 percent of Fixed Annual Reward. This was based on four KPI’s of:

- Total Security Holder Return and Earnings Per Security, both accounting for 37.5 percent of his target LTIP opportunity; and
- Interest Cover Ratio and Return on Invested Capital, both accounting for 12.5 percent of his target opportunity.

As for other executives, the Managing Director’s Total Securityholder Return KPI achieved maximum vesting, whereas his Earnings Per Securityholder KPI failed to vest. A partial vesting of 10.65 percent was achieved on his Interest Cover Ratio KPI and a zero vesting outcome achieved on his Return on Invested capital target, impacted by the s163aa taxation dispute. Overall, the Managing Director achieved a 48.13 percent vesting of his target LTIP for the 2011-2014 tranche.

The Board retains absolute discretion to vary or withhold payments made to executives under the Company’s Short Term Incentive and Long Term incentive program.

The Board used this discretion during FY14 in relation to Short-term incentive payments when it approved a one-off adjustment to remove the impact of costs totalling \$57.7 million associated with the termination of the Management Services Agreement, over which Management had no influence.

The Board did not make an adjustment to STI or LTIP Payments for the impact of the s163aa taxation dispute, notwithstanding that the dispute relates to deductions taken in the 1998 to 2000 income tax years, all prior to the formation of SP AusNet. The Company has sought leave to the High Court to appeal this decision. In the event that leave is granted and an appeal were to be successful, the impact of such decision would be considered when determining future year financial results and incentive outcomes.



I will now address the Managing Director's remuneration. Mr Ficca is rewarded for operational excellence and for the role he plays in developing the business strategy, and in guiding and driving business outcomes agreed with the Board.

As you will see from the Remuneration Report, his total reportable remuneration for the year ended 31 March 2014 was \$1,991,561. This represents a 6.24 percent decrease on the reported figure for 2013, due in part to a lower payout for his FY14 Short term Incentive Plan compared to FY13.

Reportable Remuneration is different to 'take home' pay and takes into consideration accounting valuations for current and historical Long Term Incentive grants that may or may not vest.

Following the acquisition by State Grid International Development Australia Company Limited of a 19.9 percent stake in SP AusNet, a retention plan was implemented for the Managing Director and Senior Executives of the Company. Under this plan, the Managing Director is entitled to receive up to 100 percent of Fixed Annual Reward and Senior Executives up to 75 percent of Fixed Annual Reward, contingent upon a change of control event occurring (as defined under the Corporations Act and ASX Listing Rules) and subject to continued employment up to 12 months following the change of control event.

The Retention Plan is in place until 16 September 2015. The Board has absolute and unfettered discretion to act or refrain from acting in relation to this Plan. As yet, no payment has been made under the Retention Plan.

Following the termination of the Management Services Agreement between SP AusNet and Singapore Power on 31 March 2014, the Managing Director, Senior Executives and fifty-five other senior employees who were previously employed by SPI Management Services were offered, and accepted, employment with SP AusNet, under either SPI Electricity Pty Ltd or SPI PowerNet Pty Ltd, on the same terms as their existing arrangements.

SP AusNet's Non-Executive Directors continue to be remunerated with set fees. The Directors are not remunerated with securities in SP AusNet.

Base Director Fees were last reviewed in November 2012, with effect from 1 April 2013. These adjustments are reflected in the 2014 Annual Remuneration Report. The total fees paid to Directors remain well within the approved fee cap of \$2 million.

I commend the report to you.

Thank you.