

ASX & SGX-ST Release



21 July 2016

TO: ASX Limited
Singapore Exchange Securities Trading Limited

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Chairman's Address and Remuneration Committee Chairman's Address

Enclosed is an announcement made by AusNet Services which is provided for the information of AusNet Services Holdings Pty Ltd noteholders.

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AusNet Services (RE) Ltd
ABN 46 109 977 371
AFS Licence No. 294117 as responsible
entity for AusNet Services Finance Trust

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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 Meeting, are attached.

Susan Taylor
Company Secretary



2016 CHAIRMAN'S ADDRESS

Mr Peter Mason AM, Chairman, AusNet Services

I would like to take this opportunity to thank shareholders for their continued support of the Company throughout the year. It has been a year of significant accomplishment and I congratulate the management and Board for that.

I am delighted to have been given the opportunity to commence work as Chairman over the past few months. I note that my election as Director is before you for consideration later in today's AGM.

The Company's former Chairman, Mr Ng Kee Choe, stepped down in May this year after more than 10 years of dedicated service to the Company, from the time of the initial public offering in 2005. He brought great experience to AusNet Services, both in the industry and as a Director, and presided over ten years of significant development. On behalf of the Board of Directors, I would again like to express our gratitude to Mr Ng for his contribution to AusNet Services over this long period, and to wish him well for his future endeavours.

We also welcome Mr Tan Chee Meng to his first Annual General Meeting of the Company today. Mr Tan has been nominated by Singapore Power and I know that he will continue the contribution so well established by our former Chairman.

Over the past two years, the company has experienced a range of transitions:

- we moved from a triple-stapled structure to a simpler, more efficient operating model with a single company, which occurred in June, last year;
- the company was renamed and re-branded to become "AusNet Services"; and
- we have now successfully settled significant litigation, both in relation to the 2009 Black Saturday bushfires and disputes with the Australian Tax Office, which have been hovering over the company for some years.



With all of these events behind us, the company can focus on what it does best, striving to place itself ahead of ever-changing technology, to deliver our customers' energy needs, well into the future.

Financial Highlights

In Financial Year 2016, AusNet Services continued to deliver strong underlying results driven by a total revenue increase of 4.6 percent to \$1.92 billion and an increase of 5.8% in Earnings Before Interest, Tax, Depreciation and Amortisation to \$1.14 billion.

This increase was principally due to higher volumes and tariffs on both electricity and gas distribution networks.

We also announced a Net Profit After Tax (NPAT) of \$489.3 million for Financial Year 2016. NPAT was \$466.7 million higher than the prior corresponding period, principally due to:

- a tax consolidation benefit of \$135 million arising from the corporate restructure;
- a tax benefit of \$28.1 million relating to the settlement of one aspect of the ATO disputes, relating to Intellectual Property;

and the absence of one-off charges that occurred in the prior period for tax and metering customer rebate payments, and asset write-offs.

The company declared a final 2016 dividend of 4.265 cents per share, 100% franked, bringing the total FY16 dividend to 8.53 cents per share, fully franked, delivering on the FY16 full-year dividend guidance. This enhanced franking capability is a direct consequence of the corporate restructure and simplification process that I mentioned earlier.

Our growing asset base and prudent financial settings are generating strong net operating cash flows, up 4% on the prior corresponding period on an adjusted basis. Along with the increase in dividends and enhanced franking capability, strong total shareholder returns place AusNet Services ahead of the ASX200 index by around 18% as of March 31 2016, on a pre-tax basis.

As uncertainty again looms in world financial markets, we are pleased to confirm our continued exercise of financial prudence, by the maintenance of a well-diversified debt portfolio by maturity and source. We are rated A3 by Moodys and A-minus by S&P, reflecting our strong underlying financial position and allowing us ready access to debt markets in Australia and offshore.

2015 AGM

We have considered shareholder sentiment on a number of matters, including Board renewal, remuneration and the mandate to issue shares. These matters are the subject of resolutions today.

Resolution 3 relates to the Remuneration Report, and I will shortly ask the Chair of the Remuneration Committee, Ms Tina McMeckan, to say some more about that resolution.

Resolution 5 relates to the appointment of two new Directors and importantly, facilitates the election of an independent Chairman, consistent with the ASX Governance Principles, and as determined unanimously by the Directors.

Resolution 6 seeks your approval to issue shares on a pro-rata basis, giving every shareholder the opportunity to participate if they wish – as indicated in the Explanatory Notes. Any such issue of shares, however, can only be conducted up to a limit equivalent to 10% of issued share capital. I would like to emphasise that the Board has no current intention of utilising this authority. It is recommended simply to provide the Board with a degree of flexibility in its prudent approach to managing the Company's capital requirements. An issue of shares made under the authority of resolution 6 is in addition to any shares issued under a dividend reinvestment plan and any shares issued under an employee incentive scheme.

It has been customary for AusNet Services to offer a dividend reinvestment plan, which we have done since 2009. We intend to maintain this practice, although the Board will carefully consider the circumstances prevailing in relation to each dividend.

I want to assure you that it is my objective, and indeed the objective of your Board as a whole, to work towards positioning AusNet Services in the best possible place to allow it



to deliver the value that our shareholders expect. We are confident that the resolutions put to you today reflect a balanced and prudent approach to these matters, in the interests of all our shareholders, and we seek your support for them.

Strategy for the Future

Our strategy is focused on efficiency and growth.

While we seek your support of the resolutions I have just mentioned, some of which are intended to give us the flexibility we need to prudently manage our capital requirements, let me emphasise that our existing balance sheet is capable of supporting our strategic intentions of growth and efficiency. These initiatives span both our core regulated network businesses, as well as our commercial services. Shortly, our Managing Director, Mr Nino Ficca, will discuss the operational highlights of the past financial year and he will also further expand on the Company's strategic aspirations.

Bushfire Update

As mentioned, we now have the class actions relating to the Black Saturday bushfires behind us.

AusNet Services remains a party to two smaller bushfire class actions which relate to fires which occurred in February 2014. We were pleased to announce earlier this week that the class action relating to the bushfire at Yarram settled without admission of liability by AusNet Services or any other party. AusNet Services continues to vigorously defend the remaining claim, and we strongly maintain that AusNet Services has consistently complied with its regulatory obligations, including throughout the period in which the 2014 fires occurred.

Advanced Metering Infrastructure Program

AusNet Services remains focused on the delivery of the AMI Program.

We are pleased that the IT stabilisation works and roll-out of a wireless mesh communications network are tracking to plan. We remain confident that the technical work on core systems will be completed at the end of this calendar year, while



conversion of meters to enable provision of data remotely, remains on track for the end of financial year 2017.

Election & Retirement of Directors

At this year's Annual General Meeting, there are no Directors who are due to stand for re-election under the terms of our Constitution. However, as you know, you are being asked to elect Directors who have joined the Board since the last AGM.

Conclusion

AusNet Services remains focused on the safe, efficient and reliable delivery of electricity and gas to more than 1.3 million residential and business customers across Victoria.

The Company will continue its commitment to growing, modernising and transforming its existing networks, delivering value to shareholders and customers. We will do this by continuing to optimise our business model and target outperformance relative to regulatory benchmark settings, whilst seeking new opportunities in contracted energy infrastructure and services.

I will now hand you over to our Managing Director, Nino Ficca, to provide a more detailed insight into AusNet Services' operations.



2016 REMUNERATION COMMITTEE CHAIRMAN'S ADDRESS

Ms Tina McMeckan, Remuneration Committee Chair, AusNet Services

Good morning.

I am pleased to present my first address to you, the shareholders of AusNet Services, in my capacity of Remuneration Committee Chair.

Our objective in preparing this year's remuneration report was to provide you with a clear summary of the link between AusNet Services' remuneration framework, remuneration outcomes, company strategy and business performance outcomes. You will see that we have refreshed the layout and content of our Report this year, taking into account feedback that we have received from shareholders and proxy advisors.

The Board is strongly of the view that all payments made to executive Key Management Personnel must be in line with the delivery of shareholder value in any given year. When strong financial performance is achieved, shareholders and employees should benefit and if financial performance is weaker, this should also be reflected in variable remuneration outcomes. In that context, I draw your attention to the following concerning the 2016 financial year performance and outcomes.

Total remuneration outcomes for executive Key Management Personnel for the 2016 financial year were significantly higher than for 2015, largely due to the company's improved financial and business performance that is directly recognised in short and long-term variable remuneration payments.

All Key Management Personnel participated in the same Short-Term Incentive Plan, with the General Manager Select Solutions also having a large proportion of his Short-Term Incentive outcome determined against a Select Solutions-specific balanced scorecard.

At the corporate level, performance against the Balanced Scorecard Key Performance Indicators for the 2016 financial year delivered a payout at 127.1 percent of target. This outcome was positively impacted by higher Key Performance Indicator performance overall and the 2015 Company restructure. In contrast the 2015 payout of 56.2% was significantly negatively



impacted by the settlement of tax disputes with the Australian Tax Office and the payment of AMI rebates.

For the Select Solutions Balanced Scorecard, a result of 56.7% was achieved, impacted by two of the six targets relating to Safety and Profit recording below threshold outcomes.

In line with longstanding Board practice, no adjustments were made to 2015 or 2016 financial year results for one-off negative and positive items. Importantly, the two-year average Short-Term Incentive outcome, inclusive of one-off items, was 91.7% of target opportunity.

For the 2013 tranche of the Company's Long-Term Incentive Plan, the second last tranche to be tested under the former cash-based Long-Term Incentive Plan, the Total Shareholder Return Key Performance Indicator achieved a percentile ranking of 71.4, while Earnings Per Share Compound Annual Growth, achieved a return of 17.8 percent. Overall, this resulted in a vesting of 120.3% of target for the 2013 Long-Term Incentive Plan Award.

For the Managing Director, his 2013 Long-Term Incentive Plan invitation carried two additional Key Performance Indicators of Interest Cover Ratio and Return on Invested Capital. An above-target outcome was achieved on his Interest Cover Ratio Key Performance Indicator and a zero outcome for his Return on Invested Capital target. Overall, the Managing Director achieved a 104.9 percent vesting of his 2013 Long-Term Incentive Plan invitation.

The Remuneration Committee and Board were satisfied that all 2016 incentive payments made to executive Key Management Personnel were appropriate in recognition of their contribution to the achievement of these results.

The Board conducted a fixed pay review with effect from 1 April 2015, with the Managing Director receiving a four percent adjustment in fixed remuneration in consideration of his performance and market positioning. Other Key Management personnel received adjustments in their fixed remuneration consistent with their performance.

In late 2015, the Remuneration Committee commissioned a senior executive benchmarking report from its external remuneration advisor, with the report highlighting potential issues in the market alignment of remuneration for some senior executives. The Committee will be undertaking a deeper assessment of the findings later this year to determine whether any future remuneration adjustments should occur.



Similar to last year, an item has been included in the Notice of Meeting seeking approval for the 2016 Long-Term Incentive Plan Invitation to be issued to the Managing Director. As the Long-Term Incentive Plan is a Share Rights-based plan involving “on market” purchase and allocation of vested Share Rights, this approval is being sought on a voluntary basis, and in the interests of good governance.

In response to risks associated with change and transformation in the industry, including particularly privatisation activities in New South Wales, the Board, upon recommendation from the Managing Director, approved the implementation of an Executive Retention Plan for a small number of employees with industry specific expertise. The Managing Director is not a participant. Under this plan, participants receive an enhanced target Short-Term Incentive opportunity of between 10 and 20 per cent. This enhanced opportunity applies for the 2016 and 2017 Short-Term Incentive performance periods only, remains entirely at risk and is subject to the overall corporate and Key Management Personnel individual performance outcomes. Importantly, and recognising queries from some shareholders, it is not simply a matter of these employees remaining at AusNet Services, they must also meet mandated performance hurdles during this timeframe.

Thank you for your support. I commend the 2016 Remuneration report to you.