Australian Shareholders' Association

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Poles and wires business facing the huff and puff of consumer energy pricing angst

Company/ASX Code	AusNet Services Ltd/AST
AGM date	Thursday 18 July 2019
Time and location	Melbourne Exhibition Centre Auditorium Level 2 Clarendon St Southbank
Registry	Computershare
Webcast	No
Poll or show of hands	Poll on all items
Monitor	Mike Robey assisted by Tom Rado
Pre AGM Meeting?	Yes, with NED & Chair of Rem Committee, Sally Farrier; Analyst IR, Luke Maffei; EGM Personnel, Safety and Customer, Geraldine Leslie and EGM Governance & Co Sec, Claire Hamilton. With Tom Rado & Jason Cole representing the ASA.

Item 1	**Financial statements and reports**
ASA Vote	No vote required

Summary of ASA Position

AusNet Services owns and manages three separate energy related assets in Victoria. They own the entire electricity transmission network (the huge towers striding the country), one of five electricity distribution networks (smaller poles and substations) and one of three gas distribution networks (the pipes). The major portion of revenue is determined by the financial factors set by the regulator, namely the tax allowance structure and the rate of return, which are reset at regular intervals. The next resets occur early in 2021 (electricity distribution price), 2022 (electricity transmission revenue, fixed and independent of volume) and 2023 (gas access arrangement), so will not affect the current or next financial year but will kick in during 2021 financial year (FY21). A small but growing portion of revenue comes from a business unit called Mondo, which supports an unregulated Corporate market. This is contracted infrastructure, such as the interconnection of wind and solar farms to the electricity grid, the construction and management of a battery storage facility and so on. This asset base is growing quickly (30% to about $950m) and enables AusNet to grow outside of the tightly regulated energy markets into networks supporting renewables. Most financials for the year were down on the same calendar period (see table) partly due to squeezing of the regulated returns, offset by 3.5% growth in the regulated asset base, resulting from

Victoria's population growth. There was also a hand-back of $29m revenue to the regulator due to a disallowed expenditure. Gas distribution revenues declined due to a 9.5% reduction in the regulated tariff, offset by a growth in the customer base. Their strategy is to reduce operating costs of the regulated portion of the business which has led to a reduction of their workforce by 24% over 3 years and reduce dependence on the regulated market by growing the unregulated new energy networking sector, coupled with a refocus on higher margin service contracts.

Capital expenditure is about 30% up on last year to $970m, split 2/3 growth projects and 1/3 maintenance (mainly bushfire mitigation). Despite the squeezing of the regulated revenue and the expanded capital growth program, AusNet paid an increased dividend of 9.72 cps. Given that retail shareholders comprise only 49% of the stock of AusNet, with the balance from Singapore Power (31% and State Grid of China 19%) we have arguably little influence on the way the company is managed, however our observation in recent years is that our feedback has been heeded, particularly in the structure of their remuneration.

AusNet has been a well-managed business which has delivered a reliable (bond-like) dividend return for retail shareholders. Its principal risks are environmental (bushfires etc) and Government regulation. Its peers comprise a mix of State-owned and listed companies and in all but one case it performs in the top 25th percentile. An ongoing program of work aims to mitigate bushfire risk, installing rapid earth fault current limiters at critical electricity distribution locations, eliminating the starting of bushfires by fallen power lines, though its uneconomic to upgrade every pole.

Summary

(As at FYE)	**2019**	**2018**	**2017**	**2016**
NPAT ($m)	253.9	291.4	255.1	489.3
UPAT ($m)	253.9	291.4	255.1	326.2
Share price ($) as at 31 March	1.755	1.675	1.69	1.49
Dividend* (cents)	9.7	9.2	9.8	8.5
TSR (%)	10.6	4.56	20.0	7.9
EPS (cents)	7.0	8.1	7.1	13.9
CEO total remuneration, actual ($m)	2.879	3.090	3.162	2.856

***** partly franked, approx 42% in 2019

For 2019 the CEO's total actual remuneration was approx **33.2 times** (around 35.6 times in 2018) the Australian Full time Adult Average Weekly Total Earnings of $86,652 (based on November 2018 data from the Australian Bureau of Statistics).

Item 2a	**Election of Li Lequan as Non-Executive Director**
ASA Vote	**For**

Summary of ASA Position

Mr Li is a nominee of State Grid of China (a 20% shareholder). He seems to have the required background knowledge of the electricity industry and managerial experience from his past and current managerial roles in China & Portugal. Nevertheless he may have to continue to familiarise himself with the engineering, environmental and political situation in Australia, particularly Victoria.

Item 2b	**Re-election of Tan Chee Meng as Non-Executive Director**
ASA Vote	**For**

Summary of ASA Position

Mr Tan is a nominee of Singapore Power International (a 30% shareholder). He has been a director of the company since 2016. He seems to have the required background knowledge of the electricity industry and engineering, legal and managerial experience from his past and current managerial roles in Singapore.

Item 2b	**Re-election of Peter Mason as Independent Non-Executive Director**
ASA Vote	**For**

Summary of ASA Position

Mr Mason is 1 of 4 independent directors and is also the current chairman. Although he is a director of SingTel, a company whose ultimate owner is the Singaporean Government, the same as that of this company's principal shareholder (Singapore Power International), this is not considered to effect his "independent" status.

He seems to be very well qualified for the position having had many years of financial and senior board positions in leading Australian listed companies.

Item 3	**Adoption of Remuneration Report**
ASA Vote	**For**

Summary of ASA Position

AusNet Services has recently reworked its remuneration structure, in most part following the guidelines of the ASA. The short-term incentive (STI) award has a cash component of 66% and a 2 year equity deferred component of the balance and the maximum opportunity is 112% of fixed remuneration. Although the cash component is above the ASA guideline of 50% and the total is above the 100% guideline, this structure is sufficiently close to allow us to support it. The hurdle is cash flow, and as usual there is no quantum given for us to check its degree of stretch, although the stated position is that the first call on the cash flow is to pay shareholder dividends and only thereafter toward remuneration.

The long-term incentive (LTI) is a 3-year timeframe and that for **2019 to 2021** has a maximum opportunity of 120% of fixed remuneration (FAR). Financial measures are total shareholder return (TSR), earnings per share (EPS) and return on invested capital (ROIC). The ROIC bands are 4.7% to 4.9% which sits in a very tight band, but we are advised that the nature of the return on capital in this industry makes this a reasonable spread.

The CEO STI paid was $682,500 on an FAR of $1,300K, with $341,250 deferred in equity for 2 years. The **LTI** performance rights for the 2016 year vested at 54.3% of those granted, amounting to $660,000.The remuneration report is quite easy to understand.

Item 4 (a)	**Grant of Equity Awards to the current MD – Nino Ficca**
ASA Vote	**For**

Summary of ASA Position
The STI program comprises two thirds cash and one third equity, deferred by two years. This resolution in part seeks to approve his equity component up to a maximum of 185,492 rights.
It also seeks approval to 164,881 rights as part of LTI plan with a three year vesting period, which has been adjusted to reflect the change of CEO at 1 November 2019. Given the support for the STI and LTI plans which involve equity incentives, we will vote in favour of this resolution.

Item 4 (b)	Grant of Equity Awards to the incoming MD – Tony Narvaez
ASA Vote	For

Summary of ASA Position

This resolution relates to the granting a maximum of 260,459 LTI plan rights, which is pro-rata of his long term incentive plan reflecting his November 2019 commencement in the role. We will vote in favour of this resolution as it is consistent with remuneration report.

Item 5	Issue of shares up to 10% pro rata
ASA Vote	For

Summary of ASA Position

This is a routine contingency as their current constitution does not allow this. There is no stated plan to issue more shares.

Item 6	Issue of shares pursuant to the Dividend Reinvestment Plan
ASA Vote	For

Summary of ASA Position

A routine requirement to issue shares for a DRP.

Item 7	Issue of shares pursuant to an Employee Incentive Scheme
ASA Vote	For

Summary of ASA Position

We support fair staff share schemes, which enable staff to be involved in the commercial aspects of their employer.

Both individuals involved in the preparation of this voting intention have a shareholding in this company.