sparkinfrastructure

ASX RELEASE

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RESULTS FOR THE TWELVE MONTHS ENDED 31 DECEMBER 2020 (FY2020)

Highlights:

- Solid financial performance with look-through EBITDA of $862.4 million, up 2.4% on FY2019
- Minimal COVID-19 impacts to Investment Businesses with no deterioration to customer supply and no significant impacts on operations, maintenance or safety
- Underlying standalone net operating cash flow of $252.8 million, down 10.8% on FY2019, reflecting first full year of tax payments and retention of operational cash flow by TransGrid to fund increase in RAB growth
- Successful tax appeal outcome in October 2020 to result in an expected cash refund of approximately $45 million during FY2021
- Regulated and Contracted Asset Base (RCAB) up 3.7% on FY2019 to $6,704 million with TransGrid commencing a number of significant augmentation upgrades to its network
- First renewables project, 120.5 MW_{DC} Bomen Solar Farm, delivered on time and significantly under budget, and commercial operations commenced in late June 2020
- Strong investment grade balance sheets with corporate debt facilities of $400 million
- FY2020 total distribution of 13.5 cents per security (cps). Final distribution of 6.5cps for FY2020 declared and will include franking credits of 2.1cps (inaugural franking)
- FY2021 distribution guidance rebased at 12.5cps, franked to approximately 25% (i.e. circa 3cps of franking credits), subject to business conditions
- Targeting growth in distributions at or around CPI over the next 5-year regulatory period (to 2025) maintaining franking at approximately 25%

Spark Infrastructure today released its financial results for the 12 months ended 31 December 2020 delivering 13.5cps of distributions to Securityholders for 2020 in line with guidance. This outcome was achieved through the resilience of its high quality Investment Businesses in a challenging environment.

Spark Infrastructure Chair Dr Doug McTaggart said: “The Board of Spark Infrastructure is pleased to have delivered a full year distribution of 13.5 cents per security to our Securityholders in line with guidance provided at the beginning of 2020. We are delighted that the underlying strength of our Investment Businesses has shone through and we have been able to maintain guidance against a backdrop of market uncertainty due to COVID-19 ensuring our distributions remain attractive and reliable to Securityholders.”

Safe, reliable and efficient networks supporting customers and a low emissions energy future

During COVID-19 Spark Infrastructure's network businesses have ensured continuity of energy supply and the safety of staff and the community. They have also provided support to customers experiencing hardship, including the waiving or deferring of network charges as a part of the Energy Networks Australia network relief package. This aligns with Spark Infrastructure's ESG commitment to supporting the communities in which our businesses operate. Moving forward our network businesses have an important role to play in the post COVID-19 green recovery and supporting the transition to a lower emissions energy sector.

Successful tax appeal outcome

During October 2020, the Full Federal Court handed down its decision in the appeal by Victoria Power Networks against the Commissioner of Taxation in relation to the tax treatment of certain cash contributions and gifted assets for the tax years 2008 to 2011. Victoria Power Networks was successful on appeal in respect of the tax treatment of certain gifted assets. As a consequence Spark Infrastructure estimates that, in respect of prior years, it is due a refund of primary tax of approximately $40 million and a refund of interest of approximately $5 million. Importantly Spark Infrastructure is now able to provide franking credits on an ongoing basis starting with its 2020 final distribution.

Successful commencement of Bomen Solar Farm operations and new opportunities in renewables

The Bomen Solar Farm project was completed in 2020 being delivered on time and significantly under budget. The 120.5MW_{DC}/100MW_{AC} solar farm commenced commercial operations in late June 2020 notwithstanding delays in commissioning due to COVID-19.

Spark Infrastructure Managing Director Mr Rick Francis said: "The construction and start of commercial operations at Bomen demonstrates Spark's capability in delivering renewable generation to the market. We are confident in our Value Build Strategy and that investment in renewables will create a diversified asset portfolio that delivers additional value for our Securityholders.

Delivering Bomen has been an important milestone for Spark. The construction project supported around 200 jobs with a focus on local employment and supported local businesses in the NSW Riverina. From an environmental perspective Bomen has delivered 105GWh of clean energy and contributed to a reduction of over 85,000 tonnes of greenhouse gases since June 2020."

Mr Francis added: "Following the success of the Bomen Solar Farm we have developed an exciting pipeline of high quality opportunities in renewables including storage that we will pursue in a prudent and disciplined manner."

FY2020 Performance Summary

Spark Infrastructure Financial Performance	FY2020 ($m)	FY2019 ($m)	Variance (%)
Look-through EBITDA[1]	862.4	841.8	2.4
Underlying Standalone Net Operating Cash Flow[2]	252.8	283.5	(10.8)
Standalone Net Operating Cash Flow	192.5	256.4	(24.9)
Cash distributions from Investment Businesses[3]	301.0	312.5	(3.7)
Net capital expenditure[4,5]	573.7	521.5	10.0
Regulated and Contracted Asset Base (RCAB)[4,6]	6,704	6,466	3.7
FFO/Net Debt[1](%)	12.4%	13.5%	-1.1%
Net debt/RCAB[4,6] (%)	72.4%	71.9%	+0.5%

Look-through cash flows (Spark Infrastructure share)			
Underlying net operating cash flow (before tax)	358.2	397.4	(9.9)
Underlying net operating cash flow (after tax)[2]	320.3	379.3	(15.6)
Growth Capex (Spark Infrastructure share)			
Victoria Power Networks	145.1	112.9	28.5
SA Power Networks	27.0	45.2	(40.3)
TransGrid	58.6	45.5	28.8
Total Growth Capex	230.7	203.6	13.3

1. On an aggregated proportional basis of investment businesses to Spark Infrastructure and including Bomen Solar Farm and Corporate Costs
2. Includes corporate tax paid of $37.9m in 2020 in respect of the 31 December 2019 income tax year. 2019 includes tax paid of $16.9m represents tax liability in respect of the 31 December 2018 income tax year. Excludes Spark Infrastructure other tax paid of $48.0 million comprised of $34.4 million tax paid in relation to a number of historical years and $13.6m relating to instalments for the 31 December 2020 income tax year. 2019 excludes other tax paid of $21.8m in relation to a number of historical tax years (2015-2018). Also excludes Victoria Power Networks and SA Power Networks cash tax paid of $22.8m and $2.8m as the benefit of franking credits will be distributed to Spark Infrastructure in future years.
3. Victoria Power Networks distributions include both interest on and repayment of shareholder loans. Repayments of loan principal are classified as investing activities for statutory reporting purposes.
4. On an aggregated proportional basis of investment businesses to Spark Infrastructure
5. Excludes Bomen Solar Farm.
6. Includes public lighting RAB and Bomen Solar Farm.

On a look-through basis underlying net operating cash flow before tax was $358.2 million, 9.9% lower than the prior year. The Investment Businesses invested $230.7 million in growth assets during the year comprising $172.1 million in distribution assets and $58.6 million in transmission assets.

Cash distributions from the Investment Businesses to Spark Infrastructure decreased by 3.7% to $301.0 million. Total distributions received from Victoria Power Networks were $171.5 million, up 7.5% and distributions received from SA Power Networks were $106.6 million, down 8.3% in line with expectations as they entered their new regulatory period from 1 July 2020.

Total distributions received from TransGrid were $22.9 million, down $13.9 million. The decrease was primarily due to TransGrid retaining a portion of surplus operational cash to assist in funding growth in its regulated and contracted asset bases.

Victoria Power Networks (100% numbers)

Victoria Power Networks (CitiPower and Powercor) delivered a robust performance for the year, notwithstanding the significant economic and community disruption caused by COVID-19 related lockdowns in the State, with total revenue of $1,186.9 million (excluding Beon), 3.2% higher than the prior year largely due to higher regulated revenue of $1,001.1 million, up 4.6%. EBITDA was $903.1 million, 6.4% higher than the prior year due to higher revenue, higher Beon margin and lower operating costs.

Net capital expenditure was $585.2 million, an increase of 15.3%, due largely to the continuation of the Rapid Earth Fault Current Limiters program, an increase in the pole replacement program and the development of new depots. COVID-19 did not impact on the delivery of Victoria Power Network's capital program in 2020. As a result, Victoria Power Network's RAB grew to $6,635 million at 31 December 2020, 4.7% higher than at 31 December 2019.

CitiPower and Powercor's Draft Determinations for the period 1 July 2021 to 30 June 2026 were issued by the AER in September 2020 (which excluded consideration of the transition period from 1 January 2021 to 30 June 2021). Revised Proposals were submitted by the businesses in December 2020 and Final Determinations are expected in April 2021.

SA Power Networks (100% numbers)

SA Power Networks' Final Determination for the period from 1 July 2020 to 30 June 2025 was issued by the AER in June 2020 and was broadly in line with expectations, which will provide regulatory certainty for the next 5 years.

SA Power Networks' performed steadily during the year with total revenue of $942.2 million (excluding Enerven), a reduction of 1.9% on the prior year. Regulated revenue was $849.2 million or broadly flat on the prior year, with all other revenue streams (excluding Enerven) being lower than the prior year. EBITDA was $668.1 million, 3.3% lower than the prior year due to lower revenue and higher operating costs, offset partially by a higher Enerven margin.

Net capital expenditure was $368.7 million or 9.1% lower than last year due to lower network connection, augmentation and maintenance capex in line with the new regulatory determination. RAB increased to $4,395 million at 31 December 2020, 1.3% higher than at 31 December 2019.

TransGrid (100% numbers)

TransGrid's transmission revenue for the period was $896.4 million, an increase of 1.9% on the prior year, largely due to higher regulated revenue of $773.6 million, up 2.5%. While connections revenue has continued to increase year on year overall aggregated unregulated revenue increased modestly by 3.4% to $124.2 million, primarily due to the completion of the Western Sydney Airport asset relocation project in 2019.

Regulated operating expenses increased by $9.5 million or 6.1% to $165.1 million principally due to major bushfire remediation costs of $12.8 million at the beginning of the year. These costs are expected to qualify as a pass-through and be recovered in future periods. Excluding this amount regulated operating expenses decreased by 2.1% due to continued operating efficiencies being delivered. Unregulated operating expenses and other costs were $62.2 million, an increase of $18.8 million, mainly due to an increase in new infrastructure connections and upfront work, partially offset by a reduction in line modification projects from the previous year. Infrastructure connection projects require upfront activity which can result in a mismatch in the timing of operating expenses and the resulting revenue if projects proceed. EBITDA was $669.1 million, 1.7% lower than the prior year.

Capital expenditure was $708.2 million, an increase of $214.9 million on 2019. Regulated capital expenditure increased by 96.7% to $501.0 million mainly due to investment in augmentation projects including Powering Sydney's Future, Stockdill Switching Station and ISP projects including Energy Connect, QNI Minor upgrade project and higher maintenance capital expenditure. Unregulated or contracted capital expenditure in 2020 of $207.2 million was due to a number of solar farm connections and additional telecommunications capital expenditure. RCAB grew to $7,517 million at 31 December 2020, 5.5% higher than at 31 December 2019.

Sustainability and Environmental, Social, and Corporate Governance (ESG) focus

'Safety first' is one of Spark Infrastructure's core values which informs how we ensure the physical, mental, and psychological health of our people. This was evident across every aspect of our businesses throughout the devastating bushfires of early 2020 and the COVID-19 pandemic from March.

Supporting reliable energy also means maintaining network availability in the face of challenges such as the increasing frequency and severity of extreme weather attributable to climate change. We take a risk-based approach to climate change and continue to evaluate our exposure to climate-related risks and opportunities and the associated potential financial impacts. As evidence of our commitment to sustainability Spark Infrastructure achieved a B rating in the Climate Disclosure Project survey for 2020, a significant uplift from D in the prior year.

Delivering affordable energy means innovating to enhance network efficiency and understanding the issues that are most important for our customers. Our businesses play a significant role in the communities in which we operate across Australia, both as employers and as contributors to community initiatives.

Outlook

New 5-year regulatory decisions for both SA Power Networks and Victoria Power Networks will be in force from 2021. These new regulatory decisions put downward pressure on revenues for these businesses largely due to sustained low interest rates affecting regulatory returns and the low inflationary environment. In response we expect both businesses to closely review all operating and capital expenditure plans, with a view to minimising any non-essential or discretionary expenditure.

Our Value Enhance, Value Build and Value Acquire strategy remains unchanged. We are committed to growing our contracted renewables business and have built an exciting pipeline of high quality development opportunities. As always, we remain disciplined in the evaluation of these opportunities given the uncertainty and volatility that currently exists in these markets.

With renewed regulatory revenue certainty and resolution of the tax appeal in 2020, the Board is providing distribution guidance for 2021 of 12.5cps, subject to business conditions. In addition, it is expected the distribution will carry franking credits of around 3cps. The distribution is intended to be spread equally between the first half and second half of the year. We expect cash distributions to Securityholders will be sustained from net operating cashflows across the 5-year period.

Distribution guidance for 2021 has been rebased on the new 5-year regulatory decisions and the expected tax refund following the successful tax appeal in 2020. Looking forward, we intend to target growth in distributions at or around CPI through the new regulatory period to 2025, subject to business conditions. In addition, franking credits are expected to average around 25% of the distribution over that period.

Within this context and subject to the AEMO 2020 ISP major projects proceeding, Spark Infrastructure is expecting to deliver RCAB growth over the next five years approaching 4% per annum CAGR. While growth in the SA Power Networks and Victoria Power Networks will be funded from operational cashflows and debt as they have been previously, we expect that any equity commitments to support TransGrid major projects or Spark Infrastructure Value Build growth can be met by continued operation of the Distribution Reinvestment Plan (DRP), i.e. the DRP will be used to manage equity for growth ensuring sufficient cash exists at the corporate level to fund distributions to Securityholders.

Distributions

The Directors declared a final distribution for 2020 of 6.5cps in December 2020, delivering a full year distribution for 2020 of 13.5cps to Securityholders. The final distribution is payable on 15 March 2021 and will comprise 3.55cps interest on Loan Notes for the period and 2.95cps trust distribution with 2.1cps of franking credits.

As announced, the Directors have determined that the DRP will remain in operation and participating Securityholders will be issued Spark Infrastructure stapled securities at a 2% discount to the price specified under the DRP rules.

The key dates for the distribution are confirmed as follows:

Item	Date
Ex-date	Wednesday, 30 December 2020
Distribution record date	Thursday, 31 December 2020
Announcement date	Tuesday, 23 February 2021
DRP election cut-off date	Monday, 1 March 2021 at 5pm
Proposed DRP pricing date (5 trading days)	Tuesday, 2 March 2021 – Monday, 8 March 2021
DRP price per security announced	Tuesday, 9 March 2021
Distribution payment date	Monday, 15 March 2021
Allotment date for DRP	Monday, 15 March 2021

For further information:

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