

Results announcement

Hastings Diversified Utilities Fund (HDF)

Total pages: 168

19 February 2010

Appendix 4E – Report for the year ended 31 December 2009

Please find enclosed the following documents:

- A. Results for announcement to the market
- B. Commentary on the results
- C. Annual Financial Statements for the year ended 31 December 2009
- D. Independent auditor's report

For further enquiries, please contact:

Colin Atkin

Chief Operating Officer

Hastings Diversified Utilities Trust

Tel: +61 3 8650 3600

Fax: +61 3 8650 3701

Email: investor_relations@hfm.com.au

Website: www.hfm.com.au/hdf

Simon Ondaatje

Head of Investor Relations

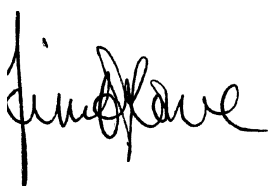
Hastings Funds Management

Tel: +61 3 8650 3600

Fax: +61 3 8650 3701

Email: investor_relations@hfm.com.au

Website: www.hfm.com.au/hdf



Kim Rowe

Company Secretary

Hastings Funds Management Limited

A. Results for announcement to the market

Hastings Funds Management Limited, as responsible entity for the Hastings Diversified Utilities Fund (HDF), is pleased to announce the financial results for HDF for the year ended 31 December 2009.

HDF financial results – Excluding non-operating items *

	Change from previous corresponding period	Year to 31 December 2009 (\$'000)	Year to 31 December 2008 (\$'000)
Excluding non-operating items			
Net cash flows from operating activities	Up 10.0%	65,934	59,947
Income from ordinary activities	Up 12.2%	132,123	117,791
EBITDA	Up 50.2%	94,792	63,098
- excluding incentive fee in 2008	Up 16.4%	94,792	81,454
EBIT	Up 59.7%	74,590	46,695
- excluding incentive fee in 2008	Up 14.7%	74,590	65,051
Total finance costs	Up 12.6%	38,870	34,508
Net profit before tax	Up >100.0%	35,720	12,187
- excluding incentive fee in 2008	Up 16.9%	35,720	30,543
Net profit for the period attributable to securityholders	Up >100.0%	30,030	6,486
- excluding incentive fee in 2008	Up 20.9%	30,030	24,843

* Consistent with prior years' reporting, the financial results above are presented by excluding non-operating items comprising unrealised revaluations and unrealised foreign exchange rate movements (year ended 31 December 2009: net loss of \$71.7 million; and year ended 31 December 2008: net loss of \$18.3 million) to enable comparison with prior years' operational performance.

Net cash flows from operating activities were \$65.9 million for the year ended 31 December 2009, 10.0 percent higher than the comparable figure of \$59.9 million for the previous corresponding period. Excluding non-operating items, income from ordinary activities was \$132.1 million for the year ended 31 December 2009, 12.2 percent higher than the comparable figure of \$117.8 million for the previous corresponding period. EBITDA was \$94.8 million, 16.4 percent higher than the comparable figure of \$81.5 million for the year ended 31 December 2008 after providing for the incentive fee in 2008 payable to Hastings the manager and responsible entity of HDF.

Key highlights are as follows:

- Solid operating performance from Epic Energy, with operating income for the year of \$119.7 million, 25.2 percent ahead of the 31 December 2008 result, primarily due to the commencement of gas haulage on the newly completed QSN Link from January 2009. The QSN Link, which is underpinned by long term contracts, represents a permanent step-change in Epic Energy's operating performance. Due to the QSN Link being 100 percent debt funded, Epic Energy finance costs also increased over the year.
- Cash receipts (including capital items) from South East Water (UK) for the year ended 31 December 2009 were approximately 28.5 percent lower than the previous corresponding period largely due to the unprecedented decline in UK inflation from September 2008 to June 2009 which resulted in South East Water shareholders agreeing to provide a capital injection into South East Water. Net realised gains from cross currency swaps relating to South East Water were also lower than for the previous corresponding period due to declines in the Bank Bill Swap Rate, however this reduction was offset by a corresponding reduction in TAPS Trust distribution payments and HDF debt facility interest payments over the period.
- In line with fund policy, hedging arrangements provided HDF with protection against the effects of foreign exchange rate movements on its cash flows. The capital value of offshore assets is not hedged.

A. Results for announcement to the market *continued*

HDF financial results – Including non-operating items

	Change from previous corresponding period	Year to 31 December 2009 (\$'000)	Year to 31 December 2008 (\$'000)
Including non-operating items			
Net cash flows from operating activities	Up 10.0%	65,934	59,947
Income from ordinary activities	Down 39.3%	60,451	99,538
Profit / (loss) from ordinary activities after tax attributable to securityholders	Down >100.0%	(41,642)	(11,767)
Net profit / (loss) for the period attributable to securityholders	Down >100.0%	(41,642)	(11,767)

Including non-operating items, income from ordinary activities was \$60.5 million for the year ended 31 December 2009, 39.3 percent lower than the comparable figure of \$99.5 million for the previous corresponding period. Net profit for the period attributable to securityholders was a net loss of \$41.6 million compared to a net loss of \$11.8 million for the previous corresponding period.

The lower income and net profit are due to a larger net unrealised foreign exchange and revaluation loss (\$71.7 million for the year to 31 December 2009 compared to \$18.3 million for the previous corresponding period). The net unrealised loss of \$71.7 million comprises:

- \$63.4 million net unrealised loss on unlisted securities (i.e. HDF's interest in South East Water) which comprises a \$34.2 million unrealised loss due to the effect of foreign exchange rate movements over the period and a \$29.2 million unrealised loss associated with a decrease in the valuation of the investment in local currency terms; and
- \$8.3 million in other net unrealised foreign exchange losses.

The unrealised foreign exchange related revaluation loss reflects the policy that the underlying capital value of South East Water is not hedged against exchange rate movements.

Hastings Diversified Utilities Fund

Appendix 4E

Report for the year ended 31 December 2009

A. Results for announcement to the market *continued*

Statements of Comprehensive Income – Including non-operating items

The table below provides an overview of the statements of comprehensive income for the year ended 31 December 2009 including non-operating items:

	Year ended 31 December 2009 (\$'000)	Year ended 31 December 2008 (\$'000)
Overview of HDF's Statements of Comprehensive Income ⁽¹⁾		
Epic Energy operating income	119,660	95,552
Epic Energy interest income	1,121	1,663
South East Water (SEW) investment income	9,666	13,891
Net impact of derivative transactions on interest income	1,449	6,408
HDF interest on cash and cash equivalents	3,107	1,822
Total interest and investment income	15,343	23,784
Realised gain / (loss) – unlisted securities	(2,880)	(1,545)
Unrealised net gain / (loss) – unlisted securities	(63,419)	(11,181)
Unrealised net gain / (loss) – derivative securities	(7,538)	(7,134)
Net gain / (loss) – cash and cash equivalents	(715)	62
Total income	60,451	99,538
Epic Energy operating expenses	30,297	27,511
Investment expenses	829	1,717
HDF and TAPS operating expenses	2,402	1,030
Responsible Entity incentive fees	-	18,356
Responsible Entity management fees	3,803	6,080
Total operating expenses (excluding finance costs)	37,331	54,694
EBITDA	23,120	44,845
EBIT	2,918	28,442
Epic Energy finance costs	29,568	17,841
HDF finance costs	3,385	6,269
TAPS distribution	5,917	10,398
Total finance costs	38,870	34,508
Net Profit / (Loss) Before Tax	(35,952)	(6,066)
Net Profit / (Loss) After Tax	(41,642)	(11,767)
Total Distribution	42,289	59,357

(1) Some items in the table above have been reclassified to illustrate HDF's statements of comprehensive income on an asset and fund specific basis. Refer to Section C for statutory annual financial statements for the year ended 31 December 2009.

A. Results for announcement to the market *continued*

Distribution to HDF securityholders

The table below summarises the distributions to securityholders for the year ended 31 December 2009.

	Year to 31 December 2009 Amount per security	Year to 31 December 2008 Amount per security
March quarter distribution	3.00 cents	7.00 cents
Franked amount per security	0.00 cents	0.00 cents
Foreign sourced income	0.00 cents	0.00 cents
Tax deferred amount ⁽¹⁾	1.56 cents	7.00 cents
Record date to determine entitlements to the distribution	31 March 2009	31 March 2008
Payment date for March distribution	20 April 2009	28 April 2008
Price of securities issued under HDF's DRP	n/a	n/a
June quarter distribution	3.00 cents	7.00 cents
Franked amount per security	0.00 cents	0.00 cents
Foreign sourced income	0.00 cents	0.00 cents
Tax deferred amount ⁽¹⁾	0.68 cents	7.00 cents
Record date to determine entitlements to the distribution	30 June 2009	30 June 2008
Payment date for June distribution	28 July 2009	28 July 2008
Price of securities issued under HDF's DRP	n/a	n/a
September quarter distribution	3.00 cents	7.00 cents
Franked amount per security	0.00 cents	0.00 cents
Foreign sourced income	0.00 cents	0.00 cents
Tax deferred amount ⁽¹⁾	3.00 cents	7.00 cents
Record date to determine entitlements to the distribution	30 September 2009	30 September 2008
Payment date for September distribution	28 October 2009	28 October 2008
Price of securities issued under HDF's DRP	n/a	n/a
December quarter distribution	3.00 cents	7.00 cents
Franked amount per security	0.00 cents	0.00 cents
Foreign sourced income	0.00 cents	0.00 cents
Tax deferred amount ⁽¹⁾	2.06 cents	7.00 cents
Record date to determine entitlements to the distribution	31 December 2009	31 December 2008
Payment date for December distribution	29 January 2010	29 January 2009
Price of securities issued under HDF's DRP	\$1.0706	n/a
Net tangible asset backing ⁽²⁾	\$1.23	\$2.05
Stapled security price	\$1.10	\$2.18

(1) Please refer to the Annual Distribution Statement for confirmation of the tax components of all distributions for the calendar year ended 31 December 2009.

(2) HDF's "Net tangible asset backing" is calculated as: "Total consolidated net assets attributable to securityholders divided by the total number of issued securities as at 31 December 2009". HDF independently revalues its investment in South East Water on a six monthly basis with the movement reflected in the "Net tangible asset backing" of HDF. However given Epic Energy is a wholly owned subsidiary of HDF and HDF's investment is eliminated upon consolidation, HDF does not revalue its investment in Epic Energy on an ongoing basis and any movement in the market value of Epic Energy is not reflected in HDF's "Net tangible asset backing".

The total distribution declared for the year ended 31 December 2009 was \$42.3 million. The total distribution per security for the year ended 31 December 2009 was 12.0 cents per security, in line with distribution guidance.

The HDF Distribution Reinvestment Plan (DRP) was suspended from the March 2008 quarter and was reactivated for the December 2009 quarter. The DRP issue price applied to the distributions paid to HDF securityholders who were registered as participants in the DRP at the record date. A 2.5 percent discount applied to the reinvestment price.

A. Results for announcement to the market *continued*

Subsequent Events

Subsequent to 31 December 2009, HDF has announced the following events:

- On 5 February 2010, HDF and Epic Energy reached Financial Close on the Stage 3 Expansion of Epic Energy's South West Queensland Pipeline (SWQP). In reaching financial close, all outstanding conditions precedent were met including HDF contributing \$55 million of equity via subordinated loans into Epic Energy.
- On 5 February 2010, South East Water successfully raised GB£130 million via a bond issue maturing 2041.

B. Commentary on the results

Epic Energy asset update

Epic Energy reported solid financial results:

Epic Energy operating results	Change from previous corresponding period	Year to 31 December 2009 (\$'000)	Year to 30 December 2008 (\$'000)
Operating income	Up 25.3%	119,660	95,529
EBITDA	Up 31.4%	89,363	68,018
Profit before tax	Up 26.2%	25,339	20,084

(1) For the year to 31 December 2008, Epic Energy operating income differs to the corresponding entry in HDF's statements of comprehensive income set out in Section A (year to 31 December 2008: \$95,552,000) due to a difference in the classification of amounts between interest income and interest expense.

Operating income from Epic Energy for the year ended 31 December 2009 was \$119.7 million, 25.3 percent ahead of the 31 December 2008 result. The increase in operating income reflects an increase in gas haulage revenue of 26.6 percent on the year ended 31 December 2008 following the commissioning of the QSN Link on 13 January 2009.

EBITDA for the year at \$89.4 million represented a 31.4 percent increase on the prior year driven by the increase in operating income and the improvement in operational leverage that resulted from having additional pipeline assets being operated without any significant increase in operating costs - EBITDA as a percentage of revenue increased to 74.7 percent for the year under review compared to 71.2 percent in the prior year.

In addition to the completion, on time and on budget, of the QSN Link Epic Energy reported a number of other significant events during the year which position Epic Energy for significant future growth, as follows:

- On 16 June 2009, HDF announced that Epic Energy had secured a conditional long term Gas Transportation Agreement (GTA) with Origin Energy to underpin the Stage 3 Expansion (QSN3) of the SWQP/QSN Link. The agreement with Origin Energy includes a long term GTA on Epic Energy's MAPS.
- On 18 November 2009, HDF announced that Epic Energy had received credit approvals from all of the proposed senior bank lenders for the QSN3 project. In addition to the new \$560 million senior bank facility and the refinancing of all existing facilities, Epic Energy also received credit approval from an International investment company for the funding of up to \$230 million through subordinated loan notes provided to Epic Energy. Further, it was announced that HDF would contribute \$55 million to complete the funding required for the project.
- On 15 December 2009, HDF announced that Epic Energy had executed the financing documents, subject to conditions precedent that were only satisfied subsequent to the end of the financial year, for the refinancing of its existing senior debt facilities, the new senior facility and the \$230 million mezzanine loan note facility funding for the QSN3 project. Epic Energy also confirmed that the Origin Energy GTA is firm and binding on both parties and notices to proceed have also been issued under the key pipe supply and construction contracts. The project is fully funded and is on target for completion by 1 January 2012.

B. Commentary on the results *continued*

South East Water asset update

The table below summarises South East Water's financial results (unaudited) for the half year ended 30 September 2009 (note South East Water has a March year end):

	Change from previous corresponding period	Half year ended 30 September 2009 (£'000)	Half year ended 30 September 2008 (£'000)
South East Water operating results ⁽¹⁾			
Revenue	Up 5.1%	90,233	85,873
EBITDA	Up 10.4%	56,446	51,084
Operating profit	Up 6.4%	37,511	35,249
Profit before tax	Up 88.5%	25,945	13,766
Net cash from operating activities	Up 4.5%	49,304	47,195

(1) The financial results above relate to South East Water Limited (i.e. the merged regulated entity) only and are prepared in accordance with UK GAAP.

Revenue for the six months ended 30 September 2009 was £90.2 million, up by 5.1 percent on the corresponding period, reflecting allowed tariff increases. EBITDA was £56.4 million, up by 10.4 percent and operating profit was £37.5 million, up 6.4 percent on the corresponding period, reflecting operating spend efficiencies. Profit before tax of £25.9 million, up 88.5 percent on the corresponding period, benefits from a reduced swap fair value charge.

Key highlights for South East Water's half-year included:

- Intensive dialogue and negotiation with the UK water regulator (Ofwat) over the period ultimately led to a satisfactory Final Determination for SEW.
- The regulatory price review process for 2010-2015 has been completed:
 - Final Determination from Ofwat was published on 26 November 2009.
 - SEW stated publicly that it was not going to appeal the decision on 22 December 2009.
 - SEW has been refining its business plan going forward following receipt of the Final Determination.
 - The outcome of the regulatory price review will take effect from the year commencing 1 April 2010.
- Focus on and development of SEW's cash collection processes to limit the impact to SEW of the wider economic environment.
- Continued delivery of the capital programme with £30.8 million invested in the six months ended 30 September 2009. South East Water remains on track to achieve its regulatory approved capital programme for the current regulatory period.
- Water resources are currently at or above historic average levels and no restrictions are envisaged for the next northern hemisphere summer.

South East Water remains in full compliance with its banking covenants, including gearing and coverage ratios, which will next be tested at 31 March 2010.

**C. Annual Financial Statements for the year ended 31
December 2009**

D. Independent auditor's report

The annual financial statements for the year ended 31 December 2009 have been audited and the independent auditor's report is attached. Refer to Section C.