ASX & SGX-ST Release

12 May 2011

TO: ASX Limited
Singapore Exchange Securities Trading Limited

Results for Announcement to the Market
Year Ended 31 March 2011

The following documents are attached:

1. ASX Appendix 4E – Final Report; and

2. Financial Report of SP Australia Networks (Distribution) Ltd for the period ended 31 March 2011.

Susan Taylor
Company Secretary

For further information contact:

Investor Relations
John Nicolopoulos
Investor Relations
+61 3 9695 6301 or +61 409 672 912

Media Relations
Joe Adamo
Media Advisor
+61 3 9695 6466 or + 61 0400 623 782

SP AusNet

SP Australia Networks (Distribution) Ltd
ABN 37 108 788 245

SP Australia Networks (Transmission) Ltd
ABN 48 116 124 362

SP Australia Networks (Finance) Trust
ARSN 116 783 914

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

Level 31
2 Southbank Boulevard Southbank
Victoria 3006 Australia

Locked Bag 14051
Melbourne City Mail Centre
Victoria 8001 Australia

Tel: +61 3 9695 6000
Fax: +61 3 9695 6666

www.sp-ausnet.com.au

SP Australia Networks (Distribution) Ltd trading as SP AusNet
ACN: 108 788 245

Appendix 4E

Final report
Period Ending 31 March 2011

1. The current reporting period is the year ended 31 March 2011. The previous corresponding period is the year ended 31 March 2010.

2. Results for announcement to the market

	31 March 2011 $M	31 March 2010 $M	% change	Up / down
2.1 Revenue from continuing operations	1,468.0	1,333.6	10.1	up
2.2 Profit from ordinary activities after tax attributable to stapled securityholders comprises:				
Profit from continuing operations	252.9	209.0	21.0	up
2.3 Net profit for the year attributable to stapled securityholders	252.9	209.0	21.0	up

2.4 Distributions for the financial year ended 31 March 2011:

	Cents per security
Interim distribution:	
Fully franked dividend	1.591
Assessable interest income	2.228
Return of capital	0.181
Total interim distribution	4.000
Final distribution:	
Fully franked dividend	1.333
Assessable interest income	2.279
Return of capital	0.388
Total final distribution	4.000

2.5 The record dates for determining entitlements to the distributions:

Distribution	Record date	Payment date
Interim	26 November 2010	22 December 2010
Final	1 June 2011	29 June 2011

2.6 Brief explanation of revenues, profits after income tax and distributions:

Refer to the analysis contained in the Directors' report within the attached General Purpose Financial Report for SP Australia Networks (Distribution) Ltd.

3. Statement of comprehensive income

Refer to the statement of comprehensive income contained within the attached General Purpose Financial Report for SP Australia Networks (Distribution) Ltd.

4. Statement of financial position

Refer to the statement of financial position contained within the attached General Purpose Financial Report for SP Australia Networks (Distribution) Ltd.

5. Statement of cash flows

Refer to the statement of cash flows contained within the attached General Purpose Financial Report for SP Australia Networks (Distribution) Ltd.

6. Dividends and Distributions

The following distributions have been paid or are payable to securityholders:

	Cents per security	Total distribution $M	Date paid/payable
2011:			
Final Distribution payable			
Fully franked dividend	1.333	37.3	29 June 2011
Assessable interest income	2.279	63.7	29 June 2011
Return of capital	0.388	10.8	29 June 2011
Total Final Distribution	4.000	111.8	
Interim Distribution paid			
Fully franked dividend	1.591	43.7	22 December 2010
Assessable interest income	2.228	61.2	22 December 2010
Return of capital	0.181	5.0	22 December 2010
Total Interim Distribution	4.000	109.9	
Total 2010 Distribution	8.000	221.7	

In relation to the interim distributions on 22 December 2010 of $109.9 million, $40.2 million was utilised in the allotment of new securities issued under the Distribution Reinvestment Plan.

	Cents per security	Total distribution $M	Date paid/payable
2010:			
Final Distribution payable			
Fully franked dividend	1.591	43.0	29 June 2010
Assessable interest income	2.261	61.2	29 June 2010
Return of capital	0.148	4.0	29 June 2010
Total Final Distribution	4.000	108.2	
Interim Distribution paid			
Fully franked dividend	1.289	34.3	22 December 2009
Assessable interest income	1.887	50.3	22 December 2009
Return of capital	0.824	21.9	22 December 2009
Total Interim Distribution	4.000	106.5	
Total 2009 Distribution	8.000	214.7	

In relation to the interim distributions on 22 December 2009 of $106.5 million, $34.6 million was utilised in the allotment of new securities issued under the Distribution Reinvestment Plan. In relation to the final distributions on 29 June 2010 of $108.2 million, $34.6 million was utilised in the allotment of new securities issued under the Distribution Reinvestment Plan.

7. Distribution Reinvestment Plans

On 7 October 2008, the SP AusNet Board announced the introduction of a Distribution Reinvestment Plan (DRP). The DRP is available for participation by securityholders on both the ASX and SGX-ST.

Securityholders participating in the DRP for the 2010/11 final distribution will be issued SP AusNet stapled securities at a 2.5% discount to the issue price of SP AusNet stapled securities established under the rules of the DRP. The issue price is calculated as the average of the volume weighted average price (as defined in the DRP rules) (VWAP) of SP AusNet stapled securities sold in ordinary market transactions on the ASX during the 10 trading days immediately after the record date for the distribution. The record date for the 2010/11 final distribution is 1 June 2011.

The deadline for the receipt of Election Notices for participation in the DRP for the 2010/11 final distribution is 5.00pm (Australian Eastern Standard Time) on 1 June 2011.

8. Statement of changes in equity

Refer to statement of changes in equity in the attached General Purpose Financial Report for SP Australia Networks (Distribution) Ltd.

9. Net tangible assets per security

	2011	2010
Net tangible assets per stapled security	$0.89	$0.89

10. Gain or loss of control over entities

SP AusNet did not gain or lose control over any entities during the period.

11. Details of associates/joint ventures

SP AusNet had no associates or joint ventures in operation at balance date.

12. Other significant information

Refer to the analysis contained in the Directors' Report within the attached General Purpose Financial Report for SP Australia Networks (Distribution) Ltd.

13. Foreign Entities

Not Applicable

14. Commentary on results for the period

14.1 Earnings per security

Company	31 March 2011	31 March 2010
Earnings per share from profit (Company)	1.68 cents	1.00 cents
Earnings per share from profit from continuing operations (Company)	1.68 cents	1.00 cents
Dilution aspects	None	None

Stapled Group	31 March 2011	31 March 2010
Earnings per stapled security from profit	9.19 cents	8.09 cents
Earnings per stapled security from profit from continuing operations	9.19 cents	8.09 cents
Earnings per stapled security from profit (adjusted for individually material items)	9.19 cents	8.09 cents
Earnings per stapled security from profit from continuing operations (adjusted for individually material items)	9.19 cents	8.09 cents
Dilution aspects	None	None

14.2 Returns to Securityholders

Returns to Securityholders are detailed in section 6 above.

14.3 Significant features of operating performance

Refer to the analysis contained in the Directors' Report within the attached General Purpose Financial Report for SP Australia Networks (Distribution) Ltd.

14.4 Segment results

Refer to Note 2 in the attached General Purpose Financial Report for SP Australia Networks (Distribution) Ltd.

14.5 Trends in performance

Refer to the analysis contained in the Directors' Report within the attached General Purpose Financial Report for SP Australia Networks (Distribution) Ltd.

14.6 Other factors affecting the results

Refer to the analysis contained in the Directors' Report within the attached General Purpose Financial Report for SP Australia Networks (Distribution) Ltd.

15 Status of audit of accounts

The financial report is based on accounts which have been audited.

Date: 11 May 2011

SP Australia Networks (Distribution) Ltd
ACN 108 788 245

General Purpose Financial Report

For the financial year ended 31 March 2011

Contents

This financial report covers the combined entity consisting of SP Australia Networks (Distribution) Ltd and its subsidiaries, SP Australia Networks (Transmission) Ltd and its subsidiaries, and SP Australia Networks (Finance) Trust. The financial report is presented in Australian dollars.

SP Australia Networks (Distribution) Ltd is a company limited by shares, incorporated and domiciled in Victoria, Australia. Its registered office and principal place of business is:

Level 31, 2 Southbank Boulevard
Southbank, Victoria 3006
Australia

A description of the nature of SP Australia Networks (Distribution) Ltd's operations and its principal activities is included in the Directors' report.

The financial report was authorised for issue by the Directors on 11 May 2011.

Directors' report

The Directors of SP Australia Networks (Distribution) Ltd (SP AusNet Distribution) present their report on the general purpose financial report of the company and combined entity for the financial year ended 31 March 2011.

This general purpose financial report has been prepared as an aggregation of the financial statements of SP AusNet Distribution and subsidiaries, SP Australia Networks (Transmission) Ltd (SP AusNet Transmission) and subsidiaries and SP Australia Networks (Finance) Trust (SP AusNet Finance Trust) as if all entities operate together. They are therefore treated as a combined entity (Stapled Group or SP AusNet).

Pursuant to the Stapling Deed effective 21 October 2005, the Stapled Group was established for the purpose of facilitating a joint quotation of SP AusNet Distribution, SP AusNet Transmission and SP AusNet Finance Trust on the Australian Securities Exchange (ASX) and the Singapore Exchange Securities Trading Limited (SGX-ST). The Stapled Group was listed on 14 December 2005.

So long as the three entities remain jointly quoted, the number of shares in each of SP AusNet Distribution and SP AusNet Transmission and the number of units in SP AusNet Finance Trust shall be equal and shareholders and unitholders shall be identical.

Directors

The persons listed below were Directors of SP AusNet Distribution during the whole of the financial period and up to the date of this report unless otherwise noted.

Non-executive Directors

Ng Kee Choe (Chairman)

Jeremy Guy Ashcroft Davis AM

Eric Gwee Teck Hai

Ho Tian Yee

Antonino (Tony) Mario Iannello

George Allister Lefroy

Tina Renna McMeckan (appointed effective 9 August 2010)

Martyn Kenneth Myer AO (ceased effective 14 July 2010)

Ian Andrew Renard

Executive Director

Nino Ficca (Managing Director)

Principal activities

The principal activities of SP AusNet are:

- Electricity distribution – delivery of electricity to approximately 631,000 consumer connection points over 80,000 square kilometres in eastern Victoria including Melbourne's outer eastern suburbs;

- Gas distribution – delivery of natural gas to approximately 589,000 consumer connection points over 60,000 square kilometres in central and western Victoria including some of Melbourne's western suburbs;

- Electricity transmission – the transmission of electricity within the state of Victoria; and

- Select Solutions – the provision of specialist utility related metering, monitoring and asset management services.

Directors' report (continued)

Principal activities (continued)

The principal activities of SP AusNet are conducted through the following main operating group companies:

- SPI Electricity Pty Ltd;
- SPI Networks (Gas) Pty Ltd; and
- SPI PowerNet Pty Ltd.

Distributions

Distributions paid to securityholders during the financial year were as follows:

	Final 2010 distribution paid 29 June 2010		Interim 2011 distribution paid 22 December 2010	
	Cents per security	Total distribution $M	Cents per security	Total distribution $M
Distributions from earnings				
Fully franked dividend paid by SP AusNet Transmission	1.591	43.0	1.591	43.7
Assessable interest income paid by SP AusNet Finance Trust	2.261	61.2	2.228	61.2
Return of capital paid by SP AusNet Finance Trust	0.148	4.0	0.181	5.0
Total distributions	4.000	108.2	4.000	109.9

In relation to the final distributions on 29 June 2010 of $108.2 million, $34.6 million was utilised in the allotment of new securities issued under the Distribution Reinvestment Plan (DRP).

In relation to the interim distributions on 22 December 2010 of $109.9 million, $40.2 million was utilised in the allotment of new securities issued under the DRP.

Since the end of the financial year, the Directors have approved a final distribution for 2011 of $111.8 million (4.000 cents per fully paid stapled security) to be paid on 29 June 2011 comprised as follows:

	Final 2011 distribution to be paid on 29 June 2011	
	Cents per security	Total distribution $M
Fully franked dividend payable by SP AusNet Transmission	1.333	37.3
Assessable interest income payable by SP AusNet Finance Trust	2.279	63.7
Return of capital payable by SP AusNet Finance Trust	0.388	10.8
	4.000	111.8

Directors' report (continued)

Review of operations

A summary of the Stapled Group's revenues and results by significant industry segments is set out below:

	Electricity distribution $M	Gas distribution $M	Transmission $M	Select Solutions $M	Inter-segment eliminations $M	Combined $M
Regulated revenue	545.1	193.6	497.4	-	(9.2)	1,226.9
Excluded services	18.3	3.3	27.7	-	(3.2)	46.1
Customer contributions	33.4	3.4	0.2	-	-	37.0
Service revenue	-	-	-	123.0	-	123.0
Other revenue	12.3	0.8	15.3	72.1	(65.5)	35.0
Total segment revenue	609.1	201.1	540.6	195.1	(77.9)	1,468.0
Segment result before interest expense	177.6	125.0	288.6	14.0	-	605.2
Segment interest expense	(121.7)	(70.0)	(153.0)	(0.3)	-	(345.0)
Unallocated finance income less unallocated finance costs						4.7
Profit before income tax						264.9
Income tax expense						(12.0)
Net profit for the year						252.9

.

Discussion and analysis for the year ended 31 March 2011

This discussion and analysis is provided to assist readers in understanding the general purpose financial report.

SP AusNet achieved a net profit after tax (NPAT) of $252.9 million for the 12 months ended 31 March 2011.

SP AusNet derives most of its earnings from three regulated energy network businesses, which include Victoria's high voltage electricity transmission network, an electricity distribution network located in eastern Victoria and a gas distribution network in western Victoria. Overall revenue increased by 10 per cent to $1,468.0 million. The increase in revenue arose from a combination of regulated price adjustments and continued growth in the Regulatory Asset Base (RAB), higher incentive scheme payments from improvements in network reliability, an increase in consumer connections, higher energy demand, additional revenues from the Advanced Metering Infrastructure (AMI) program, and increased activities associated with Select Solutions. Revenue for each segment is discussed below.

As a diversified energy delivery networks business, SP AusNet plays a vital role in underpinning the economic and social strength of Victorian communities, while contributing to the wider Australian energy market. The sustainability of the networks is key to SP AusNet's business decisions and SP AusNet is committed to continually improving its networks' performance.

Operating costs excluding finance costs were $862.8 million, an increase of 9 per cent over last year. This increase was primarily due to higher depreciation as a result of the impact of the Advanced Metering Infrastructure roll-out program as well as significant growth in capital expenditure over the last few years, increases in employee expenses and operating costs in relation to the increased activities associated with Select Solutions and an increase in management services fees.

During the year, SP AusNet recognised total losses of $27.4 million (before tax) for the de-designation of hedge accounting relationships. These losses will reverse through the income statement over the remaining life of the derivative instruments, which are still in economic relationships that are effective in managing interest rate risk.

Directors' report (continued)

Discussion and analysis for the year ended 31 March 2011 (continued)

Electricity distribution business

SP AusNet's electricity distribution business contributed $609.1 million in total revenues prior to intercompany eliminations (excluding interest income) for the year ended 31 March 2011. Revenues increased as a result of the regulated price increase incorporating an S-Factor adjustment, a further price increase due to the new regulated price review period commencing January 2011, strong growth in consumer connections and more favourable weather conditions. The electricity distribution business contributed $177.6 million to profits from operating activities for the year ended 31 March 2011. As at 31 March 2011, SP AusNet had 631,290 consumers connected to its electricity distribution network - representing an increase of 11,562 or 1.9 per cent during the year. During the financial year, 7,881 GWh was distributed through the distribution network - representing an increase of 1.3 per cent over the previous financial year. Total capital expenditure for the year was $391.1 million, of which $96.6 million was customer initiated and $120.3 million was in relation to the Advanced Metering Infrastructure roll-out program.

A new zone substation was established during the year at Lysterfield, in Melbourne's biggest growth corridor. The substation commenced operations in advance of the summer peak loading period and functions to alleviate the growing demand on other zone substations serving the region. A new 66 kV line to the Clyde North zone substation, which is located in this same growth area, was also completed during the year.

SP AusNet also successfully installed an additional transformer at the Warragul zone substation and a new feeder has been installed to serve consumers in South West Gippsland.

On 29 October 2010, the Australian Energy Regulator (AER) released its Final Decision regarding the Victorian electricity distribution network price determination for 2011 to 2015. The Final Decision provides for a Weighted Average Cost of Capital (WACC) for SP AusNet of 9.65 per cent (in nominal, after-tax terms). In addition, the Final Decision allows total revenue of $2,479.9 million (in nominal dollars), total capital expenditure of $1,416.9 million (in 2010 dollars) and total operating expenditure of $858.1 million (in 2010 dollars) over the five-year period. The higher benchmark allowances for capital and operating expenditure are required to support replacement of ageing assets, meet higher customer peak demand and comply with new safety related obligations.

Gas distribution business

SP AusNet's gas distribution business contributed $201.1 million in total revenues prior to intercompany eliminations (excluding interest income) for the year ended 31 March 2011. Revenues increased as a result of strong growth in consumer connections and an increase in residential volume mainly driven by more favourable weather conditions. The gas distribution business contributed $125.0 million to profits from operating activities for the year ended 31 March 2011. As at 31 March 2011, SP AusNet had 589,455 consumers connected to its gas distribution network - representing an increase of 17,777 or 3.1 per cent during the year. Total gas delivered through the network was 73.3 PJ, an increase of 2.7 per cent over the previous corresponding financial year. Total capital expenditure for the year was $72.9 million, of which $45.5 million was customer initiated.

Electricity transmission business

SP AusNet's electricity transmission business contributed $540.6 million in total revenues prior to intercompany eliminations (excluding interest income) for the year ended 31 March 2011. Transmission regulated revenue is not subject to volume risk. Revenues were favourably impacted by the annual regulated revenue reset and completion of new customer connection projects. The electricity transmission business contributed $288.6 million to profits from operating activities for the year ended 31 March 2011.

The transmission system underwent many upgrades in the past year to improve its reliability, capacity, performance and to meet increasing energy demands. The Thomastown terminal station rebuild is forecast to be completed in 2011 and the upgrades to the Brooklyn, Ringwood, Dederang, Keilor, Horsham and Morwell terminal stations are progressing. SP AusNet is planning the refurbishment of the Richmond terminal station and is also planning the augmentation of the Brunswick terminal station in conjunction with the Australian Energy Market Operator (AEMO) and CitiPower in order to improve reliability and increase capacity in the inner city areas.

SP AusNet has commenced planning activities to build two new terminal stations at Tarrone and Wemen. SP AusNet was awarded the tender to build the contestable component of the Tarrone terminal station which is located between Warrnambool and Portland. The Wemen terminal station site has been purchased and is currently in the planning stages. The connection to the Mortlake power station has been completed and is now ready for the power station to commence generation.

Directors' report (continued)

Discussion and analysis for the year ended 31 March 2011 (continued)

Electricity transmission business (continued)

In addition to the approval by Energy Safe Victoria of the electricity distribution Electricity Safety Management Scheme, SP AusNet has developed an Electricity Safety Management Scheme (ESMS) for its transmission network. The ESMS identifies safety related risks with the full life cycle management of primary plant, secondary plant, lines and communications assets and operation activities including work processes, practices and procedures. Energy Safe Victoria is currently reviewing SP AusNet's plan.

Total capital expenditure was $164.6 million for the period, of which $48.2 million was customer initiated and $103.5 million was for company initiated projects.

Select Solutions business

Select Solutions provides services to SP AusNet and also provides specialist utility related solutions, in particular, metering, monitoring and asset management services, to external parties. Select Solutions' customers are primarily electricity, water and gas utility owners and managers including Jemena Asset Management Pty Ltd (referred to as Jemena). The agreements with Jemena commenced 29 September 2008 and are for an initial five-year term. Select Solutions has extended its footprint to introduce these specialist utility services into New South Wales.

In October 2010, SP AusNet acquired the assets of the commercial and industrial plumbing and specialist water metering business from Schultz Plumbing Pty Ltd and Schultz Holdings Pty Ltd. This acquisition has enabled SP AusNet to grow in the water metering and related services market, as well as strengthen SP AusNet's competitive advantage in the metering market.

Select Solutions contributed $195.1 million in total revenues prior to intercompany eliminations (excluding interest income) for the year ended 31 March 2011. Select Solutions contributed $14.0 million to profits from operating activities (prior to intercompany eliminations) for the year ended 31 March 2011.

Select Solutions contributed $129.6 million in external revenue to SP AusNet (comprising $123.0 million in service revenue and $6.6 million in other revenue), an increase of $20.4 million over the previous year for the equivalent services. Select Solutions' contribution to earnings before interest, tax, depreciation and amortisation (EBITDA) from external works for the year was $12.0 million (after corporate overhead allocation).

Financial position

Total securityholders' equity includes 100 per cent of the ownership interests in SP AusNet Transmission and SP AusNet Finance Trust, which have been disclosed as non-controlling interests, as they are owned by securityholders directly.

Securityholders' equity was $2,864.9 million as at 31 March 2011, an increase of $90.8 million compared to the previous corresponding period. This increase is due to the profit for the year, partially offset by distributions paid (net of the DRP). In addition, reserves are negative due to the valuation of derivatives held under cash flow hedging arrangements. SP AusNet does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

SP AusNet has restated the statement of financial position as at 31 March 2010 in order to correct the presentation of derivative instruments between current and non-current. This has reduced total assets and total liabilities equally by $349.4 million. There was no impact on the income statement or net assets of the Stapled Group as a result of this correction.

The Directors are of the opinion that this correction is immaterial to the financial position of SP AusNet. Details of the correction have been separately disclosed in note 31 to the financial statements.

Current liabilities exceed current assets by $524.9 million at 31 March 2011 (2010 restated: $352.9 million). The financial report has been prepared on a going concern basis, which contemplates the continuity of normal trading operations, as the Stapled Group is trading profitably and has continually been able to refinance maturing debt. In addition, at 31 March 2011 the Stapled Group has available a total of $350.0 million of unused working capital and bank loan facilities.

Directors' report (continued)

Discussion and analysis for the year ended 31 March 2011 (continued)

Cash flow statement

Net operating cash inflows for the year ended 31 March 2011 were $472.8 million, an increase of $52.2 million on the comparative period primarily due to an increase in earnings.

Net outflows from investing activities of $624.6 million resulted primarily from payments for property, plant and equipment.

The net outflow from financing activities of $343.4 million resulted primarily from the repayment of borrowing of $1,005.0 million and the cash component of the distributions paid during the period of $143.4 million, offset by proceeds from borrowings.

Debt raising

SP AusNet's common or central funding vehicle (CFV) operates through SPI Electricity & Gas Australia Holdings Pty Ltd, a subsidiary of SP AusNet Distribution. SP AusNet has access to the funds through the CFV.

SP AusNet successfully established four bank debt facilities during the current financial year, being a $200.0 million three-year facility established in October 2010, a $100.0 million four-year facility established in October 2010, a $100.0 million working capital facility established in November 2010, and a $150.0 million three-year facility established in February 2011. These facilities were used to replace a $385.0 million syndicated bank debt facility and $225.0 million of bilateral facilities. A $75.0 million bilateral facility was cancelled in December 2010 and $150.0 million of bilateral facilities were cancelled in March 2011. There were $250.0 million of undrawn but committed non-current bank debt facilities as at 31 March 2011.

In March 2011, SP AusNet successfully completed a $250.0 million ten-year Australian dollar bond issue.

The proceeds from these issues have been or will be used to repay existing debt, fund capital expenditure and for other working capital requirements.

SP AusNet has an A- credit rating from Standard and Poor's and A1 from Moody's.

Victorian February bushfires

In early February 2009, the state of Victoria was impacted by significant bushfires. The Victorian Government subsequently established a Royal Commission of Inquiry into the Victorian bushfire crisis. The Royal Commission made a number of recommendations that are intended to reduce the occurrence and impact of future bushfires. SP AusNet will continue to work with the Victorian Government, its Powerlines Bushfire Safety Taskforce (the Taskforce) and electricity regulators to scope the recommendations, with a view to making constructive improvements designed to make the electricity network even safer.

Until the full extent and nature of the recommendations are worked through, it is not possible to estimate the network investment that will result from implementation of the recommendations. The Taskforce is expected to provide its final report by 30 September 2011. It is required to recommend a ten-year plan to reduce bushfire risk accompanied with options for fairly and efficiently recovering the costs of that plan.

SP AusNet is a defendant in litigation that has been brought in connection with the 7 February 2009 bushfires located at Kilmore East and Beechworth, respectively. SP AusNet denies it was negligent. SP AusNet alleges that its conduct was at all times reasonable, in compliance with technical regulations and reasonable in light of economic regulations applicable to SP AusNet. SP AusNet will vigorously defend these claims.

As part of these legal proceedings, SP AusNet has counterclaimed against several parties. The purpose of the counterclaims is to join other parties where they may be relevant to the Court's consideration of the causes and consequences of the Kilmore East and Beechworth fires, respectively. If SP AusNet's defence of the claims is successful, the counterclaims will become irrelevant and will not be pursued. These matters are complex and are issues for the Court to determine and therefore, it is too early for SP AusNet to speculate on the outcome of any claims which have been instituted by third parties. If these claims are pursued, SP AusNet has liability insurance which specifically provides cover for bushfire liability. SP AusNet reviews its insurance cover annually and ensures it is commensurate with the scale and size of its operations, the risks assessed to be associated with its operations and with industry standards and practice. SP AusNet's bushfire mitigation and vegetation management programs are audited annually by Energy Safe Victoria. SP AusNet had a 'zero' bushfire mitigation index throughout the 2008-09 bushfire season.

Directors' report (continued)

Discussion and analysis for the year ended 31 March 2011 (continued)

Australian Taxation Office Audits

The Australian Taxation Office (ATO) is undertaking large business audits of the SP AusNet group. The focus of the audits is as follows:

- deductions claimed in respect of fees imposed under Section 163AA of the *Electricity Industry Act* 1993 in the 1999 to 2001 tax years;
- deductions claimed in respect of intellectual property referable to the 1998 tax year and each subsequent year; and
- the entry allocable cost amount (ACA) step 1 amount (relating to the cost of membership interests) when the SPI Australia Group Pty Ltd (SPIAG) consolidated group joined the SP AusNet Distribution consolidated group on 2 August 2004.

On 31 March 2010, the ATO advised SP AusNet Transmission that it intends to disallow deductions claimed in respect of Section 163AA imposts, although it has not yet issued an amended assessment to confirm its position. On 7 September 2010, the ATO informed SP AusNet that it will not be liable for any administrative penalties under the *Taxation Administration Act* 1953 in relation to Section 163AA imposts. The ATO also informed SP AusNet of its decision to remit part of the interest charges that would otherwise apply to any subsequent amended assessment.

SP AusNet has not changed its view in regard to the availability of the Section 163AA or intellectual property deductions, or its entry ACA step 1 amount for the SPIAG consolidated group. The ultimate timeframe or likely outcomes of the ATO audits are not known.

Advanced Metering Infrastructure roll-out Program

The Victorian Government has mandated completion of the roll-out of smart electricity meters by the end of 2013. SP AusNet is progressing with the installation of the new electricity meters. The program's aims are to reduce peak demand and improve existing network asset efficiency, network reliability and performance. The moratorium on the Time of Use tariffs introduced by the Victorian Government on 22 March 2010 was in place during the current financial year and will continue until at least 2012.

On 28 February 2011, SP AusNet submitted to the AER the Budget and Charges Application for the 2012 to 2015 period. The AER is expected to release its final determination on 31 October 2011.

Climate Change

SP AusNet continues to report its emissions under the *National Greenhouse and Energy Reporting (NGER) Act* 2007. Corporations meeting or exceeding the thresholds are required to lodge by 31 October each year. SP AusNet meets the current thresholds under the NGER framework and lodged its current year's report with the Department of Climate Change prior to the 31 October 2010 deadline.

In February 2011, the Australian Government announced its plan to cut pollution, tackle climate change and deliver economic reform. This involves a two-stage plan for a carbon price mechanism that will start with a fixed price period for three to five years before transitioning to an emissions trading scheme. The current proposal is for the carbon price to commence on 1 July 2012, subject to approval by Parliament this year.

SP AusNet is closely monitoring the development of this carbon price mechanism. At this stage, it is too early to quantify the impacts of this framework.

Directors' report (continued)

Discussion and analysis for the year ended 31 March 2011 (continued)

Distribution Reinvestment Plan

The take up rate for the DRP in June 2010 was approximately 33 per cent and in December 2010 was approximately 38 per cent. The DRP will be in operation for the final distribution.

Significant changes in the state of affairs

Other than referred to above, in the opinion of the Directors, there were no significant changes in the state of affairs of the Stapled Group that occurred during the year under review.

Matters subsequent to the end of the financial year

Distributions

Since the end of the financial year, the Directors have approved a final distribution for 2011 of $111.8 million (4.000 cents per stapled security) to be paid on 29 June 2011.

Debt raising

In April 2011, SP AusNet successfully established a $75.0 million four-year bank debt facility. The proceeds from this debt raising will be used to fund capital expenditure and repay existing debt.

With the exception of the matters outlined above, the Directors are not aware of any circumstances that have arisen since 31 March 2011 that have significantly affected or may significantly affect the operations, and results of those operations or the state of affairs, of the Stapled Group in financial years subsequent to 31 March 2011.

Likely developments and expected results of operations

Information on likely developments in the operations of the Stapled Group and the expected results of operations, other than already disclosed in this report, have not been included in this report because the Directors believe it would likely result in unreasonable prejudice to the Stapled Group.

Environmental regulation

The Stapled Group was subject to both Federal and State Government environmental legislation during the year. The most significant areas of environmental legislation affecting the Stapled Group in Victoria are those which regulate noise emissions, greenhouse gas emissions, the discharge of emissions to land, air and water, the management of oils, chemicals and dangerous goods, the disposal of wastes, and those which govern the assessment of land use including the approval of developments. The Directors are not aware of any breaches of legislation during the year which are material in nature.

Directors' report (continued)

Information on Directors

Ng Kee Choe – *Chairman – Non-executive*

Bachelor of Science (Honours), University of Singapore

Experience and expertise

Mr Ng is Chairman and Director of Singapore Power Limited. He also serves as Chairman and Director of NTUC Income Insurance Co-operative Limited and as President-Commissioner of PT Bank Danamon Indonesia, Tbk. He is a Director of Singapore Airport Terminal Services Limited, Singapore Exchange Ltd, Fullerton Financial Holdings Pte Ltd and CapitaLand Limited. He is a member of the Temasek Advisory Panel, International Advisory Council of China Development Bank and Chairman of Tanah Merah Country Club. Mr Ng was formerly Vice-Chairman and Director of DBS Group Holdings. He retired from his executive position with DBS Group Holdings Ltd in 2003 after 33 years of service in various executive roles.

Other current listed company directorships

Singapore Airport Terminal Services Ltd (2000 to date) (SGX-ST listed entity)
Singapore Exchange Ltd (2003 to date) (SGX-ST listed entity)
PT Bank Danamon Indonesia, Tbk (2004 to date) (Jakarta Stock Exchange listed entity)
CapitaLand Limited (2010 to date) (SGX-ST listed entity)

Former listed company directorships in last 3 years

None

Date of initial appointment

SP AusNet Transmission - 26 October 2005
SP AusNet Distribution - 31 May 2005
Responsible Entity - 9 September 2005

Special responsibilities

Chairman of the SP AusNet Board, Chairman of the Nomination Committee and Chairman of the Issuing Committee.

Nino Ficca – *Managing Director*

Bachelor of Engineering (Electrical) (Honours), Deakin University
Graduate Diploma in Management, Deakin University
Advanced Management Programme, Harvard Business School, USA

Experience and expertise

Mr Ficca has over 25 years' experience in the energy industry, including numerous senior management roles with SPI PowerNet Pty Ltd including as Managing Director since 2003. Mr Ficca is a Director of Energy Networks Association Limited. He also serves as a Director of SPI Management Services Pty Ltd and of Enterprise Business Services (Australia) Pty Ltd. Mr Ficca was formerly Deputy Chairman and Director of the Energy Supply Association of Australia.

Other current listed company directorships

None

Former listed company directorships in last 3 years

None

Date of initial appointment

SP AusNet Transmission - 7 September 2005
SP AusNet Distribution - 31 May 2005
Responsible Entity - 31 May 2005

Special responsibilities

Managing Director and member of the Bushfire Litigation Committee, the Issuing Committee, the former Advanced Metering Infrastructure Due Diligence Committee (1 April 2010 to 28 March 2011), and the former Bushfire Litigation and Inquiry Response Committee (1 April 2010 to 2 September 2010).

Directors' report (continued)

Information on Directors (continued)

Jeremy Guy Ashcroft Davis AM - *Non-executive Director*

Bachelor of Economics (Honours), University of Sydney
MBA, Stanford University
AM (Economics), Stanford University
FAICD

Experience and expertise

Professor Davis is a Professor Emeritus of the University of New South Wales, after retiring from the Australian Graduate School of Management (AGSM). He is a Director of Singapore Power Limited, Transurban Group and CHAMP Ventures Pty Ltd. Previously, Professor Davis spent ten years as a management consultant with the Boston Consulting Group and has served as a Director of the Australian Stock Exchange Ltd.

Other current listed company directorships

Transurban Group (1997 to date)

Former listed company directorships in last 3 years

None

Date of initial appointment

SP AusNet Transmission - 26 October 2005
SP AusNet Distribution - 31 May 2005
Responsible Entity - 9 September 2005

Special responsibilities

Member of the Audit and Risk Management Committee, the Nomination Committee and of the former Advanced Metering Infrastructure Due Diligence Committee (1 April 2010 to 28 March 2011).

Eric Gwee Teck Hai - *Non-executive Director*

Bachelor of Engineering (Mechanical), University of Melbourne

Experience and expertise

Mr Gwee is a Director of Singapore Power Limited. He is also a Director of WorleyParsons Ltd and a former Director of Melbourne Business School Ltd. He has served as Chairman of the Board of Governors for the Institute of Technical Education (ITE) and ITE Holding Pte Ltd, both in Singapore. Mr Gwee has also served as Chairman of SP Services Limited, CPG Corporation Pte Ltd and the Public Transport Council.

Other current listed company directorships

WorleyParsons Ltd (2005 to date)

Former listed company directorships in last 3 years

None

Date of initial appointment

SP AusNet Transmission - 26 October 2005
SP AusNet Distribution - 31 May 2005
Responsible Entity - 9 September 2005

Special responsibilities

Member of the Audit and Risk Management Committee, the Nomination Committee and the Remuneration Committee.

Directors' report (continued)

Information on Directors (continued)

Ho Tian Yee – *Non-executive Director*

Bachelor of Economics (Honours), Portsmouth University, UK

Experience and expertise

Mr Ho is currently the Managing Director and principal shareholder of Pacific Asset Management (S) Pte Ltd, a fund management company. Mr Ho was previously the General Manager and Managing Director of Bankers Trust Co. Singapore. Mr Ho currently serves as a non-executive Director of Singapore Exchange Ltd, and Fraser & Neave Ltd and was recently appointed to the Board of DBS Group Holdings Ltd. He is also Chairman of Times Publishing Ltd, a subsidiary of Fraser & Neave and a Director of Fullerton Funds Management Company. Mr Ho is a Board member of Singapore Power Ltd.

Other current listed company directorships

Singapore Exchange Ltd (1999 to date) (SGX-ST listed company)
Fraser & Neave Ltd (1997 to date) (SGX-ST listed company)
DBS Group Holdings Ltd (2011 to date) (SGX-ST listed company)

Former listed company directorships in last 3 years

None

Date of initial appointment

SP AusNet Transmission – 1 September 2008
SP AusNet Distribution – 1 September 2008
Responsible Entity – 1 September 2008

Special responsibilities

Member of the Compliance Committee, the Remuneration Committee and the Issuing Committee.

Antonino (Tony) Mario Iannello – *Independent Non-executive Director*

Bachelor of Commerce, University of Western Australia
Advanced Management Programme, Harvard Business School, USA

Experience and expertise

Mr Iannello is Chairman of listed company Energia Minerals Ltd, and also Chairman of HBF Health Ltd, MG Kailis Group of Companies, Harrier Resourcing People Pty Ltd and Intium Energy Ltd. He is also a director of listed company ERM Power Ltd and a member of the Murdoch University Senate. Mr Iannello was formerly Managing Director of Western Power Corporation and previously he held a number of senior executive roles at the Bank of Western Australia.

Other current listed company directorships

ERM Power Ltd (2010 to date)
Energia Minerals Ltd (2010 to date)

Former listed company directorships in last 3 years

Aviva Corporation Ltd (2008 to 2010)

Date of initial appointment

SP AusNet Transmission – 6 June 2006
SP AusNet Distribution – 6 June 2006
Responsible Entity – 6 June 2006

Special responsibilities

Chairman of the Audit and Risk Management Committee and member of the Compliance Committee, the Bushfire Litigation Committee, the Issuing Committee and the former Bushfire Litigation and Inquiry Response Committee (1 April 2010 to 2 September 2010).

Directors' report (continued)

Information on Directors (continued)

George Allister Lefroy – *Independent Non-executive Director*

Bachelor of Engineering (Honours), University of Western Australia
Master of Engineering Science, University of Western Australia
PhD in Chemical Engineering, Cambridge University

Experience and expertise

Dr Lefroy is President Commissioner of PT Chandra Asri Petrochemicals Tbk, Jakarta. He was formerly Executive Vice President of Shell Chemicals Ltd and a Director of Singapore Power Limited and Australian Power and Energy Limited (now Monash Energy Holdings Limited).

Other current listed company directorships

Cobar Consolidated Resources Ltd (2006 to date)

Former listed company directorships in last 3 years

None

Date of initial appointment

SP AusNet Transmission - 26 October 2005
SP AusNet Distribution - 31 May 2005
Responsible Entity - 9 September 2005

Special responsibilities

Chairman of the Remuneration Committee and of the former Advanced Metering Infrastructure Due Diligence Committee (1 April 2010 to 28 March 2011) and a member of the Bushfire Litigation Committee.

Tina Renna McMeckan – *Independent Non-executive Director*

Bachelor of Liberal Arts & Science, San Diego State University, California, USA
Master of Business Administration, University of Melbourne

Experience and expertise

Ms McMeckan is a Director of the Global Carbon Capture and Storage Institute, the Chair of the Centre for Eye Research Australia, a Director of Circadian Technologies Ltd, a Director of the Cooperative Research Centre for Spatial Information, a Director of Metlink Victoria Pty Ltd and a former Director of the National Board of Norton Rose law firm. Ms McMeckan was previously an executive manager with GPU PowerNet and the SECV Energy Traders, and a project manager with the Victorian Department of Treasury and Finance on gas industry reform.

Other current listed company directorships

Circadian Technologies Limited (2008 to date)

Former listed company directorships in last 3 years

None

Date of initial appointment

SP AusNet Transmission – 9 August 2010
SP AusNet Distribution – 9 August 2010
Responsible Entity – 9 August 2010

Special responsibilities

Member of the Remuneration Committee, the Audit and Risk Management Committee and the former Advanced Metering Infrastructure Due Diligence Committee (9 August 2010 to 28 March 2011).

Directors' report (continued)

Information on Directors (continued)

Martyn Kenneth Myer AO - *Independent Non-executive Director*

Bachelor of Engineering (Mechanical), Swinburne College of Technology
Master of Engineering Science, Monash University
Master of Science in Management, Sloan School of Management, Massachusetts Institute of Technology (MIT)

Experience and expertise

Mr Myer has extensive experience in financial services, engineering and biotechnology. He is Chairman of Cogstate Ltd (a health services software company involved in cognitive performance testing), and a Director of Diversified United Investments Ltd and the Royal Institution of Australia. He was formerly a Director of Coles Myer Limited and was Managing Director of Merlyn Asset Management Pty Ltd, a boutique funds management company. Prior to his move into the financial services industry, he had extensive experience with some of Australia's leading manufacturers. Mr Myer is President of the Myer Foundation. He is on the boards of several philanthropic organisations, including membership of the Council of the University of Melbourne.

Other current listed company directorships

Cogstate Ltd (Chairman) (1999 to date)
Diversified United Investments Ltd (1991 to date)

Former listed company directorships in last 3 years

None

Term of office

SP AusNet Transmission - 26 October 2005 – 14 July 2010
SP AusNet Distribution - 9 September 2005 – 14 July 2010
Responsible Entity - 9 September 2005 – 14 July 2010

Special responsibilities

Former member of the Audit and Risk Management Committee, the Compliance Committee, the Remuneration Committee and the former Bushfire Litigation and Inquiry Response Committee.

Directors' report (continued)

Information on Directors (continued)

Ian Andrew Renard – *Independent Non-executive Director*

Bachelor of Arts, University of Melbourne
Master of Laws, University of Melbourne
Doctor of Laws (Hon), University of Melbourne

Experience and expertise

Mr Renard is trustee of the R E Ross Trust and former Chancellor of the University of Melbourne. He served as a partner of the law firm Arthur Robinson & Hedderwicks from 1979 to 2001, including as the firm's full-time Managing Partner from 1989 to 1991. Mr Renard is a Director of CSL Ltd and a Director of Hillview Quarries Pty Ltd.

Other current listed company directorships

CSL Ltd (1998 to date)

Former listed company directorships in last 3 years

None

Date of initial appointment

SP AusNet Transmission - 26 October 2005
SP AusNet Distribution - 31 May 2005
Responsible Entity - 9 September 2005

Special responsibilities

Chairman of the Compliance Committee, the Bushfire Litigation Committee and the former Bushfire Litigation and Inquiry Response Committee (1 April 2010 to 2 September 2010) and member of the Audit and Risk Management Committee and of the Nomination Committee.

Company Secretary

Susan Elizabeth Taylor

Bachelor of Laws, University of Melbourne
Bachelor of Commerce, University of Melbourne
Graduate Diploma in Corporations and Securities Law, University of Melbourne

Ms Taylor has been Company Secretary of SP AusNet Distribution, SP AusNet Transmission and the Responsible Entity since 6 October 2008. She has over 18 years' experience in energy transactional and regulatory law. She was formerly a partner at the Australian law firm Freehills and Senior Attorney with the U.S. Federal Energy Regulatory Commission, with a mergers and acquisitions, corporations and competition law background.

Directors' report (continued)

Meetings of Directors

The number of meetings of the Board of Directors of SP AusNet Distribution, SP AusNet Transmission and the Responsible Entity held during the year ended 31 March 2011, and the number of meetings attended by each Director, are set out in the following table. All meetings were held jointly.

	Board of SP AusNet Distribution		Board of SP AusNet Transmission		Board of Responsible Entity	
	A	B	A	B	A	B
Ng Kee Choe	8	8	8	8	8	8
Nino Ficca	8	8	8	8	8	8
Jeremy Davis	8	8	8	8	8	8
Eric Gwee	8	8	8	8	8	8
Ho Tian Yee	8	8	8	8	8	8
Tony Iannello	8	8	8	8	8	8
George Lefroy	8	8	8	8	8	8
Tina McMeckan [1]	6	6	6	6	6	6
Martyn Myer [2]	1	2	1	2	1	2
Ian Renard	7	8	7	8	7	8

A = Number of meetings attended
B = Number of meetings held during the time the Director held office

[1] Ms McMeckan was appointed as a Director effective 9 August 2010.
[2] Mr Myer ceased as a Director effective 14 July 2010.

The number of meetings of each standing Board committee of SP AusNet Distribution, SP AusNet Transmission and the Responsible Entity held during the year ended 31 March 2011, and the number of meetings attended by each Director, are set out in the following table.

	Audit and Risk Management Committee		Compliance Committee		Nomination Committee		Remuneration Committee	
	A	B	A	B	A	B	A	B
Ng Kee Choe	**	**	**	**	1	1	**	**
Nino Ficca	**	**	**	**	**	**	**	**
Jeremy Davis	7	7	**	**	1	1	**	**
Eric Gwee [1]	6	7	2	2	1	1	5	6
Ho Tian Yee	**	**	4	4	**	**	6	6
Tony Iannello	7	7	4	4	**	**	**	**
George Lefroy	**	**	**	**	**	**	6	6
Tina McMeckan [2]	4	4	**	**	**	**	5	5
Martyn Myer [3]	2	3	1	2	**	**	1	1
Ian Renard	7	7	4	4	1	1	**	**

A = Number of meetings attended
B = Number of meetings held during the time the Director held office
** = Not a member of the relevant committee

[1] Mr Gwee retired as a member of the Compliance Committee effective 9 August 2010.
[2] Ms McMeckan was appointed as a member of the Audit and Risk Management Committee and Remuneration Committee effective 9 August 2010.
[3] Mr Myer ceased as a member of the Audit and Risk Management Committee, Compliance Committee and Remuneration Committee effective 14 July 2010.

Directors' report (continued)

Meetings of Directors (continued)

The number of meetings of the special-purpose Advanced Metering Infrastructure Due Diligence Committee, the Bushfire Litigation and Inquiry Response Committee, the Bushfire Litigation Committee and the Issuing Committee held during the year ended 31 March 2011, and the number of meetings attended by each Director, are set out in the following table.

	Advanced Metering Infrastructure Due Diligence Committee [1]		Bushfire Litigation and Inquiry Response Committee [2]		Bushfire Litigation Committee		Issuing Committee	
	A	B	A	B	A	B	A	B
Ng Kee Choe	**	**	**	**	**	**	3	3
Nino Ficca	2	4	3	3	4	4	3	3
Jeremy Davis	4	4	**	**	**	**	**	**
Eric Gwee	**	**	**	**	**	**	**	**
Ho Tian Yee	**	**	**	**	**	**	3	3
Tony Iannello	**	**	3	3	4	4	3	3
George Lefroy	4	4	**	**	4	4	**	**
Tina McMeckan [3]	3	3	**	**	**	**	**	**
Martyn Myer [4]	**	**	2	2	**	**	**	**
Ian Renard	**	**	3	3	4	4	**	**

A = Number of meetings attended
B = Number of meetings held during the time the Director held office
** = Not a member of the relevant committee

[1] The Advanced Metering Infrastructure Due Diligence Committee has concluded effective 28 March 2011.

[2] The Bushfire Litigation and Inquiry Response Committee has concluded effective 2 September 2010.

[3] Ms McMeckan was appointed as a member of the Advanced Metering Infrastructure Due Diligence Committee effective 9 August 2010.

[4] Mr Myer ceased as a member of the Bushfire Litigation and Inquiry Response Committee effective 14 July 2010.

Retirement, election and continuation in office of Directors

Professor Jeremy Davis and Mr Ian Renard each retire by rotation in accordance with the constitutions of SP AusNet Distribution and SP AusNet Transmission. Professor Jeremy Davis and Mr Ian Renard being eligible, offer themselves for re-election. Ms Tina McMeckan retires in accordance with the constitutions of SP AusNet Distribution and SP AusNet Transmission and being eligible, offers herself for election.

Directors' report (continued)

Remuneration report (Audited)

Introduction to remuneration report

The remuneration report for the year ended 31 March 2011 outlines the remuneration arrangements of the company and the SP AusNet Group in accordance with the requirements of the *Corporations Act 2001* (Cth) and its regulations. This information has been audited as required by section 308 (3C) of the Corporations Act.

The remuneration report details the remuneration arrangements for key management personnel (KMP). KMP are those persons who have authority and responsibility for planning, directing and controlling the major activities of the company and the SP AusNet Group directly and indirectly, including any Director of the parent company. In addition, the remuneration arrangements for the five executives in the SP AusNet Group who received the highest remuneration during the year have also been disclosed.

Details of key management personnel

The Directors and other KMP of SP AusNet are engaged to provide services to the SP AusNet Group and are not exclusive to any particular entity within SP AusNet. Accordingly, this report includes information that is common to SP AusNet Distribution, SP AusNet Transmission (together 'the Companies') and the Responsible Entity. The remuneration amounts reported represent the total remuneration received by KMP during the year for services to the SP AusNet Group, and have not been apportioned between particular entities within the SP AusNet Group.

The persons listed below were Directors of SP AusNet for the whole of the financial year and up to the date of this report unless otherwise noted.

Name	Position
Ng Kee Choe	Non-executive Chairman
Nino Ficca	Managing Director
Jeremy Davis	Non-executive Director
Eric Gwee	Non-executive Director
Ho Tian Yee	Non-executive Director
Tony Iannello	Non-executive Director
George Lefroy	Non-executive Director
Tina McMeckan	Non-executive Director (appointed 9 August 2010)
Martyn Myer	Non-executive Director (ceased 14 July 2010)
Ian Renard	Non-executive Director

SPI Management Services Pty Ltd (SPI Management Services), a wholly-owned subsidiary of related party Singapore Power International Pte Ltd (SPI), entered into a management services agreement with the Companies and a management services agreement with the Responsible Entity respectively to provide the services of key senior management, including the Managing Director and the executive management team, to SP AusNet. Although not employed by SP AusNet, the individuals set out below are deemed to qualify as KMP of SP AusNet on the basis that they had the authority and the responsibility for planning, directing and controlling the activities of SP AusNet during the financial year.

Directors' report (continued)

Remuneration report (Audited) (continued)

The persons listed below were Executive KMP of SP AusNet for the whole of the financial year and up to the date of this report.

Name	Position
Nino Ficca	Managing Director
Geoff Nicholson	Chief Financial Officer
Charles Popple	Group General Manager, Networks Strategy and Development
Norm Drew	Group General Manager, Integrated Network Services
John Kelso	General Manager, Select Solutions

Stapled Group performance

SP AusNet's executive remuneration is directly linked to the performance of the Stapled Group across a range of measures. The Short-Term Incentive (STI) is focussed on achieving operational targets and short-term profitability and the Long-Term Incentive (LTI) is focussed on achieving long-term growth and retaining talented executives.

The table below shows SP AusNet's consolidated operating revenue and net profit after tax for the current reporting period and previous years and the effect of SP AusNet's performance on securityholder value.

	2007 [1]	2008 [2]	2009 [3]	2010	2011
Revenue	$1,019.5m	$1,055.1m	$1,169.4m	$1,333.6m	$1,468.0m
NPAT from continuing operations	$161.2m	$151.0m	$146.9m	$209.0m	$252.9m
Closing security price as at 31 March	$1.42	$1.21	$ 0.91	$0.91	$0.87
Distributions in respect of financial year (cents per year)	11.270	11.564	11.854	8.000	8.000

1 Includes $9.7 million (after tax) regarding the settlement of the unaccounted for gas legal claim.

2 Includes one-off transaction costs relating to the proposed acquisition of the Alinta assets and businesses of $17.2 million (after tax).

3 Includes a $30.3 million (after tax) impairment write-down for existing meters to be replaced under the Advanced Metering Infrastructure roll-out program.

Directors' report (continued)

Remuneration report (Audited) (continued)

Principles used to determine the nature and amount of remuneration

Non-executive Directors (NEDs)

NED fee element	Commentary
Fees	The remuneration of Non-executive Directors consists of Directors' fees and committee fees. Fees paid to Non-executive Directors are set at levels that reflect both the responsibilities of, and the time commitments required from, each Non-executive Director to discharge their duties. Fee levels are set having regard to independent professional advice and fees paid by comparable companies.
Total fee pool	The constitutions of SP AusNet Distribution, SP AusNet Transmission and the Responsible Entity provide that Non-executive Directors are entitled to such remuneration for their services as the Board decides, but the total amount provided to all Non-executive Directors must not exceed in aggregate in any financial year the amount approved by securityholders in a general meeting. The securityholders of SP AusNet Distribution and SP AusNet Transmission approved a total remuneration pool for Non-executive Directors of $1,500,000 per year at the Annual General Meeting of SP AusNet held on 17 July 2007.
Performance-based and equity based compensation	The fees paid to Non-executive Directors are not linked to the performance of SP AusNet in order to maintain objectivity and independence. Non-executive Directors are not provided with any form of equity based compensation.
Business related expenses and additional fees for special duties or exertions	Non-executive Directors are entitled to be reimbursed for all business related expenses, including travel on company business, as may be incurred in the discharge of their duties. In accordance with the constitutions of SP AusNet Distribution, SP AusNet Transmission and the Responsible Entity, Non-executive Directors may also be paid additional fees for special duties or exertions.
Retirement benefits	Non-executive Directors are not provided with any form of retirement benefit. Fees paid to Non-executive Directors are inclusive of superannuation contributions made on behalf of the Non-executive Directors in accordance with SP AusNet's statutory superannuation obligations.
Review of fee levels and approach to Non-executive Director fees	Each year, the Remuneration Committee reviews the fees payable to Non-executive Directors taking into account market rates and the time commitment and responsibilities involved in carrying out their duties. The Board will continue to review its approach to Non-executive Director remuneration to ensure it remains in line with general industry practice and principles of good corporate governance. Taking into account market benchmarking, and that Non-executive Director fees had been frozen since April 2008, the Committee resolved to recommend to the full Board an increase in Director Fees by the following amounts: Board Chairman $70,000 [(1)] Board Directors $10,000 Remuneration Committee Chairman $5,000 The full Board resolved to adopt the increases at its November 2010 meeting. The increased fees remain within the approved fee limits as approved by the securityholders of SP AusNet Distribution and SP AusNet Transmission Board at the Annual General Meeting held on 17 July 2007.

1 The Chairman's fee is inclusive of all Committee fees. Prior to this adjustment in fee, the position of Chairman attracted additional fees related to membership of Board committees.

Directors' report (continued)

Remuneration report (Audited) (continued)

Non-executive Directors (NEDs) (continued)

The annual fees payable to Non-executive Directors of SP AusNet and approved by the Board (inclusive of statutory superannuation) are set out in the table below. It is not possible to allocate fees to individual entities within the SP AusNet Group.

Role	Fee
Board Chairman	$250,000
Board Directors	$110,000
Audit and Risk Management Committee Chairman	$25,000
Audit and Risk Management Committee Members	$15,000
Compliance Committee Chairman	$18,000
Compliance Committee Members	$10,000
Remuneration Committee Chairman	$20,000
Remuneration Committee Members	$10,000
Nomination Committee Chairman	$15,000
Nomination Committee Members	$10,000
AMI Due Diligence Committee Chairman	$15,000
AMI Due Diligence Committee Members	$10,000

Executive Directors and senior executives

The key objective of SP AusNet's policy for senior executive remuneration is to manage a total reward framework designed to:

- focus on creating value for securityholders by rewarding executives based on enhancement of sustainable securityholder value;
- create an environment that will attract appropriate talent and where people can be motivated with energy and passion to deliver superior performance;
- recognise capabilities and promote opportunities for career and professional development;
- provide rewards, benefits and conditions that are competitive in the market in which SP AusNet operates; and
- provide fair and consistent rewards across SP AusNet that support corporate values and principles.

The remuneration and incentive package for the Managing Director and other senior executives (including the Company Secretary) is determined and paid by SPI Management Services. SPI Management Services must, however, consider any recommendations made by SP AusNet in relation to remuneration, incentive payments and programs, and key performance measures in respect of senior executives which promotes alignment of 'owner-management' interests.

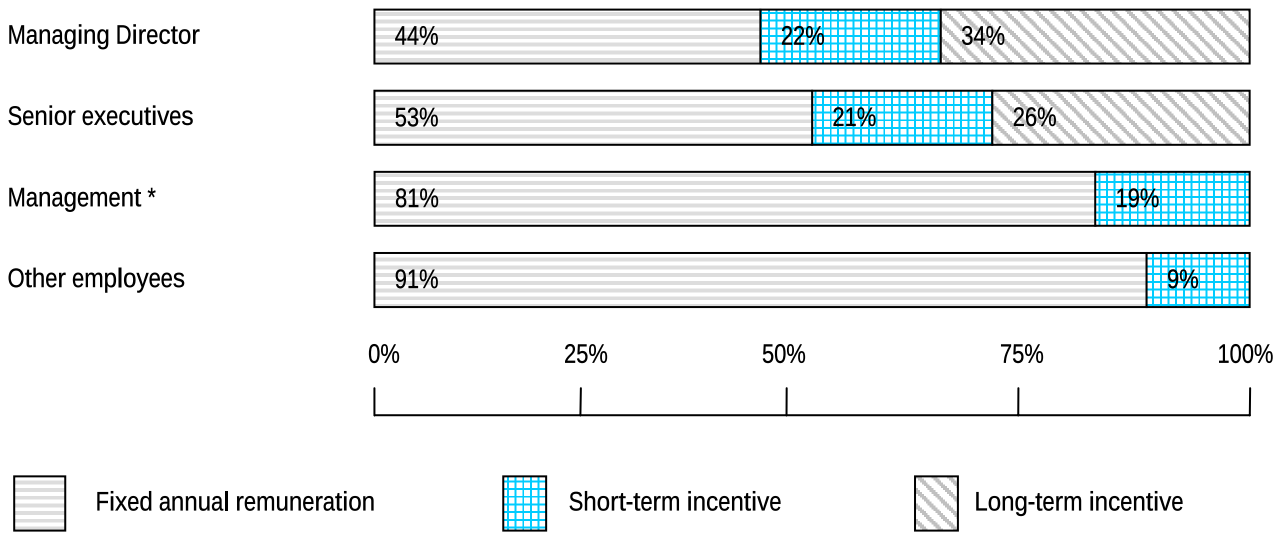
Directors' report (continued)

Remuneration report (Audited) (continued)

Structure of total reward

The reward principles set out the relevant elements of remuneration to make up 'total reward'. For the majority of senior executives and SP AusNet employees, total reward consists of fixed remuneration and 'at risk' remuneration through a STI plan. A LTI plan is included in the remuneration structure for the Managing Director, senior executives and other employees who can influence long-term securityholder value. An appropriate mix of these components is determined for each level of management and employees.

The potential reward mix for various levels of seniority in SP AusNet for the reporting period, expressed as a percentage of total on-target reward, is shown in the following table:



* The Board at its discretion has invited a small number of 'Management' employees who are in a position to influence long-term securityholder value to participate in the LTI Plan. The potential payments of this plan represents between 15% and 25% of the participants' FAR. Key aspects of the plan are detailed under the heading of 'Long-term incentive' below.

Fixed annual remuneration

Fixed annual remuneration (FAR) represents the fixed component of executive remuneration and consists of a mix of cash, superannuation, prescribed benefits and salary-sacrificed items such as motor vehicles and fringe benefits tax. Market data is sourced from external remuneration advisors who provide detailed analysis of market practice for the Remuneration Committee to consider in the Committee's decision making process. FAR is reviewed annually against market rates for comparable roles. There are no guaranteed fixed FAR increases in any senior executive's contract of employment.

Benefits

Senior executives receive benefits including car parking and reimbursement of business related expenses. These amounts are not included in FAR.

Directors' report (continued)

Remuneration report (Audited) (continued)

Short-term incentive

The key design aspects of the STI plan are outlined below.

Key design aspect	Commentary
Eligibility	Managing Director and other senior executives. Generally, senior executives must complete the business year to qualify for any STI payments. In some circumstances the Board, in its discretion, may determine that a pro-rata STI payment be awarded to a departing executive.
Target STI amount	A target STI amount, expressed as a percentage of the senior executive's FAR, is specified for each senior executive. The amount of STI payable is dependent on the: • extent to which SP AusNet has achieved or outperformed the corporate Key Performance Indicators (KPIs); and • extent to which the senior executive has achieved or outperformed his or her individual KPIs. The target STI for the Managing Director is 50% of FAR. The target STI for senior executives is 40% of FAR. All STI is paid at the discretion of the Board.
Performance criteria	Based on corporate financial and non-financial measures as well as stretch individual performance hurdles. The key corporate KPIs set for the year ended 31 March 2011 included: • safety targets; • net profit target; • return on capital targets; • employee engagement targets; • Advanced Metering Infrastructure (AMI) program delivery; • network performance and reliability targets; and • other program delivery targets. By linking individual rewards to the achievement of overall corporate targets, these KPIs align the interests of employees and managers with those of SP AusNet.
Performance period	12 months to 31 March 2011.
Delivery mechanism	Cash.

Directors' report (continued)

Remuneration report (Audited) (continued)

Long-term incentive

The key design aspects of the LTI plan are outlined below.

Key design aspect	Commentary
Eligibility	Managing Director and senior executives. The Board may in its discretion invite additional employees who are in a position to influence long-term securityholder value to participate in the LTI Plan.
Purpose of the LTI plan	The LTI plan rewards participants for increasing securityholder value.
Target LTI amount	The LTI Award is calculated as a percentage of the participant's FAR as at the test date. For Awards granted on 1 April 2008, 1 April 2009 and 1 April 2010, the quantum available to participants expressed as a percentage of FAR as at the performance test date, are: • Managing Director – 75% based on the general executive performance measures of Total Securityholder Return (TSR) and Earnings Per Security (EPS), and for awards granted on or after 1 April 2011 a further 25% for the achievement of stretch targets related to Return on Invested Capital (ROIC) and interest cover ratio (ICR). • Senior executives – 50% • Other participants – between 15% and 25% All LTI is paid at the discretion of the Board.
Performance period	Performance is assessed over a three-year period and the LTI plan does not allow for retesting of performance measures in subsequent years.
Performance measures	Relative TSR (for 50% of the Award) and growth in EPS (for the other 50% of the Award). The Board and Remuneration Committee believe that it is important to assess executive performance against both relative and absolute hurdles linked to securityholder value. The same performance measures have been used since 1 April 2006. TSR: The comparator group used for the TSR performance measure consists of the companies included in the S&P/ASX 200 index. In assessing whether the performance hurdles have been met, SP AusNet receives independent data which provides both SP AusNet's TSR growth from the commencement of each grant and that of the companies in the comparator group. The level of TSR growth achieved by SP AusNet is given a percentile ranking having regard to its performance compared with the performance of other companies in the comparator group. The vesting scale for the TSR performance measure is shown below:

SP AusNet's TSR Percentile Ranking	Percentage of TSR Award that vests
Below 50.1	0%
50.1	50% for Awards granted April 2008 and April 2009 35% for Awards granted from April 2010
Between 50.1 and 74.9	Progressive vesting on a straight-line basis from greater than 50% to less than 100%
75 or above	100%

Directors' report (continued)

Remuneration report (Audited) (continued)

Long-term incentive (continued)

Key design aspect	Commentary
Performance measures (continued)	EPS: The EPS growth measure is based on SP AusNet achieving a nominal compound annual growth (CAGR) of 5% per annum over the three-year period. A sliding scale applies as follows:
Delivery mechanism	Once the performance criteria have been satisfied, participants receive a cash award. Participants are then required (under the Plan Rules) to use the after tax cash proceeds of this Award to purchase SP AusNet stapled securities on-market. These purchases must be conducted during an approved trading window and the stapled securities must be held for at least 12 months. Reasonable brokerage costs incurred by the participants are reimbursed. Given the structure of the SP AusNet group, an LTI Plan in this form was determined to be the most appropriate structure. Participants are incentivised to achieve performance targets over a three-year timeframe, and are also required to hold the SP AusNet securities acquired with their Award payment for at least 12 months, thereby extending the long-term nature of the LTI Plan.

Compound annual growth rate	Percentage of EPS Award that vests
<2.5% per annum	0%
Between 2.5% and 7.5% per annum	Linear scale from 50% to 150%
>7.5% per annum	150%

Loans to Directors and senior executives

No loans have been made by SP AusNet to any Directors or senior executives.

Details of remuneration

Remuneration details of each Director and KMP of SP AusNet are set out in the following tables. The KMP are not employees of SP AusNet but are employed by SPI Management Services. Under management services agreements between SPI Management Services and SP AusNet, the services of these KMP, including the Managing Director, are provided to SP AusNet. The total of payments made to Non-executive Directors during the year ended 31 March 2011 was $1,233,288 which is within the total remuneration pool of $1,500,000 approved by securityholders at the 2007 Annual General Meeting.

Directors' report (continued)

Remuneration report (Audited) (continued)

Total remuneration for Non-executive Directors for the year ended 31 March 2011 and 31 March 2010

		Short-term		Post-employment	Total
Non-executive Directors	Year	Cash salary and fees	Other short-term benefits [1]	Super-annuation [2]	
Ng Kee Choe (Chairman)	2011	199,924	-	17,993	217,917
	2010	178,899	-	16,101	195,000
Jeremy Davis	2011	127,676	-	11,491	139,167
	2010	123,853	-	11,147	135,000
Eric Gwee	2011	149,167	-	-	149,167
	2010	145,000	-	-	145,000
Ho Tian Yee	2011	113,914	-	10,252	124,166
	2010	110,092	-	9,908	120,000
Tony Iannello [5]	2011	141,437	-	12,729	154,166
	2010	123,853	-	11,147	135,000
George Lefroy	2011	125,000	-	11,250	136,250
	2010	119,266	-	10,734	130,000
Tina McMeckan [3]	2011	83,875	-	7,549	91,424
Ian Renard [5]	2011	157,951	-	14,216	172,167
	2010	131,193	-	11,807	143,000
Martyn Myer [4, 5]	2011	44,829	-	4,035	48,864
	2010	126,640	-	8,360	135,000
Total for Non-executive Directors	2011	1,143,773	-	89,515	1,233,288
	2010	1,058,796	-	79,204	1,138,000

1 The allocation of the premium for Directors' and Officers' insurance is not included as under the terms of the current policy this information cannot be disclosed.

2 Superannuation contributions made on behalf of Non-executive Directors to satisfy SP AusNet's obligations under applicable Superannuation Guarantee legislation. This does not include any salary sacrifice or employee contributions which are included under cash salary and fees.

3 Ms McMeckan was appointed as a Non-executive Director on 9 August 2010.

4 Mr Myer ceased as a Non-executive Director on 14 July 2010.

5 Received exertion payments in relation to Bushfire Litigation and Inquiry Response Committee. This Committee has now concluded and is replaced with the Bushfire Litigation Committee.

Directors' report (continued)

Remuneration report (Audited) (continued)

Total remuneration for key management personnel for the year ended 31 March 2011 and 31 March 2010

		Short-term			Post-employment	Equity based payments [3]	Other long-term benefits [4]	Total
	Year	Cash salary and fees	Cash bonus [1]	Other short-term benefits [2]	Super-annuation			
Nino Ficca	2011	740,450	376,915	78,073	71,718	688,710	50,534	2,006,400
	2010 [5]	691,037	454,067	71,706	67,503	162,860	42,437	1,489,610
Norm Drew	2011	358,199	97,051	36,342	44,483	228,251	28,017	792,343
	2010 [5]	353,403	165,428	37,934	43,429	54,612	38,887	693,693
John Kelso	2011	236,215	83,648	19,422	23,279	104,361	11,778	478,703
	2010 [5]	214,792	92,845	31,416	22,581	63,011	21,893	446,538
Geoff Nicholson	2011	441,358	174,222	38,887	41,944	271,728	14,627	982,766
	2010 [5]	407,396	207,879	38,961	39,904	67,791	13,913	775,844
Charles Popple	2011	323,016	150,505	28,840	33,561	216,636	15,251	767,809
	2010 [5]	337,621	136,752	37,548	31,093	54,280	16,630	613,924
Total KMP	2011	2,099,238	882,341	201,564	214,985	1,509,686	120,207	5,028,021
	2010 [5]	2,004,249	1,056,971	217,565	204,510	402,554	133,760	4,019,609
Susan Taylor [6]	2011	258,635	102,992	26,576	26,213	169,554	8,554	592,524

1 2011 cash bonuses include bonuses in respect of performance for the year ended 31 March 2011. These amounts have been approved but not yet paid.

2 This amount represents car parking benefits and the accrual of annual leave entitlements. The allocation of the premium for Directors' and Officers' insurance is not included as under the terms of the current policy this information cannot be disclosed.

3 The Stapled Group has determined, based on its best estimate as at 31 March 2011, that the amounts payable under the LTIP Awards granted on 1 April 2009 and 1 April 2010 will be for both the EPS and TSR components. As the performance period over which the Awards vest is three years, the amount included in Equity Based Payments is one-third of the amount estimated to be payable at the end of the performance period for each Award. The actual amounts paid under these Awards will not be known until the end of the performance period. For the LTIP Award granted on 1 April 2008, the amount included in Equity Based Payments is the difference between the grant payable and the amounts that have been included in Equity Based Payments in previous years. Refer to the table below under the heading of cash bonuses – long-term incentive for the maximum amounts payable at the end of three years.

4 Other long-term benefits include the accrual of long service leave entitlements.

5 Remuneration disclosed for 31 March 2010 has been adjusted for the inclusion of annual leave and long service leave accrued entitlements, calculated in accordance with accounting standards.

6 Ms Taylor is one of the five highest remunerated executives and as such her remuneration information has been disclosed above.

Directors' report (continued)

Remuneration report (Audited) (continued)

Key management personnel cash bonuses – short-term incentive

The percentage of the available bonus that was paid, or that vested, in the financial years ended 31 March 2011 and 31 March 2010, and the percentage that was forfeited because the person did not meet the service or performance criteria are set out below.

	Cash Bonus (2011) [1]			Cash Bonus (2010)		
	Payable ($)	Percentage of available bonus		Paid ($)	Percentage of available bonus	
		Payable (%)	Not Payable (%)		Paid (%)	Not Paid (%)
Nino Ficca	376,915	86.2	13.8	454,067	108.8	0.0
Norm Drew	97,051	55.4	44.6	165,428	98.5	1.5
John Kelso	83,648	76.6	23.4	92,845	87.6	12.4
Geoff Nicholson	174,222	83.6	16.4	207,879	103.9	0.0
Charles Popple	150,505	92.0	8.0	136,752	88.6	11.4

1 Bonuses for performance for the year ended 31 March 2011 have been approved but not yet paid.

Directors' report (continued)

Remuneration report (Audited) (continued)

Key management personnel cash bonuses – long-term incentive (equity based payments)

The SP AusNet Board approved a LTI plan for the Managing Director and senior executives that came into effect from 1 April 2006. The following table shows the value of cash grants subject to future performance testing, percentage paid or forfeited and future financial years that grants may vest and be paid. The grants made in 2010 and 2009 are still in progress and, as such, no percentage of these grants have been paid or forfeited as at the date of this report, other than those who have resigned during the performance period.

	Date of grant	Percentage of maximum grant payable (%) [1]	Percentage of maximum grant forfeited (%)	Date grant may vest	Maximum total value of grant ($) [2]
Nino Ficca	1 April 2008	92.4	7.6	31 March 2011	820,313
Norm Drew	1 April 2008	92.4	7.6	31 March 2011	273,525
John Kelso	1 April 2008	92.4	7.6	31 March 2011	85,297
Geoff Nicholson	1 April 2008	92.4	7.6	31 March 2011	325,625
Charles Popple	1 April 2008	92.4	7.6	31 March 2011	255,725
Total granted 1 April 2008					1,760,485
Nino Ficca	1 April 2009	-	-	31 March 2012	861,328
Norm Drew	1 April 2009	-	-	31 March 2012	287,201
John Kelso	1 April 2009	-	-	31 March 2012	179,123
Geoff Nicholson	1 April 2009	-	-	31 March 2012	341,906
Charles Popple	1 April 2009	-	-	31 March 2012	268,511
Total granted 1 April 2009					1,938,069
Nino Ficca	1 April 2010	-	-	31 March 2013	904,395
Norm Drew	1 April 2010	-	-	31 March 2013	301,561
John Kelso	1 April 2010	-	-	31 March 2013	188,080
Geoff Nicholson	1 April 2010	-	-	31 March 2013	359,002
Charles Popple	1 April 2010	-	-	31 March 2013	281,937
Total granted 1 April 2010					2,034,975

1 These grants have been approved but not yet paid.

2 For the grant of 1 April 2008, the amounts payable equated to 92.4% of the target LTIP. For the grants of 1 April 2009 and 1 April 2010, the amounts are based on maximum performance in relation to TSR and EPS at the end of the three-year performance period described above and assumes prevailing FARs increase by 5% per annum.

Directors' report (continued)

Remuneration report (Audited) (continued)

Directors' interests

The Directors of SP AusNet have disclosed relevant interests in stapled securities as at 31 March 2011 as follows:

Name	Number of stapled securities
Ng Kee Choe [1]	195,883
Nino Ficca [2]	870,334
Jeremy Davis	105,000
Eric Gwee [1]	153,591
Ho Tian Yee	-
Tony Iannello [3]	140,976
George Lefroy [4]	239,206
Tina McMeckan [5]	-
Martyn Myer [6]	-
Ian Renard	73,825

1 Securities held by The Central Depository (Pte) Limited.

2 278,131 securities held by immediate family members of Mr Ficca and 592,203 securities held by Mr and Mrs Ficca as Trustees for the Ficca Investment Trust.

3 37,500 securities held by immediate family members of Mr Iannello through a Superannuation Plan and 103,476 securities held by ADI Investment Trust.

4 Securities held by Serp Hills Pty Ltd (as trustee for Serp Hills Super Fund).

5 Ms McMeckan was appointed as a Non-executive Director on 9 August 2010.

6 Mr Myer ceased as a Director effective 14 July 2010.

The Directors of SP AusNet have disclosed relevant interests in related body corporates as follows:

	Singapore Tele-communications Limited	Singapore Airport Terminal Services Limited	PT Bank Danamon Indonesia Tbk	Keppel Corporation Limited	CapitaMalls Asia Limited	Mapletree Industrial Trust
Ng Kee Choe	3,080 [1]	11,000	82,843 [6]	10,000	130,000	100,000
Nino Ficca	720 [2]	-	-	-	-	-
Jeremy Davis	-	-	-	-	-	-
Eric Gwee	1,980 [3]	-	-	-	-	-
Ho Tian Yee	2,850 [4]	-	-	-	-	-
Tony Iannello	-	-	-	-	-	-
George Lefroy	158,792 [5]	-	-	-	-	-
Tina McMeckan [7]	-	-	-	-	-	-
Martyn Myer [8]	-	-	-	-	-	-
Ian Renard	-	-	-	-	-	-

1 1,540 securities held by immediate family members of Mr Ng.

2 Securities held by immediate family members of Mr Ficca.

3 620 securities held by immediate family members of Mr Gwee.

4 1,490 securities held by The Central Depository (Pte) Limited on behalf of Mr Ho and 1,360 securities held by The Central Depository (Pte) Limited on behalf of immediate family members of Mr Ho.

5 Securities held by Serp Hills Pty Ltd (as trustee for Serp Hills Super Fund).

6 32,843 securities are Series B shares.

7 Ms McMeckan was appointed as a Non-executive Director on 9 August 2010.

8 Mr Myer ceased as a Director effective 14 July 2010.

Directors' report (continued)

Remuneration report (Audited) (continued)

Service agreements

Remuneration and other terms of employment for the Managing Director and specified senior management (including KMP) are formalised in individual employment agreements. Each of these agreements provides for short-term performance-related cash bonuses, fringe benefits plus other benefits. Participation in the long-term incentive plan is not a term of the agreements. Other major provisions of the agreements, relating to remuneration, are set out below.

Managing Director

Term of agreement	Permanent, subject to one month's notice of termination by either party.
Fixed remuneration	Fixed remuneration includes base salary and superannuation.
	As at 31 March 2011, fixed annual remuneration was $875,000.
	Fixed remuneration is reviewed annually by the Remuneration Committee and the Board.
Short-term incentive	Annual short-term incentive of 50% of FAR for on-target performance.
Long-term incentive	Long-term incentive of 75% of FAR for on-target performance, based on the general executive performance measures of TSR and EPS, and for awards granted on or after 1 April 2011 a further 25% for the achievement of stretch targets related to ROIC and ICR.
	Annual invitation to participate with three-year performance period and no retesting of performance measures in subsequent years.
Termination benefits	Termination benefits calculated at three weeks' pay for every year of service paid at the Managing Director's FAR rate and capped at six months.

Senior executives

The major provisions contained in the services agreements of the Executive KMP listed are substantially the same as those that apply to the Managing Director.

Directors' report (continued)

Indemnification and insurance of officers and auditors

The constitutions of SP AusNet Distribution, SP AusNet Transmission and the Responsible Entity each provide for the company to indemnify each current and former Director, executive officer (as defined in the constitutions), and such other current and former officers of the company or of a related body corporate as the Directors determine (each an 'Officer'), on a full indemnity basis and to the full extent permitted by law against all liabilities (as defined in the constitutions) incurred by the Officer as an officer of the company or of a related body corporate.

The constitutions also provide for SP AusNet Distribution, SP AusNet Transmission and the Responsible Entity, to the extent permitted by law, to purchase and maintain insurance, or pay or agree to pay a premium for insurance, for each Officer against any liability (as defined in the constitutions) incurred by the Officer as an officer of the company or of a related body corporate.

SP AusNet Distribution, SP AusNet Transmission and the Responsible Entity may enter into a deed with any Officer to give effect to the rights conferred by the constitutions as described above.

The companies have executed protection deeds in favour of each of the Directors, the Company Secretary and certain general managers on substantially the same terms as provided in the constitutions. The deeds also give a right of access to the books of the companies and to Board documents (to the Directors only).

During the financial year, the Stapled Group paid a premium to insure the Directors and Company Secretaries of the Australian-based combined entities and the general managers of each of the divisions of SP AusNet. The Directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the insurance policy, as (in accordance with normal commercial practice) such disclosure is prohibited under the terms of the policy.

No insurance premiums are paid by the Stapled Group in regard to insurance cover provided to the auditor of the Stapled Group, KPMG. The auditor is not indemnified and no insurance cover is provided to the auditor.

Non-audit services

SP AusNet may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the relevant company and/or combined entity are important.

Details of the amounts paid or payable to the auditor, KPMG, for audit and non-audit services provided during the year are set out in note 22 of the general purpose financial report.

In accordance with the advice provided by the Audit and Risk Management Committee, the Directors are satisfied that the provision of non-audit services during the year by the auditor is compatible with the general standard of independence for auditors imposed by the Corporations Act. The Directors are satisfied for the following reasons:

- all non-audit services have been reviewed by the Audit and Risk Management Committee to ensure that they do not impact the impartiality and objectivity of the auditor; and
- none of the non-audit services undermine the general principles relating to auditor independence as set out in APES 110 Code *of Ethics for Professional Accountants*.

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act is set out on page 35.

Directors’ report (continued)

Rounding of amounts

SP AusNet Distribution is a company of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the ‘rounding off’ of amounts in the Directors' report. Amounts in the Directors' report have been rounded off in accordance with that Class Order the nearest hundred thousand dollars or, in certain cases, to the nearest thousand dollars.

This report is made in accordance with a resolution of the Directors.

Ng Kee Choe
Chairman

Nino Ficca
Managing Director

Melbourne
11 May 2011

KPMG

Lead auditor's independence declaration under Section 307C of the Corporations Act 2001

To the directors of SP Australia Networks (Distribution) Ltd

I declare that, to the best of my knowledge and belief, in relation to the audit for the year ended 31 March 2011 there have been:

- No contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- No contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Michael Bray
Partner

Melbourne
11 May 2011

Combined income statement

For the year ended 31 March 2011

	Notes	2011 $M	2010 $M
Revenue	3	1,468.0	1,333.6
Expenses, excluding finance costs	4	(862.8)	(789.8)
Profit/(loss) from operating activities		605.2	543.8
Finance income	5	29.8	13.8
Finance costs	5	(370.1)	(308.5)
Net finance (costs)/income		(340.3)	(294.7)
Profit before income tax		264.9	249.1
Income tax (expense)/benefit	6	(12.0)	(40.1)
Profit/(loss) for the year		252.9	209.0
Attributable to:			
SP AusNet Distribution		46.1	25.9
SP AusNet Transmission and SP AusNet Finance Trust (non-controlling interest)		206.8	183.1
Profit/(loss) for the year		252.9	209.0
Earnings per share attributable to the ordinary equityholders of SP AusNet Distribution			
Basic and diluted earnings per share (cents per share)*	8	1.68	1.00

The above combined income statement should be read in conjunction with the accompanying notes.

* Basic earnings per stapled security for the Stapled Group for the year ended 31 March 2011 was 9.19 cents per security (2010: 8.09 cents). Refer note 8.

Combined statement of comprehensive income

For the year ended 31 March 2011

	2011 $M	2010 $M
Profit/(loss) for the year	252.9	209.0
Other comprehensive income		
Movement in defined benefit funds		
SP AusNet Distribution	2.1	23.8
SP AusNet Transmission and SP AusNet Finance Trust (non-controlling interest)	1.3	15.8
Movement in hedge reserve		
SP AusNet Distribution	(32.3)	118.2
SP AusNet Transmission and SP AusNet Finance Trust (non-controlling interest)	2.2	18.6
Income tax on other comprehensive income	8.0	(52.9)
Other comprehensive income for the year, net of income tax	(18.7)	123.5
Total comprehensive income for the year	234.2	332.5
Attributable to:		
SP AusNet Distribution	24.9	125.3
SP AusNet Transmission and SP AusNet Finance Trust (non-controlling interest)	209.3	207.2
Total comprehensive income for the year	234.2	332.5

The above combined statement of comprehensive income should be read in conjunction with the accompanying notes.

Combined statement of financial position

As at 31 March 2011

	Notes	2011 $M	2010 Restated* $M	1 April 2009 Restated* $M
ASSETS				
Current assets				
Cash and cash equivalents		49.9	545.1	7.2
Receivables	9	491.5	207.6	182.7
Inventories	10	32.4	16.4	15.8
Derivative financial instruments	19(c)	17.5	12.4	60.5
Other assets	11	17.0	11.2	11.0
Total current assets		608.3	792.7	277.2
Non-current assets				
Inventories	10	16.1	15.8	16.1
Intangible assets	13	371.1	356.2	354.5
Property, plant and equipment	12	7,439.0	7,065.0	6,721.9
Deferred tax assets	6(d)	3.9	-	-
Derivative financial instruments	19(c)	37.4	28.7	341.9
Other assets	11	0.8	0.9	0.9
Total non-current assets		7,868.3	7,466.6	7,435.3
Total assets		8,476.6	8,259.3	7,712.5
LIABILITIES				
Current liabilities				
Payables and other liabilities	14	236.0	215.9	225.3
Borrowings	15	683.6	749.0	225.1
Derivative financial instruments	19(c)	141.1	119.0	153.4
Current tax payable		10.5	4.1	2.0
Provisions	16	62.0	57.6	51.0
Total current liabilities		1,133.2	1,145.6	656.8
Non-current liabilities				
Payables and other liabilities	14	3.1	4.1	5.0
Borrowings	15	3,690.6	3,683.0	4,267.1
Derivative financial instruments	19(c)	458.4	302.3	225.2
Deferred tax liabilities	6(d)	290.8	306.5	237.3
Provisions	16	35.6	43.7	93.3
Total non-current liabilities		4,478.5	4,339.6	4,827.9
Total liabilities		5,611.7	5,485.2	5,484.7
Net assets		2,864.9	2,774.1	2,227.8
EQUITY				
Equityholders of SP AusNet Distribution				
Contributed equity	17	0.5	0.5	0.5
Reserves		(99.6)	(77.0)	(159.7)
Retained profits		655.6	608.1	565.5
		556.5	531.6	406.3
Equityholders of SP AusNet Transmission and SP AusNet Finance Trust (non-controlling interest)		2,308.4	2,242.5	1,821.5
Total equity		2,864.9	2,774.1	2,227.8

* 2010 and 1 April 2009 have been restated. Refer note 31.

The above combined statement of financial position should be read in conjunction with the accompanying notes.

Combined statement of changes in equity

For the year ended 31 March 2011

	Notes	Contributed equity $M	Issued units $M	Hedge reserve (i) $M	Retained profits (ii) $M	Fair value adjustment on stapling $M	Other equity component (iii) $M	Total equity $M
31 March 2011								
SP AusNet Distribution								
Balance as at 1 April 2010		0.5	-	(77.0)	608.1	-	-	531.6
Total comprehensive income for the year								
Profit/(loss) for the year		-	-	-	46.1	-	-	46.1
Total other comprehensive income		-	-	(22.6)	1.4	-	-	(21.2)
Total comprehensive income for the financial year		-	-	(22.6)	47.5	-	-	24.9
Balance as at 31 March 2011		0.5	-	(99.6)	655.6	-	-	556.5
SP AusNet Transmission and SP AusNet Finance Trust (non-controlling interest)								
Balance as at 1 April 2010		650.1	2,133.6	(1.9)	504.4	51.4	(1,095.1)	2,242.5
Total comprehensive income for the year								
Profit/(loss) for the year		-	-	-	206.8	-	-	206.8
Total other comprehensive income		-	-	1.6	0.9	-	-	2.5
Total comprehensive income for the financial year		-	-	1.6	207.7	-	-	209.3
Transactions with owners, recorded directly in equity								
Distributions paid	7	-	(9.0)	-	(209.1)	-	-	(218.1)
Distribution reinvestment plan (net of transaction costs)	7	-	74.7	-	-	-	-	74.7
Total transactions with owners		-	65.7	-	(209.1)	-	-	(143.4)
Balance as at 31 March 2011		650.1	2,199.3	(0.3)	503.0	51.4	(1,095.1)	2,308.4
Total stapled securityholders' equity as at 31 March 2011		650.6	2,199.3	(99.9)	1,158.6	51.4	(1,095.1)	2,864.9

Combined statement of changes in equity

For the year ended 31 March 2011

	Notes	Contributed equity $M	Issued units $M	Hedge reserve (i) $M	Retained profits (ii) $M	Fair value adjustment on stapling $M	Other equity component (iii) $M	Total equity $M
31 March 2010								
SP AusNet Distribution								
Balance as at 1 April 2009		0.5	-	(159.7)	565.5	-	-	406.3
Total comprehensive income for the year								
Profit/(loss) for the year		-	-	-	25.9	-	-	25.9
Total other comprehensive income		-	-	82.7	16.7	-	-	99.4
Total comprehensive income for the financial year		-	-	82.7	42.6	-	-	125.3
Balance as at 31 March 2010		0.5	-	(77.0)	608.1	-	-	531.6
SP AusNet Transmission and SP AusNet Finance Trust (non-controlling interest)								
Balance as at 1 April 2009		650.1	1,737.6	(14.9)	492.4	51.4	(1,095.1)	1,821.5
Total comprehensive income for the year								
Profit/(loss) for the year		-	-	-	183.1	-	-	183.1
Total other comprehensive income		-	-	13.0	11.1	-	-	24.1
Total comprehensive income for the financial year		-	-	13.0	194.2	-	-	207.2
Transactions with owners, recorded directly in equity								
Distributions paid	7	-	(50.0)	-	(182.2)	-	-	(232.2)
New units issued (net of transaction costs)		-	399.3	-	-	-	-	399.3
Distribution reinvestment plan (net of transaction costs)	7	-	46.7	-	-	-	-	46.7
Total transactions with owners		-	396.0	-	(182.2)	-	-	213.8
Balance as at 31 March 2010		650.1	2,133.6	(1.9)	504.4	51.4	(1,095.1)	2,242.5
Total stapled securityholders' equity as at 31 March 2010		650.6	2,133.6	(78.9)	1,112.5	51.4	(1,095.1)	2,774.1

Combined statement of changes in equity

For the year ended 31 March 2011

(i) The hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments. These gains or losses are transferred to the income statement when the hedged item affects income, except for highly probable forecast purchases of an asset where the gains or losses are included in the initial measurement of that asset (refer note 1(n)).

(ii) Actuarial gains and losses on the defined benefit obligation and the plan assets are recognised directly in retained profits, as described in note 1(v).

(iii) SP AusNet Transmission other equity component results from the application of reverse acquisition accounting and represents the difference between the net assets of SP AusNet Transmission and SPI Australia Finance Pty Ltd and the purchase price paid by the legal acquirer, SP AusNet Transmission.

The above combined statement of changes in equity should be read in conjunction with the accompanying notes.

Combined statement of cash flows
For the year ended 31 March 2011

	Notes	2011 $M	2010 $M
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		1,563.1	1,362.3
Payments to suppliers and employees (inclusive of goods and services tax)		(743.4)	(611.3)
Income tax paid		(18.3)	(21.7)
Interest received		23.4	9.3
Interest and other costs of finance paid		(352.0)	(318.0)
Net cash inflow/(outflow) from operating activities	29	472.8	420.6
Cash flows from investing activities			
Payments for property, plant and equipment		(611.2)	(583.4)
Proceeds from sale of property, plant and equipment		0.3	4.2
Payments for acquisition of business	27	(13.7)	(1.8)
Net cash inflow/(outflow) from investing activities		(624.6)	(581.0)
Cash flows from financing activities			
Proceeds from issue of securities (net of transaction costs)		-	399.3
Distributions paid (i)	7	(143.4)	(185.5)
Proceeds from borrowings		805.0	1,283.5
Repayment of borrowings		(1,005.0)	(799.0)
Net cash inflow/(outflow) from financing activities		(343.4)	698.3
Net increase/(decrease) in cash held		(495.2)	537.9
Cash and cash equivalents at the beginning of the financial year		545.1	7.2
Cash and cash equivalents at the end of the financial year		49.9	545.1

(i) Amounts shown represent distributions paid of $218.1 million (2010: $232.2 million) offset by proceeds from the Distribution Reinvestment Plan of $74.8 million (2010: $46.9 million), less transaction costs of $0.1 million (2010: $0.2 million).

The above combined statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the combined financial statements

31 March 2011

Contents

Note 1 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial report are set out below. The combined financial report represents financial statements for the Stapled Group (refer note 1(b)(i)), consisting of SP AusNet Distribution and its subsidiaries, SP AusNet Transmission and its subsidiaries and SP AusNet Finance Trust. The Stapled Group is also referred to as SP AusNet.

(a) Basis of preparation

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASBs) and interpretations adopted by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001* (Cth). The combined financial statements and notes also comply with International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board (IASB).

This general purpose financial report is presented in Australian dollars.

The financial statements were approved by the Board of Directors on 11 May 2011.

SP AusNet's current liabilities exceed its current assets by $524.9 million at 31 March 2011 (2010 restated: $352.9 million). The financial report has been prepared on a going concern basis, which contemplates the continuity of normal trading operations, as the Stapled Group is trading profitably and has continually been able to refinance maturing debt. In addition, at 31 March 2011 the Stapled Group has available a total of $350.0 million of unused working capital and bank loan facilities.

(i) New standards adopted

The standards relevant to the Stapled Group that have been adopted during the annual reporting period beginning 1 April 2010 are:

- AASB 3 *Business Combinations (revised 2008)* affects the valuation of non-controlling interest (previously minority interest), accounting for transaction costs, the initial recognition and subsequent measurement of contingent consideration and business combinations achieved in stages. These changes apply prospectively to acquisitions occurring from 1 April 2010 and will impact the amount of goodwill recognised, the reported results in the period when an acquisition occurs and future reported results. The acquisition of the Schultz Plumbing business has been accounted for under this new standard (refer note 27).

- AASB 127 *Consolidated and Separate Financial Statements (revised 2008)* requires any change in the ownership interest of a subsidiary (without a change in control) to be accounted for as a transaction with owners in their capacity as owners. Such transactions will no longer give rise to goodwill, nor will they give rise to a gain or loss in the income statement. The revised standard also changes the accounting for losses incurred by a partially owned subsidiary and loss of control in a subsidiary.

Note 1 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(ii) New standards not yet adopted

The following standards, amendments to standards and interpretations have been identified as those which may impact the Stapled Group in the period of initial adoption. They were available for early adoption for the Stapled Group's annual reporting period beginning 1 April 2010, but have not been applied in preparing this financial report:

- AASB 2010-4 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project* impact the financial statements as follows:

  - Amendments to disclosure requirements in AASB 7 *Financial Instruments: Disclosures* around credit risk for financial assets. As the Stapled Group has minimal credit risk on financial assets, the impact of these amendments is expected to be immaterial.

  - Enhanced guidance in AASB 134 *Interim Financial Reporting* to illustrate how to apply disclosure principles around significant events and transactions. This amendment is expected to increase the disclosure requirements in future interim reports.

There are also other minor amendments and revisions to standards and interpretations that have not been early adopted. As these changes are minor in nature, they are not expected to result in any material changes to the Stapled Group's financial results.

(iii) Historical cost convention

The financial statements have been prepared under the historical cost convention, except for certain financial assets and liabilities (including derivative instruments) measured at fair value.

(iv) Critical accounting estimates and judgements

The preparation of financial statements in conformity with AASBs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Stapled Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 20.

(v) Removal of parent entity financial statements

The Stapled Group has applied amendments to the Corporations Act that remove the requirement for the Stapled Group to lodge parent entity financial statements. Parent entity financial statements have been replaced by the specific parent entity disclosures in note 28.

Note 1 Summary of significant accounting policies (continued)

(b) Principles of consolidation

(i) Stapling

Pursuant to the Stapling Deed effective 21 October 2005, a Stapled Group was established for the purpose of facilitating a joint quotation of SP AusNet Distribution, SP AusNet Transmission and SP AusNet Finance Trust on the Australian Securities Exchange and the Singapore Exchange Securities Trading Limited. The Stapled Group was listed on 14 December 2005.

So long as the three entities remain jointly quoted, the number of shares in each of SP AusNet Distribution and SP AusNet Transmission and the number of units in SP AusNet Finance Trust shall be equal and shareholders and unitholders shall be identical.

For statutory reporting purposes SP AusNet Distribution was identified as the acquirer in the Stapled Group based on the size of its net assets and its operations and accordingly, it presents the combined financial report of the Stapled Group. As at the date of the stapling arrangement, the carrying amounts of the assets and liabilities of SP AusNet Distribution were combined with the fair values of the identifiable assets, liabilities and contingent liabilities of SP AusNet Transmission and SP AusNet Finance Trust.

The figures in the combined income statement, combined statement of comprehensive income and combined statement of cash flows reflect the combined results, comprehensive income and cash flows of SP AusNet Distribution, SP AusNet Transmission and SP AusNet Finance Trust for the full financial years ended 31 March 2011 and 31 March 2010.

The figures in the combined statement of financial position reflect the combined positions of SP AusNet Distribution, SP AusNet Transmission and SP AusNet Finance Trust.

As the business combination has been effected by contract alone, the total ownership interest in SP AusNet Transmission and SP AusNet Finance Trust is presented as non-controlling interest in the combined financial statements of SP AusNet Distribution, notwithstanding that by virtue of the stapling arrangement SP AusNet Distribution, SP AusNet Transmission and SP AusNet Finance Trust have common equityholders (securityholders) with the effect that total equity of the Stapled Group belongs to those securityholders. The retained profits of SP AusNet Transmission and the unitholders' funds of SP AusNet Finance Trust are available for distribution directly to securityholders.

(ii) Subsidiaries

Subsidiaries are entities, including special purpose entities, controlled by the Stapled Group. Control exists when the Stapled Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are presently exercisable or convertible are taken into account.

Subsidiaries are fully consolidated from the date on which control is transferred to the Stapled Group and are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities within the Stapled Group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries are consistent with the accounting policies of the Stapled Group.

Note 1 Summary of significant accounting policies (continued)

(c) Segment reporting

An operating segment is a component of the Stapled Group that engages in business activities from which it earns revenues and incurs expenses for which discrete financial information is available and whose operating results are regularly reviewed by the chief operating decision maker.

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the entities within the Stapled Group are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The financial statements are presented in Australian dollars, which is the Stapled Group's presentation currency.

(ii) Transactions and balances

All foreign currency transactions are accounted for using the exchange rate at the date of the transaction. At balance date, monetary items denominated in foreign currencies are translated at the exchange rate existing at that date. Resultant exchange differences are recognised in the income statement for the year, except for exchange differences for qualifying cash flow hedges which are recognised in other comprehensive income.

(e) Revenue recognition

Revenue is measured at the fair value of the consideration received net of the amount of Goods and Services Tax (GST) payable to the taxation authority. Revenue is recognised for the major business activities as follows:

(i) Transmission regulated revenue

Transmission regulated revenue is revenue earned from the transmission of electricity and related services and is recognised as the services are rendered.

(ii) Distribution regulated revenue

Distribution regulated revenue is revenue earned from the distribution of electricity and gas and related services and is recognised as the services are rendered.

Revenues from services rendered under a contract are recognised by reference to the stage of completion of the contract.

(iii) Service revenue

Service revenue is recognised as the services are rendered. This includes revenue earned from specialist utility related solutions, in particular metering, monitoring and asset inspection services.

(iv) Contributions from customers for capital works

Contributions received from customers to assist in the financing of construction of assets are recognised as revenue when the project is complete. Customer contributions of cash are measured with reference to the cash contribution received and customer contributions of assets are measured at the fair value of the assets contributed at the date SP AusNet gains control of the asset.

Note 1 Summary of significant accounting policies (continued)

(f) Income tax

(i) Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by the reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

(ii) Deferred tax

Deferred tax is accounted for using the balance sheet liability method in respect of differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. Deferred tax assets and liabilities are, however, not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination), which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on the tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Stapled Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Stapled Group intends to settle its tax assets and liabilities on a net basis.

(iii) Tax expense

Current and deferred tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill.

(iv) Tax consolidations

SP AusNet Distribution and SP AusNet Transmission are the head entities in two separate tax consolidated groups comprising each of these entities and their wholly-owned subsidiaries.

The current and deferred tax amounts for each tax consolidated group are allocated among the entities in each group using the separate taxpayer within group method.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses assumed by each head entity from the subsidiaries in its tax consolidated group are recognised in conjunction with any tax funding arrangement amounts (refer below). Any difference between these amounts is recognised by the relevant head entity as an equity contribution to, or distribution from, the subsidiary. Distributions firstly reduce the carrying amount of the investment in the subsidiary and are then recognised as revenue.

Note 1 Summary of significant accounting policies (continued)

(f) Income tax (continued)

(iv) Tax consolidations (continued)

Each head entity recognises deferred tax assets arising from unused tax losses of its tax consolidated group to the extent that it is probable that future taxable profits of the tax consolidated group will be available against which the assets can be utilised. Any subsequent period adjustments to deferred tax assets arising from unused tax losses assumed from subsidiaries are recognised by the head entity only.

The members of each tax consolidated group have entered into a tax funding arrangement which sets out the funding obligations of members of the tax consolidated group in respect of tax amounts. The tax funding arrangement requires payments to/(from) the head entity equal to the current tax liability/(asset) assumed by the head entity and any deferred tax asset relating to tax losses assumed by the head entity. The members of each tax consolidated group have also entered into valid tax sharing agreements under the tax consolidation legislation which set out the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations and the treatment of entities leaving the tax consolidated group.

(g) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. The Stapled Group does not have any finance lease arrangements.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefits of incentives are recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(h) Business combinations

The acquisition method of accounting is used for all business combinations, regardless of whether equity instruments or other assets are acquired. Cost is determined as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange as well as the fair value of any contingent consideration. Any subsequent changes in contingent consideration are recognised in the income statement.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at fair value at the acquisition date, irrespective of the extent of any non-controlling interest. All potential intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair value can be measured reliably. Transaction costs in relation to business combinations are expensed as incurred.

Where settlement of any part of the cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Note 1 Summary of significant accounting policies (continued)

(i) Impairment of non-financial assets other than goodwill

At each reporting date, the Stapled Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Stapled Group estimates the recoverable amount of the cash-generating unit (CGU) to which the asset belongs. A CGU is the smallest group of assets that generate independent cash flows.

Intangible assets with indefinite useful lives are tested for impairment annually and whenever there is an indication that the asset may be impaired.

Impairment losses recognised in prior periods are assessed at each reporting date for any indication that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognised in the income statement immediately.

(j) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash at bank and investments in money market instruments. Bank overdrafts are repayable on demand and form an integral part of the Stapled Group's cash management, therefore these are included as a component of cash and cash equivalents for the purpose of the combined statement of cash flows.

(k) Receivables

Receivables are initially recognised at the fair value of the amounts to be received and are subsequently measured at amortised cost, less any allowance for impairment.

Collectibility of receivables is reviewed on an ongoing basis. Debts that are known to be uncollectible are written off. An allowance for impairment is established when there is objective evidence that the Stapled Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The change in the amount of the allowance is recognised in the income statement.

(l) Customer deposits

Customer deposits are recognised as liabilities and represent refundable payments received in advance from customers as security on capital projects.

Note 1 Summary of significant accounting policies (continued)

(m) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is based on a weighted average and includes expenditure incurred in acquiring the inventories and bringing them to their existing condition and location, which may include direct materials, direct labour costs and an allocation of overheads.

(n) Derivatives

The Stapled Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including forward foreign currency contracts, interest rate swaps and cross-currency swaps.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in the income statement immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the income statement depends on the nature of the hedge relationship. The Stapled Group designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges) or hedges of highly probable forecast transactions (cash flow hedges).

To ensure derivative financial instruments qualify for hedge accounting the Stapled Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. The Stapled Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

(i) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised immediately in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

(ii) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised directly in equity in the hedge reserve. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect the income statement (generally when the forecast transaction that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the measurement of the initial cost or carrying amount of the asset or liability.

Hedge accounting is discontinued when the hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting. At that time, any cumulative gain or loss existing in equity remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement.

When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately recognised in the income statement.

Note 1 Summary of significant accounting policies (continued)

(o) Fair value estimation

All SP AusNet's assets and liabilities carried at fair value are derivative instruments that are measured using market observable data and as such are deemed level two within the fair value hierarchy as per AASB 7 *Financial Instruments: Disclosure*.

The fair value of derivatives is determined in accordance with generally accepted pricing models based on discounted cash flow analysis. Appropriate transaction costs are included in the determination of net fair value.

(p) Property, plant and equipment

Items of property, plant and equipment are stated at historical cost less depreciation. The cost of contributed assets is their fair value at the date SP AusNet gains control of the asset.

Historical cost includes all expenditure that is directly attributable to the acquisition of the item including an appropriate allocation of overheads and capitalised borrowing costs. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to SP AusNet and the cost of the item can be measured reliably.

Maintenance and repair costs and minor renewals are charged as expenses as incurred, except where they relate to the replacement of a component of an asset, in which case the costs are capitalised and depreciated, and the replaced item is derecognised.

Depreciation is provided for on property, plant and equipment, including freehold buildings but excluding land and easements. Depreciation is calculated on a straight-line basis so as to write off the net cost of each asset over its estimated useful life to its estimated residual value. The estimated useful lives, residual values and depreciation methods are reviewed annually, and where material changes are made, their effects are accounted for on a prospective basis and disclosed in the financial statements.

Note 1 Summary of significant accounting policies (continued)

(p) Property, plant and equipment (continued)

The expected average useful lives of major asset classes for the current and comparative periods are as follows:

	Years
Distribution network (gas)	15-120
Buildings	40-99
Transmission network	15-70
Distribution network (electricity)	5-70
Other general assets	3-10
Motor vehicles and heavy machinery	3-12
Computer equipment and software	3-5

(q) Intangible assets

(i) Distribution licences

The distribution licences held entitle certain subsidiaries to distribute electricity and gas within the subsidiary's licensed region. Distribution licences are stated at cost and are considered to be indefinite life intangible assets, which are not amortised. The distribution licences are tested for impairment annually and are carried at cost less any accumulated impairment losses.

(ii) Goodwill

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed.

If, after reassessment, the Stapled Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in the income statement as a gain.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Stapled Group's CGUs expected to benefit from the synergies of the combination. CGUs to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the CGU may be impaired. If the recoverable amount of the CGU is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to the other assets of the CGU pro-rata on the basis of the carrying amount of each asset in the CGU. An impairment loss recognised for goodwill is not reversed in a subsequent period.

(iii) Other intangible assets

Other intangible assets that are acquired by the Stapled Group and that have a finite useful life are measured at cost less accumulated amortisation and accumulated impairment losses.

Note 1 Summary of significant accounting policies (continued)

(r) Trade and other payables

These amounts represent liabilities for goods and services provided to the Stapled Group prior to the end of financial year which are unpaid. Trade and other payables are stated at cost, are unsecured and are usually payable within 30 days of end of month.

(s) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost, except as detailed below. Any difference between the proceeds (net of transaction costs) and redemption amount is recognised in the income statement over the period of the borrowings using the effective interest rate method.

Borrowings which are part of a fair value hedge relationship are recognised at amortised cost, adjusted for the gain or loss on the hedged item attributable to the hedged risk. The gain or loss on the hedged item attributable to the hedged risk is recorded in the income statement together with any changes in the fair value of derivatives that are designated and qualify as fair value hedges (refer note 1(n)).

Borrowings are classified as current liabilities unless the Stapled Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date or has the discretion to refinance or roll over the liability for at least 12 months after the reporting date under an existing loan facility.

(t) Net financing costs

Finance income comprises interest income on funds invested and the expected return on defined benefit plan assets. Interest income is recognised as it accrues, taking into account the effective yield on the financial asset.

Finance costs comprise interest expense on borrowings, foreign exchange gains/losses, gains/losses on hedging instruments that are recognised in the income statement, unwinding of discount on provisions and the interest cost in respect of defined benefit obligations. All borrowing costs are recognised in the income statement using the effective interest rate method, other than borrowing costs directly attributable to a qualifying asset which are capitalised into the cost of that asset.

The capitalisation rate used to determine the amount of borrowing costs to be included in the cost of qualifying assets is the weighted average interest rate of 7.6 per cent (2010: 7.6 per cent) applicable to the Stapled Group's outstanding borrowings during the period.

(u) Provisions

Provisions are recognised when the Stapled Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount of the provision can be measured reliably. Provisions are not recognised for future operating losses.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligations. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Note 1 Summary of significant accounting policies (continued)

(u) Provisions (continued)

(i) Environmental provision

A provision for environmental costs is made for the rehabilitation of sites based on the estimated costs of the rehabilitation. The liability includes the costs of reclamation, plant closure and dismantling, and waste site closure. The liability is determined based on the present value of the obligation as appropriate. Annual adjustments to the liability are charged to the income statement over the estimated life of the sites. The costs are estimated based on the assumption of the current legal requirements and technologies. Any changes in estimates are accounted for on a prospective basis.

(ii) Customer rebates

Provision for customer rebates represents an assessment of the rebates payable to the customer for costs incurred by the customer in the construction of low voltage and high voltage infrastructure for turnkey projects in the electricity distribution business.

(v) Employee benefits

(i) Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

(ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and is measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date, including on-costs. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using interest rates on government guaranteed bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) Defined contribution superannuation funds

Contributions made to defined contribution superannuation funds are expensed when the liability is incurred. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. The Stapled Group's obligation in respect of these funds is limited to the contributions to the fund.

(iv) Defined benefit superannuation funds

The Stapled Group's net obligation in respect of the defined benefit superannuation funds is calculated by estimating the amount of future benefits that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value and recognised after deducting the fair value of any plan assets.

The discount rate is the yield at the balance date on government bonds that have maturity dates approximating the terms of the Stapled Group's obligations. A qualified actuary performs the calculation using the projected unit credit method.

Note 1 Summary of significant accounting policies (continued)

(v) Employee benefits (continued)

(iv) Defined benefit superannuation funds (continued)

Actuarial gains and losses are recognised in full directly in retained profits in the period in which they occur, and are presented in other comprehensive income.

When the calculation of the net obligation results in a benefit to the Stapled Group, the recognised asset is limited to the net total of any unrecognised actuarial losses and past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

(w) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from proceeds.

(x) Earnings per share

(i) Basic earnings per share and basic earnings per stapled security

Basic earnings per share is calculated by dividing the profit attributable to members of the Stapled Group, excluding any non-controlling interest and costs of servicing equity other than distributions, by the weighted average number of shares of SP AusNet Distribution outstanding during the financial year.

Because 100 per cent of the profits of SP AusNet Transmission and SP AusNet Finance Trust are included in non-controlling interest, but are available to the securityholders, an alternative presentation of earnings per stapled security for the Stapled Group is also presented which includes earnings attributable to non-controlling interest.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest or other financing costs associated with dilutive potential shares and includes these dilutive potential shares in the weighted average number of shares outstanding used in the calculation.

(y) Rounding of amounts

The Stapled Group is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest hundred thousand dollars, or in certain cases, the nearest thousand dollars.

Note 2 Segment information

(a) Description of reportable segments

The Stapled Group is organised into the following segments:

(i) Electricity distribution

The electricity distribution network carries electricity from the high voltage transmission network to end users. The Stapled Group charges retailers and some large customers regulated rates for the use of the electricity distribution network. The electricity distribution segment does not purchase or sell electricity. The Stapled Group's electricity distribution network covers eastern Victoria including the eastern metropolitan region of Melbourne.

(ii) Gas distribution

The gas distribution network carries natural gas to commercial and residential end users and earns revenues at regulated rates for the distribution services provided by its network. The Stapled Group charges retailers and some large customers regulated rates for the use of the gas distribution network. The gas distribution segment does not purchase or sell gas. The Stapled Group's gas distribution network covers central and western Victoria.

(iii) Electricity transmission

The Stapled Group owns and manages the vast majority of the electricity transmission network in Victoria. The Stapled Group's electricity transmission network consists of the transmission lines and towers which carry electricity at high voltages from power stations to electricity distributors around Victoria, forming the backbone of the Victorian electricity network. The network is centrally located amongst the five eastern states of Australia that form the National Electricity Market, and provides key links between the electricity transmission networks of South Australia, New South Wales and Tasmania. The Stapled Group charges the Australian Energy Market Operator (AEMO), distribution network service providers and electricity generators for connections and use of the electricity transmission network. The electricity transmission segment does not purchase or sell electricity.

(iv) Select Solutions

Following the acquisition of the Schultz Plumbing business (refer note 27) it has been determined that Select Solutions constitutes a separate reportable segment. Comparative information has been restated as a result of this change in reportable segments.

Select Solutions provides services to all other segments of SP AusNet and also provides specialist utility related solutions, in particular, metering, monitoring and asset management services, to external parties. Select Solutions' customers are primarily electricity, water and gas utility owners and managers including Jemena. The agreements with Jemena commenced 29 September 2008 and have resulted in Select Solutions extending its footprint to introduce these specialist utility services into New South Wales. The services provided by Select Solutions generally require minimal capital expenditure.

Note 2 Segment information (continued)

(b) Reportable segment financial information

2011	Electricity distribution $M	Gas distribution $M	Electricity transmission $M	Select Solutions (i) $M	Inter-segment eliminations $M	Combined $M
Regulated revenue	545.1	193.6	497.4	-	(9.2)	1,226.9
Excluded services revenue	18.3	3.3	27.7	-	(3.2)	46.1
Customer contributions	33.4	3.4	0.2	-	-	37.0
Service revenue	-	-	-	123.0	-	123.0
Other revenue	12.3	0.8	15.3	72.1	(65.5)	35.0
Total segment revenue	609.1	201.1	540.6	195.1	(77.9)	1,468.0
Segment result before interest expense	177.6	125.0	288.6	14.0	-	605.2
Segment interest expense	(121.7)	(70.0)	(153.0)	(0.3)	-	(345.0)
Unallocated finance income less unallocated finance costs						4.7
Profit before income tax						264.9
Income tax expense						(12.0)
Profit for the year						252.9
Other segment information						
Capital expenditure	391.1	72.9	164.6	21.8	-	650.4
Depreciation and amortisation expense	130.1	45.7	78.7	3.7	-	258.2

(i) The segment revenues and segment result for Select Solutions include the provision of services to external parties as well as internally to the other segments. External works performed by Select Solutions during the year contributed revenues of $129.6 million (comprising $123.0 million in service revenue and $6.6 million in other revenue) and EBITDA of $12.0 million (after corporate overhead allocation). Capital expenditure for Select Solutions is $21.8 million, including $16.1 million for the acquisition of the Schultz Plumbing business (refer note 27).

Note 2 Segment information (continued)

(b) Reportable segment financial information (continued)

2010	Electricity distribution $M	Gas distribution $M	Electricity transmission $M	Select Solutions (i) $M	Inter-segment eliminations $M	Combined $M
Regulated revenue	467.2	181.2	482.5	-	(9.3)	1,121.6
Excluded services revenue	17.1	3.2	21.0	-	(4.5)	36.8
Customer contributions	34.6	4.0	-	-	-	38.6
Service revenue	-	-	-	106.0	-	106.0
Other revenue	9.9	1.3	15.9	69.8	(66.3)	30.6
Total segment revenue	528.8	189.7	519.4	175.8	(80.1)	1,333.6
Segment result before interest expense	147.2	111.3	272.7	12.6	-	543.8
Segment interest expense	(104.0)	(59.6)	(145.9)	-	-	(309.5)
Unallocated finance income less unallocated finance costs						14.8
Profit before income tax						249.1
Income tax expense						(40.1)
Profit for the year						209.0
Other segment information						
Capital expenditure	346.7	67.1	160.5	6.4	-	580.7
Depreciation and amortisation expense	114.6	41.5	75.8	2.6	-	234.5

(i) The segment revenues and segment result for Select Solutions include the provision of services to external parties as well as internally to the other segments. External works performed by Select Solutions during the year contributed revenues of $109.2 million (comprising $106.0 million in service revenue and $3.2 million in other revenue) and EBITDA of $9.4 million (after corporate overhead allocation).

Note 2 Segment information (continued)

(c) Notes to and forming part of the segment information

(i) Accounting policies

Segment information is prepared in conformity with the accounting policies of the Stapled Group as disclosed in note 1 and accounting standard AASB 8 *Operating Segments*.

Segment revenues and expenses are those that are directly attributable to a segment and the relevant portion that can be allocated to the segment on a reasonable basis. Unallocated finance income less unallocated finance costs includes amounts relating to cash flow and fair value hedges recognised in the income statement, capitalised finance charges and defined benefits interest expense and income.

(ii) Inter-segment transfers

Segment revenues, expenses and results include transmission network connection charges between the electricity distribution and electricity transmission segments and the provision of specialist utility related solutions by Select Solutions to all other segments. Such transfers are priced on an 'arm's-length' basis and are eliminated on consolidation.

Note 3 Revenue

	2011 $M	2010 $M
Revenue		
Regulated revenue	1,226.9	1,121.6
Excluded services revenue	46.1	36.8
Total regulated revenue	1,273.0	1,158.4
Other revenue		
Customer contributions	37.0	38.6
Service revenue	123.0	106.0
Other revenue	35.0	30.6
Total other revenue	195.0	175.2
Total revenue	1,468.0	1,333.6

Note 4 Expenses

	2011 $M	2010 $M
Expenses, excluding finance costs, included in the income statement:		
Use of system and associated charges	75.6	69.4
Employee benefits		
Defined benefit superannuation expenses	4.6	4.6
Defined contribution superannuation expenses	7.8	5.7
Employee benefits expenses	119.2	105.1
Materials	35.2	33.3
External maintenance and contractors' services	141.2	135.1
Information technology and communication costs	10.3	9.5
External consulting, legal and accounting costs	13.2	13.5
Property taxes	99.1	99.7
Administrative expenses	36.2	31.1
Management services fees	25.1	13.8
Performance fees	12.0	12.2
Flame logo fee	1.0	1.0
Other costs	9.2	11.3
Depreciation and amortisation	258.2	234.5
Net (gain)/loss on disposal of property, plant and equipment	3.8	(1.1)
Operating lease rental expenses	11.0	10.5
Allowance for impairment losses on receivables	0.1	0.6
Total expenses, excluding finance costs	862.8	789.8

Note 5 Net finance costs/(income)

	2011 $M	2010 (ii) $M
Finance income		
Interest income	0.3	0.2
Investment income	16.4	3.1
Expected return on defined benefit fund plan assets	13.1	10.5
Total finance income	29.8	13.8
Finance costs		
Interest expense	345.0	309.5
Other finance charges - cash	5.1	4.4
Other finance charges - non-cash	3.4	2.9
(Gain)/loss on fair value hedges	8.8	(1.1)
(Gain)/loss on initial de-designation of cash flow hedge relationships (i)	27.4	8.0
(Gain)/loss on transactions not in a hedge relationship (i)	(4.6)	(3.5)
Ineffective portion of cash flow hedges	(5.0)	(3.1)
Change in discount on provisions	0.7	0.6
Defined benefit interest expense	10.8	8.2
Capitalised finance charges	(21.5)	(17.4)
Total finance costs	370.1	308.5
Net finance costs/(income)	340.3	294.7

(i) Notwithstanding that these borrowings and the related derivative instruments do not satisfy the requirements for hedge accounting, they are in economic relationships that are effective in managing interest rate risk, based on contractual face values and cash flows over the life of the transactions.

(ii) The presentation of finance costs has been amended to show the impact of hedge accounting on finance costs and to differentiate non-cash finance costs to those that have a direct cash impact. The 2010 comparatives have been aligned to this presentation. There was no impact on total finance costs as a result of this presentation amendment.

Note 6 Income tax and deferred tax

(a) Income tax expense/(benefit)

	2011 $M	2010 $M
Current tax	25.0	24.3
Prior year (over)/under provision - current tax	(0.3)	(0.5)
Deferred tax	(2.6)	17.1
Prior year (over)/under provision - deferred tax	(10.1)	(0.8)
	12.0	40.1

Note 6 Income tax and deferred tax (continued)

(b) Numerical reconciliation of income tax expense/(benefit) to prima facie tax payable

	2011 $M	2010 $M
Profit/(loss) before income tax expense	264.9	249.1
Tax at the Australian tax rate of 30% (2010: 30%)	79.5	74.7
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Non-assessable interest income (i)	(37.5)	(33.4)
Changes to tax consolidation legislation (ii)	(10.2)	-
Investment allowance incentive (iii)	(7.5)	(1.3)
Prior year (over)/under provision (iv)	(10.4)	(1.3)
Sundry items	(1.9)	1.4
Income tax expense/(benefit)	12.0	40.1

The Stapled Group's effective tax rate for the year ended 31 March 2011 is approximately 5 per cent (2010: 16 per cent). The divergence in the effective tax rate, from the prima facie tax rate of 30 per cent, is mainly caused by the following:

(i) SP AusNet Finance Trust's interest income not assessable in the Trust on the basis that all beneficiaries are presently entitled to trust income at the end of the reporting period. The corresponding interest expense incurred in SP AusNet Distribution and SP AusNet Transmission is, however, deductible for tax purposes;

(ii) new tax legislation allowing SP AusNet to adjust the final reset tax values as a consequence of the SP AusNet Distribution group's entry into tax consolidation;

(iii) SP AusNet being able to utilise the Federal Government's 30 per cent investment allowance incentive, both in the current tax year and the prior year (included within the prior year (over)/under provision amount); and

(iv) incremental research and development expenditures relating to the Advanced Metering Infrastructure roll-out program attracting deductions at the 175 per cent rate, which were finalised as part of the 2010 tax return (included within the prior year (over)/under provision amount).

(c) Amounts recognised directly in other comprehensive income

	2011 $M	2010 $M
Aggregate deferred tax arising in the reporting period recognised in other comprehensive income:		
Hedge reserve - cash flow hedges	(9.1)	41.1
Actuarial gains and losses on defined benefit funds	1.1	11.8
Net deferred tax recognised in other comprehensive income	(8.0)	52.9

Note 6 Income tax and deferred tax (continued)

(d) Recognised deferred tax assets and liabilities

		Deferred tax assets		Deferred tax liabilities	
		2011	2010	2011	2010
	Notes	$M	$M	$M	$M
Employee benefits		15.3	14.2	-	-
Other accruals and provisions		14.2	15.8	-	-
Intellectual property - copyright	23(a)	38.2	40.1	-	-
Derivatives and fair value adjustments on borrowings		53.0	35.6	-	-
Tax prepayments		-	0.5	-	-
Tax losses		171.8	122.7	-	-
Defined benefit funds		6.0	9.0	-	-
Deferred charges (non-current)		-	-	(1.5)	(1.8)
Intangibles		-	-	(1.1)	-
Customer deposits		-	-	(4.2)	(4.0)
Property, plant and equipment		-	-	(556.6)	(516.6)
Fair value adjustment on easements in the Stapled Group		-	-	(22.0)	(22.0)
Deferred tax assets/(liabilities)		298.5	237.9	(585.4)	(544.4)
Set off of tax		(294.6)	(237.9)	294.6	237.9
Net deferred tax assets/(liabilities)		3.9	-	(290.8)	(306.5)

Note 6 Income tax and deferred tax (continued)

(e) Movement in temporary differences during the year

	Notes	2011 $M	2010 $M
Net deferred tax assets/(liabilities)			
Opening balance at 1 April		(306.5)	(237.3)
(Charged)/credited to the income statement (i)		2.6	(17.1)
Acquired in business combinations	27	(1.1)	-
Credited/(debited) to other comprehensive income		8.0	(52.9)
Net prior year over provision		10.1	0.8
Closing balance at 31 March		(286.9)	(306.5)

(i) Deferred tax (income)/expense recognised in the income statement in respect of each type of temporary difference is as follows:

	Charged/(credited) to the income statement	
	2011 $M	2010 $M
Employee benefits	(1.1)	(1.6)
Other accruals and provisions	1.3	6.1
Intellectual property - copyright	2.0	2.0
Derivatives and fair value adjustments on borrowings	(8.3)	(0.1)
Tax prepayments	0.5	3.3
Tax losses	(38.8)	(31.5)
Defined benefit funds	1.8	3.2
Deferred charges (non-current)	(0.4)	(0.4)
Customer deposits	0.2	-
Property, plant and equipment	40.2	36.1
Total charged/(credited) to the income statement	(2.6)	17.1

Note 7 Distributions

The following distributions were approved and paid by SP AusNet to stapled securityholders during the current financial year:

	Payable by	Date paid	Cents per security	Total distribution $M
Distributions				
Fully franked dividend	SP AusNet Transmission	29 June 2010	1.591	43.0
Fully franked dividend	SP AusNet Transmission	22 December 2010	1.591	43.7
Assessable interest income	SP AusNet Finance Trust	29 June 2010	2.261	61.2
Assessable interest income	SP AusNet Finance Trust	22 December 2010	2.228	61.2
Total distributions			7.671	209.1
Distributions from capital				
Return of capital	SP AusNet Finance Trust	29 June 2010	0.148	4.0
Return of capital	SP AusNet Finance Trust	22 December 2010	0.181	5.0
Total distributions from capital			0.329	9.0
Total distributions			8.000	218.1

The following distributions were approved and paid by SP AusNet to stapled securityholders during the previous financial year:

	Payable by	Date paid	Cents per security	Total distribution $M
Distributions				
Fully franked dividend	SP AusNet Transmission	25 June 2009	1.911	40.5
Fully franked dividend	SP AusNet Transmission	22 December 2009	1.289	34.3
Assessable interest income	SP AusNet Finance Trust	25 June 2009	2.692	57.1
Assessable interest income	SP AusNet Finance Trust	22 December 2009	1.887	50.3
Total distributions			7.779	182.2
Distributions from capital				
Return of capital	SP AusNet Finance Trust	25 June 2009	1.324	28.1
Return of capital	SP AusNet Finance Trust	22 December 2009	0.824	21.9
Total distributions from capital			2.148	50.0
Total distributions			9.927	232.2

In relation to the distributions paid in the current financial year of $218.1 million (2010: $232.2 million), $74.8 million (2010: $46.9 million) less transaction costs of $0.1 million (2010: $0.2 million) was utilised in the allotment of new securities issued under the Distribution Reinvestment Plan (DRP).

Note 7 Distributions (continued)

Franking account

	2011	2010
	$M	$M
30 per cent franking credits available to stapled securityholders for subsequent financial years	14.0	26.4

The above available amounts are based on the balance of the dividend franking account at year end adjusted for franking credits that will arise from the payment of current tax liabilities.

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends. The impact on the dividend franking account of dividends proposed after the balance date but not recognised as a liability is to reduce it by $16.0 million (2010: $18.4 million). In accordance with the tax consolidation legislation, SP AusNet Distribution and SP AusNet Transmission as the respective head entities in the tax consolidated groups have assumed the benefit of $0.1 million and $13.9 million (2010: $0.1 million and $26.3 million) franking credits respectively.

Note 8 Earnings per stapled security

(a) Basic earnings per share for SP AusNet Distribution

	2011	2010
Profit attributable to the ordinary equityholders of SP AusNet Distribution ($M)	46.1	25.9
Weighted average number of shares (million)	2,750.6	2,583.9
Earnings per share (cents)	1.68	1.00

(b) Diluted earnings per share

There were no factors causing a dilution of either the profit or loss attributable to ordinary securityholders or the weighted average number of ordinary securities outstanding. Accordingly, basic and diluted earnings per share are the same.

(c) Earnings per stapled security

As the stapling is a business combination by contract alone, the total ownership interest in SP AusNet Transmission and SP AusNet Finance Trust is presented as non-controlling interest in the combined financial statements of SP AusNet Distribution.

By virtue of the stapling arrangement, SP AusNet Distribution, SP AusNet Transmission and SP AusNet Finance Trust have common equityholders (the securityholders) with the effect that total equity belongs to the securityholders. Therefore an alternative measure of earnings per stapled security has been calculated which includes non-controlling interest and hence the earnings of SP AusNet Transmission and SP AusNet Finance Trust.

Note 8 Earnings per stapled security (continued)

(d) Basic earnings per stapled security

	2011	2010
Profit attributable to the ordinary securityholders of the Stapled Group ($M)	252.9	209.0
Weighted average number of securities (million)	2,750.6	2,583.9
Earnings per stapled security (cents)	9.19	8.09

Note 9 Receivables

	2011	2010
	$M	$M
Current receivables		
Accounts receivable	106.7	100.3
Allowance for impairment loss	(0.2)	(0.4)
Related party receivables	29.9	20.8
	136.4	120.7
Accrued revenue	105.0	86.8
Other receivables (i)	250.1	0.1
Total current receivables	491.5	207.6
Total receivables	491.5	207.6

(i) The increase is due to the $250.0 million ten-year Australian bond issue completed on 29 March 2011. The proceeds were received on 1 April 2011.

(a) Terms and conditions

Accounts receivable are non-interest bearing and the average credit period on sales of transmission, distribution and specialist utility services is ten business days. An allowance has been made for estimated unrecoverable amounts, determined by reference to past default experience of individual debtors.

All debts greater than 90 days are provided for in full, except where past experience of individual debtors provides evidence that another amount, if any, is more appropriate.

Collateral in the form of bank guarantees, letters of credit and deposits are obtained from certain counterparties where appropriate. The amounts called upon during the current and previous financial years were insignificant.

Note 9 Receivables (continued)

(b) Ageing of accounts receivable

The ageing of accounts receivable as at reporting date was:

	2011 Gross $M	2011 Allowance $M	2010 Gross $M	2010 Allowance $M
Not past due	98.7	-	96.8	-
0 - 30 days	5.7	-	1.6	-
31 - 60 days	1.4	-	0.5	-
61 - 90 days	0.4	-	0.6	-
Greater than 90 days	0.5	(0.2)	0.8	(0.4)
Total	106.7	(0.2)	100.3	(0.4)

Of those debts that are past due, the majority are receivable from high credit quality counterparties. Receivables relating to regulated revenue streams (which account for approximately 87 per cent of revenues) are owed by retailers and distributors in the industry. There are strict regulatory requirements regarding who can obtain a retail or distribution licence and the Essential Services Commission has minimum prudential requirements which must be met before a participant can be registered as a distributor. The Australian Energy Market Operator (AEMO) also has high prudential requirements for retailers who participate in the market. Retailers must provide guarantees as requested by AEMO to minimise the risk of exposure by other participants to any defaults.

(c) Reconciliation of movement in allowance for impairment loss

The movement in the allowance for impairment losses in respect of accounts receivable was as follows:

	2011 $M	2010 $M
Opening balance	0.4	0.3
Additional allowance recognised/(written back)	0.1	0.6
Amounts utilised	(0.3)	(0.5)
Closing balance	0.2	0.4

Note 10 Inventories

	2011	2010
	$M	$M
Current inventories		
Construction, maintenance stocks and general purpose materials - at cost	32.4	16.4
Total current inventories	32.4	16.4
Non-current inventories		
Construction, maintenance stocks and general purpose materials - at cost	16.1	15.8
Total non-current inventories	16.1	15.8
Total inventories	48.5	32.2

Note 11 Other assets

	2011	2010
	$M	$M
Current other assets		
Prepayments	14.6	9.4
Interest receivable	2.4	1.8
Total current other assets	17.0	11.2
Non-current other assets		
Prepayments	0.8	0.9
Total non-current other assets	0.8	0.9
Total other assets	17.8	12.1

Note 12 Property, plant and equipment

	Notes	Freehold land $M	Buildings $M	Easements $M	Transmission network $M	Electricity distribution network $M	Gas distribution network $M	Other plant and equipment $M	Capital works $M	Total $M
2011										
Carrying amount at 1 April 2010		255.3	152.1	1,218.7	1,456.5	2,256.6	1,220.6	141.6	363.6	7,065.0
Additions		-	-	-	-	-	-	-	634.3	634.3
Acquisitions through business combinations	27	-	-	-	-	-	-	1.1	-	1.1
Transfers		-	17.4	-	111.8	296.4	64.5	116.3	(606.4)	-
Disposals		(0.3)	-	-	(3.2)	(0.5)	-	(0.1)	-	(4.1)
Depreciation expense		-	(6.1)	-	(64.0)	(107.8)	(34.5)	(44.9)	-	(257.3)
Carrying amount at 31 March 2011		255.0	163.4	1,218.7	1,501.1	2,444.7	1,250.6	214.0	391.5	7,439.0
Cost		255.0	194.2	1,218.7	1,803.7	3,062.3	1,450.3	434.8	391.5	8,810.5
Accumulated depreciation		-	(30.8)	-	(302.6)	(617.6)	(199.7)	(220.8)	-	(1,371.5)
Carrying amount at 31 March 2011		255.0	163.4	1,218.7	1,501.1	2,444.7	1,250.6	214.0	391.5	7,439.0

Note 12 Property, plant and equipment (continued)

	Freehold land	Buildings	Easements	Transmission network	Electricity distribution network	Gas distribution network	Other plant and equipment	Capital works	Total
	$M	$M	$M	$M	$M	$M	$M	$M	$M
2010									
Carrying amount at 1 April 2009	255.9	142.9	1,218.7	1,395.0	2,026.8	1,180.2	106.6	395.8	6,721.9
Additions	-	-	-	-	-	-	-	580.7	580.7
Transfers	0.3	14.8	-	122.7	328.9	73.0	73.2	(612.9)	-
Disposals	(0.9)	-	-	(1.4)	(0.4)	(0.1)	(0.3)	-	(3.1)
Depreciation expense	-	(5.6)	-	(59.8)	(98.7)	(32.5)	(37.9)	-	(234.5)
Carrying amount at 31 March 2010	255.3	152.1	1,218.7	1,456.5	2,256.6	1,220.6	141.6	363.6	7,065.0
Cost	255.3	176.8	1,218.7	1,698.4	2,770.4	1,385.8	320.7	363.6	8,189.7
Accumulated depreciation	-	(24.7)	-	(241.9)	(513.8)	(165.2)	(179.1)	-	(1,124.7)
Carrying amount at 31 March 2010	255.3	152.1	1,218.7	1,456.5	2,256.6	1,220.6	141.6	363.6	7,065.0

Note 13 Intangible assets

	Notes	2011 $M	2010 $M
Distribution licences (i)			
Opening net book amount - distribution licences		354.5	354.5
Closing net book amount - distribution licences		354.5	354.5
Goodwill (ii)			
Opening net book amount - goodwill		0.3	-
Acquisitions through business combinations	27	11.8	0.3
Closing net book amount - goodwill		12.1	0.3
Other intangible assets			
Opening net book amount - other intangible assets		1.4	-
Acquisitions through business combinations (iii)	27	4.0	1.5
Amortisation		(0.9)	(0.1)
Closing net book amount - other intangible assets		4.5	1.4
Total intangible assets		371.1	356.2

(i) The distribution licences are considered to have an indefinite life for the following reasons:

- the licences have been issued in perpetuity provided the licensee complies with certain licence requirements;
- the Stapled Group monitors its performance against those licence requirements and ensures that they are met; and
- the Stapled Group intends to continue to maintain the network for the foreseeable future.

(ii) Goodwill primarily relates to the acquisition of the Schultz Plumbing business.

(iii) Customer relationships have been acquired as part of the Schultz Plumbing business. The useful lives of these assets range from one to nine years.

Note 14 Payables and other liabilities

	2011 $M	2010 $M
Current payables and other liabilities		
Trade payables and accruals	132.0	117.9
Accrued interest	33.0	32.8
GST payable	9.2	5.7
Customer deposits	15.9	13.6
Deferred revenue	1.0	1.3
Related party payables	44.9	44.6
Total current payables and other liabilities	236.0	215.9
Non-current payables and other liabilities		
Deferred revenue	3.1	4.1
Total non-current payables and other liabilities	3.1	4.1
Total payables and other liabilities	239.1	220.0

Note 15 Borrowings

	2011 $M	2010 Restated (i) $M
Current borrowings		
Commercial paper	248.8	34.6
Domestic medium term notes	434.8	184.9
Bank debt facilities	-	529.5
Total current borrowings	683.6	749.0
Non-current borrowings		
Bank debt facilities	1,071.3	773.0
Domestic medium term notes	548.5	718.1
US dollar (USD) senior notes (ii)	1,038.8	1,125.4
Pound sterling (GBP) senior notes (ii)	445.8	481.3
Swiss francs (CHF) senior notes (ii)	494.8	486.3
Hong Kong dollar (HKD) senior notes (ii)	91.4	98.9
Total non-current borrowings	3,690.6	3,683.0
Total borrowings (iii)	4,374.2	4,432.0

(i) 2010 has been restated. Refer note 31.

(ii) The carrying value of foreign currency borrowings is translated at spot rate as at balance date. The foreign currency risk associated with these borrowings is hedged through the use of cross-currency swaps. Refer note 19.

(iii) The fair value of total borrowings as at 31 March 2011 was $4,588.3 million (2010: $4,700.0 million).

(a) Other bank guarantees

Certain entities are required to provide bank guarantees in the form of tender bid bonds or performance bonds for contractual obligations. The subsidiaries have guarantee facilities with a number of institutions amounting to $15.0 million, of which $0.5 million was provided to third parties at 31 March 2011 (2010: $1.5 million).

Note 16 Provisions

	2011	2010
	$M	$M
Current provisions		
Employee benefits	47.7	44.9
Environmental provision (i)	0.5	1.1
Customer rebates (ii)	6.1	6.2
Sundry provisions (iii)	7.7	5.4
Total current provisions	62.0	57.6
Non-current provisions		
Employee benefits	3.3	2.5
Environmental provision (i)	12.2	11.2
Defined benefit funds	20.1	30.0
Total non-current provisions	35.6	43.7
Total provisions	97.6	101.3

Movements in each class of provision during the financial year, other than employee benefits, are set out below:

	Environmental provision (i)	Customer rebates (ii)	Sundry provisions (iii)
	$M	$M	$M
Balance at 1 April 2010	12.3	6.2	5.4
Additional provisions recognised in the year	-	9.6	3.2
Change in discount	0.7	-	-
Amounts utilised	(0.3)	(9.7)	(0.9)
Balance at 31 March 2011	12.7	6.1	7.7
Current	0.5	6.1	7.7
Non-current	12.2	-	-
Total	12.7	6.1	7.7

(i) The environmental provision represents an estimate of the costs of rehabilitating sites, including the estimated costs of reclamation, plant dismantling and closures and waste site closures and refurbishment of meter panels in accordance with the Advanced Metering Infrastructure roll-out program.

(ii) Provision for customer rebates represents an assessment of the rebates payable to the customer for costs incurred by the customer in the construction of low voltage and high voltage infrastructure for turnkey projects in the electricity distribution business.

(iii) Sundry provisions include uninsured losses, licence fee, unaccounted for gas and earn-out provision.

Note 17 Equity

	Notes	2011 Shares	2010 Shares
Share capital			
Ordinary shares - fully paid (million)	(a), (b)	2,795.1	2,705.1

(a) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of SP AusNet Distribution in proportion to the number of and amounts paid on the shares issued. Holders of ordinary shares are entitled to one vote on a show of hands or one vote for each ordinary share held on a poll at shareholders' meetings.

(b) Movements in ordinary share capital

Date	Details	Notes	Number of shares	$M (i)
1 April 2010	Opening balance		2,705,140,151	0.5
29 June 2010	Distribution reinvestment plan	(ii)	43,213,353	-
22 December 2010	Distribution reinvestment plan	(ii)	46,761,935	-
31 March 2011	Closing balance		2,795,115,439	0.5
1 April 2009	Opening balance		2,120,423,315	0.5
28 May 2009	Institutional capital raising	(iii)	431,541,856	-
28 May 2009	Retail capital raising	(iii)	9,967,159	-
17 June 2009	Retail capital raising	(iii)	85,169,591	-
25 June 2009	Distribution reinvestment plan	(iv)	15,829,499	-
22 December 2009	Distribution reinvestment plan	(iv)	42,208,731	-
31 March 2010	Closing balance		2,705,140,151	0.5

(i) With respect to the allocation of the proceeds in the form of shares in SP AusNet Distribution and SP AusNet Transmission and units in SP AusNet Finance Trust, all amounts were allocated to the units in SP AusNet Finance Trust with the shares in SP AusNet Distribution and SP AusNet Transmission being issued at nominal consideration.

(ii) On 29 June 2010 and on 22 December 2010, 43.2 million and 46.8 million new stapled securities were issued under the DRP respectively. The new securities were issued at a price of $0.80 per security and $0.86 per security respectively, providing approximately $34.6 million and $40.2 million respectively.

(iii) A total of 526.7 million securities were issued under the non-renounceable entitlement offer completed in June 2009 at an issue price of $0.78 per stapled security for eligible securityholders in Australia and New Zealand and S$0.86 per stapled security for eligible securityholders in Singapore.

(iv) On 25 June 2009 and on 22 December 2009, 15.8 million and 42.2 million new stapled securities were issued under the DRP respectively. The new securities were issued at a price of $0.78 per security and $0.82 per security respectively, providing approximately $12.3 million and $34.6 million respectively.

(c) Capital management

The Board's policy is to maintain a capital structure appropriate to generate desired securityholder returns and to ensure the lowest cost of capital available to the entity.

Note 17 Equity (continued)

(c) Capital management (continued)

An important credit metric which assists management to monitor SP AusNet's capital structure is the net debt to Regulatory Asset Base (RAB) ratio, determined as indebtedness as a percentage of RAB. Indebtedness is debt at face value (net of cash), excluding any derivatives. The calculation of the total RAB value is subject to some estimation as the AER ultimately determines the RAB of each network.

The movement of this metric over time demonstrates how the business is funding its capital expenditure in terms of debt versus income generating assets. SP AusNet targets a net debt to RAB ratio of less than 80 per cent.

The net debt to RAB ratio as at reporting date was as follows:

	2011 (i)	2010 (ii)
	%	%
Net debt to RAB	71.2	70.8

(i) For the purposes of calculating net debt to RAB as at 31 March 2011, net debt includes the receivable recognised for the $250.0 million ten-year Australian bond issue completed on 29 March 2011 (refer note 9). These proceeds were received on 1 April 2011 and subsequently used to repay existing debt.

(ii) Net debt at 31 March 2010 includes $545.1 million of cash and cash equivalents.

The terms of certain financing arrangements contain financial covenants that require maintenance of specified interest coverage ratios and gearing ratios. In addition, certain arrangements contain provisions that are specifically affected by changes in credit ratings, change of control and/or ownership and cross default provisions.

SP AusNet monitors and reports compliance with its financial covenants on a monthly basis. There have been no breaches during the year.

The Responsible Entity of SP AusNet Finance Trust is the holder of an Australian Financial Services Licence. In accordance with the licence requirements, the Responsible Entity must maintain a minimum capital balance of $5,050,000. In this regard, capital consists of the ordinary shares and retained profits.

Beyond the year ended 31 March 2011, distributions will be determined based on operating cash flows after funding 100 per cent of maintenance capital expenditure and a portion of growth capital expenditure. SP AusNet's long-term aim is to continue to deliver sustainable growth in securityholder value.

Note 18 Defined benefit obligations

The Stapled Group makes contributions to two Equipsuper defined benefit superannuation plans that provide defined benefit amounts to employees or their dependants upon retirement, death, disablement or withdrawal. Benefits are mostly in the form of a lump sum based on the employee's final average salary, although, in some cases, defined benefit members are also eligible for pension benefits. The terms and conditions of the two plans are consistent.

The defined benefit sections of the Equipsuper plans are closed to new members. All new members receive defined contribution, accumulation style benefits.

Mercer Investment Nominees Limited performed actuarial valuations of the funds as at 31 March 2011 and 31 March 2010.

The net liability positions of the funds, together with the actuarial assumptions are set out below:

	2011	2010
	%	%
Key assumptions used (expressed as weighted averages):		
Discount rate (active members)	5.00	5.20
Discount rate (pensioners)	5.50	5.70
Expected return on plan assets (active members)	7.00	7.00
Expected return on plan assets (pensioners)	7.50	7.50
Expected salary increase rate	4.50	4.50
Expected pension increase rate	3.00	3.00

	2011	2010
	$M	$M
Amounts recognised in the income statement in respect of these defined benefit plans are as follows:		
Current service cost	4.6	4.6
Interest cost	10.8	8.2
Expected return on plan assets	(13.1)	(10.5)
Total	2.3	2.3
Actuarial (losses)/gains recognised during the year in the combined statement of comprehensive income	3.4	39.6
Cumulative actuarial (losses)/gains recognised in the combined statement of comprehensive income	(45.2)	(48.6)

Note 18 Defined benefit obligations (continued)

	2011 $M	2010 $M
Total amount included in the combined statement of financial position arising from the Stapled Group's obligations in respect of its defined benefit plans are as follows:		
Present value of funded defined benefit obligations	(216.9)	(223.4)
Fair value of plan assets	196.8	193.4
Net (liability)/asset arising from defined benefit obligations recognised in the combined statement of financial position	(20.1)	(30.0)
Movement in the present value of the defined benefit obligations were as follows:		
Opening defined benefit obligation	223.4	234.0
Current service cost	4.6	4.6
Interest cost	10.8	8.2
Contributions by plan participants	2.4	2.4
Actuarial (gains)/losses	(11.0)	(16.8)
Benefits, taxes and premiums paid	(13.3)	(9.8)
Transfers in	-	0.8
Closing defined benefit obligations	216.9	223.4
Movements in the fair value of plan assets were as follows:		
Opening fair value of plan assets	193.4	153.7
Expected return on plan assets net of investment and administration expenses	13.1	10.5
Actuarial gains/(losses)	(7.6)	22.8
Contributions from the employer	8.8	13.0
Contributions by plan participants	2.4	2.4
Benefits, taxes and premiums paid	(13.3)	(9.8)
Transfers in	-	0.8
Closing fair value of plan assets	196.8	193.4

The actual return on plan assets was a gain of $5.5 million (2010: gain of $33.3 million).

The Stapled Group expects to make contributions of $6.7 million to the defined benefit plans during the next financial year. The Target Funding method is used to determine the contribution rates. Under the Target Funding method, the employer contribution rate is set at a level which is expected to result in the plans' assets equalling 105 per cent of the plans' liabilities within five years. The plans' assets are currently 91 per cent of the plans' liabilities.

Note 18 Defined benefit obligations (continued)

The analysis of the plans' assets and the expected rate of return at the balance date are as follows:

	2011	2010
	%	%
Australian equities	36	37
International equities	27	25
Fixed interest securities	12	13
Property	10	10
Growth alternative	7	7
Defensive alternative	2	2
Cash	6	6
	100	100

The expected return on assets assumption is determined by weighting the long-term return for each asset class by the target allocation of assets to each class and allowing for correlation of the investment returns between asset classes. The returns used for each class are net of investment tax and investment fees. An allowance for administrative expenses has been deducted from the expected return.

Historic summary

	2011	2010	2009	2008	2007
	$M	$M	$M	$M	$M
Defined benefit plans’ obligation	(216.9)	(223.4)	(234.0)	(180.4)	(166.8)
Plans' assets	196.8	193.4	153.7	194.9	196.1
(Deficit)/surplus	(20.1)	(30.0)	(80.3)	14.5	29.3
Experience adjustments loss/(gains) arising on plans' liabilities	(14.8)	7.0	23.5	7.3	5.5
Experience adjustments loss/(gains) arising on plans' assets	7.6	(22.8)	48.7	13.6	(18.5)

Note 19 Financial risk management

The Stapled Group's activities expose it to a number of financial risks, including changes in interest rates and foreign currency exchange rates, refinancing risk, liquidity risk and credit risk. The Stapled Group manages its exposure to these risks in accordance with its Treasury Risk Policy which is approved by the Board. The policy is reviewed annually or more regularly if required by a significant change in the Stapled Group's operations. Any suggested changes are submitted to the Board for approval.

The objective of the Treasury Risk Policy is to document the Stapled Group's approach to treasury risk management and to provide a framework for ongoing evaluation and review of risk management techniques. The policy identifies each type of financial risk to which the Stapled Group is exposed. The policy provides an analysis of each risk, and the objective of and techniques for managing the risk, including identifying and reporting risks to management and the Board.

Treasury evaluates and hedges financial risks in close co-operation with the Stapled Group's operating units. The Treasury Risk Policy provides written principles for overall risk management, as well as written policies covering specific areas, such as mitigating risks, use of derivative financial instruments and investing excess liquidity.

The Treasury Risk Policy operates in conjunction with several other SP AusNet policies, including:

- SP AusNet Authority Manual which sets out the approvals required for such things as investment of surplus funds, execution of hedging transactions, borrowings and issue of guarantees and indemnities;

- SP AusNet Treasury Operations Manual which sets out the day to day Treasury front office processes such as cash management and the operations of the Treasury back office, such as settlement processes and bank account operations;

- SP AusNet Refinancing and Hedging Strategy which sets out the refinancing and hedging strategies over the relevant financial period; and

- SP AusNet Credit Metrics Policy which sets out target ranges for the key credit metrics that determine the Stapled Group's credit strength, such as the percentage of debt to the value of the RAB at balance date.

Together these policies provide a financial risk management framework which supports the Stapled Group's objectives of finding the right balance between risk and reward to enhance profitability and business performance while minimising current and future exposures.

The material financial risks associated with SP AusNet's activities are each described below, together with details of SP AusNet's policies for managing the risk.

(a) Interest rate risk

Interest rate risk is the risk of suffering a financial loss due to an adverse movement in interest rates. SP AusNet is exposed to the risk of movements in interest rates on its borrowings.

In addition, SP AusNet's regulated revenues for the transmission and distribution businesses are directly impacted by changes in interest rates at each of their price review periods. This is a result of the 'building block' approach where interest rates are considered in the determination of the regulatory weighted average cost of capital and consequently regulated revenues. The price review period is five years for gas and electricity distribution and six years for electricity transmission.

Note 19 Financial risk management (continued)

(a) Interest rate risk (continued)

The objective of hedging activities carried out by the Stapled Group in relation to interest rate risk is to minimise the exposure to changes in interest rates by matching the actual cost of debt with the cost of debt assumed by the regulator when setting the rate of return for the relevant regulated business. The exposure is managed by maintaining the percentage of fixed rate debt to total debt at a level between 90 per cent and 100 per cent for the relevant business over the relevant regulatory period. SP AusNet therefore considers net interest rate exposure, after hedging activities, to be minimal for the Stapled Group.

The Stapled Group utilises interest rate swaps to manage its exposure to cash flow interest rate risk and achieve the targeted proportion of fixed rates on its debt portfolio. Under interest rate swaps, the Stapled Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Stapled Group to mitigate the risk of changing interest rates on debt held.

As at reporting date, the Stapled Group had the following financial assets and liabilities exposed to interest rate risk. The values disclosed below are the principal amounts, which differ from the carrying values and as such do not agree to the statement of financial position.

	2011 $M	2010 $M
Financial assets		
Fixed rate instruments	5.7	505.7
Floating rate instruments	37.5	37.0
Financial liabilities (i)		
Fixed rate instruments	(4,502.2)	(4,166.0)
Floating rate instruments	(257.5)	(543.6)

(i) The financial liabilities above include the impact of derivative instruments used to manage the interest rate and foreign currency exposures on those liabilities. As such, they represent the post-hedge position. It should be noted that some fixed rate borrowings (post-hedge) as at reporting date are only fixed for a portion of their term. This is because the maturity profile of borrowings differs from the price review periods of the regulated businesses in order to achieve the objective of matching the actual cost of debt with the assumed cost of debt for each regulated price review period.

Note 19 Financial risk management (continued)

(a) Interest rate risk (continued)

As at reporting date, if interest rates had moved as illustrated in the table below, with all other variables held constant, post-tax profit and post-tax equity would have increased/(decreased) as follows:

	Net profit after tax $M	Equity after tax (hedge reserve) $M
2011		
Increase with all other variables held constant	1.9	180.4
Decrease with all other variables held constant	(2.1)	(192.6)
2010		
Increase with all other variables held constant	13.2	153.4
Decrease with all other variables held constant	(14.4)	(203.5)

The judgements of reasonably possible movements were determined using statistical analysis of the 95th percentile best and worst expected outcomes having regard to actual historical interest rate data over the previous five years based on the three-month bank bill swap rate. Management considers that past movements are a transparent basis for determining reasonably possible movements in interest rates. As at 31 March 2011, the movements in interest rates used in the table above are as follows:

- Australia interest rates – 3.27 per cent (2010: 3.08 per cent)
- United States interest rates - 2.44 per cent (2010: 3.04 per cent)
- United Kingdom interest rates – 3.27 per cent (2010: 3.25 per cent)
- Switzerland interest rates – 1.98 per cent (2010: 1.99 per cent)
- Hong Kong interest rates – 2.00 per cent (2010: 3.21 per cent)

Due to the Stapled Group's interest rate risk management policies, the exposure to cash flow and foreign currency interest rate risk at any point in time is minimal. As such, the impact of a reasonably possible movement in interest rates on net profit after tax is minimal. The impact on equity is due to the valuation change of derivatives in cash flow hedges. This amount in the hedge reserve is transferred to the income statement when the underlying hedged transaction affects income in order to reflect the hedged position.

(b) Currency risk

The Stapled Group is exposed to currency risk due to funding activities in offshore debt markets as a means of providing cost effective and efficient funding alternatives, as well as a result of undertaking certain transactions denominated in foreign currencies. Exchange rate exposures are managed within approved policy parameters. The objective of SP AusNet's currency risk management program is to eliminate material foreign exchange risk by utilising various hedging techniques as approved by the Board. SP AusNet therefore considers currency risk exposure to be minimal for the Stapled Group.

The Stapled Group is subject to the following currency exposures:

- United States dollars (USD);
- Pound sterling (GBP);
- Swiss francs (CHF); and
- Hong Kong dollars (HKD).

Note 19 Financial risk management (continued)

(b) Currency risk (continued)

The Stapled Group enters into cross-currency swaps to manage exposures from foreign currency loans. It is the policy of the Stapled Group to cover 100 per cent of the cash flow exposure generated by these loans.

The Stapled Group also enters into forward foreign currency contracts to hedge the exchange rate risk in relation to specific purchase orders. It is the policy of the Stapled Group to fully hedge currency exposures above a Board approved threshold once the exposure is confirmed. The derivative instrument used to hedge the exposure is entered into when there is a high degree of certainty as to the nature of the exposure, including currency, amount and delivery date so as to ensure a high level of effectiveness in cash flow hedging.

As at reporting date, if the Australian dollar had moved against each of the currencies, with all other variables held constant, post-tax profit and post-tax equity would have increased/(decreased) as follows:

	Net profit after tax	Equity after tax (hedge reserve)
	$M	$M
2011		
Increase in foreign exchange rates for all currency exposures	(0.2)	(50.1)
Decrease in foreign exchange rates for all currency exposures	0.2	75.2
2010		
Increase in foreign exchange rates for all currency exposures	(0.5)	(45.2)
Decrease in foreign exchange rates for all currency exposures	0.8	70.4

The judgements of reasonably possible movements were determined using statistical analysis of the 95th percentile best and worst expected outcomes having regard to actual historical spot exchange rate data over the previous five years, with all other variables held constant. Management considers that past movements are a transparent basis for determining reasonably possible movements in exchange rates. As at 31 March 2011, the movements in exchange rates used in the table above are as follows:

- United States dollars (USD) - 22 cents (2010: 21 cents)
- Pound sterling (GBP) – 8 pence (2010: 7 pence)
- Swiss francs (CHF) – 18 Swiss centime (2010: 18 Swiss centime)
- Hong Kong dollars (HKD) – 1.710 HK dollar (2010: 1.672 HK dollar)

The impact on equity is due to the valuation change of derivatives in cash flow hedges. This amount in the hedge reserve is transferred to the income statement when the underlying hedged transaction affects income in order to reflect the hedged position.

Exchange rate risk arising from foreign currency denominated borrowings is managed using cross-currency swaps at 100 per cent of borrowed funds at inception date. The residual exposure to exchange rate movements disclosed in the sensitivity table above for post-tax profit only arises from trade payables and cash denominated in foreign currency, which are immaterial to the Stapled Group.

Note 19 Financial risk management (continued)

(c) Derivative instruments used to hedge interest rate and currency risk

The Stapled Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign currency risk, as detailed below:

	Interest rate swaps	Forward foreign currency contracts	Cross-currency swaps	Total net derivatives
2011	$M	$M	$M	$M
Current assets	17.5	-	-	17.5
Non-current assets	37.4	-	-	37.4
Current liabilities	(72.5)	(11.4)	(57.2)	(141.1)
Non-current liabilities	(74.3)	(17.9)	(366.2)	(458.4)
Total derivative instruments	(91.9)	(29.3)	(423.4)	(544.6)
Consists of:				
- fair value hedges	(2.0)	-	(324.3)	(326.3)
- cash flow hedges	(88.6)	(29.3)	(99.1)	(217.0)
- not in a hedge relationship	(1.3)	-	-	(1.3)
Total derivative instruments	(91.9)	(29.3)	(423.4)	(544.6)
2010 Restated (i)				
Current assets	10.5	0.6	1.3	12.4
Non-current assets	25.4	-	3.3	28.7
Current liabilities	(66.6)	(5.2)	(47.2)	(119.0)
Non-current liabilities	(89.5)	(7.0)	(205.8)	(302.3)
Total derivative instruments	(120.2)	(11.6)	(248.4)	(380.2)
Consists of:				
- fair value hedges	(8.9)	-	(247.0)	(255.9)
- cash flow hedges	(98.4)	(11.6)	(1.4)	(111.4)
- not in a hedge relationship	(12.9)	-	-	(12.9)
Total derivative instruments	(120.2)	(11.6)	(248.4)	(380.2)

(i) 2010 has been restated. Refer note 31.

All derivative financial instruments are accounted for at fair value. As such, the carrying values disclosed in the table above are equal to fair value. Fair value is measured using valuation techniques and market observable data and, as such, is deemed level 2 within the fair value hierarchy of AASB 7 *Financial Instruments: Disclosure*.

Note 19 Financial risk management (continued)

(c) Derivative instruments used to hedge interest rate and currency risk (continued)

(i) Derivatives in a fair value hedge

Derivatives are designated in a fair value hedge in order to mitigate the exposure to changes in fair value of certain borrowings of SP AusNet. Fair value hedges are generally designated for the terms of borrowings that fall outside of the price review periods for the regulated businesses.

The remeasurement of SP AusNet's borrowings in fair value hedges resulted in a gain before tax of $162.4 million (2010: $496.1 million). The change in fair value of the associated derivatives resulted in a loss before tax of $171.2 million (2010: $495.0 million), leaving a net $8.8 million loss (2010: $1.1 million gain) recognised in finance costs.

(ii) Derivatives in a cash flow hedge

Derivatives are designated in a cash flow hedge in order to mitigate the variability in cash flows attributable to interest rate and/or foreign currency movements on borrowings or highly probable forecast transactions.

The following movements have occurred in the cash flow hedge reserve during the year:

	2011 $M	2010 $M
Opening balance of cash flow hedge reserve	(78.9)	(174.6)
Changes in fair value of cash flow hedges recognised in other comprehensive income	(138.2)	(19.4)
Amounts reclassified to interest expense for effective hedges	98.0	109.5
Amounts transferred to finance costs due to de-designation of hedge relationships	19.2	5.6
Closing balance of cash flow hedge reserve	(99.9)	(78.9)

During the year a number of cash flow hedges no longer satisfied the requirements for hedge accounting and as such were de-designated. This was primarily due to the replacement of maturing Australian dollar debt with foreign currency debt.

This resulted in the transfer of $27.4 million of losses before tax (2010: $8.0 million of losses before tax) from the cash flow hedge reserve to finance costs. While these derivatives are no longer in a hedge accounting relationship, they are economically effective in managing the Stapled Group's interest rate risk. As such, these de-designation losses will reverse over the remaining life of the derivatives as long as they are held to maturity.

Note 19 Financial risk management (continued)

(c) Derivative instruments used to hedge interest rate and currency risk (continued)

(ii) Derivatives in a cash flow hedge (continued)

The following table summarises the maturities of the Stapled Group's cash flow hedges:

	2011 $M	2010 $M
Highly probable forecast asset purchase:		
Less than 1 year	(11.4)	(4.6)
1 - 2 years	(13.7)	(3.9)
2 - 5 years	(5.6)	(3.1)
	(30.7)	(11.6)
Borrowings:		
Less than 1 year	(118.3)	(101.6)
1 - 2 years	(114.3)	(77.7)
2 - 5 years	(94.0)	(143.2)
Greater than 5 years	(12.2)	(30.7)
	(338.8)	(353.2)

These amounts will impact the income statement in the same period as cash flows are expected to occur, with the exception of hedges of highly probable forecast transactions which will impact the income statement as the underlying asset is utilised.

(iii) Derivatives not in a hedge relationship

It is the Stapled Group's policy to ensure, wherever possible, that all hedge accounting is applied and complies with the requirements of AASB 139 *Financial Instruments: Recognition and Measurement*. There may, however, be instances where:

- it makes commercial and economic sense to enter into derivative transactions that do not achieve hedge accounting; or
- derivative instruments are required to be de-designated from hedge accounting relationships.

In these instances, under AASB 139 such derivatives must be classified as 'held for trading'. This classification is not an indication of an intent to trade in derivative financial instruments. Furthermore, the borrowings and the related derivative instruments are in economic relationships that are effective in managing interest rate risk, based on contractual face values and cash flows over the life of the transactions, even though they do not satisfy hedge accounting requirements. The Stapled Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

Note 19 Financial risk management (continued)

(d) Liquidity risk

Liquidity risk is defined as the risk of an unforseen event which will result in SP AusNet not being able to meet its payment obligations in an orderly manner.

The Stapled Group manages liquidity risk by maintaining adequate cash reserves, committed banking facilities and reserve borrowing facilities and by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. These practices are governed by the Stapled Group's liquidity management policies, which include Board approved guidelines covering the maximum volume of long-term debt maturing in any one year, the minimum number of years over which debt maturities are to be spread and the timing of refinancing. In addition, short-term bank debt and commercial paper must not represent more than an agreed percentage of the total debt portfolio of SP AusNet.

The liquidity management policies ensure that the Stapled Group has a well diversified portfolio of debt, in terms of maturity and source, which significantly reduces reliance on any one source of debt in any one particular year. In addition, the investment grade credit rating of the Stapled Group ensures ready access to both domestic and offshore capital markets.

(i) Contractual cash flows

Liquidity risk is managed by SP AusNet based on net inflows and outflows from financial assets and financial liabilities. The following table summarises the maturities of the Stapled Group's non-derivative and derivative financial assets and liabilities based on the remaining earliest contractual maturities. The contractual cash flows are based on undiscounted principal and interest commitments.

Note 19 Financial risk management (continued)

(d) Liquidity risk (continued)

(i) Contractual cash flows (continued)

2011	Notes	Principal at face value $M	Carrying amount $M	Total contractual cash flows $M	Less than 1 year $M	1 - 2 years $M	2 - 5 years $M	Greater than 5 years $M
Financial assets								
Non-derivative financial assets								
Cash and cash equivalents			49.9	49.9	49.9	-	-	-
Accounts and other receivables	9		491.5	491.5	491.5	-	-	-
Derivative financial assets								
Interest rate swaps			54.9	60.2	11.5	9.8	42.9	(4.0)
			596.3	601.6	552.9	9.8	42.9	(4.0)
Financial liabilities								
Non-derivative financial liabilities								
Trade and other payables	14		239.1	239.1	236.0	3.1	-	-
Commercial paper	15	250.0	248.8	250.0	250.0	-	-	-
Bank debt facilities	15	1,075.0	1,071.3	1,087.0	1,087.0	-	-	-
Domestic medium term notes	15	985.0	983.3	1,346.2	494.2	41.3	123.8	686.9
USD senior notes	15	1,292.1	1,038.8	1,178.7	54.6	54.6	692.8	376.7
GBP senior notes	15	537.5	445.8	608.7	27.6	27.6	82.9	470.6
CHF senior notes	15	520.1	494.8	560.4	11.9	11.9	536.6	-
HKD senior notes	15	100.0	91.4	119.1	3.6	3.6	10.7	101.2
Derivative financial liabilities								
Interest rate swaps			146.8	162.8	79.8	53.5	31.0	(1.5)
Cross-currency swaps			423.4	887.5	62.7	70.6	426.5	327.7
Forward foreign currency contracts			29.3					
- Inflow				(136.5)	(44.6)	(60.6)	(31.3)	-
- Outflow				167.2	56.0	74.3	36.9	-
			5,212.8	6,470.2	2,318.8	279.9	1,909.9	1,961.6
Net maturity - inflow/(outflow)				(5,868.6)	(1,765.9)	(270.1)	(1,867.0)	(1,965.6)

Note 19 Financial risk management (continued)

(d) Liquidity risk (continued)

(i) Contractual cash flows (continued)

2010	Notes	Principal at face value $M	Carrying amount $M	Total contractual cash flows $M	Less than 1 year $M	1 - 2 years $M	2 - 5 years $M	Greater than 5 years $M
Financial assets								
Non-derivative financial assets								
Cash and cash equivalents			545.1	545.1	545.1	-	-	-
Accounts and other receivables	9		207.6	207.6	207.6	-	-	-
Derivative financial assets								
Interest rate swaps			35.9	157.1	41.0	32.4	58.5	25.2
Cross-currency swaps			4.6	(37.5)	-	(3.4)	(11.5)	(22.6)
Forward foreign currency contracts			0.6					
- Inflow				4.1	4.1	-	-	-
- Outflow				(3.5)	(3.5)	-	-	-
			793.8	872.9	794.3	29.0	47.0	2.6
Financial liabilities								
Non-derivative financial liabilities								
Trade and other payables	14		220.0	220.0	215.9	4.1	-	-
Commercial paper	15	35.0	34.6	35.0	35.0	-	-	-
Bank debt facilities	15	1,305.0	1,302.5	1,329.2	554.2	-	775.0	-
Domestic medium term notes	15	920.0	903.0	1,146.7	239.1	483.8	67.5	356.3
USD senior notes	15	1,292.1	1,125.4	1,391.7	61.6	61.6	818.3	450.2
GBP senior notes	15	537.5	481.3	679.1	29.5	29.5	88.4	531.7
CHF senior notes	15	520.1	486.3	556.9	5.9	11.7	35.2	504.1
HKD senior notes	15	100.0	98.9	138.9	4.1	4.1	12.2	118.5
Derivative financial liabilities								
Interest rate swaps			156.1	299.6	102.2	68.4	92.1	36.9
Cross-currency swaps			253.0	761.2	56.8	67.3	355.9	281.2
Forward foreign currency contracts			12.2					
- Inflow				(198.7)	(42.4)	(48.2)	(108.1)	-
- Outflow				210.9	47.6	52.1	111.2	-
			5,073.3	6,570.5	1,309.5	734.4	2,247.7	2,278.9
Net maturity - inflow/(outflow)				(5,697.6)	(515.2)	(705.4)	(2,200.7)	(2,276.3)

Note 19 Financial risk management (continued)

(d) Liquidity risk (continued)

(ii) Financing facilities

The Stapled Group targets a minimum net liquidity, defined as available short-term funds and committed financing facilities. As at reporting date, SP AusNet had the following committed financing facilities available:

	2011 $M	2010 $M
Financing facilities (face value)		
Unsecured bank overdraft facility, reviewed annually and payable at call:		
- Amount used	-	-
- Amount unused	2.5	2.5
	2.5	2.5
Unsecured working capital facility, reviewed annually:		
- Amount used	-	-
- Amount unused	100.0	-
	100.0	-
Unsecured bank loan facility with various maturity dates and which may be extended by mutual agreement:		
- Amount used	1,075.0	1,305.0
- Amount unused	250.0	570.0
	1,325.0	1,875.0

Note 19 Financial risk management (continued)

(e) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Stapled Group and arises from the Stapled Group's financial assets, comprising cash and cash equivalents, trade and other receivables and derivative financial instruments.

The Stapled Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults (refer note 9). The Stapled Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate values of transactions concluded are spread amongst approved counterparties. SP AusNet therefore considers credit risk exposure to be minimal for the Stapled Group.

In accordance with the Treasury Risk Policy, treasury counterparties each have an approved limit based on the lower of Standard & Poor's or Moody's credit rating. Counterparty limits are reviewed and approved annually by the Audit and Risk Management Committee and any changes to counterparties or their credit limits must be approved by the Chief Financial Officer and the Managing Director and must be within the parameters set by the Board as outlined in the Treasury Risk Policy.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies. At balance date, SP AusNet had $43.2 million on term deposit with 'AA' rated Australian banks.

Accounts receivable consist of a number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable to ensure exposure to bad debts is minimised.

Except as detailed in the following table, the carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the Stapled Group's maximum exposure to credit risk:

	Maximum credit risk	
	2011	2010
	$M	$M
Financial assets and other credit exposures		
USD interest rate swaps	20.2	22.4
AUD interest rate swaps	16.4	7.6

Note 20 Critical accounting estimates and assumptions

The Stapled Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Accounting estimates and assumptions where changes in those estimates and assumptions could result in a significant change are detailed below:

(a) Estimated recoverable amount of intangible assets with an indefinite useful life and associated tangible assets

For the purpose of impairment testing, assets have been allocated to CGUs. Each CGU represents a group of assets that generates cash inflows independent from other groups of assets.

The following CGUs have significant amounts of intangible assets with an indefinite useful life:

	2011	2010
	$M	$M
CGU		
Electricity distribution (distribution licence)	117.2	117.2
Gas distribution (distribution licence)	237.3	237.3
Schultz Plumbing business (goodwill)	11.8	-
	366.3	354.5

Recoverable amount is the higher of fair value less costs to sell and value in use. Management has based its assessment of fair value on discounted cash flow projections over a period of 20 years together with an appropriate terminal value incorporating growth rates based on the long-term Consumer Price Index assumption of 2.6 per cent. Regulated cash flow forecasts are based on allowable returns on electricity and gas distribution assets as set out in the Victorian Electricity Supply Industry Tariff Order and the Victorian Gas Industries Tariff Order respectively, together with other information included in the Stapled Group's five-year forecast. Cash flows after that period are based on an extrapolation of the forecast, taking into account inflation and expected customer connection growth rates. It is considered appropriate to use cash flows after SP AusNet's five-year forecast period considering the long-term nature of the Stapled Group's activities. Cash flows are discounted using post-tax discount rates of 6.8 per cent to 7.2 per cent. The rates used for each CGU reflect current market assessments of the time value of money and risks specific to the assets that are not already reflected in the cash flows.

In addition, recoverable amounts were assessed as reasonable when compared to RAB multiples and appropriate market earnings before interest, tax, depreciation and amortisation multiples of recent transactions involving similar assets.

Note 20 Critical accounting estimates and assumptions (continued)

(b) Income taxes

The tax expense and deferred tax balances assume certain tax outcomes and values of assets in relation to the application of the tax consolidation regime as it applies to SP AusNet Distribution and SP AusNet Transmission. These outcomes affect factors such as the quantification and utilisation of tax losses, capital allowance deductions and the taxation treatment of transactions between members of the Stapled Group.

The tax expense assumes that SP AusNet Distribution can carry forward income tax losses. If there is a change in the majority underlying ownership of SP AusNet Distribution as a result of a reduction in Singapore Power Limited's ownership position, this assumption may cease to be applicable.

The Stapled Group has taken positions in relation to the income tax and capital gains tax consequences of the acquisition by SP AusNet Distribution of the Australian assets from TXU, the restructuring and sale of the merchant energy business (including the amount of capital gain resulting from the sale) and the restructuring and subsequent deemed acquisition of the SP AusNet Transmission Group.

Assumptions are also made about the application of income tax legislation including in regard to the deductibility of the S163AA imposts and intellectual property which are currently subject to a formal Australian Taxation Office (ATO) audit (refer note 23). These assumptions are subject to risk and uncertainty and there is a possibility that changes in circumstances will alter expectations which may impact the amount of deferred tax assets and deferred tax liabilities in the combined statement of financial position. In these circumstances, the carrying amount of deferred tax assets and liabilities may change resulting in an impact on the net profit after tax of the Stapled Group.

(c) Derivative instruments

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

Derivative instruments are recognised at fair value and are measured using market observable data. As such they are deemed level two within the fair value hierarchy as per AASB 7 *Financial Instruments: Disclosure*.

Derivatives are used only for risk management strategies and are not actively traded.

The fair value of derivatives is determined in accordance with generally accepted pricing models based on discounted cash flow analysis. This involves the valuation of derivatives based on prices sourced from observable data or market corroboration based on active quotes, for example, swaps and physical forward contracts. Appropriate transaction costs are included in the determination of net fair value.

(d) Accrued revenue

Revenue accrual estimates are made to account for the unbilled period between the end user's last billing date and the end of the accounting period. The accrual relies on detailed analysis of customers' historical consumption patterns, which take into account base usage, sensitivity to prevailing weather conditions and consumption growth. The results of this analysis are applied for the number of days and weather conditions over the unbilled period.

Note 20 Critical accounting estimates and assumptions (continued)

(e) Useful lives of property, plant and equipment

Depreciation is provided for on property, plant and equipment, including freehold buildings but excluding land and easements. Depreciation is calculated on a straight-line basis so as to write off the net cost of each asset over its estimated useful life to its estimated residual value. The estimated useful lives, residual values and depreciation methods are reviewed annually. Assumptions are made regarding the useful lives and residual values based on the regulatory environment and technological developments. These assumptions are subject to risk and there is the possibility that changes in circumstances will alter expectations.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(f) Defined benefit plans

A number of estimates and assumptions are used in determining defined benefit assets, obligations and expenses. These estimates include salary increases, future earnings and rates of return. As SP AusNet has adopted the option to recognise actuarial gains and losses through other comprehensive income, any difference in estimates will be recognised in other comprehensive income and not through the income statement.

The net (liability)/asset from defined benefit obligations recognised in the combined statement of financial position will be affected by any significant movement in investment returns and/or interest rates.

Each year SP AusNet engages Mercer Investment Nominees Limited to perform actuarial reviews of the SPI PowerNet Pty Ltd and SPI Electricity Pty Ltd defined benefit funds.

In addition, the services charge under the Management Services Agreements (refer note 25(d)) includes any actuarial gains or losses incurred by the SPI Management Services Pty Ltd (SPI Management Services) defined benefit plan as well as any defined benefit plan expenses. Assumptions are made by SPI Management Services regarding salary increases, discount rates and expected return on assets which impact on the services charge to SP AusNet.

Note 21 Key management personnel

SPI Management Services, a wholly-owned subsidiary of related party Singapore Power International Pte Ltd, SP AusNet Distribution and SP AusNet Transmission are parties to a Management Services Agreement (MSA). In addition, SPI Management Services and SP Australia Networkers (RE) Ltd (the Responsible Entity) are parties to a Management Services Agreement (RE MSA). Both agreements commenced on 1 October 2005.

In accordance with the MSA and the RE MSA, SPI Management Services provides the services of key senior management, including the Managing Director and the executive management team to the SP AusNet Group and not exclusively to any particular entity within SP AusNet. Although not employed by SP AusNet, by virtue of the operation of the MSA and the RE MSA, these individuals are deemed to qualify as key management personnel of SP AusNet. Accordingly, the details of remuneration disclosed are for services provided to SP AusNet.

Total remuneration for key management personnel during the financial year is set out below:

	2011	2010 (i)
	$	$
Remuneration by category		
Short-term employee benefits	4,326,916	4,337,581
Post-employment benefits	304,500	283,714
Equity based payments	1,509,686	402,554
Other long-term benefits	120,207	133,760
	6,261,309	5,157,609

(i) Remuneration disclosed for 31 March 2010 has been adjusted for the inclusion of annual leave and long service leave accrued entitlements, calculated in accordance with accounting standards.

Other transactions with key management personnel

From time to time, a number of key management personnel, or their related entities, may have purchased goods and services from, or supplied goods and services to, SP AusNet.

The terms and conditions of these transactions were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions with non-related entities on an arm's-length basis.

Note 21 Key management personnel (continued)

Securityholdings of key management personnel

The movement in the number of ordinary securities in SP AusNet held directly, indirectly or beneficially, by key management personnel, including their related entities, is as follows:

	Balance at beginning of year (1 April 2010)	Granted during the year as compensation (i)	Net change other (ii)	Balance at end of year (31 March 2011)
Key management personnel				
Non-executive Directors				
Ng Kee Choe	195,883	-	-	195,883
Jeremy Davis	105,000	-	-	105,000
Eric Gwee	146,674	-	6,917	153,591
Ho Tian Yee	-	-	-	-
Tony Iannello	136,049	-	4,927	140,976
George Lefroy	239,206	-	-	239,206
Tina McMeckan (iii)	-	-	-	-
Martyn Myer (iv)	50,000	-	(50,000)	-
Ian Renard	73,825	-	-	73,825
Executives				
Nino Ficca	720,334	150,000	-	870,334
Norm Drew	182,577	49,391	-	231,968
John Kelso	5,878	-	581	6,459
Geoff Nicholson	200,000	57,799	-	257,799
Charles Popple	152,532	45,000	-	197,532

Note 21 Key management personnel (continued)

	Balance at beginning of year (1 April 2009)	Granted during the year as compensation (i)	Net change other (ii)	Balance at end of year (31 March 2010)
Key management personnel				
Non-executive Directors				
Ng Kee Choe	152,990	-	42,893	195,883
Jeremy Davis	50,000	-	55,000	105,000
Eric Gwee	105,981	-	40,693	146,674
Ho Tian Yee	-	-	-	-
Tony Iannello	104,321	-	31,728	136,049
George Lefroy	185,556	-	53,650	239,206
Martyn Myer	50,000	-	-	50,000
Ian Renard	53,086	-	20,739	73,825
Executives				
Nino Ficca	159,260	480,000	81,074	720,334
Norm Drew	20,782	161,795	-	182,577
John Kelso	4,227	-	1,651	5,878
Geoff Nicholson	-	200,000	-	200,000
Charles Popple	7,782	144,750	-	152,532

(i) Includes securities purchased under SP AusNet's Long-term Incentive Plan (LTIP).

(ii) Net change other refers to securities purchased, sold or acquired through the DRP during the financial year or people ceasing to be a member of the key management personnel during the year.

(iii) Ms McMeckan appointed as a Non-executive Director effective 9 August 2010.

(iv) Mr Myer ceased as a Non-executive Director effective 14 July 2010.

Further details are provided in the *Remuneration report* in the *Directors' report*.

Note 22 Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the Stapled Group, its related practices and non-related audit firms:

(a) Assurance services

	2011 $'000	2010 $'000
Audit services		
Audit and review of financial reports and other audit work under the Corporations Act	1,335	1,335
Additional audit of subsidiaries 31 March 2009	-	47
Total remuneration for audit services	1,335	1,382
Other assurance services		
Audit of regulatory returns (i)	253	208
Equity raising accounting services	-	59
Debt raising offering circular	44	44
Other assurance services	9	48
Total remuneration for other assurance services	306	359
Total remuneration for assurance services	1,641	1,741

(b) Taxation services

	2011 $'000	2010 $'000
Tax assurance services	16	88
Total remuneration for taxation services	16	88

(c) Advisory services

	2011 $'000	2010 $'000
Regulatory advice	-	9
Recruitment and related services	-	15
Other	21	1
Total remuneration for advisory services	21	25
Total remuneration of auditors	1,678	1,854

The auditor of SP AusNet is KPMG.

(i) It is the Stapled Group's policy to employ KPMG to perform the audit of regulatory returns as these returns represent an extension of statutory audit services and need to be performed by the same audit firm to gain efficiencies and effectiveness in performing these audits.

Note 23 Contingent liabilities

Details of contingent liabilities of the Stapled Group for which no provisions are included in the financial statements are as follows:

(a) ATO audits

The ATO is undertaking large business audits of the SP AusNet Group. The focus of the audits is as follows:

- deductions claimed in respect of fees imposed under Section 163AA of the *Electricity Industry Act* 1993 in the 1999 to 2001 tax years;
- deductions claimed in respect of intellectual property referable to the 1998 tax year and each subsequent year; and
- the entry allocable cost amount (ACA) step 1 amount (relating to the cost of membership interests) when the SPI Australia Group Pty Ltd (SPIAG) consolidated group joined the SP AusNet Distribution consolidated group on 2 August 2004.

On 31 March 2010, the ATO advised SP AusNet Transmission that it intends to disallow deductions claimed in respect of Section 163AA imposts, although it has not yet issued an amended assessment to confirm its position. On 7 September 2010, the ATO informed SP AusNet that it will not be liable for any administrative penalties under the *Taxation Administration Act* 1953 in relation to Section 163AA imposts. The ATO also informed SP AusNet of its decision to remit part of the interest charges that would otherwise apply to any subsequent amended assessment.

SP AusNet has not changed its view in regard to the availability of the Section 163AA or intellectual property deductions, or its entry ACA step 1 amount for the SPIAG consolidated group. The ultimate timeframe or likely outcomes of the ATO audits are not known.

Note 23 Contingent liabilities (continued)

(b) Victorian February bushfires

In early February 2009, the state of Victoria was impacted by significant bushfires. The Victorian Government subsequently established a Royal Commission of Inquiry into the Victorian bushfire crisis. The Royal Commission made a number of recommendations that are intended to reduce the occurrence and impact of future bushfires. SP AusNet will continue to work with the Victorian Government, its Powerlines Bushfire Safety Taskforce (the Taskforce) and electricity regulators to scope the recommendations, with a view to making constructive improvements designed to make the electricity network even safer.

Until the full extent and nature of the recommendations are worked through, it is not possible to estimate the network investment that will result from implementation of the recommendations. The Taskforce is expected to provide its final report by 30 September 2011. It is required to recommend a ten-year plan to reduce bushfire risk accompanied with options for fairly and efficiently recovering the costs of that plan.

SP AusNet is a defendant in litigation that has been brought in connection with the 7 February 2009 bushfires located at Kilmore East and Beechworth, respectively. SP AusNet denies it was negligent. SP AusNet alleges that its conduct was at all times reasonable, in compliance with technical regulations and reasonable in light of economic regulations applicable to SP AusNet. SP AusNet will vigorously defend these claims.

As part of these legal proceedings, SP AusNet has counterclaimed against several parties. The purpose of the counterclaims is to join other parties where they may be relevant to the Court's consideration of the causes and consequences of the Kilmore East and Beechworth fires, respectively. If SP AusNet's defence of the claims is successful, the counterclaims will become irrelevant and will not be pursued. These matters are complex and are issues for the Court to determine and therefore, it is too early for SP AusNet to speculate on the outcome of any claims which have been instituted by third parties. If these claims are pursued, SP AusNet has liability insurance which specifically provides cover for bushfire liability. SP AusNet reviews its insurance cover annually and ensures it is commensurate with the scale and size of its operations, the risks assessed to be associated with its operations and with industry standards and practice. SP AusNet's bushfire mitigation and vegetation management programs are audited annually by Energy Safe Victoria. SP AusNet had a 'zero' bushfire mitigation index throughout the 2008-09 bushfire season.

(c) Other

SP AusNet is involved in various other legal and administrative proceedings and various claims on foot, the ultimate resolution of which, in the opinion of SP AusNet, should not have a material effect on the combined financial position, results of operations or cash flows.

Other than listed above, the Directors are not aware of any contingent liabilities as at 31 March 2011.

Note 24 Commitments

(a) Capital commitments

Capital expenditure contracted for at the reporting date but not recognised as a liability is as follows:

	2011	2010
	$M	$M
Property, plant and equipment		
Payable:		
Within one year	242.7	165.5
	242.7	165.5

(b) Other expenditure commitments

	2011	2010
Payable:		
Within one year	88.5	87.4
Later than one year, but no later than five years	138.7	144.0
Later than five years	43.8	67.9
	271.0	299.3

(c) Lease commitments

Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities are as follows:

	2011	2010
Payable:		
Within one year	8.3	7.3
Later than one year, but no later than five years	14.7	20.2
Later than five years	4.7	5.2
	27.7	32.7
Representing:		
Non-cancellable operating leases	27.7	32.7

Operating leases

The Stapled Group leases relate to premises, vehicles, network land and access sites under non-cancellable operating leases expiring within one to seven years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

Note 25 Related party transactions

(a) Parent entities

By virtue of the Stapling Deed effective 21 October 2005, SP AusNet Distribution is deemed to be the parent entity of the Stapled Group.

The immediate parent of SP AusNet Distribution is Singapore Power International Pte Ltd, a company incorporated in Singapore, a wholly-owned subsidiary of Singapore Power Limited. Singapore Power International Pte Ltd owns 51 per cent of the issued shares in SP AusNet Distribution as part of its ownership of 51 per cent of the securities issued in SP AusNet.

The ultimate parent is Temasek Holdings (Private) Limited (Temasek) (a company incorporated in Singapore). Temasek's sole shareholder is the Minister for Finance, a body corporate under the Minister for Finance (Incorporation) Act, Chapter 183 of Singapore.

(b) Entities with joint control or significant influence

(i) Logo

Singapore Power Limited has granted SP AusNet a licence for consideration of $1.0 million per year to use the 'flame logo' and image in connection with its business and the use of the terms 'SP', 'SP Australia Networks' and 'SP AusNet'. The fee payable is on normal commercial terms.

(c) Subsidiaries

Interests in subsidiaries are set out in note 26.

(d) Other related parties

(i) Management Services Agreements (MSAs)

SPI Management Services, a wholly-owned subsidiary of related party Singapore Power International Pte Ltd, is a party to two management services agreements with SP AusNet Distribution and SP AusNet Transmission, and the Responsible Entity respectively.

Management Services Agreement with SP AusNet Distribution and SP AusNet Transmission

Under the MSA, SP AusNet has engaged SPI Management Services to provide management and administration services including management of SP AusNet's electricity transmission and electricity and gas distribution networks. SPI Management Services may consult with Singapore Power Limited and its subsidiaries from time to time in the performance of its work. In accordance with the MSA, SPI Management Services provides the services of key senior management (including the Managing Director and the executive management team) of SP AusNet.

The MSA commenced on 1 October 2005 for an initial period of ten years but continues for two further ten-year periods unless terminated by either party giving no less than one year's notice prior to the expiry of the applicable ten-year period. In the event that the MSA is terminated by SP AusNet by the giving of such notice, SPI Management Services will be entitled to a termination fee equal to the previous financial year's services charge paid or payable to SPI Management Services.

SP AusNet may also terminate the MSA immediately by giving SPI Management Services written notice upon the occurrence of SPI Management Services' failure to meet 50 per cent or more of the agreed key performance indicators for two consecutive financial years for events under its control.

Note 25 Related party transactions (continued)

(d) Other related parties (continued)

(i) Management Services Agreements (MSAs) (continued)

Pursuant to the MSA, SP AusNet has agreed to pay SPI Management Services a management fee comprising a management services charge and a performance fee for each financial year during the term of the MSA. The management services charge is to compensate SPI Management Services for expenses relating to all remuneration and other employment entitlements and benefits of the employees of SPI Management Services who provide services to SP AusNet. The performance fee is to incentivise SPI Management Services to meet or better the non-financial and financial performance targets of SP AusNet and to align the interests of SPI Management Services with those of SP AusNet. Effective 1 October 2008 and for the duration of the Information Technology (IT) Services Agreement (refer below), the maximum performance fee payable by SP AusNet in respect of a financial year is capped at 0.50 per cent of the market capitalisation of SP AusNet's securities.

The MSA contains mutual indemnities for all damages, costs, claims, suits, liabilities, expenses, actions or injuries suffered or incurred as a consequence of any claims against a party to the extent to which any such claim is caused by the negligence, fraud or dishonesty of the other party (or its officers or employees) or a breach of the MSA. The total liability of either party is limited to $5.0 million in any financial year.

Management Services Agreement with the Responsible Entity

Under the RE MSA, the Responsible Entity has engaged SPI Management Services to provide management and administration services in respect of SP AusNet Finance Trust. SPI Management Services is entitled to an annual fee of $0.1 million per year in respect of the RE MSA. SPI Management Services may consult with Singapore Power Limited and its subsidiaries from time to time in the performance of its work.

The RE MSA also commenced on 1 October 2005 for an initial period of ten years and continues for two further ten-year periods unless terminated by either party giving no less than one year's notice prior to the expiry of the applicable ten-year period. The RE MSA also contains mutual indemnities and limits the total liability of either party to $5.0 million in any financial year.

(ii) Long-term operational agreement

On 29 September 2008, SP AusNet entered into an agreement with the Singapore Power Group on a number of operational arrangements. SP AusNet through Select Solutions provides end-to-end metering services, technical services and vegetation management services to the electricity and gas networks owned and managed by Jemena Asset Management Pty Ltd (referred to as Jemena). SP AusNet is also responsible for delivering contestable metering services to Jemena's existing customers.

To ensure continued capital investment and deliver network growth, Jemena has been appointed to SP AusNet's preferred supplier panel, securing resources for the delivery of SP AusNet's capital portfolio.

Each of the above arrangements is for an initial five-year term and will continue for further five-year terms unless terminated by either party by giving notice to terminate at the end of the current term. The arrangements may also be terminated early by either party in certain circumstances.

Note 25 Related party transactions (continued)

(d) Other related parties (continued)

(iii) IT services agreement

On 29 September 2008, SP AusNet entered into an agreement with a wholly-owned subsidiary of SPI Management Services, Enterprise Business Services (Australia) Pty Ltd (EBS), for it to be the exclusive provider to SP AusNet of IT services. The agreement is for an initial term of seven years and may be terminated early by SP AusNet in certain circumstances, including on 12 months notice.

(e) Key management personnel

Disclosures relating to Directors and other key management personnel are set out in note 21.

(f) Transactions with related parties

For the purpose of the financial statements, parties are considered to be related to SP AusNet if SP AusNet has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operational decisions, or vice versa.

The ultimate parent of SP AusNet is Temasek. Temasek is an investment company headquartered in Singapore with a diversified investment portfolio. SP AusNet engages in a wide variety of transactions with entities in the Temasek Group in the normal course of business on terms similar to those available to other customers. Such transactions include but are not limited to telecommunication services and leasing of properties. These related party transactions are carried out on terms negotiated between the parties which are intended to reflect competitive terms.

The following transactions occurred with related parties within the Singapore Power Group. Transactions with other Temasek interests have been excluded.

	2011 $'000	2010 $'000
Sales of goods and services		
Regulated revenue	6,151	5,998
Excluded services revenue	3,263	4,197
Service revenue	77,870	78,320
Other revenue	2,847	402
Purchases of good and services		
Management services charge	25,080	13,800
Performance fees	12,005	12,173
Flame logo fee	1,000	1,000
Other expenses	30,871	22,535
Property, plant and equipment	108,683	75,217
Distributions paid		
Distributions paid (net of DRP)	73,083	94,503

Note 25 Related party transactions (continued)

(g) Outstanding balances

The following balances are outstanding at the reporting date in relation to transactions with related parties within the Singapore Power Group. Transactions with other Temasek interests have been excluded.

	2011	2010
	$'000	$'000
Current receivables (sale of goods and services)		
Other related parties	29,906	20,820
Other current assets (prepayments)		
Joint control or significant influence	500	500
Current payables and other liabilities (purchase of goods)		
Joint control or significant influence	146	-
Other related parties	44,796	44,567

No allowance for impairment loss has been raised in relation to any outstanding balances due from related parties.

Note 26 Subsidiaries

The Stapled Group's statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1(b):

Name of entity	Country of incorporation	Class of shares	Equity holding 2011 %	Equity holding 2010 %
SP Australia Networks (Distribution) Ltd	Australia	Ordinary		
Subsidiaries:				
SPI Australia Networks (RE) Ltd	Australia	Ordinary	100	100
SPI Australia Group Pty Ltd	Australia	Ordinary	100	100
SPI Australia (LP) No. 1 Limited	UK		100	100
SPI Australia (LP) No. 2 Limited	UK		100	100
SPI Australia Holdings (AGP) Pty Ltd	Australia	Ordinary	100	100
SPI Australia Holdings (Partnership) Limited Partnership	Australia	Ordinary	100	100
SPI Electricity & Gas Australia Holdings Pty Ltd	Australia	Ordinary	100	100
SPI Electricity Pty Ltd	Australia	Ordinary	100	100
SPI Networks Pty Ltd	Australia	Ordinary	100	100
SPI (No. 8) Pty Ltd	Australia	Ordinary	100	100
SPI (No. 9) Pty Ltd	Australia	Ordinary	100	100
SPI Networks (Gas) Pty Ltd	Australia	Ordinary	100	100
Data and Measurement Solutions Pty Ltd	Australia	Ordinary	100	100
SP Australia Networks (Transmission) Ltd *	Australia	Ordinary		
Subsidiaries:				
SPI PowerNet Pty Ltd	Australia	Ordinary	100	100
SPI Australia Finance Pty Ltd	Australia	Ordinary	100	100
SP Australia Networks (Finance) Trust *	Australia	Ordinary		

∗ In accordance with AASB 3 *Business Combinations* SP AusNet Distribution is deemed to acquire SP AusNet Transmission and SP AusNet Finance Trust at the date of stapling. This acquisition is by contract alone and SP AusNet Distribution therefore does not have an equity holding in either entity.

Note 27 Business combinations

On 21 October 2010 SP AusNet acquired the assets of the commercial and industrial plumbing and specialist water metering business from Schultz Plumbing Pty Ltd and Schultz Holdings Pty Ltd. This acquisition enables SP AusNet to grow in the water metering and related services market, as well as strengthen SP AusNet's competitive advantage in the metering market.

Since the date of acquisition up to 31 March 2011, the Schultz Plumbing business contributed revenue of $9.2 million and a net loss after tax of $0.3 million. This loss is after taking into consideration integration costs of $0.2 million, amortisation of intangible assets recognised on acquisition of $0.4 million and fair value adjustments of $0.1 million. Had the acquisition occurred on 1 April 2010, management estimates that combined revenue would have been $1,487.4 million and net combined profit after tax for the period would have been $253.1 million.

(a) Consideration transferred

The following summarises the major classes of consideration transferred:

	2011
	$M
Cash consideration paid	10.3
Fair value of contingent consideration (i)	5.8
Total consideration	16.1

(i) Under the terms of the acquisition agreement, SP AusNet must make additional cash payments based upon various performance metrics including business integration and EBITDA targets in the 2011 financial year. The potential undiscounted amount of all future payments that could be required is up to $8.7 million. SP AusNet has forecast several scenarios, and probability weighted each to determine a fair value for this contingent payment arrangement, which has been included in the determination of the consideration transferred. As at 31 March 2011, SP AusNet had paid $3.4 million of this contingent consideration due to the satisfaction of certain business integration targets.

(b) Assets and liabilities acquired

The following summarises the recognised amounts of assets acquired and liabilities assumed at the acquisition date:

	2011
Assets and liabilities acquired	$M
Inventory	0.7
Property, plant and equipment	1.1
Other intangible assets	4.0
Provisions	(0.4)
Deferred tax liability	(1.1)
	4.3
Goodwill	11.8
	16.1

(c) Goodwill

The goodwill is attributable mainly to the synergies expected to be achieved as a result of integrating the Schultz Plumbing business into SP AusNet's existing metering business. None of the goodwill recognised is expected to be deductible for income tax purposes.

Note 28 Parent entity information

(a) Statement of financial position

	2011	2010
	$M	$M
Current assets	84.7	75.8
Non-current assets (i)	2,484.5	3,905.1
Total assets	2,569.2	3,980.9
Current liabilities	1,194.0	1,164.3
Non-current liabilities (i)	58.2	1,551.1
Total liabilities	1,252.2	2,715.4
Contributed equity	0.5	0.5
Retained profits	1,316.5	1,265.0
Total equity	1,317.0	1,265.5

(i) The movement is primarily due to the settlement of intercompany loans.

The parent entity has a current net asset deficiency of $1,109.3 million as at 31 March 2011. The parent entity is considered to be a going concern as the deficiency arises from related party loans with SP AusNet Finance Trust. Whilst repayable on demand, the loan agreements are for terms of ten years, and mature in July 2014 and December 2018. The Directors are confident that either SP AusNet Finance Trust will not demand repayment of the outstanding principal and unpaid accrued interest prior to the expiration of the term, or the Directors will have put in place satisfactory refinancing.

The parent entity has access to funds through SPI Electricity & Gas Australia Holdings Pty Ltd, which is the common or central funding vehicle for SP AusNet.

(b) Statement of comprehensive income

	2011	2010
	$M	$M
Profit/(loss) for the year	51.5	1,568.6
Total comprehensive income for the year	51.5	1,568.6

(c) Commitments

The Directors are not aware of any commitments of the parent entity as at 31 March 2011 (2010: $nil).

(d) Contingent liabilities

Other than the contingent liabilities disclosed in note 23, the Directors are not aware of any other contingent liabilities of the parent entity as at 31 March 2011.

Note 29 Reconciliation of profit/(loss) after income tax to net cash flows from operating activities

	2011 $M	2010 $M
Profit/(loss) for the year	252.9	209.0
Depreciation and amortisation of non-current assets	258.2	234.5
Net (gain)/loss on sale of non-current assets	3.8	(1.1)
Contributed assets	(10.1)	(5.1)
Changes in operating assets and liabilities, net of the effects from acquisition of businesses:		
(Increase)/decrease in receivables	(33.9)	(24.9)
(Increase)/decrease in inventories	(15.6)	(0.3)
(Increase)/decrease in other assets	(5.7)	(0.2)
Increase/(decrease) in payables and other liabilities	27.0	29.5
Increase/(decrease) in net other financial assets and liabilities	5.3	(35.8)
Increase/(decrease) in provisions	(2.8)	(3.4)
Movement in tax balances	(6.3)	18.4
Net cash inflow/(outflow) from operating activities	472.8	420.6

Note 30 Events occurring after the balance sheet date

(a) Distributions

Since the end of the financial year, the Directors have approved a final distribution for 2011 of $111.8 million (4.000 cents per stapled security) to be paid on 29 June 2011 comprised as follows:

	Cents per security	Total distribution $M
Fully franked dividend payable by SP AusNet Transmission	1.333	37.3
Assessable interest income payable by SP AusNet Finance Trust	2.279	63.7
Capital distribution payable by SP AusNet Finance Trust	0.388	10.8
	4.000	111.8

(b) Debt raising

In April 2011, SP AusNet successfully established a $75.0 million four-year bank debt facility. The proceeds from this debt raising will be used to fund capital expenditure and repay existing debt.

(c) Other matters

Other than outlined above, there has been no matter or circumstance that has arisen since 31 March 2011 up to the date of issue of this financial report that has significantly affected or may significantly affect:

(a) the operations in financial years subsequent to 31 March 2011 of the Stapled Group;

(b) the results of those operations; or

(c) the state of affairs, in financial years subsequent to 31 March 2011, of the Stapled Group.

Note 31 Correction of prior period

For presentation purposes, derivative instruments in the statement of financial position are split between current and non-current based on the contractual cash flows of the instrument. These cash flows are determined based on the fair values at balance date, with the cash flows occurring within the next 12 months classified as current.

The determination of this split for cross-currency swaps as at 31 March 2010 has been corrected in the statement of financial position at that date to align to this policy. In addition, as part of this correction it was identified that the incorrect foreign exchange rate was used at 31 March 2010 to translate certain foreign currency borrowings and their related cross-currency swaps.

The correction of these two items has had the following impact as at 31 March 2010:

- decrease current assets for derivative financial instruments by $336.6 million;
- decrease non-current assets for derivative financial instruments by $12.8 million;
- increase current liabilities for derivative financial instruments by $46.6 million;
- decrease non-current liabilities for borrowings by $48.9 million; and
- decrease non-current liabilities for derivative financial instruments by $347.1 million.

There was no impact on the income statement or the net assets of the Stapled Group as a result of these corrections. For the opening statement of financial position as at 1 April 2009, the impact of these corrections has been a decrease in total assets of $107.3 million and a decrease in total liabilities of $107.3 million.

Directors' declaration

In the Directors' opinion:

(a) the financial statements and notes set out on pages 36 to 112, and the remuneration disclosures that are contained in the *Remuneration report* in the *Directors' report*, are in accordance with the *Corporations Act 2001*, including:

   (i) complying with Accounting Standards, the *Corporations Regulations 2001* and the other mandatory professional reporting requirements; and

   (ii) giving a true and fair view of the combined entity's financial position as at 31 March 2011 and its performance, as represented by the results of its operations and its cash flows, for the financial year ended on that date;

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1(a); and

(c) there are reasonable grounds to believe that SP Australia Networks (Distribution) Ltd will be able to pay its debts as and when they become due and payable.

The Directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the Directors.

Ng Kee Choe
Chairman

Nino Ficca
Managing Director

Melbourne
11 May 2011

KPMG

Independent auditor's report to the members of SP Australia Networks (Distribution) Ltd, SP Australia Networks (Transmission) Ltd and SP Australia Networks (Finance) Trust

Report on the financial report

We have audited the accompanying financial report of SP Australia Networks (Distribution) Ltd (the Company), which comprises the combined statement of financial position as at 31 March 2011, combined income statement and combined statement of comprehensive income, combined statement of changes in equity and combined statement of cash flows for the year ended on that date, notes 1 to 31 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration set out on pages 36 to 113. The financial report includes the financial statements of the combined entity, being SP Australia Networks (Distribution) Ltd and the entities it controlled at the year's end or from time to time during the financial year, SP Australia Networks (Transmission) Ltd and the entities it controlled at the year's end or from time to time during the financial year and SP Australia Networks (Finance) Trust (the Combined Entity).

Directors' responsibility for the financial report

The directors of the Company, SP Australia Networks (Transmission) Ltd and the directors of the Responsible Entity of SP Australia Networks (Finance) Trust, SP Australia Networks (RE) Pty Ltd, are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In note 1, the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Combined Entity comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Combined Entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Combined Entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001 and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Combined Entity's financial position and of its performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion:

(a) the financial report of SP Australia Networks (Distribution) Ltd is in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the Combined Entity's financial position as at 31 March 2011 and of its performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1.

Report on the remuneration report

We have audited the Remuneration Report included in pages 19 to 32 of the directors' report for the year ended 31 March 2011. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the remuneration report of SP Australia Networks (Distribution) Ltd for the year ended 31 March 2011, complies with Section 300A of the *Corporations Act 2001*.

KPMG

KPMG

Michael Bray
Partner

Melbourne

11 May 2011