

TO: ASX Limited
Singapore Exchange Securities Trading Limited

SP AusNet Annual Report 2014

Enclosed is an announcement made by SP AusNet which is provided for the information of SPI Electricity & Gas Australia Holdings Pty Ltd noteholders.

Susan Taylor
Company Secretary

13 June 2014



TO: ASX Limited
Singapore Exchange Securities Trading Limited

SP AusNet Annual Report 2014

Please find attached a copy of SP AusNet's Annual Report 2014, which will be released today.

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2014

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The information in this Annual Report is considered correct as at 30 May 2014 unless otherwise specified.

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CORPORATE GOVERNANCE STATEMENT

SP AusNet is committed to achieving high standards of corporate governance.

This Statement outlines the key aspects of SP AusNet's corporate governance framework and main corporate governance practices for the 2013/14 year by reference to the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations, 2nd Edition, including the 2010 amendments ("ASX Principles and Recommendations"). The 3rd Edition of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations, which come into effect on 1 July 2014, will form the basis of SP AusNet's Corporate Governance Statement in 2015.

Throughout the reporting period (1 April 2013 to 31 March 2014), SP AusNet followed all but five¹ of the Recommendations contained in the ASX Principles and Recommendations. An explanation for each of these departures is included in this Statement. Certain changes to Board and Committee composition, that are due to take effect from the conclusion of the 2014 Annual General Meeting of SP AusNet, are noted in this report for completeness.

Material relating to SP AusNet's corporate governance practices may be found in the "Corporate Governance" section of SP AusNet's website, www.sp-ausnet.com.au. These corporate governance practices will continue to evolve in the light of the changing circumstances of SP AusNet and will be tailored to meet those circumstances.

This Statement applies to all entities comprising "SP AusNet" or the "Stapled Group" as described in the Directors' Reports.

PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

Board responsibilities

The Board has adopted a formal Board Charter that sets out its role and responsibilities. The Board Charter may be found in the "Corporate Governance" section of SP AusNet's website. (ASX Recommendations 1.1 and 1.3)

A key role of the Board is to represent and serve the interests of securityholders by overseeing and appraising the strategies, policies and performance of SP AusNet, including the performance of the Managing Director and management. The Board seeks to protect and optimise SP AusNet's performance and build sustainable value for securityholders in accordance with all duties and obligations imposed on it by SP AusNet's constitutions and by law. The Board sets SP AusNet's values and standards. It also ensures that securityholders are kept informed of SP AusNet's performance and major developments affecting its state of affairs.

The responsibilities of the Board include approving the appointment of the Managing Director, Chief Financial Officer and other senior executives, approving SP AusNet's corporate strategy and monitoring its implementation, and reviewing and guiding systems of risk management and internal control, and ethical and legal compliance. The Board is also responsible for approving major capital expenditure, acquisitions and divestitures, and monitoring and reviewing policies and processes aimed at ensuring the integrity of financial and other reporting. To assist in the discharge of its responsibilities, the Board may delegate any of its powers to its committees, a Director, employee or other person.

¹ ASX Recommendations: 2.1 – majority independent directors on board; 2.2 – independent chairman of board; 2.4 – majority independent directors on nomination committee; 4.2 – majority independent directors on audit committee; 8.2 – majority independent directors on remuneration committee.

The Board Charter identifies matters which are specifically reserved for the Board or its committees, including the approval of dividends and distributions, corporate governance principles and policies, and during the 2013/14 year, the review of the provision of services by SPI Management Services. (ASX Recommendation 1.1)

Management must supply the Board with information to enable it to discharge its duties effectively. Directors are entitled to request additional information, including external advice, at any time.

The management function is conducted by, or under the supervision of, the Managing Director as directed by the Board. The Board approves corporate objectives for the Managing Director and, together with the Managing Director, develops his duties and responsibilities with limits to management's authorities. The Board is responsible for reviewing the role and responsibilities of management.

The Board reviews the Board Charter regularly, with a view to doing so at least every two years, or more frequently if warranted by the circumstances.

Performance of Executives

A formal performance evaluation of the Managing Director and senior executives occurs annually through the development of performance plans linked to SP AusNet's business plan for the year. The performance plans have key performance targets set by the Board and the Managing Director sets personal targets for key executives. Key performance targets cover such areas as safety, finance, network performance and reliability, and program delivery.

The performance evaluation process for the Managing Director and senior executives takes the form of an individual assessment by the Board in the case of the Managing Director, and in the case of senior executives, by the Managing Director. Performance outcomes are linked to short-term incentives and recommendations are made to the Remuneration Committee and to the Board for approval.

A formal evaluation of the Managing Director and senior executives was undertaken during the 2013/14 year in accordance with this process. (ASX Recommendations 1.2 and 1.3)

Induction and Continuing Education

Established induction procedures allow new Directors and key executives to participate fully and actively in informed decision-making at the earliest opportunity. The procedures are designed to allow new Directors and key executives to gain an understanding of SP AusNet's financial, strategic, operational and risk management position, the rights, duties and responsibilities of the Directors, the roles and responsibilities of management and the roles of Board committees. In addition, each new Director is provided with a letter of appointment setting out the key terms of their appointment.

Board training sessions are held periodically throughout each year. In addition, all Directors and key executives have access to, and are encouraged to participate in, continuing education to update and enhance their skills and knowledge.

PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE

The Board determines its size and composition, subject to the terms of SP AusNet's constitutions. The Board Charter requires that the Board comprise Directors with a broad range of skills, expertise and experience from a diverse range of backgrounds. The Board reviews its composition regularly.

SP AusNet's constitutions provide for a minimum of four and a maximum of 14 Directors. The Board currently comprises 10 Non-executive Directors, including the Chairman, and one Executive Director, being the Managing Director.² Three of the Non-Executive Directors were elected to the Board during the 2013/14 year and will be subject to re-election at the 2014 Annual General Meeting. One of the new Directors, Sally Farrier, was appointed to the Board to fill the casual vacancy that arose as a consequence of the retirement of Dr George Lefroy in 2013. The other two new Directors, Sun Jianxing and Ralph Craven, are nominees of State Grid International Australia Development Company Limited ("SGID"). The Board considered it was appropriate to increase the size of the Board from nine to 11 to accommodate the appointments of the Directors nominated by SGID, and to retain a balanced composition of skills, background and independence. The number of Directors on the Board will be reduced to nine with effect from the conclusion of the 2014 Annual General Meeting, following the retirements of Professor Jeremy Davis and Mr Eric Gwee.

Information about the skills, experience, expertise and period in office of each Director who served during the 2013/14 financial year, is set out in the Directors' Report. Details in relation to SP AusNet's current Directors may also be found in the "About Us" section on SP AusNet's website. (ASX Recommendation 2.6)

Independence of Directors

The Board has adopted the definition of independence set out in the ASX Principles and Recommendations.

Having regard to this definition, the Board considers a Director to be independent if he or she is not a member of management and is free of any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the independent exercise of their judgement. The Board assesses the materiality of any given relationship that may affect independence on a case-by-case basis. Each Non-executive Director is required to regularly disclose to the Board all information that may be relevant to this assessment, including their interests in contracts and other directorships and offices held.

The Directors considered by the Board to be independent are Sally Farrier, Tony Iannello, Tina McMeckan and Ian Renard. During the 2013/14 year, none of the independent Directors had any interest or relationship that could, or could reasonably be perceived to, materially interfere with the independent exercise of their judgment. Jeremy Davis and Ho Tian Yee are Directors of Singapore Power Limited ("SP"), the parent company of SP AusNet's largest securityholder, and therefore are not considered to be independent. Within the past three years, Ng Kee Choe and Eric Gwee have been Directors of SP and accordingly, are also not considered to be independent. Sun Jianxing and Ralph Craven were appointed on the nomination of SGID. SGID is SP AusNet's second largest securityholder. Mr Sun and Dr Craven are therefore not considered independent. It is noted that two of the Directors, who are not considered to be independent, have announced their intention to retire with effect from the conclusion of the 2014 Annual General Meeting. (ASX Recommendation 2.6)

SP AusNet has noted ASX Recommendation 2.1 that a majority of the Board be independent Directors, and that it has not followed this recommendation during the 2013/14 year. As noted above, two of the Directors, who are not considered to be independent, have announced their intention to retire with effect from the conclusion of the 2014 Annual General Meeting. This will result in the Board being comprised of four

² It is noted that two non-independent Directors, Professor Jeremy Davis and Mr Eric Gwee, have announced they will retire with effect from the conclusion of the 2014 Annual General Meeting.

independent Directors and five non-independent Directors including the Managing Director. The Board believes that its composition is appropriate having regard to the current major securityholdings of Singapore Power International Pte Ltd ("SPI") and SGID in SP AusNet, and the corporate knowledge and expertise that the non-independent non-executive Directors contribute to SP AusNet. The nominee directors of SP have also provided continuity to the affairs of SP AusNet before and after listing. (ASX Recommendation 2.6)

The Board acknowledges that all Directors – whether independent or not – should bring an independent judgment to bear on Board decisions. To facilitate this, each Director has access in appropriate circumstances to independent professional advice at SP AusNet's expense. (ASX Recommendation 2.6) Independence of decision-making is further supported through the Audit and Risk Management Committee, to which related party transactions are referred for review. With effect from the conclusion of the 2014 Annual General Meeting, the Audit and Risk Management Committee will be comprised of a majority of independent non-executive Directors.

Role of the Chairman and the Managing Director

The Board acknowledges the importance of a clear division of responsibility at the head of SP AusNet. The roles of Chairman and Managing Director are therefore exercised by separate individuals. (ASX Recommendation 2.3)

The Chairman, Ng Kee Choe, is responsible for leading the Board. His role includes ensuring the efficient organisation and conduct of the Board's functions, facilitating effective contribution by all Directors and promoting constructive relations between the Board and management. The Chairman's role also includes ensuring that the Board is provided with all information relevant to SP AusNet's operations and strategies to assist in the discharge of the Board's duties, reviewing corporate governance matters with the Company Secretary and reporting on those matters to the Board.

SP AusNet has noted ASX Recommendation 2.2 that the chairperson be an independent director, and that it has not followed this recommendation during the 2013/14 year. Although the Chairman is not considered to be independent, by virtue of his previous directorship of SP³, the Board believes that he is the most appropriate person for the role, given his extensive business experience, particularly in financial services. His position as Chairman also provides continuity to the Board of SP AusNet. (ASX Recommendation 2.6)

The Managing Director, Nino Ficca, is responsible to the Board for the discharge of the management function and the implementation of corporate objectives determined by the Board.

Standing Board Committees

To assist in the discharge of its duties, the Board has established the following standing committees ("Committees"):

- Nomination Committee (ASX Recommendation 2.4);
- Remuneration Committee (ASX Recommendation 8.1);
- Audit and Risk Management Committee (ASX Recommendation 4.1);
- Compliance Committee; and
- Issuing Committee⁴.

Each Committee has a formal charter which sets out its role and responsibilities, composition, structure and membership requirements. The Committee charters may be found in the "Corporate Governance" section of SP AusNet's website. (ASX Recommendations 2.6, 4.4 and 8.4)

³ The Chairman retired as a Director and Chairman of SP on 30 June 2012.

⁴ The Board established an Issuing Committee as a standing committee of the Board in November 2009 to advise the Board on the parameters, amount, price and terms and conditions of SP AusNet's re-financing activities.

The composition of each Committee was reviewed at the time the three new Directors, Dr Craven, Ms Farrier and Mr Sun, were appointed. Further information on each Committee is set out below and elsewhere in this Statement. Additional details in relation to the members of each Committee, as well as the number of times each Committee met during the 2013/14 year and each member's attendance at those meetings, are set out in the Directors' Report. (ASX Recommendations 2.6, 4.4 and 8.4)

The Board is provided with a copy of the minutes of each Committee meeting, together with recommendations, at meetings of the Board. The Chairman of the Board and all Directors may request additional information from the Committees. Each Committee reviews its membership and its charter regularly and makes recommendations for amendments (if any) to the Board.

Nomination Committee	Remuneration Committee	Audit and Risk Management Committee	Compliance Committee	Issuing Committee
The role, responsibilities, composition, structure and membership requirements of the Nomination Committee are set out in the Nomination Committee Charter. (ASX Recommendation 2.4) The members of the Nomination Committee are: • Ng Kee Choe (Chairman); • Ho Tian Yee; • Tony Iannello; • Ian Renard; and • Sun Jianxing. (ASX Recommendation 2.6) SP AusNet has noted the specific commentary and guidance on ASX Recommendation 2.4 that a nomination committee should consist of a majority of independent directors and that the committee be chaired by an independent director. Whilst SP AusNet has not followed this guidance during the 2013/14 year, the Board considered that the composition of the Nomination Committee during the 2013/14 year was appropriate having regard to the individual expertise of the Directors.	The role, responsibilities, composition, structure and membership requirements of the Remuneration Committee are set out in the Remuneration Committee Charter. (ASX Recommendations 8.1 and 8.2) The members of the Remuneration Committee are: • Ian Renard (Chairman); • Eric Gwee⁵; • Ho Tian Yee; • Tina McMeckan; and • Sun Jianxing. (ASX Recommendation 8.2) SP AusNet has noted ASX Recommendation 8.2, that a remuneration committee should consist of a majority of independent directors. Whilst SP AusNet has not followed this Recommendation during the 2013/14 year, the Board considered that the composition of the Remuneration Committee during the 2013/14 year was appropriate having regard to the individual expertise of the Directors. The Committee will be balanced from the conclusion of the 2014 AGM. The Chairman of the Committee is independent. (ASX Recommendation 8.2)	The role, responsibilities, composition, structure and membership requirements of the Audit and Risk Management Committee are set out in the Audit and Risk Management Committee Charter. (ASX Recommendations 4.1, 4.2 and 4.3) The members of the Audit and Risk Management Committee are: • Tony Iannello (Chairman); • Ralph Craven; • Jeremy Davis⁶; • Sally Farrier; • Eric Gwee⁷; and • Tina McMeckan. (ASX Recommendation 4.4) The members are all Non-executive Directors and the Chairman (who is not the Chairman of the Board) is independent. (ASX Recommendation 4.2) SP AusNet has noted that ASX Recommendation 4.2 includes that an audit committee consist of a majority of independent directors. Whilst SP AusNet has not followed this Recommendation during the 2013/14 year, the Board considered that the composition of the Audit and Risk Management Committee during the 2013/14 year was appropriate having regard to the individual expertise of the Directors. The members are all financially literate and have sufficient knowledge and understanding to allow them to discharge their responsibilities. The Committee will be comprised of a majority of independent Directors from the conclusion of the 2014 AGM.	The role, responsibilities, composition, structure and membership requirements of the Compliance Committee are set out in the Compliance Committee Charter. The members of the Compliance Committee are: • Tina McMeckan (Chairman); • Ralph Craven; and • Sally Farrier. The members are all Non-executive Directors and a majority (including the Chairman) are independent. (Corporations Act sections 601JA and 601JB)	The role, responsibilities, composition, structure and membership requirements of the Issuing Committee are set out in the Issuing Committee Charter. The members of the Issuing Committee are: • Ng Kee Choe (Chairman); • Ho Tian Yee; • Tony Iannello; • Nino Ficca (Managing Director) The Board established an Issuing Committee as a standing committee of the Board in November 2009 to advise the Board on the parameters, amount, price and terms and conditions of SP AusNet's re-financing activities.

⁵ Mr Eric Gwee will retire with effect from the conclusion of the 2014 AGM.

⁶ Professor Jeremy Davis will retire with effect from the conclusion of the 2014 AGM.

⁷ See note 5.

Special Purpose Board Committees

Special purpose Board committees are established by the Board where deemed necessary to deal with specific projects or where a potential conflict of interest exists.

The Bushfire Litigation Committee was established to oversee matters relevant to litigation in which SP AusNet is involved arising from the Victorian bushfires of February 2009. This Committee has continued in this role during the 2013/14 year.

Appointment of Directors

The Nomination Committee reviews and makes recommendations to the Board regarding the appointment of new Directors, including establishing formal and transparent procedures for the identification of suitable candidates. The Nomination Committee also makes recommendations regarding the criteria for Board membership, processes for the review of the performance of individual Directors and the Board as a whole, and Board succession plans.

Three new Directors were appointed to the SP AusNet Board during the 2013/14 year. One of these appointments was made to fill the vacancy created by Dr Lefroy's retirement at the 2013 Annual General Meeting and the other two appointments were made following the acquisition by SGID of a 19.9% stake in SP AusNet.

Candidates for appointment to the Board are sought on the basis of their ability to complement the Board's current composition, as well as their independence. In support of their candidature, Non-executive Directors are required to provide details of their other commitments and an indication of the time involved. The Nomination Committee reviews these details prior to the Non-executive Director's appointment, and regularly thereafter, to ensure that the Director has sufficient time to discharge their duties to the Board and the various committees on which they serve.

All Directors, other than the Managing Director, are subject to re-election in accordance with SP AusNet's constitutions and the ASX Listing Rules.

Performance Evaluation

The Board acknowledges the importance of the regular review of its performance and the performance of its Committees against appropriate measures.

The Board undertook a formal evaluation of its performance and the operation of its Committees during the 2013/14 year. The results were presented to the Board in May 2014. (ASX Recommendations 2.5 and 2.6)

The Nomination Committee undertook a formal evaluation of the individual Directors who are due to retire and offer themselves for re-election at the 2014 Annual General Meeting (**AGM**). The results of this evaluation were considered by the Board in determining whether to support the re-election of these Directors.

PRINCIPLE 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING

Code of Business Conduct

SP AusNet is committed to acting ethically and responsibly in all of its business dealings.

SP AusNet has developed a Code of Business Conduct to guide all Directors, officers, employees, contractors and consultants as to the practices necessary to maintain confidence in SP AusNet's integrity, the standards for dealing with obligations to external stakeholders and the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

The Code of Business Conduct may be found in the “Corporate Governance” section of SP AusNet’s website. (ASX Recommendations 3.1 and 3.5)

Specifically, the Code of Business Conduct requires that SP AusNet’s business be conducted:

- in accordance with good corporate governance standards;
- for the purpose of delivering securityholder value in a responsible way;
- to maintain confidence in SP AusNet’s integrity and to ensure that it is an organisation that people can trust;
- to maintain the highest ethical standards by fostering the responsibility and accountability of individuals within SP AusNet for reporting and investigating reports of unethical practices;
- to ensure compliance with SP AusNet’s legal and other obligations in respect of its key stakeholders, to ensure that SP AusNet is dedicated to the broader community and to ensure its role in the community is honest, legal and ethical; and
- in accordance with SP AusNet’s core values.

The Code of Business Conduct specifically addresses conflicts of interests, business gifts and entertainment, improper use of SP AusNet property and assets, dealing with government officials and related parties, political activities and reporting unlawful and unethical behaviour.

Whistleblower Policy

In keeping with the spirit of the Code of Business Conduct, SP AusNet has developed a Whistleblower Policy to encourage anyone engaged in the provision of services to SP AusNet who has witnessed, is aware of, or suspects, any wrongful act to report it without fear of reprisal. The Whistleblower Policy sets out the way in which SP AusNet will respond to reports of wrongful acts.

The Whistleblower Policy may be found in the “Corporate Governance” section of SP AusNet’s website.

As part of SP AusNet’s continuous drive to achieve high standards of corporate governance, SP AusNet uses the services of STOPline – an external, confidential provider of whistleblower disclosure services. STOPline provides an additional, confidential avenue to report suspected wrongdoings in accordance with the Whistleblower Policy.

Responsible Entity’s Conflicts of Interest

The Responsible Entity has established a Conflicts of Interest Policy to ensure that adequate arrangements are in place for the management of conflicts between its own interests and those of its clients as a financial services licensee. The policy is designed to raise awareness of SP AusNet’s expectations and requirements in relation to conflicts and to further promote SP AusNet’s culture of compliance.

Diversity Policy

SP AusNet recognises its talented and diverse workforce as essential for its long term sustainability.

SP AusNet has an established Diversity Policy which outlines SP AusNet’s commitment to diversity and its objectives to increase diversity in the workplace. The Diversity Policy may be found in the “Corporate Governance” section of SP AusNet’s website. (ASX Recommendation 3.2) SP AusNet’s Diversity Policy contains measurable objectives for gender diversity, including:

- the review of remuneration, recruitment and selection practices to ensure they are free from gender bias;

- the identification of high potential women throughout all areas and levels of operations and business practice groups through SP AusNet's Talent Management process; and
- a year-on-year increase in the percentage of women in leadership and engineering/technical positions, achieved through the enhancement and promotion of development initiatives to support high potential women and a focus on attracting women in external recruitment practices and employment branding.

SP AusNet's progress towards achieving these objectives is set out below. (ASX Recommendation 3.3)

Gender Diversity Objectives 2013/14	Progress Achieved 2013/14
a) Executive Leadership Team (ELT) to establish and operate a Diversity Council to lead diversity improvement across the business.	• The ELT Talent, Diversity and Inclusion Council has met quarterly to discuss and monitor progress related to a range of talent, diversity and inclusion initiatives. Quarterly forums have also been replicated at a divisional level.
b) Embed both organisation-wide and divisionally-specific gender diversity improvement initiatives as part of business planning processes.	• Improved diverse composition of recruitment applications through requiring at least one viable female candidate in each external recruitment shortlist and non-adherence on, an 'if not why not' basis. • Women's Career Development Program delivered to 20 female employees in early talent pipeline. • Five mid-senior leadership employees sponsored to participate in the Chief Executive Women's (CEW) Leadership development program. • Two positions targeted toward female candidates within the 13/14 intake of Apprentices and Trainees. • Mentoring and coaching initiatives delivered to support emerging and high potential women.
c) SP AusNet continues to build a culture of inclusion that supports all employees to contribute and achieve their potential. During 13/14, the Company will commence the roll-out of diversity and inclusion training to all leaders and employees.	• 350 people leaders across all SP AusNet locations participated in Inclusive Leadership training.
d) Embed diversity initiatives within the company's broader talent management processes to support in the development of all talent, and with an aim to achieve a year-on-year increase in the representation of females in management, technical and professional occupations.	• The business has improved capability within the in-house recruitment function with a heightened focus on talent mapping, gender diverse selection methods and proactive sourcing. • The annual talent and succession review process continued to raise visibility of female talent throughout all levels of our talent pipeline. • Females represent 30% of SP AusNet's talent pool, largely within the Business Support, Professional Services and Operational Leader occupational groups. • The ELT's focus throughout 14/15 is to proactively target career development opportunities for our female talent pool.

Gender Diversity Objectives 2013/14	Progress Achieved 2013/14
	• Females comprised 30% of total annual internal movements (promotions and transfers into new or secondment roles). • Female graduates comprised 25% of Feb 14 Graduate intake. • Females represented 33% of participants selected for the 13/14 Engineering Vacation Program.
e) Continue to nurture partnerships and sponsorships through SP AusNet's external sponsorship portfolio, to promote trade, technical and power engineering professions to young women.	• Partnerships fostered with - Deakin University to support their Open Learning Curriculum. - The Beacon Foundation aimed at mentoring regional young women and men to stay at secondary school beyond year 10 and to encourage their consideration of SP AusNet as their career future. - The Victorian Energy Education and Training Project (VEET), offering trade-focused young men and women in the East Gippsland region exposure to the energy industry. - RMIT for Electrical Engineering Bursary program for third year students.
f) Review exit interview processes and conduct a deep dive review on reasons for voluntary turnover of all employees, including female employees, to identify any systemic reasons for turnover.	• A deep dive review of talent entry and exit trends has commenced and is expected to be completed in mid-2014.
g) Review remuneration processes annually for gender bias with a specific analysis of all occupational groupings where a gender pay gap of $\geq 10\%$ exists.	• A review of remuneration data found no significant differences between male and females of comparable work value, skill and experience. • An executive-led calibration exercise was undertaken as part of the 12/13 annual performance and fixed pay review to identify and address, where appropriate, any gender-related differentials prior to final recommendations being approved. This will be replicated as part of the 13/14 FAR review. • All women on maternity leave received the standard % increase in their Apr 13 Fixed Annual Review (FAR). This approach will be replicated as part of the 13/14 FAR review.
h) Continue to support employees seeking flexible work arrangements to balance work and family responsibilities.	• 14.9% of the total female workforce employed in part-time arrangements, a 0.4% increase on last year. • A range of strategies across all divisions continue to facilitate flexible work options to assist employees balance work and family commitments.

SP AusNet's Corporate Business Plan also contains objectives related to diversity. These include:

- the achievement of effective talent management by successfully sourcing and retaining the best talent to ensure that we can achieve our current and future objectives;
- the achievement of higher levels of creativity, innovation and knowledge sharing through different perspectives and solutions; and
- an improved understanding of, and ability to meet, customer and stakeholder needs by being more representative of the demographics reflected within the community in which SP AusNet operates. (ASX Recommendation 3.3)

There are two women, Tina McMeckan and Sally Farrier, on SP AusNet's Board. Three members of SP AusNet's Executive Leadership Team – which comprises 10 members including the Managing Director – are women. As at 31 March 2014, women employed by SP AusNet as permanent employees (whether full-time or part-time) comprised 20% of its total workforce. (ASX Recommendation 3.4)

Source of Impact	Gender Diversity Objectives 2014/15
1. Executive Leadership Ownership and Commitment for Diversity	a) Executive and Divisional Leadership Teams to continue to operate as Talent, Diversity and Inclusion Councils to lead improved talent and diversity outcomes across the business. b) Embed organisation-wide and divisionally-specific gender diversity improvement initiatives as part of business planning processes.
2. Leadership Culture and Inclusion	c) SP AusNet continues to build an inclusive leadership mindset that supports all employees to contribute and achieve their potential. During FY15, the Company will implement strategies to reinforce inclusive leadership behaviours and embed inclusive people practices across the organisation through ongoing sourcing, development, talent management, leadership and engagement initiatives.
3. Enablers to Attract, Develop and Retain Diverse Talent	d) Embed diversity initiatives within the company's broader talent management processes to support the development of all talent, and with an aim to achieve a year-on-year increase in the representation of females in operational and frontline leadership, engineering and entry level trade and technical occupations. e) Review and strengthen the Company's Sponsorships, Donations and Partnership programs to promote trade, technical and power engineering professions to young women. f) Continue to review remuneration practices for gender pay differentials. g) Continue to support employees seeking flexible work arrangements to balance work and family responsibilities.

Dealing in Securities

SP AusNet has adopted Guidelines for Dealing in Securities. Through a trading windows approach, the guidelines establish a best practice procedure relating to the buying and selling of SP AusNet securities for Directors, executives and senior management, employees, certain contractors, and their associates ("Relevant Persons").

The Guidelines for Dealing in Securities may be found in the “Corporate Governance” section of SP AusNet’s website.

Pursuant to the guidelines, Relevant Persons must not buy, sell or otherwise deal in SP AusNet securities if they possess non-public, price-sensitive information. Relevant Persons may generally only deal in SP AusNet securities in the period of six weeks from the second day following:

- the announcement of half-yearly results;
- the announcement of annual results; or
- the holding of the Annual General Meeting.

PRINCIPLE 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

The Board has ultimate responsibility for ensuring the integrity of SP AusNet’s financial reporting. To assist in discharging its responsibility, the Board has put in place a structure of review and authorisation designed to ensure the truthful and factual presentation of SP AusNet’s financial position.

Audit and Risk Management Committee

The Audit and Risk Management Committee assists the Board in discharging its responsibilities relating to the financial reporting and audit processes, systems of internal controls, the process for monitoring compliance with applicable laws, regulations and codes of conduct (including in relation to related party transactions) and risk management systems.

Specifically, the role of the Audit and Risk Management Committee includes:

- reviewing the appropriateness of accounting principles adopted by SP AusNet in the composition and presentation of financial reports and approving all significant accounting policy changes;
- reviewing the adequacy and effectiveness of SP AusNet’s risk management, internal compliance and control systems and the process and evidence adopted by the Managing Director and the Chief Financial Officer to satisfy themselves of these factors;
- reviewing related party transactions (other than those relevant only to the Responsible Entity, which are referred to the Compliance Committee);
- reviewing the legal and regulatory matters that are brought to its attention by the internal and external auditor; and
- overseeing the conduct and scope of the external and internal audit functions, including making recommendations to the Board on the appointment, performance, remuneration and replacement of the external or internal auditors.

The Audit and Risk Management Committee has full access to, and the co-operation of, management and full discretion to invite any Director, members of management, or the internal or external auditors (with or without management present) to attend its meetings. The Audit and Risk Management Committee also has the authority to conduct or authorise special investigations, and engage independent advisers as required to assist in those investigations.

Compliance Committee

The objective of the Compliance Committee is to support and advise the Board on compliance matters relevant to SP AusNet Finance Trust and the Responsible Entity.

The Compliance Committee's functions include:

- monitoring the extent to which the Responsible Entity complies with its compliance plan and the constitution of SP AusNet Finance Trust and reporting the Committee's findings to the Board;
- reporting to the Board any notifiable breaches of the Corporations Act and any breaches of the Australian Financial Services Licence held by the Responsible Entity;
- reviewing related party transactions relevant to the Responsible Entity;
- recommending to the Board the appointment or re-appointment of the compliance plan auditors and determining the terms of their appointment; and
- regularly assessing the compliance plan and recommending to the Board any changes required.

As required by the Australian Financial Services Licence, the Compliance Committee has also established a complaints handling process and receives reports on that process.

Declaration by the Managing Director and the Chief Financial Officer

The Managing Director and the Chief Financial Officer provide to the Board a written declaration, in accordance with section 295A of the Corporations Act, that the financial reports for SP AusNet, and the individual entities comprising SP AusNet, are complete and present a true and fair view of SP AusNet's financial position and performance in accordance with the relevant accounting standards.

The Board has received the Managing Director's and the Chief Financial Officer's declaration in respect of the financial reports for the financial year ended 31 March 2014.

To enable the Managing Director and Chief Financial Officer to provide the declaration, senior executives and their nominated staff complete representations providing assurances in relation to their respective areas of responsibility.

External Auditor Independence

SP AusNet's policy is to appoint an external auditor who is suitably qualified and whose independence is unequivocal.

The Audit and Risk Management Committee has approved an Auditor Independence Policy which is intended to maintain the independence of SP AusNet's external auditor by regulating the provision of non-audit services by the external auditor.

The Auditor Independence Policy may be found in the "Corporate Governance" section of SP AusNet's website (as an attachment to the Audit and Risk Management Committee Charter).

The Auditor Independence Policy requires that the provision of a permissible non-audit service by the external auditor be pre-approved by the Chief Financial Officer or the Managing Director (up to a limit of \$100,000 in aggregate at any time) or the Chairman of the Audit and Risk Management Committee. The Chief Financial Officer provides a quarterly report to the Audit and Risk Management Committee which describes any non-audit services provided by the external auditor since the last report.

The Audit and Risk Management Committee reviews the performance of the external auditor annually and is responsible for making recommendations to the Board in relation to the appointment or re-appointment of the external auditor. The Audit and Risk Management Committee determines the term of the external auditor's appointment and reviews the scope and results of the audit and its cost-effectiveness.

The Audit and Risk Management Committee reviews the Auditor Independence Policy and compliance with that Policy, seeking to balance the maintenance of independence and objectivity of the external auditor and

value for money. The Audit and Risk Management Committee also ensures that the external audit engagement partner for SP AusNet rotate off SP AusNet's audit at least every five years.

The present external auditor for SP AusNet is KPMG. KPMG is also the external auditor for Singapore Power Limited. The Board considers that KPMG's similar role for Singapore Power Limited does not affect KPMG's independence, and accordingly, the appointment of KPMG to the role of external auditor for SP AusNet is considered appropriate.

Further details of the services provided by the external auditor and the fees paid or payable for those services are set out in the Directors' Report.

PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE

Continuous Disclosure

SP AusNet has developed a Continuous Disclosure Policy that sets out its practice in relation to continuous disclosure. The Continuous Disclosure Policy is subject to periodic review and has most recently been reviewed in May 2014. The Continuous Disclosure Policy may be found in the "Corporate Governance" section of SP AusNet's website. (ASX Recommendations 5.1 and 5.2)

The Continuous Disclosure Policy records and communicates SP AusNet's commitment to continuous disclosure and establishes a best practice procedure relating to compliance with continuous disclosure obligations. The Policy identifies material price-sensitive information, requires the reporting of such information to the Company Secretary for review and ensures that SP AusNet and individual officers are aware of the penalties for contravening relevant legislative provisions and ASX Listing Rules.

The Company Secretary is primarily responsible for the management of the Continuous Disclosure Policy and for all communications with the ASX and SGX-ST in relation to continuous disclosure issues. However, no announcements are made to the ASX and SGX-ST without the prior approval of the Board or the Managing Director (or his delegate).

All material disclosed to the ASX and SGX-ST is published on SP AusNet's website.

The Audit and Risk Management Committee considers potential continuous disclosure issues at each of its meetings. The Audit and Risk Management Committee gives particular attention to emerging and changing circumstances with a view to determining whether any disclosures are required in respect of those matters.

PRINCIPLE 6: RESPECT THE RIGHTS OF SECURITYHOLDERS

Communications

SP AusNet has developed an integrated securityholder communications approach to assist with communicating information to the market in a timely and efficient manner. A copy of this approach may be found on SP AusNet's website. (ASX Recommendations 6.1 and 6.2)

All relevant announcements made to the market and related information, such as information and presentations provided to analysts and Open Briefing interviews, are published on SP AusNet's website after they have been released to the ASX and SGX-ST (as applicable). The full-year and half-year financial results are also published on the website. SP AusNet makes available on the website the preceding three years' press releases and announcements as well as the preceding three years of financial data.

SP AusNet encourages securityholders to attend SP AusNet's Annual General Meeting to meet the Directors and management and to ask questions. SP AusNet's 2014 Annual General Meeting will be web-cast in order to improve access for securityholders unable to be physically present at the meeting. The full text of notices of meeting and explanatory material will be published on SP AusNet's website. (ASX Recommendation 6.1)

SP AusNet's external auditor, KPMG, is required to attend the Annual General Meeting. Securityholders will be given a reasonable opportunity to ask questions of the external auditor or its representative concerning the conduct of the audit and the preparation and content of the auditor's report.

SP AusNet holds investor relations events in Singapore each year to provide Singapore-based investors with the opportunity to meet and ask questions of SP AusNet's management team, particularly following the release of the annual financial results.

In addition, SP AusNet convenes regular Stakeholder Consultative Committee meetings and Regional Forums to canvass opinions from subject matter experts and the community on aspects of SP AusNet's business activities that impact consumers, the environment and commercial relationships.

PRINCIPLE 7: RECOGNISE AND MANAGE RISK

Risk Management and Internal Controls

SP AusNet is committed to understanding and effectively managing risk to provide greater certainty and confidence for its securityholders, employees, customers, suppliers and the communities in which it operates. Finding the right balance between risk and reward enhances its profitability and business performance, and minimises future exposures.

The Board reviews and guides SP AusNet's overall systems of risk management and internal controls, and ensures that securityholders are informed in a timely manner of material changes to SP AusNet's risk profile.

The Audit and Risk Management Committee assists the Board in discharging these responsibilities. (ASX Recommendation 7.1) The Committee has oversight of the adequacy and effectiveness of SP AusNet's risk management, including the establishment and maintenance of risk identification and management processes and the review of SP AusNet's assessment of material business risks (financial and non-financial).

The Managing Director is accountable to the Audit and Risk Management Committee and the Board for the implementation of risk management processes in line with good corporate governance.

Risks faced by SP AusNet are managed on an enterprise-wide basis and are identified, analysed, evaluated and prioritised in a consistent manner utilising common systems and methodologies. Management and employees are responsible for embedding risk management in SP AusNet's core business activities, functions and processes. Risk awareness and tolerance for risk are key considerations in SP AusNet's decision making. SP AusNet uses its risk management capabilities to maximise the value from its assets, projects and other business opportunities and to assist in encouraging excellence, innovation and optimisation.

During the 2013/14 period, management has reported to the Board on the effectiveness of SP AusNet's management of its material business risks. (ASX Recommendation 7.2) The Board satisfied itself that management had designed and implemented a risk management and internal control system to manage the company's material business risks and to report to it on whether those risks were being managed effectively. The Board received a report during 2013/14 that consolidated the presentations to the Audit and Risk Management Committee and outlined material business risks, changes to the risk profile and the key activities involved in embedding an effective risk management culture.

SP AusNet's Risk Management Policy may be found in the "Corporate Governance" section of SP AusNet's website. (ASX Recommendations 7.1 and 7.4)

Assurance by the Managing Director and the Chief Financial Officer

The Managing Director and the Chief Financial Officer provide a written statement to the Board that:

- the declaration provided in accordance with section 295A of the Corporations Act is founded on sound systems of risk management and internal compliance and control which implement the policies of the Board; and
- the systems of risk management and internal compliance and control are operating efficiently and effectively in all material respects in relation to financial reporting risks. (ASX Recommendation 7.3)

The Board has received the Managing Director's and the Chief Financial Officer's written assurance on financial reporting risks in respect of the 2013/14 financial year.

To enable the Managing Director and Chief Financial Officer to provide the above assurance, senior executives and their nominated staff complete representations providing assurances in relation to their respective areas of responsibility.

PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY

Remuneration Policies

The Board acknowledges the need to adopt remuneration policies that attract and maintain talented and motivated Directors and employees so as to encourage enhanced performance and to pursue long-term growth and success for SP AusNet. The Board also recognises the importance of there being a clear relationship between performance and remuneration.

SP AusNet's remuneration policies in relation to its Directors and key executives are set out in the Directors' Report. Details of the nature and amount of remuneration paid to each Director and key senior executives (and their link to corporate performance) are also set out in the Directors' Report. (ASX Recommendations 8.3 and 8.4)

Role of Nomination Committee and Remuneration Committee

The Nomination Committee advises the Board on matters relating to the appointment and performance of Directors and of the Board as a whole, review of Board and Committee membership and performance, and Board succession planning.

The Remuneration Committee reviews, and advises the Board on, the general remuneration framework for Directors and senior executives, and the performance of senior executives and other key senior SP AusNet employees. The Remuneration Committee also reviews SP AusNet's obligations on matters such as superannuation and other employment benefits and entitlements.

Members of management may attend meetings of the Nomination Committee or the Remuneration Committee by invitation, however individuals may not be present during, or participate in, deliberations where the matter does or could affect their position, remuneration or other related matters.

From time to time, external specialist remuneration advice is sought in respect of general remuneration arrangements and, in particular, advice on remuneration market movements is sought on an annual basis.

Executive Remuneration

SPI Management Services is a wholly-owned subsidiary of SPI. SPI Management Services entered into a management services agreement with SP AusNet Transmission and SP AusNet Distribution in November 2005 and, separately, with the Responsible Entity in November 2005.

However, with effect from 31 March 2014, a deed giving effect to the termination of the MSA and RE MSA was negotiated on behalf of SP AusNet by a committee of independent Directors of SP AusNet. All members of the Board of SP AusNet (other than those associated with Singapore Power) unanimously agreed with the terms of the Termination Deed.

During the 2013/14 year, SPI Management Services provided the services of the executive leadership team of SP AusNet, including the Managing Director. The remuneration and incentive package for the Managing Director and other senior executives (including the Company Secretary) were determined and paid by SPI Management Services. SPI Management Services considered recommendations made by the SP AusNet Board in relation to remuneration, incentive payments and programs, and key performance measures in respect of senior executives which promoted alignment of 'owner-management' interests.

The Remuneration Committee reviewed any reports provided by SPI Management Services relating to the remuneration, incentive payments and programs, and key performance measures for the Managing Director and other senior executives and made recommendations to the Board. In this regard, SP AusNet aims to ensure that the remuneration of its Managing Director and other senior executives is market competitive, consistent with best practice and supportive of the interests of securityholders.

The Managing Director and other senior executives are remunerated through a combination of:

- base salary;
- short-term performance-based cash bonuses; and
- long-term performance-based incentives pursuant to a long-term incentive plan.

The SP AusNet long-term incentive plan was implemented for executives in the 2007/2008 reporting period, as is common in the market place, to attract and retain staff that are important to the creation of long-term value for securityholders.

Details of the remuneration paid to the Managing Director and key management personnel are set out in the Remuneration Report at pages 61-63 of the Directors' Report for SP Australia Networks (Distribution) Limited.

Non-executive Director Remuneration

The remuneration policy for Non-executive Directors and the amount of remuneration paid to Non-executive Directors is discussed in detail in the Remuneration Report at pages 53-54 and page 60, respectively of the Directors' Report for SP AusNet Distribution. Non-executive Directors are not provided with any form of retirement benefits (other than superannuation) or equity-based compensation. (ASX Recommendations 8.3 and 8.4)

The remuneration of Non-executive Directors is not linked to SP AusNet's performance in order to maintain their independence and impartiality.

In setting fee levels, the Remuneration Committee takes into account:

- SP AusNet's existing remuneration policies;
- independent professional advice;
- fees paid by comparable companies;

- the general time commitment required from Non-executive Directors and the risks associated with discharging the duties attaching to the role of Director; and
- the level of remuneration necessary to attract and retain Non-executive Directors of a suitable calibre.

RELATIONSHIP WITH SPI MANAGEMENT SERVICES

In 2005, SP AusNet Transmission and SP AusNet Distribution engaged SPI Management Services, pursuant to a management services agreement (“MSA”), to provide management and administration services and to manage the electricity transmission network, the electricity and gas distribution networks and other businesses on SP AusNet’s behalf.

The Responsible Entity entered into a separate management services agreement (“RE MSA”) with SPI Management Services to provide management and administrative services in respect of SP AusNet Finance Trust.

SPI Management Services consulted with and sought advice from Singapore Power Limited and its subsidiaries from time to time in the performance of its work under both the MSA and RE MSA. The term of the MSA and the RE MSA was for an initial period of ten years commencing on 1 October 2005. However, the parties to the MSA and RE MSA agreed to terminate those agreements with effect from 31 March 2014.

The following information is provided in relation to the operation of the MSA during the period to which this report relates (2013/14 year).

In accordance with the MSA, SP AusNet paid SPI Management Services a Management Fee comprising a Management Services Charge and a Performance Fee in respect of the 2013/14 financial year. The Management Services Charge was 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 provided services to SP AusNet. The Performance Fee was to incentivise SPI Management Services to meet or better the non-financial and financial performance of SP AusNet and to align the interests of SPI Management Services with those of SP AusNet.

SPI Management Services also received a fixed management fee from the Responsible Entity for the provision of its services pursuant to the RE MSA. Further information in relation to the management and performance fees of the Responsible Entity can be found at page 134 of the Annual Report for SP AusNet Distribution.

During the 2013/14 financial year SPI Management Services had in place a Conflicts of Interest and Related Party Protocol which set out the proposed practice for dealing with:

- conflicts between the duties of officers of SP AusNet to SP AusNet and their employment duties to SPI Management Services;
- conflicts between SP AusNet’s interests in operating the business and the interests of SPI Management Services as a wholly owned subsidiary of Singapore Power Limited; and
- issues arising from any actual or proposed provision of a financial benefit, by SP AusNet, to a related party.

The Audit and Risk Management Committee and the Compliance Committee regularly reviewed the performance of SPI Management Services and the fee structure under the MSA and RE MSA respectively.

SP AusNet
30 May 2014

INFRASTRUCTURE ENTITY BENCHMARKS AND DISCLOSURES

The Australian Securities and Investments Commission (ASIC) released Regulatory Guide 231 *Infrastructure entities: Improving disclosure for retail investors* ("RG 231") in January 2012. RG 231 outlines a series of benchmarks and requires infrastructure entities to disclose if they meet those benchmarks on an "if not, why not" basis. In addition, RG 231 contains information that ASIC expects infrastructure entities to disclose, outlined in a series of disclosure principles.

This section outlines SP AusNet's compliance with RG 231.

BENCHMARKS FOR INFRASTRUCTURE ENTITIES

Benchmark	Statement	Explanation	Reference
Benchmark 1: Corporate structure and management The infrastructure entity's corporate governance policies and practices conform with the principles and recommendations in GN 9A.	The benchmark is not met.	During the reporting period, SP AusNet did not comply with the ASX Recommendations 2.1 – majority of independent directors on board, 2.2 – independent chairman of board, 2.4 – majority independent directors on nomination committee, 8.2 – majority independent directors on remuneration committee, 4.2 – majority independent directors on audit committee ¹	Having regard to the securityholdings in SP AusNet of Singapore Power International Pte Ltd ("SPI") and State Grid International Development Company Limited ("SGID"), respectively, and the individual expertise of directors, the Board considered that the composition of the Board and each committee during the reporting period reflected an appropriate balance. For additional disclosure on this benchmark refer to the Corporate Governance Statement (pages 3 to 20)
Benchmark 2: Remuneration of management Incentive-based remuneration paid to management for the infrastructure entity is derived from the performance of the infrastructure entity and not the performance of other entities within its consolidated group, except where the infrastructure entity is the parent of the consolidated group.	The benchmark is met.	N/A	For additional disclosure on this benchmark, refer to the Remuneration Report contained in the SP Australia Networks (Distribution) Ltd Financial Report (pages 51 to 64).
Benchmark 3: Classes of units and shares All units or shares are fully paid and have the same rights.	The benchmark is met	N/A	For additional disclosure on this benchmark, refer to: - Note 17 of the SP Australia Networks (Distribution) Ltd Financial Report (pages 105 to 106); - Note 16 of the SP Australia Networks (Transmission) Ltd Financial Report (pages 213 to 214); and - Note 6 of the SP Australia Networks (Finance) Trust Financial Report (pages 288 to 289)

¹ It is noted that from the conclusion of the 2014 Annual General Meeting, the composition of the Board will change – please refer to Corporate Governance Statement.

Benchmark	Statement	Explanation	Reference
Benchmark 4: Substantial related party transactions The infrastructure entity complies with ASX Listing Rule 10.1 for substantial related party transactions.	The benchmark is met	N/A	For additional disclosure on this benchmark, refer to note 25 of the SP Australia Networks (Distribution) Ltd Financial Report (pages 132 to 136)
Benchmark 5: Cash flow forecast The infrastructure entity has, for the current financial year, prepared and had approved by its directors: (a) a 12-month cash flow forecast for the infrastructure entity and has engaged an independent suitably qualified person or firm to provide, in accordance with the auditing standards: – negative assurance on the reasonableness of the assumptions used in the forecast; and – positive assurance that the forecast is properly prepared on the basis of the assumptions and on a basis consistent with the accounting policies adopted by the entity; and (b) an internal unaudited cash flow forecast for the remaining life, or the right to operate (if less), for each new significant infrastructure asset acquired by the infrastructure entity.	Part (a) of the benchmark is not met. Part (b) of the benchmark is not applicable to SP AusNet as there has been no significant infrastructure assets (defined as an asset whose value is 15% or more of the total current value of assets set out in the latest financial accounts) acquired during the year.	While a 12-month cash flow forecast has been prepared for financial year 2015 and has been approved by the directors, it has not been independently audited or reviewed in accordance with auditing standards. The directors believe that, due to the highly regulated nature of the business, the current process and controls over the collation, reporting and management of the cash flow forecast is sufficient.	N/A
Benchmark 6: Base-case financial model Before any new material transaction, and at least once every three years, an assurance practitioner performs an agreed-upon procedures check on the infrastructure entity's base-case financial model that: (a) checks the mathematical accuracy of the model, including that: – the calculations and functions in the model are in all material respects arithmetically correct; and – the model allows changes in assumptions, for defined sensitivities, to correctly flow through to the results; and (b) includes no findings that would, in the infrastructure entity's opinion, be materially relevant to the infrastructure entity's investment decision.	The benchmark has been met.	N/A	N/A
Benchmark 7: Performance and forecast For any operating asset developed by the infrastructure entity, or completed immediately before the infrastructure entity's ownership, the actual outcome for the first two years of operation equals or exceeds any original publicly disclosed forecasts used to justify the acquisition or development of the asset.	The benchmark is not applicable to SP AusNet	N/A	N/A

Benchmark	Statement	Explanation	Reference
Benchmark 8: Distributions If the infrastructure entity is a unit trust, it will not pay distributions from scheme borrowings.	The benchmark has been met.	N/A	For additional disclosure on this benchmark, refer to note 3 of the SP Australia Networks (Finance) Trust Financial Report (page 286)
Benchmark 9: Updating the unit price If the infrastructure entity is unlisted and a unit trust, after finalising a new valuation for an infrastructure asset, the infrastructure entity reviews, and updates if appropriate, the unit price before issuing new units or redeeming units.	The benchmark is not applicable to SP AusNet as it is listed on the ASX	N/A	N/A

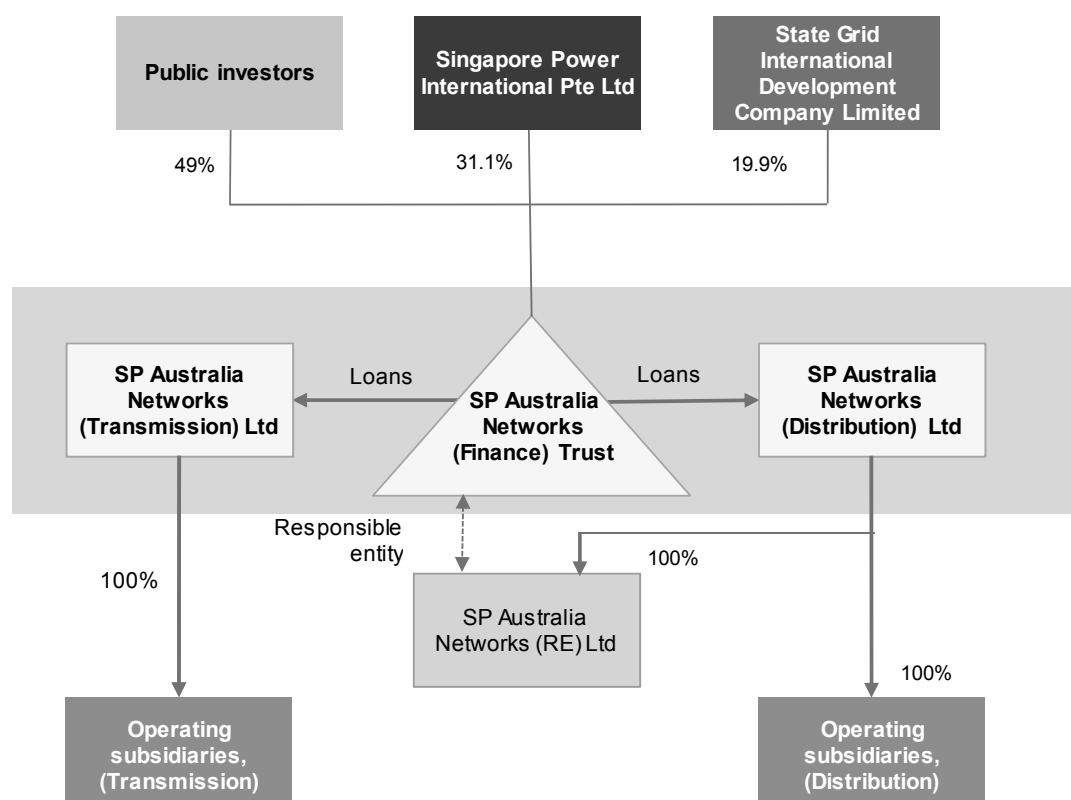
DISCLOSURE PRINCIPLES FOR INFRASTRUCTURE ENTITIES

Disclosure Principle 1: Key Relationships

SP AusNet comprises three entities, SP Australia Networks (Distribution) Ltd ("SP AusNet Distribution"), SP Australia Networks (Transmission) Ltd ("SP AusNet Transmission") and SP Australia Networks (Finance) Trust ("SP AusNet Finance Trust"). SP AusNet has a primary listing on the ASX and a secondary listing on the SGX-ST and trades as a tripled stapled security.

On 3 January 2014, State Grid International Development Limited ("SGID") purchased a 19.9 per cent security holding in SP AusNet from Singapore Power International Pte Ltd ("SPI"). This has reduced SPI's security holding in SP AusNet to 31.1 per cent.

Following this transaction, SP AusNet, Singapore Power and SPI Management Services Pty Ltd ("SPIMS") entered into a Termination Deed, pursuant to which they have agreed to terminate the Management Services Agreement ("MSA") with effect from 31 March 2014. The RE MSA was also terminated on 31 March 2014.



The operating subsidiaries of SP AusNet Distribution and SP AusNet Transmission own the assets comprising the electricity transmission business and electricity and gas distribution businesses. SP AusNet Finance Trust provides financing to both SP AusNet Distribution and SP AusNet Transmission as well as facilitates distributions to Stapled Securityholders in the form of interest income and returns of capital, as appropriate.

Further details regarding SPIMS, the MSAs and the termination of the MSAs are contained in note 25 and note 28 of the SP AusNet Distribution Financial Report (pages 132 to 136 and 139).

Disclosure Principle 2: Management and Performance Fees

Details regarding the Management Services Agreement and the RE Management Services Agreement, including the management and performance fees payable under these agreements, are contained in note 25 of the SP AusNet Distribution Financial Report (pages 132 to 136).

Both the Management Services Agreement and the RE Management Services Agreement were terminated on 31 March 2014. Further details are disclosed in note 28 of the SP AusNet Distribution Financial Report (pages 139).

Disclosure Principle 3: Related Party Transactions

All related party transactions are disclosed in note 25 of the SP AusNet Distribution Financial Report (pages 132 to 136).

SP AusNet's policy in relation to related party transactions is contained in the Code of Business Conduct, which may be found in the 'Corporate Governance' section of SP AusNet's website. Related party transactions are reported to the Audit and Risk Management Committee at every meeting to ensure compliance with the policy and statutory requirements.

Disclosure Principle 4: Financial Ratios

Details regarding SP AusNet's targeted level of debt and its actual debt are contained in notes 15 (page 103) and 17 (pages 105 to 106) of the SP AusNet Distribution Financial Report.

Disclosure Principle 5: Capital Expenditure and Debt Maturities

Capital expenditure for the financial year ended 31 March 2015 is expected to be around \$865 million (excluding AMI remediation capital expenditure). This expenditure is expected to be funded through a mix of operating cash flows and debt, while ensuring that SP AusNet remains within its target credit metrics.

Details regarding SP AusNet's interest rate and liquidity risk, including how these risks are managed, the contractual cash flows of financial assets and financial liabilities, and the drawn and undrawn amounts under its financing facilities, are contained in note 19 of the SP AusNet Distribution Financial Report (pages 110 to 121).

Disclosure Principle 6: Foreign Exchange and Interest Rate Hedging

Details regarding SP AusNet's foreign exchange and interest rate risk, including how these risks are managed and the sensitivity to movements in foreign exchange and interest rates, are contained in note 19 of the SP AusNet Distribution Financial Report (pages 110 to 121).

Disclosure Principle 7: Base-Case Financial Model

SP AusNet regulated assets are subject to regular regulatory determinations in relation to the revenue able to be charged for core services, with approximately 87% of SP AusNet's revenues being regulated. These determinations also outline the allowable capital and operating expenditures over the determination period.

The regulatory determinations for each network form the starting base for SP AusNet's financial model. Changes to assumptions are only made when they are highly likely to differ from the regulatory determination assumptions. This could include, but is not limited to, such items as customer and volume growth, cost of debt, and benefits obtained from efficiency gains arising from out-performance of the cost assumptions under the "incentive-based" regulatory regime.

The latest determinations for each of SP AusNet's regulated networks can be obtained from the Australian Energy Regulator's website.

Disclosure Principle 8: Valuations

In accordance with accounting standards, at each reporting date SP AusNet's 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. Details regarding the results of this review, including the assumptions used in performing the review, are contained in note 20 of the SP AusNet Distribution Financial Report (pages 122 to 124).

Disclosure Principle 9: Distribution Policy

The principal activity of the SP AusNet Finance Trust is to provide financing to both SP AusNet Distribution and SP AusNet Transmission. Interest income earned is distributed to unitholders in the nature of interest income. Details regarding SP AusNet Finance Trust distributions are contained in note 3 of the SP AusNet Finance Trust Financial Report (page 286).

For details regarding the SP AusNet distribution policy, refer to note 17 of the SP AusNet Distribution Financial Report (pages 105 to 106).

Disclosure Principle 10: Withdrawal Policy

This disclosure principle is not applicable to SP AusNet.

Disclosure Principle 11: Portfolio Diversification

SP AusNet does not have a portfolio diversification policy. SP AusNet is a diversified energy infrastructure business that owns and operates Victoria's primary regulated electricity transmission network, as well as an electricity distribution network in eastern Victoria and a gas distribution network in western Victoria. SP AusNet has also established an unregulated business, Select Solutions, which provides a number of commercial services to help customers manage their energy, water and environmental needs.

SP Australia Networks (Distribution) Ltd
ACN 108 788 245

Financial Report

For the financial year ended 31 March 2014

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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 14 May 2014.

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 2014.

This general purpose financial report has been prepared as a consolidation 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)

Ralph **Craven** (commenced effective 24 January 2014)

Jeremy Guy Ashcroft **Davis** AM

Sally Marie **Farrier** (commenced effective 24 January 2014)

Eric **Gwee** Teck Hai

Ho Tian Yee

Antonino (Tony) Mario **Iannello**

George Allister **Lefroy** (retired effective 18 July 2013)

Tina Renna **McMeckan**

Ian Andrew **Renard** AM

Sun Jianxing (commenced effective 24 January 2014)

Executive Director

Nino **Ficca** (Managing Director)

Principal activities

The principal activities of SP AusNet are:

- **Electricity distribution** – delivery of electricity to approximately 669,000 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 633,000 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, data 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;
- Select Solutions Group Pty Ltd; and
- SPI PowerNet Pty Ltd.

Strategy

As a diversified energy delivery networks business, SP AusNet plays a vital role in underpinning the economic strength of Victorian communities, while contributing to the wider Australian energy market. The sustainability of its networks is key to SP AusNet's commitment to the safe, reliable and efficient supply of energy.

The energy industry and network businesses will face significant changes in the next five years, driven by the changing energy environment, emerging technology, and increasing customer influence. In the longer term, the lowering cost of alternative technology could create a viable competitor to traditional networks.

SP AusNet's purpose is '*To provide our customers with superior network and energy solutions*'; which is underpinned by eight 5-year strategic objectives as set out below.

Safety	<i>Industry leadership in safety performance</i>	SP AusNet's leaders are responsible for and understand how to lead safety, encouraging its people to work safely and to create safer work environments.
People	<i>High performing leadership, capability and culture</i>	SP AusNet continues to develop the right culture, skills, talent and labour productivity to support a sustainable and high performing business.
Customer	<i>A highly developed customer service capability</i>	SP AusNet continues to focus on customers through meaningful, useful and actionable engagement. The business leverages customer knowledge, experience, and service levels to deliver outcomes that align with the needs and expectations of customers, supported through regulatory advocacy.

Directors' report (continued)

Strategy (continued)

Financial	<i>Diversified and accretive growth</i>	Approximately 87 per cent of SP AusNet's revenue comes from regulated sources, and while SP AusNet remains focused on the continued growth in the regulated networks, diversified growth is also targeted through: • Unregulated Infrastructure – The development of unregulated transmission connections and other infrastructure. • Select Solutions – The continued expansion of specialist utility-related, transportation and telecommunications solutions to existing and new customers. • Energy Solutions – Seeking to develop products and services related to energy use, energy storage, energy efficiency and other niche services in response to changing customer behaviours.
	<i>Sustainable earnings and securityholder value growth</i>	SP AusNet aims to improve its year-on-year financial performance.
Business & Asset	<i>An efficient business model</i>	SP AusNet's operations aim to achieve excellence in both energy delivery and managing customer services, through the implementation of processes and systems which produce high quality data, efficiency, effectiveness, controllability and management capability. This objective is being delivered through a company-wide program of Business Operational Excellence, with the most significant being an enterprise wide change program enabled by the replacement of multiple asset management and resource planning platforms with a single, fully integrated system.
	<i>Safe, resilient and reliable networks</i>	In addition to network safety and reliability across three regulated networks, SP AusNet continues to enhance and optimise its inspection, maintenance and replacement plans through advanced modelling techniques and fully integrated systems.
	<i>Industry leadership and advocacy role in regulatory development</i>	SP AusNet aims to be a leader in regulatory development for the energy industry, thereby enhancing business value through constructive engagement with key policy makers.

Directors' report (continued)

Key achievements

SP AusNet delivered a strong result through operational, capital expenditure and funding efficiencies. SP AusNet's performance highlights during the current financial year include the following:

- Achieved a 6.72 per cent reduction in the Recordable Injury Frequency Rate;
- 12 month total securityholder return to 31 March 2014 of 17 per cent;
- EBITDA (excluding the impact of the Termination Deed) increased by 10.4 per cent to \$1,075.1 million;
- Successfully raised over \$1.7 billion of debt capital at competitive prices;
- Continued the significant investment in strengthening and extending the networks through \$950.0 million of capital expenditure on major station build projects, Advanced Metering Infrastructure (AMI) rollout and upgrade and replacement works;
- Achieved a 1.0 per cent improvement in electricity reliability for calendar year 2013 (measured as the average number of minutes a customer experienced loss of supply due to unplanned interruptions, after allowable exclusions (USAIDI)); and
- Distributions of 8.36 cents per stapled security in line with guidance.

Despite the above key achievements, SP AusNet continues to operate in a challenging environment, with changing consumer behaviour, an increasing emphasis on technology, risks associated with delivery of the AMI program, an evolving regulatory framework, taxation litigation and bushfire litigation.

Ownership and management of SP AusNet

On 3 January 2014, State Grid International Development Limited (SGID) purchased a 19.9 per cent security holding in SP AusNet from Singapore Power International Pte Ltd (SPI). This has reduced SPI's security holding in SP AusNet to 31.1 per cent.

Following this transaction, SP AusNet, Singapore Power and SPI Management Services Pty Ltd (SPIMS) entered into a Termination Deed, pursuant to which they have agreed to terminate the Management Services Agreement (MSA) with effect from 31 March 2014. The key terms of the Termination Deed, as it relates to the MSA, are:

- A termination payment of \$50.0 million is payable by SP AusNet to SPIMS. This payment is made up of two parts: (a) an early termination fee representing the present value of the estimated termination payment that would have been payable if the MSA had terminated on 30 September 2015; and (b) the present value of estimated performance fees that would have been payable to SPIMS from 1 April 2014 to 30 September 2015, had the MSA continued until that time.
- Each SPIMS employee is offered employment with, and has transferred to SP AusNet subsequent to 31 March 2014.
- The termination payment made by SP AusNet is reduced by the amount of employee entitlements in respect of the SPIMS employees transferring to SP AusNet, such amounts having been previously paid by SP AusNet as part of the regular management services charge under the MSA. The net termination payment has been paid in April 2014.

Agreement has also been reached between SPIMS and SP AusNet to unwind shared information technology (IT) services provided to SP AusNet by Enterprise Business Services (EBS), a subsidiary of SPIMS. This arrangement was put in place in September 2008. SP AusNet intends to transition its share of existing EBS activities into the core SP AusNet IT function, as soon as practicable, commencing on 1 April 2014.

The Intellectual Property (IP) Licence Agreement with Singapore Power has also been terminated under the Termination Deed.

The termination payment of \$50.0 million and a provision of \$7.7 million for the costs associated with the restructure of IT services and the termination of the IP Licence Agreement have been reflected in the Stapled Group's 31 March 2014 financial statements.

Directors' report (continued)**Review of operations for the year ended 31 March 2014**

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 in eastern Victoria and a gas distribution network in western Victoria.

\$M	31 March 2014	31 March 2013¹	Movement	%
Revenue	1,799.4	1,639.5	159.9	9.8%
EBITDA	1,017.4	974.0	43.4	4.5%
NPAT	178.3	273.5	(95.2)	(34.8%)
Adjusted EBITDA ^{2, 4}	1,075.1	974.0	101.1	10.4%
Adjusted NPAT ^{3, 4}	305.4	273.5	31.9	11.7%

Notes:

1. 31 March 2013 restated due to changes to AASB 119 *Employee Benefits*.
2. 'Adjusted' EBITDA excludes recognition of \$50.0 million payable for the termination of the Management Services Agreement and \$7.7 million in restructuring costs associated with the Termination Deed.
3. 'Adjusted' NPAT excludes the after-tax adjustment to EBITDA in relation to the Termination Deed (\$40.4 million NPAT impact) and a net charge of \$86.7 million for the amount potentially payable at 31 March 2014 in respect of the Section 163AA dispute.
4. Adjusted EBITDA and Adjusted NPAT are non-IFRS measures that have not been subject to audit or review.

A summary of SP AusNet's revenues and results by operating segment for the financial year ended 31 March 2014 is set out below:

Electricity distribution business

	31 March 2014	31 March 2013	Movement	%
Segment revenue (\$M)	815.1	694.4	120.7	17.4%
Segment result – EBITDA (\$M)	451.6	365.0	86.6	23.7%
Volume (GWh)	7,483	7,629*	(146)	(1.9%)
Connections	668,603	658,461	10,142	1.5%
Capital expenditure (\$M)	568.6	542.7	25.9	4.8%

*Restated to exclude solar exports.

Total revenue for electricity distribution has experienced strong growth for the year, despite the slight decline in volumes distributed. This growth has been primarily driven by regulated price increases for both electricity distribution as well as AMI revenues. In addition to this, 2013 calendar year price increases have also included increased revenues under incentive schemes, the pass-through of increased transmission charges, and increases for the additional recovery of solar rebates paid that were not recovered in calendar year 2012.

A warmer winter, combined with changing consumer behaviours and the continued take-up of solar energy have contributed to the 1.9 per cent decline in volume.

The strong revenue growth, partially offset by a 10.4 per cent increase in operating expenditure (excluding depreciation and amortisation), has contributed to the 23.7 per cent increase in the electricity distribution EBITDA.

Directors' report (continued)

Review of operations for the year ended 31 March 2014 (continued)

Electricity distribution business (continued)

SP AusNet continued its investment in maintaining and augmenting the electricity distribution network during the year. Construction is nearing completion on building a new zone substation at Chirnside Park and works are continuing for the Enhanced Network Safety and Powerline Bushfire Safety Programs that are being delivered throughout the current Electricity Distribution Price Review (EDPR) 2011-15 period.

Advanced Metering Infrastructure (AMI) program

SP AusNet has encountered periods of significant instability in its AMI systems performance as the number of smart meters connected to its AMI systems has been increased. As a result, SP AusNet does not expect to have converted all smart meters by 30 June 2014, which was its previous target completion date.

The risks associated with the AMI program as a result of these system issues, as well as SP AusNet's approach to managing these risks, are detailed below under the 'Material Risks and Uncertainties' section.

Gas distribution business

	31 March 2014	31 March 2013	Movement	%
Segment revenue (\$M)	219.5	216.1	3.4	1.6%
Segment result – EBITDA (\$M)	168.1	167.3	0.8	0.5%
Volume (PJ)	67.0	72.4	(5.4)	(7.5%)
Connections	633,184	620,113	13,071	2.1%
Capital expenditure (\$M)	112.2	89.2	23.0	25.8%

Total revenue for the gas distribution business has increased largely due to the recognition of \$20.9 million of gifted gas distribution network assets as part of the Regional Rail Link project. Excluding the impact of this, the gas distribution revenue has declined due to a combination of regulated price decreases from 1 July 2013 and lower volumes. Warmer temperatures, particularly during the winter period, contributed to declining volumes.

Expenses for the gas distribution business for the year ending 31 March 2014 contain an increase in the environmental provision for the remediation of contaminated former gas sites.

SP AusNet remains committed to allocating its resources to ensure a safe and reliable supply of natural gas to existing customers and bringing more gas to Victorians through efficient investment. In addition to ongoing expansion of the network, SP AusNet has agreed to extend its gas network to several towns identified in the Victorian Government's Energy for the Regions program. To date, SP AusNet has an agreement with Regional Development Victoria for the supply and reticulation of natural gas to Huntly, Avoca, Bannockburn and Winchelsea. Construction of the Huntly connection began in October 2013 and is expected to be completed by winter 2014.

Directors' report (continued)**Review of operations for the year ended 31 March 2014 (continued)****Electricity transmission business**

	31 March 2014	31 March 2013	Movement	%
Segment revenue (\$M)	628.3	604.0	24.3	4.0%
Segment result – EBITDA (\$M)	436.9	423.0	13.9	3.3%
Capital expenditure (\$M)	232.7	245.1	(12.4)	(5.1%)

The 4.0 per cent increase in electricity transmission revenues is largely driven by the annual regulated revenue reset. Transmission regulated revenue is not subject to volume risk. In addition, revenues were favourably impacted by the growth in transmission revenues from contestable and prescribed projects. The construction of a new terminal station at AGL's wind farm near Macarthur and the commencement of the desalination agreements to operate and maintain the underground transmission line supplying electricity to the Victorian Desalination Plant in Wonthaggi in December 2012 have both contributed to the unregulated revenue growth.

The investment in SP AusNet's state-wide transmission network continued during the year, including at the Brunswick, Richmond and West Melbourne terminal stations. With work on the Brunswick and Richmond terminal station upgrades, SP AusNet continued to strengthen the electricity supply into Melbourne's central business district and inner-city suburbs. The demolition work at the Brunswick terminal station concluded at the end of 2013 with construction to commence following receipt of all of the necessary approvals.

The Australian Energy Regulator (AER) released its Transmission Revenue Reset (TRR) Final Determination for the 2014-17 period commencing on 1 April 2014 in January 2014. The Final Determination allows (in nominal dollars) total revenue of \$1,600 million, total capital expenditure of \$552 million and total operating expenditure of \$591 million to maintain, operate and extend the network over the three-year regulatory period. The Final Determination provides funding for key transmission projects, particularly the replacement and refurbishment of several major terminal stations, including Richmond and West Melbourne, which underpin electricity supply to the Melbourne central business district.

Select Solutions business

	31 March 2014	31 March 2013	Movement	%
Segment revenue (\$M)	150.7	138.8	11.9	8.6%
Segment result – EBITDA (\$M)	18.5	18.7	(0.2)	(1.1%)

Select Solutions provides metering, data and asset management solutions, including integrated mobile and spatial technologies, to external parties and SP AusNet. Select Solutions' customers are primarily businesses operating in the essential infrastructure sector such as electricity, water and gas utility owners, (including Jemena, which was a related party until the completion of the State Grid transaction on 3 January 2014), transportation authorities and telecommunications companies.

Select Solutions revenues increased by 8.6 per cent largely due to growth in new contract wins and additional activity under existing contracts. The increased revenue has been partially offset by the loss of a service contract with United Energy. Select Solutions contributed \$18.5 million to EBITDA for the year, a reduction of \$0.2 million on the prior period due to a change in the contract profile and a \$1.2 million prior period adjustment.

In February 2014 SP AusNet acquired Geomatic Technologies (GT) a provider of IT integrated solutions and services that leverage advanced mobile and spatial technologies, for a total consideration of \$27.2 million. GT's portfolio includes solutions and services for field mobile computing, asset capture and inspection, web mapping as well as ICT managed services. The integration of GT will expand the service offering of the Select Solutions business and contribute to the growth of the unregulated business.

Directors' report (continued)

Financial position as at 31 March 2014

Securityholders' equity was \$3,444.6 million as at 31 March 2014, an increase of \$7.5 million compared to the previous financial year. Total securityholders' equity includes 100 per cent of the ownership interests in SP AusNet Transmission and SP AusNet Finance Trust, as they are owned by securityholders directly.

Current liabilities exceed current assets by \$426.7 million at 31 March 2014. The financial report has been prepared on a going concern basis, which contemplates the continuity of normal trading operations. This is because the Stapled Group is, and is expected to continue, trading profitably, generating positive cash flows, and successfully refinancing maturing debt. In addition, at 31 March 2014 the Stapled Group has available a total of \$550 million of undrawn but committed non-current bank debt facilities, \$197 million of undrawn but committed current bank debt facilities and \$409.8 million cash on deposit.

Capital management

SP AusNet manages its capital structure to ensure that it continues as a going concern while maximising the return to securityholders as well as providing the flexibility to fund organic growth and other investment opportunities. An appropriate capital structure is also maintained to ensure an efficient cost of capital is available to SP AusNet. Through its cash flows from operations and by maintaining an appropriate and prudent mix of debt and equity, SP AusNet ensures that it achieves its targeted credit metrics that support an 'A' range credit rating.

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 funds through the CFV.

In line with SP AusNet's Treasury Risk Policy, SP AusNet maintains a diversified debt portfolio by maturity and source. SP AusNet's A- credit rating from Standard and Poor's and A3 from Moody's contributed to the successful completion of numerous bond issues and the establishment of several bank debt facilities during the current financial year, being:

- an inaugural EUR 500 million seven-year bond issue to raise approximately \$707 million in July 2013;
- a EUR 350 million 10 year bond issue to raise approximately \$543 million in February 2014; and
- a \$450 million five-year year bank debt facility in March 2014.

Distributions

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

	Final 2013 distribution		Interim 2014 distribution	
	Cents per security	Total distribution \$M	Cents per security	Total distribution \$M
Fully franked dividend paid by SP AusNet Transmission	1.367	46.0	1.393	47.0
Interest income paid by SP AusNet Finance Trust	2.649	89.2	2.396	80.9
Return of capital paid by SP AusNet Finance Trust	0.084	2.8	0.391	13.2
Total distributions	4.100	138.0	4.180	141.1

Directors' report (continued)

Capital management (continued)

Distributions (continued)

Since the end of the financial year, the Directors have approved a final distribution for 2014 of \$141.6 million (4.18 cents per stapled security) to be paid on 27 June 2014 comprised as follows:

	Final 2014 distribution	
	Cents per security	Total distribution \$M
Fully franked dividend payable by SP AusNet Transmission	1.393	47.2
Interest income payable by SP AusNet Finance Trust	2.379	80.6
Return of capital payable by SP AusNet Finance Trust	0.408	13.8
	4.180	141.6

SP AusNet will continue to determine future distribution amounts from operating cash flow after servicing all of its maintenance capital expenditure and a portion of its growth capital expenditure. For the 2015 financial year, SP AusNet expects to maintain distributions of 8.36 cents per security.

Distribution Reinvestment Plan (DRP)

In relation to the final 2013 distribution paid on 28 June 2013, \$10.4 million was utilised in the allotment of new securities issued under the DRP, representing a take up rate of approximately 7 per cent. In relation to the interim 2014 distribution paid on 23 December 2013, \$11.8 million was utilised in the allotment of new securities issued under the DRP, representing a take up rate of approximately 8 per cent.

The DRP will be in operation for the final 2014 distribution at a two per cent discount to the average of the volume weighted average price.

Material risks and uncertainties

SP AusNet is committed to understanding and effectively managing risk to provide greater certainty and confidence for its securityholders, employees, customers, suppliers and communities in which it operates. SP AusNet maintains oversight of its material business risks (financial and non-financial) at an enterprise-wide level and reports regularly to the Audit and Risk Management Committee and the Board of Directors on the effectiveness of the management of these risks. SP AusNet is cognisant of the following principal risks which may materially impact the execution and achievement of its business strategy and financial prospects.

(a) Advanced Metering Infrastructure (AMI) program risks

The Victorian Government mandated the rollout of smart electricity meters in Victoria. It also established a range of functional and service level specifications for the program, as well as a framework for the regulated recovery of costs associated with the program pursuant to the AMI Cost Recovery Order in Council (CROIC) which allows for the recovery of prudent costs of implementing the AMI program.

As of the date of this report, SP AusNet has installed approximately 686,000 meters, out of a total fleet of 713,000. The remaining meters to be installed largely relate to inaccessible sites or customer refusals and SP AusNet continues to proactively manage these installations to ensure the full rollout of smart meters.

Whilst SP AusNet has successfully converted 390,000 meters to remotely provide meter data to market, SP AusNet has encountered periods of significant instability in its AMI systems performance as the number of smart meters connected to its AMI systems have increased. In light of these issues, SP AusNet is undertaking a technical review of its AMI systems to address that instability.

Directors' report (continued)

Material risks and uncertainties (continued)

(a) Advanced Metering Infrastructure (AMI) program risks (continued)

SP AusNet will now undertake further work to determine options and risks to its program to convert its remaining smart meters and to ensure that its AMI systems will be able to deliver the mandated performance consistently at this scale. It is expected to take approximately two to three months to complete the determination of preferred options and risks.

Any solution to address the issues is likely to entail additional investment. The extent of the additional investment required is presently under review. While there are regulatory avenues under the CROIC for the recovery of prudent additional expenditure, which SP AusNet will pursue as the expenditure is incurred, this recovery is subject to approval by the AER.

For the calendar year ended 31 December 2013, SP AusNet spent \$70 million above the current regulatory allowance. SP AusNet considers this additional expenditure to be prudent and incurred in accordance with the CROIC and as such is currently preparing an application to have this expenditure approved. The application is required to be submitted by 31 August 2014. As the additional costs are incurred in calendar years 2014 and 2015, SP AusNet will lodge further applications.

There is a risk that some or all of the additional expenditure may not be approved by the AER under the CROIC. SP AusNet would consider other avenues for recovery, such as legal appeal, if this were to occur.

Separate to the cost recovery application process noted above, SP AusNet has appealed to the Federal Court to include \$43.5 million of additional costs in the AER approved budgetary allowance for the 2012 to 2015 calendar years. This appeal is expected to be heard during the fourth quarter of 2014, and if successful, would reduce the amount that SP AusNet sought to recover through additional expenditure applications under the CROIC, both now and in the future.

The Victorian Government announced in late November 2013 a new policy under which distribution businesses would pay a rebate to customers who do not have a smart meter by 30 June 2014. The rebate payment will not apply to customers that refuse a meter or that have defects that do not allow for a smart meter to be installed. The Victorian Government is currently undertaking a consultation process to finalise the mechanism for the rebate and its quantum. The amount of any customer rebates that SP AusNet will be required to pay is uncertain.

The Essential Services Commission (ESC) is currently conducting an audit of distribution businesses compliance with the best endeavours obligations under the CROIC. The ESC's findings are expected to be presented in June 2014.

(b) Taxation risks

As a large taxpayer with a stapled structure and two tax consolidated groups, the Australian Tax Office (ATO) regularly reviews the various tax positions adopted by SP AusNet. There is the risk that changes in tax law, or changes in the way tax laws are interpreted, may materially impact the tax liabilities of the Stapled Group or the tax losses currently available to offset future taxable profits. SP AusNet manages this risk via a Board-approved Tax Risk Management policy which outlines a number of review and sign-off procedures, including the utilisation of external tax and legal advisors, for each tax position based on the assessed level of judgement of that position.

SP AusNet presently has a number of unresolved issues with the ATO that, if they were to conclude unfavourably to SP AusNet, would result in a significant outflow of resources. The status of each of these matters is summarised below.

Directors' report (continued)

Material risks and uncertainties (continued)

(b) Taxation risks (continued)

Section 163AA impost

On 7 April 2014 the Full Court of the Federal Court of Australia delivered judgment against SP AusNet in an appeal against disputed tax amended assessments relating to deductions claimed for amounts imposed under Section 163AA of the Electricity Industry Act (1993) (Vic).

The total after tax disputed amount is \$86.7 million as at 31 March 2014 (representing \$54.0 million of primary tax, plus a tax-effected interest component of \$32.7 million). This amount has been recognised as a tax charge in the income statement for the year ended 31 March 2014. Of this total disputed amount, SP AusNet paid \$30.6 million to the ATO in October 2011.

In May 2014, an application to the High Court of Australia for special leave to appeal the Full Federal Court decision was lodged. The application hearing is expected to be heard in the second half of calendar year 2014. SP AusNet continues to believe that the fees imposed under Section 163AA are deductible.

Intellectual property

On 25 March 2014 the Federal Court of Australia delivered judgment in favour of SP AusNet in relation to intellectual property deductions claimed in the 1998 to 2011 years, inclusive. The disputed taxes amount to \$90.8 million (representing \$27.4 million of primary tax, \$23.3 million of interest penalties and \$40.1 million of future tax benefits). Of this amount, SP AusNet paid \$17.1 million to the ATO in October 2011.

The ATO has subsequently lodged a notice of appeal in the Federal Court. It is expected that the appeal will be heard in the second half of calendar year 2014, with a decision expected before the end of calendar year 2014.

Intra-group financing arrangements

The ATO are conducting an audit review of SP AusNet's intra-group financing arrangements for the 2010 - 2014 income years. The primary focus of the audit is to consider the classification of loans made by SP AusNet Finance Trust. In the event that prior year interest deductions are unavailable, a primary tax liability of \$79.8 million and \$20.7 million of interest penalties and incremental withholding tax would arise in the SP AusNet Transmission tax consolidation group. In addition, a primary tax liability of \$128.9 million would arise in the SP AusNet Distribution tax consolidated group, however this would not result in a cash tax liability due to carry forward tax losses. \$17.2 million of incremental withholding tax would also arise in the SP AusNet Distribution tax consolidated group.

The audit review is expected to be finalised by November 2014. In addition to prior interest deductions, there is also a risk that future deductions may also be unavailable.

(c) February 2009 bushfire litigation risks

SP AusNet is presently a defendant in litigation that has been brought in connection with the 7 February 2009 bushfires located at Kilmore East and Murrindindi. The Kilmore East Supreme Court hearing is presently underway, and according to the court timetable, it is likely to conclude in June 2014 with judgement expected by March 2015. The Murrindindi class action is in very early stages, and it is expected that the trial will formally commence some time in 2015.

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. In addition, there are regulatory mechanisms in place that enable SP AusNet to apply for a pass-through of any residual costs that may ultimately be incurred.

Directors' report (continued)

Material risks and uncertainties (continued)

(c) February 2009 bushfire litigation risks (continued)

There are many variables associated with litigation and it is impossible to provide a prior assessment of the ultimate resolution of either the Kilmore East or Murrindindi proceedings. While SP AusNet strongly holds the belief that it has consistently complied with its regulatory obligations and is vigorously defending both claims, there is a risk that SP AusNet's insurance and, if required, a claim to the regulator for pass-through of residual costs ultimately incurred in relation to these proceedings, may be insufficient to cover SP AusNet's liability, if any, associated with the February 2009 bushfires.

(d) Regulatory risks

The energy industry in Australia is highly regulated. Approximately 87 per cent of SP AusNet's revenues are subject to periodic reviews by the AER, where revenue or prices are determined for each of the networks for the specified regulatory period. Regulated revenues are determined based on a building block approach that is designed to cover a regulated networks' operating and maintenance costs, depreciation, tax, and a return on assets. The AER also applies an incentive framework which provides for higher (or lower) regulated returns if the network responds (or fails to respond). The key incentive framework schemes incentivise capex efficiency, opex efficiency and service standard performance.

There is a risk that costs approved by the AER may be insufficient to recover SP AusNet's actual costs. In addition, there is a risk that costs may unexpectedly increase during a regulatory period, or that additional costs may need to be incurred, and that SP AusNet will spend more than the regulatory allowance upon which revenues are derived which may adversely affect the financial performance and position of SP AusNet.

SP AusNet's electricity and gas distribution network revenues are currently exposed to volume risk (the amount of electricity or gas transported through the system) while maximum demand is a key driver of investment in both the electricity distribution and transmission networks. Energy volumes and maximum demand are subject to seasonal fluctuations and to a range of variables, including economic conditions, population growth, government policy, weather, alternative energy sources and availability of adequate supplies of electricity and gas.

SP AusNet carefully manages these risks in a number of ways. Prior to the commencement of a regulatory period, SP AusNet will develop a detailed plan of works to be undertaken and costs to be incurred as well as energy and maximum demand forecasts. Particular emphasis is placed on ensuring that SP AusNet continues to maintain safe, resilient and reliable networks and that the costs to be incurred are efficient and prudent. This information is submitted to the AER as part of the determination process, and where appropriate the views of industry and other external experts is sought to include in the submission. During the regulatory period SP AusNet continuously monitors and manages its costs through processes and systems which produce high quality data, efficiency, effectiveness and controllability.

In addition to these operating risks, the regulatory framework within which SP AusNet operates continues to evolve. A number of key economic regulatory framework reviews have reached their conclusion and have either progressed to implementation or remain as recommendations for decision-making. The key elements of these reviews and changes are as follows:

- A new rate of return framework has been established and the AER has greater discretion on the approach for setting the Weighted Average Cost of Capital (WACC). These new guidelines will first apply to SP AusNet under the electricity distribution reset on 1 January 2016.
- A number of other rule changes have been made to provide new tools, such as capital expenditure sharing schemes and ex-post efficiency reviews, so the regulator can incentivise network service providers to invest capital efficiently. The regulator will also have an increased regard to benchmarking in making revenue determinations.
- Legislative amendments to the limited merits appeal regime were passed in November 2013. The threshold for leave to appeal has been raised by requiring the applicant to establish a prima facie case that a materially preferable decision exists.

The application of these new rules and guidelines, as well as any future regulatory reform, may have an adverse impact on SP AusNet in future regulatory determinations.

Directors' report (continued)

Material risks and uncertainties (continued)

(e) Funding and market risks

SP AusNet relies on access to financial markets as a significant source of liquidity for capital requirements not satisfied by operating cash flows. SP AusNet's access to financial markets could be adversely impacted by various factors, such as a material adverse change in SP AusNet's business or a reduction in its credit rating. The inability to raise capital on favourable terms, particularly during times of uncertainty in the financial markets, could impact SP AusNet's ability to sustain and grow its businesses, which are capital intensive, and would likely increase its capital costs.

Furthermore, SP AusNet has a large amount of debt, with a net debt to Asset Base ratio at 31 March 2014 of 68.6 per cent. The degree to which SP AusNet may be leveraged in the future could affect SP AusNet's ability to service its obligations, pay distributions, make capital investments, and respond to competitive pressures or to obtain additional financing. In addition, SP AusNet is exposed to a number of market risks associated with this debt, including interest rate risk.

SP AusNet effectively manages these risks in accordance with its Treasury Risk Policy which is approved by the Board and reviewed at least annually. Under this policy, SP AusNet aims to have a diverse funding mix in terms of source and tenure and proactively monitors and manages its credit metrics, in order to maintain its 'A' range credit rating and ensure continued access to various markets and to limit the funding requirement for any given year. In addition, through the use of derivative instruments SP AusNet aims to hedge 90 – 100 per cent of its interest rate risk.

(f) Information and communication technology risks

Information and Communication Technology (ICT) is playing an increasing role in the management and operation of the networks as SP AusNet strives to achieve its strategic objectives of an efficient business model, safe, resilient and reliable networks, and a highly developed customer service capability. SP AusNet is currently making a number of significant ICT investments and operational changes which include the following:

- On 31 March 2014 SP AusNet terminated its agreement with EBS for the provision of information technology services. SP AusNet intends to transition its share of existing EBS activities into the core SP AusNet IT function as soon as practicable.
- As noted in the Strategy section above, SP AusNet has initiated an enterprise-wide program to improve processes, including the replacement of multiple asset management and resource planning platforms with a single fully integrated system.
- As noted in the AMI program risks section above, an additional investment is required to undertake a range of prudent and necessary activities to ensure that the AMI solution consistently meets the functional and service level requirements of the program for all meters.

There are both operational and financial risks associated with the successful implementation of these programs and the broader role of ICT on SP AusNet. These risks may negatively impact SP AusNet's ability to have these costs recovered under the regulatory process and ultimately the future financial performance of SP AusNet. Through rigorous planning and program management processes, as well as an appropriate risk management framework of governance and controls, SP AusNet carefully manages these risks.

Directors' report (continued)

Environmental regulation and climate change

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.

Under the *National Greenhouse and Energy Reporting (NGER) Act 2007*, corporations that meet or exceed thresholds are required to report greenhouse gas emissions and energy usage by 31 October each year. SP AusNet meets these thresholds and has lodged its current year's NGER reporting with the Clean Energy Regulator for the period from 1 July 2012 to 30 June 2013.

From 1 July 2012, the carbon pricing mechanism (introduced by the *Clean Energy (CE) Act 2011*) applies to certain greenhouse gas emissions, with liable entities being required to surrender carbon permits for each tonne of carbon dioxide equivalent emitted for each eligible financial year. This legislation also introduces additional annual reporting and compliance requirements for SP AusNet.

SP AusNet has estimated the annual cost of the carbon price based on direct emissions and other business impacts. These estimates show that the direct financial impact is unlikely to be material for the Stapled Group. SP AusNet is liable to surrender carbon units to cover fugitive emissions associated with the operation of its gas distribution network and must pay an equivalent import levy on SF₆, an insulating gas.

SP AusNet has a mechanism to recover any impost from 1 January 2013 in its Gas Access Arrangement.

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

Distribution

Since the end of the financial year, the Directors have approved a final distribution for 2014 of \$141.6 million (4.18 cents per stapled security) to be paid on 27 June 2014.

With the exception of the matter outlined above, the Directors are not aware of any circumstances that have arisen since 31 March 2014 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 2014.

Directors' report (continued)

Information on Directors

Ng Kee Choe – *Chairman – Non-executive*

Bachelor of Science (Honours), University of Singapore

Experience and expertise

Mr Ng serves as Chairman of CapitaLand Ltd and CapitaMalls Asia Limited and as President-Commissioner of PT Bank Danamon Indonesia, Tbk. He is a Director of Singapore Exchange Ltd and Fullerton Financial Holdings Pte Ltd. 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 the Chairman of NTUC Income Insurance Co-Operative Limited and the Chairman and Director of Singapore Power Limited and Singapore Airport Terminal Services Limited. He was also Vice-Chairman and Director of DBS Group Holdings, retiring from his executive position in 2003 after 33 years' service.

Other current listed company directorships

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)

CapitaMalls Asia Limited (2013 to date) (SGX-ST and Hong Kong Stock Exchange Listed entity)

Former listed company directorships in last 3 years

Singapore Airport Terminal Services Ltd (2000 to 2012) (SGX-ST listed entity)

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 Management, Deakin University

Advanced Management Programme, Harvard Business School, USA

Experience and expertise

Mr Ficca has over 30 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 and the Issuing Committee.

Directors' report (continued)

Information on Directors (continued)

Ralph Craven – *Non-executive Director*

Bachelor of Engineering (Electrical - Honours), University of Queensland
Doctor of Philosophy, University of New South Wales
Postgraduate Diploma in Management, Deakin University
Postgraduate Diploma in Information Processing, University of Queensland

Experience and expertise

Dr Craven is currently the Chairman of Invion Limited and a Director of Senex Energy Limited and Mitchell Services Limited. He is also Director of Windlab Systems Pty Ltd and the International Electrotechnology Commission. He was formerly Chair of Ergon Energy Corporation Limited, Tully Sugar Limited and Deputy Chair of Arrow Energy Pty Ltd. Dr Craven was CEO of Transpower New Zealand Limited and also held senior executive positions in Shell Coal Pty Ltd and NRG Asia Pacific Limited. He is a Fellow of the Australian Institute of Company Directors, a Fellow of the Institution of Engineers Australia and a Fellow of the Institution of Professional Engineers New Zealand.

Other current listed company directorships

Invion Limited (2011 to date)
Senex Energy Limited (2011 to date)
Mitchell Services Limited (2011 to date)

Former listed company directorships in last 3 years

None

Date of initial appointment

SP AusNet Transmission – 24 January 2014
SP AusNet Distribution - 24 January 2014
Responsible Entity - 24 January 2014

Special responsibilities

Member of the Audit and Risk Management Committee, the Compliance Committee and the Bushfire Litigation Committee.

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

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

Experience and expertise

Professor Davis is a Director of Singapore Power Limited and CHAMP Ventures Pty Ltd. He is a former Director of the Transurban Group and a Professor Emeritus of the University of New South Wales, after retiring from the Australian Graduate School of Management (AGSM). 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 (now ASX Limited) and Australian Institute of Management.

Other current listed company directorships

None

Former listed company directorships in last 3 years

Transurban Group (1997 to 2011)

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 and the Bushfire Litigation Committee.

Directors' report (continued)

Information on Directors (continued)

Sally Marie Farrier – *Independent Non-executive Director*

Bachelor of Chemical and Process Engineering (First Class Honours), University of Canterbury, New Zealand

Masters of Business Administration, Victoria University of Wellington

Post Graduate Diploma in Finance and Investment Analysis, Securities Institute of Australia

Experience and expertise

Ms Farrier is currently a Director of Meridian Energy Limited and a founding Director of Farrier Swier Consulting Pty Limited. Past directorships include Manidis Roberts Pty Limited, Hydro Tasmania and Western Power. In addition, Ms Farrier has served as a National Water Commissioner, and in Victoria, she was a Member of the Victorian Water Trust Advisory Council. She is a Member of the Australian Institute of Company Directors and a Fellow of the Financial Services Institute of Australasia.

Other current listed company directorships

Meridian Energy Limited (2012 to date) (New Zealand Stock Exchange Listed Company)

Former listed company directorships in last 3 years

None

Date of initial appointment

SP AusNet Transmission – 24 January 2014

SP AusNet Distribution - 24 January 2014

Responsible Entity - 24 January 2014

Special responsibilities

Member of the Audit and Risk Committee and the Compliance Committee.

Eric Gwee Teck Hai – *Non-executive Director*

Bachelor of Engineering (Mechanical), University of Melbourne

Experience and expertise

Mr Gwee is a former Director of Singapore Power Limited, WorleyParsons Ltd and 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

None

Former listed company directorships in last 3 years

WorleyParsons Ltd (2005 to 2011)

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 and the Remuneration Committee.

Directors' report (continued)

Information on Directors (continued)

Ho Tian Yee – *Non-executive Director*

Bachelor of Arts (Economics), Portsmouth University, UK

Experience and expertise

Mr Ho is currently the Managing Director and principal shareholder of Pacific Asset Management (S) Pte Ltd, and an investment advisor to Blue Edge Advisors Pte Ltd. Mr Ho was previously the General Manager and Managing Director of Bankers Trust Company, Singapore. He currently serves as a non-executive director of DBS Group Holdings Ltd and Fullerton Funds Management Company. He is also a Board member of Singapore Power Limited.

Other current listed company directorships

DBS Group Holdings Ltd (2011 to date) (SGX-ST listed company)

Former listed company directorships in last 3 years

Singapore Exchange Ltd (1999 to 2013) (SGX-ST listed company)

Fraser & Neave Ltd (1997 to 2011) (SGX-ST listed company)

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 Nomination 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 Empire Oil and Gas NL, Energia Minerals Ltd, HBF Health Ltd, D'Orsogna Ltd and MG Kailis Group of Companies. He is also a director of ERM Power Ltd, Water Corporation of WA 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)

Empire Oil and Gas NL (2013 to date)

Former listed company directorships in last 3 years

None

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 Nomination Committee, the Bushfire Litigation Committee and the Issuing Committee.

Directors' report (continued)

Information on Directors (continued)

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. She is also a Director of Circadian Technologies Ltd and the Cooperative Research Centre for Spatial Information. She is a former Chair of the Centre for Eye Research Australia and a former Director of Metlink Victoria Pty Ltd and 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. Ms McMeckan is a Fellow of the Australian Institute of Company Directors.

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

Chairman of the Compliance Committee and a member of the Remuneration Committee and the Audit and Risk Management Committee.

Ian Andrew Renard AM – *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 a Director of Hillview Quarries Pty Ltd. He is trustee of the R E Ross Trust and former Chancellor of the University of Melbourne. Mr Renard 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.

Other current listed company directorships

None

Former listed company directorships in last 3 years

CSL Ltd (1998 to 2013)

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 the Bushfire Litigation Committee and member of the Nomination Committee.

Directors' report (continued)

Information on Directors (continued)

Sun Jianxing - *Non-executive Director*

Bachelor of Engineering, Northeast Dianli University, China

Experience and expertise

Mr Sun is a Non-executive Director of ElectraNet and currently holds the role of Head of State Grid Corporation of China Australia Representative Office. His previous roles include Deputy CEO of State Grid Energy Development Company Ltd, Deputy Director General of Materials & Equipment Supplying Department, State Grid Corporation of China, Chief Engineer of State Grid Shenzhen Energy Developments Ltd and Division Chief of Department of International Affairs, State Grid Corporation of China. In his early years, Mr Sun also worked as a Senior Engineer at the China General Institute for Electric Power Planning and Designing.

Other current listed company directorships

None

Former listed company directorships in last 3 years

None

Date of initial appointment

SP AusNet Transmission – 24 January 2014

SP AusNet Distribution - 24 January 2014

Responsible Entity - 24 January 2014

Special responsibilities

Member of the Nomination Committee and the Remuneration 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 20 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 2014, 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 Lefroy¹	3	4	3	4	3	4
Tina McMeckan	8	8	8	8	8	8
Ian Renard	8	8	8	8	8	8
Sun Jianxing	2	2	2	2	2	2
Ralph Craven	2	2	2	2	2	2
Sally Farrier	2	2	2	2	2	2

¹ Mr Lefroy retired as a Non-Executive Director effective 18 July 2013.

A = Number of meetings attended

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

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 2014, 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	**	**	**	**	4	4	**	**
Nino Ficca	**	**	**	**	**	**	**	**
Jeremy Davis	5	7	**	**	4	4	**	**
Eric Gwee	7	7	**	**	4	4	3	3
Ho Tian Yee	**	**	3	3	**	**	3	3
Tony Iannello	7	7	3	3	**	**	**	**
George Lefroy	**	**	**	**	**	**	1	1
Tina McMeckan	7	7	2	2	**	**	3	3
Ian Renard	5	5	2	2	4	4	2	3
Sun Jianxing	**	**	**	**	**	**	1	1
Ralph Craven	2	2	1	1	**	**	**	**
Sally Farrier	1	2	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**

Directors' report (continued)

Meetings of Directors (continued)

The number of meetings of the Bushfire Litigation Committee and the Issuing Committee held during the year ended 31 March 2014, and the number of meetings attended by each Director, are set out in the following table.

	Bushfire Litigation Committee		Issuing Committee	
	A	B	A	B
Ng Kee Choe	**	**	3	3
Nino Ficca	2	2	3	3
Ho Tian Yee	**	**	3	3
Tony Iannello	2	2	3	3
George Lefroy	1	1	**	**
Ian Renard	2	2	**	**

A = Number of meetings attended

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

**** = Not a member of the relevant committee**

Directors' report (continued)

Remuneration report (audited)

Introduction to remuneration report

The remuneration report for the year ended 31 March 2014 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 or indirectly, including any Director of the parent company.

In performing its role, the Board and Remuneration Committee may directly commission and receive information and advice from independent external advisers to ensure remuneration recommendations in relation to KMP are free from undue influence by management.

In March 2010, the Remuneration Committee appointed PwC as its remuneration adviser. This appointment was formalised in August 2011 following changes to the Corporations Act in relation to the appointment of remuneration advisers.

No remuneration recommendations were provided by PwC to the Remuneration Committee or Board during the reporting period. Advice was provided to the Remuneration Committee by PwC during the reporting period which outlined the current overall market conditions and external pay practices amongst a selected peer comparator group. This advice included an analysis of existing levels of fixed and performance remuneration of SP AusNet's KMP and executives and assisted the Board in reviewing and determining overall remuneration outcomes for the KMP and executives for the reporting period.

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. There have been no additional appointments or resignations of Directors throughout the reporting period.

Name	Position
Ng Kee Choe	Non-executive Chairman
Nino Ficca	Managing Director
Ralph Craven	Non-executive Director (appointed 24 January 2014)
Jeremy Davis	Non-executive Director
Sally Farrier	Non-executive Director (appointed 24 January 2014)
Eric Gwee	Non-executive Director
Ho Tian Yee	Non-executive Director
Tony Iannello	Non-executive Director
Sun Jianxing	Non-executive Director (appointed 24 January 2014)
George Lefroy	Non-executive Director (up to 18 July 2013)
Tina McMeckan	Non-executive Director
Ian Renard	Non-executive Director

Directors' report (continued)**Remuneration report (audited) (continued)**

The persons listed below were KMP of SP AusNet during the financial year ended 31 March 2014.

Name	Position
Nino Ficca	Managing Director
John Azaris	General Manager Service Delivery (KMP from 1 April 2013)
Chad Hyman	General Manager Strategy & Business Development (KMP from 1 April 2013)
John Kelso	General Manager Select Solutions
Adam Newman	Chief Financial Officer and General Manager Finance
Alistair Parker	General Manager Asset Management (KMP from 1 April 2013)
Ash Peck ¹	General Manager Information and Communication Technology (up to 6 December 2013)
Mario Tieppo	General Manager Information and Communication Technology (appointed 9 December 2013)

¹ On 6 December 2013, Mr Peck ceased to be a KMP of SP AusNet and resigned from SP AusNet on 9 December 2013.

Up to 31 March 2014, SPI Management Services Pty Ltd (SPI Management Services), a wholly-owned subsidiary of related party Singapore Power International Pte Ltd (SPI), provided 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 above 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 major activities of SP AusNet during the financial year.

On 31 March 2014, SP AusNet, Singapore Power and SPI Management Services entered into a Termination Deed, pursuant to which they agreed to terminate the Management Services Agreement with effect from 31 March 2014. As a result of this termination, KMP and other employees who were previously employed by SPI Management Services were offered, and accepted, employment with SP AusNet, under either SPI Electricity Pty Ltd or SPI PowerNet Pty Ltd, on the same terms as their existing remuneration arrangements, including the preservation of all existing entitlements and participation in incentive arrangements.

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.

	2010	2011	2012	2013 (restated)	2014
Revenue	\$1,333.6m	\$1,468.0m	\$1,535.4m	\$1,639.5m	\$1,799.4m
NPAT from continuing operations	\$209.0m	\$252.9m	\$255.0m	\$273.5m	\$178.3m¹
Closing security price as at 31 March	\$0.91	\$0.87	\$1.075	\$1.195	\$1.31
Distributions in respect of financial year (cents per stapled security)	8.00	8.00	8.00	8.20	8.36

¹ NPAT from continuing operations for the year ended 31 March 2014 includes a net charge of \$86.7 million for the amount potentially payable under the Section 163AA impost dispute with the Australian Tax Office (ATO) and \$40.4 million (net of tax) for the termination payment and restructuring provision arising from the Termination Deed.

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. 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.
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 (including any additional fees for special duties or exertions) 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 \$2,000,000 per year at the Annual General Meeting of SP AusNet held on 19 July 2012.
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	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.
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.

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) for the financial year ended 31 March 2014 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 ^{1, 2}	\$330,000
Board Directors	\$121,000
Audit and Risk Management Committee Chairman	\$30,000
Audit and Risk Management Committee Members	\$18,000
Compliance Committee Chairman	\$21,600
Compliance Committee Members	\$12,000
Remuneration Committee Chairman	\$24,000
Remuneration Committee Members	\$12,000
Nomination Committee Chairman	\$15,000
Nomination Committee Members	\$12,000
Issuing Committee Members ²	\$12,000

1 The Board Chairman is currently Chairman of the Nomination Committee. As his Board fee is all-inclusive, no Nomination Committee Chairman's fee is currently paid.

2 At its November 2013 meeting, the Board resolved to formalise the Issuing Committee as a standing Committee of the Board effective 1 January 2014. The Board Chairman is currently Chairman of the Issuing Committee. As his Board fee is all-inclusive, no Issuing Committee Chairman's fee is currently paid.

3 In addition to the fees noted above, Non-executive Directors may also be paid fees for special duties or exertions.

At their meeting in November 2012, the Board resolved to increase Non-executive Director fees, effective from 1 April 2013. The increase in fees is within the fee limit approved by the securityholders of SP AusNet Distribution and SP AusNet Transmission at the Annual General Meeting held on 19 July 2012.

Managing Director and Senior Executives

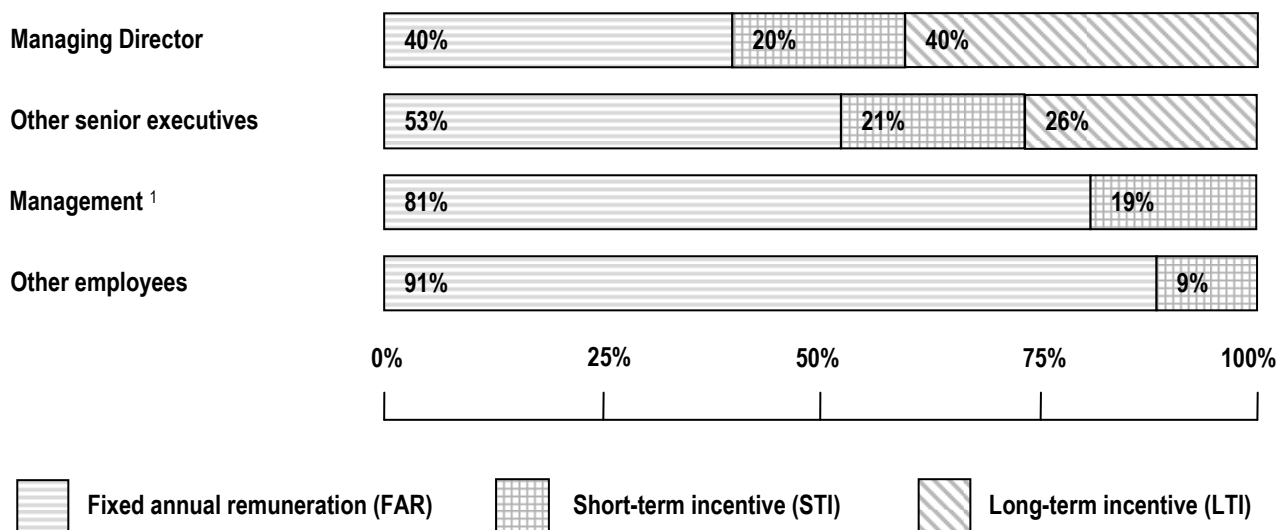
The key objective of SP AusNet's policy for Managing Director and senior executive remuneration is to manage a total reward framework designed to:

- 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.

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 Short-Term Incentive (STI) plan. A Long-Term Incentive (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:



¹ 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' fixed annual remuneration. 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 advisers 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 FAR increases in any senior executive's contract of employment.

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, other senior executives and permanent employees on individual contracts of employment. 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 an executive.
Target STI amount	A target STI amount, expressed as a percentage of the senior executive's FAR, is specified for each senior executive. However, 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 other senior executives is 40% of FAR.
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 2014 included targets relating to: • employee, contractor and network safety; • earnings before interest, taxation, depreciation and amortisation; • return on equity; • capital efficiency; • business efficiency initiatives network performance and reliability; and • employee retention. 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. The Managing Director's stretch individual performance scorecard contained a range of measures designed to contribute value to the business and included: • safety leadership and strategy implementation; • financial KPI's including credit rating KPI's • Business Excellence and performance efficiency KPI's; • people management and leadership; and • customer and community. The performance assessment of the Managing Director's stretch individual performance scorecard is conducted by the Chairman and the Remuneration Committee Chairman, and reviewed by the Board prior to finalisation and any award being granted.
Performance period	12 months to 31 March 2014.
Delivery mechanism	100% cash payment. The Board retains the right to vary any STI payment at its discretion.

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 other 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 long-term securityholder value.
Target LTI amount	The LTI Award is calculated as a percentage of the participant's FAR as at the test date. 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 senior executive performance measures of Total Securityholder Return (TSR) and Earnings Per Security (EPS), with a further 25% for the achievement of stretch targets related to Return on Invested Capital (ROIC) and Interest Cover Ratio (ICR). - Other senior executives – 50% - Other participants – between 15% and 25%
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. With the exception of the Managing Director, where an additional 25% LTI opportunity was introduced from 1 April 2011, accompanied by new performance indicators of ROIC and ICR, the same performance measures have been used for senior executive LTI 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	35%
Between 50.1 and 74.9	Progressive vesting on a straight-line basis from greater than 35% 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: <table> <tr> <th>Compound annual growth rate</th><th>Percentage of EPS Award that vests</th></tr> <tr> <td>< 2.5% per annum</td><td>0%</td></tr> <tr> <td>Between 2.5% and 7.5% per annum</td><td>Linear scale from 50% to 150%</td></tr> <tr> <td>> 7.5% per annum</td><td>150%</td></tr> </table>	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%
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%								

ROIC: The ROIC measure applies to the Managing Director only and is designed to measure how effective SP AusNet uses funds (borrowed and owned) invested in its operations.

ROIC is calculated by $(NPAT + \text{Finance Cost adjusted for Tax}) / (\text{Equity} + \text{Debt})$

The target for this measure has been set as the average over the 3 year performance period, with the award calculated as follows:

SP AusNet's ROIC	Percentage of ROIC Award that vests
Below threshold	0%
Between threshold and target	Linear scale from 50% to 100%
Above target to stretch target	Linear scale from 100% to 125%
Above stretch target	125%

ICR: The ICR applies to the Managing Director only and is a key financial metric which provides an indication of SP AusNet's ability to meet ongoing interest bills and therefore service debt.

ICR equals $\text{Funds Flow from Operations} + \text{Finance Expenses} / \text{Finance Expenses}$

The target for this measure has been set as the average over the 3 year performance period, with the award calculated as follows:

SP AusNet's ICR	Percentage of ICR Award that vests
Below threshold	0%
Between threshold and target	Linear scale from 50% to 100%
Above target to stretch target	Linear scales from 100% to 125%
Above stretch target	125%

In order for the Managing Director to qualify for an award under both the ROIC and ICR measures, a safety performance hurdle of zero fatalities for SP AusNet employees in the 12 month period prior to vesting must be achieved.

Directors' report (continued)

Remuneration report (audited) (continued)

Long-term incentive (continued)

Key design aspect	Commentary
Delivery mechanism	Once the performance criteria have been satisfied, participants receive a cash award. The Board retains the right to vary any LTI payment at its discretion. 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. 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.
Clawback arrangements	Where, in the opinion of the Board, the performance measures applicable to an award have been satisfied as a result of the fraud, dishonesty or breach of obligations of the participant and, in the opinion of the Board, the performance measures would not otherwise have been satisfied, the Board may determine that the performance measures are not satisfied and may, subject to applicable laws, determine that any award paid in such circumstances be repaid by the participant to SP AusNet.

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.

Directors' report (continued)**Remuneration report (audited) (continued)****Total remuneration for Non-executive Directors for the year ended 31 March 2013 and 31 March 2014**

Non-executive Directors	Year	Short-term		Post-employment	Total
		Cash salary and fees	Other short-term benefits ¹	Super-annuation ²	
Ng Kee Choe (Chairman)	2014	302,233	-	27,767	330,000
	2013	229,358	-	20,642	250,000
Ralph Craven ⁵	2014	25,375	-	2,347	27,722
Jeremy Davis	2014	136,278	-	12,519	148,797
	2013	123,853	-	11,147	135,000
Sally Farrier ⁵	2014	25,375	-	2,347	27,722
Eric Gwee	2014	160,797	-	-	160,797
	2013	145,000	-	-	145,000
Ho Tian Yee ⁴	2014	143,783	-	13,217	157,000
	2013	133,028	-	11,972	145,000
Tony Iannello ^{3,4}	2014	176,745	-	16,255	193,000
	2013	174,312	-	15,688	190,000
Sun Jianxing ⁵	2014	24,430	-	2,260	26,690
George Lefroy ³	2014	51,335	-	4,665	56,000
	2013	146,789	-	13,211	160,000
Tina McMeckan	2014	151,010	-	13,882	164,892
	2013	123,853	-	11,147	135,000
Ian Renard ³	2014	184,218	-	16,941	201,159
	2013	186,239	-	16,761	203,000
Total for Non-executive Directors	2014	1,381,579	-	112,200	1,493,779
	2013	1,262,432	-	100,568	1,363,000

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 Received exertion payments in relation to services provided on the Bushfire Litigation Committee. Mr Lefroy ceased to be a member of this Committee upon his retirement on 18 July 2013 and as a consequence received a pro rata exertion payment up to this date.

⁴ Received exertion payments in relation to services provided on the Issuing Committee for the period up to 31 December 2013.

⁵ Dr Craven, Ms Farrier and Mr Sun were all appointed to the Board on 24 January 2014.

Directors' report (continued)

Remuneration report (audited) (continued)

Total remuneration for key management personnel for the year ended 31 March 2013 and 31 March 2014

		Short-term			Post-employment	Equity based payments ³	Termination benefits	Other long-term benefits ^{4,5}	Total
	Year	Cash salary and fees ⁵	Cash bonus ¹	Other short-term benefits ^{2,5}	Super-annuation				
Nino Ficca	2014	805,587	320,000	87,922	92,250	619,027	-	66,775	1,991,561
	2013	717,057	662,264	66,346	81,508	560,566	-	36,397	2,124,138
John Azaris ⁷	2014	329,076	102,400	37,648	42,214	126,660	-	10,016	648,014
Chad Hymas ⁷	2014	258,669	86,400	30,384	25,000	66,397	-	7,512	474,362
John Kelso	2014	299,795	90,144	37,003	31,233	126,524	-	52,711	637,410
	2013	243,113	136,737	28,402	25,449	77,029	-	11,570	522,300
Adam Newman	2014	579,310	180,000	54,747	25,000	199,797	-	15,642	1,054,496
	2013	45,977	150,000	3,822	1,916	7,024	-	1,066	209,805
Alistair Parker ⁷	2014	325,862	90,000	35,923	25,000	82,996	-	9,385	569,166
Ash Peck ⁶	2014	225,974	-	27,757	22,361	(100,948)	-	(22,929)	152,215
	2013	294,896	181,805	32,937	28,395	88,790	-	9,195	636,018
Mario Tieppo ⁸	2014	106,322	39,605	11,421	7,759	38,886	-	3,055	207,048
Geoff Nicholson	2013	437,078	297,729	38,808	41,480	122,250	86,773	(72,325)	951,793
Norm Drew	2013	371,040	244,761	37,944	47,904	119,659	-	20,001	841,309
Charles Popple	2013	352,313	215,149	31,968	35,422	103,956	-	13,125	751,933
Total KMP	2014	2,930,595	908,549	322,805	270,817	1,159,339	-	142,167	5,734,272
	2013	2,461,474	1,888,445	240,227	262,074	1,079,274	86,773	19,029	6,037,296

¹ 2014 cash bonuses include bonuses in respect of performance for the year ended 31 March 2014. These amounts have been approved and will be payable in June 2014.

² Other short-term benefits include 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 As the performance period over which the LTI 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. This estimated amount is based on certain assumptions regarding the achievement of performance targets which are reviewed and adjusted annually. Any adjustments to previously recognised amounts, both positive and negative, are included in the current year. The actual amounts paid under these Awards will not be known until the end of the performance period. Refer to the table below under the heading of key management personnel – 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 The above table represents the accounting value of KMP remuneration, calculated in accordance with accounting standards. As a result, annual leave and long service leave entitlements are recognised as remuneration when they accrue rather than when they are taken. This has the impact of reducing the cash salary and fees remuneration disclosed in the table above when these leave entitlements are ultimately taken by the KMP. In addition, any changes to the value of leave entitlements (for example, because of changes in FAR or long service leave entitlements not vesting) are recognised as remuneration, either positive or negative, in the year that the change occurs. These accounting adjustments to remuneration values are reflected in the *Cash Salary and Fees*, *Other Short-term Benefits* and *Other Long-term Benefits* disclosed in the table above.

⁶ Mr Peck ceased to be KMP on 6 December 2013. His remuneration up to this date has been included in the table above.

⁷ Mr Azaris, Mr Parker and Mr Hymas commenced as KMP on 1 April 2013.

⁸ Mr Tieppo commenced as KMP on 9 December 2013.

Directors' report (continued)**Remuneration report (audited) (continued)****Remuneration and Other Terms of Employment**

Remuneration and other terms of employment for the Managing Director and specified senior executives (including KMP) 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 2014, fixed annual remuneration was \$1,000,000. 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 senior executive performance measures of TSR and EPS, and 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.

In addition, the Managing Director participates in the SP AusNet Retention Plan. Under this plan, the Managing Director is entitled to receive up to 100% of FAR, contingent upon a change of control event occurring (as defined under the Corporations Act and ASX Listing Rules) and subject to continued employment up to 12 months following the change of control event. The Retention Plan is in place until 16 September 2015. The Board has absolute and unfettered discretion to act or refrain from acting under or in connection with the Retention Plan and in the exercise of any power or discretion under the Plan.

In accordance with that discretion, the Board decided that no payment would be made under the Retention Plan arising from the sale by Singapore Power to StateGrid of 19.9% of SP AusNet securities.

Senior executives

The major provisions contained in the services agreements of the other KMP listed are substantially the same as those that apply to the Managing Director although participation levels for STI, LTI and Retention Plan vary.

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 2013 and 31 March 2014, and the percentage that was forfeited because the senior executive did not meet the service or performance criteria, are set out below.

	Cash Bonus (2014) ¹			Cash Bonus (2013)		
	Payable (\$)	Percentage of available bonus		Paid (\$)	Percentage of available bonus	
		Payable (%)	Not Payable (%)		Paid (%)	Not Paid (%)
Nino Ficca	320,000	64.0	36.0	662,264	140.0	0.0
John Azaris	102,400	64.0	36.0	-	-	-
Chad Hymas	86,400	72.0	28.0	-	-	-
John Kelso	90,144	62.6	37.4	136,737	114.8	0.0
Adam Newman	180,000	72.0	28.0	-	-	-
Alistair Parker	90,000	60.0	40.0	-	-	-
Ash Peck	-	-	100.0	181,805	130.1	0.0
Mario Tieppo	39,605	80.0	20.0	-	-	-

¹ Bonuses for performance for the year ended 31 March 2014 have been approved and will be payable in June 2014.

Directors' report (continued)**Remuneration report (audited) (continued)****Key management personnel – 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 payable or forfeited and future financial years that grants may vest and be paid. The grants made in 2012 and 2013 are still in progress and, as such, no percentage of these grants have been paid or forfeited as at the date of this report.

	Date of grant	Percentage of maximum grant payable (%) ¹	Percentage of maximum grant forfeited (%)	Vesting date	Maximum total value of grant (\$) ²
Nino Ficca	1 April 2011	38.5	61.5	31 March 2014	1,250,000
John Azaris ⁴	1 April 2011	40.0	60.0	31 March 2014	250,000
Chad Hymas ⁴	1 April 2011	40.0	60.0	31 March 2014	93,750
John Kelso	1 April 2011	40.0	60.0	31 March 2014	225,000
Adam Newman	4 March 2013	40.0	60.0	31 March 2014	139,844
Alistair Parker ⁴	1 April 2011	40.0	60.0	31 March 2014	117,188
Mario Tieppo ³	9 December 2013	40.0	60.0	31 March 2014	25,550
Total granted 1 April 2011					2,101,332
Nino Ficca	1 April 2012	-	-	31 March 2015	1,296,875
John Azaris ⁴	1 April 2012	-	-	31 March 2015	259,375
Chad Hymas ⁴	1 April 2012	-	-	31 March 2015	97,266
John Kelso	1 April 2012	-	-	31 March 2015	233,438
Adam Newman	4 March 2013	-	-	31 March 2015	280,449
Alistair Parker ⁴	1 April 2012	-	-	31 March 2015	121,582
Mario Tieppo ³	9 December 2013	-	-	31 March 2015	113,088
Total granted 1 April 2012					2,402,073
Nino Ficca	1 April 2013	-	-	31 March 2016	1,345,508
John Azaris	1 April 2013	-	-	31 March 2016	269,102
Chad Hymas	1 April 2013	-	-	31 March 2016	201,826
John Kelso	1 April 2013	-	-	31 March 2016	242,191
Adam Newman	1 April 2013	-	-	31 March 2016	420,471
Alistair Parker	1 April 2013	-	-	31 March 2016	252,283
Mario Tieppo ³	9 December 2013	-	-	31 March 2016	207,154
Total granted 1 April 2013					2,938,535

¹ These grants have been approved and will be payable in June 2014. In determining LTI's for the 1 April 2011 grant, the Board has not exercised any discretion in relation to the performance measures and outcomes payable under the LTI Plan.

² For the grant of 1 April 2011, the amounts payable equated to 40.0% of the maximum LTI, except for Mr Ficca whereby the amount payable equated to 38.5% of the maximum LTI. For the grants of 1 April 2012 and 1 April 2013, the amounts are based on maximum performance in relation to TSR, EPS, ROIC and ICR at the end of the three-year performance period described above and assumes prevailing FARs increase by 3.75% per annum.

³ Mr Tieppo commenced as KMP from 9 December 2013. As part of his contract of employment, Mr Tieppo has been granted pro-rata participation in the 1 April 2011, 1 April 2012 and 1 April 2013 tranches of the Company's LTI plan, which are due to be tested on 31 March 2014, 31 March 2015 and 31 March 2016 respectively. The maximum total value of grant disclosed above is based on this pro-rata entitlement.

⁴ Mr Azaris, Mr Hymas and Mr Parker commenced as KMP from 1 April 2013. The LTI participation and maximum grant payable disclosed above also include those LTI's that were granted prior to their commencement as KMP.

Directors' report (continued)

Remuneration report (audited) (continued)

Directors' interests

The Directors of SP AusNet have disclosed relevant interests in stapled securities as at the date of this report as follows:

Name	Number of stapled securities
Ng Kee Choe ¹	195,883
Nino Ficca ²	1,268,183
Ralph Craven	-
Jeremy Davis	120,750
Sally Farrier	-
Eric Gwee ¹	153,591
Ho Tian Yee	-
Tony Iannello ³	190,976
Sun Jianxing	-
George Lefroy ⁴	275,086
Tina McMeckan ⁵	90,000
Ian Renard	84,898

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

² 319 850 securities held by immediate family members of Mr Ficca and 948,333 securities held by Mr and Mrs Ficca as Trustees for the Ficca Investment Trust.

³ 87,500 securities held jointly by Mr Iannello and immediate family members of Mr Iannello through a Superannuation Plan and 103,476 securities held by immediate family members of Mr Iannello as trustee for the ADI Investment Trust.

⁴ Securities held by Serp Hills Pty Ltd (as trustee for Serp Hills Super Fund). Dr Lefroy retired as a Director of SP AusNet on 18 July 2013.

⁵ Securities held by McMeckan Superannuation Pty Ltd as Trustee for the McMeckan Family Super Fund.

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 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 67.

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 to the nearest hundred thousand dollars or, in certain cases, 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
14 May 2014



Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of SP Australia Networks (Distribution) Ltd, SP Australia Networks (Transmission) Ltd and the Responsible Entity of SP Australia Networks (Finance) Trust, SP Australia Networks (RE) Ltd.

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 31 March 2014 there have been:

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

KPMG

KPMG

Michael Bray
Partner

Melbourne

14 May 2014

Combined income statement

For the year ended 31 March 2014

		2014	2013 (restated*)
	Notes	\$M	\$M
Revenue	3	1,799.4	1,639.5
Expenses, excluding finance costs and termination expenses	4	(1,094.0)	(988.3)
Termination expenses	4	(57.7)	-
Profit from operating activities		647.7	651.2
Finance income	5	24.7	18.1
Finance costs	5	(367.0)	(354.0)
Net finance costs		(342.3)	(335.9)
Profit before income tax		305.4	315.3
Income tax expense	6	(127.1)	(41.8)
Profit for the year		178.3	273.5
Attributable to:			
SP AusNet Distribution		3.4	6.0
SP AusNet Transmission and SP AusNet Finance Trust		174.9	267.5
Profit for the year		178.3	273.5
Earnings per share attributable to the ordinary equityholders of SP AusNet Distribution			
Basic and diluted earnings per share (cents per share)**	8	0.10	0.18

*Restated in accordance with AASB 119 Employee Benefits. Refer note 1(w).

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

** Basic earnings per stapled security of the Stapled Group for the year ended 31 March 2014 was 5.28 cents per security (2013: 8.37 cents). Refer note 8.

Combined statement of comprehensive income

For the year ended 31 March 2014

	2014	2013 (restated*)
	\$M	\$M
Profit for the year	178.3	273.5
Other comprehensive income		
Items that will not be reclassified to profit or loss in subsequent periods		
Movement in defined benefit funds	37.8	3.3
Income tax on movement in defined benefit funds	(11.3)	(1.0)
	26.5	2.3
Items that may be reclassified to profit or loss in subsequent periods		
Movement in hedge reserve	85.3	21.1
Income tax on movement in hedge reserve	(25.6)	(6.3)
	59.7	14.8
Other comprehensive income for the year, net of income tax	86.2	17.1
Total comprehensive income for the year	264.5	290.6
Attributable to:		
SP AusNet Distribution	80.2	22.9
SP AusNet Transmission and SP AusNet Finance Trust	184.3	267.7
Total comprehensive income for the year	264.5	290.6

*Restated in accordance with AASB 119 Employee Benefits. Refer note 1(w).

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 2014

	Notes	2014 \$M	2013 (restated*) \$M
ASSETS			
Current assets			
Cash and cash equivalents		409.8	541.0
Receivables	9	281.7	291.6
Inventories	10	42.3	46.8
Derivative financial instruments	19(c)	0.1	6.7
Other assets	11	25.0	20.3
Total current assets		758.9	906.4
Non-current assets			
Receivables	9	215.3	224.2
Inventories	10	17.6	16.7
Property, plant and equipment	12	8,944.3	8,397.9
Intangible assets	13	392.8	369.1
Derivative financial instruments	19(c)	264.2	92.0
Tax receivable	23(b)	17.1	47.7
Deferred tax assets	6(d)	-	27.5
Other assets	11	2.1	0.7
Total non-current assets		9,853.4	9,175.8
Total assets		10,612.3	10,082.2
LIABILITIES			
Current liabilities			
Payables and other liabilities	14	272.3	242.4
Current tax payable		69.7	9.9
Borrowings	15	673.6	843.0
Provisions	16	99.3	80.5
Derivative financial instruments	19(c)	70.7	207.1
Total current liabilities		1,185.6	1,382.9
Non-current liabilities			
Payables and other liabilities	14	11.4	2.1
Borrowings	15	5,395.6	4,434.2
Provisions	16	35.0	57.3
Derivative financial instruments	19(c)	235.4	474.6
Deferred tax liabilities	6(d)	304.7	294.0
Total non-current liabilities		5,982.1	5,262.2
Total liabilities		7,167.7	6,645.1
Net assets		3,444.6	3,437.1
EQUITY			
Equityholders of SP AusNet Distribution			
Contributed equity	17	0.5	0.5
Reserves		(57.0)	(116.7)
Retained profits		713.1	692.6
		656.6	576.4
Equityholders of SP AusNet Transmission and SP AusNet Finance Trust		2,788.0	2,860.7
Total equity		3,444.6	3,437.1

*Restated in accordance with AASB 119 Employee Benefits. Refer note 1(w).

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 2014

31 March 2014								
SP AusNet Distribution								
Balance as at 1 April 2013 (restated*)								
Total comprehensive income for the year								
Notes	Contributed equity \$M	Issued units \$M	Hedge reserve (i) \$M	Retained profits \$M	Fair value adjustment on stapling (ii) \$M	Other equity component (iii) \$M	Total equity \$M	
	0.5	-	(116.7)	692.6	-	-	-	576.4
Profit for the year	-	-	-	3.4	-	-	-	3.4
Other comprehensive income	-	-	59.7	17.1	-	-	-	76.8
Total comprehensive income for the year								
	-	-	59.7	20.5	-	-	-	80.2
Balance as at 31 March 2014								
	0.5	-	(57.0)	713.1	-	-	-	656.6
SP AusNet Transmission and SP AusNet Finance Trust								
Balance as at 1 April 2013 (restated*)								
Total comprehensive income for the year								
	650.1	2,708.2	-	546.1	51.4	(1,095.1)	-	2,860.7
Profit for the year	-	-	-	174.9	-	-	-	174.9
Other comprehensive income	-	-	-	9.4	-	-	-	9.4
Total comprehensive income for the year								
	-	-	-	184.3	-	-	-	184.3
Transactions with owners, recorded directly in equity								
7	-	(16.0)	-	(263.1)	-	-	-	(279.1)
7	-	22.1	-	-	-	-	-	22.1
Total transactions with owners								
	-	6.1	-	(263.1)	-	-	-	(257.0)
Balance as at 31 March 2014								
	650.1	2,714.3	-	467.3	51.4	(1,095.1)	-	2,788.0
Total stapled securityholders' equity as at 31 March 2014								
	650.6	2,714.3	(57.0)	1,180.4	51.4	(1,095.1)	-	3,444.6

Combined statement of changes in equity

For the year ended 31 March 2014

	Notes	Contributed equity \$M	Issued units \$M	Hedge reserve (i) \$M	Retained profits \$M	Fair value adjustment on stapling (ii) \$M	Other equity component (iii) \$M	Total equity \$M
31 March 2013 (restated*)								
SP AusNet Distribution								
Balance as at 1 April 2012 (restated*)		0.5	-	(131.4)	684.4	-	-	553.5
Total comprehensive income for the year								
Profit for the year		-	-	-	6.0	-	-	6.0
Other comprehensive income		-	-	14.7	2.2	-	-	16.9
Total comprehensive income for the year		-	-	14.7	8.2	-	-	22.9
Balance as at 31 March 2013 (restated*)		0.5	-	(116.7)	692.6	-	-	576.4
SP AusNet Transmission and SP AusNet Finance Trust								
Balance as at 1 April 2012 (restated*)		650.1	2,266.8	(0.1)	507.6	51.4	(1,095.1)	2,380.7
Total comprehensive income for the year								
Profit for the year		-	-	-	267.5	-	-	267.5
Other comprehensive income		-	-	0.1	0.1	-	-	0.2
Total comprehensive income for the year		-	-	0.1	267.6	-	-	267.7
Transactions with owners, recorded directly in equity								
New units issued (net of transaction costs)	7	-	426.8	-	-	-	-	426.8
Distributions paid		-	(23.6)	-	(229.1)	-	-	(252.7)
Distribution Reinvestment Plan (net of transaction costs)	7	-	38.2	-	-	-	-	38.2
Total transactions with owners		-	441.4	-	(229.1)	-	-	212.3
Balance as at 31 March 2013 (restated*)		650.1	2,708.2	-	546.1	51.4	(1,095.1)	2,860.7
Total stapled securityholders' equity as at 31 March 2013 (restated*)		650.6	2,708.2	(116.7)	1,238.7	51.4	(1,095.1)	3,437.1

*Restated in accordance with AASB 119 Employee Benefits. Refer note 1(w).

Combined statement of changes in equity

For the year ended 31 March 2014

- (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(l)).
- (ii) This amount represents the fair value uplift to the assets of the SP AusNet Transmission Group at the date of stapling (refer note 1(b)(i)). The fair value uplift was applied to easements which are considered to have an indefinite useful life.
- (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 2014

	Notes	2014 \$M	2013 \$M
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		2,000.3	1,777.2
Payments to suppliers and employees (inclusive of goods and services tax)		(897.3)	(824.1)
Income tax paid		(35.4)	(40.8)
Finance income received		23.1	13.2
Finance costs paid		(360.5)	(356.9)
Net cash inflow from operating activities	30	730.2	568.6
Cash flows from investing activities			
Payments for property, plant and equipment		(925.2)	(843.8)
Proceeds from sale of property, plant and equipment		0.8	1.2
Payments for acquisition of a subsidiary (net of cash acquired)	27	(24.2)	-
Payment for desalination licence	9	-	(235.5)
Repayment of desalination licence receivable	9	8.8	1.1
Net cash outflow from investing activities		(939.8)	(1,077.0)
Cash flows from financing activities			
Proceeds from issue of new securities (net of transaction costs)		-	426.8
Distributions paid (i)	7	(257.0)	(214.5)
Proceeds from borrowings		2,162.6	2,057.0
Repayment of borrowings		(1,827.2)	(1,239.0)
Net cash inflow from financing activities		78.4	1,030.3
Net (decrease)/increase in cash held		(131.2)	521.9
Cash and cash equivalents at the beginning of the year		541.0	19.1
Cash and cash equivalents at the end of the year		409.8	541.0

- (i) Amounts shown represent distributions paid of \$279.1 million (2013: \$252.7 million) offset by proceeds from the Distribution Reinvestment Plan of \$22.2 million (2013: \$38.4 million), less transaction costs.

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

Notes to the combined financial statements

31 March 2014

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Notes to the combined financial statements

31 March 2014

Note 1 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial report are set out below.

(a) Basis of preparation

The combined financial report, prepared by a for-profit entity for the year ended 31 March 2014, represents financial statements for the Stapled Group, which consists 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.

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. The consolidated financial statements are presented in accordance with class order 13/1050, issued by the Australian Securities and Investments Commission.

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.

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards and interpretations adopted by the Australian Accounting Standards Board and the *Corporations Act 2001 (Cth)*. The combined financial statements and notes also comply with International Financial Reporting Standards and interpretations adopted by the International Accounting Standards Board. Where the classification of items has been amended in the financial report, the comparative information has been restated to align to the revised classification unless otherwise noted.

This general purpose financial report is presented in Australian dollars.

The financial statements were approved by the Board of Directors on 14 May 2014.

SP AusNet's current liabilities exceed its current assets by \$426.7 million at 31 March 2014 (2013: \$476.5 million). The financial report has been prepared on a going concern basis, which contemplates the continuity of normal trading operations. The Stapled Group is, and is expected to continue, trading profitably, generating positive cash flows, and successfully refinancing maturing debt. In addition, at 31 March 2014 the Stapled Group has available a total of \$550 million of undrawn but committed non-current bank debt facilities, \$197 million of undrawn but committed current bank debt facilities and \$409.8 million cash on deposit.

(i) Historical cost convention

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

(ii) Critical accounting estimates and judgements

The preparation of financial statements in conformity with Australian Accounting Standards 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.

Notes to the combined financial statements

31 March 2014

Note 1 Summary of significant accounting policies (continued)

(b) Principles of consolidation

(i) Stapling

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. 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 consolidated with the fair values of the identifiable assets, liabilities and contingent liabilities of 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 a separate line item 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 controlled by the Stapled Group. Control exists when the Stapled Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. 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.

(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

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.

Notes to the combined financial statements

31 March 2014

Note 1 Summary of significant accounting policies (continued)

(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.

(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 as well as the operation and maintenance services provided in connection with the desalination electricity transmission assets.

(iv) *Contributions from customers for capital works*

Non-refundable contributions received from customers towards the cost of extending or modifying the networks are recognised as revenue and an asset respectively once control is gained of the contribution or asset and the customer is connected to the network. 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.

(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.

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.

Notes to the combined financial statements

31 March 2014

Note 1 Summary of significant accounting policies (continued)

(f) Income tax (continued)

(ii) *Deferred tax (continued)*

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 consolidation*

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 stand-alone taxpayer method.

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) calculated under the stand-alone taxpayer method 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.

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.

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.

(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 unless another systematic basis is more representative of the time pattern of the benefit.

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 over the term of the lease, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Notes to the combined financial statements

31 March 2014

Note 1 Summary of significant accounting policies (continued)

(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.

(i) 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.

(j) Receivables

Current and non-current 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.

Collectability 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.

(k) 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.

Notes to the combined financial statements

31 March 2014

Note 1 Summary of significant accounting policies (continued)

(l) Derivative financial instruments

Derivative financial instruments 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 financial instrument is designated and effective as a hedging instrument, in which case the timing of the recognition in the income statement depends on the nature of the hedge relationship (refer below). The Stapled Group designates certain derivative financial instruments 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).

Credit risk is included in the fair value of derivative financial instruments based on a bilateral credit risk adjustment obtained using credit default swap curves. In management's view transaction price is not the best evidence of fair value because it does not incorporate bilateral credit risk pricing. The difference between the fair value of derivatives and their transaction price at inception due to credit valuation adjustments is recognised progressively over the period to maturity.

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 derivative financial instruments 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.

The Stapled Group classifies its derivative financial instruments between current and non-current based on the maturity date of the instrument. As a result, derivative financial instruments are classified as non-current, except for those instruments that mature in less than 12 months, which are classified as current.

(i) Fair value hedge

Changes in the fair value of derivative financial instruments 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 derivative financial instruments that are designated and qualify as cash flow hedges are recognised directly in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in the hedge reserve 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, the gains and losses previously deferred in the hedge reserve are transferred from the hedge reserve and included in the measurement of the initial cost or carrying amount of the asset.

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 the hedge reserve remains in hedge reserve 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 the hedge reserve is immediately recognised in the income statement.

(m) 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 the Stapled Group gains control of the asset.

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

Notes to the combined financial statements

31 March 2014

Note 1 Summary of significant accounting policies (continued)**(m) Property, plant and equipment (continued)**

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 the Stapled Group and the cost of the item can be measured reliably.

Items of plant and equipment under construction are recognised as capital work in progress. Once the asset construction is complete and the asset is capable of operating in the manner intended by management, the item of plant and equipment is transferred from capital work in progress to the relevant asset class and depreciation of the asset commences.

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

Depreciation is recognised 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 changes are made, their effects are accounted for on a prospective basis.

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

	Years
Distribution network (gas)	15-80
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
Land and easements	Indefinite

(n) 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 (refer note 1(o)).

Notes to the combined financial statements

31 March 2014

Note 1 Summary of significant accounting policies (continued)

(n) Intangible assets (continued)

(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.

(o) Impairment of non-financial assets

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. An impairment loss occurs when an asset's carrying amount exceeds its recoverable amount. 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, including goodwill, are tested for impairment annually regardless of whether there is an indication that the asset or related CGU may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing fair value less costs to sell, the estimated future post-tax 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.

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. 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 is recognised in the income statement immediately.

(p) 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.

(q) 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 attributable to the hedged risk. The gain or loss attributable to the hedged risk is recorded in the income statement together with any changes in the fair value of derivative financial instruments that are designated and qualify as fair value hedges (refer note 1(l)).

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 sole discretion to refinance or roll over the liability for at least 12 months after the reporting date under an existing loan facility.

Notes to the combined financial statements

31 March 2014

Note 1 Summary of significant accounting policies (continued)

(r) Net financing costs

Finance income comprises interest income on funds invested and the return on the desalination licence receivable (refer note 9). 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 net 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 average interest rate of 7.1 per cent (2013: 7.7 per cent) applicable to the Stapled Group's outstanding borrowings during the period.

(s) 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.

(t) 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.

Notes to the combined financial statements

31 March 2014

Note 1 Summary of significant accounting policies (continued)

(t) Employee benefits (continued)

(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.

Remeasurements comprise actuarial gains and losses and the return on plan assets (excluding interest). They 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.

(u) 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.

(v) 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.

(w) New accounting standards and interpretations

- AASB 119 *Employee Benefits* requires calculation of the net interest on the net defined benefit liability using the same discount rate that is used to measure the defined benefit liability, resulting in the full expected return on plan assets to no longer be recognised in profit or loss. In addition, plan administration expenses, previously deducted from the expected return on defined benefit fund plan assets, are now included within profit from operating activities. The amendment has also clarified how taxes should be treated when calculating the discount rate which has resulted in the discount rate no longer including an allowance for tax.

Notes to the combined financial statements

31 March 2014

Note 1 Summary of significant accounting policies (continued)**(w) New accounting standards and interpretations (continued)**

As a result of these amendments, the comparative financial information in the income statement, statement of comprehensive income, statement of financial position and statement of changes in equity for the year ended 31 March 2013 have been restated. The impact from adoption of the revised AASB 119 is shown below:

	Cumulative impact - increase/(decrease)	
	1 April 2012	31 March 2013
	\$M	\$M
Impact on income statement		
Profit after income tax	-	(5.6)
Impact on statement of comprehensive income		
Other comprehensive income for the year, net of income tax	-	4.2
Impact on statement of financial position		
Net liabilities	(6.3)	(4.9)
Retained earnings (opening balance)	6.3	6.3
Retained earnings	-	(1.4)
Total equity	6.3	4.9

There was no restatement impact on the statement of cash flows. Earnings per share attributable to the ordinary equityholders of SP AusNet Distribution for the year ended 31 March 2013 decreased by 0.1 cents. A statement of financial position as at 1 April 2012 has not been presented as the impact from adoption of the revised AASB 119 is not material, as shown above.

- Amendments to AASB 101 *Presentation of Items of Other Comprehensive Income* requires items of other comprehensive income that may be reclassified to profit or loss to be presented separately from items that will never be reclassified. The statement of comprehensive income has been revised accordingly.
- AASB 13 *Fair Value Measurement* provides guidance on how to measure fair value when it is required under existing accounting standards and enhances fair value disclosures. AASB 13 does not extend the use of fair value accounting and only applies to the Stapled Group prospectively from 1 April 2013. Comparative information is not restated. As a result of the adoption of AASB 13, the Stapled Group has made some minor amendments to its valuation methodology for derivative financial instruments regarding the measurement of non-performance risk, including credit risk. While these amendments may result in an increase in hedge ineffectiveness recognised in the future, it is not expected to be material to the income statement or the carrying value of derivatives in the statement of financial position.

New accounting standards not yet adopted

The following accounting standards, amendments to accounting 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 2013, but have not been applied in preparing this financial report:

- AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and liabilities. It also makes a number of significant amendments to the hedge accounting requirements. While the International Accounting Standards Board is yet to publish an adoption date for AASB 9, it is not expected to be applicable until after 1 April 2017. The impact of the standard has yet to be quantified by the Stapled Group.

Notes to the combined financial statements

31 March 2014

Note 1 Summary of significant accounting policies (continued)

(w) New accounting standards and interpretations (continued)

There are also other amendments and revisions to accounting standards that have not been early adopted. These changes are not expected to result in any material changes to the Stapled Group's financial performance or financial position.

(x) 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. 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 Victoria, 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 includes both regulated and unregulated electricity transmission assets and revenues. The electricity transmission segment does not purchase or sell electricity.

(iv) Select Solutions

Select Solutions provides metering, data and asset management solutions, including integrated mobile and spatial technologies, to external parties as well as to all other segments of SP AusNet. Select Solutions' customers are primarily businesses operating in the essential infrastructure sector such as electricity, water and gas utility owners, (including Jemena, which was a related party until the completion of the State Grid transaction on 3 January 2014), transportation authorities and telecommunications companies.

Notes to the combined financial statements

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Note 2 Segment information (continued)**(b) Reportable segment financial information**

	Electricity distribution	Gas distribution	Electricity transmission	Select Solutions (ii)	Unallocated expenses	Inter-segment eliminations	Combined
2014	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Regulated revenue	783.9	193.3	593.7	-	-	(14.2)	1,556.7
Customer contributions	25.8	25.6	-	-	-	-	51.4
Service revenue	-	-	11.7	131.9	-	-	143.6
Other revenue	5.4	0.6	22.9	18.8	-	-	47.7
Total segment revenue	815.1	219.5	628.3	150.7	-	(14.2)	1,799.4
Segment expense before depreciation and amortisation	(363.5)	(51.4)	(191.4)	(132.2)	(57.7)	14.2	(782.0)
Segment result - EBITDA (i)	451.6	168.1	436.9	18.5	(57.7)	-	1,017.4
Depreciation and amortisation	(213.9)	(56.0)	(95.9)	(3.9)	-	-	(369.7)
Net finance costs							(342.3)
Income tax expense							(127.1)
Profit for the year							178.3
Capital expenditure	568.6	112.2	232.7	36.5	-	-	950.0
2013 (restated*)							
Regulated revenue	663.1	211.4	573.2	-	-	(13.8)	1,433.9
Customer contributions	27.2	4.4	-	-	-	-	31.6
Service revenue	-	-	2.7	118.8	-	-	121.5
Other revenue	4.1	0.3	28.1	20.0	-	-	52.5
Total segment revenue	694.4	216.1	604.0	138.8	-	(13.8)	1,639.5
Segment expense before depreciation and amortisation	(329.4)	(48.8)	(181.0)	(120.1)	-	13.8	(665.5)
Segment result - EBITDA (i)	365.0	167.3	423.0	18.7	-	-	974.0
Depreciation and amortisation	(174.4)	(54.5)	(90.6)	(3.3)	-	-	(322.8)
Net finance costs							(335.9)
Income tax expense							(41.8)
Profit for the year							273.5
Capital expenditure	542.7	89.2	245.1	4.4	-	-	881.4

(i) Earnings before interest, tax, depreciation and amortisation.

(ii) Capital expenditure for Select Solutions of \$36.5 million for the year ended 31 March 2014, includes \$27.2 million for the acquisition of the Geomatic Technologies business. Refer note 27.

* Restated in accordance with AASB 119 *Employee Benefits*. Refer note 1(w).

Notes to the combined financial statements

31 March 2014

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 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. The Cost Allocation Methodology as approved by the Australian Energy Regulator (AER) is used as the basis for allocating expenses to the relevant segment.

The \$50.0 million termination fee and restructuring expenses of \$7.7 million associated with the Termination Deed have not been allocated to any reportable segment. Refer note 28 for further details.

(ii) Inter-segment transfers

Segment revenues, expenses and results include transmission network connection charges between the electricity distribution and electricity transmission segments. The prices for such transfers are regulated and are eliminated on consolidation.

Note 3 Revenue

	2014	2013
	\$M	\$M
Revenue		
Regulated revenue	1,556.7	1,433.9
Customer contributions	51.4	31.6
Service revenue	143.6	121.5
Other revenue	47.7	52.5
Total revenue	1,799.4	1,639.5

Regulated revenue includes revenue earned from the distribution of electricity and gas and transmission of electricity in accordance with the relevant regulatory determinations, as well as revenue earned from negotiated and prescribed projects.

Notes to the combined financial statements

31 March 2014

Note 4 Expenses

		2014	2013
			(restated)
	Notes	\$M	\$M
Expenses, excluding finance costs, included in the income statement:			
Use of system and associated charges		86.3	91.6
Easement tax		103.4	99.3
Employee benefits			
Labour expenses		124.9	108.8
Defined benefit superannuation expenses	18	7.1	6.9
Defined contribution superannuation expenses		13.9	10.6
Maintenance		95.5	92.3
Information technology and communication costs		41.4	31.6
Operating lease rental expenses		13.6	14.4
Administrative expenses		49.8	45.4
Materials		51.8	45.3
Flame logo fee	25(d)	1.0	1.0
Other operating expenses		85.7	69.7
Management services charge	25(d)	19.6	24.9
Performance fees	25(d)	22.2	19.6
Depreciation and amortisation		369.7	322.8
Net loss on disposal of property, plant and equipment		8.1	4.1
Total expenses, excluding finance costs and termination expenses		1,094.0	988.3
Termination fee	28	50.0	-
Restructuring expenses	28	7.7	-
Total expenses, excluding finance costs		1,151.7	988.3

Notes to the combined financial statements

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Note 5 Net finance costs

		2014	2013 (restated)
	Notes	\$M	\$M
Finance income			
Interest income		0.2	0.2
Investment income		10.1	13.6
Return on desalination licence receivable		14.4	4.3
Total finance income		24.7	18.1
Finance costs			
Interest expense		382.5	374.8
Other finance charges - cash		3.1	4.5
Other finance charges - non-cash		5.4	5.7
Loss/(gain) on accounting for hedge relationships	19(c)	3.7	(7.1)
Unwind of discount on provisions		0.5	0.9
Defined benefit net interest expense		1.0	1.2
Capitalised finance charges		(29.2)	(26.0)
Total finance costs		367.0	354.0
Net finance costs		342.3	335.9

Note 6 Income tax and deferred tax**(a) Income tax expense**

		2014	2013 (restated)
	Notes	\$M	\$M
Current tax		124.5	36.7
Prior year (over)/under provision - current tax		1.3	0.9
Deferred tax	6(e)(i)	3.7	5.3
Prior year (over)/under provision - deferred tax		(2.4)	(1.1)
		127.1	41.8

Notes to the combined financial statements

31 March 2014

Note 6 Income tax and deferred tax (continued)**(b) Numerical reconciliation of income tax expense to prima facie tax payable**

	2014	2013 (restated)
	\$M	\$M
Profit before income tax expense	305.4	315.3
Tax at the Australian tax rate of 30% (2013: 30%)	91.6	94.6
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Non-assessable interest income (i)	(48.5)	(51.5)
Net tax and interest on section 163AA impost dispute (ii)	86.7	-
Prior year (over)/under provision	(1.1)	(0.2)
Sundry items	(1.6)	(1.1)
Income tax expense	127.1	41.8

The Stapled Group's effective tax rate for the year ended 31 March 2014 is approximately 42 per cent (2013: 13 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; and
- (ii) Recognition during the year of \$100.8 million for the amount potentially payable under the Section 163AA impost dispute. This is offset by the deductibility of the general interest component which results in a \$14.1 million tax credit. Refer note 23(a).

(c) Amounts recognised directly in other comprehensive income

	2014	2013 (restated)
	\$M	\$M
Aggregate deferred tax arising in the reporting period recognised in other comprehensive income:		
Hedge reserve - cash flow hedges	25.6	6.3
Remeasurement of defined benefit obligation	11.3	1.0
Net deferred tax recognised in other comprehensive income	36.9	7.3

Notes to the combined financial statements

31 March 2014

Note 6 Income tax and deferred tax (continued)**(d) Recognised deferred tax assets and liabilities**

		Deferred tax assets		Deferred tax liabilities	
		2014	2013 (restated)	2014	2013
	Notes	\$M	\$M	\$M	\$M
Employee benefits		19.9	20.3	-	-
Other accruals and provisions		31.9	15.8	-	-
Intellectual property - copyright	23(b)	40.1	41.1	-	-
Derivative financial instruments and fair value adjustments on borrowings		31.1	55.6	-	-
Tax losses		316.0	266.8	-	-
Defined benefit funds		-	10.4	(0.2)	-
Intangibles		-	-	(4.8)	(4.9)
Desalination licence receivable		-	-	(5.7)	(1.3)
Property, plant and equipment		-	-	(729.6)	(666.2)
Other		-	-	(3.4)	(4.1)
Deferred tax assets/(liabilities)		439.0	410.0	(743.7)	(676.5)
Set off of tax		(439.0)	(382.5)	439.0	382.5
Net deferred tax assets/(liabilities)		-	27.5	(304.7)	(294.0)

(e) Movement in temporary differences during the year

	2014	2013 (restated)
	\$M	\$M
Net deferred tax assets/(liabilities)		
Opening balance at 1 April	(266.5)	(255.0)
(Charged)/credited to the income statement (i)	(3.7)	(5.3)
Credited/(debited) to other comprehensive income	(36.9)	(7.3)
Net prior year over provision	2.4	1.1
Closing balance at 31 March	(304.7)	(266.5)

Notes to the combined financial statements

31 March 2014

Note 6 Income tax and deferred tax (continued)**(e) Movement in temporary differences during the year (continued)**

- (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	
	2014	2013 (restated)
	\$M	\$M
Employee benefits	0.2	(3.3)
Other accruals and provisions	(15.5)	(1.0)
Intellectual property - copyright	1.0	-
Derivative financial instruments and fair value adjustments on borrowings	(1.1)	2.0
Tax losses	(47.7)	(46.7)
Intangibles	(0.1)	(0.2)
Defined benefit funds	(0.8)	0.7
Desalination licence receivable	4.4	1.3
Property, plant and equipment	63.8	53.0
Other	(0.5)	(0.5)
Total charged/(credited) to the income statement	3.7	5.3

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	28 June 2013	1.367	46.0
Interest income	SP AusNet Finance Trust	28 June 2013	2.649	89.2
Return of capital	SP AusNet Finance Trust	28 June 2013	0.084	2.8
Fully franked dividend	SP AusNet Transmission	23 December 2013	1.393	47.0
Interest income	SP AusNet Finance Trust	23 December 2013	2.396	80.9
Return of capital	SP AusNet Finance Trust	23 December 2013	0.391	13.2
Total distributions			8.280	279.1

Notes to the combined financial statements

31 March 2014

Note 7 Distributions (continued)

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	29 June 2012	1.333	38.6
Interest income	SP AusNet Finance Trust	29 June 2012	2.159	62.5
Return of capital	SP AusNet Finance Trust	29 June 2012	0.508	14.7
Fully franked dividend	SP AusNet Transmission	21 December 2012	1.367	45.6
Interest income	SP AusNet Finance Trust	21 December 2012	2.467	82.4
Return of capital	SP AusNet Finance Trust	21 December 2012	0.266	8.9
Total distributions			8.100	252.7

In relation to the distributions paid in the current financial year of \$279.1 million (2013: \$252.7 million), \$22.2 million (2013: \$38.4 million) less transaction costs was utilised in the allotment of new securities issued under the Distribution Reinvestment Plan (DRP).

(a) Franking account

	2014 \$M	2013 \$M
30 per cent franking credits available to stapled securityholders for subsequent financial years	59.9	58.0

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. Included within the franking account is \$45.7 million (2013: \$43.2 million) arising from the tax payments made to the Australian Taxation Office (ATO) in relation to the Section 163AA impost and intellectual property matters (refer note 23(a)(b)). If the Stapled Group is successful in the legal proceedings against the ATO, this amount will be reversed, resulting in lower franking credits being available.

The ability to utilise the franking credits is dependent upon there being sufficient net assets for the payment of dividends, the dividend payment being fair and reasonable to stapled securityholders, and the dividend payment does not materially prejudice SP AusNet's ability to pay its creditors. 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 available \$0.1 million and \$59.8 million (2013: \$0.1 million and \$57.9 million) of franking credits respectively. For the 2014 final distribution, the additional franking credits from the tax payments under the ATO disputes will not be utilised.

Notes to the combined financial statements

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Note 8 Earnings per stapled security**(a) Basic earnings per share for SP AusNet Distribution**

	2014	2013 (restated)
Profit attributable to the ordinary equityholders of SP AusNet Distribution (\$M)	3.4	6.0
Weighted average number of shares (million)	3,377	3,268
Earnings per share (cents)	0.10	0.18

(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.

(d) Basic earnings per stapled security

	2014	2013 (restated)
Profit attributable to the ordinary securityholders of the Stapled Group (\$M)	178.3	273.5
Weighted average number of securities (million)	3,377	3,268
Earnings per stapled security (cents)	5.28	8.37

Notes to the combined financial statements

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Note 9 Receivables

	Notes	2014 \$M	2013 \$M
Current receivables			
Accounts receivable		141.8	120.8
Allowance for impairment loss		-	(0.1)
Related party receivables	25(e)	11.5	20.1
Desalination licence receivable (i)		10.2	10.2
		163.5	151.0
Accrued revenue		116.2	137.9
Other receivables		0.2	0.1
Interest receivable		1.8	2.6
Total current receivables		281.7	291.6
Non-current receivables			
Desalination licence receivable (i)		215.3	224.2
Total non-current receivables		215.3	224.2
Total receivables (ii)		497.0	515.8

- (i) In December 2012, SP AusNet entered into a 27 year licence agreement with the Victorian State Government for the right to operate and maintain the 87 kilometre high voltage underground transmission line supplying electricity to the Victorian Desalination Plant in Wonthaggi. At the same time, SP AusNet also entered into a 27 year agreement with the desalination plant operator to operate and maintain the transmission line in return for a monthly revenue payment.

The upfront payment of \$235.0 million plus transaction costs of \$0.5 million for the licence has been classified as a receivable. This receivable is interest-bearing and \$8.8 million (2013: \$1.1 million) of the total cash flows received from the operator over the 27 year term has been allocated against this receivable balance during the year. The monthly revenue payment received from the operator is fixed, with an annual adjustment for inflation. Any amounts not received from the operator, but which are past due, can be recovered by SP AusNet from the Victorian State Government.

At the end of the agreements, SP AusNet is required to hand back the transmission line and all associated assets. In the event of early termination of the agreements, the unamortised portion of the upfront licence payment is refunded to SP AusNet, along with the reimbursement of necessary costs incurred in order to effect the termination.

- (ii) The fair value of total receivables as at 31 March 2014 was \$497.0 million (2013: \$515.8 million).

(a) Terms and conditions of accounts receivable

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.

Notes to the combined financial statements

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Note 9 Receivables (continued)**(b) Ageing of accounts receivable**

The ageing of accounts receivable as at reporting date was:

	2014	2014	2013	2013
	Gross	Allowance	Gross	Allowance
	\$M	\$M	\$M	\$M
Not past due	132.8	-	117.6	-
0 - 30 days	6.2	-	1.4	-
31 - 60 days	1.1	-	0.4	-
61 - 90 days	0.3	-	0.3	-
Greater than 90 days	1.4	-	1.1	(0.1)
Total	141.8	-	120.8	(0.1)

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 loss in respect of accounts receivable was as follows:

	2014	2013
	\$M	\$M
Opening balance	0.1	0.4
Additional allowance recognised/(written back)	0.2	0.3
Amounts utilised	(0.3)	(0.6)
Closing balance	-	0.1

Notes to the combined financial statements

31 March 2014

Note 10 Inventories

	2014	2013
	\$M	\$M
Current inventories		
Construction, maintenance stocks and general purpose materials - at cost	42.3	46.8
Total current inventories	42.3	46.8
Non-current inventories		
Construction, maintenance stocks and general purpose materials - at cost	17.6	16.7
Total non-current inventories	17.6	16.7
Total inventories	59.9	63.5

Note 11 Other assets

	2014	2013
	\$M	\$M
Current other assets		
Prepayments	25.0	20.3
Total current other assets	25.0	20.3
Non-current other assets		
Other assets	0.5	0.7
Defined benefit fund surplus	1.6	-
Total non-current other assets	2.1	0.7
Total other assets	27.1	21.0

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Notes to the combined financial statements

31 March 2014

Note 12 Property, plant and equipment**2014**

	Freehold land \$M	Buildings \$M	Easements \$M	Transmission network \$M	Electricity distribution network \$M	Gas distribution network \$M	Other plant and equipment \$M	Capital work in progress \$M	Total \$M
Carrying amount at 1 April 2013	253.0	201.3	1,218.7	1,687.8	2,897.6	1,326.5	291.7	521.3	8,397.9
Additions	-	-	-	-	-	-	-	922.8	922.8
Acquisition through business combination	-	-	-	-	-	-	1.5	-	1.5
Transfers	0.8	35.9	0.1	158.8	447.5	69.4	222.1	(934.6)	-
Disposals	-	(0.1)	-	(1.5)	(5.3)	(0.8)	(1.2)	-	(8.9)
Depreciation expense	-	(8.0)	-	(73.2)	(147.4)	(35.9)	(104.5)	-	(369.0)
Carrying amount at 31 March 2014	253.8	229.1	1,218.8	1,771.9	3,192.4	1,359.2	409.6	509.5	8,944.3
Cost	253.8	280.8	1,218.8	2,276.9	4,150.5	1,664.5	858.2	509.5	11,213.0
Accumulated depreciation	-	(51.7)	-	(505.0)	(958.1)	(305.3)	(448.6)	-	(2,268.7)
Carrying amount at 31 March 2014	253.8	229.1	1,218.8	1,771.9	3,192.4	1,359.2	409.6	509.5	8,944.3

Notes to the combined financial statements

31 March 2014

Note 12 Property, plant and equipment (continued)

2013

	Freehold land \$M	Buildings \$M	Easements \$M	Transmission network \$M	Electricity distribution network \$M	Gas distribution network \$M	Other plant and equipment \$M	Capital work in progress \$M	Total \$M
Carrying amount at 1 April 2012	253.6	173.3	1,218.7	1,585.6	2,648.4	1,284.4	234.0	449.0	7,847.0
Additions	-	-	-	-	-	-	-	881.4	881.4
Transfers	1.8	35.2	-	176.5	384.0	79.7	131.9	(809.1)	-
Disposals	(2.4)	(0.2)	-	(1.8)	(2.4)	(0.6)	(1.2)	-	(8.6)
Depreciation expense	-	(7.0)	-	(72.5)	(132.4)	(37.0)	(73.0)	-	(321.9)
Carrying amount at 31 March 2013	253.0	201.3	1,218.7	1,687.8	2,897.6	1,326.5	291.7	521.3	8,397.9

Cost	253.0	245.2	1,218.7	2,123.0	3,750.4	1,596.9	640.0	521.3	10,348.5
Accumulated depreciation	-	(43.9)	-	(435.2)	(852.8)	(270.4)	(348.3)	-	(1,950.6)
Carrying amount at 31 March 2013	253.0	201.3	1,218.7	1,687.8	2,897.6	1,326.5	291.7	521.3	8,397.9

Notes to the combined financial statements

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Note 13 Intangible assets

	Notes	2014 \$M	2013 \$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			
Opening net book amount - goodwill		12.1	12.1
Acquisition of business	27	24.4	-
Closing net book amount - goodwill		36.5	12.1
Other intangible assets			
Opening net book amount - other intangible assets		2.5	3.4
Amortisation		(0.7)	(0.9)
Closing net book amount - other intangible assets		1.8	2.5
Total intangible assets		392.8	369.1

(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.

Note 14 Payables and other liabilities

	Notes	2014 \$M	2013 \$M
Current payables and other liabilities			
Trade payables and accruals		151.0	170.0
Accrued interest		33.4	28.9
Customer deposits		25.2	11.3
Deferred revenue		3.2	1.1
Related party payables	25(e)	59.5	31.1
Total current payables and other liabilities		272.3	242.4
Non-current payables and other liabilities			
Deferred revenue		11.4	2.1
Total non-current payables and other liabilities		11.4	2.1
Total payables and other liabilities		283.7	244.5

Notes to the combined financial statements

31 March 2014

Note 15 Borrowings

	2014	2013
	\$M	\$M
Current borrowings		
Commercial paper	89.5	171.8
US dollar (USD) senior notes (i)	331.4	291.2
Bank debt facilities	252.7	380.0
Total current borrowings	673.6	843.0
Non-current borrowings		
Bank debt facilities	296.2	597.2
Domestic medium term notes	1,310.8	1,324.3
US dollar (USD) senior notes (i)	433.1	710.4
Pound sterling (GBP) senior notes (i)	520.6	445.3
Swiss francs (CHF) senior notes (i)	1,233.6	1,020.7
Hong Kong dollar (HKD) senior notes (i)	289.1	282.9
Japanese Yen (JPY) senior notes (i)	54.4	53.4
Euro (EUR) senior notes (i)	1,257.8	-
Total non-current borrowings	5,395.6	4,434.2
Total borrowings (ii)	6,069.2	5,277.2

- (i) 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.
- (ii) The fair value of total borrowings as at 31 March 2014 was \$6,535.2 million (2013: \$5,648.5 million). Given lower floating market interest rates as at 31 March compared to the fixed rates on certain borrowings, the total carrying value of borrowings is lower than the total fair value. Refer note 1(q) for details on how the carrying value of borrowings is determined.

(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 \$2.2 million was provided to third parties at 31 March 2014 (2013: \$1.0 million).

Notes to the combined financial statements

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Note 16 Provisions

		2014	2013 (restated)
	Notes	\$M	\$M
Current provisions			
Employee benefits		60.6	62.7
Environmental provision (i)		0.6	3.7
Customer rebates (ii)		7.6	7.0
Sundry provisions (iii)		8.5	7.1
Restructuring provision (iv)		7.7	-
SPIMS employee provisions (v)		14.3	-
Total current provisions		99.3	80.5
Non-current provisions			
Employee benefits		6.7	5.4
Environmental provision (i)		25.9	17.2
Defined benefit funds	18	1.0	34.7
SPIMS employee provisions (v)		1.4	-
Total non-current provisions		35.0	57.3
Total provisions		134.3	137.8

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

	Environmental provision (i)	Customer rebates (ii)	Sundry provisions (iii)	Restructuring provision (iv)
	\$M	\$M	\$M	\$M
Balance at 1 April 2013	20.9	7.0	7.1	-
Additional provisions recognised	7.9	12.4	6.6	7.7
Provisions written back	(2.7)	-	(1.0)	-
Unwind of discount	0.5	-	-	-
Amounts utilised	(0.1)	(11.8)	(4.2)	-
Balance at 31 March 2014	26.5	7.6	8.5	7.7
Current	0.6	7.6	8.5	7.7
Non-current	25.9	-	-	-
Total	26.5	7.6	8.5	7.7

- (i) The environmental provision represents an estimate of the costs of rehabilitating sites, including the estimated costs to remediate soil and water contamination on gas sites which were previously used as coal gas production facilities and refurbishment of meter panels in accordance with the AMI program.

Notes to the combined financial statements

31 March 2014

Note 16 Provisions (continued)

- (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 network.
- (iii) Sundry provisions include uninsured losses, licence fee, unaccounted for gas and earn-out provision.
- (iv) The restructuring provision represents the cost associated with the Termination Deed. Refer note 28.
- (v) The SPIMS employee entitlement provision represents the balance of SPIMS employee entitlements as at 31 March 2014. The Stapled Group is responsible for this obligation under the Termination Deed. All SPIMS employees have transferred to the Stapled Group subsequent to 31 March 2014. Refer note 28.

Note 17 Equity

	Notes	2014 Shares	2013 Shares
Share capital			
Ordinary shares - fully paid (million)	(a), (b)	3,386.6	3,367.5

(a) Ordinary shares

Ordinary shares authorised and issued have no par value. 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 2013	Opening balance		3,367,543,113	0.5
28 June 2013	Distribution Reinvestment Plan	(ii)	8,782,410	-
23 December 2013	Distribution Reinvestment Plan	(ii)	10,281,557	-
31 March 2014	Closing balance		3,386,607,080	0.5
1 April 2012	Opening balance		2,896,219,682	0.5
1 June 2012	Institutional capital raising	(iii)	347,767,659	-
20 June 2012	Retail capital raising	(iii)	86,662,590	-
29 June 2012	Distribution Reinvestment Plan	(iv)	8,970,234	-
21 December 2012	Distribution Reinvestment Plan	(iv)	27,922,948	-
31 March 2013	Closing balance		3,367,543,113	0.5

- (i) With respect to the allocation of the proceeds in the form of shares in SP AusNet Transmission and SP AusNet Distribution 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 Transmission and SP AusNet Distribution being issued at nominal consideration.

Notes to the combined financial statements

31 March 2014

Note 17 Equity (continued)

(b) Movements in ordinary share capital (continued)

- (ii) On 28 June 2013 and on 23 December 2013, 8.8 million and 10.3 million new stapled securities were issued under the DRP respectively. The new securities were issued at a price of \$1.18 per security and \$1.15 per security respectively, providing approximately \$10.4 million and \$11.8 million respectively.
- (iii) A total of 434.4 million securities were issued under the non-renounceable entitlement offer completed in June 2012 at an issue price of \$1.00 per stapled security for eligible securityholders in Australia and New Zealand and S\$1.25 per stapled security for eligible securityholders in Singapore.
- (iv) On 29 June 2012 and on 21 December 2012, 9.0 million and 27.9 million new stapled securities were issued under the DRP respectively. The new securities were issued at a price of \$1.01 per security and \$1.05 per security respectively, providing approximately \$9.1 million and \$29.3 million respectively.

(c) Capital management

The Board's policy is to target an 'A' range credit rating and a capital structure appropriate to generate desired securityholder returns, and to ensure a low cost of capital is available to the entity.

An important credit metric which assists management to monitor SP AusNet's capital structure is the net debt to Asset Base ratio, determined as indebtedness as a percentage of the Asset Base. Indebtedness is debt at face value (net of cash), excluding any derivative financial instruments. The Asset Base consists of the following items:

- Regulated Asset Base (RAB), which is subject to some estimation as the Australian Energy Regulator (AER) ultimately determines the RAB of each network. RAB includes the value of regulated network assets as well as network assets that will become regulated at the next regulatory period; and
- The value of unregulated network assets whose revenues and return are set through a negotiated or competitive process rather than through regulation, including the carrying value of the desalination licence receivable.

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 Asset Base ratio of less than 75 per cent.

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

	2014	2013
	%	%
Net debt to Asset Base	68.6	68.1

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.

Notes to the combined financial statements

31 March 2014

Note 18 Defined benefit obligations

	2014	2013 (restated)
	\$M	\$M
Total amount included in the statement of financial position in respect of the defined benefit plans are as follows:		
Present value of defined benefit obligations	(248.0)	(256.0)
Fair value of plan assets	248.6	221.3
Net asset/(liability) arising from defined benefit obligations	0.6	(34.7)
Amounts recognised in the income statement in respect of the defined benefit plans are as follows:		
Current service cost	7.1	6.9
Net interest cost on defined benefit obligations	1.0	1.2
Total	8.1	8.1
Remeasurement gains recognised during the year in other comprehensive income	37.8	3.3

The Stapled Group makes contributions to two Equisuper 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 Equisuper plans are closed to new members. All new members receive defined contribution, accumulation style benefits.

The defined benefit superannuation plans are administered by a trust that is legally separated from the Stapled Group. The trustees consist of both employee and employer representatives and an independent chair, all of whom are governed by the scheme rules. The trustees are responsible for the administration of the plan assets and for the definition of the plan strategy.

The Stapled Group expects to make contributions of \$4.5 million to the defined benefit plan 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 defined benefit superannuation plans expose the Stapled Group to additional actuarial, interest rate and market risk.

Mercer Investment Nominees Limited performed actuarial valuations of the funds as at 31 March 2014 and 31 March 2013.

Notes to the combined financial statements

31 March 2014

Note 18 Defined benefit obligations (continued)**(a) Movement in defined benefit obligations**

	2014	2013 (restated)
	\$M	\$M
Movement in the present value of the defined benefit obligations were as follows:		
Opening defined benefit obligation	256.0	244.3
Current service cost	7.1	6.9
Interest cost	9.0	9.4
Contributions by plan participants	2.4	2.5
Actuarial (gains)/losses	(15.7)	10.8
Benefits, taxes and premiums paid	(10.8)	(18.6)
Transfers in	-	0.7
Closing defined benefit obligations	248.0	256.0

Movements in the fair value of plan assets were as follows:

Opening fair value of plan assets	221.3	203.9
Interest income	8.0	8.2
Actual return on fund assets less interest income	22.1	14.1
Contributions from the employer	5.6	10.5
Contributions by plan participants	2.4	2.5
Benefits, taxes and premiums paid	(10.8)	(18.6)
Transfers in	-	0.7
Closing fair value of plan assets	248.6	221.3

The actual return on plan assets was a gain of \$30.1 million (2013: gain of \$22.3 million).

(b) Analysis of plan assets

Plan assets can be broken down into the following major categories of investments:

	2014	2013
	%	%
Investments quoted in active markets:		
Australian equities	31	32
International equities	25	28
Fixed interest securities	11	10
Unquoted investments:		
Property	9	9
Growth alternative	8	8
Defensive alternative	7	7
Cash	9	6
	100	100

Plan assets do not comprise any of the Stapled Group's own financial instruments or any assets used by the Stapled Group.

Notes to the combined financial statements

31 March 2014

Note 18 Defined benefit obligations (continued)**(c) Actuarial assumptions**

The following were the principal actuarial assumptions at the reporting date (expressed as weighted averages).

	Defined benefit expense		Defined benefit obligations	
	2014	2013	2014	2013
		(restated)		(restated)
	%	%	%	%
Key assumptions				
Discount rate	3.70	4.10	4.30	3.70
Expected salary increase rate	4.50	4.50	4.50	4.50

As at 31 March 2014, the weighted average duration of the defined benefit obligation was 10 years (2013: 10 years).

(d) Sensitivity analysis

Changes in the relevant actuarial assumptions as at reporting date, with all other variables held constant, would result in an increase/(decrease) in the value of the defined benefit obligation as shown below:

	Defined benefit obligations	
	Increase	Decrease
	\$M	\$M
Discount rate (0.5 per cent movement)	(11.9)	12.7
Expected salary increase rate (0.5 per cent movement)	10.6	(10.1)

When calculating the above sensitivity analysis the same method has been applied as when calculating the defined benefit liability recognised in the combined statement of financial position.

Notes to the combined financial statements

31 March 2014

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, 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 material 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 provides an analysis of each type of risk to which the Stapled Group is exposed 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.

Notes to the combined financial statements

31 March 2014

Note 19 Financial risk management (continued)**(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. Starting from 1 April 2014, the price review period for electricity transmission will be three years, followed by a five-year price review period.

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 its regulatory period. SP AusNet therefore considers net interest rate exposure, after hedging activities, to be minimal for the Stapled Group. The percentage of fixed rate debt to total debt (on a net debt basis) as at 31 March 2014 was 94.1 per cent (2013: 94.7 per cent).

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.

	2014	2013
	\$M	\$M
Financial assets		
Fixed rate instruments	406.7	523.5
Financial liabilities (i)		
Fixed rate instruments	(5,291.3)	(4,893.7)
Floating rate instruments	(737.4)	(798.5)

- (i) The financial liabilities above include the impact of derivative financial instruments used to manage the interest rate and foreign currency exposures on those liabilities. Therefore, 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.

Notes to the combined financial statements

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Note 19 Financial risk management (continued)**(a) Interest rate risk (continued)**

The Stapled Group's exposure to changes in interest rate is limited to debt denominated in Australian dollars due to the Stapled Group's policy of mitigating interest rate risk exposure on foreign currency debt. As a result, the sensitivity analysis below has only been performed based on movements in Australian interest rates. As at reporting date, if Australian interest rates had increased by 2.77 per cent and decreased by 2.63 per cent as at 31 March 2014 (2013: increased by 3.17 per cent and decreased by 2.97 per cent), with all other variables held constant, post-tax profit and equity would have increased/(decreased) as follows:

	Net profit after tax \$M	Equity after tax (hedge reserve) \$M
2014		
Increase in Australian interest rates with all other variables held constant	18.6	256.9
Decrease in Australian interest rates with all other variables held constant	(19.7)	(319.8)
2013		
Increase in Australian interest rates with all other variables held constant	9.2	187.8
Decrease in Australian interest rates with all other variables held constant	(7.9)	(242.6)

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.

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. Therefore, 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 derivative financial instruments 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 its currency risk exposure to be minimal.

The Stapled Group is subject to the following currency exposures:

- United States dollars (USD);
- Pound sterling (GBP);
- Swiss francs (CHF);
- Hong Kong dollars (HKD);
- Japanese Yen (JPY); and
- Euro (EUR).

Notes to the combined financial statements

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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 financial 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 equity would have increased/(decreased) as follows:

	Net profit after tax \$M	Equity after tax (hedge reserve) \$M
2014		
Increase in foreign exchange rates for all currency exposures	(1.7)	(35.2)
Decrease in foreign exchange rates for all currency exposures	5.5	51.8
2013		
Increase in foreign exchange rates for all currency exposures	(0.5)	(32.9)
Decrease in foreign exchange rates for all currency exposures	3.3	49.6

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 2014, the movements in foreign exchange rates used in the table above are as follows:

- United States dollars (USD) - 21 cents (2013: 23 cents)
- Pound sterling (GBP) – 10 pence (2013: 7 pence)
- Swiss francs (CHF) – 17 Swiss centime (2013: 19 Swiss centime)
- Hong Kong dollars (HKD) – 1.651 HK dollar (2013: 1.779 HK dollar)
- Japanese Yen (JPY) – 19.66 Japanese Yen (2013: 24.62 Yen)
- Euro (EUR) - 14 Euro cents

The impact on the hedge reserve is due to the valuation change of derivative financial instruments 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.

Notes to the combined financial statements

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Note 19 Financial risk management (continued)**(c) Derivative financial 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 derivative financial instruments
	\$M	\$M	\$M	\$M
2014				
Current assets	-	0.1	-	0.1
Non-current assets	78.5	-	185.7	264.2
Current liabilities	(1.5)	(0.1)	(69.1)	(70.7)
Non-current liabilities	(132.2)	-	(103.2)	(235.4)
Total derivative financial instruments	(55.2)	-	13.4	(41.8)
Consists of:				
- fair value hedges	9.8	-	(107.8)	(98.0)
- cash flow hedges	(65.0)	-	121.2	56.2
Total derivative financial instruments	(55.2)	-	13.4	(41.8)
2013				
Current assets	-	6.7	-	6.7
Non-current assets	92.0	-	-	92.0
Current liabilities	(81.1)	(13.4)	(112.6)	(207.1)
Non-current liabilities	(124.9)	-	(349.7)	(474.6)
Total derivative financial instruments	(114.0)	(6.7)	(462.3)	(583.0)
Consists of:				
- fair value hedges	39.7	-	(419.2)	(379.5)
- cash flow hedges	(151.9)	(6.7)	(43.1)	(201.7)
- not in a hedge relationship	(1.8)	-	-	(1.8)
Total derivative financial instruments	(114.0)	(6.7)	(462.3)	(583.0)

The decrease in net derivative liabilities at 31 March 2014 is largely due to the revaluation in the exchange rate.

Derivative assets and liabilities are presented on a gross basis. Certain derivative assets and liabilities are subject to enforceable master netting arrangements with individual counterparties if they were subject to default. If these netting arrangements were applied to the derivative portfolio as at 31 March 2014, derivative assets and liabilities are reduced by \$125.6 million respectively (2013: \$77.9 million).

Notes to the combined financial statements

31 March 2014

Note 19 Financial risk management (continued)**(c) Derivative financial instruments used to hedge interest rate and currency risk (continued)***(i) Derivative financial instruments in a fair value hedge*

Derivative financial instruments 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.

(ii) Derivative financial instruments in a cash flow hedge

Derivative financial instruments 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, net of income tax:

	2014	2013
	\$M	\$M
Opening balance of cash flow hedge reserve	(116.7)	(131.5)
Changes in fair value of cash flow hedges	(32.9)	(100.7)
Amounts reclassified to interest expense for effective hedges	88.3	103.3
Amounts reclassified to property, plant and equipment and inventory	4.3	12.2
Closing balance of cash flow hedge reserve	(57.0)	(116.7)

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

	2014	2013
	\$M	\$M
Highly probable forecast asset purchase:		
Less than 1 year	-	(6.8)
	-	(6.8)
Borrowings:		
Less than 1 year	(84.3)	(166.5)
1 - 2 years	(51.7)	(44.4)
2 - 5 years	(64.2)	(87.0)
Greater than 5 years	2.6	(14.3)
	(197.6)	(312.2)

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.

Notes to the combined financial statements

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Note 19 Financial risk management (continued)**(c) Derivative financial instruments used to hedge interest rate and currency risk (continued)***(iii) (Gain)/loss on accounting for hedge relationships*

The following table provides details of the (gain)/loss on accounting for hedge relationships recognised in finance costs:

	2014	2013
	\$M	\$M
(Gain)/loss on fair value hedges (i)	1.0	(0.5)
(Gain)/loss on transactions not in a hedge relationship (ii)	(1.8)	1.4
Ineffective portion of cash flow hedges (iii)	4.5	(8.0)
	3.7	(7.1)

- (i) The remeasurement of SP AusNet's borrowings in fair value hedges resulted in a loss before tax of \$293.1 million (2013: gain before tax of \$95.9 million). The change in fair value of the associated derivative financial instruments resulted in a gain before tax of \$292.1 million (2013: loss before tax of \$95.4 million), leaving a net \$1.0 million loss (2013: \$0.5 million gain) recognised in finance costs.
- (ii) In previous years 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. Notwithstanding that these borrowings and the related derivative financial instruments no longer satisfy the requirements for hedge accounting, they are in economic relationships that are effective in managing interest rate and currency risks, based on contractual face values and cash flows over the life of the transactions.
- (iii) Includes a gain of \$10.9 million (2013: \$16.6 million) due to the partial unwinding of previous de-designation losses recognised.

(d) Liquidity risk

Liquidity risk is defined as the risk of an unforeseen 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 contractual cash flows 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.

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31 March 2014

Note 19 Financial risk management (continued)**(d) Liquidity risk (continued)****(i) Contractual cash flows (continued)**

2014	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		409.8	409.8	409.8	409.8	-	-	-
Accounts and other receivables	9	497.0	497.0	675.7	294.1	22.1	62.9	296.6
Derivative financial assets								
Interest rate swaps			78.5	105.2	13.5	15.5	33.6	42.6
Cross-currency swaps		-	185.7	(76.1)	(40.5)	23.2	(102.4)	43.6
Forward foreign currency contracts		-	0.1	-	-	-	-	-
- Inflow				4.3	2.8	1.5	-	-
- Outflow				(4.2)	(2.7)	(1.5)	-	-
			1,171.1	1,114.7	677.0	60.8	(5.9)	382.8
Financial liabilities								
Non-derivative financial liabilities								
Trade and other payables	14	283.7	283.7	283.7	272.3	11.4	-	-
Commercial paper	15	90.0	89.5	90.0	90.0	-	-	-
Bank debt facilities *	15	553.0	548.9	547.9	547.9	-	-	-
Domestic medium term notes	15	1,285.0	1,310.8	1,795.6	80.6	81.0	512.5	1,121.5
USD senior notes	15	885.0	764.5	811.0	364.9	24.9	421.2	-
GBP senior notes	15	537.5	520.6	609.8	32.0	32.0	545.8	-
CHF senior notes	15	1,075.0	1,233.6	1,283.5	22.1	601.4	320.8	339.2
HKD senior notes	15	287.7	289.1	412.6	10.7	10.8	32.2	358.9
JPY senior notes	15	62.6	54.4	59.9	0.7	0.7	2.2	56.3
EUR senior notes	15	1,253.0	1,257.8	1,543.3	33.3	33.3	99.8	1,376.9
Derivative financial liabilities								
Interest rate swaps			133.7	144.1	72.4	46.3	9.8	15.6
Cross-currency swaps			172.3	499.1	73.3	10.2	217.4	198.2
Forward foreign currency contracts			0.1	-	-	-	-	-
- Inflow				(2.6)	(2.0)	(0.2)	(0.4)	-
- Outflow				2.7	2.1	0.2	0.4	-
			6,659.0	8,080.6	1,600.3	852.0	2,161.7	3,466.6
Net cash outflow				(6,965.9)	(923.3)	(791.2)	(2,167.6)	(3,083.8)

Notes to the combined financial statements

31 March 2014

Note 19 Financial risk management (continued)**(d) Liquidity risk (continued)****(i) Contractual cash flows (continued)**

2013	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		541.0	541.0	541.0	541.0	-	-	-
Accounts and other receivables	9	515.8	515.8	717.6	304.8	22.8	65.2	324.8
Derivative financial assets								
Interest rate swaps			92.0	102.8	22.0	21.0	51.7	8.1
Forward foreign currency contracts			6.7					
- Inflow				29.9	29.9	-	-	-
- Outflow				(23.2)	(23.2)	-	-	-
				1,155.5	1,368.1	874.5	43.8	116.9
							116.9	332.9
Financial liabilities								
Non-derivative financial liabilities								
Trade and other payables	14	244.5	244.5	244.5	242.4	2.1	-	-
Commercial paper	15	172.0	171.8	172.0	172.0	-	-	-
Bank debt facilities *	15	980.5	977.2	989.5	989.5	-	-	-
Domestic medium term notes	15	1,285.0	1,324.3	1,875.4	89.0	81.0	533.9	1,171.5
USD senior notes	15	1,292.1	1,001.6	1,064.0	342.4	324.7	396.9	-
GBP senior notes	15	537.5	445.3	520.8	26.0	26.0	78.0	390.8
CHF senior notes	15	1,075.0	1,020.7	1,080.5	16.2	18.3	761.6	284.4
HKD senior notes	15	287.7	282.9	376.2	9.5	9.5	28.6	328.6
JPY senior notes	15	62.6	53.4	59.1	0.7	0.7	2.1	55.6
Derivative financial liabilities								
Interest rate swaps			206.0	225.3	127.5	50.0	41.7	6.1
Cross-currency swaps			462.3	896.8	159.0	152.9	299.4	285.5
Forward foreign currency contracts			13.4					
- Inflow				(46.6)	(46.6)	-	-	-
- Outflow				60.0	60.0	-	-	-
				6,203.4	7,517.5	2,187.6	665.2	2,142.2
							2,142.2	2,522.5
Net cash outflow								
				(6,149.4)	(1,313.1)	(621.4)	(2,025.3)	(2,189.6)

* Bank debt facility drawings are due within the next twelve months and as such have been included within "less than 1 year". However, SP AusNet has the right to roll over these facilities until they ultimately mature in up to five years from the reporting date.

Notes to the combined financial statements

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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:

	2014	2013
	\$M	\$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	53.0	30.5
- Amount unused	47.0	69.5
	100.0	100.0
Unsecured bank loan facility with various maturity dates and which may be extended by mutual agreement:		
- Amount used	500.0	950.0
- Amount unused	700.0	250.0
	1,200.0	1,200.0

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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. Revenues from a single customer, AEMO, in the Stapled Group's electricity transmission segment represents 27 per cent (2013: 30 per cent) of the Stapled Group's total revenues. SP AusNet is licensed to transmit electricity in Victoria whereas AEMO is the provider of shared network services and the planner, authoriser, contractor and director of augmentation of the declared shared network in Victoria. A network agreement is in place between both parties whereby SP AusNet receives network charges from AEMO for the use of SP AusNet's transmission network to transmit electricity to participants in the market. Due to the nature of this network agreement, SP AusNet does not believe that there is any significant credit risk exposure on this customer. SP AusNet therefore considers its credit risk exposure to be minimal.

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 \$409.8 million on term deposit and \$275.6 million of cross currency and interest rate swaps with 'A' rated or higher Australian and international banks.

The unamortised value of the deferred credit risk adjustment for derivative financial instruments as at 31 March 2014, recognised in accordance with note 1(l), is \$28.7 million.

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. The values disclosed below represent the market values in the event of a closeout (in-the-money market values), which differ from the carrying values and as such do not agree to the statement of financial position. The values below exclude any offsetting financial liabilities with the particular counterparty.

	Maximum credit risk	
	2014	2013
	\$M	\$M
Financial assets and other credit exposures		
Cross-currency swaps	186.3	0.2
USD interest rate swaps	18.0	22.8
AUD interest rate swaps	71.3	82.4

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Note 19 Financial risk management (continued)

(f) Fair value of financial assets and liabilities

The fair values of financial assets and liabilities are measured in accordance with generally accepted pricing models based on discounted cash flow analysis.

The only financial instruments measured at fair value subsequent to initial recognition are derivative financial instruments. Derivative financial instruments are initially recognised at fair value in the statement of financial position and subsequently remeasured to their fair value at each reporting date. Accordingly there is no difference between the carrying value and fair value of derivative financial instruments at reporting date. Fair value is measured using valuation techniques and significant market observable data as well as market corroboration based on active quotes. These include industry standard interest rate, foreign exchange and currency basis yield curves sourced directly from Bloomberg.

In addition, an adjustment to the fair value for all cross currency and interest rate swap contracts is applied for credit risk in accordance with AASB 13 *Fair Value Measurement*. Credit risk is obtained directly from the observable Credit Default Swap curves within Bloomberg for each of the relevant counterparties, with the bilateral credit risk applied uniformly across all asset and liability positions as at the reporting date.

As such, fair value measurements are deemed level two within the fair value hierarchy as per AASB 13 *Fair Value Measurement*. The Stapled Group does not have any financial instruments which would be categorised as either level one or three of the fair value hierarchy.

The Stapled Group also has a number of financial assets and liabilities which are not measured at fair value in the combined statement of financial position. With the exception of borrowings (refer note 15), the carrying amounts of these items are considered to be a reasonable approximation of their fair value at 31 March 2014.

Notes to the combined financial statements

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Note 20 Critical accounting estimates and judgements

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 judgements where changes in those estimates and judgements could result in a significant change to the carrying amounts of assets and liabilities within the next financial year 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:

	2014	2013
	\$M	\$M
CGU		
Electricity distribution (distribution licence)	117.2	117.2
Gas distribution (distribution licence)	237.3	237.3
Asset Solutions business (goodwill)	11.8	11.8
Geomatic Technologies (goodwill)	24.4	-
	390.7	366.3

Recoverable amount is the higher of fair value less costs to sell and value in use.

In terms of the distribution licences, management has based its assessment of fair value less costs to sell 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 6.3 per cent to 6.5 per cent.

In terms of the Asset Solutions business CGU, which is part of the Select Solutions reportable segment, management has based its assessment of fair value less costs to sell on discounted cash flow projections over a period of five years together with an appropriate terminal value. Cash flows are discounted using a post-tax discount rate of 10.4 per cent.

The rates used for each CGU reflect current market assessments of the time value of money and risks specific to the assets.

Appropriate terminal values were calculated using a range of both RAB multiples and market earnings before interest, tax, depreciation and amortisation multiples. Fair value less costs to sell is measured using inputs that are not based on observable market data. Therefore, they are deemed level three within the fair value hierarchy as per AASB 13 *Fair Value Measurement*.

Given the Geomatic Technologies business was only acquired during the year, the first formal impairment assessment for this CGU will not be performed until the year ended 31 March 2015, unless there is an indication of impairment.

In addition, SP AusNet has reviewed the carrying values of the Advanced Metering Infrastructure (AMI) assets. Despite experiencing significant periods of instability in its AMI systems performance and the additional investment that will be required to address these issues, the AMI assets are considered recoverable as at 31 March 2014. AMI forms part of the electricity distribution CGU.

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Note 20 Critical accounting estimates and judgements (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 under relevant tax legislation and is more likely than not to utilise them in the future. If either of these assumptions is proven to be incorrect, then the deferred tax asset recognised for carry forward tax losses may need to be derecognised.

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.

Judgements have been made regarding the application of income tax legislation, including in regard to the deductibility of the Section 163AA imposts and intellectual property which are currently in dispute with the Australian Taxation Office (ATO) (refer note 23). In addition, judgements have been made regarding the deductibility of interest payments on intra-group financing arrangements with SP AusNet Finance Trust which are currently subject to an audit review by the ATO. The accounting treatment adopted for each of these matters reflects these current judgements and assumptions.

(c) Derivative financial instruments

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

Derivative financial instruments are recognised at fair value and are measured using market observable data, and where appropriate, are adjusted for credit risk, liquidity risk and currency basis risk. Therefore, they are deemed level two within the fair value hierarchy as per AASB 13 *Fair Value Measurement*.

Derivative financial instruments are used only for risk management strategies and are not actively traded.

The fair value of derivative financial instruments is determined in accordance with generally accepted pricing models based on discounted cash flow analysis. This involves the valuation of derivative financial instruments based on prices sourced from significant observable data as well as market corroboration based on active quotes. 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, and takes into account base usage and sensitivity to prevailing weather conditions. The results of this analysis are applied for the number of days and weather conditions over the unbilled period.

The accrual for solar rebates paid to retailers is calculated by applying the average rebate per day (based on the amount billed) to the number of unbilled days at month end.

Notes to the combined financial statements

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Note 20 Critical accounting estimates and judgements (continued)

(e) Useful lives of property, plant and equipment

Depreciation is recognised 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) Provisions

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

(ii) *Environmental provision*

A provision for environmental costs is made for the remediation of contamination on gas sites which were previously used as coal gas production facilities. The provision is based on the estimated costs and timing of remediation, taking into account current legal requirements, the estimated extent of the contamination, the nature of the site and surrounding areas, and the technologies and methods available.

(g) Contingent liabilities

Judgements are made in relation to uncertain future events surrounding the Victorian February bushfires and Australian Taxation Office disputes that may impact the Stapled Group's present obligations. Refer note 23 for further details.

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31 March 2014

Note 21 Key management personnel

Up to 31 March 2014, SPIMS, a wholly-owned subsidiary of related party Singapore Power International Pte Ltd (SPI), provided the services of key senior management, including the Managing Director and the executive management team, to SP AusNet. Although not employed by SP AusNet, these individuals are deemed to qualify as key management personnel (KMP) of SP AusNet on the basis that they had the authority and the responsibility for planning, directing and controlling the major activities of SP AusNet during the financial year.

On 31 March 2014, SP AusNet, Singapore Power and SPIMS entered into a Termination Deed, pursuant to which they agreed to terminate the Management Services Agreement with effect from 31 March 2014. As a result of this termination, KMP and other employees who were previously employed by SPIMS were offered, and accepted, employment with SP AusNet on the same terms as their existing remuneration arrangements, including the preservation of all existing entitlements and participation in incentive arrangements.

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

	2014	2013
	\$	\$
Remuneration by category		
Short-term employee benefits	5,543,528	5,852,578
Post-employment benefits	383,017	362,642
Equity based payments	1,159,339	1,079,274
Termination benefits	-	86,773
Other long-term benefits	142,167	19,029
	7,228,051	7,400,296

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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 2013)	Granted during the year as compensation (i)	Net change other (ii)	Balance at end of year (31 March 2014)
Key management personnel				
Non-executive Directors				
Ng Kee Choe	195,883	-	-	195,883
Ralph Craven (iv)	-	-	-	-
Jeremy Davis	120,750	-	-	120,750
Sally Farrier (iv)	-	-	-	-
Eric Gwee	153,591	-	-	153,591
Ho Tian Yee	-	-	-	-
Tony Iannello	190,976	-	-	190,976
George Lefroy (iii)	275,086	-	-	275,086
Tina McMeckan	90,000	-	-	90,000
Ian Renard	84,898	-	-	84,898
Sun Jianxing (iv)	-	-	-	-
Executives				
Nino Ficca	1,108,183	160,000	-	1,268,183
John Azaris (v)	176,600	36,000	(80,000)	132,600
Chad Hymas (v)	58,400	16,950	4,842	80,192
John Kelso	35,099	37,288	550	72,937
Adam Newman	-	-	20,000	20,000
Alistair Parker (v)	12,000	19,000	-	31,000
Ash Peck (vi)	-	32,687	-	32,687
Mario Tieppo (vii)	-	-	-	-

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

(ii) Net change other refers to securities purchased, sold or acquired other than via the Long-term Incentive Plan.

(iii) Mr Lefroy retired as a Non-Executive Director effective 18 July 2013.

(iv) Dr Craven, Ms Farrier and Mr Sun commenced as Non-Executive Directors effective 24 January 2014.

(v) Mr Azaris, Mr Hymas and Mr Parker were appointed as key management personnel effective 1 April 2013.

(vi) Mr Peck resigned as key management personnel effective 6 December 2013.

(vii) Mr Tieppo was appointed as key management personnel effective 9 December 2013.

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

Notes to the combined financial statements

31 March 2014

Note 21 Key management personnel (continued)

	Balance at beginning of year (1 April 2012)	Granted during the year as compensation (i)	Net change other (ii)	Balance at end of year (31 March 2013)
Key management personnel				
Non-executive Directors				
Ng Kee Choe	195,883	-	-	195,883
Jeremy Davis	105,000	-	15,750	120,750
Eric Gwee	153,591	-	-	153,591
Ho Tian Yee	-	-	-	-
Tony Iannello	140,976	-	50,000	190,976
George Lefroy	239,206	-	35,880	275,086
Tina McMeckan	54,650	-	35,350	90,000
Ian Renard	73,825	-	11,073	84,898
Executives				
Nino Ficca	1,312,334	99,000	(303,151)	1,108,183
Norm Drew	380,005	34,131	-	414,136
John Kelso	52,893	21,641	(39,435)	35,099
Adam Newman	-	-	-	-
Geoff Nicholson	432,764	40,632	-	473,396
Ash Peck	-	-	-	-
Charles Popple	333,532	30,938	-	364,470

Notes to the combined financial statements

31 March 2014

Note 22 Remuneration of auditors

During the year the following fees were paid or payable for services provided by KPMG and its related practices:

(a) Audit and review services

	2014	2013
	\$'000	\$'000
Audit and review of financial statements	1,473	1,493
Audit of regulatory returns (i)	891	617
Total remuneration for audit and review services	2,364	2,110

(b) Other services

Other assurance, taxation and advisory services	170	165
Total remuneration for other services	170	165
Total remuneration of auditors	2,534	2,275

- (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 and contingent assets

Details of contingent liabilities and contingent assets of the Stapled Group are as follows:

(a) Section 163AA impost*(i) Background*

During August 2011, the ATO issued amended assessments to SP AusNet in respect of the 2001 to 2006 income years, disallowing deductions claimed in respect of fees imposed under Section 163AA of the Electricity Industry Act 1993 in the 1999 to 2001 tax years. Under the amended assessments, the amount of primary tax payable is \$54.0 million.

In October 2011, the ATO agreed to a part payment arrangement, on the basis that the amount due is a disputed tax amount. Under the arrangement, SP AusNet paid \$30.6 million. Up to 31 March 2013, this amount has been recorded as a non-current receivable. A general interest charge continues to accrue in respect of unpaid tax under the payment arrangement, in addition to the total amount disclosed on the amended assessments.

On 10 October 2012, SP AusNet lodged a notice of appeal and other documents in the Federal Court, appealing the ATO's amended assessments.

Notes to the combined financial statements

31 March 2014

Note 23 Contingent liabilities and contingent assets (continued)

(a) Section 163AA impost (continued)

(ii) Current status

On 12 September 2013, the Federal Court delivered judgement against SP AusNet's appeal. On the basis of this ruling, for the year ended 31 March 2014 SP AusNet has derecognised the \$30.6 million non-current receivable and recognised a \$70.2 million provision for tax, representing the unpaid portion of primary tax and the unpaid general interest charge up to 31 March 2014.

This provision represents the amount that is potentially payable under the amended assessments and, along with the write-off of the non-current receivable and the deductibility of the general interest charge, has reduced net profit after tax for the year ended 31 March 2014 by \$86.7 million.

On 7 October 2013, SP AusNet lodged a notice of appeal in the Federal Court. On 7 April 2014, the Full Court of the Federal Court of Australia delivered judgement against SP AusNet. SP AusNet has subsequently sought special leave to appeal to the High Court of Australia. The application hearing is expected to be heard in the second half of calendar year 2014. SP AusNet continues to believe that the fees imposed under Section 163AA are deductible.

If SP AusNet is ultimately successful in these proceedings, then the \$86.7 million reduction in net profit after tax that has been recognised at 31 March 2014 would be reversed and the \$30.6 million part-payment would be refunded, with interest.

(b) Intellectual Property

(i) Background

During September 2011 and October 2011, the ATO issued amended assessments to SP AusNet in respect of the 2001 to 2010 income years, disallowing deductions claimed in respect of intellectual property in each of those income years. Under the amended assessments, the amount payable is \$44.0 million (representing \$27.4 million of primary tax, plus an interest and administrative penalty component of \$16.6 million).

In November 2011, SP AusNet lodged notices of objection in relation to the amended assessments issued. The ATO agreed to a part-payment arrangement, with SP AusNet making a payment of \$17.1 million to the ATO in October 2011. This amount has been recorded as a non-current receivable at the time of payment. A general interest charge continues to accrue in respect of unpaid tax under the payment arrangement, in addition to the total amount disclosed on the amended assessments. As at 31 March 2014, the total amount in dispute for intellectual property deductions, including additional accrued interest on the unpaid portion of the amended assessments, is \$50.7 million.

On 27 April 2012, SP AusNet lodged a notice of appeal and other documents in the Federal Court, appealing the ATO's objection decision in relation to the intellectual property matter.

(ii) Current status

The Federal Court delivered judgement in favour of SP AusNet on 25 March 2014. The ATO subsequently lodged a notice of appeal in the Federal Court on 15 April 2014. It is expected that the appeal will be heard by the Full Court of the Federal Court in the second half of calendar year 2014, with a decision expected before the end of calendar year 2014. The \$17.1 million part-payment continues to be recognised as a non-current receivable at 31 March 2014.

Notes to the combined financial statements

31 March 2014

Note 23 Contingent liabilities and contingent assets (continued)

(c) February 2009 bushfire litigation

SP AusNet is a defendant in litigation that has been brought in connection with the 7 February 2009 bushfires located at Beechworth, Kilmore East, and Murrindindi, respectively. In all three matters, SP AusNet denies that 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.

On 16 May 2012, the Supreme Court of Victoria formally approved the settlement deed for the Beechworth bushfire class action. That settlement was reached without admission of liability by SP AusNet or any other party.

The Kilmore East Supreme Court hearing is presently underway, and according to the court timetable, it is likely to conclude in June 2014 with judgement expected by March 2015. SP AusNet is a defendant in this proceeding, along with the State of Victoria (Department of Sustainability and Environment, Country Fire Authority and others) and a contracted asset inspector.

The Murrindindi class action is in very early stages, and it is expected that the trial will formally commence some time in 2015.

There are many variables associated with litigation and it is impossible to provide a prior assessment of the ultimate resolution of either the Kilmore East or Murrindindi proceedings. However, SP AusNet is vigorously defending both claims and rejects any assertion of negligence. SP AusNet strongly holds the belief that it has consistently complied with its regulatory obligations, including in the year ended 31 March 2009. It is therefore reasonable to consider that SP AusNet's insurance and, if required, a claim to the regulator for pass-through of residual costs ultimately incurred in relation to these proceedings, would be sufficient to cover SP AusNet's liability, if any, associated with the February 2009 bushfires. However, the ultimate resolution of these matters cannot be known with certainty.

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 safety record, network asset management and network maintenance programs are consistent with industry practice, and its bushfire mitigation and vegetation management programs comply with Electricity Safety (Bushfire Mitigation) Regulations. 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.

(d) 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 other contingent liabilities as at 31 March 2014.

Notes to the combined financial statements

31 March 2014

Note 24 Commitments**(a) Capital commitments**

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

	2014	2013
	\$M	\$M
Property, plant and equipment	359.4	322.2

(b) Lease commitments

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

	2014	2013
	\$M	\$M
Payable:		
Within one year	17.0	13.1
Later than one year, but no later than five years	34.7	35.1
Later than five years	16.0	17.4
	67.7	65.6
Representing:		
Non-cancellable operating leases	67.7	65.6

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.

Notes to the combined financial statements

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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.

Prior to 3 January 2014, the immediate parent of SP AusNet Distribution was Singapore Power International Pte Ltd (SPI) and the ultimate parent was Temasek Holdings (Private) Limited (Temasek). SPI is a wholly-owned subsidiary of Temasek. Temasek's shareholder is the Minister for Finance, a body corporate under the Minister for Finance (Incorporation) Act, Chapter 183 of Singapore. Both SPI and Temasek are incorporated in Singapore.

On 3 January 2014, State Grid Corporation of China (State Grid) acquired a 19.9 per cent securityholding in SP AusNet from SPI. Whilst SPI continues to be the largest securityholder in SP AusNet with a stake of 31.1 per cent, they ceased to be the parent of SP AusNet Distribution from that date. Under applicable accounting standards, both SPI and Temasek and their subsidiaries continue to be a related party of SP AusNet.

On 3 January 2014, SPI also divested 60 per cent of its securityholding in Jemena Asset Management Pty Ltd (referred to as Jemena) to State Grid. SPI continue to hold 40 per cent of the securityholding in Jemena, however Jemena ceased to be a related party of SP AusNet from that date. The related party transactions set out below include transactions with Jemena that took place during the whole financial year.

(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. This arrangement is expected to cease no later than 17 August 2014.

(b) Other related parties

(i) Management Services Agreements (MSAs)

SPIMS, a wholly-owned subsidiary of related party SPI, is a party to two management services agreements with SP AusNet Distribution and SP AusNet Transmission, and the Responsible Entity respectively. As noted in note 28 these agreements have been terminated from 1 April 2014 therefore the details below only describe the arrangements that were in place until 31 March 2014. There will be no further management service charge or performance fee payments under the MSA in respect of any period after 1 April 2014.

Management Services Agreement with SP AusNet Distribution and SP AusNet Transmission

Under the MSA, SP AusNet engaged SPIMS to provide management and administration services including management of SP AusNet's electricity transmission and electricity and gas distribution networks. SPIMS were able to consult with Singapore Power Limited and its subsidiaries from time to time in the performance of its work. In accordance with the MSA, SPIMS provided 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 and was terminated on 31 March 2014.

Notes to the combined financial statements

31 March 2014

Note 25 Related party transactions (continued)**(b) Other related parties (continued)***(i) Management Services Agreements (MSAs) (continued)*

Pursuant to the MSA, SP AusNet agreed to pay SPIMS 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 was to compensate SPIMS for expenses relating to all remuneration and other employment entitlements and benefits of the employees of SPIMS who provided services to SP AusNet. The performance fee was to incentivise SPIMS to meet or better the non-financial and financial performance targets of SP AusNet and to align the interests of SPIMS with those of SP AusNet. Details of the components of the performance fee are set out below:

Fee component	Description
Network Performance Fee	Calculated as 40 per cent of an amount (if any) of the regulatory incentive payments earned by SP AusNet in the financial year for network performance that exceeds network benchmark performance levels. If the net incentive payment for a financial year is zero or negative, no Network Performance Fee is received and 40 per cent of the deficit amount will be carried forward (capped at \$2.0 million) to be set-off against future Network Performance Fees earned.
Financial Performance Fee – which includes an EBITDA Performance Fee component and an EBITDA Outperformance Fee component	The EBITDA Performance Fee component is equal to 0.75 per cent of actual EBITDA of SP AusNet for that financial year. The EBITDA Outperformance Fee component is payable if SP AusNet's actual EBITDA exceeds budgeted EBITDA for a financial year. In that case, an additional fee equal to 0.25 per cent of SP AusNet's actual EBITDA for that financial year is payable, provided that this does not result in actual EBITDA being lower than budgeted EBITDA.
Business Incentive Fee – which comprises a Market Outperformance Fee component	The Market Outperformance Fee component is equal to 5 per cent of the amount by which the return of the Stapled Securities exceeds the Benchmark Return for a half-year. If the SP AusNet Return is less than the Benchmark Return in any half-year, no Market Outperformance Fee is payable. 5 per cent of the deficit amount is carried forward (capped at \$2.0 million) and set off against the Market Outperformance Fee which is payable in the subsequent half-year.
Capital Works Management Fee	Calculated as 1 per cent of an increase (if any) in SP AusNet's RAB amount from the previous month (excluding depreciation and customer contributions).
Capital Efficiency Incentive Fee	A fee payable to SPIMS at the discretion of the Board, having regard to SP AusNet's performance in relation to such capital expenditure efficiency measures as the Directors consider appropriate.

Notes to the combined financial statements

31 March 2014

Note 25 Related party transactions (continued)

(b) Other related parties (continued)

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

From 1 October 2008, the maximum performance fee payable by SP AusNet in respect of a financial year was capped at 0.50 per cent of the market capitalisation of SP AusNet's securities.

The MSA contained 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 was limited to \$5.0 million in any financial year.

Management Services Agreement with the Responsible Entity

Under the RE MSA, the Responsible Entity engaged SPIMS to provide management and administration services in respect of SP AusNet Finance Trust. SPIMS was entitled to an annual fee of \$0.1 million per year in respect of the RE MSA. SPIMS was able to 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 and was terminated on 31 March 2014. The RE MSA contained 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). As part of the agreement, Jemena's contestable metering customer contracts were novated to SP AusNet who took over the responsibility for delivering contestable metering services to those 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 was for an initial five year term and were renewed in August 2013 for an additional three year term. The agreements will then 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.

(iii) IT services agreement

On 29 September 2008, SP AusNet entered into an agreement with a wholly owned subsidiary of SPIMS, Enterprise Business Services (Australia) Pty Ltd (EBS), for it to be the exclusive provider to SP AusNet of IT services. The agreement was for an initial term of seven years, however agreement has been reached to unwind shared IT services provided to SP AusNet.

Notes to the combined financial statements

31 March 2014

Note 25 Related party transactions (continued)**(c) Key management personnel**

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

(d) Transactions with related parties

Prior to 3 January 2014 the ultimate parent of SP AusNet was Temasek. 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 reflect an arm's-length basis. As a result, transactions with Temasek interests other than the Singapore Power Group and Jemena have been excluded from the disclosures below.

SP AusNet also provides electricity distribution and electricity transmission services to the Singapore Power Group and Jemena. SP AusNet earns a regulated return from the provision of these services as these services are regulated by the AER.

The following transactions occurred with related parties within the Singapore Power Group and Jemena for the entire financial year:

	2014	2013
	\$'000	\$'000
Sales of goods and services		
Regulated revenue (i)	26,141	25,124
Service revenue	62,601	57,369
Other revenue	155	800
Purchases of goods and services		
Management services charge	19,558	24,927
Performance fees	22,189	19,650
Termination fee	50,000	-
Flame logo fee	1,000	1,000
Other expenses	42,224	31,333
Property, plant and equipment	56,949	69,953
Distributions paid		
Distributions paid (net of DRP)	131,065	109,293

The related party transactions set out above include transactions with Jemena that took place during the whole financial year. Jemena ceased to be a related party of SP AusNet from 3 January 2014.

- (i) Represents revenues from the provision of electricity distribution and electricity transmission services which are regulated by the AER.

Notes to the combined financial statements

31 March 2014

Note 25 Related party transactions (continued)**(e) Outstanding balances**

The following balances are outstanding at the reporting date in relation to transactions with related parties within the Singapore Power Group and Jemena:

	2014	2013
	\$'000	\$'000
Current receivables (sale of goods and services)		
Singapore Power entities	128	205
Other related parties (i)	11,362	19,928
Other current assets (prepayments)		
Singapore Power entities	500	500
Current payables and other liabilities (purchase of goods)		
Singapore Power entities	46,906	19,333
Other related parties	12,551	11,725

The 31 March 2014 balances above include \$9.9 million of current receivables and \$12.6 million of current payables and other liabilities relating to Jemena. Jemena ceased to be a related party of SP AusNet from 3 January 2014.

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

- (i) Includes outstanding amounts from the provision of electricity distribution and electricity transmission services which are regulated by the AER.

Notes to the combined financial statements

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Note 26 Subsidiaries

The Stapled Group's financial 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	
			2014 %	2013 %
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	n/a	100	100
SPI Australia (LP) No. 2 Limited	UK	n/a	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
Select Solutions Group 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
Geomatic Holdings Pty Ltd (i)	Australia	Ordinary	100	-
Geomatic Technologies Pty Ltd (i)	Australia	Ordinary	100	-
SP Australia Networks (Finance) Trust *	Australia	Ordinary		

- (i) Geomatic Holdings Pty Ltd and Geomatic Technologies Pty Ltd were acquired by the Stapled Group on 28 February 2014 (refer note 27). Both companies have an annual reporting date of 30 June, which will be aligned to the Stapled Group's 31 March reporting date in due course.

* 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.

Notes to the combined financial statements

31 March 2014

Note 27 Business combinations

On 28 February 2014 SP AusNet acquired 100 per cent of the share capital of Geomatic Technologies, a provider of IT integrated solutions and services that leverage advanced mobile and spatial technologies. This acquisition enables SP AusNet to continue to expand the service offering of the Select Solutions business, providing customers with an expanded portfolio of end-to-end specialist services and capabilities.

Since the date of acquisition up to 31 March 2014, Geomatic Technologies has contributed revenue of \$1.5 million and operating profit of \$0.1 million. The acquisition related costs included in operating expenses for the year ended 31 March 2014 were \$0.8 million.

(a) Consideration transferred

The following summarises the major classes of consideration transferred:

	2014
	\$M
Cash consideration paid	24.2
Fair value of contingent consideration (i)	3.0
Total consideration	27.2

- (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 2015 financial year. The potential undiscounted amount of all future payments that could be required is up to \$3.0 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 2014, SP AusNet had paid \$0.3 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:

	2014
	\$M
Assets and liabilities acquired	
Cash	0.3
Receivables	3.4
Inventory	1.3
Property, plant and equipment	1.5
Payables	(2.8)
Provisions	(0.9)
	2.8
Goodwill	24.4
	27.2

Due to the proximity of the acquisition to the financial year end, the fair values set out above are provisional and are subject to amendment on finalisation of the fair value exercise, no later than 12 months following the date of acquisition.

Notes to the combined financial statements

31 March 2014

Note 28 MSA termination

SP AusNet, Singapore Power and SPIMS entered into a Termination Deed, pursuant to which they have agreed to terminate the Management Services Agreement (MSA) with effect from 31 March 2014. The key terms of the Termination Deed, as it relates to the MSA, are:

- A termination payment of \$50.0 million is payable by SP AusNet to SPIMS. This payment is made up of two parts: (a) an early termination fee representing the present value of the estimated termination payment that would have been payable if the MSA had terminated on 30 September 2015; and (b) the present value of estimated performance fees that would have been payable to SPIMS from 1 April 2014 to 30 September 2015, had the MSA continued until that time.
- Each SPIMS employee is offered employment with, and has transferred to SP AusNet subsequent to 31 March 2014.
- The termination payment made by SP AusNet is reduced by the amount of employee entitlements in respect of the SPIMS employees transferring to SP AusNet, which total \$15.9 million as at 31 March 2014, such amounts having been previously paid by SP AusNet as part of the regular management service charge under the MSA. The net termination payment has been paid in April 2014.

Agreement has also been reached between SPIMS and SP AusNet to unwind shared information technology (IT) services provided to SP AusNet by EBS, a subsidiary of SPIMS. This arrangement was put in place in September 2008. SP AusNet intends to transition its share of existing EBS activities into the core SP AusNet IT function, as soon as practicable, commencing on 1 April 2014.

The Intellectual Property (IP) Licence Agreement with Singapore Power has also been terminated under the Termination Deed. A provision of \$7.7 million has been reflected as at 31 March 2014 for the costs associated with this restructure of IT services and the termination of the IP licence Agreement.

Note 29 Parent entity information**(a) Statement of financial position**

	2014	2013
	\$M	\$M
Current assets	0.3	0.3
Non-current assets	2,665.0	2,632.7
Total assets	2,665.3	2,633.0
Current liabilities	1,204.5	1,214.4
Non-current liabilities	368.7	249.5
Total liabilities	1,573.2	1,463.9
Contributed equity	0.5	0.5
Retained profits	1,091.6	1,168.6
Total equity	1,092.1	1,169.1

The parent entity has a net current asset deficiency of \$1,204.2 million as at 31 March 2014. 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 SP AusNet Finance Trust will not demand repayment of the outstanding principal and unpaid accrued interest prior to the expiration of the term.

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.

Notes to the combined financial statements

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Note 29 Parent entity information (continued)**(b) Statement of comprehensive income**

	2014	2013
	\$M	\$M
Loss for the year	(77.0)	(77.4)
Total comprehensive income for the year	(77.0)	(77.4)

(c) 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 2014.

Note 30 Reconciliation of profit after income tax to net cash flows from operating activities

	2014	2013 (restated)
	\$M	\$M
Profit for the year	178.3	273.5
Depreciation and amortisation of non-current assets	369.7	322.8
Net loss on sale of non-current assets	8.1	4.1
Contributed assets	(30.1)	(6.5)
(Gain)/loss on accounting for hedge relationships	3.7	(7.1)
Other non-cash items	14.0	17.6
Net cash from operations before changes in operating assets and liabilities	543.7	604.4
(Increase)/decrease in receivables	15.0	(14.0)
(Increase)/decrease in inventories	5.0	(8.1)
(Increase)/decrease in other assets	(4.9)	(3.7)
Increase/(decrease) in payables and other liabilities	64.2	(4.1)
Increase/(decrease) in net other financial assets and liabilities	(8.8)	(8.7)
Increase/(decrease) in provisions	21.3	4.3
Movement in tax balances	94.7	(1.5)
Net cash inflow from operating activities	730.2	568.6

Notes to the combined financial statements

31 March 2014

Note 31 Events occurring after the balance sheet date**(a) Distribution**

Since the end of the financial year, the Directors have approved a final distribution for 2014 of \$141.6 million (4.180 cents per stapled security) to be paid on 27 June 2014 comprised as follows:

	Cents per security	Total distribution \$M
Fully franked dividend payable by SP AusNet Transmission	1.393	47.2
Interest income payable by SP AusNet Finance Trust	2.379	80.6
Return of capital payable by SP AusNet Finance Trust	0.408	13.8
	4.180	141.6

(b) Other matters

Other than outlined above, there has been no matter or circumstance that has arisen since 31 March 2014 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 2014 of the Stapled Group;
- (b) the results of those operations; or
- (c) the state of affairs, in financial years subsequent to 31 March 2014, of the Stapled Group.

Directors' declaration

In the opinion of the Directors of SP Australia Networks (Distribution) Ltd (the Company):

- (a) the financial statements and notes set out on pages 68 to 141, and the remuneration disclosures that are contained in the *Remuneration report* set out on pages 51 to 64 in the *Directors' report*, are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
 - (ii) giving a true and fair view of the combined entity's financial position as at 31 March 2014 and of its performance 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 the Company 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*.

Signed in accordance with a resolution of the Directors.



Ng Kee Choe
Chairman



Nino Ficca
Managing Director

Melbourne
14 May 2014



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) (the Company), which comprises the combined statement of financial position as at 31 March 2014, and 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. 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) 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(a), 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 the Combined Entity 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 2014 and of its performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

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

Report on the remuneration report

We have audited the Remuneration Report included in pages 51 to 64 of the directors' report for the year ended 31 March 2014. The directors of the Company and of SP Australia Networks (Transmission) Ltd, and the directors of the responsible entity of SP Australia Networks (Finance) Trust, SP Australia Networks (RE) Ltd, 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 2014, complies with Section 300A of the *Corporations Act 2001*.



KPMG



Michael Bray
Partner

Melbourne

14 May 2014

SP Australia Networks (Transmission) Ltd
ACN 116 124 362

Financial Report

For the financial year ended 31 March 2014

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

SP Australia Networks (Transmission) 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 (Transmission) Ltd's operations and its principal activities is included in the Directors' report.

The financial report was authorised for issue by the Directors on 14 May 2014.

Directors' report

The Directors of SP Australia Networks (Transmission) Ltd (SP AusNet Transmission) present their report on the general purpose financial report of the company and consolidated entity for the financial year ended 31 March 2014.

On 21 October 2005 pursuant to the Stapling Deed, each of SP AusNet Transmission's shares were stapled to a share in SP Australia Networks (Distribution) Ltd (SP AusNet Distribution) and a unit in SP Australia Networks (Finance) Trust (SP AusNet Finance Trust). On 14 December 2005, the Stapled Group was listed on the Australian Securities Exchange (ASX) and the Singapore Exchange Securities Trading Limited (SGX-ST). The Stapled Group is also referred to as SP AusNet.

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

SP AusNet Transmission was incorporated on 7 September 2005. On 19 October 2005, SP AusNet Transmission executed a reverse acquisition. SPI PowerNet Pty Ltd was deemed the parent entity for the SP AusNet Transmission Group for accounting purposes and acquired the following entities through the reverse acquisition:

- SP AusNet Transmission; and
- SPI Australia Finance Pty Ltd.

Directors

The persons listed below were Directors of SP AusNet Transmission 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)

Ralph **Craven** (commenced effective 24 January 2014)

Jeremy Guy Ashcroft **Davis** AM

Sally Marie **Farrier** (commenced effective 24 January 2014)

Eric **Gwee** Teck Hai

Ho Tian Yee

Antonino (Tony) Mario **Iannello**

George Allister **Lefroy** (retired effective 18 July 2013)

Tina Renna **McMeckan**

Ian Andrew **Renard** AM

Sun Jianxing (commenced effective 24 January 2014)

Executive Director

Nino **Ficca** (Managing Director)

Principal activities

The principal activity of the SP AusNet Transmission Group is the transmission of electricity within the state of Victoria.

The principal activity of the SP AusNet Transmission Group is conducted through SPI PowerNet Pty Ltd.

Directors' report (continued)

Strategy

As a diversified energy delivery networks business, SP AusNet plays a vital role in underpinning the economic strength of Victorian communities, while contributing to the wider Australian energy market. The sustainability of its networks is key to SP AusNet's commitment to the safe, reliable and efficient supply of energy.

The energy industry and network businesses will face significant changes in the next five years, driven by the changing energy environment, emerging technology, and increasing customer influence. In the longer term, the lowering cost of alternative technology could create a viable competitor to traditional networks.

SP AusNet's purpose is 'To provide our customers with superior network and energy solutions'; which is underpinned by eight 5-year strategic objectives as set out below.

Safety	<i>Industry leadership in safety performance</i>	SP AusNet's leaders are responsible for and understand how to lead safety. Encouraging its people to work safely and to create safer work environments.
People	<i>High performing leadership, capability and culture</i>	SP AusNet continues to develop the right culture, skills, talent and labour productivity to support a sustainable and high performing business.
Customer	<i>A highly developed customer service capability</i>	SP AusNet continues to focus on customers through meaningful, useful and actionable engagement. The business leverages customer knowledge, experience, and service levels to deliver outcomes that align with the needs and expectations of customers, supported through regulatory advocacy.
Financial	<i>Diversified and accretive growth</i>	Approximately 87 per cent of SP AusNet's revenue comes from regulated sources, and while SP AusNet remains focused on the continued growth in the regulated networks, diversified growth is also targeted through: • Unregulated Infrastructure – The development of unregulated transmission connections and other infrastructure. • Select Solutions – The continued expansion of specialist utility-related, transportation and telecommunications solutions to existing and new customers. • Energy Solutions – Seeking to develop products and services related to energy use, energy storage, energy efficiency and other niche services in response to changing customer behaviours.
	<i>Sustainable earnings and securityholder value growth</i>	SP AusNet aims to improve its year-on-year financial performance.

Directors' report (continued)

Strategy (continued)

Business & Asset	<i>An efficient business model supported by intelligent, automated and integrated processes and systems</i>	SP AusNet's operations aim to achieve excellence in both energy delivery and managing customer services, through the implementation of processes and systems which produce high quality data, efficiency, effectiveness, controllability and management capability. This objective is being delivered through a company-wide program of Business Operational Excellence, with the most significant being an enterprise wide change program enabled by the replacement of multiple asset management and resource planning platforms with a single, fully integrated system.
	<i>Safe, resilient and reliable networks</i>	In addition to network safety and reliability across three regulated networks, SP AusNet continues to enhance and optimise its inspection, maintenance and replacement plans through advanced modelling techniques and fully integrated systems.
	<i>Industry leadership and advocacy role in regulatory development</i>	SP AusNet aims to be a leader in regulatory development for the energy industry, thereby enhancing business value through constructive engagement with key policy makers.

Ownership and management of SP AusNet

On 3 January 2014, State Grid International Development Limited (SGID) purchased a 19.9 per cent security holding in SP AusNet from Singapore Power International Pte Ltd (SPI). This has reduced SPI's security holding in SP AusNet to 31.1 per cent.

Following this transaction, SP AusNet, Singapore Power and SPI Management Services Pty Ltd (SPIMS) entered into a Termination Deed, pursuant to which they have agreed to terminate the Management Services Agreement (MSA) with effect from 31 March 2014. The key terms of the Termination Deed, as it relates to the MSA, are:

- A termination payment of \$50.0 million is payable by SP AusNet to SPIMS. The SP AusNet Transmission Group's share of this payment is \$15.9 million. This payment is made up of two parts: (a) an early termination fee representing the present value of the estimated termination payment that would have been payable if the MSA had terminated on 30 September 2015; and (b) the present value of estimated performance fees that would have been payable to SPIMS from 1 April 2014 to 30 September 2015, had the MSA continued until that time.
- Each SPIMS employee is offered employment with, and has transferred to SP AusNet subsequent to 31 March 2014.
- The termination payment made by SP AusNet is reduced by the amount of employee entitlements in respect of the SPIMS employees transferring to SP AusNet, such amounts having been previously paid by SP AusNet as part of the regular management services charge under the MSA. The net termination payment has been paid in April 2014.

Agreement has also been reached between SPIMS and SP AusNet to unwind shared information technology (IT) services provided to SP AusNet by Enterprise Business Services (EBS), a subsidiary of SPIMS. This arrangement was put in place in September 2008. SP AusNet intends to transition its share of existing EBS activities into the core SP AusNet IT function, as soon as practicable, commencing on 1 April 2014.

The Intellectual Property (IP) Licence Agreement with Singapore Power has also been terminated under the Termination Deed.

Directors' report (continued)**Ownership and management of SP AusNet (continued)**

The termination payment of \$15.9 million and a provision of \$1.9 million for the costs associated with the restructure of IT services and the termination of the IP Licence Agreement have been reflected in the SP AusNet Transmission Group's 31 March 2014 financial statements.

Review of operations for the year ended 31 March 2014

\$M	31 March 2014	31 March 2013¹	Movement	%
Revenue	649.1	620.4	28.7	4.6%
NPAT	13.5	95.8	(82.3)	(85.9)%
Adjusted NPAT ²	112.7	95.8	16.9	17.6%

Notes:

1. 31 March 2013 restated due to changes to AASB 119 *Employee Benefits*
2. 'Adjusted' NPAT excludes a net charge of \$86.7 million for the amount potentially payable at 31 March 2014 in respect of the Section 163AA dispute and excludes recognition of \$15.9 million payable for termination of the Management Services Agreement and \$1.9 million in restructuring costs associated with the Termination Deed (\$12.5 million NPAT impact). Adjusted NPAT is a non-IFRS measure that has not been subject to audit or review.

For the year ended 31 March 2014, the SP AusNet Transmission Group achieved a net profit after tax (NPAT) of \$13.5 million. This was significantly impacted by the recognition of a net charge of \$86.7 million for the amount potentially payable under the Section 163AA impost dispute with the Australian Taxation Office (ATO) and \$12.5 million (net of tax) for the termination payment and restructuring provision arising from the Termination Deed.

The 4.6 per cent increase in revenues is largely driven by the annual regulated revenue reset. Electricity transmission regulated revenue is not subject to volume risk. In addition, revenues were favourably impacted by the growth in transmission revenues from contestable and prescribed projects. The construction of a new terminal station at AGL's wind farm near Macarthur and the commencement of the desalination agreements to operate and maintain the underground transmission line supplying electricity to the Victorian Desalination Plant in Wonthaggi in December 2012 have both contributed to the unregulated revenue growth. The revenues recognised by the SP AusNet Transmission Group include revenues provided by the Select Solutions segment of the Stapled Group.

The investment in SP AusNet's state-wide transmission network continued during the year, including at the Brunswick, Richmond and West Melbourne terminal stations. Total capital expenditure was \$232.7 million for the year. With work on the Brunswick and Richmond terminal station upgrades, SP AusNet continued to strengthen the electricity supply into Melbourne's central business district and inner-city suburbs. The demolition work at the Brunswick terminal station concluded at the end of 2013 with construction following receipt of all of the necessary approvals.

The Australian Energy Regulator (AER) released its Transmission Revenue Reset (TRR) Final Determination for the 2014-17 period commencing on 1 April 2014 in January 2014. The Final Determination allows (in nominal dollars) total revenue of \$1,600 million, total capital expenditure of \$552 million and total operating expenditure of \$591 million to maintain, operate and extend the network over the three-year regulatory period. The Final Determination provides funding for key transmission projects, particularly the replacement and refurbishment of several major terminal stations, including Richmond and West Melbourne, which underpin electricity supply to the Melbourne central business district.

Directors' report (continued)

Financial position as at 31 March 2014

The SP AusNet Transmission Group's total assets as at 31 March 2014 were \$4,063.7 million comprising principally of property, plant and equipment of \$3,648.2 million and non-current receivables of \$215.3 million. Cash and cash equivalents were \$49.3 million and current receivables were \$80.9 million.

Current liabilities as at 31 March 2014 were \$1,758.1 million primarily due to loans from a related party, SP AusNet Finance Trust, of \$1,590.8 million.

Non-current liabilities as at 31 March 2014 were \$2,364.3 million comprising principally borrowings of \$2,077.6 million and deferred tax liabilities of \$281.0 million.

The SP AusNet Transmission Group has a net asset deficiency of \$58.7 million as at 31 March 2014. In addition, its current liabilities exceed its current assets by \$1,618.6 million due primarily to \$1,590.8 million of short-term debt which is payable to another entity in the Stapled Group, SP AusNet Finance Trust.

The financial report has been prepared on a going concern basis, which contemplates the continuity of normal trading operations, as the SP AusNet Transmission Group is generating positive operating cash flows, has the capacity to refinance short-term debts and has access to funds through SPI Electricity & Gas Australia Holdings Pty Ltd, a subsidiary of SP AusNet Distribution, which is the common or central funding vehicle (CFV) for SP AusNet. Whilst the short-term debt from SP AusNet Finance Trust is repayable on demand, the loan agreements are for terms of ten years and mature in October 2015 and December 2018. The Directors do not expect that SP AusNet Finance Trust will demand repayment of the outstanding principal and unpaid accrued interest prior to the expiration of the term.

Capital management

SP AusNet manages its capital structure to ensure that it continues as a going concern while maximising the return to securityholders as well as providing the flexibility to fund organic growth and other investment opportunities. An appropriate capital structure is also maintained to ensure an efficient cost of capital is available to SP AusNet. Through its cash flows from operations and by maintaining an appropriate and prudent mix of debt and equity, SP AusNet ensures that it achieves its targeted credit metrics that support an 'A' range credit rating.

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. The SP AusNet Transmission Group has access to funds through the CFV.

In line with SP AusNet's Treasury Risk Policy, SP AusNet maintains a diversified debt portfolio by maturity and source. SP AusNet's A- credit rating from Standard and Poor's and A3 from Moody's contributed to the successful completion of numerous bond issues and the establishment of several bank debt facilities during the current financial year, being:

- an inaugural EUR 500 million seven-year bond issue to raise approximately \$707 million in July 2013;
- a EUR 350 million 10 year bond issue to raise approximately \$543 million in February 2014; and
- a \$450 million five-year bank debt facility in March.

Directors' report (continued)

Capital management (continued)

Dividends

Dividends paid to shareholders during the financial year were as follows:

	Final 2013 dividend		Interim 2014 dividend	
	Cents per share	Total dividend \$M	Cents per share	Total dividend \$M
Fully franked dividend	1.367	46.0	1.393	47.0

Since the end of the financial year, the Directors have approved a final dividend for 2014 of [\$47.2 million] (1.393 cents per share) to be paid on 27 June 2014.

Distribution Reinvestment Plan (DRP)

In relation to the final 2013 distribution paid on 28 June 2013, \$10.4 million was utilised in the allotment of new securities issued under the DRP, representing a take up rate of approximately 7 per cent. In relation to the interim 2014 distribution paid on 23 December 2013, \$11.8 million was utilised in the allotment of new securities issued under the DRP, representing a take up rate of approximately 8 per cent.

The DRP will be in operation for the final 2014 distribution at a two per cent discount to the average of the volume weighted average price.

Material risks and uncertainties

SP AusNet is committed to understanding and effectively managing risk to provide greater certainty and confidence for its securityholders, employees, customers, suppliers and communities in which it operates. SP AusNet maintains oversight of its material business risks (financial and non-financial) at an enterprise-wide level and reports regularly to the Audit and Risk Management Committee and the Board of Directors on the effectiveness of the management of these risks. SP AusNet is cognisant of the following principal risks which may materially impact the execution and achievement of its business strategy and prospects.

While the risks below have been described in relation to the SP AusNet Group, and are managed at the Stapled Group level, they are applicable to the SP AusNet Transmission Group.

(a) Taxation risks

As a large taxpayer with a stapled structure and two tax consolidated groups, the Australian Tax Office (ATO) regularly reviews the various tax positions adopted by SP AusNet. There is the risk that changes in tax law, or changes in the way tax laws are interpreted, may materially impact the tax liabilities of the Stapled Group or the tax losses currently available to offset future taxable profits. SP AusNet manages this risk via a Board-approved Tax Risk Management policy which outlines a number of review and sign-off procedures, including the utilisation of external tax and legal advisors, for each tax position based on the assessed level of judgement of that position.

SP AusNet presently has a number of unresolved issues with the ATO that, if they were to conclude unfavourably to SP AusNet, would result in a significant outflow of resources. The status of each of these matters is summarised below.

Directors' report (continued)

Material risks and uncertainties (continued)

(a) Taxation risks (continued)

Section 163AA impost

On 7 April 2014 the Full Court of the Federal Court of Australia delivered judgment against SP AusNet in an appeal against disputed tax amended assessments relating to deductions claimed for amounts imposed under Section 163AA of the Electricity Industry Act (1993) (Vic).

The total after tax disputed amount is \$86.7 million as at 31 March 2014 (representing \$54.0 million of primary tax, plus a tax-effected interest component of \$32.7 million). This amount has been recognised as a tax charge in the income statement for the year ended 31 March 2014. Of this total disputed amount, SP AusNet paid \$30.6 million to the ATO in October 2011.

In May 2014, an application to the High Court of Australia for special leave to appeal the Full Federal Court decision was lodged. The application hearing is expected to be heard in the second half of calendar year 2014. SP AusNet continues to believe that the fees imposed under Section 163AA are deductible.

Intellectual property

On 25 March 2014 the Federal Court of Australia delivered judgment in favour of SP AusNet in relation to intellectual property deductions claimed in the 1998 to 2011 years, inclusive. The disputed taxes amount to \$90.8 million (representing \$27.4 million of primary tax, \$23.3 million of interest penalties and \$40.1 million of future tax benefits). Of this amount, SP AusNet paid \$17.1 million to the ATO in October 2011.

The ATO has subsequently lodged a notice of appeal in the Federal Court. It is expected that the appeal will be heard in the second half of calendar year 2014, with a decision expected before the end of calendar year 2014.

Intra-group financing arrangements

The ATO are conducting an audit review of SP AusNet's intra-group financing arrangements for the 2010 - 2014 income years. The primary focus of the audit is to consider the classification of loans made by SP AusNet Finance Trust. In the event that prior year interest deductions are unavailable, a primary tax liability of \$79.8 million and \$20.7 million of interest penalties and incremental withholding tax would arise in the SP AusNet Transmission tax consolidation group. In addition, a primary tax liability of \$128.9 million would arise in the SP AusNet Distribution tax consolidated group, however this would not result in a cash tax liability due to carry forward tax losses. \$17.2 million of incremental withholding tax would also arise in the SP AusNet Distribution tax consolidated group.

The audit review is expected to be finalised by November 2014. In addition to prior interest deductions, there is also a risk that future deductions may also be unavailable.

(b) Regulatory risks

The energy industry in Australia is highly regulated. Approximately 91 per cent of the SP AusNet Transmission Group's revenues are subject to periodic reviews by the AER, where revenue or prices are determined for each of the networks for the specified regulatory period. Regulated revenues are determined based on a building block approach that is designed to cover a regulated networks' operating and maintenance costs, depreciation, tax, and a return on assets. The AER also applies an incentive framework which provides for higher (or lower) regulated returns if the network responds (or fails to respond). The key schemes in incentive framework incentivise capex efficiency, opex efficiency and service standard performance.

There is a risk that costs approved by the AER may be insufficient to recover SP AusNet's actual costs. In addition, there is a risk that costs may unexpectedly increase during a regulatory period, or that additional costs may need to be incurred, and that SP AusNet will spend more than the regulatory allowance upon which revenues are derived which may adversely affect the financial performance and position of SP AusNet.

Maximum demand is a key driver of investment in the electricity transmission network. Maximum demand is subject to seasonal fluctuations and to a range of variables, including economic conditions, population growth, government policy, weather, alternative energy sources and availability of adequate supplies of electricity and gas.

Directors' report (continued)

Material risks and uncertainties (continued)

(b) Regulatory risks (continued)

SP AusNet carefully manages these risks in a number of ways. Prior to the commencement of a regulatory period, SP AusNet will develop a detailed plan of works to be undertaken and costs to be incurred. Particular emphasis is placed on ensuring that SP AusNet continues to maintain safe, resilient and reliable networks and that the costs to be incurred are efficient and prudent. This information is submitted to the AER as part of the determination process, and where appropriate the views of industry and other external experts is sought to include in the submission. During the regulatory period SP AusNet continuously monitors and manages its costs through processes and systems which produce high quality data, efficiency, effectiveness and controllability.

In addition to these operating risks, the regulatory framework within which SP AusNet operates continues to evolve. A number of key economic regulatory framework reviews have reached their conclusion and have either progressed to implementation or remain as recommendations for decision-making. The key elements of these reviews and changes are as follows:

- A new rate of return framework has been established and the AER has greater discretion on the approach for setting the Weighted Average Cost of Capital (WACC). These new guidelines will first apply to SP AusNet under the electricity distribution reset on 1 January 2016.
- A number of other rule changes have been made to provide new tools, such as capital expenditure sharing schemes and ex-post efficiency reviews, so the regulator can incentivise network service providers to invest capital efficiently. The regulator will also have an increased regard to benchmarking in making revenue determinations.
- Legislative amendments to the limited merits appeal regime were passed in November 2013. The threshold for leave to appeal has been raised by requiring the applicant to establish a prima facie case that a materially preferable decision exists.

The application of these new rules and guidelines, as well as any future regulatory reform, may have an adverse impact on SP AusNet in future regulatory determinations.

(c) Funding and market risks

SP AusNet relies on access to financial markets as a significant source of liquidity for capital requirements not satisfied by operating cash flows. SP AusNet's access to financial markets could be adversely impacted by various factors, such as a material adverse change in SP AusNet's business or a reduction in its credit rating. The inability to raise capital on favourable terms, particularly during times of uncertainty in the financial markets, could impact SP AusNet's ability to sustain and grow its businesses, which are capital intensive, and would likely increase its capital costs.

Furthermore, SP AusNet has a large amount of debt, with a net debt to Asset Base ratio at 31 March 2014 of 68.6 per cent. The degree to which SP AusNet may be leveraged in the future could affect SP AusNet's ability to service its obligations, pay distributions, make capital investments, and respond to competitive pressures or to obtain additional financing. In addition, SP AusNet is exposed to a number of market risks associated with this debt, including interest rate risk.

SP AusNet effectively manages these risks in accordance with its Treasury Risk Policy which is approved by the Board and reviewed at least annually. Under this policy, SP AusNet aims to have a diverse funding mix in terms of source and tenure and proactively monitors and manages its credit metrics, in order to maintain its 'A' range credit rating and ensure continued access to various markets and to limit the funding requirement for any given year. In addition, through the use of derivative instruments SP AusNet aims to hedge 90 – 100 per cent of its interest rate risk.

(d) Information and communication technology risks

Information and Communication Technology (ICT) is playing an increasing role in the management and operation of the networks as SP AusNet strives to achieve its strategic objectives of an efficient business model, safe, resilient and reliable networks, and a highly developed customer service capability. SP AusNet is currently making a number of significant ICT investments and operational changes which include the following:

Directors' report (continued)

Material risks and uncertainties (continued)

(d) Information and communication technology risks (continued)

- On 31 March 2014 SP AusNet terminated its agreement with EBS for the provision of information technology services. SP AusNet intends to transition its share of existing EBS activities into the core SP AusNet IT function as soon as practicable.
- As noted in the Strategy section above, SP AusNet has initiated an enterprise-wide program to improve processes, including the replacement of multiple asset management and resource planning platforms with a single fully integrated system.

There are both operational and financial risks associated with the successful implementation of these programs and the broader role of ICT on SP AusNet. These risks may negatively impact SP AusNet's ability to have these costs recovered under the regulatory process and ultimately the future financial performance of SP AusNet. Through rigorous planning and program management processes, as well as an appropriate risk management framework of governance and controls, SP AusNet carefully manages these risks.

Environmental regulation and climate change

The SP AusNet Transmission 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.

Under the *National Greenhouse and Energy Reporting (NGER) Act 2007*, corporations that meet or exceed thresholds are required to report greenhouse gas emissions and energy usage by 31 October each year. SP AusNet meets these thresholds and has lodged its current year's NGER reporting with the Clean Energy Regulator for the period from 1 July 2012 to 30 June 2013.

From 1 July 2012, the carbon pricing mechanism (introduced by the *Clean Energy (CE) Act 2011*) applies to certain greenhouse gas emissions, with liable entities being required to surrender carbon permits for each tonne of carbon dioxide equivalent emitted for each eligible financial year. This legislation also introduces additional annual reporting and compliance requirements for SP AusNet.

SP AusNet has estimated the annual cost of the carbon price based on direct emissions and other business impacts. These estimates show that the direct financial impact is unlikely to be material for the Stapled Group.

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 SP AusNet Transmission Group that occurred during the year under review.

Matters subsequent to the end of the financial year

Dividend

Since the end of the financial year, the Directors have approved a final dividend for 2014 of [\$47.2 million] (1.393 cents per share) to be paid on 27 June 2014.

With the exception of the matters outlined above, the Directors are not aware of any circumstances that have arisen since 31 March 2014 that have significantly affected or may significantly affect the operations, and results of those operations or the state of affairs, of the SP AusNet Transmission Group in financial years subsequent to 31 March 2014.

Directors' report (continued)

Information on Directors

Ng Kee Choe – Chairman – Non-executive

Bachelor of Science (Honours), University of Singapore

Experience and expertise

Mr Ng serves as Chairman of CapitaLand Ltd and CapitaMalls Asia Limited and as President-Commissioner of PT Bank Danamon Indonesia, Tbk. He is a Director of Singapore Exchange Ltd and Fullerton Financial Holdings Pte Ltd. 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 the Chairman of NTUC Income Insurance Co-Operative Limited and the Chairman and Director of Singapore Power Limited and Singapore Airport Terminal Services Limited. He was also Vice-Chairman and Director of DBS Group Holdings, retiring from his executive position in 2003 after 33 years' service.

Other current listed company directorships

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)
CapitaMalls Asia Limited (2013 to date) (SGX-ST and Hong Kong Stock Exchange Listed entity)

Former listed company directorships in last 3 years

Singapore Airport Terminal Services Ltd (2000 to 2012) (SGX-ST listed entity)

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 Management, Deakin University
Advanced Management Programme, Harvard Business School, USA

Experience and expertise

Mr Ficca has over 30 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 and the Issuing Committee.

Directors' report (continued)

Information on Directors (continued)

Ralph Craven – *Non-executive Director*

Bachelor of Engineering (Electrical - Honours), University of Queensland
Doctor of Philosophy, University of New South Wales
Postgraduate Diploma in Management, Deakin University
Postgraduate Diploma in Information Processing, University of Queensland

Experience and expertise

Dr Craven is currently the Chairman of Invion Limited and a Director of Senex Energy Limited and Mitchell Services Limited. He is also Director of Windlab Systems Pty Ltd and the International Electrotechnology Commission. He was formerly Chair of Ergon Energy Corporation Limited, Tully Sugar Limited and Deputy Chair of Arrow Energy Pty Ltd. Dr Craven was CEO of Transpower New Zealand Limited and also held senior executive positions in Shell Coal Pty Ltd and NRG Asia Pacific Limited. He is a Fellow of the Australian Institute of Company Directors, a Fellow of the Institution of Engineers Australia and a Fellow of the Institution of Professional Engineers New Zealand.

Other current listed company directorships

Invion Limited (2011 to date)
Senex Energy Limited (2011 to date)
Mitchell Services Limited (2011 to date)

Former listed company directorships in last 3 years

None

Date of initial appointment

SP AusNet Transmission – 24 January 2014
SP AusNet Distribution - 24 January 2014
Responsible Entity - 24 January 2014

Special responsibilities

Member of the Audit and Risk Management Committee, the Compliance Committee and the Bushfire Litigation Committee.

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

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

Experience and expertise

Professor Davis is a Director of Singapore Power Limited and CHAMP Ventures Pty Ltd. He is a former Director of the Transurban Group and a Professor Emeritus of the University of New South Wales, after retiring from the Australian Graduate School of Management (AGSM). 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 (now ASX Limited) and Australian Institute of Management.

Other current listed company directorships

None

Former listed company directorships in last 3 years

Transurban Group (1997 to 2011)

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 and the Bushfire Litigation Committee.

Directors' report (continued)

Information on Directors (continued)

Sally Marie Farrier – *Independent Non-executive Director*

Bachelor of Chemical and Process Engineering (First Class Honours), University of Canterbury, New Zealand

Masters of Business Administration, Victoria University of Wellington

Post Graduate Diploma in Finance and Investment Analysis, Securities Institute of Australia

Experience and expertise

Ms Farrier is currently a Director of Meridian Energy Limited and a founding Director of Farrier Swier Consulting Pty Limited. Past directorships include Manidis Roberts Pty Limited, Hydro Tasmania and Western Power. In addition, Ms Farrier has served as a National Water Commissioner, and in Victoria, she was a Member of the Victorian Water Trust Advisory Council. She is a Member of the Australian Institute of Company Directors and a Fellow of the Financial Services Institute of Australasia.

Other current listed company directorships

Meridian Energy Limited (2012 to date) (New Zealand Stock Exchange Listed Company)

Former listed company directorships in last 3 years

None

Date of initial appointment

SP AusNet Transmission – 24 January 2014

SP AusNet Distribution - 24 January 2014

Responsible Entity - 24 January 2014

Special responsibilities

Member of the Audit and Risk Committee and the Compliance Committee.

Eric Gwee Teck Hai – *Non-executive Director*

Bachelor of Engineering (Mechanical), University of Melbourne

Experience and expertise

Mr Gwee is a former Director of Singapore Power Limited, WorleyParsons Ltd and 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

None

Former listed company directorships in last 3 years

WorleyParsons Ltd (2005 to 2011)

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 and the Remuneration Committee.

Directors' report (continued)

Information on Directors (continued)

Ho Tian Yee – *Non-executive Director*

Bachelor of Arts (Economics), Portsmouth University, UK

Experience and expertise

Mr Ho is currently the Managing Director and principal shareholder of Pacific Asset Management (S) Pte Ltd, and an investment advisor to Blue Edge Advisors Pte Ltd. Mr Ho was previously the General Manager and Managing Director of Bankers Trust Company, Singapore. He currently serves as a non-executive director of DBS Group Holdings Ltd and Fullerton Funds Management Company. He is also a Board member of Singapore Power Limited.

Other current listed company directorships

DBS Group Holdings Ltd (2011 to date) (SGX-ST listed company)

Former listed company directorships in last 3 years

Singapore Exchange Ltd (1999 to 2013) (SGX-ST listed company)

Fraser & Neave Ltd (1997 to 2011) (SGX-ST listed company)

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 Nomination 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 Empire Oil and Gas NL, Energia Minerals Ltd, HBF Health Ltd, D'Orsogna Ltd and MG Kailis Group of Companies. He is also a director of ERM Power Ltd, Water Corporation of WA 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)

Empire Oil and Gas NL (2013 to date)

Former listed company directorships in last 3 years

None

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 Nomination Committee, the Bushfire Litigation Committee and the Issuing Committee.

Directors' report (continued)

Information on Directors (continued)

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. She is also a Director of Circadian Technologies Ltd and the Cooperative Research Centre for Spatial Information. She is a former Chair of the Centre for Eye Research Australia and a former Director of Metlink Victoria Pty Ltd and 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. Ms McMeckan is a Fellow of the Australian Institute of Company Directors.

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

Chairman of the Compliance Committee and a member of the Remuneration Committee and the Audit and Risk Management Committee.

Ian Andrew Renard AM – *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 a Director of Hillview Quarries Pty Ltd. He is trustee of the R E Ross Trust and former Chancellor of the University of Melbourne. Mr Renard 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.

Other current listed company directorships

None

Former listed company directorships in last 3 years

CSL Ltd (1998 to 2013)

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 the Bushfire Litigation Committee and member of the Nomination Committee.

Directors' report (continued)

Information on Directors (continued)

Sun Jianxing - *Non-executive Director*

Bachelor of Engineering, Northeast Dianli University, China

Experience and expertise

Mr Sun is a Non-executive Director of ElectraNet and currently holds the role of Head of State Grid Corporation of China Australia Representative Office. His previous roles include Deputy CEO of State Grid Energy Development Company Ltd, Deputy Director General of Materials & Equipment Supplying Department, State Grid Corporation of China, Chief Engineer of State Grid Shenzhen Energy Developments Ltd and Division Chief of Department of International Affairs, State Grid Corporation of China. In his early years, Mr Sun also worked as a Senior Engineer at the China General Institute for Electric Power Planning and Designing.

Other current listed company directorships

None

Former listed company directorships in last 3 years

None

Date of initial appointment

SP AusNet Transmission – 24 January 2014

SP AusNet Distribution - 24 January 2014

Responsible Entity - 24 January 2014

Special responsibilities

Member of the Nomination Committee and the Remuneration 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 20 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 2014, 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 Lefroy¹	3	4	3	4	3	4
Tina McMeckan	8	8	8	8	8	8
Ian Renard	8	8	8	8	8	8
Sun Jianxing	2	2	2	2	2	2
Ralph Craven	2	2	2	2	2	2
Sally Farrier	2	2	2	2	2	2

1 Mr Lefroy retired as a Non-Executive Director effective 18 July 2013.

A = Number of meetings attended

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

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 2014, 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	**	**	**	**	4	4	**	**
Nino Ficca	**	**	**	**	**	**	**	**
Jeremy Davis	5	7	**	**	4	4	**	**
Eric Gwee	7	7	**	**	4	4	3	3
Ho Tian Yee	**	**	3	3	**	**	3	3
Tony Iannello	7	7	3	3	**	**	**	**
George Lefroy	**	**	**	**	**	**	1	1
Tina McMeckan	7	7	2	2	**	**	3	3
Ian Renard	5	5	2	2	4	4	2	3
Sun Jianxing	**	**	**	**	**	**	1	1
Ralph Craven	2	2	1	1	**	**	**	**
Sally Farrier	1	2	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**

Directors' report (continued)

Meetings of Directors (continued)

The number of meetings of the Bushfire Litigation Committee and the Issuing Committee held during the year ended 31 March 2014, and the number of meetings attended by each Director, are set out in the following table.

	Bushfire Litigation Committee		Issuing Committee	
	A	B	A	B
Ng Kee Choe	**	**	3	3
Nino Ficca	2	2	3	3
Ho Tian Yee	**	**	3	3
Tony Iannello	2	2	3	3
George Lefroy	1	1	**	**
Ian Renard	2	2	**	**

A = Number of meetings attended

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

****** = Not a member of the relevant committee

Draft

Directors' report (continued)

Remuneration Report (audited)

Introduction to remuneration report

The remuneration report for the year ended 31 March 2014 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 or indirectly, including any Director of the parent company.

In performing its role, the Board and Remuneration Committee may directly commission and receive information and advice from independent external advisers to ensure remuneration recommendations in relation to KMP are free from undue influence by management.

In March 2010, the Remuneration Committee appointed PwC as its remuneration adviser. This appointment was formalised in August 2011 following changes to the Corporations Act in relation to the appointment of remuneration advisers.

No remuneration recommendations were provided by PwC to the Remuneration Committee or Board during the reporting period. Advice was provided to the Remuneration Committee by PwC during the reporting period which outlined the current overall market conditions and external pay practices amongst a selected peer comparator group. This advice included an analysis of existing levels of fixed and performance remuneration of SP AusNet's KMP and executives and assisted the Board in reviewing and determining overall remuneration outcomes for the KMP and executives for the reporting period.

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. There have been no additional appointments or resignations of Directors throughout the reporting period.

Name	Position
Ng Kee Choe	Non-executive Chairman
Nino Ficca	Managing Director
Ralph Craven	Non-executive Director (appointed 24 January 2014)
Jeremy Davis	Non-executive Director
Sally Farrier	Non-executive Director (appointed 24 January 2014)
Eric Gwee	Non-executive Director
Ho Tian Yee	Non-executive Director
Tony Iannello	Non-executive Director
Sun Jianxing	Non-executive Director (appointed 24 January 2014)
George Lefroy	Non-executive Director (up to 18 July 2013)
Tina McMeckan	Non-executive Director
Ian Renard	Non-executive Director

Directors' report (continued)**Remuneration report (audited) (continued)**

The persons listed below were KMP of SP AusNet during the financial year ended 31 March 2014.

Name	Position
Nino Ficca	Managing Director
John Azaris	General Manager Service Delivery (KMP from 1 April 2013)
Chad Hymas	General Manager Strategy & Business Development (KMP from 1 April 2013)
John Kelso	General Manager Select Solutions
Adam Newman	Chief Financial Officer and General Manager Finance
Alistair Parker	General Manager Asset Management (KMP from 1 April 2013)
Ash Peck ¹	General Manager Information and Communication Technology (up to 6 December 2013)
Mario Tieppo	General Manager Information and Communication Technology (appointed 9 December 2013)

¹ On 6 December 2013, Mr Peck ceased to be a KMP of SP AusNet and resigned from SP AusNet on 9 December 2013.

Up to 31 March 2014, SPI Management Services Pty Ltd (SPI Management Services), a wholly-owned subsidiary of related party Singapore Power International Pte Ltd (SPI), provided 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 above 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 major activities of SP AusNet during the financial year.

On 31 March 2014, SP AusNet, Singapore Power and SPI Management Services entered into a Termination Deed, pursuant to which they agreed to terminate the Management Services Agreement with effect from 31 March 2014. As a result of this termination, KMP and other employees who were previously employed by SPI Management Services were offered, and accepted, employment with SP AusNet, under either SPI Electricity Pty Ltd or SPI PowerNet Pty Ltd, on the same terms as their existing remuneration arrangements, including the preservation of all existing entitlements and participation in incentive arrangements.

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.

	2010	2011	2012	2013 (restated)	2014
Revenue	\$1,333.6m	\$1,468.0m	\$1,535.4m	\$1,639.5m	\$1,799.4m
NPAT from continuing operations	\$209.0m	\$252.9m	\$255.0m	\$273.5m	\$178.3m¹
Closing security price as at 31 March	\$0.91	\$0.87	\$1.075	\$1.195	\$1.31
Distributions in respect of financial year (cents per stapled security)	8.00	8.00	8.00	8.20	8.36

¹ NPAT from continuing operations for the year ended 31 March 2014 includes a net charge of \$86.7 million for the amount potentially payable under the Section 163AA impost dispute with the Australian Tax Office (ATO) and \$40.4 million (net of tax) for the termination payment and restructuring provision arising from the Termination Deed.

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. 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.
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 (including any additional fees for special duties or exertions) 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 \$2,000,000 per year at the Annual General Meeting of SP AusNet held on 19 July 2012.
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	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.
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.

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) for the financial year ended 31 March 2014 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 ^{1, 2}	\$330,000
Board Directors	\$121,000
Audit and Risk Management Committee Chairman	\$30,000
Audit and Risk Management Committee Members	\$18,000
Compliance Committee Chairman	\$21,600
Compliance Committee Members	\$12,000
Remuneration Committee Chairman	\$24,000
Remuneration Committee Members	\$12,000
Nomination Committee Chairman	\$15,000
Nomination Committee Members	\$12,000
Issuing Committee Members ²	\$12,000

1 The Board Chairman is currently Chairman of the Nomination Committee. As his Board fee is all-inclusive, no Nomination Committee Chairman's fee is currently paid.

2 At its November 2013 meeting, the Board resolved to formalise the Issuing Committee as a standing Committee of the Board effective 1 January 2014. The Board Chairman is currently Chairman of the Issuing Committee. As his Board fee is all-inclusive, no Issuing Committee Chairman's fee is currently paid.

3 In addition to the fees noted above, Non-executive Directors may also be paid fees for special duties or exertions.

At their meeting in November 2012, the Board resolved to increase Non-executive Director fees, effective from 1 April 2013. The increase in fees is within the fee limit approved by the securityholders of SP AusNet Distribution and SP AusNet Transmission at the Annual General Meeting held on 19 July 2012.

Managing Director and Senior Executives

The key objective of SP AusNet's policy for Managing Director and 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.

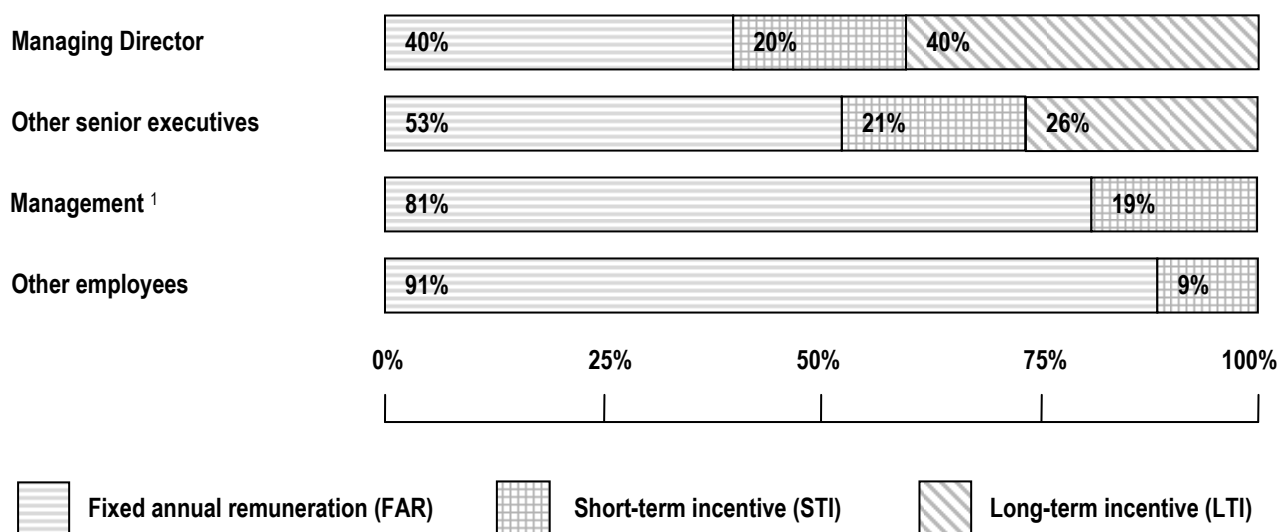
Directors' report (continued)

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 Short-Term Incentive (STI) plan. A Long-Term Incentive (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:



¹ 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' fixed annual remuneration. 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 advisers 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 FAR increases in any senior executive's contract of employment.

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, other senior executives and permanent employees on individual contracts of employment. 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 an executive.
Target STI amount	A target STI amount, expressed as a percentage of the senior executive's FAR, is specified for each senior executive. However, 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 other senior executives is 40% of FAR.
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 2014 included targets relating to: • employee, contractor and network safety; • earnings before interest, taxation, depreciation and amortisation; • return on equity; • capital efficiency; • business efficiency initiatives network performance and reliability; and • employee retention. 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. The Managing Director's stretch individual performance scorecard contained a range of measures designed to contribute value to the business and included: • safety leadership and strategy implementation; • financial KPI's including credit rating KPI's • Business Excellence and performance efficiency KPI's; • people management and leadership; and • customer and community. The performance assessment of the Managing Director's stretch individual performance scorecard is conducted by the Chairman and the Remuneration Committee Chairman, and reviewed by the Board prior to finalisation and any award being granted.
Performance period	12 months to 31 March 2014.
Delivery mechanism	100% cash payment. The Board retains the right to vary any STI payment at its discretion.

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 other 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 long-term securityholder value.
Target LTI amount	The LTI Award is calculated as a percentage of the participant's FAR as at the test date. 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 senior executive performance measures of Total Securityholder Return (TSR) and Earnings Per Security (EPS), with a further 25% for the achievement of stretch targets related to Return on Invested Capital (ROIC) and Interest Cover Ratio (ICR). - Other senior executives – 50% - Other participants – between 15% and 25%
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. With the exception of the Managing Director, where an additional 25% LTI opportunity was introduced from 1 April 2011, accompanied by new performance indicators of ROIC and ICR, the same performance measures have been used for senior executive LTI 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	35%
Between 50.1 and 74.9	Progressive vesting on a straight-line basis from greater than 35% 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: <table> <tr> <th>Compound annual growth rate</th><th>Percentage of EPS Award that vests</th></tr> <tr> <td>< 2.5% per annum</td><td>0%</td></tr> <tr> <td>Between 2.5% and 7.5% per annum</td><td>Linear scale from 50% to 150%</td></tr> <tr> <td>> 7.5% per annum</td><td>150%</td></tr> </table>	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%
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%								

ROIC: The ROIC measure applies to the Managing Director only and is designed to measure how effective SP AusNet uses funds (borrowed and owned) invested in its operations.

ROIC is calculated by $(\text{NPAT} + \text{Finance Cost adjusted for Tax}) / (\text{Equity} + \text{Debt})$

The target for this measure has been set as the average over the 3 year performance period, with the award calculated as follows:

SP AusNet's ROIC	Percentage of ROIC Award that vests
Below threshold	0%
Between threshold and target	Linear scale from 50% to 100%
Above target to stretch target	Linear scale from 100% to 125%
Above stretch target	125%

ICR: The ICR applies to the Managing Director only and is a key financial metric which provides an indication of SP AusNet's ability to meet ongoing interest bills and therefore service debt.

ICR equals $\text{Funds Flow from Operations} + \text{Finance Expenses} / \text{Finance Expenses}$

The target for this measure has been set as the average over the 3 year performance period, with the award calculated as follows:

SP AusNet's ICR	Percentage of ICR Award that vests
Below threshold	0%
Between threshold and target	Linear scale from 50% to 100%
Above target to stretch target	Linear scales from 100% to 125%
Above stretch target	125%

In order for the Managing Director to qualify for an award under both the ROIC and ICR measures, a safety performance hurdle of zero fatalities for SP AusNet employees in the 12 month period prior to vesting must be achieved.

Directors' report (continued)

Remuneration report (audited) (continued)

Long-term incentive (continued)

Key design aspect	Commentary
Delivery mechanism	Once the performance criteria have been satisfied, participants receive a cash award. The Board retains the right to vary any LTI payment at its discretion. 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. 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.
Clawback arrangements	Where, in the opinion of the Board, the performance measures applicable to an award have been satisfied as a result of the fraud, dishonesty or breach of obligations of the participant and, in the opinion of the Board, the performance measures would not otherwise have been satisfied, the Board may determine that the performance measures are not satisfied and may, subject to applicable laws, determine that any award paid in such circumstances be repaid by the participant to SP AusNet.

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.

Directors' report (continued)**Remuneration report (audited) (continued)****Total remuneration for Non-executive Directors for the year ended 31 March 2013 and 31 March 2014**

Non-executive Directors	Year	Short-term		Post-employment	Total
		Cash salary and fees	Other short-term benefits ¹	Super-annuation ²	
Ng Kee Choe (Chairman)	2014	302,233	-	27,767	330,000
	2013	229,358	-	20,642	250,000
Ralph Craven ⁵	2014	25,375	-	2,347	27,722
Jeremy Davis	2014	136,278	-	12,519	148,797
	2013	123,853	-	11,147	135,000
Sally Farrier ⁵	2014	25,375	-	2,347	27,722
Eric Gwee	2014	160,797	-	-	160,797
	2013	145,000	-	-	145,000
Ho Tian Yee ⁴	2014	143,783	-	13,217	157,000
	2013	133,028	-	11,972	145,000
Tony Iannello ^{3,4}	2014	176,745	-	16,255	193,000
	2013	174,312	-	15,688	190,000
Sun Jianxing ⁵	2014	24,430	-	2,260	26,690
George Lefroy ³	2014	51,335	-	4,665	56,000
	2013	146,789	-	13,211	160,000
Tina McMeckan	2014	151,010	-	13,882	164,892
	2013	123,853	-	11,147	135,000
Ian Renard ³	2014	179,641	-	16,518	196,159
	2013	186,239	-	16,761	203,000
Total for Non-executive Directors	2014	1,377,002	-	111,777	1,493,779
	2013	1,262,432	-	100,568	1,363,000

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 Received exertion payments in relation to services provided on the Bushfire Litigation Committee. Mr Lefroy ceased to be a member of this Committee upon his retirement on 18 July 2013 and as a consequence received a pro rata exertion payment up to this date.

⁴ Received exertion payments in relation to services provided on the Issuing Committee for the period up to 31 December 2013

⁵ Dr Craven, Ms Farrier and Mr Jianxing were all appointed to the Board on 24 January 2014.

Directors' report (continued)**Remuneration report (audited) (continued)****Total remuneration for key management personnel for the year ended 31 March 2013 and 31 March 2014**

		Short-term			Post-employment	Equity based payments ³	Termination benefits	Other long-term benefits ^{4,5}	Total
	Year	Cash salary and fees ⁵	Cash bonus ¹	Other short-term benefits ^{2,5}	Super-annuation				
Nino Ficca	2014	805,587	320,000	87,922	92,250	619,027	-	66,775	1,991,561
	2013	717,057	662,264	66,346	81,508	560,566	-	36,397	2,124,138
John Azaris ⁷	2014	329,076	102,400	37,648	42,214	126,660	-	10,016	648,014
Chad Hymas ⁷	2014	258,669	86,400	30,384	25,000	66,397	-	7,512	474,362
John Kelso	2014	299,795	90,144	37,003	31,233	126,524	-	52,711	637,410
	2013	243,113	136,737	28,402	25,449	77,029	-	11,570	522,300
Adam Newman	2014	579,310	180,000	54,747	25,000	199,797	-	15,642	1,054,496
	2013	45,977	150,000	3,822	1,916	7,024	-	1,066	209,805
Alistair Parker ⁷	2014	325,862	90,000	35,923	25,000	82,996	-	9,385	569,166
Ash Peck ⁶	2014	225,974	-	27,757	22,361	(100,948)	-	(22,929)	152,215
	2013	294,896	181,805	32,937	28,395	88,790	-	9,195	636,018
Mario Tieppo ⁸	2014	106,322	39,605	11,421	7,759	38,886	-	3,055	207,048
Geoff Nicholson	2013	437,078	297,729	38,808	41,480	122,250	86,773	(72,325)	951,793
Norm Drew	2013	371,040	244,761	37,944	47,904	119,659	-	20,001	841,309
Charles Popple	2013	352,313	215,149	31,968	35,422	103,956	-	13,125	751,933
Total KMP	2014	2,930,595	908,549	322,805	270,817	1,159,339	-	142,167	5,734,272
	2013	2,461,474	1,888,445	240,227	262,074	1,079,274	86,773	19,029	6,037,296

¹ 2014 cash bonuses include bonuses in respect of performance for the year ended 31 March 2014. These amounts have been approved and will be payable in June 2014.

² Other short-term benefits include 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 As the performance period over which the LTI 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. This estimated amount is based on certain assumptions regarding the achievement of performance targets which are reviewed and adjusted annually. Any adjustments to previously recognised amounts, both positive and negative, are included in the current year. The actual amounts paid under these Awards will not be known until the end of the performance period. Refer to the table below under the heading of key management personnel – 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 The above table represents the accounting value of KMP remuneration, calculated in accordance with accounting standards. As a result, annual leave and long service leave entitlements are recognised as remuneration when they accrue rather than when they are taken. This has the impact of reducing the cash salary and fees remuneration disclosed in the table above when these leave entitlements are ultimately taken by the KMP. In addition, any changes to the value of leave entitlements (for example, because of changes in FAR or long service leave entitlements not vesting) are recognised as remuneration, either positive or negative, in the year that the change occurs. These accounting adjustments to remuneration values are reflected in the *Cash Salary and Fees*, *Other Short-term Benefits* and *Other Long-term Benefits* disclosed in the table above.

⁶ Mr Peck ceased to be KMP on 6 December 2013. His remuneration up to this date has been included in the table above.

⁷ Mr Azaris, Mr Parker and Mr Hymas commenced as KMP on 1 April 2013.

⁸ Mr Tieppo commenced as KMP on 9 December 2013.

Directors' report (continued)**Remuneration report (audited) (continued)****Remuneration and Other Terms of Employment**

Remuneration and other terms of employment for the Managing Director and specified senior executives (including KMP) 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 2014, fixed annual remuneration was \$1,000,000. 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 senior executive performance measures of TSR and EPS, and 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.

In addition, the Managing Director participates in the SP AusNet Retention Plan. Under this plan, the Managing Director is entitled to receive up to 100% of FAR, contingent upon a change of control event occurring (as defined under the Corporations Act and ASX Listing Rules) and subject to continued employment up to 12 months following the change of control event. The Retention Plan is in place until 16 September 2015. The Board has absolute and unfettered discretion to act or refrain from acting under or in connection with the Retention Plan and in the exercise of any power or discretion under the Plan.

In accordance with that discretion, the Board decided that no payment would be made under the Retention Plan arising from the sale by Singapore Power to StateGrid of 19.9% of SP AusNet securities.

Senior executives

The major provisions contained in the services agreements of the other KMP listed are substantially the same as those that apply to the Managing Director although participation levels for STI, LTI and Retention Plan vary.

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 2013 and 31 March 2014, and the percentage that was forfeited because the senior executive did not meet the service or performance criteria, are set out below.

	Cash Bonus (2014) ¹			Cash Bonus (2013)		
	Payable (\$)	Percentage of available bonus		Paid (\$)	Percentage of available bonus	
		Payable (%)	Not Payable (%)		Paid (%)	Not Paid (%)
Nino Ficca	320,000	64.0	36.0	662,264	140.0	0.0
John Azaris	102,400	64.0	36.0	-	-	-
Chad Hymas	86,400	72.0	28.0	-	-	-
John Kelso	90,144	62.6	37.4	136,737	114.8	0.0
Adam Newman	180,000	72.0	28.0	-	-	-
Alistair Parker	90,000	60.0	40.0	-	-	-
Ash Peck	-	-	100.0	181,805	130.1	0.0
Mario Tieppo	39,605	80.0	20.0	-	-	-

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Bonuses for performance for the year ended 31 March 2014 have been approved and will be payable in June 2014.

Directors' report (continued)**Remuneration report (audited) (continued)****Key management personnel – 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 payable or forfeited and future financial years that grants may vest and be paid. The grants made in 2012 and 2013 are still in progress and, as such, no percentage of these grants have been paid or forfeited as at the date of this report.

	Date of grant	Percentage of maximum grant payable (%) ¹	Percentage of maximum grant forfeited (%)	Vesting date	Maximum total value of grant (\$) ²
Nino Ficca	1 April 2011	38.5	61.5	31 March 2014	1,250,000
John Azaris ⁴	1 April 2011	40.0	60.0	31 March 2014	250,000
Chad Hymas ⁴	1 April 2011	40.0	60.0	31 March 2014	93,750
John Kelso	1 April 2011	40.0	60.0	31 March 2014	225,000
Adam Newman	4 March 2013	40.0	60.0	31 March 2014	139,844
Alistair Parker ⁴	1 April 2011	40.0	60.0	31 March 2014	117,188
Mario Tieppo ³	9 December 2013	40.0	60.0	31 March 2014	25,550
Total granted 1 April 2011					2,101,332
Nino Ficca	1 April 2012	-	-	31 March 2015	1,296,875
John Azaris ⁴	1 April 2012	-	-	31 March 2015	259,375
Chad Hymas ⁴	1 April 2012	-	-	31 March 2015	97,266
John Kelso	1 April 2012	-	-	31 March 2015	233,438
Adam Newman	4 March 2013	-	-	31 March 2015	280,449
Alistair Parker ⁴	1 April 2012	-	-	31 March 2015	121,582
Mario Tieppo ³	9 December 2013	-	-	31 March 2015	113,088
Total granted 1 April 2012					2,402,073
Nino Ficca	1 April 2013	-	-	31 March 2016	1,345,508
John Azaris	1 April 2013	-	-	31 March 2016	269,102
Chad Hymas	1 April 2013	-	-	31 March 2016	201,826
John Kelso	1 April 2013	-	-	31 March 2016	242,191
Adam Newman	1 April 2013	-	-	31 March 2016	420,471
Alistair Parker	1 April 2013	-	-	31 March 2016	252,283
Mario Tieppo ³	9 December 2013	-	-	31 March 2016	207,154
Total granted 1 April 2013					2,938,535

¹ These grants have been approved and will be payable in June 2014. In determining LTI's for the 1 April 2011 grant, the Board has not exercised any discretion in relation to the performance measures and outcomes payable under the LTI Plan.

² For the grant of 1 April 2011, the amounts payable equated to 40.0% of the maximum LTI, except for Mr Ficca whereby the amount payable equated to 38.5% of the maximum LTI. For the grants of 1 April 2012 and 1 April 2013, the amounts are based on maximum performance in relation to TSR, EPS, ROIC and ICR at the end of the three-year performance period described above and assumes prevailing FARs increase by 3.75% per annum.

³ Mr Tieppo commenced as KMP from 9 December 2013. As part of his contract of employment, Mr Tieppo has been granted pro-rata participation in the 1 April 2011, 1 April 2012 and 1 April 2013 tranches of the Company's LTI plan, which are due to be tested on 31 March 2014, 31 March 2015 and 31 March 2016 respectively. The maximum total value of grant disclosed above is based on this pro-rata entitlement.

⁴ Mr Azaris, Mr Hymas and Mr Parker commenced as KMP from 1 April 2013. The LTI participation and maximum grant payable disclosed above also include those LTI's that were granted prior to their commencement as KMP.

Directors' report (continued)

Remuneration report (audited) (continued)

Directors' interests

The Directors of SP AusNet have disclosed relevant interests in stapled securities as at the date of this report as follows:

Name	Number of stapled securities
Ng Kee Choe ¹	195,883
Nino Ficca ²	1,268,183
Ralph Craven	-
Jeremy Davis	120,750
Sally Farrier	-
Eric Gwee ¹	153,591
Ho Tian Yee	-
Tony Iannello ³	190,976
Sun Jianxing	-
George Lefroy ⁴	275,086
Tina McMeckan ⁵	90,000
Ian Renard	84,898

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

² 319 850 securities held by immediate family members of Mr Ficca and 948,333 securities held by Mr and Mrs Ficca as Trustees for the Ficca Investment Trust.

³ 87,500 securities held jointly by Mr Iannello and immediate family members of Mr Iannello through a Superannuation Plan and 103,476 securities held by immediate family members of Mr Iannello as trustee for the ADI Investment Trust.

⁴ Securities held by Serp Hills Pty Ltd (as trustee for Serp Hills Super Fund). Dr Lefroy retired as a Director of SP AusNet on 18 July 2013.

⁵ Securities held by McMeckan Superannuation Pty Ltd as Trustee for the McMeckan Family Super Fund.

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 21 of the 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 180.

Directors' report (continued)

31 March 2014

Rounding of amounts

SP AusNet Transmission 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 to the nearest hundred thousand dollars or, in certain cases, 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
14 May 2014



Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of SP Australia Networks (Transmission) Ltd

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 31 March 2014 there have been:

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

KPMG

KPMG

Michael Bray
Partner

Melbourne

14 May 2014

Consolidated income statement

For the year ended 31 March 2014

		2014	2013
			(restated*)
	Notes	\$M	\$M
Revenue	2	649.1	620.4
Expenses, excluding finance costs and termination expenses	3	(302.4)	(283.4)
Termination expenses	3	(17.8)	-
Profit from operating activities		328.9	337.0
Finance income	4	16.1	4.8
Finance costs	4	(201.3)	(205.5)
Net finance costs		(185.2)	(200.7)
Profit before income tax		143.7	136.3
Income tax expense	5	(130.2)	(40.5)
Profit for the year		13.5	95.8
Earnings per share attributable to the ordinary equityholders of SP AusNet Transmission			
Basic and diluted earnings per share (cents per share)	7	0.40	2.93

*Restated in accordance with AASB 119 Employee Benefits. Refer note 1(w).

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

Consolidated statement of comprehensive income

For the year ended 31 March 2014

	2014	2013
		(restated*)
	\$M	\$M
Profit for the year	13.5	95.8
Other comprehensive income		
Items that will not be reclassified to profit or loss in subsequent periods		
Movement in defined benefit fund	13.4	0.1
Income tax on movement in defined benefit fund	(4.0)	-
	9.4	0.1
Items that may be reclassified to profit or loss in subsequent periods		
Movement in hedge reserve	-	0.1
Income tax on movement in hedge reserve	-	-
	-	0.1
Other comprehensive income for the year, net of income tax	9.4	0.2
Total comprehensive income for the year	22.9	96.0

*Restated in accordance with AASB 119 Employee Benefits. Refer note 1(w).

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

Consolidated statement of financial position

As at 31 March 2014

	Notes	2014 \$M	2013 (restated*) \$M
ASSETS			
Current assets			
Cash and cash equivalents		49.3	100.0
Receivables	8	80.9	76.6
Inventories	9	3.5	1.7
Derivative financial instruments		0.1	-
Other assets	10	5.7	8.9
Total current assets		139.5	187.2
Non-current assets			
Receivables	8	215.3	224.2
Inventories	9	17.6	16.7
Property, plant and equipment	11	3,648.2	3,512.7
Intangible assets	12	24.4	-
Tax receivable	22(b)	17.1	47.7
Other assets	10	1.6	-
Total non-current assets		3,924.2	3,801.3
Total assets		4,063.7	3,988.5
LIABILITIES			
Current liabilities			
Payables and other liabilities	13	63.8	71.3
Current tax payable		69.7	9.9
Borrowings	14	1,590.8	1,583.5
Provisions	15	33.7	17.7
Derivative financial instruments		0.1	-
Total current liabilities		1,758.1	1,682.4
Non-current liabilities			
Payables and other liabilities	13	2.6	0.4
Borrowings	14	2,077.6	2,009.3
Provisions	15	3.1	12.5
Deferred tax liabilities	5(d)	281.0	272.5
Total non-current liabilities		2,364.3	2,294.7
Total liabilities		4,122.4	3,977.1
Net (liabilities)/assets		(58.7)	11.4
EQUITY			
Equityholders of SP AusNet Transmission			
Contributed equity	16	650.1	650.1
Retained profits		386.3	456.4
		1,036.4	1,106.5
Other equity component arising from reverse acquisition		(1,095.1)	(1,095.1)
Total equity		(58.7)	11.4

*Restated in accordance with AASB 119 Employee Benefits. Refer note 1(w).

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

Consolidated statement of changes in equity

For the year ended 31 March 2014

	Notes	Contributed equity \$M	Hedge reserve (i) \$M	Retained profits \$M	Other equity component (ii) \$M	Total equity \$M
31 March 2014						
Balance as at 1 April 2013 (restated*)		650.1	-	456.4	(1,095.1)	11.4
Total comprehensive income for the year						
Profit for the year		-	-	13.5	-	13.5
Other comprehensive income		-	-	9.4	-	9.4
Total comprehensive income for the year		-	-	22.9	-	22.9
Transactions with owners, recorded directly in equity						
Dividends paid	6	-	-	(93.0)	-	(93.0)
Total transactions with owners		-	-	(93.0)	-	(93.0)
Balance as at 31 March 2014		650.1	-	386.3	(1,095.1)	(58.7)
31 March 2013 (restated*)						
Balance as at 1 April 2012 (restated*)		650.1	(0.1)	444.7	(1,095.1)	(0.4)
Total comprehensive income for the year						
Profit for the year		-	-	95.8	-	95.8
Other comprehensive income		-	0.1	0.1	-	0.2
Total comprehensive income for the year		-	0.1	95.9	-	96.0
Transactions with owners, recorded directly in equity						
Dividends paid	6	-	-	(84.2)	-	(84.2)
Total transactions with owners		-	-	(84.2)	-	(84.2)
Balance as at 31 March 2013 (restated*)		650.1	-	456.4	(1,095.1)	11.4

- (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 when the gains or losses are included in the initial measurement of that asset (refer note 1(l)).
- (ii) 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.

*Restated in accordance with AASB 119 Employee Benefits. Refer note 1(w).

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

Consolidated statement of cash flows

For the year ended 31 March 2014

	Notes	2014 \$M	2013 \$M
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		721.1	669.2
Payments to suppliers and employees (inclusive of goods and services tax)		(270.6)	(243.1)
Income tax paid		(35.4)	(40.8)
Finance income received		14.0	1.9
Finance costs paid		(201.2)	(181.6)
Net cash inflow from operating activities	29	227.9	205.6
Cash flows from investing activities			
Payments for property, plant and equipment		(246.0)	(235.7)
Proceeds from sale of property, plant and equipment		0.3	0.7
Payments for acquisition of a subsidiary (net of cash acquired)	26	(24.2)	-
Payment for desalination licence	8	-	(235.5)
Repayment of desalination licence receivable	8	8.8	1.1
Net cash outflow from investing activities		(261.1)	(469.4)
Cash flows from financing activities			
Proceeds from loans with related parties		1,154.7	1,780.7
Repayment of loans with related parties		(1,079.2)	(1,334.3)
Dividends paid	6	(93.0)	(84.2)
Net cash (outflow)/inflow from financing activities		(17.5)	362.2
Net (decrease)/increase in cash held		(50.7)	98.4
Cash and cash equivalents at the beginning of the year		100.0	1.6
Cash and cash equivalents at the end of the year		49.3	100.0

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

Notes to the consolidated financial statements

31 March 2014

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Notes to the consolidated financial statements

31 March 2014

Note 1 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial report are set out below.

(a) Basis of preparation

The financial report, prepared by a for-profit entity for the year ended 31 March 2014, represents financial statements for the consolidated entity, which consists of SP AusNet Transmission and its subsidiaries. The consolidated entity is referred to as the SP AusNet Transmission Group.

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards and interpretations adopted by the Australian Accounting Standards Board and the *Corporations Act 2001* (Cth). The consolidated financial statements and notes also comply with International Financial Reporting Standards and interpretations adopted by the International Accounting Standards Board. Where the classification of items has been amended in the financial report, the comparative information has been restated to align to the revised classification unless otherwise noted.

This general purpose financial report is presented in Australian dollars.

The financial statements were approved by the Board of Directors on 14 May 2014.

The SP AusNet Transmission Group's current liabilities exceed its current assets by \$1,618.6 million at 31 March 2014 (2013: \$1,495.2 million) due primarily to \$1,590.8 million of short-term debt which is payable to another entity in the Stapled Group, SP AusNet Finance Trust.

The financial report has been prepared on a going concern basis, which contemplates the continuity of normal trading operations. The SP AusNet Transmission Group is, and is expected to continue trading profitably, generating positive cash flows and refinancing short-term debt. In addition, the SP AusNet Transmission Group has access to funds through SPI Electricity & Gas Australia Holdings Pty Ltd, a subsidiary of SP AusNet Distribution, which is the common or central funding vehicle (CFV) for the Stapled Group to which the SP AusNet Transmission Group belongs. Whilst the short term debt from SP AusNet Finance Trust is repayable on demand, the loan agreements are for terms of ten years and mature in October 2015 and December 2018 (refer note 24 for further details on terms and conditions). The Directors do not expect that SP AusNet Finance Trust will demand repayment of the outstanding principal and unpaid accrued interest prior to the expiration of the term.

Through the CFV, SP AusNet successfully established the following bond issues and bank debt facilities during the current financial year:

- An inaugural EUR 500 million seven-year bond issue to raise approximately \$707 million in July 2013;
- a EUR 350 million ten-year bond issue to raise approximately \$543 million in February 2014; and
- a \$450 million five-year bank debt facility in March 2014.

As at 31 March 2014, the Stapled Group has available a total of \$550 million of undrawn but committed non-current bank debt facilities, \$197 million of undrawn but committed current bank debt facilities, and \$409.8 million cash on deposit.

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

Notes to the consolidated financial statements

31 March 2014

Note 1 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(i) Historical cost convention

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

(ii) Critical accounting estimates and judgements

The preparation of financial statements in conformity with Australian Accounting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the SP AusNet Transmission 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 19.

(b) Principles of consolidation

(i) Reverse acquisition

On 19 October 2005, SP AusNet Transmission acquired 100 per cent of the issued shares of the former parent entity of the SP AusNet Transmission Group. Subsequent to this acquisition, SP AusNet Transmission acquired 100 per cent of the issued shares in the underlying operating subsidiaries (SPI PowerNet Pty Ltd (SPI PowerNet) and SPI Australia Finance Pty Ltd (SPI Australia Finance)).

Although for legal purposes SP AusNet Transmission is the acquirer in the transaction, the transaction was deemed to be a reverse acquisition for accounting purposes, whereby SPI PowerNet was the acquirer. As such, SPI PowerNet is deemed to be the parent company in the SP AusNet Transmission Group and has prepared the consolidated accounts. In accordance with the requirements of reverse acquisition accounting under AASB 3 *Business Combinations* the parent entity results disclosed are that of the legal parent, SP AusNet Transmission.

(ii) Subsidiaries

Subsidiaries are entities controlled by the SP AusNet Transmission Group. Control exists when the SP AusNet Transmission Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. 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 SP AusNet Transmission Group and are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities within the SP AusNet Transmission Group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred.

Notes to the consolidated financial statements

31 March 2014

Note 1 Summary of significant accounting policies (continued)

(c) Segment reporting

An operating segment is a component of the SP AusNet Transmission 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.

The SP AusNet Transmission Group owns and manages the majority of the electricity transmission network in Victoria. The SP AusNet Transmission Group's 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 Victoria, South Australia, New South Wales and Tasmania. As a result the SP AusNet Transmission Group only operates in one segment. Geomatic Holdings Pty Ltd and Geomatic Technologies Pty Ltd were acquired by the SP AusNet Transmission Group on 28 February 2014, and provide integrated mobile and spatial asset management technologies. However, the SP AusNet Transmission Group does not consider these companies to be a standalone segment as they do not have a material impact on the financial statements.

(d) Foreign currency translation

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) *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 technical services as well as the operation and maintenance services provided in connection with the desalination electricity transmission assets.

(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).

Notes to the consolidated financial statements

31 March 2014

Note 1 Summary of significant accounting policies (continued)

(f) Income tax (continued)

(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.

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 SP AusNet Transmission 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 SP AusNet Transmission 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 consolidation

SP AusNet Transmission is the head entity of a tax consolidated group comprising SP AusNet Transmission and its Australian wholly-owned subsidiaries.

The current and deferred tax amounts for the tax consolidated group are allocated among the entities in the SP AusNet Transmission Group using the stand-alone taxpayer method.

The members of the 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) calculated under the stand-alone taxpayer method and any deferred tax asset relating to tax losses assumed by the head entity. The members of the tax consolidated group have also entered into a valid tax sharing agreement under the tax consolidation legislation which sets 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.

The head entity recognises deferred tax assets arising from unused tax losses of the 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.

Notes to the consolidated financial statements

31 March 2014

Note 1 Summary of significant accounting policies (continued)

(f) Income tax (continued)

(iv) Tax consolidation (continued)

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses assumed by the head entity from the subsidiaries in its tax consolidated group are recognised in conjunction with any tax funding arrangement amounts.

(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 SP AusNet Transmission 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 unless another systematic basis is more representative of the time pattern of the benefit.

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 over the term of the lease, 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.

(i) 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 SP AusNet Transmission Group's cash management, therefore these are included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

(j) Receivables

Current and non-current 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.

Notes to the consolidated financial statements

31 March 2014

Note 1 Summary of significant accounting policies (continued)

(j) Receivables (continued)

Collectability 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 SP AusNet Transmission 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.

(k) 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.

(l) Derivative financial instruments

Derivative financial instruments 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 financial instrument is designated and effective as a hedging instrument, in which case the timing of the recognition in the income statement depends on the nature of the hedge relationship (refer below).

To ensure derivative financial instruments qualify for hedge accounting the SP AusNet Transmission 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 SP AusNet Transmission Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivative financial instruments that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in the cash flows of hedged items.

(i) Cash flow hedge

The effective portion of changes in the fair value of derivative financial instruments that are designated and qualify as cash flow hedges are recognised directly in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in the hedge reserve 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, the gains and losses previously deferred in the hedge reserve are transferred from the hedge reserve and included in the measurement of the initial cost or carrying amount of the asset.

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 the hedge reserve remains in the hedge reserve 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 the hedge reserve is immediately recognised in the income statement.

(m) 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 the SP AusNet Transmission Group gains control of the asset.

Notes to the consolidated financial statements

31 March 2014

Note 1 Summary of significant accounting policies (continued)**(m) Property, plant and equipment (continued)**

Historical cost includes all expenditure that is directly attributable to the acquisition of the asset, including an appropriate allocation of overheads and capitalised borrowing costs. Cost may also include transfers from the hedge reserve 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 the SP AusNet Transmission Group and the cost of the item can be measured reliably.

Items of plant and equipment under construction are recognised as capital work in progress. Once the asset construction is complete and the asset is capable of operating in the manner intended by management, the item of plant and equipment is transferred from capital work in progress to the relevant asset class and depreciation of the asset commences.

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

Depreciation is recognised 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 changes are made, their effects are accounted for on a prospective basis.

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

	Years
Buildings	40-99
Transmission network	15-70
Other general assets	3-10
Motor vehicles and heavy machinery	3-12
Computer equipment and software	3-5
Land and easements	Indefinite

(n) Intangible assets**(i) 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 SP AusNet Transmission 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 (refer note 1(o)).

Notes to the consolidated financial statements

31 March 2014

Note 1 Summary of significant accounting policies (continued)

(o) Impairment of non-financial assets

At each reporting date, the SP AusNet Transmission 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. An impairment loss occurs when an asset's carrying amount exceeds its recoverable amount. 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 SP AusNet Transmission 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, including goodwill, are tested for impairment annually regardless of whether there is an indication that the asset or related CGU may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing fair value less costs to sell, the estimated future post-tax 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.

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. 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 is recognised in the income statement immediately.

(p) Trade and other payables

These amounts represent liabilities for goods and services provided to the SP AusNet Transmission 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.

(q) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. 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 are classified as current liabilities unless the SP AusNet Transmission Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date or has the sole discretion to refinance or roll over the liability for at least 12 months after the reporting date under an existing loan facility.

Notes to the consolidated financial statements

31 March 2014

Note 1 Summary of significant accounting policies (continued)

(r) Net financing costs

Finance income comprises interest income on funds invested and the return on the desalination licence receivable (refer note 8). 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 and the net interest cost in respect of the defined benefit obligation. 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 average interest rate of 8.0 per cent (2013: 8.2 per cent) applicable to the SP AusNet Transmission Group's outstanding borrowings during the period.

(s) Provisions

Provisions are recognised when the SP AusNet Transmission 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.

(t) 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 SP AusNet Transmission Group's obligation in respect of these funds is limited to the contributions to the fund.

Notes to the consolidated financial statements

31 March 2014

Note 1 Summary of significant accounting policies (continued)

(t) Employee benefits (continued)

(iv) *Defined benefit superannuation fund*

The SP AusNet Transmission 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 SP AusNet Transmission Group's obligations. A qualified actuary performs the calculation using the projected unit credit method.

Remeasurements comprise actuarial gains and losses and the return on plan assets (excluding interest). They 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 SP AusNet Transmission 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.

(u) 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.

(v) Earnings per share

(i) *Basic earnings per share*

Basic earnings per share is calculated recognising the substance of the reverse acquisition, which means that the calculation is based on the earnings of the consolidated group and the share capital of the legal parent (SP AusNet Transmission).

(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.

Notes to the consolidated financial statements

31 March 2014

Note 1 Summary of significant accounting policies (continued)**(w) New accounting standards and interpretations**

- AASB 119 *Employee Benefits* requires calculation of the net interest on the net defined benefit liability using the same discount rate that is used to measure the defined benefit liability, resulting in the full expected return on plan assets to no longer be recognised in profit or loss. In addition, plan administration expenses, previously deducted from the expected return on defined benefit fund plan assets, are now included within profit from operating activities. The amendment has also clarified how taxes should be treated when calculating the discount rate which has resulted in the discount rate no longer including an allowance for tax.

As a result of these amendments, the comparative financial information in the income statement, statement of comprehensive income, statement of financial position and statement of changes in equity for the year ended 31 March 2013 has been restated. The impact from adoption of the revised AASB 119 is shown below:

	Cumulative impacts - (increase/decrease)	
	1 April 2012	31 March 2013
	\$M	\$M
Impact on income statement		
Profit after income tax	-	(2.1)
Impact on statement of comprehensive income		
Other comprehensive income for the year, net of tax	-	1.7
Impact on statement of financial position		
Net liabilities	(1.7)	(1.3)
Retained earnings (opening balance)	1.7	1.7
Retained earnings	-	(0.4)
Total equity	1.7	1.3

There was no restatement impact on the statement of cash flows. Earnings per share attributable to the ordinary equityholders of SP AusNet Transmission for the year ended 31 March 2013 decreased by 0.07 cents. A statement of financial position as at 1 April 2012 has not been presented as the impact from the adoption of the revised AASB 119 is not material, as shown above.

- Amendments to AASB 101 *Presentation of Items of Other Comprehensive Income* requires items of other comprehensive income that may be reclassified to profit or loss to be presented separately from items that will never be reclassified. The statement of comprehensive income has been revised accordingly.
- AASB 13 *Fair Value Measurement* provides guidance on how to measure fair value when it is required under existing accounting standards and enhances fair value disclosures. AASB 13 does not extend the use of fair value accounting and only applies to the SP AusNet Transmission Group prospectively from 1 April 2013. Comparative information is not restated. As a result of the adoption of AASB 13, the SP AusNet Transmission Group has made some minor amendments to its valuation methodology for derivative financial instruments regarding the measurement of non-performance risk, including credit risk. While these amendments may result in an increase in hedge ineffectiveness recognised in the future, it is not expected to be material to the income statement or the carrying value of derivatives in the consolidated statement of financial position.

Notes to the consolidated financial statements

31 March 2014

Note 1 Summary of significant accounting policies (continued)

(w) New accounting standards and interpretations (continued)

New accounting standards not yet adopted

The following accounting standards, amendments to accounting standards and interpretations have been identified as those which may impact the SP AusNet Transmission Group in the period of initial adoption. They were available for early adoption for the SP AusNet Transmission Group's annual reporting period beginning 1 April 2013, but have not been applied in preparing this financial report:

- AASB 9 *Financial instruments* addresses the classification, measurement and derecognition of financial assets and liabilities. It also makes a number of significant amendments to the hedge accounting requirements. While the International Accounting Standards Board is yet to publish an adoption date for AASB 9, it is not expected to be applicable until after 1 April 2017. The impact of the standard has yet to be quantified by the SP AusNet Transmission Group.

There are also other amendments and revisions to accounting standards that have not been early adopted. These changes are not expected to result in any material changes to the SP AusNet Transmission Group's financial performance or position.

(x) Rounding of amounts

The SP AusNet Transmission 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.

Notes to the consolidated financial statements

31 March 2014

Note 2 Revenue

	2014	2013
	\$M	\$M
Revenue		
Regulated revenue	593.7	573.2
Service revenue	32.5	19.1
Other revenue	22.9	28.1
Total revenue	649.1	620.4

Note 3 Expenses

		2014	2013
		\$M	(restated) \$M
Expenses, excluding finance costs, included in the income statement	Notes		
Easement tax		103.4	99.3
Employee benefits			
Labour expenses		29.3	24.7
Defined benefit superannuation expenses	17	1.9	1.9
Defined contribution superannuation expenses		3.4	2.8
Maintenance		18.0	15.8
Information technology and communication costs		4.8	5.0
Operating lease rental expenses		3.6	4.0
Administration expenses		12.7	12.9
Materials		1.1	1.4
Flame logo fee	24(d)	0.4	0.4
Other operating expenses		12.1	7.0
Management services charge	24(d)	6.5	8.4
Performance fees	24(d)	6.8	6.7
Depreciation	11	97.0	91.3
Net loss on disposal of property, plant and equipment		1.4	1.8
Total expenses, excluding finance costs and termination expenses		302.4	283.4
Termination fee	27	15.9	-
Restructuring expenses	27	1.9	-
Total expenses, excluding finance costs		320.2	283.4

Notes to the consolidated financial statements

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Note 4 Net finance costs

		2014	2013
			(restated)
	Notes	\$M	\$M
Finance income			
Interest income		1.7	0.5
Return on desalination license receivable		14.4	4.3
Total finance income		16.1	4.8
Finance costs			
Interest expense		2.3	2.1
Interest expense - related parties	24	216.1	218.7
Defined benefit net interest expense	17	0.3	0.4
Capitalised finance charges		(17.4)	(15.7)
Total finance costs		201.3	205.5
Net finance costs		185.2	200.7

Note 5 Income tax and deferred tax**(a) Income tax expense**

	2014	2013
		(restated)
	\$M	\$M
Current tax	124.7	36.7
Prior year (over)/under provision - current tax	1.0	0.9
Deferred tax	4.9	3.1
Prior year (over)/under provision - deferred tax	(0.4)	(0.2)
	130.2	40.5

Notes to the consolidated financial statements

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Note 5 Income tax and deferred tax (continued)**(b) Numerical reconciliation of income tax expense to prima facie tax payable**

	2014	2013 (restated)
	\$M	\$M
Profit before income tax expense	143.7	136.3
Tax at the Australian tax rate of 30% (2013: 30%)	43.1	40.9
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Prior year (over)/under provision	0.6	0.7
Net tax and interest on section 163AA impost dispute	86.7	-
Sundry items	(0.2)	(1.1)
Income tax expense	130.2	40.5

The SP AusNet Transmission Group's effective tax rate for the year ended 31 March 2014 is approximately 91 per cent (2013: 30 per cent). The divergence in the effective tax rate, from the prima facie tax rate of 30 per cent, is mainly caused by the recognition during the year of \$100.8 million for the amount potentially payable under the Section 163AA impost dispute. This is offset by the deductibility of the general interest component which results in a \$14.1 million tax credit. Refer note 22(a).

(c) Amounts recognised directly in other comprehensive income

	2014	2013 (restated)
	\$M	\$M
Aggregate deferred tax arising in the reporting period recognised in other comprehensive income:		
Remeasurement of defined benefit obligation	4.0	-
Net deferred tax recognised in other comprehensive income	4.0	-

Notes to the consolidated financial statements

31 March 2014

Note 5 Income tax and deferred tax (continued)**(d) Recognised deferred tax assets and liabilities**

		Deferred tax assets		Deferred tax liabilities	
		2014	2013 (restated)	2014	2013 (restated)
	Notes	\$M	\$M	\$M	\$M
Employee benefits		5.2	5.7	-	-
Other accruals and provisions		6.3	0.8	-	-
Intellectual property - copyright	22(b)	40.1	41.1	-	-
Defined benefit fund		-	3.3	(0.5)	-
Desalination licence receivable		-	-	(5.7)	(1.3)
Property, plant and equipment		-	-	(323.6)	(319.4)
Other		-	-	(2.8)	(2.7)
Deferred tax assets/(liabilities)		51.6	50.9	(332.6)	(323.4)
Set off of tax		(51.6)	(50.9)	51.6	50.9
Net deferred tax assets/(liabilities)		-	-	(281.0)	(272.5)

(e) Movement in temporary differences during the year

	2014	2013 (restated)
	\$M	\$M
Net deferred tax assets/(liabilities)		
Opening balance at 1 April	(272.5)	(269.6)
(Charged)/credited to the income statement (i)	(4.9)	(3.1)
Credited/(debited) to other comprehensive income	(4.0)	-
Net prior year over/(under) provision	0.4	0.2
Closing balance at 31 March	(281.0)	(272.5)

Notes to the consolidated financial statements

31 March 2014

Note 5 Income tax and deferred tax (continued)**(e) Movement in temporary differences during the year (continued)**

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

	Charged/(credited) to the income statement	
	2014	2013
	\$M	\$M
Employee benefits	0.2	(0.7)
Other accruals and provisions	(5.0)	-
Intellectual property - copyright	1.0	-
Tax losses	-	0.1
Defined benefit fund	(0.2)	0.1
Desalination licence receivable	4.4	1.3
Property, plant and equipment	4.4	2.3
Other	0.1	-
Total charged/(credited) to the income statement	4.9	3.1

Notes to the consolidated financial statements

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Note 6 Dividends

The following dividends were approved and paid by SP AusNet Transmission to shareholders during the current financial year:

	Date paid	Cents per share	Total dividend \$M
Fully franked dividend	28 June 2013	1.367	46.0
Fully franked dividend	23 December 2013	1.393	47.0
Total dividends		2.760	93.0

The following dividends were approved and paid by SP AusNet Transmission to shareholders during the previous financial year:

Fully franked dividend	29 June 2012	1.333	38.6
Fully franked dividend	21 December 2012	1.367	45.6
Total dividends		2.700	84.2

(a) Franking account

	2014 \$M	2013 \$M
30 per cent franking credits available to shareholders for subsequent financial years	59.8	57.9

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. Included within the franking account is \$45.7 million (2013: \$43.2 million) arising from the tax payments made to the Australian Taxation Office (ATO) in relation to the Section 163AA impost and intellectual property matters (refer note 22(a)). If the SP AusNet Transmission Group is successful in the legal proceedings against the ATO, this amount will be reversed, resulting in lower franking credits being available.

The ability to utilise the franking credits is dependent upon there being sufficient net assets for the payment of dividends, the dividend payment being fair and reasonable to shareholders, and the dividend payment not materially prejudicing SP AusNet Transmission's ability to pay its creditors. In accordance with the tax consolidation legislation, SP AusNet Transmission as the head entity in the tax consolidated group has assumed the benefit of \$59.8 million (2013: \$57.9 million) franking credits. For the 2014 final distribution, the additional franking credits from the tax payments under the ATO disputes will not be utilised.

Notes to the consolidated financial statements31 March 2014

Note 7 Earnings per share

On 19 October 2005, SP AusNet Transmission executed a reverse acquisition deeming SPI PowerNet to be the parent entity of the SP AusNet Transmission Group. The following earnings per share have been calculated recognising the legal form of the reverse acquisition, which means that the calculation is based on the earnings of the consolidated group and the share capital of the legal parent (SP AusNet Transmission).

(a) Basic earnings per share

	2014	2013 (restated)
Profit attributable to the ordinary equityholders of SP AusNet Transmission (\$M)	13.5	95.8
Weighted average number of shares (million)	3,377	3,268
Earnings per share (cents)	0.40	2.93

(b) Diluted earnings per share

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

Notes to the consolidated financial statements

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Note 8 Receivables

		2014	2013
	Notes	\$M	\$M
Current receivables			
Accounts receivable		58.5	47.9
Related party receivables	24(e)	4.2	4.3
Desalination licence receivable (i)		10.2	10.2
		72.9	62.4
Accrued revenue		7.8	13.7
Interest receivable		0.2	0.5
Total current receivables		80.9	76.6
Non-current receivables			
Desalination licence receivable (i)		215.3	224.2
Total non-current receivables		215.3	224.2
Total receivables (ii)		296.2	300.8

- (i) In December 2012, SP AusNet entered into a 27 year licence agreement with the Victorian State Government for the right to operate and maintain the 87 kilometre high voltage underground transmission line supplying electricity to the Victorian Desalination Plant in Wonthaggi. At the same time, SP AusNet also entered into a 27 year agreement with the desalination plant operator to operate and maintain the transmission line in return for a monthly revenue payment.

The upfront payment of \$235 million plus transaction costs of \$0.5 million for the licence has been classified as a receivable. This receivable is interest-bearing and \$8.8 million (2013: \$1.1 million) of the total cashflows received from the operator over the 27 year term has been allocated against this receivable balance during the year. The monthly revenue payment received from the operator is fixed, with an annual adjustment for inflation. Any amounts not received from the operator, but which are past due, can be recovered by SP AusNet from the Victorian State Government.

At the end of the agreements, SP AusNet is required to hand back the transmission line and all associated assets. In the event of early termination of the agreements, the unamortised portion of the upfront licence payment is refunded to SP AusNet, along with the reimbursement of necessary costs incurred in order to effect the termination.

- (ii) The fair value of total receivables as at 31 March 2014 was \$296.2 million (2013: \$300.8 million).

(a) Terms and conditions

Accounts receivable are non-interest bearing and the average credit period on sales of transmission 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.

Notes to the consolidated financial statements

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Note 8 Receivables (continued)**(b) Ageing of accounts receivable**

The ageing of accounts receivable as at reporting date was:

	2014	2013	2013	2012
	Gross	Allowance	Gross	Allowance
	\$M	\$M	\$M	\$M
Not past due	56.5	-	45.9	-
0 - 30 days	1.0	-	0.8	-
31 - 60 days	0.5	-	0.1	-
61 - 90 days	0.1	-	0.2	-
Greater than 90 days	0.4	-	0.9	-
Total	58.5	-	47.9	-

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 91 per cent of revenues) are owed by other participants in the industry, the largest being the Australian Energy Market Operator (AEMO). There are strict regulatory requirements regarding who can participate in the industry and the Essential Services Commission has minimum prudential requirements which must be met before a participant can be registered as a distributor. Refer note 18(c) for details regarding credit risk.

Note 9 Inventories

	2014	2013
	\$M	\$M
Current inventories		
Construction, maintenance stock and general purpose materials - at cost	3.5	1.7
Total current inventories	3.5	1.7
Non-current inventories		
Construction, maintenance stocks and general purpose materials - at cost	17.6	16.7
Total non-current inventories	17.6	16.7
Total inventories	21.1	18.4

Notes to the consolidated financial statements

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Note 10 Other assets

		2014	2013
	Note	\$M	\$M
Current other assets			
Prepayments		<u>5.7</u>	<u>8.9</u>
Total current other assets		<u>5.7</u>	<u>8.9</u>
Non-current other assets			
Defined benefit fund surplus	17	<u>1.6</u>	<u>-</u>
Total non-current other assets		<u>1.6</u>	<u>-</u>
Total other assets		<u>7.3</u>	<u>8.9</u>

Notes to the consolidated financial statements

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Note 11 Property, plant and equipment

	Freehold land \$M	Buildings \$M	Easements \$M	Transmission network \$M	Other plant and equipment \$M	Capital work in progress \$M	Total \$M
2014							
Carrying amount at 1 April 2013	229.4	169.7	1,144.3	1,687.8	63.6	217.9	3,512.7
Additions	-	-	-	-	-	232.7	232.7
Acquisitions through business combinations	-	-	-	-	1.5	-	1.5
Transfers	-	28.9	-	158.8	25.8	(213.5)	-
Disposals	-	-	-	(1.5)	(0.2)	-	(1.7)
Depreciation expense	-	(7.4)	-	(73.2)	(16.4)	-	(97.0)
Carrying amount at 31 March 2014	229.4	191.2	1,144.3	1,771.9	74.3	237.1	3,648.2
Cost	229.4	245.4	1,144.3	2,369.9	193.8	237.1	4,419.9
Accumulated depreciation	-	(54.2)	-	(598.0)	(119.5)	-	(771.7)
Carrying amount at 31 March 2014	229.4	191.2	1,144.3	1,771.9	74.3	237.1	3,648.2

Notes to the consolidated financial statements

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Note 11 Property, plant and equipment (continued)

	Freehold land \$M	Buildings \$M	Easements \$M	Transmission network \$M	Other plant and equipment \$M	Capital work in progress \$M	Total \$M
2013							
Carrying amount at 1 April 2012	229.4	144.8	1,144.3	1,585.6	54.2	204.0	3,362.3
Additions	-	-	-	-	-	245.1	245.1
Transfers	-	31.6	-	177.4	22.2	(231.2)	-
Disposals	-	(0.3)	-	(2.7)	(0.4)	-	(3.4)
Depreciation expense	-	(6.4)	-	(72.5)	(12.4)	-	(91.3)
Carrying amount at 31 March 2013	229.4	169.7	1,144.3	1,687.8	63.6	217.9	3,512.7
Cost							
Accumulated depreciation	229.4	216.7	1,144.3	2,216.0	168.2	217.9	4,192.5
	-	(47.0)	-	(528.2)	(104.6)	-	(679.8)
Carrying amount at 31 March 2013	229.4	169.7	1,144.3	1,687.8	63.6	217.9	3,512.7

Notes to the consolidated financial statements

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Note 12 Intangible Assets

		2014	2013
	Notes	\$M	\$M
Goodwill			
Opening net book amount - goodwill		-	-
Acquisition of business	26	24.4	-
Closing net book amount - goodwill		24.4	-
Total intangible assets		24.4	-

Note 13 Payables and other liabilities

		2014	2013
	Notes	\$M	\$M
Current payables and other liabilities			
Trade payables and accruals		49.4	54.0
Customer deposits		0.3	0.5
Deferred revenue		1.8	0.6
Related party payables	24(e)	12.3	16.2
Total current payables and other liabilities		63.8	71.3
Non-current payables and other liabilities			
Deferred revenue		2.6	0.4
Total non-current payables and other liabilities		2.6	0.4
Total payables and other liabilities		66.4	71.7

Note 14 Borrowings

		2014	2013
	Notes	\$M	\$M
Current borrowings			
Amounts owed to related parties			
Amounts owed to SP AusNet Finance Trust	24(e)	1,590.8	1,583.5
Total current borrowings		1,590.8	1,583.5
Non-current borrowings			
Amounts owed to related parties			
Amounts owed to other related parties	24(e)	2,077.6	2,009.3
Total non-current borrowings		2,077.6	2,009.3
Total borrowings (i)		3,668.4	3,592.8

Notes to the consolidated financial statements

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Note 14 Borrowings (continued)

(i) The fair value of total borrowings as at 31 March 2014 was \$3,668.4 million (2013: \$3,592.8 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 \$0.2 million was provided to third parties at 31 March 2014 (2013: Nil).

Note 15 Provisions

		2014	2013 (restated)
	Note	\$M	\$M
Current provisions			
Employee benefits		17.2	17.7
SPIMS employee provisions (ii)		11.9	-
Restructuring provision (i)		1.9	-
Sundry provisions		2.7	-
Total current provisions		33.7	17.7
Non-current provisions			
Employee benefits		1.8	1.5
SPIMS employee benefits (ii)		1.3	-
Defined benefit fund	17	-	11.0
Total non-current provisions		3.1	12.5
Total provisions		36.8	30.2

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

	Restructuring provision (i)	Sundry provisions
	\$M	\$M
Balance at 1 April 2013	-	-
Additional provisions recognised	1.9	3.0
Amounts utilised	-	(0.3)
Balance at 31 March 2014	1.9	2.7
Current	1.9	2.7
Non-current	-	-
Total	1.9	2.7

Notes to the consolidated financial statements

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Note 15 Provisions (continued)

- (i) The restructuring provision represents the cost associated with the Termination Deed. Refer note 27.
- (ii) The SPIMS employee entitlement provision represents the balance of SPIMS employee entitlements as at 31 March 2014. The Stapled Group, including the SP AusNet Transmission Group, is responsible for this obligation under the Termination Deed. All SPIMS employees have transferred to the Stapled Group subsequent to 31 March 2014. Refer note 27.

Note 16 Equity

	Notes	2014 Shares	2013 Shares
Share capital			
Ordinary shares - fully paid (million)	(a), (b)	3,386.6	3,367.5

In accordance with the requirements of reverse acquisition accounting under AASB 3 *Business Combinations* the number of shares disclosed is that of the legal parent, SP AusNet Transmission.

(a) Ordinary shares

Ordinary shares authorised and issued have no par value. Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of SP AusNet Transmission 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 2013	Opening balance		3,367,543,113	650.1
28 June 2013	Distribution Reinvestment Plan	(ii)	8,782,410	-
23 December 2013	Distribution Reinvestment Plan	(ii)	10,281,557	-
31 March 2014	Closing Balance		3,386,607,080	650.1
1 April 2012	Opening balance		2,896,219,682	650.1
1 June 2012	Institutional capital raising	(iii)	347,767,659	-
20 June 2012	Retail capital raising	(iii)	86,662,590	-
29 June 2012	Distribution Reinvestment Plan	(iv)	8,970,234	-
21 December 2012	Distribution Reinvestment Plan	(iv)	27,922,948	-
31 March 2013	Closing Balance		3,367,543,113	650.1

- (i) With respect to the allocation of the proceeds in the form of shares in SP AusNet Transmission and SP AusNet Distribution 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 Transmission and SP AusNet Distribution being issued at nominal consideration.

Notes to the consolidated financial statements

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Note 16 Equity (continued)**(b) Movements in ordinary share capital (continued)**

- (i) On 28 June 2013 and on 23 December 2013, 8.8 million and 10.3 million new stapled securities were issued under the DRP respectively. The new securities were issued at a price of \$1.18 per security and \$1.15 per security respectively, providing approximately \$10.4 million and \$11.8 million respectively.
- (ii) A total of 434.4 million securities were issued under the non renounceable entitlement offer completed in June 2012 at an issue price of \$1.00 per stapled security for eligible securityholders in Australia and New Zealand and S\$1.25 per stapled security for eligible securityholders in Singapore.
- (iii) On 29 June 2012 and on 21 December 2012, 9.0 million and 27.9 million new stapled securities were issued under the DRP respectively. The new securities were issued at a price of \$1.01 per security and \$1.05 per security respectively, providing approximately \$9.1 million and \$29.3 million respectively.

(c) Capital management

The Board's policy is to target an 'A' range credit rating and a capital structure appropriate to generate desired securityholder returns, and to ensure a low cost of capital available to the entity.

An important credit metric which assists management to monitor SP AusNet's capital structure is the net debt to Asset Base ratio, determined as indebtedness as a percentage of the Asset Base. Indebtedness is debt at face value (net of cash), excluding any derivative financial instruments. The Asset Base consists of the following items:

- Regulated Asset Base (RAB), which is subject to some estimation as the Australian Energy Regulator (AER) ultimately determines the RAB of each network. RAB includes the value of regulated network assets as well as network assets that will become regulated at the next regulatory period; and
- The value of unregulated network assets whose revenues and return are set through a negotiated or competitive process rather than through regulation, including the carrying value of the desalination licence receivable.

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 Asset Base ratio of less than 75 per cent.

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

	2014	2013
	%	%
Net debt to Asset Base	68.6	68.1

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.

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Note 17 Defined benefit obligation

	2014	2013 (restated)
	\$M	\$M
Total amounts recognised in the statement of financial position in respect of the defined benefit fund is as follows:		
Present value of defined benefit obligations	(84.8)	(89.8)
Fair value of plan assets	86.4	78.8
Net asset/(liability) arising from defined benefit obligation	1.6	(11.0)
Amounts recognised in the income statement in respect of the defined benefit plan is as follows:		
Current service cost	1.9	1.9
Net interest cost on defined benefit obligation	0.3	0.4
Total	2.2	2.3
Remeasurement gains recognised during the year in other comprehensive income	13.4	0.1

The SP AusNet Transmission Group makes contributions to an Equisuper defined benefit superannuation plan that provides 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 defined benefit section of the Equisuper plan is closed to new members. All new members receive defined contribution, accumulation style benefits.

The defined benefit superannuation plan is administered by a trust that is legally separated from the SP AusNet Transmission Group. The trustees consist of both employee and employer representatives and an independent chair, all of whom are governed by the scheme rules. The trustees are responsible for the administration of the plan assets and for the definition of the plan strategy.

The SP AusNet Transmission Group expects to make contributions of \$1.5 million to the defined benefit plan 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 plan's assets equalling 105 per cent of the plans' liabilities within five years.

The defined benefit superannuation plan exposes the SP AusNet Transmission Group to additional actuarial, interest rate and market risk.

Mercer Investment Nominees Limited performed actuarial valuations of the fund as at 31 March 2014 and 31 March 2013.

Notes to the consolidated financial statements

31 March 2014

Note 17 Defined benefit obligation (continued)**(a) Movement in defined benefit obligation**

	2014	2013
		(restated)
	\$M	\$M
Movement in the present value of the defined benefit obligation was as follows:		
Opening defined benefit obligation	89.8	86.6
Current service cost	1.9	1.9
Interest cost	3.1	3.4
Contributions by plan participants	0.6	0.7
Actuarial (gains)/losses	(5.6)	5.1
Benefits, taxes and premiums paid	(5.0)	(7.9)
Closing defined benefit obligation	84.8	89.8
Movement in the fair value of plan assets was as follows:		
Opening fair value of plan assets	78.8	74.9
Interest income	2.8	3.0
Actual return on fund assets less interest income	7.8	5.2
Contributions from the employer	1.4	2.9
Contributions by plan participants	0.6	0.7
Benefits, taxes and premiums paid	(5.0)	(7.9)
Closing fair value of plan assets	86.4	78.8

Notes to the consolidated financial statements

31 March 2014

Note 17 Defined benefit obligation (continued)**(b) Analysis of Plan Assets**

Plan assets can be broken down into the following major categories of investments:

	2014	2013
	%	%
Investments quoted in active markets:		
Australian equities	31	32
International equities	25	28
Fixed interest securities	11	10
Unquoted investments:		
Property	9	9
Growth alternative	8	8
Defensive alternative	7	7
Cash	9	6
	100	100

Plan assets do not comprise any of the SP AusNet Transmission Group's own financial instruments or any assets used by the SP AusNet Transmission Group.

(c) Actuarial assumptions

The following were the principal actuarial assumptions at the reporting date (expressed as weighted averages).

	Defined benefit expense		Defined benefit obligation	
	2014	2013	2014	2013
		(restated)		(restated)
	%	%	%	%
Key assumptions:				
Discount rate	3.70	4.10	4.30	3.70
Expected salary increase rate	4.50	4.50	4.50	4.50

As at 31 March 2014, the weighted average duration of the defined benefit obligation was 10 years (2013: 10 years).

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Note 17 Defined benefit obligation (continued)**(d) Sensitivity analysis**

Changes in the relevant actuarial assumptions as at reporting date, with all other variables held constant, would result in an increase/(decrease) in the value of the defined benefit obligation as shown below:

	Defined benefit obligation	
	Increase	Decrease
	\$M	\$M
Discount rate (0.5 per cent movement)	(3.8)	4.0
Expected salary increase rate (0.5 per cent movement)	2.8	(2.7)

When calculating the above sensitivity analysis the same method has been applied as when calculating the defined benefit liability recognised in the consolidated statement of financial position.

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Note 18 Financial risk management

The Directors and other key management personnel of SP AusNet are engaged to provide services to the SP AusNet Group and are not exclusive to any particular entity within the SP AusNet Group. Accordingly, funding and other policy matters are managed for the whole of the SP AusNet Group and not on an individual entity basis.

The SP AusNet Group's activities (including the SP AusNet Transmission Group's activities) expose it to a number of financial risks, including changes in interest rates and foreign currency exchange rates, liquidity risk and credit risk. The SP AusNet 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 SP AusNet Group's operations. Any material changes are submitted to the Board for approval.

The objective of the Treasury Risk Policy is to document the SP AusNet Group's approach to treasury risk management and to provide a framework for ongoing evaluation and review of risk management techniques. The policy provides an analysis of each type of risk to which the SP AusNet Group (including the SP AusNet Transmission Group) is exposed 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 SP AusNet 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 Group 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 SP AusNet 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 SP AusNet Group's objectives of finding the right balance between risk and reward to enhance profitability and business performance while minimising current and future exposures.

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

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

Notes to the consolidated financial statements

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Note 18 Financial risk management (continued)**(a) Interest rate risk**

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

In addition, the SP AusNet Transmission Group's electricity transmission business revenues are directly impacted by changes in interest rates at each of its 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 current price review period is six years. Starting from 1 April 2014, the price review period will be three years, followed by a five-year price review period.

The SP AusNet Transmission Group has access to funds through the CFV. As such, all of its borrowings are with other entities in the Stapled Group. In addition, the interest rate risk associated with the SP AusNet Transmission Group's regulated revenue is managed by the CFV in accordance with the Stapled Group's Treasury Risk Policy, using interest rate swaps that are held by the CFV.

As at reporting date, the SP AusNet Transmission Group had the following financial liabilities exposed to interest rate risk. These liabilities represent loans with other entities in the Stapled Group. As such, the interest rate risk is not hedged because it does not represent an exposure to the SP AusNet Transmission Group.

	2014	2013
	\$M	\$M
Financial liabilities		
Floating rate instruments - related party borrowings	3,077.0	3,001.4

As at reporting date, if Australian interest rates had increased by 2.77 per cent and decreased by 2.63 per cent as at 31 March 2014 (2013: increased by 3.17 per cent and decreased by 2.97 per cent), 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
2014		
Increase in Australian interest rates with all other variables held constant	(59.7)	-
Decrease in Australian interest rates with all other variables held constant	56.6	-
2013		
Increase in Australian interest rates with all other variables held constant	(66.6)	-
Decrease in Australian interest rates with all other variables held constant	62.4	-

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 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.

Notes to the consolidated financial statements

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Note 18 Financial risk management (continued)**(b) Liquidity risk**

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

Liquidity risk is managed centrally for the SP AusNet Group 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 SP AusNet 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.

(i) Contractual cash flows

The following table summarises the contractual cash flows of the SP AusNet Transmission 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. For related party borrowings, other than borrowings with SP AusNet Finance Trust, the maturity has been deemed to be greater than five years.

		Carrying amount	Total contractual cash flows	Less than 1 year	1 - 2 years	2 - 5 years	Greater than 5 years
2014	Notes	\$M	\$M	\$M	\$M	\$M	\$M
Financial assets							
Non-derivative financial assets							
Cash and cash equivalents		49.3	49.3	49.3	-	-	-
Accounts and other receivables	8	296.2	475.8	94.2	22.1	62.9	296.6
Derivative financial assets							
Forward foreign currency contracts		0.1					
- Inflow			1.4	1.4	-	-	-
- Outflow			(1.3)	(1.3)	-	-	-
		345.6	525.2	143.6	22.1	62.9	296.6
Financial liabilities							
Non-derivative financial liabilities							
Trade and other payables	13	66.4	66.4	63.8	2.6	-	-
Related party borrowings	14	3,668.4	3,668.4	1,590.8	-	-	2,077.6
Derivative financial liabilities							
Forward foreign currency contracts		(0.1)					
- Inflow			(1.9)	(1.9)	-	-	-
- Outflow			1.8	1.8	-	-	-
		3,734.7	3,734.7	1,654.5	2.6		2,077.6
Net cash inflow/(outflow)			(3,209.5)	(1,510.9)	19.5	62.9	(1,781.0)

Notes to the consolidated financial statements

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Note 18 Financial risk management (continued)**(b) Liquidity risk (continued)***(i) Contractual cash flows (continued)*

		Carrying amount	Total contractual cash flows	Less than 1 year	1 - 2 years	2 - 5 years	Greater than 5 years
2013	Notes	\$M	\$M	\$M	\$M	\$M	\$M
Financial assets							
Non-derivative financial assets							
Cash and cash equivalents		100.0	100.0	100.0	-	-	-
Accounts and other receivables	8	300.8	502.6	89.8	22.8	65.2	324.8
Derivative financial assets							
Forward foreign currency contracts		-					
- Inflow			0.2	0.2	-	-	-
- Outflow			(0.2)	(0.2)	-	-	-
		400.8	602.6	189.8	22.8	65.2	324.8
Financial liabilities							
Non-derivative financial liabilities							
Trade and other payables	13	71.7	71.7	71.3	0.4	-	-
Related party borrowings	14	3,592.8	3,592.8	1,583.5	-	-	2,009.3
Derivative financial liabilities							
Forward foreign currency contracts		-					
- Inflow			(0.5)	(0.5)	-	-	-
- Outflow			0.5	0.5	-	-	-
		3,664.5	3,664.5	1,654.8	0.4	-	2,009.3
Net cash inflow/(outflow)			(3,061.9)	(1,465.0)	22.4	65.2	(1,684.5)

Notes to the consolidated financial statements

31 March 2014

Note 18 Financial risk management (continued)

(c) Credit risk

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

The SP AusNet Transmission 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 8). The SP AusNet Transmission 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. Revenues from a single customer, AEMO, represent 76 per cent (2013: 77 per cent) of the SP AusNet Transmission Group's total revenues. The SP AusNet Transmission Group is licensed to transmit electricity in Victoria whereas AEMO is the provider of shared network services and the planner, authoriser, contractor and director of augmentation of the declared shared network in Victoria. A network agreement is in place between both parties whereby the SP AusNet Transmission Group receives network charges from AEMO for the use of the SP AusNet Transmission Group's transmission network to transmit electricity to participants in the market. Due to the nature of this network agreement, the SP AusNet Transmission Group does not believe that there is any significant credit risk exposure on this customer. The SP AusNet Transmission Group therefore considers its credit risk exposure to be minimal.

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.

The carrying amount of financial assets recorded in the consolidated financial statements, net of any allowances for losses, represents the SP AusNet Transmission Group's maximum exposure to credit risk.

(d) Fair values of financial assets and liabilities

The fair values of financial assets and liabilities are measured in accordance with generally accepted pricing models based on discounted cash flow analysis.

Fair value is measured using valuation techniques and significant market observable data as well as market corroboration based on active quotes. These include industry standard interest rate, foreign exchange and currency basis yield curves sourced directly from Bloomberg. As such, fair value measurements are deemed level two within the fair value hierarchy as per AASB 13 *Fair value measurement*. The SP AusNet Transmission Group does not have any financial instruments which would be categorised as either level one or three of the fair value hierarchy.

The SP AusNet Transmission Group also has a number of financial assets and liabilities which are not measured at fair value in the combined statement of financial position. With the exception of borrowings (refer note 14), the carrying amounts of these items are considered to be a reasonable approximation of their fair value at 31 March 2014.

Notes to the consolidated financial statements

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Note 19 Critical accounting estimates and judgements

The SP AusNet Transmission Group makes estimates and judgements concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Accounting estimates and judgements where changes in those estimates and judgements could result in a significant change to the carrying amount of assets and liabilities within the next financial year are detailed below:

(a) Estimated recoverable amount of assets

Recoverable amount is the higher of fair value less costs to sell and value in use. Management has based its assessment of fair value less costs to sell 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 subject to a cap set by the AER, together with other information included in the SP AusNet Transmission Group's five-year forecast. Cash flows after that period are based on an extrapolation of the forecast taking into account inflation. It is considered appropriate to use cash flows after the SP AusNet Transmission Group's five-year forecast period considering the long-term nature of the SP AusNet Transmission Group's activities.

Cash flows are discounted using post-tax discount rates of 6.3 per cent to 6.5 per cent. The rates used reflect current market assessments of the time value of money and risks specific to the assets.

Appropriate terminal values were calculated using a range of both RAB multiples and market earnings before interest, tax, depreciation and amortisation multiples. Fair value less costs to sell is measured using inputs that are not based on observable market data. Therefore, they are deemed level three within the fair value hierarchy as per AASB 13 *Fair Value Measurement*.

Given the Geomatic Technologies business was only acquired during the year, the first formal impairment assessment for this CGU will not be performed until the year ended 31 March 2015, unless there is an indication of impairment.

(c) 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 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 SP AusNet Transmission Group.

The SP AusNet Transmission Group has taken positions in relation to the income tax and capital gains tax consequences of the acquisition by SP AusNet Transmission of the Australian assets held by SPI Australia Holdings Pty Ltd and subsequent restructuring.

Judgements have been made regarding the application of income tax legislation, including in regard to the deductibility of the Section 163AA imposts and intellectual property which are currently in dispute with the Australian Tax Office (ATO) (refer note 22). In addition, judgements have been made regarding the deductibility of interest payments on intra-group financing arrangements with SP AusNet Finance Trust which are currently subject to an audit review by the ATO. The accounting treatment adopted for each of these matters reflects these current judgements and assumptions.

Notes to the consolidated financial statements

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Note 19 Critical accounting estimates and judgements (continued)

(d) Useful lives of property, plant and equipment

Depreciation is recognised 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.

(e) Provisions

(i) 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. Any difference in estimates will be recognised in other comprehensive income and not through the income statement.

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

Each year the SP AusNet Transmission Group engages Mercer Investment Nominees Limited to perform an actuarial review of the SPI PowerNet defined benefit fund.

In addition, the management services charge under the Management Services Agreements (refer note 24(b)) has included any actuarial gains or losses incurred by the SPI Management Services Pty Ltd (SPIMS) defined benefit plan as well as any defined benefit plan expenses. Assumptions are made by SPIMS regarding salary increases, discount rates and expected return on assets which impact on the management services charge to the SP AusNet Transmission Group.

(f) Contingent liabilities

Judgements are made in relation to uncertain future events surrounding the Victorian February bushfires and Australian Taxation Office disputes that may impact the SP AusNet Transmission Group's present obligations. Refer note 22 for further details.

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Note 20 Key management personnel

Up to 31 March 2014, SPIMS, a wholly-owned subsidiary of related party Singapore Power International Pte Ltd (SPI), provided the services of key senior management, including the Managing Director and the executive management team, to SP AusNet. Although not employed by SP AusNet, these individuals are deemed to qualify as Key Management Personnel (KMP) of SP AusNet on the basis that they had the authority and the responsibility for planning, directing and controlling the major activities of SP AusNet during the financial year.

On 31 March 2014, SP AusNet, Singapore Power and SPIMS entered into a Termination Deed, pursuant to which they agreed to terminate the Management Services Agreement with effect from 31 March 2014. As a result of this termination, KMP and other employees who were previously employed by SPIMS were offered, and accepted, employment with SP AusNet on the same terms as their existing remuneration arrangement, including the preservation of all existing entitlements and participation in incentive arrangements.

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

	2014	2013
	\$	\$
Remuneration by category		
Short-term employee benefits	5,543,528	5,852,578
Post-employment benefits	383,017	362,642
Equity based payments	1,159,339	1,079,274
Termination benefits	-	86,773
Other long-term benefits	142,167	19,029
	7,228,051	7,400,296

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Note 20 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 2013)	Granted during the year as compensation (i)	Net change other (ii)	Balance at end of year (31 March 2014)
Key management personnel				
Non-executive Directors				
Ng Kee Choe	195,883	-	-	195,883
Ralph Craven (iv)	-	-	-	-
Jeremy Davis	120,750	-	-	120,750
Sally Farrier (iv)	-	-	-	-
Eric Gwee	153,591	-	-	153,591
Ho Tian Yee	-	-	-	-
Tony Iannello	190,976	-	-	190,976
George Lefroy (iii)	275,086	-	-	275,086
Tina McMeckan	90,000	-	-	90,000
Ian Renard	84,898	-	-	84,898
Sun Jianxing (iv)	-	-	-	-
Executives				
Nino Ficca	1,108,183	160,000	-	1,268,183
John Azaris (v)	176,600	36,000	(80,000)	132,600
Chad Hymas (v)	58,400	16,950	4,842	80,192
John Kelso	35,099	37,288	550	72,937
Adam Newman	-	-	-	-
Alistair Parker (v)	12,000	19,000	-	31,000
Ash Peck (vi)	-	32,687	-	32,687
Mario Tieppo (vii)	-	-	-	-

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

(ii) Net change other refers to securities purchased, sold or acquired other than via the Long-Term-Incentive Plan.

(iii) Mr Lefroy retired as a Non-Executive Director effective 18 July 2013.

(iv) Dr Craven, Ms Farrier and Mr Sun commenced as Non-Executive Directors effective 24 January 2014.

(v) Mr Azaris, Mr Hymas and Mr Parker were appointed as key management personnel effective 1 April 2013.

(vi) Mr Peck resigned as key management personnel effective 6 December 2013.

(vii) Mr Tieppo was appointed as key management personnel effective 9 December 2013.

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

Notes to the consolidated financial statements

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Note 20 Key management personnel (continued)

	Balance at beginning of year (1 April 2012)	Granted during the year as compensation (i)	Net change other (ii)	Balance at end of year (31 March 2013)
Key management personnel				
Non-executive Directors				
Ng Kee Choe	195,883	-	-	195,883
Jeremy Davis	105,000	-	15,750	120,750
Eric Gwee	153,591	-	-	153,591
Ho Tian Yee	-	-	-	-
Tony Iannello	140,976	-	50,000	190,976
George Lefroy	239,206	-	35,880	275,086
Tina McMeckan	54,650	-	35,350	90,000
Ian Renard	73,825	-	11,073	84,898
Executives				
Nino Ficca	1,312,334	99,000	(303,151)	1,108,183
Norm Drew	380,005	34,131	-	414,136
John Kelso	52,893	21,641	(39,435)	35,099
Adam Newman	-	-	-	-
Geoff Nicholson	432,764	40,632	-	473,396
Ash Peck	-	-	-	-
Charles Popple	333,532	30,938	-	364,470

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Note 21 Remuneration of auditors

During the year the following fees were paid or payable for services provided by KPMG and its related practices:

(a) Audit and review services

	2014	2013
	\$'000	\$'000
Audit and review of financial statements	401	446
Audit of regulatory returns (i)	308	96
Total remuneration for audit services	709	542

(b) Other assurance services

Other assurance, taxation and advisory services	30	29
Total remuneration for other services	30	29
Total remuneration of auditors	739	571

- (i) It is the SP AusNet Transmission 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.

Notes to the consolidated financial statements

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Note 22 Contingent liabilities and contingent assets

Details of contingent liabilities and contingent assets of the SP AusNet Transmission Group are as follows:

(a) Section 163AA impost

(i) Background

During August 2011, the ATO issued amended assessments to SP AusNet in respect of the 2001 to 2006 income years, disallowing deductions claimed in respect of fees imposed under Section 163AA of the Electricity Industry Act 1993 in the 1999 to 2001 tax years. Under the amended assessments, the amount of primary tax payable is \$54.0 million.

In October 2011, the ATO agreed to a part payment arrangement, on the basis that the amount due is a disputed tax amount. Under the arrangement, SP AusNet paid \$30.6 million. Up to 31 March 2013, this amount has been recorded as a non-current receivable. A general interest charge continues to accrue in respect of unpaid tax under the payment arrangement, in addition to the total amount disclosed on the amended assessments.

On 10 October 2012, SP AusNet lodged a notice of appeal and other documents in the Federal Court, appealing the ATO's amended assessments.

(ii) Current status

On 12 September 2013, the Federal Court delivered judgement against SP AusNet's appeal. On the basis of this ruling, for the year ended 31 March 2014 SP AusNet has derecognised the \$30.6 million non-current receivable and recognised a \$70.2 million provision for tax, representing the unpaid portion of primary tax and the unpaid general interest charge up to 31 March 2014.

This provision represents the amount that is potentially payable under the amended assessments and, along with the write-off of the non-current receivable and the deductibility of the general interest charge, has reduced net profit after tax for the year ended 31 March 2014 by \$86.7 million.

On 7 October 2013, SP AusNet lodged a notice of appeal in the Federal Court. On 7 April, 2014 the Full Court of the Federal Court of Australia delivered judgement against SP AusNet. SP AusNet has subsequently sought special leave to appeal to the High Court of Australia. The application hearing is expected to be heard in the second half of calendar year 2014. SP AusNet continues to believe that the fees imposed under Section 163AA are deductible.

If SP AusNet is ultimately successful in these proceedings, then the \$86.7 million reduction in net profit after tax that has been recognised at 31 March 2014 would be reversed and the \$30.6 million part-payment would be refunded, with interest.

Notes to the consolidated financial statements

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Note 22 Contingent liabilities and contingent assets (continued)

(b) Intellectual Property

(i) Background

During September 2011 and October 2011, the ATO issued amended assessments to SP AusNet in respect of the 2001 to 2010 income years, disallowing deductions claimed in respect of intellectual property in each of those income years. Under the amended assessments, the amount payable is \$44.0 million (representing \$27.4 million of primary tax, plus an interest and administrative penalty component of \$16.6 million).

In November 2011, SP AusNet lodged notices of objection in relation to the amended assessments issued. The ATO agreed to a part payment arrangement, with SP AusNet making a payment of \$17.1 million to the ATO in October 2011. This amount has been recorded as a non-current receivable at the time of payment. A general interest charge continues to accrue in respect of unpaid tax under the payment arrangement, in addition to the total amount disclosed on the amended assessments. As at 31 March 2014, the total amount in dispute for intellectual property deductions, including additional accrued interest on the unpaid portion of the amended assessments, is \$50.7 million.

On 27 April 2012, SP AusNet lodged a notice of appeal and other documents in the Federal Court, appealing the ATO's objection decision in relation to the intellectual property matter.

(ii) Current status

The Federal Court delivered judgement in favour of SP AusNet on 25 March 2014. The ATO subsequently lodged a notice of appeal in the Federal Court on 15 April 2014. It is expected that the appeal will be heard by the Full Court of the Federal Court in the second half of calendar year 2014, with a decision expected before the end of calendar year 2014. The \$17.1 million part payment continues to be recognised as a non-current receivable at 31 March 2014.

Notes to the consolidated financial statements

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Note 22 Contingent liabilities and contingent assets (continued)

(c) February 2009 bushfire litigation

SP AusNet is a defendant in litigation that has been brought in connection with the 7 February 2009 bushfires located at Beechworth, Kilmore East, and Murrindindi, respectively. In all three matters, SP AusNet denies that 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.

On 16 May 2012, the Supreme Court of Victoria formally approved the settlement deed for the Beechworth bushfire class action. That settlement was reached without admission of liability by SP AusNet or any other party.

The Kilmore East Supreme Court hearing is presently underway, and according to the court timetable, it is likely to conclude in June 2014 with judgement expected by March 2015. SP AusNet is a defendant in this proceeding, along with the State of Victoria (Department of Sustainability and Environment, Country Fire Authority and others) and a contracted asset inspector.

The Murrindindi class action is in very early stages, and it is expected that the trial will formally commence some time in 2015.

There are many variables associated with litigation and it is impossible to provide a prior assessment of the ultimate resolution of either the Kilmore East or Murrindindi proceedings. However, SP AusNet is vigorously defending both claims and rejects any assertion of negligence. SP AusNet strongly holds the belief that it has consistently complied with its regulatory obligations, including in the year ended 31 March 2009. It is therefore reasonable to consider that SP AusNet's insurance and, if required, a claim to the regulator for pass-through of residual costs ultimately incurred in relation to these proceedings, would be sufficient to cover SP AusNet's liability, if any, associated with the February 2009 bushfires. However, the ultimate resolution of these matters cannot be known with certainty.

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 safety record, network asset management and network maintenance programs are consistent with industry practice, and its bushfire mitigation and vegetation management programs comply with Electricity Safety (Bushfire Mitigation) Regulations. 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.

(d) 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 other contingent liabilities as at 31 March 2014.

Notes to the consolidated financial statements

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Note 23 Commitments**(a) Capital commitments**

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

	2014	2013
	\$M	\$M
Property, plant and equipment	138.6	139.4

(b) Lease commitments

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

	2014	2013
	\$M	\$M
Payable:		
Within one year	6.7	4.9
Later than one year, but no later than five years	5.7	9.3
Later than five years	2.9	3.1
	15.3	17.3
Representing:		
Non-cancellable operating leases	15.3	17.3

Operating leases

The SP AusNet Transmission 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.

Notes to the consolidated financial statements

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Note 24 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.

Prior to 3 January 2014, the immediate parent of SP AusNet Distribution was Singapore Power International Pte Ltd (SPI) and the ultimate parent was Temasek Holdings (Private) Limited (Temasek). SPI is a wholly owned subsidiary of Temasek. Temasek's shareholder is the Minister for Finance, a body corporate under the Minister for Finance (Incorporation) Act, Chapter 183 of Singapore. Both SPI and Temasek are incorporated in Singapore.

On 3 January 2014 State Grid Corporation of China (State Grid) acquired a 19.9 per cent securityholding in SP AusNet from SPI. Whilst SPI continues to be the largest securityholder in SP AusNet with a stake of 31.1 per cent, they ceased to be the parent of SP AusNet Distribution from that date. Under applicable accounting standards, both SPI and Temasek and their subsidiaries continue to be a related party of SP AusNet.

On 3 January 2014 SPI also divested 60 per cent of its securityholding in Jemena Asset Management Pty Ltd (referred to as Jemena) to State Grid. SPI continue to hold 40 per cent of the securityholding in Jemena, however Jemena ceased to be a related party of SP AusNet from that date. The related party transactions set out below include transactions with Jemena that took place during the whole financial year.

(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. In accordance with the Termination Deed, this arrangement is expected to cease no later than 17 August 2014.

(b) Other related parties

(i) Management Services Agreement (MSA)

SPIMS, a wholly owned subsidiary of related party SPI, is a party to a Management Services Agreement with SP AusNet Transmission and SP AusNet Distribution. As noted in note 27, the agreement has been terminated from 1 April 2014 therefore the details below only describe the arrangements that were in place until 31 March 2014. There will be no further management service charge or performance fee payments under the MSA, in respect of any period after 1 April 2014.

Under the MSA, SP AusNet has engaged SPIMS to provide management and administration services including management of SP AusNet's electricity transmission and electricity and gas distribution networks. SPIMS were able to consult with Singapore Power Limited and its subsidiaries from time to time in the performance of its work. In accordance with the MSA, SPIMS provided 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 and was terminated on 1 April 2014.

Pursuant to the MSA, SP AusNet agreed to pay SPIMS 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 was to compensate SPIMS for expenses relating to all remuneration and other employment entitlements and benefits of the employees of SPIMS who provided services to SP AusNet. The performance fee was to incentivise SPIMS to meet or better the non financial and financial performance targets of SP AusNet and to align the interests of SPIMS with those of SP AusNet.

Notes to the consolidated financial statements

31 March 2014

Note 24 Related party transactions (continued)**(b) Other related parties (continued)***(i) Management Services Agreement (MSA) (continued)*

Details of the components of the performance fee are set out below:

Fee component	Description
Network Performance Fee	Calculated as 40 per cent of an amount (if any) of the regulatory incentive payments earned by SP AusNet in the financial year for network performance that exceeds network benchmark performance levels. If the net incentive payment for a financial year is zero or negative, no Network Performance Fee is received and 40 per cent of the deficit amount will be carried forward (capped at \$2.0 million) to be set-off against future Network Performance Fees earned.
Financial Performance Fee	The Financial Performance Fee component is equal to 0.75 per cent of actual EBITDA of SP AusNet for that financial year. An additional fee component is payable if SP AusNet's actual EBITDA exceeds budgeted EBITDA for a financial year. In that case, an additional fee equal to 0.25 per cent of SP AusNet's actual EBITDA for that financial year is payable.
Business Incentive Fee – which comprises a Market Outperformance Fee component and a Base Incentive Fee component	The Market Outperformance Fee component is equal to 5 per cent of the amount by which the return of the stapled securities exceeds the Benchmark Return for a half-year. If the SP AusNet Return is less than the Benchmark Return, no Market Outperformance Fee is payable. Five per cent of the deficit amount is carried forward (capped at \$2.0 million) and set off against the Market Outperformance Fee which is payable in the subsequent half-year. Effective 1 October 2008 and for the duration of the Information Technology (IT) services agreement (refer below), no amount is payable under the Base Incentive Fee component.
Capital Works Management Fee	Calculated as 1 per cent of the capital expenditure increase (if any) in SP AusNet's RAB amount from the previous year (excluding depreciation and customer contributions).
Capital Efficiency Incentive Fee	A fee payable to SPIMS at the discretion of the Board, having regard to SP AusNet's performance in relation to such capital expenditure efficiency measures as the Directors consider appropriate.

From 1 October 2008, the maximum performance fee payable by SP AusNet in respect of a financial year was capped at 0.5 per cent of the market capitalisation of SP AusNet's securities based on the weighted average security price of the last 20 trading days as at the end of the financial year.

The MSA contained 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 was limited to \$5.0 million in any financial year.

Notes to the consolidated financial statements

31 March 2014

Note 24 Related party transactions (continued)

(b) Other related parties (continued)

(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). As part of the agreement, Jemena's contestable metering customer contracts were novated to SP AusNet who took over the responsibility for delivering contestable metering services to those 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 was for an initial five-year term and were renewed in August 2013 for an additional three year term. The agreements will then 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.

(iii) IT services agreement

On 29 September 2008, SP AusNet entered into an agreement with a wholly-owned subsidiary of SPIMS, Enterprise Business Services (Australia) Pty Ltd (EBS), for it to be the provider to SP AusNet of IT services. The agreement was for an initial term of seven years, however agreement has been reached to unwind shared IT services provided to SP AusNet.

(c) Key management personnel

Disclosures relating to Directors and other key management personnel are set out in note 20.

Notes to the consolidated financial statements

31 March 2014

Note 24 Related party transactions (continued)**(d) Transactions with related parties**

Prior to 3 January 2014, the ultimate parent of the SP AusNet Transmission Group was Temasek. The SP AusNet Transmission Group engages in a 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 reflect an arm's-length basis. As a result, transactions with Temasek interests, other than the Singapore Power Group and Jemena, have been excluded from the disclosures below.

The SP AusNet Transmission Group also provides electricity transmission services to the Singapore Power Group and Jemena. The SP AusNet Transmission Group earns a regulated return from the provision of these services as these services are regulated by the AER.

The following transactions occurred with related parties within the SP AusNet and Singapore Power Group and Jemena for the entire financial year:

	2014	2013
	\$'000	\$'000
Sales of goods and services		
Regulated revenue (i)	32,213	35,573
Service revenue	5,945	3,130
Other revenue	88	669
Purchases of goods and services		
Management services charge	6,524	8,385
Performance fees	6,788	6,693
Flame logo fee	400	400
Termination fee	15,896	-
Other expenses	5,082	6,019
Property, plant and equipment	18,659	28,180
Loans from related parties		
Loans received from:		
Other related parties	1,154,716	1,780,658
Loan repayments to:		
Other related parties	1,079,204	1,334,235
Interest expense		
Other related parties	216,088	218,719
Dividend paid		
Fully franked dividend	47,430	42,942

The related party transactions set out above include transactions with Jemena that took place during the whole financial year. Jemena ceased to be a related party of SP AusNet from 3 January 2014.

(i) Represents revenues from the provision of electricity transmission services which are regulated by the AER.

Notes to the consolidated financial statements

31 March 2014

Note 24 Related party transactions (continued)**(e) Outstanding balances**

The following balances are outstanding at the reporting date in relation to transactions with related parties within SP AusNet, the Singapore Power Group and Jemena:

	2014	2013
	\$'000	\$'000
Current receivables (sale of goods and services)		
Singapore Power entities	128	205
Other related parties (i)	4,041	4,142
Other current assets (prepayments)		
Singapore Power entities	200	200
Current payables and other liabilities (purchase of goods)		
Singapore Power entities	6,070	3,946
Other related parties	6,267	12,227
Current payables (loans)		
Other related parties	1,590,838	1,583,548
Non-current payables (loans)		
Other related parties	2,077,554	2,009,332

The 31 March 2014 balances above include \$1.2 million of current receivables and \$1.7 million of current payables and other liabilities relating to Jemena. Jemena ceased to be a related party of SP AusNet from 3 January 2014.

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

(i) Includes outstanding amounts from the provision of electricity services which are regulated by the AER.

Notes to the consolidated financial statements

31 March 2014

Note 24 Related party transactions (continued)**(f) Terms and conditions**

Prior to 16 December 2008, SP AusNet Finance Trust had two loan agreements in place ('existing loan agreements') with SP AusNet Transmission. On 16 December 2008, SP AusNet Finance Trust entered into two additional loan agreements for the proceeds received under the DRP ('DRP loan agreements') with SP AusNet Transmission. At 31 March 2014, the amounts outstanding under these loan agreements (excluding any accrued interest) and the applicable interest rates were:

	Closing balance (excluding accrued interest) \$M	Interest rate %
31 March 2014		
Existing loan	591.4	Nil
Existing loan	394.2	8.09
DRP loan	566.6	8.09
	1,552.2	
31 March 2013		
Existing loan	591.4	Nil
Existing loan	394.1	9.03
DRP loan	555.6	9.03
	1,541.1	

The amount of accrued interest as at 31 March 2014 was \$38.6 million (2013: \$42.4 million).

(i) Existing loan agreements

The existing loan agreements are each for a term of ten years. The loan agreements mature in October 2015. All the loan agreements have similar terms and conditions which have been complied with and can be summarised as follows:

- the interest rate to apply to the loans are set annually at the Bank Bill Swap Rate (BBSW) plus a margin;
- interest accrues from day to day and is payable on the last day of the interest period, being every six months;
- interest which is payable may be capitalised by the Lender at intervals which the Lender determines or if no determination is made on the first day of each quarter;
- the Borrower must repay the principal outstanding and any accrued but unpaid interest on or before the end of the term of the agreement;
- the Lender may demand repayment of the outstanding principal and any unpaid accrued interest on demand by giving at least 28 days' notice (or a shorter period agreed between the parties);
- the Borrower can prepay outstanding principal and any unpaid accrued interest by giving at least 28 days' notice (or a shorter period agreed between parties); and
- the Lender may terminate its obligations if an event of default occurs.

Notes to the consolidated financial statements

31 March 2014

Note 24 Related party transactions (continued)**(f) Terms and conditions (continued)***(ii) DRP loan agreements*

The DRP loan agreements are each for a term of ten years. The loan agreements with SP AusNet Transmission mature in December 2018. All the loan agreements have similar terms and conditions which have been complied with. These terms and conditions are the same as those in the existing loan agreements (refer note 24(f)(i)). The loans from SP AusNet Finance Trust are unsecured and are not guaranteed by any of SP AusNet Transmission's subsidiaries.

Note 25 Subsidiaries

The SP AusNet Transmission Group's financial 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	
			2014 %	2013 %
Subsidiaries:				
SPI PowerNet Pty Ltd	Australia	Ordinary	100	100
SPI Australia Finance Pty Ltd	Australia	Ordinary	100	100
Geomatic Holdings Pty Ltd (i)	Australia	Ordinary	100	-
Geomatic Technologies Pty Ltd (i)	Australia	Ordinary	100	-

SP AusNet Transmission is the legal parent entity of the SP AusNet Transmission Group, however, SPI PowerNet is the accounting parent entity of the SP AusNet Transmission Group (refer note 1(b)(i)).

- (i) Geomatic Holdings Pty Ltd and Geomatic Technologies Pty Ltd were acquired by the SP AusNet Transmission Group on 28 February 2014 (refer note 26). Both companies have an annual reporting date of 30 June, which will be aligned to the SP AusNet Transmission Group's 31 March reporting date in due course.

Notes to the consolidated financial statements

31 March 2014

Note 26 Business combinations

On 28 February 2014 SP AusNet acquired 100 per cent of the share capital of Geomatic Technologies, a provider of IT integrated solutions and services that leverage advanced mobile and spatial technologies. This acquisition enables SP AusNet to continue to expand the service offering of the Select Solutions business, providing customers with an expanded portfolio of end-to-end specialist services and capabilities.

Since the date of acquisition up to 31 March 2014, Geomatic Technologies has contributed revenue of \$1.5 million and operating profit of \$0.1 million. The acquisition related costs included in operating expenses for the year ended 31 March 2014 were \$0.8 million.

(a) Consideration transferred

The following summarises the major classes of consideration transferred:

	2014
	\$M
Cash consideration paid	24.2
Fair value of contingent consideration (i)	3.0
Total consideration	27.2

- (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 2015 financial year. The potential undiscounted amount of all future payments that could be required is up to \$3.0 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 2014, SP AusNet had paid \$0.3 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:

	2014
	\$M
Cash	0.3
Receivables	3.4
Inventory	1.3
Property, plant and equipment	1.5
Payables	(2.8)
Provisions	(0.9)
	2.8
Goodwill	24.4
	27.2

Due to the proximity of the acquisition to the financial year end, the fair values set out above are provisional and are subject to amendment on finalisation of the fair value exercise, no later than 12 months following the date of acquisition.

Notes to the consolidated financial statements

31 March 2014

Note 27 MSA termination

SP AusNet, Singapore Power and SPIMS entered into a Termination Deed, pursuant to which they have agreed to terminate the Management Services Agreement (MSA) with effect from 31 March 2014. The key terms of the Termination Deed, as it relates to the MSA, are:

- A termination payment of \$50.0 million is payable by SP AusNet to SPIMS. The SP AusNet Transmission Group's share of this payment is \$15.9 million. This payment is made up of two parts: (a) an early termination fee representing the present value of the estimated termination payment that would have been payable if the MSA had terminated on 30 September 2015; and (b) the present value of estimated performance fees that would have been payable to SPIMS from 1 April 2014 to 30 September 2015, had the MSA continued until that time.
- Each SPIMS employee is offered employment with, and has transferred to SP AusNet subsequent to 31 March 2014.
- The termination payment made by SP AusNet is reduced by the amount of employee entitlements in respect of the SPIMS employees transferring to SP AusNet, which total \$15.9 million as at 31 March 2014, such amounts having been previously paid by SP AusNet as part of the regular management service charge under the MSA. The net termination payment has been paid in April 2014.

Agreement has also been reached between SPIMS and SP AusNet to unwind shared information technology (IT) services provided to SP AusNet by Enterprise Business Services (EBS), a subsidiary of SPIMS. This arrangement was put in place in September 2008. SP AusNet intends to transition its share of existing EBS activities into the core SP AusNet IT function, as soon as practicable, commencing on 1 April 2014.

The Intellectual Property (IP) Licence Agreement with Singapore Power has also been terminated under the Termination Deed.

A provision of \$1.9 million has been reflected as at 31 March 2014 for the SP AusNet Transmission Group's share of the costs associated with the restructure of IT services and the termination of the IP licence Agreement.

Notes to the consolidated financial statements

31 March 2014

Note 28 Parent entity information**(a) Statement of financial position**

	2014	2013
	\$M	\$M
Current assets	214.5	130.4
Non-current assets	1,596.9	1,597.0
Total assets	1,811.4	1,727.4
Current liabilities	1,674.2	1,607.3
Non-current liabilities	57.6	36.8
Total liabilities	1,731.8	1,644.1
Retained profits	79.6	83.3
Total equity	79.6	83.3

The parent entity has a current net asset deficiency of \$1,459.7 million as at 31 March 2014. 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 SP AusNet Finance Trust will not demand repayment of the outstanding principal and unpaid accrued interest prior to the expiration of the term.

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

(b) Statement of comprehensive income

	2014	2013
	\$M	\$M
Profit for the year	89.3	75.5
Total comprehensive income for the year	89.3	75.5

(d) Contingent liabilities

Other than the contingent liabilities disclosed in note 22, the Directors are not aware of any other contingent liabilities of the parent entity as at 31 March 2014.

Notes to the consolidated financial statements

31 March 2014

Note 29 Reconciliation of profit after income tax to net cash flows from operating activities

	2014	2013 (restated)
	\$M	\$M
Profit for the year	13.5	95.8
Depreciation of non-current assets	97.0	91.3
Net (gain)/loss on sale of non-current assets	1.4	1.8
Other non-cash items	2.2	2.3
Net cash from operations before changes in operating assets and liabilities	114.1	191.2
(Increase)/decrease in receivables	1.2	(7.2)
(Increase)/decrease in inventories	(1.3)	(1.1)
(Increase)/decrease in other assets	3.4	(2.8)
Increase/(decrease) in payables and other liabilities	5.2	5.5
Increase/(decrease) in net other financial assets and liabilities	(2.3)	20.6
Increase/(decrease) in provisions	12.7	(1.8)
Movement in tax balances	94.9	1.2
Net cash inflow from operating activities	227.9	205.6

Note 30 Events occurring after the balance sheet date**(a) Dividend**

Since the end of the financial year, the Directors have approved a final dividend for 2014 of [\$47.2] million (1.393 cents per share) to be paid on 27 June 2014 comprised as follows:

	Cents per share	Total dividend \$M
Fully franked dividend	[1.393]	[47.2]
	[1.393]	[47.2]

(b) Other matters

Other than outlined above, there has been no matter or circumstance that has arisen since 31 March 2014 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 2014 of the SP AusNet Transmission Group;
- (b) the results of those operations; or
- (c) the state of affairs, in financial years subsequent to 31 March 2014, of the SP AusNet Transmission Group.

Directors' declaration

In the opinion of the Directors of SP Australia Networks (Transmission) Ltd (the Company):

- (a) the financial statements and notes set out on pages 181 to 244, and the remuneration disclosures that are contained in the *Remuneration report* set out on pages 164 to 177 in the *Directors' report*, are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Australian Accounting Standards, and the *Corporations Regulations 2001*; and
 - (ii) giving a true and fair view of the consolidated entity's financial position as at 31 March 2014 and of its performance 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 the Company 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*.

Signed in accordance with a resolution of the Directors.



Ng Kee Choe
Chairman



Nino Ficca
Managing Director

Melbourne
14 May 2013



Independent auditor's report to the members of SP Australia Networks (Transmission) Ltd

Report on the financial report

We have audited the accompanying financial report of SP Australia Networks (Transmission) Ltd (the Company), which comprises the consolidated statement of financial position as at 31 March 2014, and consolidated income statement and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes 1 to 30 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the Company 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 (a), the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Group 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 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 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 Group'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 the Group is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Group's financial position as at 31 March 2014 and of its performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

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

Report on the remuneration report

We have audited the Remuneration Report included in pages 164 to 177 of the directors' report for the year ended 31 March 2014. 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 (Transmission) Ltd for the year ended 31 March 2014, complies with Section 300A of the *Corporations Act 2001*.



KPMG



Michael Bray
Partner

Melbourne

14 May 2014

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SP Australia Networks (Finance) Trust
ARSN 116 783 914

Financial Report

For the financial year ended 31 March 2014

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The financial report is presented in Australian dollars.

SP Australia Networks (Finance) Trust is a trust established under the laws of the State of Victoria and is 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 (Finance) Trust's operations and its principal activities is included in the Directors' report.

The financial report was authorised for issue by the Directors of the trustee SP Australia Networks (RE) Ltd on 14 May 2014.

Directors' report

The Directors of the trustee of SP Australia Networks (Finance) Trust (SP AusNet Finance Trust), SP Australia Networks (RE) Limited (ACN 109 977 371) (the Responsible Entity), present their report on the general purpose financial report of SP AusNet Finance Trust for the financial year ended 31 March 2014.

On 21 October 2005 pursuant to the Stapling Deed, a unit in SP AusNet Finance Trust was stapled to a share in SP Australia Networks (Transmission) Ltd (SP AusNet Transmission) and to a share in SP Australia Networks (Distribution) Ltd (SP AusNet Distribution). On 14 December 2005, the Stapled Group was listed on the Australian Securities Exchange (ASX) and the Singapore Exchange Securities Trading Limited (SGX-ST). The Stapled Group is also referred to as SP AusNet.

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

Directors

SP AusNet Finance Trust is registered, as a managed investment scheme, under Chapter 5C of the *Corporations Act 2001* (Cth) and, as a result, requires a responsible entity. The Responsible Entity is responsible for performing all functions that are required under the Corporations Act of a responsible entity.

The persons listed below were Directors of the Responsible Entity during the whole of the financial year and up to the date of this report unless otherwise noted.

Non-executive Directors

Ng Kee Choe (Chairman)

Ralph **Craven** (commenced effective 24 January 2014)

Jeremy Guy Ashcroft **Davis** AM

Sally Marie **Farrier** (commenced effective 24 January 2014)

Eric **Gwee** Teck Hai

Ho Tian Yee

Antonino (Tony) Mario **Iannello**

George Allister **Lefroy** (retired effective 18 July 2013)

Tina Renna **McMeckan**

Ian Andrew **Renard** AM

Sun Jianxing (commenced effective 24 January 2014)

Executive Director

Nino **Ficca** (Managing Director)

Principal activities

The principal activity of SP AusNet Finance Trust is to provide financing to both SP AusNet Distribution and SP AusNet Transmission as well as to facilitate distributions to unitholders in the nature of interest income and returns of capital as applicable for Australian taxation purposes.

Directors' report (continued)**Review of operations**

A summary of SP AusNet Finance Trust's revenues and results is set out below:

	2014	2013
	\$M	\$M
Interest income	161.4	171.7
Profit for the year	161.4	171.7

Discussion and analysis for the year ended 31 March 2014

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

SP AusNet Finance Trust reported a net profit of \$161.4 million for the year ended 31 March 2014, which comprised interest earned from other entities in the Stapled Group. SP AusNet Finance Trust does not have any trading operations and does not incur any expenses. Its purpose is to provide financing to both SP AusNet Distribution and SP AusNet Transmission as well as to facilitate distributions to unitholders.

Financial position

SP AusNet Finance Trust's total assets as at 31 March 2014 were \$2,795.3 million comprising amounts due from other entities in the Stapled Group.

SP AusNet Finance Trust had no liabilities as at 31 March 2014.

Unitholders' funds were \$2,795.3 million as at 31 March 2014.

Distributions

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

	Final 2013 distribution		Interim 2014 distribution	
		Total distribution		Total distribution
	Cents per unit	\$M	Cents per unit	\$M
Interest income	2.649	89.2	2.396	80.9
Return of capital	0.084	2.8	0.391	13.2
Total distributions	2.733	92.0	2.787	94.1

In relation to the final distribution paid on 28 June 2013 of \$92.0 million, \$10.4 million was utilised in the allotment of new securities issued under the Distribution Reinvestment Plan (DRP). In relation to the interim distribution paid on 23 December 2013 of \$94.1 million, \$11.8 million was utilised in the allotment of new securities issued under the DRP.

Directors' report (continued)**Discussion and analysis for the year ended 31 March 2014 (continued)****Distributions (continued)**

Since the end of the financial year, the Directors of the Responsible Entity have approved a final distribution for 2014 of \$94.4 million (2.787 cents per unit) to be paid on 27 June 2014 comprised as follows:

	Final 2014 distribution	
	Cents per unit	Total distribution \$M
Interest income	2.379	80.6
Return of capital	0.408	13.8
	2.787	94.4

The DRP will be in operation for the final distribution at a two per cent discount to the average of the volume weighted average price.

Significant changes in the state of affairs

Other than referred to above, in the opinion of the Directors of the Responsible Entity, there were no significant changes in the state of affairs of SP AusNet Finance Trust that occurred during the year under review.

Matters subsequent to the end of the financial year

With the exception of the distribution outlined above, the Directors of the Responsible Entity are not aware of any circumstances that have arisen since 31 March 2014 that have significantly affected or may significantly affect the operations, and results of those operations or the state of affairs, of SP AusNet Finance Trust in financial years subsequent to 31 March 2014.

Environmental regulation

SP AusNet Finance Trust does not conduct any operations that are subject to any particular and significant environmental regulation.

Fees paid to and interest held in SP AusNet Finance Trust by the Responsible Entity or its Associates

No fees have been paid to the Responsible Entity or to the Directors of the Responsible Entity during the year out of the property of SP AusNet Finance Trust.

Interests in SP AusNet Finance Trust issued during the financial year

	2014	2013
Units on issue at the start of the year	3,367,543,113	2,896,219,682
Units issued under institutional and retail capital raisings	-	434,430,249
Units issued under the Distribution Reinvestment Plan	19,063,967	36,893,182
Units on issue at the end of the year	3,386,607,080	3,367,543,113

Directors' report (continued)

Information on Directors

Ng Kee Choe – *Chairman – Non-executive*

Bachelor of Science (Honours), University of Singapore

Experience and expertise

Mr Ng serves as Chairman of CapitaLand Ltd and CapitaMalls Asia Limited and as President-Commissioner of PT Bank Danamon Indonesia, Tbk. He is a Director of Singapore Exchange Ltd and Fullerton Financial Holdings Pte Ltd. 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 the Chairman of NTUC Income Insurance Co-Operative Limited and the Chairman and Director of Singapore Power Limited and Singapore Airport Terminal Services Limited. He was also Vice-Chairman and Director of DBS Group Holdings, retiring from his executive position in 2003 after 33 years' service.

Other current listed company directorships

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)
CapitaMalls Asia Limited (2013 to date) (SGX-ST and Hong Kong Stock Exchange Listed entity)

Former listed company directorships in last 3 years

Singapore Airport Terminal Services Ltd (2000 to 2012) (SGX-ST listed entity)

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 Management, Deakin University
Advanced Management Programme, Harvard Business School, USA

Experience and expertise

Mr Ficca has over 30 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 and the Issuing Committee.

Directors' report (continued)

Information on Directors (continued)

Ralph Craven – *Non-executive Director*

Bachelor of Engineering (Electrical - Honours), University of Queensland
Doctor of Philosophy, University of New South Wales
Postgraduate Diploma in Management, Deakin University
Postgraduate Diploma in Information Processing, University of Queensland

Experience and expertise

Dr Craven is currently the Chairman of Invion Limited and a Director of Senex Energy Limited and Mitchell Services Limited. He is also Director of Windlab Systems Pty Ltd and the International Electrotechnology Commission. He was formerly Chair of Ergon Energy Corporation Limited, Tully Sugar Limited and Deputy Chair of Arrow Energy Pty Ltd. Dr Craven was CEO of Transpower New Zealand Limited and also held senior executive positions in Shell Coal Pty Ltd and NRG Asia Pacific Limited. He is a Fellow of the Australian Institute of Company Directors, a Fellow of the Institution of Engineers Australia and a Fellow of the Institution of Professional Engineers New Zealand.

Other current listed company directorships

Invion Limited (2011 to date)
Senex Energy Limited (2011 to date)
Mitchell Services Limited (2011 to date)

Former listed company directorships in last 3 years

None

Date of initial appointment

SP AusNet Transmission – 24 January 2014
SP AusNet Distribution - 24 January 2014
Responsible Entity - 24 January 2014

Special responsibilities

Member of the Audit and Risk Management Committee, the Compliance Committee and the Bushfire Litigation Committee.

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

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

Experience and expertise

Professor Davis is a Director of Singapore Power Limited and CHAMP Ventures Pty Ltd. He is a former Director of the Transurban Group and a Professor Emeritus of the University of New South Wales, after retiring from the Australian Graduate School of Management (AGSM). 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 (now ASX Limited) and Australian Institute of Management.

Other current listed company directorships

None

Former listed company directorships in last 3 years

Transurban Group (1997 to 2011)

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 and the Bushfire Litigation Committee.

Directors' report (continued)

Information on Directors (continued)

Sally Marie Farrier – *Independent Non-executive Director*

Bachelor of Chemical and Process Engineering (First Class Honours), University of Canterbury, New Zealand

Masters of Business Administration, Victoria University of Wellington

Post Graduate Diploma in Finance and Investment Analysis, Securities Institute of Australia

Experience and expertise

Ms Farrier is currently a Director of Meridian Energy Limited and a founding Director of Farrier Swier Consulting Pty Limited. Past directorships include Manidis Roberts Pty Limited, Hydro Tasmania and Western Power. In addition, Ms Farrier has served as a National Water Commissioner, and in Victoria, she was a Member of the Victorian Water Trust Advisory Council. She is a Member of the Australian Institute of Company Directors and a Fellow of the Financial Services Institute of Australasia.

Other current listed company directorships

Meridian Energy Limited (2012 to date) (New Zealand Stock Exchange Listed Company)

Former listed company directorships in last 3 years

None

Date of initial appointment

SP AusNet Transmission – 24 January 2014

SP AusNet Distribution - 24 January 2014

Responsible Entity - 24 January 2014

Special responsibilities

Member of the Audit and Risk Committee and the Compliance Committee.

Eric Gwee Teck Hai – *Non-executive Director*

Bachelor of Engineering (Mechanical), University of Melbourne

Experience and expertise

Mr Gwee is a former Director of Singapore Power Limited, WorleyParsons Ltd and 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

None

Former listed company directorships in last 3 years

WorleyParsons Ltd (2005 to 2011)

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 and the Remuneration Committee.

Directors' report (continued)

Information on Directors (continued)

Ho Tian Yee – *Non-executive Director*

Bachelor of Arts (Economics), Portsmouth University, UK

Experience and expertise

Mr Ho is currently the Managing Director and principal shareholder of Pacific Asset Management (S) Pte Ltd, and an investment advisor to Blue Edge Advisors Pte Ltd. Mr Ho was previously the General Manager and Managing Director of Bankers Trust Company, Singapore. He currently serves as a non-executive director of DBS Group Holdings Ltd and Fullerton Funds Management Company. He is also a Board member of Singapore Power Limited.

Other current listed company directorships

DBS Group Holdings Ltd (2011 to date) (SGX-ST listed company)

Former listed company directorships in last 3 years

Singapore Exchange Ltd (1999 to 2013) (SGX-ST listed company)

Fraser & Neave Ltd (1997 to 2011) (SGX-ST listed company)

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 Nomination 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 Empire Oil and Gas NL, Energia Minerals Ltd, HBF Health Ltd, D'Orsogna Ltd and MG Kailis Group of Companies. He is also a director of ERM Power Ltd, Water Corporation of WA 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)

Empire Oil and Gas NL (2013 to date)

Former listed company directorships in last 3 years

None

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 Nomination Committee, the Bushfire Litigation Committee and the Issuing Committee.

Directors' report (continued)

Information on Directors (continued)

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. She is also a Director of Circadian Technologies Ltd and the Cooperative Research Centre for Spatial Information. She is a former Chair of the Centre for Eye Research Australia and a former Director of Metlink Victoria Pty Ltd and 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. Ms McMeckan is a Fellow of the Australian Institute of Company Directors.

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

Chairman of the Compliance Committee and a member of the Remuneration Committee and the Audit and Risk Management Committee.

Ian Andrew Renard AM – *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 a Director of Hillview Quarries Pty Ltd. He is trustee of the R E Ross Trust and former Chancellor of the University of Melbourne. Mr Renard 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.

Other current listed company directorships

None

Former listed company directorships in last 3 years

CSL Ltd (1998 to 2013)

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 the Bushfire Litigation Committee and member of the Nomination Committee.

Directors' report (continued)

Information on Directors (continued)

Sun Jianxing - *Non-executive Director*

Bachelor of Engineering, Northeast Dianli University, China

Experience and expertise

Mr. Sun is a Non-executive Director of ElectraNet and currently holds the role of Head of State Grid Corporation of China Australia Representative Office. His previous roles include Deputy CEO of State Grid Energy Development Company Ltd, Deputy Director General of Materials & Equipment Supplying Department, State Grid Corporation of China, Chief Engineer of State Grid Shenzhen Energy Developments Ltd and Division Chief of Department of International Affairs, State Grid Corporation of China. In his early years, Mr. Sun also worked as a Senior Engineer at the China General Institute for Electric Power Planning and Designing.

Other current listed company directorships

None

Former listed company directorships in last 3 years

None

Date of initial appointment

SP AusNet Transmission – 24 January 2014

SP AusNet Distribution - 24 January 2014

Responsible Entity - 24 January 2014

Special responsibilities

Member of the Nomination Committee and the Remuneration 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 20 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 2014, 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 ¹	3	4	3	4	3	4
Tina McMeckan	8	8	8	8	8	8
Ian Renard	8	8	8	8	8	8
Sun Jianxing	2	2	2	2	2	2
Ralph Craven	2	2	2	2	2	2
Sally Farrier	2	2	2	2	2	2

¹ Mr Lefroy retired as a Non-Executive Director effective 18 July 2013.

A = Number of meetings attended

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

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 2014, 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	**	**	**	**	4	4	**	**
Nino Ficca	**	**	**	**	**	**	**	**
Jeremy Davis	5	7	**	**	4	4	**	**
Eric Gwee	7	7	**	**	4	4	3	3
Ho Tian Yee	**	**	3	3	**	**	3	3
Tony Iannello	7	7	3	3	**	**	**	**
George Lefroy	**	**	**	**	**	**	1	1
Tina McMeckan	7	7	2	2	**	**	3	3
Ian Renard	5	5	2	2	4	4	2	3
Sun Jianxing	**	**	**	**	**	**	1	1
Ralph Craven	2	2	1	1	**	**	**	**
Sally Farrier	1	2	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**

Directors' report (continued)

Meetings of Directors (continued)

The number of meetings of the Bushfire Litigation Committee and the Issuing Committee held during the year ended 31 March 2014, and the number of meetings attended by each Director, are set out in the following table.

	Bushfire Litigation Committee		Issuing Committee	
	A	B	A	B
Ng Kee Choe	**	**	3	3
Nino Ficca	2	2	3	3
Ho Tian Yee	**	**	3	3
Tony Iannello	2	2	3	3
George Lefroy	1	1	**	**
Ian Renard	2	2	**	**

A = Number of meetings attended

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

**** = Not a member of the relevant committee**

Directors' report (continued)

Remuneration report (audited)

Introduction to remuneration report

The remuneration report for the year ended 31 March 2014 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 or indirectly, including any Director of the parent company.

In performing its role, the Board and Remuneration Committee may directly commission and receive information and advice from independent external advisers to ensure remuneration recommendations in relation to KMP are free from undue influence by management.

In March 2010, the Remuneration Committee appointed PwC as its remuneration adviser. This appointment was formalised in August 2011 following changes to the Corporations Act in relation to the appointment of remuneration advisers.

No remuneration recommendations were provided by PwC to the Remuneration Committee or Board during the reporting period. Advice was provided to the Remuneration Committee by PwC during the reporting period which outlined the current overall market conditions and external pay practices amongst a selected peer comparator group. This advice included an analysis of existing levels of fixed and performance remuneration of SP AusNet's KMP and executives and assisted the Board in reviewing and determining overall remuneration outcomes for the KMP and executives for the reporting period.

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. There have been no additional appointments or resignations of Directors throughout the reporting period.

Name	Position
Ng Kee Choe	Non-executive Chairman
Nino Ficca	Managing Director
Ralph Craven	Non-executive Director (appointed 24 January 2014)
Jeremy Davis	Non-executive Director
Sally Farrier	Non-executive Director (appointed 24 January 2014)
Eric Gwee	Non-executive Director
Ho Tian Yee	Non-executive Director
Tony Iannello	Non-executive Director
Sun Jianxing	Non-executive Director (appointed 24 January 2014)
George Lefroy	Non-executive Director (up to 18 July 2013)
Tina McMeckan	Non-executive Director
Ian Renard	Non-executive Director

Directors' report (continued)**Remuneration report (audited) (continued)**

The persons listed below were KMP of SP AusNet during the financial year ended 31 March 2014.

Name	Position
Nino Ficca	Managing Director
John Azaris	General Manager Service Delivery (KMP from 1 April 2013)
Chad Hymas	General Manager Strategy & Business Development (KMP from 1 April 2013)
John Kelso	General Manager Select Solutions
Adam Newman	Chief Financial Officer and General Manager Finance
Alistair Parker	General Manager Asset Management (KMP from 1 April 2013)
Ash Peck ¹	General Manager Information and Communication Technology (up to 6 December 2013)
Mario Tieppo	General Manager Information and Communication Technology (appointed 9 December 2013)

¹ On 6 December 2013, Mr Peck ceased to be a KMP of SP AusNet and resigned from SP AusNet on 9 December 2013.

Up to 31 March 2014, SPI Management Services Pty Ltd (SPI Management Services), a wholly-owned subsidiary of related party Singapore Power International Pte Ltd (SPI), provided 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 above 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 major activities of SP AusNet during the financial year.

On 31 March 2014, SP AusNet, Singapore Power and SPI Management Services entered into a Termination Deed, pursuant to which they agreed to terminate the Management Services Agreement with effect from 31 March 2014. As a result of this termination, KMP and other employees who were previously employed by SPI Management Services were offered, and accepted, employment with SP AusNet, under either SPI Electricity Pty Ltd or SPI PowerNet Pty Ltd, on the same terms as their existing remuneration arrangements, including the preservation of all existing entitlements and participation in incentive arrangements.

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.

	2010	2011	2012	2013 (restated)	2014
Revenue	\$1,333.6m	\$1,468.0m	\$1,535.4m	\$1,639.5m	\$1,799.4m
NPAT from continuing operations	\$209.0m	\$252.9m	\$255.0m	\$273.5m	\$178.3m¹
Closing security price as at 31 March	\$0.91	\$0.87	\$1.075	\$1.195	\$1.31
Distributions in respect of financial year (cents per stapled security)	8.00	8.00	8.00	8.20	8.36

¹ NPAT from continuing operations for the year ended 31 March 2014 includes a net charge of \$86.7 million for the amount potentially payable under the Section 163AA impost dispute with the Australian Tax Office (ATO) and \$40.4 million (net of tax) for the termination payment and restructuring provision arising from the Termination Deed.

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. 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.
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 (including any additional fees for special duties or exertions) 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 \$2,000,000 per year at the Annual General Meeting of SP AusNet held on 19 July 2012.
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	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.
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.

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) for the financial year ended 31 March 2014 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 ^{1, 2}	\$330,000
Board Directors	\$121,000
Audit and Risk Management Committee Chairman	\$30,000
Audit and Risk Management Committee Members	\$18,000
Compliance Committee Chairman	\$21,600
Compliance Committee Members	\$12,000
Remuneration Committee Chairman	\$24,000
Remuneration Committee Members	\$12,000
Nomination Committee Chairman	\$15,000
Nomination Committee Members	\$12,000
Issuing Committee Members ²	\$12,000

1 The Board Chairman is currently Chairman of the Nomination Committee. As his Board fee is all-inclusive, no Nomination Committee Chairman's fee is currently paid.

2 At its November 2013 meeting, the Board resolved to formalise the Issuing Committee as a standing Committee of the Board effective 1 January 2014. The Board Chairman is currently Chairman of the Issuing Committee. As his Board fee is all-inclusive, no Issuing Committee Chairman's fee is currently paid.

3 In addition to the fees noted above, Non-executive Directors may also be paid fees for special duties or exertions.

At their meeting in November 2012, the Board resolved to increase Non-executive Director fees, effective from 1 April 2013. The increase in fees is within the fee limit approved by the securityholders of SP AusNet Distribution and SP AusNet Transmission at the Annual General Meeting held on 19 July 2012.

Managing Director and Senior Executives

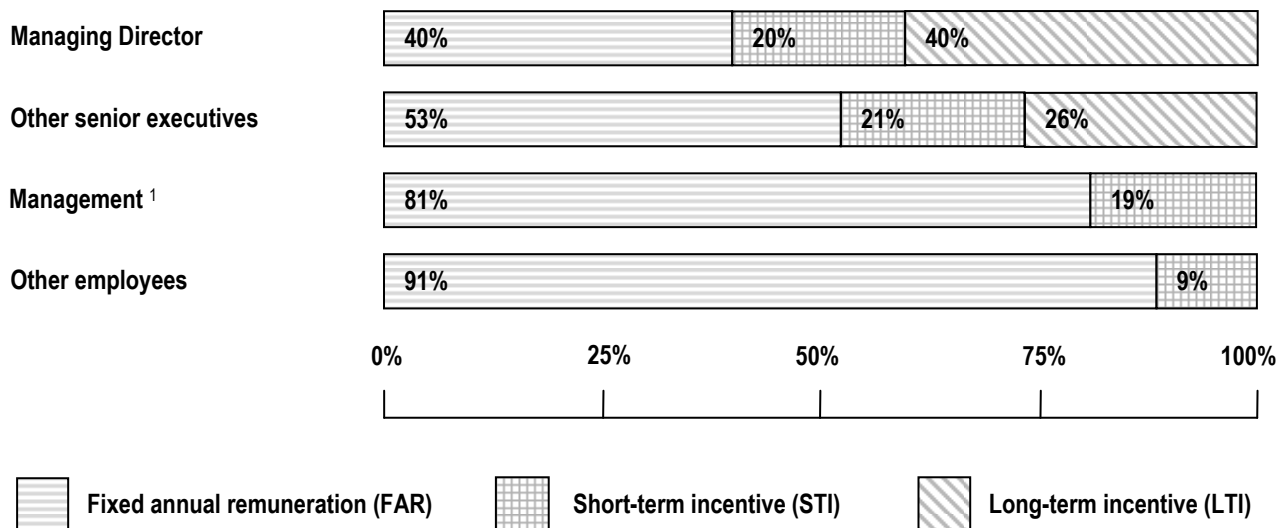
The key objective of SP AusNet's policy for Managing Director and senior executive remuneration is to manage a total reward framework designed to:

- 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.

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 Short-Term Incentive (STI) plan. A Long-Term Incentive (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:



¹ 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' fixed annual remuneration. 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 advisers 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 FAR increases in any senior executive's contract of employment.

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, other senior executives and permanent employees on individual contracts of employment. 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 an executive.
Target STI amount	A target STI amount, expressed as a percentage of the senior executive's FAR, is specified for each senior executive. However, 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 other senior executives is 40% of FAR.
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 2014 included targets relating to: • employee, contractor and network safety; • earnings before interest, taxation, depreciation and amortisation; • return on equity; • capital efficiency; • business efficiency initiatives network performance and reliability; and • employee retention. 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. The Managing Director's stretch individual performance scorecard contained a range of measures designed to contribute value to the business and included: • safety leadership and strategy implementation; • financial KPI's including credit rating KPI's • Business Excellence and performance efficiency KPI's; • people management and leadership; and • customer and community. The performance assessment of the Managing Director's stretch individual performance scorecard is conducted by the Chairman and the Remuneration Committee Chairman, and reviewed by the Board prior to finalisation and any award being granted.
Performance period	12 months to 31 March 2014.
Delivery mechanism	100% cash payment. The Board retains the right to vary any STI payment at its discretion.

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 other 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 long-term securityholder value.
Target LTI amount	The LTI Award is calculated as a percentage of the participant's FAR as at the test date. 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 senior executive performance measures of Total Securityholder Return (TSR) and Earnings Per Security (EPS), with a further 25% for the achievement of stretch targets related to Return on Invested Capital (ROIC) and Interest Cover Ratio (ICR). - Other senior executives – 50% - Other participants – between 15% and 25%
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. With the exception of the Managing Director, where an additional 25% LTI opportunity was introduced from 1 April 2011, accompanied by new performance indicators of ROIC and ICR, the same performance measures have been used for senior executive LTI 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	35%
Between 50.1 and 74.9	Progressive vesting on a straight-line basis from greater than 35% 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: <table> <tr> <th>Compound annual growth rate</th><th>Percentage of EPS Award that vests</th></tr> <tr> <td>< 2.5% per annum</td><td>0%</td></tr> <tr> <td>Between 2.5% and 7.5% per annum</td><td>Linear scale from 50% to 150%</td></tr> <tr> <td>> 7.5% per annum</td><td>150%</td></tr> </table> ROIC: The ROIC measure applies to the Managing Director only and is designed to measure how effective SP AusNet uses funds (borrowed and owned) invested in its operations. ROIC is calculated by $(NPAT + \text{Finance Cost adjusted for Tax}) / (\text{Equity} + \text{Debt})$ The target for this measure has been set as the average over the 3 year performance period, with the award calculated as follows: <table> <tr> <th>SP AusNet's ROIC</th><th>Percentage of ROIC Award that vests</th></tr> <tr> <td>Below threshold</td><td>0%</td></tr> <tr> <td>Between threshold and target</td><td>Linear scale from 50% to 100%</td></tr> <tr> <td>Above target to stretch target</td><td>Linear scale from 100% to 125%</td></tr> <tr> <td>Above stretch target</td><td>125%</td></tr> </table> ICR: The ICR applies to the Managing Director only and is a key financial metric which provides an indication of SP AusNet's ability to meet ongoing interest bills and therefore service debt. ICR equals $\text{Funds Flow from Operations} + \text{Finance Expenses} / \text{Finance Expenses}$ The target for this measure has been set as the average over the 3 year performance period, with the award calculated as follows: <table> <tr> <th>SP AusNet's ICR</th><th>Percentage of ICR Award that vests</th></tr> <tr> <td>Below threshold</td><td>0%</td></tr> <tr> <td>Between threshold and target</td><td>Linear scale from 50% to 100%</td></tr> <tr> <td>Above target to stretch target</td><td>Linear scales from 100% to 125%</td></tr> <tr> <td>Above stretch target</td><td>125%</td></tr> </table> In order for the Managing Director to qualify for an award under both the ROIC and ICR measures, a safety performance hurdle of zero fatalities for SP AusNet employees in the 12 month period prior to vesting must be achieved.	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%	SP AusNet's ROIC	Percentage of ROIC Award that vests	Below threshold	0%	Between threshold and target	Linear scale from 50% to 100%	Above target to stretch target	Linear scale from 100% to 125%	Above stretch target	125%	SP AusNet's ICR	Percentage of ICR Award that vests	Below threshold	0%	Between threshold and target	Linear scale from 50% to 100%	Above target to stretch target	Linear scales from 100% to 125%	Above stretch target	125%
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%																												
SP AusNet's ROIC	Percentage of ROIC Award that vests																												
Below threshold	0%																												
Between threshold and target	Linear scale from 50% to 100%																												
Above target to stretch target	Linear scale from 100% to 125%																												
Above stretch target	125%																												
SP AusNet's ICR	Percentage of ICR Award that vests																												
Below threshold	0%																												
Between threshold and target	Linear scale from 50% to 100%																												
Above target to stretch target	Linear scales from 100% to 125%																												
Above stretch target	125%																												

Directors' report (continued)

Remuneration report (audited) (continued)

Long-term incentive (continued)

Key design aspect	Commentary
Delivery mechanism	Once the performance criteria have been satisfied, participants receive a cash award. The Board retains the right to vary any LTI payment at its discretion. 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. 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.
Clawback arrangements	Where, in the opinion of the Board, the performance measures applicable to an award have been satisfied as a result of the fraud, dishonesty or breach of obligations of the participant and, in the opinion of the Board, the performance measures would not otherwise have been satisfied, the Board may determine that the performance measures are not satisfied and may, subject to applicable laws, determine that any award paid in such circumstances be repaid by the participant to SP AusNet.

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.

Directors' report (continued)**Remuneration report (audited) (continued)****Total remuneration for Non-executive Directors for the year ended 31 March 2013 and 31 March 2014**

Non-executive Directors	Year	Short-term		Post-employment	Total
		Cash salary and fees	Other short-term benefits ¹	Super-annuation ²	
Ng Kee Choe (Chairman)	2014	302,233	-	27,767	330,000
	2013	229,358	-	20,642	250,000
Ralph Craven ⁵	2014	25,375	-	2,347	27,722
Jeremy Davis	2014	136,278	-	12,519	148,797
	2013	123,853	-	11,147	135,000
Sally Farrier ⁵	2014	25,375	-	2,347	27,722
Eric Gwee	2014	160,797	-	-	160,797
	2013	145,000	-	-	145,000
Ho Tian Yee ⁴	2014	143,783	-	13,217	157,000
	2013	133,028	-	11,972	145,000
Tony Iannello ^{3,4}	2014	176,745	-	16,255	193,000
	2013	174,312	-	15,688	190,000
Sun Jianxing ⁵	2014	24,430	-	2,260	26,690
George Lefroy ³	2014	51,335	-	4,665	56,000
	2013	146,789	-	13,211	160,000
Tina McMeckan	2014	151,010	-	13,882	164,892
	2013	123,853	-	11,147	135,000
Ian Renard ³	2014	184,218	-	16,941	201,159
	2013	186,239	-	16,761	203,000
Total for Non-executive Directors	2014	1,381,579	-	112,200	1,493,779
	2013	1,262,432	-	100,568	1,363,000

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 Received exertion payments in relation to services provided on the Bushfire Litigation Committee. Mr Lefroy ceased to be a member of this Committee upon his retirement on 18 July 2013 and as a consequence received a pro rata exertion payment up to this date.

⁴ Received exertion payments in relation to services provided on the Issuing Committee for the period up to 31 December 2013

⁵ Dr Craven, Ms Farrier and Mr Sun were all appointed to the Board on 24 January 2014.

Directors' report (continued)**Remuneration report (audited) (continued)****Total remuneration for key management personnel for the year ended 31 March 2013 and 31 March 2014**

Key management personnel for the year ended 31 March 2016 and 31 March 2017									
		Short-term		Post-employment	Equity based payments ³	Termination benefits	Other long-term benefits ^{4,5}	Total	
	Year	Cash salary and fees ⁵	Cash bonus ¹	Other short-term benefits ^{2,5}	Super-annuation				
Nino Ficca	2014	805,587	320,000	87,922	92,250	619,027	-	66,775	1,991,561
	2013	717,057	662,264	66,346	81,508	560,566	-	36,397	2,124,138
John Azaris ⁷	2014	329,076	102,400	37,648	42,214	126,660	-	10,016	648,014
Chad Hymas ⁷	2014	258,669	86,400	30,384	25,000	66,397	-	7,512	474,362
John Kelso	2014	299,795	90,144	37,003	31,233	126,524	-	52,711	637,410
	2013	243,113	136,737	28,402	25,449	77,029	-	11,570	522,300
Adam Newman	2014	579,310	180,000	54,747	25,000	199,797	-	15,642	1,054,496
	2013	45,977	150,000	3,822	1,916	7,024	-	1,066	209,805
Alistair Parker ⁷	2014	325,862	90,000	35,923	25,000	82,996	-	9,385	569,166
Ash Peck ⁶	2014	225,974	-	27,757	22,361	(100,948)	-	(22,929)	152,215
	2013	294,896	181,805	32,937	28,395	88,790	-	9,195	636,018
Mario Tieppo ⁸	2014	106,322	39,605	11,421	7,759	38,886	-	3,055	207,048
Geoff Nicholson	2013	437,078	297,729	38,808	41,480	122,250	86,773	(72,325)	951,793
Norm Drew	2013	371,040	244,761	37,944	47,904	119,659	-	20,001	841,309
Charles Popple	2013	352,313	215,149	31,968	35,422	103,956	-	13,125	751,933
Total KMP	2014	2,930,595	908,549	322,805	270,817	1,159,339	-	142,167	5,734,272
	2013	2,461,474	1,888,445	240,227	262,074	1,079,274	86,773	19,029	6,037,296

¹ 2014 cash bonuses include bonuses in respect of performance for the year ended 31 March 2014. These amounts have been approved and will be payable in June 2014.

² Other short-term benefits include 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 As the performance period over which the LTI 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. This estimated amount is based on certain assumptions regarding the achievement of performance targets which are reviewed and adjusted annually. Any adjustments to previously recognised amounts, both positive and negative, are included in the current year. The actual amounts paid under these Awards will not be known until the end of the performance period. Refer to the table below under the heading of key management personnel – 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 The above table represents the accounting value of KMP remuneration, calculated in accordance with accounting standards. As a result, annual leave and long service leave entitlements are recognised as remuneration when they accrue rather than when they are taken. This has the impact of reducing the cash salary and fees remuneration disclosed in the table above when these leave entitlements are ultimately taken by the KMP. In addition, any changes to the value of leave entitlements (for example, because of changes in FAR or long service leave entitlements not vesting) are recognised as remuneration, either positive or negative, in the year that the change occurs. These accounting adjustments to remuneration values are reflected in the *Cash Salary and Fees*, *Other Short-term Benefits* and *Other Long-term Benefits* disclosed in the table above.

⁶ Mr Peck ceased to be KMP on 6 December 2013. His remuneration up to this date has been included in the table above.

⁷ Mr Azaris, Mr Parker and Mr Hymas commenced as KMP on 1 April 2013.

⁸ Mr Tieppo commenced as KMP on 9 December 2013.

Directors' report (continued)**Remuneration report (audited) (continued)****Remuneration and Other Terms of Employment**

Remuneration and other terms of employment for the Managing Director and specified senior executives (including KMP) 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 2014, fixed annual remuneration was \$1,000,000. 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 senior executive performance measures of TSR and EPS, and 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.

In addition, the Managing Director participates in the SP AusNet Retention Plan. Under this plan, the Managing Director is entitled to receive up to 100% of FAR, contingent upon a change of control event occurring (as defined under the Corporations Act and ASX Listing Rules) and subject to continued employment up to 12 months following the change of control event. The Retention Plan is in place until 16 September 2015. The Board has absolute and unfettered discretion to act or refrain from acting under or in connection with the Retention Plan and in the exercise of any power or discretion under the Plan.

In accordance with that discretion, the Board decided that no payment would be made under the Retention Plan arising from the sale by Singapore Power to StateGrid of 19.9% of SP AusNet securities.

Senior executives

The major provisions contained in the services agreements of the other KMP listed are substantially the same as those that apply to the Managing Director although participation levels for STI, LTI and Retention Plan vary.

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 2013 and 31 March 2014, and the percentage that was forfeited because the senior executive did not meet the service or performance criteria, are set out below.

	Cash Bonus (2014) ¹			Cash Bonus (2013)		
	Payable (\$)	Percentage of available bonus		Paid (\$)	Percentage of available bonus	
		Payable (%)	Not Payable (%)		Paid (%)	Not Paid (%)
Nino Ficca	320,000	64.0	36.0	662,264	140.0	0.0
John Azaris	102,400	64.0	36.0	-	-	-
Chad Hymas	86,400	72.0	28.0	-	-	-
John Kelso	90,144	62.6	37.4	136,737	114.8	0.0
Adam Newman	180,000	72.0	28.0	-	-	-
Alistair Parker	90,000	60.0	40.0	-	-	-
Ash Peck	-	-	100.0	181,805	130.1	0.0
Mario Tieppo	39,605	80.0	20.0	-	-	-

¹ Bonuses for performance for the year ended 31 March 2014 have been approved and will be payable in June 2014.

Directors' report (continued)**Remuneration report (audited) (continued)****Key management personnel – 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 payable or forfeited and future financial years that grants may vest and be paid. The grants made in 2012 and 2013 are still in progress and, as such, no percentage of these grants have been paid or forfeited as at the date of this report.

	Date of grant	Percentage of maximum grant payable (%) ¹	Percentage of maximum grant forfeited (%)	Vesting date	Maximum total value of grant (\$) ²
Nino Ficca	1 April 2011	38.5	61.5	31 March 2014	1,250,000
John Azaris ⁴	1 April 2011	40.0	60.0	31 March 2014	250,000
Chad Hymas ⁴	1 April 2011	40.0	60.0	31 March 2014	93,750
John Kelso	1 April 2011	40.0	60.0	31 March 2014	225,000
Adam Newman	4 March 2013	40.0	60.0	31 March 2014	139,844
Alistair Parker ⁴	1 April 2011	40.0	60.0	31 March 2014	117,188
Mario Tieppo ³	9 December 2013	40.0	60.0	31 March 2014	25,550
Total granted 1 April 2011					2,101,332
Nino Ficca	1 April 2012	-	-	31 March 2015	1,296,875
John Azaris ⁴	1 April 2012	-	-	31 March 2015	259,375
Chad Hymas ⁴	1 April 2012	-	-	31 March 2015	97,266
John Kelso	1 April 2012	-	-	31 March 2015	233,438
Adam Newman	4 March 2013	-	-	31 March 2015	280,449
Alistair Parker ⁴	1 April 2012	-	-	31 March 2015	121,582
Mario Tieppo ³	9 December 2013	-	-	31 March 2015	113,088
Total granted 1 April 2012					2,402,073
Nino Ficca	1 April 2013	-	-	31 March 2016	1,345,508
John Azaris	1 April 2013	-	-	31 March 2016	269,102
Chad Hymas	1 April 2013	-	-	31 March 2016	201,826
John Kelso	1 April 2013	-	-	31 March 2016	242,191
Adam Newman	1 April 2013	-	-	31 March 2016	420,471
Alistair Parker	1 April 2013	-	-	31 March 2016	252,283
Mario Tieppo ³	9 December 2013	-	-	31 March 2016	207,154
Total granted 1 April 2013					2,938,535

¹ These grants have been approved and will be payable in June 2014. In determining LTI's for the 1 April 2011 grant, the Board has not exercised any discretion in relation to the performance measures and outcomes payable under the LTI Plan.

² For the grant of 1 April 2011, the amounts payable equated to 40.0% of the maximum LTI, except for Mr Ficca whereby the amount payable equated to 38.5% of the maximum LTI. For the grants of 1 April 2012 and 1 April 2013, the amounts are based on maximum performance in relation to TSR, EPS, ROIC and ICR at the end of the three-year performance period described above and assumes prevailing FARs increase by 3.75% per annum.

³ Mr Tieppo commenced as KMP from 9 December 2013. As part of his contract of employment, Mr Tieppo has been granted pro-rata participation in the 1 April 2011, 1 April 2012 and 1 April 2013 tranches of the Company's LTI plan, which are due to be tested on 31 March 2014, 31 March 2015 and 31 March 2016 respectively. The maximum total value of grant disclosed above is based on this pro-rata entitlement.

⁴ Mr Azaris, Mr Hymas and Mr Parker commenced as KMP from 1 April 2013. The LTI participation and maximum grant payable disclosed above also include those LTI's that were granted prior to their commencement as KMP.

Directors' report (continued)

Remuneration report (audited) (continued)

Directors' interests

The Directors of SP AusNet have disclosed relevant interests in stapled securities as at the date of this report as follows:

Name	Number of stapled securities
Ng Kee Choe ¹	195,883
Nino Ficca ²	1,268,183
Ralph Craven	-
Jeremy Davis	120,750
Sally Farrier	-
Eric Gwee ¹	153,591
Ho Tian Yee	-
Tony Iannello ³	190,976
Sun Jianxing	-
George Lefroy ⁴	275,086
Tina McMeckan ⁵	90,000
Ian Renard	84,898

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

² 319 850 securities held by immediate family members of Mr Ficca and 948,333 securities held by Mr and Mrs Ficca as Trustees for the Ficca Investment Trust.

³ 87,500 securities held jointly by Mr Iannello and immediate family members of Mr Iannello through a Superannuation Plan and 103,476 securities held by immediate family members of Mr Iannello as trustee for the ADI Investment Trust.

⁴ Securities held by Serp Hills Pty Ltd (as trustee for Serp Hills Super Fund). Dr Lefroy retired as a Director of SP AusNet on 18 July 2013.

⁵ Securities held by McMeckan Superannuation Pty Ltd as Trustee for the McMeckan Family Super Fund.

Directors' report (continued)

Audit and non-audit services

The Directors of the Responsible Entity may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with SP AusNet Finance Trust 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 9 of the general purpose financial report.

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* (Cth) is set out on page 277.

Rounding of amounts

SP AusNet Finance Trust is an entity 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 to the nearest hundred thousand dollars or, in certain cases, 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
14 May 2014



Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of the Responsible Entity of SP Australia Networks (Finance) Trust, SP Australia Networks (RE) Ltd

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 31 March 2014 there have been:

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

KPMG

KPMG

Michael Bray
Partner

Melbourne

14 May 2014

Income statement

For the year ended 31 March 2014

		2014	2013
	Notes	\$M	\$M
Revenue		-	-
Profit from operating activities		-	-
Finance income	2	161.4	171.7
Net finance income		161.4	171.7
Profit before income tax		161.4	171.7
Income tax expense	1(d)	-	-
Profit for the year		161.4	171.7
Earnings per unit attributable to the ordinary unitholders of SP AusNet Finance Trust			
Basic and diluted earnings per unit (cents per unit)	4	4.78	5.25

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

Statement of comprehensive income

For the year ended 31 March 2014

	2014	2013
	\$M	\$M
Profit for the year	161.4	171.7
Other comprehensive income for the year, net of income tax	-	-
Total comprehensive income for the year	161.4	171.7

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

Statement of financial position

As at 31 March 2014

	Notes	2014 \$M	2013 \$M
ASSETS			
Current assets			
Receivables	5	2,795.3	2,797.9
Total current assets		2,795.3	2,797.9
Total assets		2,795.3	2,797.9
LIABILITIES			
Total liabilities		-	-
Net assets		2,795.3	2,797.9
UNITHOLDERS' FUNDS			
Unitholders of SP AusNet Finance Trust			
Units on issue	6	2,714.3	2,708.2
Retained profits		81.0	89.7
Total unitholders' funds		2,795.3	2,797.9

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

Statement of changes in unitholders' funds

For the year ended 31 March 2014

	Notes	Issued units \$M	Retained profits \$M	Total unitholders' funds \$M
31 March 2014				
Balance as at 1 April 2013		2,708.2	89.7	2,797.9
Total comprehensive income for the year				
Profit for the year		-	161.4	161.4
Total comprehensive income for the year		-	161.4	161.4
Transactions with unitholders, recorded directly in unitholders' funds				
Income distributions paid	3	-	(170.1)	(170.1)
Return of capital paid	3	(16.0)	-	(16.0)
Distribution Reinvestment Plan (net of transaction costs)	6(b)	22.1	-	22.1
Total transactions with owners		6.1	(170.1)	(164.0)
Balance as at 31 March 2014		2,714.3	81.0	2,795.3
31 March 2013				
Balance as at 1 April 2012		2,266.8	62.9	2,329.7
Total comprehensive income for the year				
Profit for the year		-	171.7	171.7
Total comprehensive income for the year		-	171.7	171.7
Transactions with unitholders, recorded directly in unitholders' funds				
Income distributions paid	3	-	(144.9)	(144.9)
Return of capital paid	3	(23.6)	-	(23.6)
New units issued (net of transaction costs)	6(b)	426.8	-	426.8
Distribution Reinvestment Plan (net of transaction costs)	6(b)	38.2	-	38.2
Total transactions with owners		441.4	(144.9)	296.5
Balance as at 31 March 2013		2,708.2	89.7	2,797.9

The above statement of changes in unitholders' funds should be read in conjunction with the accompanying notes.

Statement of cash flows

For the year ended 31 March 2014

	Notes	2014 \$M	2013 \$M
Cash flows from operating activities			
Finance income received		170.1	144.9
Net cash inflow from operating activities	11	170.1	144.9
Net cash outflow from investing activities		-	-
Cash flows from financing activities			
Proceeds of loans with related parties		(22.1)	(465.0)
Repayment of loans with related parties		16.0	23.6
Proceeds from issue of units (net of transaction costs)	6	-	426.8
Proceeds from Distribution Reinvestment Plan (net of transaction costs)	3	22.1	38.2
Income distribution	3	(170.1)	(144.9)
Return of capital	3	(16.0)	(23.6)
Net cash outflow from financing activities		(170.1)	(144.9)
Net increase in cash held		-	-
Cash and cash equivalents at the beginning of the year		-	-
Cash and cash equivalents at the end of the year		-	-

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

Notes to the financial statements

31 March 2014

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Notes to the financial statements

31 March 2014

Note 1 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial report are set out below.

(a) Basis of preparation

The financial report, prepared by a for-profit entity for the year ended 31 March 2014, is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards and interpretations adopted by the Australian Accounting Standards Board and the *Corporations Act 2001* (Cth). The financial statements and notes also comply with International Financial Reporting Standards and interpretations adopted by the International Accounting Standards Board.

This general purpose financial report is presented in Australian dollars.

The financial statements were approved by the Board of Directors of the Responsible Entity on 14 May 2014.

(i) Historical cost convention

The financial statements have been prepared under the historical cost convention.

(b) Segment reporting

An operating segment is a component of the SP AusNet Finance Trust 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. SP AusNet Finance Trust provides loans to related parties within the Stapled Group and operates predominately in the State of Victoria. As a result, SP AusNet Finance Trust only operates in one segment.

(c) Finance income

Finance income comprises of interest income on loans provided to related parties. Interest income is recognised as it accrues, taking into account the effective yield on the financial asset.

(d) Income tax

The primary function of SP AusNet Finance Trust is to provide financing to both SP AusNet Distribution and SP AusNet Transmission as well as to facilitate distributions to unitholders in the nature of interest income and returns of capital as applicable for Australian taxation purposes.

SP AusNet Finance Trust is not regarded as a public trading trust under Division 6C of Part III of the *Income Tax Assessment Act 1936* (ITAA36) and is therefore not treated as a company for taxation purposes.

The Responsible Entity will not be liable for income tax under Division 6 of ITAA36, on the basis that unitholders will become presently entitled to the net income of SP AusNet Finance Trust prior to 30 June 2014. Accordingly, the SP AusNet Finance Trust is a 'flow through' entity in respect of net interest income derived and subsequently distributed to unitholders.

As a flow through entity for Australian taxation purposes, no current or deferred tax impacts are booked in respect of net trust income recognised to 31 March 2014.

(e) Receivables

Receivables are initially recognised at the fair value of the amounts to be received and are subsequently measured at amortised cost.

Notes to the financial statements

31 March 2014

Note 1 Summary of significant accounting policies (continued)

(f) Unitholders' funds

Ordinary units are classified as unitholders' funds.

(g) Earnings per unit

(i) *Basic earnings per unit*

Basic earnings per unit is calculated by dividing the profit attributable to unitholders of SP AusNet Finance Trust by the weighted average number of units outstanding during the financial year.

(ii) *Diluted earnings per unit*

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

(h) Rounding of amounts

SP AusNet Finance Trust 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.

Notes to the financial statements

31 March 2014

Note 2 Net finance income

	2014	2013
	\$M	\$M
Finance income		
Interest income - related parties	161.4	171.7
Total finance income	161.4	171.7
Net finance income	161.4	171.7

Note 3 Distributions

The following distributions were approved and paid by SP AusNet Finance Trust to unitholders during the current financial year:

	Date paid	Cents per unit	Total distribution \$M
Distributions			
Interest income	28 June 2013	2.649	89.2
Return of capital	28 June 2013	0.084	2.8
Interest income	23 December 2013	2.396	80.9
Return of capital	23 December 2013	0.391	13.2
Total distributions		5.520	186.1

The following distributions were approved and paid by SP AusNet Finance Trust to unitholders during the previous financial year:

Distributions			
Interest income	29 June 2012	2.159	62.5
Return on capital	29 June 2012	0.508	14.7
Interest income	21 December 2012	2.467	82.4
Return of capital	21 December 2012	0.266	8.9
Total distributions		5.400	168.5

In relation to the distributions paid in the current financial year of \$186.1 million (2013: \$168.5 million), \$22.2 million (2013: \$38.4 million), less transaction costs was utilised in the allotment of new securities issued under the Distribution Reinvestment Plan (DRP).

Notes to the financial statements

31 March 2014

Note 4 Earnings per unit**(a) Basic earnings per unit**

	2014	2013
Profit attributable to the ordinary unitholders of SP AusNet Finance Trust (\$M)	161.4	171.7
Weighted average number of units (million)	3,377	3,268
Earnings per unit (cents)	4.78	5.25

(b) Diluted earnings per unit

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

Note 5 Receivables

	2014	2013
	\$M	\$M
Current receivables		
Related party receivables	2,795.3	2,797.9
Total current receivables	2,795.3	2,797.9
Total receivables	2,795.3	2,797.9

No receivables are past due or considered impaired.

Notes to the financial statements

31 March 2014

Note 6 Unitholders' funds

	Notes	2014 Units	2013 Units
Units on issue			
Ordinary units - fully paid (million)	(a)(b)	3,386.6	3,367.5

(a) Ordinary units

Ordinary units entitle the unitholder to participate in distributions and the proceeds on winding up of SP AusNet Finance Trust in proportion to the number of and amounts paid on the units issued. Holders of ordinary units are entitled to one vote on a show of hands or one vote for each unit held on a poll at unitholders' meetings.

(b) Movements in units

Date	Details	Notes	Number of units	\$M (i)
1 April 2013	Opening balance		3,367,543,113	2,708.2
28 June 2013	Return of Capital		-	(2.8)
28 June 2013	Distribution Reinvestment Plan	(ii)	8,782,410	10.4
23 December 2013	Return of Capital		-	(13.2)
23 December 2013	Distribution Reinvestment Plan	(ii)	10,281,557	11.8
	Transaction costs - DRP		-	(0.1)
31 March 2014	Closing Balance		3,386,607,080	2,714.3
1 April 2012	Opening balance		2,896,219,682	2,266.8
1 June 2012	Institutional capital raising	(iii)	347,767,659	347.8
20 June 2012	Retail capital raising	(iii)	86,662,590	86.6
20 June 2012	Capital raising transaction costs		-	(7.6)
29 June 2012	Return of capital		-	(14.7)
29 June 2012	Distribution Reinvestment Plan	(iv)	8,970,234	9.1
21 December 2012	Return of capital		-	(8.9)
21 December 2012	Distribution Reinvestment Plan	(iv)	27,922,948	29.3
	Transaction costs - DRP		-	(0.2)
31 March 2013	Closing balance		3,367,543,113	2,708.2

(i) With respect to the allocation of proceeds in the form of shares in SP AusNet Transmission, SP Distribution 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 Transmission and SP AusNet Distribution being issued at nominal consideration.

(ii) On 28 June 2013 and on 23 December 2013, 8.8 million and 10.3 million new stapled securities were issued under the DRP respectively. The new securities were issued at a price of \$1.18 per security and \$1.15 per security respectively, providing approximately \$10.4 million and \$11.8 million respectively.

(iii) A total of 434.4 million securities were issued under the non-renounceable entitlement offer completed in June 2012 at an issue price of \$1.00 per stapled security for eligible securityholders in Australia and New Zealand and S\$1.25 per stapled security for eligible securityholders in Singapore

Notes to the financial statements

31 March 2014

Note 6 Unitholders' funds (continued)

(b) Movements in units (continued)

- (iv) On 29 June 2012 and 21 December 2012, 9.0 million and 27.9 million new stapled securities were issued under the DRP respectively. The new securities were issued at a price of \$1.01 per security and \$1.05 per security respectively, providing approximately \$9.1 million and \$29.3 million respectively.

(c) Capital management

The principal activity of SP AusNet Finance Trust was to provide financing to other entities in the Stapled Group for the acquisition of the transmission and distribution businesses as well as to facilitate distributions to securityholders in the nature of interest income and returns of capital. Adequate capital must be maintained to ensure SP AusNet Finance Trust can continue to facilitate distributions to securityholders. In this regard, capital consists of the value of units on issue.

SP AusNet Finance Trust is not subject to any externally imposed capital requirements and there were no changes in SP AusNet Finance Trust's approach to capital management during the financial year.

Note 7 Financial risk management

During the year the principal activity of SP AusNet Finance Trust was to provide financing to both SP AusNet Transmission and SP AusNet Distribution and therefore SP AusNet Finance Trust is exposed to credit risk.

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to SP AusNet Finance Trust.

SP AusNet Finance Trust only provides finance to entities within the Stapled Group and therefore there is no allowance made for any amounts outstanding as the risk of default is negligible as all entities in the Stapled Group are operating together to achieve a common goal.

The carrying amount of financial assets recorded in the financial statements represents SP AusNet Finance Trust's maximum exposure to credit risk.

Notes to the financial statements

31 March 2014

Note 8 Key management personnel

Up to 31 March 2014, SPI Management Services Pty Ltd (SPIMS), a wholly owned subsidiary of related party Singapore Power International Pte Ltd (SPI), provided the services of key senior management, including the Managing Director and the executive management team, to SP AusNet. Although not employed by SP AusNet, these individuals are deemed to qualify as key management personnel (KMP) of SP AusNet on the basis that they had the authority and the responsibility for planning, directing and controlling the major activities of SP AusNet during the financial year.

On 31 March 2014, SP AusNet, Singapore Power and SPIMS entered into a Termination Deed, pursuant to which they agreed to terminate the Management Services Agreement with effect from 31 March 2014. As a result of this termination, KMP and other employees who were previously employed by SPIMS were offered, and accepted, employment with SP AusNet on the same terms as their existing remuneration arrangements, including the preservation of all existing entitlements and participation in incentive arrangements.

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

	2014	2013
	\$	\$
Remuneration by category		
Short-term employee benefits	5,543,528	5,852,578
Post-employment benefits	383,017	362,642
Equity based payments	1,159,339	1,079,274
Termination benefits	-	86,773
Other long-term benefits	142,167	19,029
	7,228,051	7,400,296

Notes to the financial statements

31 March 2014

Note 8 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 2013)	Granted during the year as compensation (i)	Net change other (ii)	Balance at end of year (31 March 2014)
Key management personnel				
Non-executive Directors				
Ng Kee Choe	195,883	-	-	195,883
Ralph Craven (iv)	-	-	-	-
Jeremy Davis	120,750	-	-	120,750
Sally Farrier (iv)	-	-	-	-
Eric Gwee	153,591	-	-	153,591
Ho Tian Yee	-	-	-	-
Tony Iannello	190,976	-	-	190,976
George Lefroy (iii)	275,086	-	-	275,086
Tina McMeckan	90,000	-	-	90,000
Ian Renard	84,898	-	-	84,898
Sun Jianxing (iv)	-	-	-	-
Executives				
Nino Ficca	1,108,183	160,000	-	1,268,183
John Azaris (v)	176,600	36,000	(80,000)	132,600
Chad Hymas (v)	58,400	16,950	4,842	80,192
John Kelso	35,099	37,288	550	72,937
Adam Newman	-	-	20,000	20,000
Alistair Parker (v)	12,000	19,000	-	31,000
Ash Peck (vi)	-	32,687	-	32,687
Mario Tieppo (vii)	-	-	-	-

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

(ii) Net change other refers to securities purchased, sold or acquired other than via the Long-term Incentive Plan.

(iii) Mr Lefroy retired as a Non-Executive Director effective 18 July 2013.

(iv) Dr Craven, Ms Farrier and Mr Sun commenced as Non-Executive Directors effective 24 January 2014.

(v) Mr Azaris, Mr Hymas and Mr Parker were appointed as key management personnel effective 1 April 2013.

(vi) Mr Peck resigned as key management personnel effective 6 December 2013.

(vii) Mr Tieppo was appointed as key management personnel effective 9 December 2013.

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

Notes to the financial statements

31 March 2014

Note 8 Key management personnel (continued)

	Balance at beginning of year (1 April 2012)	Granted during the year as compensation (i)	Net change other (ii)	Balance at end of year (31 March 2013)
Key management personnel				
Non-executive Directors				
Ng Kee Choe	195,883	-	-	195,883
Jeremy Davis	105,000	-	15,750	120,750
Eric Gwee	153,591	-	-	153,591
Ho Tian Yee	-	-	-	-
Tony Iannello	140,976	-	50,000	190,976
George Lefroy	239,206	-	35,880	275,086
Tina McMeckan	54,650	-	35,350	90,000
Ian Renard	73,825	-	11,073	84,898
Executives				
Nino Ficca	1,312,334	99,000	(303,151)	1,108,183
Norm Drew	380,005	34,131	-	414,136
John Kelso	52,893	21,641	(39,435)	35,099
Adam Newman	-	-	-	-
Geoff Nicholson	432,764	40,632	-	473,396
Ash Peck	-	-	-	-
Charles Popple	333,532	30,938	-	364,470

Notes to the financial statements

31 March 2014

Note 9 Remuneration of auditors

The auditor of SP AusNet is KPMG. Audit fees for SP AusNet Finance Trust are paid by another entity in the Stapled Group. It is not possible to allocate these audit fees to SP AusNet Finance Trust. No fees were paid to the auditor or a related practice of the auditor for non-audit services.

Note 10 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.

Prior to 3 January 2014, the immediate parent of SP AusNet Distribution was Singapore Power International Pte Ltd, a company incorporated in Singapore, a wholly owned-subsiary 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.

On 3 January 2014 State Grid Corporation of China (State Grid) acquired a 19.9 per cent securityholding in SP AusNet from SPI. Whilst SPI continues to be the largest securityholder in SP AusNet with a stake of 31.1 per cent, they ceased to be the parent of SP AusNet Distribution from that date. Under applicable accounting standards, both SPI and Temasek and their subsidiaries continue to be a related party of SP AusNet.

(b) Other related parties

(i) Management Services Agreements (MSAs)

SPIMS, a wholly owned subsidiary of related party Singapore Power International Pte Ltd, is a party to two MSAs with SP AusNet and the Responsible Entity respectively, as detailed in note 8.

Under the RE MSA, the Responsible Entity has engaged SPIMS to provide management and administration services in respect of SP AusNet Finance Trust. SPIMS was entitled to an annual fee of \$100,000 per year in respect of the RE MSA. SPIMS may consult with Singapore Power Limited and its subsidiaries from time to time in the performance of its role. The RE MSA also contained mutual indemnities and limits the total liability of either party to \$5.0 million in any financial year.

The RE MSA commenced on 1 October 2005 for an initial period of ten years, however was terminated on 31 March 2014.

(c) Key management personnel

Disclosures relating to Directors and other key management personnel are set out in note 8.

(d) Transactions with related parties

For the purpose of the financial statements, parties are considered to be related to SP AusNet Finance Trust if SP AusNet Finance Trust 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.

Notes to the financial statements

31 March 2014

Note 10 Related party transactions (continued)**(d) Transactions with related parties (continued)**

The following transactions occurred with related parties within the SP AusNet and Singapore Power groups. Transactions with other Temasek interests have been excluded.

	2014	2013
	\$'000	\$'000
Loans to related parties		
Other related parties	22,187	465,000
Loan repayments from related parties		
Other related parties	16,015	23,596
Interest income		
Other related parties	161,472	171,685
Distributions paid		
Distributions paid (net of DRP)	83,589	66,351

(e) Outstanding balances

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

	2014	2013
	\$'000	\$'000
Current receivables		
Other related parties	2,795,329	2,797,904

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

Notes to the financial statements

31 March 2014

Note 10 Related party transactions (continued)**(f) Terms and conditions**

Prior to 16 December 2008, SP AusNet Finance Trust had four loan agreements in place ('existing loan agreements'). Two loan agreements are with SP AusNet Distribution and two loan agreements are with SP AusNet Transmission. On 16 December 2008, SP AusNet Finance Trust entered into four additional loan agreements for the proceeds received under the DRP ('DRP loan agreements'). Two loan agreements are with SP AusNet Distribution and two loan agreements are with SP AusNet Transmission. At 31 March 2014, the amounts outstanding under these loan agreements (excluding any accrued interest) and the applicable interest rates were:

	Closing balance (excluding accrued interest)	Interest rate
	\$M	%
Loans to SP AusNet Distribution		
31 March 2014		
Existing loan	126.3	Nil
Existing loan	477.2	8.09
DRP loan	558.8	8.09
	1,162.3	
31 March 2013		
Existing loan	126.3	Nil
Existing loan	493.2	9.03
DRP loan	547.7	9.03
	1,167.2	

The amount of accrued interest as at 31 March 2014 was \$41.9 million (2013: \$46.8 million).

	Closing balance (excluding accrued interest)	Interest rate
	\$M	%
Loans to SP AusNet Transmission		
31 March 2014		
Existing loan	591.4	Nil
Existing loan	394.2	8.09
DRP loan	566.6	8.09
	1,552.2	
31 March 2013		
Existing loan	591.4	Nil
Existing loan	394.1	9.03
DRP loan	555.6	9.03
	1,541.1	

The amount of accrued interest as at 31 March 2014 was \$38.6 million (2013: \$42.4 million).

Notes to the financial statements

31 March 2014

Note 10 Related party transactions (continued)

(i) *Existing loan agreements*

The loan agreements are each for a term of ten years. The loan agreements with SP AusNet Distribution and SP AusNet Transmission mature in July 2014 and October 2015 respectively. All the loan agreements have similar terms and conditions which have been complied with and can be summarised as follows:

- the interest rate to apply to the loans are set annually at the Bank Bill Swap Rate (BBSW) plus a margin;
- interest accrues from day to day and is payable on the last day of the interest period, being every six months;
- interest which is payable may be capitalised by the Lender at intervals which the Lender determines or if no determination is made on the first day of each quarter;
- the Borrower must repay the principal outstanding and any accrued but unpaid interest on or before the end of the term of the agreement;
- the Lender may demand repayment of the outstanding principal and any unpaid accrued interest on demand by giving at least 28 days' notice (or a shorter period agreed between the parties);
- the Borrower can prepay outstanding principal and any unpaid accrued interest by giving at least 28 days' notice (or a shorter period agreed between parties); and
- the Lender may terminate its obligations if an event of default occurs.

(ii) *DRP loan agreements*

The loan agreements are each for a term of ten years. The loan agreements with both SP AusNet Distribution and SP AusNet Transmission mature in December 2018. All the loan agreements have similar terms and conditions which have been complied with. These terms and conditions are the same as those in the existing loan agreements (refer note 10(f)(i)).

The loans from SP AusNet Finance Trust are unsecured and are not guaranteed by any of SP AusNet Distribution's or SP AusNet Transmission's subsidiaries.

Notes to the financial statements

31 March 2014

Note 11 Reconciliation of profit after income tax to net cash flows from operating activities

	2014	2013
	\$M	\$M
Profit for the year	161.4	171.7
Changes in operating assets and liabilities		
(Increase)/decrease in receivables	8.7	(26.8)
Net cash inflow from operating activities	170.1	144.9

Note 12 Events occurring after the balance sheet date

(a) Distribution

Since the end of the financial year, the Directors of the Responsible Entity have approved a final distribution for 2014 of \$94.4 million (2.787 cents per unit) to be paid on 27 June 2014 comprised as follows:

	Cents per unit	Total distribution \$M
Interest income	2.379	80.6
Return of capital	0.408	13.8
	2.787	94.4

(b) Other matters

Other than outlined above, there has been no matter or circumstance that has arisen since 31 March 2014 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 2014 of SP AusNet Finance Trust;
- (b) the results of those operations; or
- (c) the state of affairs, in financial years subsequent to 31 March 2014, of SP AusNet Finance Trust.

Directors' declaration

In the opinion of the Directors of SP Australia Networks (RE) Ltd:

- (a) the financial statements and notes set out on pages 278 to 297, and the remuneration disclosures that are contained in the *Remuneration report* set out on pages 262 to 275 in the *Directors' report*, are in accordance with the *Corporations Act* 2001, including:
 - (i) complying with Australian Accounting Standards, and the *Corporations Regulations* 2001; and
 - (ii) giving a true and fair view of SP Australia Networks (Finance) Trust's financial position as at 31 March 2014 and of its performance 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 (Finance) Trust 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.

Signed in accordance with a resolution of the Directors.



Ng Kee Choe
Chairman



Nino Ficca
Managing Director

Melbourne
14 May 2014



Independent auditor's report to the trustee of SP Australia Networks (Finance) Trust

Report on the financial report

We have audited the accompanying financial report of SP Australia Networks (Finance) Trust (the Trust), which comprises the statement of financial position as at 31 March 2014, and income statement and statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, notes 1 to 12 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration.

Directors' responsibility for the financial report

The directors of the responsibility entity of the Trust, SP Australia Networks (RE) 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 (a), the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Trust 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 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 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 Trust'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 the Trust is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Trust's financial position as at 31 March 2014 and of its performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

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

Report on the remuneration report

We have audited the Remuneration Report included in pages 262 to 275 of the directors' report for the year ended 31 March 2014. The directors of the SP Australia Networks (RE) Ltd, the responsible entity of the Trust, 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 (Finance) Trust for the year ended 31 March 2014, complies with Section 300A of the *Corporations Act 2001*.



KPMG



Michael Bray
Partner

Melbourne

14 May 2014

SECURITYHOLDER INFORMATION

The securityholder information set out below was compiled from SP AusNet's register of securityholders as at 31 May 2014.

STAPLED SECURITIES AND VOTING RIGHTS

Each of SP AusNet's stapled securities consists of:

- one ordinary share of SP AusNet Transmission;
- one ordinary share of SP AusNet Distribution; and
- one unit in SP AusNet Finance Trust.

All stapled securities carry one vote per stapled security.

For the avoidance of doubt, any person named in the Central Depository (Pte) Limited of Singapore ("CDP") as a person on whose behalf CDP holds one or more securities ("CDP Account Holder") does not have any right to vote by virtue of their status as a CDP Account Holder.

DISTRIBUTION OF STAPLED SECURITIES

A distribution schedule of the number of holders of stapled securities is set out below:

	Number of holders	Number of securities
1 - 1,000	1,358	863,419
1,001 - 5,000	3,756	10,679,606
5,001 - 10,000	2,607	20,234,949
10,001 - 100,000	5,475	152,860,967
100,001 and over	329	3,201,968,139
Total	13,525	3,386,607,080

There were 319 holders of less than a marketable parcel of stapled securities.

There was no current on-market buy-back.

STAPLED SECURITYHOLDERS

The names of the 20 largest holders of quoted stapled securities are listed below:

	Name	Number of securities held	Percentage of issued securities
1.	SINGAPORE POWER INTERNATIONAL PTE LTD	1,053,234,802	31.10
2.	STATE GRID INTERNATIONAL AUSTRALIA DEVELOPMENT COMPANY LIMITED	673,934,809	19.90
3.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	532,332,696	15.72
4.	J P MORGAN NOMINEES AUSTRALIA LIMITED	217,444,427	6.42
5.	NATIONAL NOMINEES LIMITED	185,419,196	5.48
6.	THE CENTRAL DEPOSITORY (PTE) LIMITED	148,135,402	4.37
7.	CITICORP NOMINEES PTY LIMITED	146,677,934	4.33
8.	BNP PARIBAS NOMS PTY LTD <DRP>	49,638,004	1.47
9.	RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <BKCUST A/C>	23,113,874	0.68
10.	QUESTOR FINANCIAL SERVICES LIMITED <TPS RF A/C>	14,490,298	0.43
11.	UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD	12,207,646	0.36
12.	AMP LIFE LIMITED	9,927,805	0.29
13.	CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	6,296,389	0.19
14.	NEWECONOMY COM AU NOMINEES PTY LIMITED <900 ACCOUNT>	6,013,253	0.18
15.	QIC LIMITED	4,206,919	0.12
16.	BOND STREET CUSTODIANS LIMITED <MPPMIM - V16636 A/C>	4,132,665	0.12
17.	AUSTRALIAN UNITED INVESTMENT COMPANY LIMITED	4,000,000	0.12
18.	PAN AUSTRALIAN NOMINEES PTY LIMITED	3,998,386	0.12
19.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	3,785,786	0.11
20.	UBS NOMINEES PTY LTD	3,087,718	0.09
Total Top 20 Holders		3,102,078,009	91.60
Total Remaining Holders Balance		284,529,071	8.40

SUBSTANTIAL HOLDERS

The names of SP AusNet's substantial holders and the number of stapled securities in which each has a relevant interest, as disclosed in substantial holding notices received by SP AusNet as 31 May 2014, are listed below:

	Number of securities in which relevant interest held	Percentage
Singapore Power International Pte Ltd and its associates	1,053,234,802	31.10%
State Grid International Development Limited and its associates	673,934,809	19.9%
Allan Gray Australia Pty Ltd and its associates	204,628,941	6.13%

FINANCIAL CALENDAR

2014 Annual General Meeting	17 July 2014
2014/15 Financial Half Year end	30 September 2014
2014/15 Half Year Results announced	14 November 2014*
2014/15 Financial Year end	31 March 2015

* subject to confirmation

ANNUAL GENERAL MEETING

The Annual General Meeting of SP AusNet will be held on Thursday, 17 July 2014 at 10.00am. The location of the Annual General Meeting is:

The Arts Centre Melbourne
ANZ Pavilion
100 St Kilda Road
Melbourne, Victoria, Australia

ENQUIRIES AND INFORMATION

Enquiries about stapled securities

SP AusNet's register of stapled securities is maintained by Computershare Investor Services Pty Limited ("Computershare"). For enquiries about SP AusNet stapled securities, a transfer or securities or distributions, contact:

Computershare Investor Services Pty Limited
Yarra Falls, 452 Johnston Street
Abbotsford, Vic. 3067
GPO Box 2957
Melbourne, Vic. 3001
Australia

Telephone: 1300 850 505 (within Australia)
+61 3 9415 4000 (outside Australia)
Fax: +61 3 9473 2500

Enquiries about SP AusNet

Contact SP AusNet:

Investor Relations

Telephone: +61 3 9695 6000

Facsimile: +61 9695 6666

Email: investor.enquiries@sp-ausnet.com.au

Or write to:

Investor Relations

SP AusNet

Level 31, 2 Southbank Boulevard

Southbank, Vic. 3006

Australia

Stock Exchange Listing

The stapled securities are listed under the number 'SP AusNet' and code 'SPN' on the Australian Stock Exchange, and on the Singapore Exchange Limited under the code 'SP AUSNET'.

The securities participate in the Clearing House Electronic Subregister System ('CHESS').

Tax File Number ('TFN') information

While it is not compulsory for securityholders to provide a TFN, SP AusNet is obliged to deduct tax from distributions to holders resident in Australia who have not supplied such information. If you have not already supplied your TFN, you may wish to do so by writing to Computershare.

Change of address or name

A securityholder should notify Computershare immediately, in writing, if there is any change in her or her registered address or name.

SP AusNet

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

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

SP Australia Networks (Finance) Trust
ARSN 116 783 914

SP Australia Networks (RE) Limited
ABN 46 109 977 371 (as responsible entity of SP Australia Networks (Finance) Trust)

Registered office
Level 31, 2 Southbank Boulevard
Southbank, Vic. 3006

Telephone: +61 3 9695 6000
Facsimile: +61 3 9695 6666

Directors

Mr **Ng** Kee Choe (Chair)
Mr Nino **Ficca** (Managing Director)
Dr Ralph **Craven**
Prof. Jeremy **Davis**
Ms Sally **Farrier**
Mr Eric **Gwee** Teck Hai
Mr **Ho** Tian Yee
Mr Tony **Iannello**
Ms Tina **McMeckan**
Mr Ian **Renard**
Mr **Sun** Jianxing

Company Secretary

Ms Susan **Taylor**

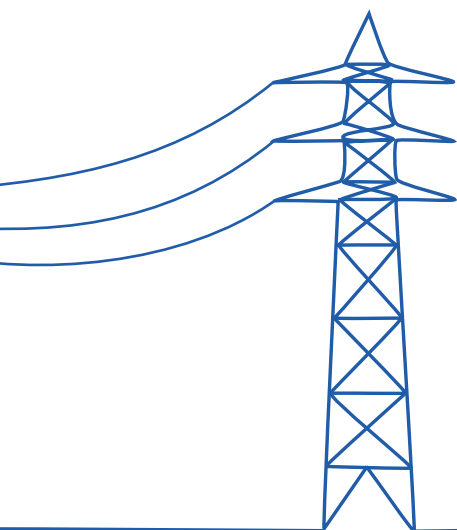
Auditors

KPMG
147 Collins Street
Melbourne, Vic. 3000

Telephone: +61 3 9288 5555
Facsimile: +61 3 9288 6666

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