

OFFERING CIRCULAR

ETSA UTILITIES FINANCE PTY LTD

(ABN 78 091 701 825)

(incorporated with limited liability in Australia)

€2,000,000,000

Euro Medium Term Note Programme

initially guaranteed by

SA POWER NETWORKS (AN AUSTRALIAN PARTNERSHIP ESTABLISHED AND TRADING AS A GENERAL PARTNERSHIP UNDER THE LAWS OF SOUTH AUSTRALIA BETWEEN CKI UTILITIES DEVELOPMENT LIMITED, PAI UTILITIES DEVELOPMENT LIMITED, SPARK INFRASTRUCTURE SA (NO1) PTY LTD, SPARK INFRASTRUCTURE SA (NO2) PTY LTD and SPARK INFRASTRUCTURE SA (NO3) PTY LTD)

Under this €2,000,000,000 Euro Medium Term Note Programme (the "**Programme**"), established by ETSA Utilities Finance Pty Ltd (the "**Issuer**"), the Issuer may from time to time issue Notes (as defined below) denominated in any currency (subject to applicable laws) agreed between the Issuer and the relevant Dealer or Dealers (as defined below).

The Notes shall have the benefit of the unconditional and (subject to release of any Guarantor (as defined below)) irrevocable, guarantee (the "**Guarantee**") given by SA Power Networks (an Australian partnership established and trading as a general partnership under the laws of South Australia between CKI Utilities Development Limited, PAI Utilities Development Limited, Spark Infrastructure SA (NO1) Pty Ltd, Spark Infrastructure SA (NO2) Pty Ltd and Spark Infrastructure SA (NO3) Pty Ltd) (the "**Initial Guarantor**"). From time to time and in accordance with the terms of the Trust Deed (as defined below), and subject to the requirements set out in the Conditions, a guarantor other than the Initial Guarantor may be appointed as an additional guarantor (each such guarantor, an "**Additional Guarantor**") or an Additional Guarantor may be released from its Guarantee and shall cease to be a Guarantor. The Initial Guarantor, together with any Additional Guarantors but excluding any such released Guarantors, are referred to herein as the "**Guarantors**".

The Issuer may, from time to time, issue Notes other than the notes issued under the Australian Deed Poll (as defined below) (the "**AMTNs**") in bearer form ("**Bearer Notes**") or registered form ("**Registered Notes**") and such Notes be constituted by a trust deed dated 12 April 2017 between the Issuer, the Guarantors and The Bank of New York Mellon, London Branch (the "**Trustee**") (the "**Trust Deed**"). The AMTNs will be issued in registered form only and will be constituted by a deed poll dated 12 April 2017 executed by the Issuer (the "**Australian Deed Poll**"). The Bearer Notes, Registered Notes and the AMTNs are collectively the "**Notes**". The payments of all amounts due in respect of the Notes will be guaranteed pursuant to the terms of the guarantees (the "**Guarantee**") contained in the Trust Deed by the Guarantors, subject to the terms of the Trust Deed.

The maximum aggregate nominal amount of all Notes from time to time outstanding under the Programme will not exceed €2,000,000,000 (or its equivalent in other currencies calculated as described in the Dealer Agreement described herein), subject to increase as described herein.

The Notes may be issued on a continuing basis to one or more of the dealers appointed under the Programme from time to time by the Issuer (a "**Dealer**" and together the "**Dealers**"), which appointment may be for a specific issue or on an on-going basis. References in this Offering Circular to the "relevant Dealer" shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe to such Notes.

See "Investment Considerations" for a discussion of certain factors to be considered in connection with an investment in the Notes.

Application has been made to receive the approval-in-principle from the Singapore Exchange Securities Trading Limited (the "**SGX-ST**") for permission to deal in, and for quotation of, any Notes which are agreed at the time of issue thereof to be so listed on the SGX-ST. Such permission will be granted when such Notes have been admitted to the Official List of the SGX-ST (the "**Official List**") of the SGX-ST. Unlisted series of Notes may also be issued pursuant to the Programme and Notes may also be listed on stock exchanges other than SGX-ST. The relevant Pricing Supplement (as defined below) in respect of any Series (as defined in "**Overview of the Programme**") of Notes will specify whether or not such Notes will be listed on the SGX-ST or on any other stock exchange. There is no assurance that the application to the Official List for the listing of the Notes of any Series will be approved. Admission to the Official List and listing of any Notes on the SGX-ST is not to be taken as an indication of the merits of the Issuer, the Guarantors, the Programme or such Notes. The SGX-ST assumes no responsibility for the correctness of any of the statements made, opinions expressed or reports contained in this Offering Circular.

Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and any other terms and conditions not contained herein which are applicable to each Tranche (as defined under "**Terms and Conditions of the Notes**") of Notes will be set out in a pricing supplement (the "**Pricing Supplement**") which, with respect to Notes to be listed on the SGX-ST, will be delivered to the SGX-ST before the listing of Notes of such Tranche.

Each Series (as defined in "**Overview of the Programme**") of Bearer Notes will be represented on issue by a temporary global note in bearer form (each a "**Temporary Global Note**") or a Permanent Global Note (as defined below), and will be sold in an "offshore transaction" within the meaning of Regulation S ("**Regulation S**") under the United States Securities Act of 1933, as amended (the "**Securities Act**"). Interests in Temporary Global Notes generally will be exchangeable for interests in permanent global notes (each a "**Permanent Global Note**" and, together with the Temporary Global Notes, the "**Global Notes**"), or if so stated in the relevant Pricing Supplement, definitive Notes, after the date falling 40 days after the later of the commencement of the offering and the relevant issue date of such Tranche, upon certification as to non-US beneficial ownership. Interests in Permanent Global Notes will be exchangeable for definitive Notes in whole but not in part as described under "**Form of the Notes**". Registered Notes will initially be represented by a permanent registered global certificate (each a "**Global Certificate**") without interest coupons.

Global Notes and Global Certificates may be deposited on the issue date with a common depository for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, S.A. ("**Clearstream, Luxembourg**"). The provisions governing the exchange of interests in Global Notes and Global Certificates for other Global Notes or Global Certificates and definitive Notes are described in "**Form of the Notes**". The Notes and the Guarantee have not been and will not be registered under the Securities Act or with any securities regulatory authority of any State or other jurisdiction of the United States and the Notes may include Bearer Notes that are subject to United States tax law requirements. Subject to certain exceptions, the Notes may not be offered, sold or, in the case of Bearer Notes, delivered within the United States or to or for the account or benefit of U.S. persons (as defined in Regulation S).

See "**Form of the Notes**" for a further description of the manner in which Notes will be issued. Registered Notes are subject to certain restrictions on transfer, see "**Subscription and Sale**".

The Programme has been rated A- by S&P Global Ratings ("**S&P**"). Notes issued under the Programme may be rated or unrated. Where an issue of a certain series of Notes is rated, its rating will not necessarily be the same as the rating applicable to the Programme and (where applicable) such rating will be specified in the applicable Pricing Supplement. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, change or withdrawal at any time by the assigning rating agency. Credit ratings are for distribution only to a person (a) who is not a "retail client" within the meaning of section 761G of the Corporations Act 2001 of Australia (the "**Corporations Act**") and is also a sophisticated investor, professional investor or other investor in respect of whom disclosure is not required under Parts 6D.2 or 7.9 of the Corporations Act, and (b) who is otherwise permitted to receive credit ratings in accordance with applicable law in any jurisdiction in which the person may be located. Anyone who is not such a person is not entitled to receive the Offering Circular and anyone who receives this Offering Circular must not distribute it to any person who is not entitled to receive it.

This Offering Circular is an advertisement and not a prospectus for the purposes of EU Directive 2003/71/EC (as amended).

IMPORTANT – EEA RETAIL INVESTORS - If the Pricing Supplement in respect of any Notes includes a legend entitled "Prohibition of Sales to EEA Retail Investors", the Notes are not intended, from 1 January 2018, to be offered, sold or otherwise made available to and, with effect from such date, should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("EEA"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU ("MiFID II"); (ii) a customer within the meaning of Directive 2002/92/EC ("IMD"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended, the "Prospectus Directive"). Consequently no key information document required by Regulation (EU) No 1286/2014 (the "PRIIPs Regulation") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

J.P. MORGAN

Arrangers

J.P. MORGAN AUSTRALIA LIMITED

J.P. MORGAN

Dealers

J.P. MORGAN AUSTRALIA LIMITED

The date of this Offering Circular is 12 April 2017.

Each of the Issuer and the Initial Guarantor accepts responsibility for the information contained in this Offering Circular. The Issuer and the Initial Guarantor, having made all reasonable enquiries, confirm that this Offering Circular contains or incorporates all information with respect to the Issuer, the Guarantors, the Group (as defined below) and the Notes which is material in the context of the issuance and offering of Notes, that the information contained or incorporated in this Offering Circular is true and accurate in all material respects and is not misleading in any material respect, that the opinions and intentions expressed in this Offering Circular are honestly held and have been reached after considering all relevant circumstances and are based on reasonable assumptions and that there are no other facts the omission of which would make this Offering Circular or any of such information or the expression of any such opinions or intentions misleading in any material respect and which, in each case, is material in the context of the issuance and offering of the Notes.

The SGX-ST takes no responsibility for the contents of this Offering Circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Offering Circular.

Subject as provided in the applicable Pricing Supplement, the only persons authorised to use this Offering Circular in connection with an offer of Notes are the persons named in the applicable Pricing Supplement as the relevant Arrangers or the Dealers, as the case may be. This Offering Circular and any other documents or materials in relation to the issue, offering or sale of the Notes have been prepared solely for the purpose of the initial sale by the relevant Dealers of the Notes from time to time to be issued pursuant to the Programme.

This Offering Circular is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see "*Documents Incorporated by Reference*"). This Offering Circular shall be read and construed on the basis that such documents are incorporated and form part of this Offering Circular.

No person is or has been authorised by the Issuer and the Guarantors to give any information or to make any representation not contained in or not consistent with this Offering Circular or other information supplied in connection with the Programme or the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, the Guarantors, the Arrangers, the Dealers, the Trustee or any Agent (as defined below).

None of the Arrangers, the Dealers, the Trustee or the Agents have separately verified the information contained in this Offering Circular. To the fullest extent permitted by law, none of the Arrangers, the Dealers, the Trustee or the Agents accepts any responsibility or liability for the contents, or completeness of this Offering Circular, for the information incorporated by reference into this Offering Circular, or for any other information given or statement made or purported to be made by the Arrangers, the Dealers, the Trustee or the Agents or on any of their behalf in connection with the Issuer, the Guarantors or the issue and offering of the Notes. Each Dealer, each Arranger, the Trustee and each Agent accordingly disclaim all and any liability whether arising in tort, contract or otherwise which it might otherwise have in respect of this Offering Circular, such information incorporated by reference or any such statement.

Neither this Offering Circular nor any other information supplied in connection with the Programme or any Notes (i) is intended to provide the basis of any credit or other evaluation; or (ii) should be considered as a recommendation by the Issuer, the Guarantors, the Arrangers, the Trustee, any Agent or any of the Dealers that any recipient of this Offering Circular or any other information supplied in connection with the Programme or any Notes should purchase any Notes. Any recipient

of this Offering Circular contemplating purchasing any Notes should determine for itself the relevance of the information contained in this Offering Circular and should make its own independent investigation of the Issuer and the Guarantors' financial condition and affairs, and its own appraisal of their creditworthiness. Neither this Offering Circular nor any other information supplied in connection with the Programme or the issue of any Notes constitutes an offer or invitation by or on behalf of the Issuer the Guarantors, any of the Arrangers, the Dealers, the Trustee or any Agent to any recipient of this Offering Circular to subscribe for or to purchase any Notes.

Neither the delivery of this Offering Circular nor any sale made in connection herewith, under any circumstances, create any implication that there has been no change in the affairs of the Issuer and the Group (as defined below) since the date hereof or the date upon which this Offering Circular has been most recently amended or supplemented or that there has been no adverse change in the financial position of the Issuer and the Guarantors since the date hereof or the date upon which this Offering Circular has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same. None of the Arrangers, the Dealers, the Trustee or the Agents undertake to review the financial condition or affairs of the Issuer and the Guarantors during the life of the arrangements contemplated by this Offering Circular nor to advise any investor or potential investor in the Notes of any information coming to the attention of any of the Arrangers, the Dealers, the Trustee or any Agent.

This Offering Circular has not been, and will not be, and no prospectus or other disclosure document in relation to the Programme or the Notes has been or will be, lodged with the Australian Securities and Investments Commission or any other regulatory authority in Australia and this Offering Circular is not, and does not purport to be, a document containing disclosure to investors for the purposes of Part 6D.2 or Part 7.9 of the Corporations Act 2001 of the Commonwealth of Australia (the “**Corporations Act**”). It is not intended to be used in connection with any offer for which such disclosure is required and does not contain all the information that would be required by those provisions if they applied. It is not to be provided to any “retail client” as defined in section 761G of the Corporations Act. This Offering Circular is not, and under no circumstances is to be construed as, an advertisement or public offering of any Notes in Australia. None of the Issuer or the Guarantors is licensed to provide financial product advice in respect of the Notes or the Guarantees. Cooling-off rights do not apply to the acquisition of the Notes.

This Offering Circular does not constitute an offer to sell or the solicitation of an offer to the general public to buy any Notes in any jurisdiction and particularly to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Offering Circular and the offer or sale of Notes may be restricted by law in certain jurisdictions. None of the Issuer, the Guarantors, the Arrangers, the Dealers, the Trustee or the Agents represent that this Offering Circular may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken or shall be taken by the Issuer, the Arrangers, the Dealers, the Trustee or the Agents which is intended to permit a public offering of any Notes or distribution of this Offering Circular in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Offering Circular nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations of such jurisdictions. Persons into whose possession this Offering Circular or any Notes may come

must inform themselves about, and observe, any such restrictions on the distribution of this Offering Circular and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Offering Circular and the offer or sale of Notes in the United States, the European Economic Area, the United Kingdom, Australia, Japan, Hong Kong, Singapore, the Netherlands and Switzerland, see “*Subscription and Sale*”.

The Notes and the Guarantee have not been and will not be registered under the Securities Act or with any securities regulatory authority of any State or other jurisdiction of the United States, and the Notes may include Bearer Notes that are subject to United States tax law requirements. Subject to certain exceptions, the Notes may not be offered, sold or, in the case of Bearer Notes, delivered within the United States or to or for the account or benefit of U.S. persons (as defined in Regulation S). For a description of certain restrictions on offers and sales of Notes and on distribution of this Offering Circular, see “*Subscription and Sale*”.

The Notes have not been approved or disapproved by the United States Securities and Exchange Commission or any other securities commission or other regulatory authority in the United States, nor have the foregoing authorities approved this Offering Circular or confirmed the accuracy or determined the adequacy of the information contained in this Offering Circular. Any representation to the contrary is unlawful.

From time to time, in the ordinary course of business, certain of the Dealers, the Arrangers and their respective affiliates have provided advisory and investment banking services, and entered into other commercial transactions with the Issuer, the Guarantors and their respective affiliates, including commercial banking services, for which customary compensation has been received. It is expected that the Dealers, the Arrangers and their respective affiliates will continue to provide such services to, and enter into such transactions, with the Issuer, the Guarantors and their respective affiliates in the future.

The Dealers or certain of their respective affiliates may purchase the Notes and be allocated Notes for asset management and/or proprietary purposes and not with a view to distribution.

None of the Issuer, the Guarantors, the Arrangers, the Dealers, the Trustee or the Agents makes any representation to any investor in the Notes regarding the legality of its investment under any applicable laws. Any investor in the Notes should be able to bear the economic risk of an investment in the Notes for an indefinite period of time.

Subject as provided in the applicable Pricing Supplement, the only persons authorised to use this Offering Circular in connection with an offer of Notes are the persons named in the applicable Pricing Supplement as the relevant Dealers or the Managers, as the case may be.

Copies of each Pricing Supplement will be available from the Issuer’s registered office and the specified office set out at the end of this Offering Circular of each of the Paying Agents (as defined in the Conditions).

PRESENTATION OF FINANCIAL INFORMATION

The Initial Guarantor prepares its consolidated financial statements in Australian dollars in accordance with the International Financial Reporting Standards (“**IFRS**”) adopted by the International Accounting Standards Board.

Unless otherwise indicated, consolidated financial information of the Initial Guarantor included in this Offering Circular has been derived from the audited consolidated financial statements of the

Initial Guarantor as at and for the financial years ended 31 December 2016 and 31 December 2015. The consolidated financial statements for the years ended 31 December 2016 and 31 December 2015 were audited by Deloitte Touche Tohmatsu, of 11 Waymouth Street, Adelaide SA 5000, in accordance with Australian Accounting Standards (the “AASBs”) and the Corporations Act.

CERTAIN DEFINITIONS

All references in this document to “U.S. dollars”, “US\$” and “\$” refer to the lawful currency of the United States of America and all references to “Australian dollars” and “A\$” refer to the lawful currency of the Commonwealth of Australia. All references to “euro” and “€” refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended. All references to “Sterling” and “£” refer to the lawful currency of the United Kingdom. All references in this document to “Group” refer to the Initial Guarantor and all of its subsidiaries, on a consolidated basis.

Rounding adjustments have been made in calculating some of the financial information included in the Offering Circular. As a result, numerical figures shown as totals in some tables may not be exact arithmetic aggregations of the figures that precede them.

FORWARD-LOOKING STATEMENTS

This Offering Circular contains forward-looking statements including, without limitation, words and expressions such as expect, believe, plan, intend, estimate, project, anticipate, may, will, would, could or similar words or statements, in particular, in the section entitled “Description of the Group” in this Offering Circular in relation to future events, the Issuer, the Guarantors, each of their Subsidiaries for the time being, the Group’s prospects, its expected financial condition, its business strategies, the future developments of the Group’s operations and industry and the future development of the general domestic, regional and global economy.

These statements are based on assumptions regarding the Group’s present and future business strategy and the environment in which it expects to operate in the future. These matters and the Group’s future results could differ materially from those expressed or implied by these forward-looking statements and, although these forward-looking statements reflect its current view of future events, they are not a guarantee of future performance or other matters. In addition, the Group’s future performance may be affected by various factors and risks including, without limitation, those discussed in the sections entitled “*Investment Considerations*” and “Description of the Group”.

Should one or more of these or other risks or uncertainties materialise, or should any underlying assumptions prove incorrect, actual outcomes may vary materially from those indicated. Prospective investors should therefore not place undue reliance on any of these forward-looking statements.

In this Offering Circular, statements of, or references to, intentions of the Issuer or the Guarantors or those of any of the directors of any of them are made as at the date of this Offering Circular. Any such intentions may change in light of future developments.

Each of the Issuer, the Guarantors, the Arrangers and the Dealers expressly disclaim any obligation or undertaking to release, publicly or otherwise, any updates or revisions to any forward-looking statement contained herein to reflect any change in any Issuer’s or any Guarantor’s expectations with regard thereto or any change in events, conditions, assumptions or circumstances on which

any such statement was based or any change in the intentions of the Issuer, the Guarantors or any of their respective Subsidiaries or directors.

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IN CONNECTION WITH THE ISSUE OF ANY TRANCHE OF NOTES (OTHER THAN THE AMTNS OR IN CIRCUMSTANCES WHERE SUCH ACTION COULD REASONABLY BE EXPECTED TO AFFECT THE PRICE OF NOTES OR OTHER SECURITIES TRADED IN AUSTRALIA OR ON A FINANCIAL MARKET (AS DEFINED IN THE CORPORATIONS ACT) OPERATED IN AUSTRALIA), THE DEALER OR DEALERS (IF ANY) NAMED AS THE STABILISING MANAGER(S) (OR PERSONS ACTING ON BEHALF OF ANY STABILISING MANAGER(S)) IN THE APPLICABLE PRICING SUPPLEMENT MAY OVER-ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILISING MANAGER(S) (OR PERSONS ACTING ON BEHALF OF A STABILISING MANAGER) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION OR OVERALLOTMENT MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE DISCLOSURE OF THE TERMS OF THE OFFER OF THE RELEVANT TRANCHE OF NOTES IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END AFTER A LIMITED PERIOD. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE RELEVANT STABILISING MANAGER(S) (OR PERSONS ACTING ON BEHALF OF ANY STABILISING MANAGER(S)) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents shall be incorporated in, and form part of, this Offering Circular:

- (a) the most recently published audited consolidated annual financial statements of the Initial Guarantor, if published after the date of this Offering Circular, and, if published later, the most recently published reviewed consolidated interim financial statements of the Initial Guarantor, together with any audit or review reports prepared in connection therewith; and
- (b) all supplements (other than any Pricing Supplement) or amendments to this Offering Circular circulated by the Issuer from time to time,

save that any statement contained herein or in a document which is deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Offering Circular to the extent that a statement contained in any such subsequent document which is deemed to be incorporated by reference herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Offering Circular.

Any documents themselves incorporated by reference in the documents incorporated by reference in this Offering Circular shall not form part of this Offering Circular.

Copies of documents incorporated by reference in this Offering Circular can be obtained from the registered office of the Issuer and the website of the SGX-ST at <http://www.sgx.com> and from the specified office of the Issuing and Paying Agent set out at the end of this Offering Circular.

OVERVIEW OF THE PROGRAMME

The following overview does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Offering Circular and, in relation to the terms and conditions of any particular Tranche of Notes, the applicable Pricing Supplement. The Issuer, the Guarantors and any relevant Dealer may agree that Notes shall be issued in a form other than that contemplated in the Terms and Conditions, in which event a new Offering Circular or a supplement to the Offering Circular, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Notes.

Words and expressions defined in “Form of the Notes” and “Terms and Conditions of the Notes” shall have the same meanings in this Overview.

Issuer:	ETSA Utilities Finance Pty Ltd
Guarantors:	<p>As at the date of this Offering Circular, the Guarantor of Notes issued under the Programme is set out under “Initial Guarantor” below.</p> <p>Additional Guarantors may be added and Additional Guarantors may be released from their obligations pursuant to the Conditions. See Condition 3 (<i>Guarantee and Status</i>) for further details.</p>
Initial Guarantor:	The Australian partnership established and trading as a general partnership under the laws of the State of South Australia, Australia, under the name “SA POWER NETWORKS” (ABN 13 332 330 749) (the “ Initial Guarantor ”), between CKI Utilities Development Limited (ABN 65 090 718 880), PAI Utilities Development Limited (ABN 82 090 718 951), Spark Infrastructure SA (No1) Pty Limited (ABN 54 091 142 380), Spark Infrastructure SA (No2) Pty Limited (ABN 19 091 143 038) and Spark Infrastructure SA (No3) Pty Limited (ABN 50 091 142 362).
Investment Considerations:	There are certain factors that may affect the Issuer’s and the Guarantors’ ability to fulfil their obligations in respect of Notes issued under the Programme and the Guarantee. These are set out under “Investment Considerations” below. In addition, there are certain factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme. These are set out under “Investment Considerations” and include the fact that the Notes may not be a suitable investment for all intended investors, certain risks relating to the structure of particular Series of Notes and certain market risks.
Description:	Euro Medium Term Note Programme
Arrangers:	<p>J.P. Morgan Securities plc (in respect of Notes other than AMTNs only)</p> <p>J.P. Morgan Australia Limited (in respect of AMTNs only)</p>

Dealers:	<p>J.P. Morgan Securities plc, J.P. Morgan Australia Limited, and any other Dealer appointed in accordance with the Dealer Agreement.</p> <p>The Issuer and the Guarantors may from time to time terminate the appointment of any Dealer under the Programme or appoint additional Dealers either in respect of one or more Tranches or in respect of the whole Programme. References in this Offering Circular to “Dealers” are to the above named Dealers and all persons appointed as a Dealer in respect of one or more Tranches or the whole Programme (in each case, whose appointment has not been terminated).</p>
Issuing and Paying Agent:	<p>The Bank of New York Mellon, London Branch (in the case of Notes other than AMTNs).</p> <p>BTA Institutional Services Australia Ltd (in the case of AMTNs).</p>
Registrar:	<p>The Bank of New York Mellon SA/NV, Luxembourg Branch (in the case of Notes other than AMTNs).</p> <p>BTA Institutional Services Australia Ltd (in the case of AMTNs).</p>
Transfer Agent:	The Bank of New York Mellon, London Branch.
Trustee:	The Bank of New York Mellon, London Branch.
Programme Size:	Up to €2,000,000,000 (or its equivalent in other currencies calculated as described in the Dealer Agreement) outstanding at any time. The Issuer may increase the amount of the Programme in accordance with the terms of the Dealer Agreement.
Distribution/Method of Issue:	<p>Notes may be distributed either by way of private placement or on a syndicated or non-syndicated basis.</p> <p>The Notes will be issued in series (each a “Series”) having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest), the Notes of each Series being intended to be interchangeable with all other Notes of the Series. Each Series may be issued in tranches (each a “Tranche”) on the same or different issue date. The specific terms of each Tranche (which will be completed, where necessary, with the relevant terms and conditions and, save in respect of the issue date, issue price, first payment of interest and nominal amount of the Tranche, will be identical to the terms of other Tranches of the same Series) will be completed in the Pricing Supplement.</p>
Currencies:	Subject to any applicable legal or regulatory restrictions, any currency agreed between the Issuer, the Guarantors and the relevant Dealer(s).

Maturities:	<p>Such maturities as may be agreed between the Issuer, the Guarantors and the relevant Dealer(s) and indicated in the applicable Pricing Supplement, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant Specified Currency.</p> <p>Notes having a maturity of less than one year will, if the proceeds of the issue are accepted in the United Kingdom, constitute deposits for the purposes of the prohibition on accepting deposits contained in section 19 of the FSMA unless they are issued to a limited class of professional investors and have a denomination of at least £100,000 or its equivalent, see “<i>Subscription and Sale</i>”.</p>
Issue Price:	<p>The Notes may be issued on a fully-paid basis and at an issue price which may be at par or at a discount to, or premium over, par. Partly Paid Notes may be issued, the issue price of which will be payable in two or more instalments.</p>
Form of Notes:	<p>The Notes other than the AMTNs may be issued in bearer form and/or registered form and the AMTNs will be issued in registered form only, each as described in “<i>Form of the Notes</i>”. Registered Notes will not be exchangeable for Bearer Notes or AMTNs. Bearer Notes will not be exchangeable for Registered Notes or AMTNs. AMTNs will not be exchangeable for Bearer Notes or Registered Notes.</p>
Clearing Systems:	<p>Clearstream, Luxembourg and Euroclear, in relation to any Tranche of Notes, such other clearing system as may be agreed between the Issuer, the Guarantors, the Trustee, the relevant Paying Agent and the relevant Dealer(s).</p> <p>Each Series of AMTNs will (unless otherwise specified in the applicable Pricing Supplement) be registered in the name of Austraclear Ltd and entered in the Austraclear System.</p>
Initial Delivery of Notes:	<p>On or before the issue date for each Tranche (other than a Tranche of AMTNs), the Global Note representing Bearer Notes or Registered Notes may be deposited with a common depositary for Euroclear or Clearstream, Luxembourg. Global Notes may also be deposited with any other clearing system or may be delivered outside any clearing system provided that the method of such delivery has been agreed in advance by the Issuer, the Trustee, the relevant Paying Agent and the relevant Dealer. Registered Notes that are to be credited to one or</p>

more clearing systems on issue will be registered in the name of nominees or a common nominee for such clearing systems.

Fixed Rate Notes:

Fixed interest will be payable on such date or dates as may be agreed between the Issuer, the Guarantors and the relevant Dealer(s).

Floating Rate Notes:

Floating Rate Notes will bear interest at a rate determined:

- (a) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc. ("**ISDA**"), and as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series); or
- (b) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or
- (c) on such other basis as may be agreed between the Issuer, the Guarantors and the relevant Dealer(s).

The margin (if any) relating to such floating rate will be agreed between the Issuer, the Guarantors and the relevant Dealer(s) for each Series of Floating Rate Notes and will be specified in the applicable Pricing Supplement.

Index Linked Notes:

Payments of principal in respect of Index Linked Redemption Notes or of interest in respect of Index Linked Interest Notes will be calculated by reference to such index and/or formula as may be specified in the relevant Pricing Supplement.

Other provisions in relation to Floating Rate Notes and Index Linked Interest Notes:

Floating Rate Notes and Index Linked Interest Notes may also have a maximum interest rate, a minimum interest rate or both.

Interest on Floating Rate Notes and Index Linked Notes in respect of each Interest Period, as agreed prior to issue by the Issuer, the Guarantors and the relevant Dealer(s), will be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, as may be agreed between the Issuer, the Guarantors and the relevant Dealer(s).

Zero Coupon Notes:

Zero Coupon Notes will be offered and sold at a discount to their nominal amount and will not bear interest.

Dual Currency Notes:

Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and

based on such rates of exchange, as the Issuer, the Guarantors and the relevant Dealer(s) may agree and specified in the applicable Pricing Supplement.

Redemption:

The applicable Pricing Supplement will indicate either that the relevant Notes cannot be redeemed prior to their stated maturity (other than in specified instalments, if applicable, or for taxation reasons or following an Event of Default) or that such Notes will be redeemable at the option of the Issuer and/or the Noteholders upon giving notice to the Noteholders or the Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Issuer, the Guarantors and the relevant Dealer(s). The terms of any such redemption, including notice periods, any relevant conditions to be satisfied and the relevant redemption dates and prices will be indicated in the applicable Pricing Supplement.

The applicable Pricing Supplement may provide that Notes may be redeemable in two or more instalments of such amounts and on such dates as are indicated in the applicable Pricing Supplement.

Notes having a maturity of less than one year may be subject to restrictions on their denomination and distribution, see "*Maturities*" above.

Denomination of Notes:

The Notes will be issued in such denominations as may be agreed between the Issuer, the Guarantors and the relevant Dealer save that the minimum denomination of each Note will be such amount as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency and save that the minimum denomination of each Note admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which would require the publication of a prospectus under the Prospectus Directive (as defined below) will be €100,000 (or, in each case, if the Notes are denominated in a currency other than euro, the equivalent amount in such currency).

Taxation:

All payments in respect of the Notes will subject to certain conditions and exceptions be made without deduction for or on account of withholding taxes imposed by any Tax Jurisdiction as provided in Condition 8 (*Taxation*). In the event that any such deduction is made, the Issuer or, as the case may be, the Guarantors will, save in certain limited circumstances provided in Condition 8 (*Taxation*),

be required to pay additional amounts to cover the amounts so deducted.

Negative Pledge:

The terms of the Notes will contain a negative pledge provision as further described in Condition 4 (*Negative Pledge*).

Cross Default:

The terms of the Notes will contain a cross default provision as further described in Condition 10 (*Event of Default*).

Status of the Notes:

The Notes will constitute direct, unconditional, unsubordinated and (subject to the provisions of Condition 4 (*Negative Pledge*) unsecured obligations of the Issuer and will rank pari passu among themselves and (save for certain obligations preferred by law) at least equally with all other unsecured and unsubordinated obligations of the Issuer, from time to time outstanding, as set out in Condition 3 (*Guarantee and Status*).

Status of the Guarantee:

The Notes will be unconditionally and (subject to the release of any Guarantor pursuant to the terms of the Trust Deed and in accordance with the Conditions) irrevocably guaranteed, on a joint and several basis, by the Guarantors. The payment obligations of each Guarantor under the Guarantee shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 4 (*Negative Pledge*), at all times rank at least equally with all other unsecured and unsubordinated indebtedness and monetary obligations of each Guarantor.

Rating:

Notes issued under the Programme may be rated or unrated. Where an issue of a certain series of Notes is rated, its rating will not necessarily be the same as the rating applicable to the Programme (if any) and (where applicable) such rating will be specified in the applicable Pricing Supplement. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, change or withdrawal at any time by the assigning rating agency.

Credit ratings are for distribution only to a person (a) who is not a "retail client" within the meaning of section 761G of the Corporations Act and is also a sophisticated investor, professional investor or other investor in respect of whom disclosure is not required under Parts 6D.2 or 7.9 of the Corporations Act, and (b) who is otherwise permitted to receive credit ratings in accordance with applicable law in any jurisdiction in which the person may be located. Anyone who is not such a person is not entitled to receive the Offering Circular and anyone who receives the Offering Circular must not distribute it to any

person who is not entitled to receive it.

Listing and Admission to Trading:

Application has been made to the SGX-ST for permission to deal in, and quotation of, any Notes which are agreed at the time of issue thereof to be so listed on the SGX-ST. If such application is approved, such permission will be granted when such Notes have been admitted to the Official List of the SGX-ST.

There is no assurance that the application to the Official List of the SGX-ST will be approved. Admission to the Official List of the SGX-ST and listing of any Notes on the SGX-ST is not to be taken as an indication of the merits of the Issuer, the Programme or such Notes. The SGX-ST assumes no responsibility for the correctness of any of the statements made, opinions expressed or reports contained herein. If the application to the SGX-ST to list a particular series of Notes is approved, such Notes listed on the SGX-ST will be traded on the SGX-ST in a board lot size of at least S\$200,000 (or its equivalent in other currencies).

Notes may be listed or admitted to trading, as the case may be, on other or further stock exchanges or markets agreed between the Issuer, the Guarantors and the relevant Dealer in relation to the Series. Notes which are neither listed nor admitted to trading on any market may also be issued.

The applicable Pricing Supplement will state whether or not the relevant Notes are to be listed and/or admitted to trading and, if so, on which stock exchanges and/or markets.

Use of Proceeds:

The net proceeds from the issue of Notes will be on-lent to the Initial Guarantor to be used for general corporate purposes or otherwise described in the relevant Pricing Supplement.

Governing Law:

The Notes (other than the AMTNs) and the Trust Deed and any non-contractual obligations arising out of or in connection with the Notes (other than non-contractual obligations arising out of or in connection with the AMTNs) and the Trust Deed will be governed by, and construed in accordance with, English law.

The AMTNs and the Australian Deed Poll will be governed by, and construed in accordance with, the laws of Victoria, Australia.

Selling Restrictions:

Subject to the general restriction that the Notes are not an offer to the public, there are restrictions on the offer, sale and transfer of the Notes in the United States, the European Economic Area, the United Kingdom, Australia, Japan, Hong Kong, Singapore, the Netherlands,

Switzerland and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Notes, see “*Subscription and Sale*”.

The Initial Guarantor is Category 2 for the purposes of Regulation S under the Securities Act, as amended.

The Notes will be issued in compliance with U.S. Treas. Reg. §1.163-5(c)(2)(i)(D) (the “**D Rules**”) unless (i) the relevant Pricing Supplement states that Notes are issued in compliance with U.S. Treas. Reg. §1.163-5(c)(2)(i)(C) (the “**C Rules**”) or (ii) the Notes are issued other than in compliance with the D Rules or the C Rules but in circumstances in which the Notes will not constitute “registration required obligations” under the United States Tax Equity and Fiscal Responsibility Act of 1982 (“**TEFRA**”), which circumstances will be referred to in the relevant Pricing Supplement as a transaction to which TEFRA is not applicable.

INVESTMENT CONSIDERATIONS

Each of the Issuer and the Guarantors believes that the following factors may affect their ability to fulfil their obligations under Notes issued under the Programme, or their Guarantee thereof, which may in turn result in investors losing the value of their investment. Most of these factors are contingencies which may or may not occur and none of the Issuer nor any of the Guarantors is in a position to express a view on the likelihood of any such contingency occurring.

In addition, factors which the Issuer and Guarantors believe to be material for the purpose of assessing the market risks associated with the Notes issued under the Programme are also described below.

Each of the Issuer and the Guarantors believes that the factors described below represent the principal risks inherent in investing in the Notes issued under the Programme, but the inability of the Issuer or any of the Guarantors to pay interest, principal or other amounts on or in connection with the Notes or their Guarantees thereof may occur for other reasons as a result of the occurrence of events outside the Issuer's and the Guarantors' control which may not have been considered significant risks by the Issuer and the Guarantors based on information currently available to them or which they may not currently anticipate. It is not possible to identify all such factors or to determine which factors are most likely to occur, as the Issuer and the Guarantors may not be aware of all relevant factors. Prospective investors should also read the detailed information set out elsewhere in this Offering Circular (including any documents deemed to be incorporated by reference herein) and reach their own views prior to making any investment decision.

Please refer to "Description of the Group" for definitions of capitalised terms used but not otherwise defined in this section.

Factors that may affect the Issuer's ability to fulfil its obligations under the Notes and the Guarantors' ability to fulfil their obligations under the Guarantee

Regulatory risks

Revenue and Tariffs

The revenue generated by the SA Power Networks ("**SAPN**") electricity distribution business is regulated and subject to periodic review and pricing resets by the Australian Energy Regulator ("**AER**"). Pursuant to the National Energy Laws ("**NEL**") and National Energy Rules ("**NER**"), no less than every five years the AER is required to review the economic regulation of a Distribution Network Service Provider's ("**DNSP**") electricity distribution services. The outcome of this review is a determination by the AER of the total allowable revenue ("**TAR**") that a distribution operator can earn in any year during the next regulatory period. The AER's revenue determination is subject to a prescribed regulatory process that includes amongst other things the requirement for the AER to: (a) consider operating and capital expenditures of the SAPN distribution network (including past operating and capital expenditures); (b) consider the commercial return on the respective distribution network; and (c) consult with SAPN on inputs used to reach that determination.

If the AER's revenue determination, with respect to the TAR, does not accurately reflect the operating and capital expenditures of the SAPN distribution network then that determination will adversely affect the Group's profits and financial position.

Each year, SAPN proposes network tariffs to recover the TAR. The AER assesses those annual pricing proposals for compliance against the TAR determination for that regulatory period, the principles set out in the NER and the relevant State instruments. It is material to SAPN's revenue

profile that the tariff price is set at an appropriate level that allows the TAR to be recovered in each regulatory year.

Service Charges and Contestability of 'non-distribution network services'

Service charges in relation to 'negotiated services' (being services provided to a particular customer, such as connection or disconnection services, service truck visits, supply enhancements requested by a customer, high load escorts – lifting overhead power lines and installation, maintenance and alteration to and relocation of public lighting assets) are not subject to the TAR but are regulated by a negotiating framework approved by the AER which enables the AER to make a determination on the charge in the event of a dispute. In any event these service charges must be determined by SAPN in a manner that is consistent with the requirements of the NER. Material changes under the NEL as to how these service charges are recovered could impact the volume of services provided by SAPN, the associated revenue and the Group's financial position.

The provision of regulated small customer metering services (in relation to meters that are installed at a connection point on the network to measure usage) by SAPN is subject to price caps set by the AER. SAPN is currently the monopoly supplier of non-interval metering services (referred to as type 6 meters). Customer interval metering services are open to competition. From 1 December 2017, changes to the NER will require interval metering services for all new and replaced meters with the responsibility for small customer metering services transferred to retailers who will then determine who provides these services. This new regime will affect the revenue generated by SAPN and the Group's financial position. In 2016 metering revenue constituted approximately 1.5% of total revenues.

Deemed Distribution Contracts

The commercial and financial terms of engagement between SAPN as the distribution licence holder and its customers are set out in the deemed distribution contract ("**DDC**") established with all consumers connected to the respective distribution network (unless a separate agreement between the distributor and the customer has been reached, which is uncommon). The DDC is established under the *National Energy Retail Law* ("**NERL**") and is a deemed contract, is not negotiated with customers and is not required to be signed by the customer. The standard form DDC is specified in the National Energy Retail Rules ("**NERR**") Schedule 2. Alterations are made to the standard form DDC to make it applicable to SAPN incorporating local state based legislation requirements.

SAPN recovers its network charges from customers via the customer's retailer. The invoicing and credit allowance provided to retailers is detailed in Chapter 6B of the NER. Retailers are required to pay SAPN its charges even where a customer has defaulted on the payment to their retailer.

The DDC excludes any liability, unless SAPN has acted negligently or in bad faith, for damages a customer may suffer as a result of total or partial loss of supply or damages the customer suffers as a result of the defective supply of energy. In addition, SAPN's liability for acts of negligence or bad faith is capped at:

- \$500,000 (indexed) per event for customers purchasing less than 30 megawatt hours ("**MWh**") per annum, including consequential loss; and
- \$1,000,000 (indexed) per event for customers purchasing 30MWh per annum or more, excluding consequential loss.

Material changes to the financial and commercial terms of the DDC could impact the way SAPN recovers its revenue, which may affect the financial position of the Group.

Regulatory reforms

The Council of Australian Governments (“**COAG**”) Energy Council is responsible for the development of the national policy for the regulation of distribution and retailing of electricity (as well as gas). There is a commitment by the COAG Energy Council to review the national energy market policies periodically. In addition to this there are state and national authorities that implement the COAG Energy Council’s policies through various statutory instruments such as the NEL and NERR and guidelines and changes to these statutory instruments may be introduced by a variety of industry stakeholders. This regime exposes SAPN to periodic review of its business operations and the risk of regulatory requirements imposing changes that may not be consistent with its commercial objectives. Importantly any changes to the current regulatory policy and framework require agreement from the State and Territory governments. In this context the South Australian Government retains the discretion to: (a) accept or reject changes to the NEL and NERL to the extent that those changes would apply to distribution businesses operating in South Australia; and (b) make regulatory changes that are unique to and apply only to distribution businesses operating in South Australia.

The Australian Radiation Protection and Nuclear Safety Agency (“**ARPANSA**”) is the authority responsible for establishing guidelines around the exposure to and management of assets that generate Electric and Magnetic Fields (“**EMFs**”). The ARPANSA periodically reviews its guidelines in the context of scientific developments in this area. Although there have been little or no developments in this field for a number of years, to the extent that there were major scientific developments with respect to EMF which drove material changes to the guidelines published by the ARPANSA and adopted by Energy Networks Australia (of which SAPN is a member) this could adversely affect the business operations of SAPN and possibly the financial position of the Group.

The AER has developed a consistent, national guideline to ring-fence DNSP’s regulated services from contestable or non-regulated services, largely to cater for new and emerging technologies and market reforms around metering and other service contestability matters. In November 2016 the AER released a final Ring-Fencing Guideline accompanied by an Explanatory Statement. The Guideline is prescriptive and proposes strict financial, legal, and functional separation between certain regulated and unregulated services. The final Guideline became effective on 1 December 2016, subject to transitional arrangements.

Licensing requirements

Operation of the South Australian electricity distribution network, is dependent on SAPN maintaining an electricity distribution licence for the network. The licence is currently issued by the Essential Services Commission of South Australia (“**ESCOSA**”). ESCOSA has the power to suspend, cancel or vary a licence in limited circumstances and only then where it is satisfied that there has been a material contravention of a condition of licence or other requirement imposed by the licence. In addition, ESCOSA must allow SAPN to make representations on the proposed action. Similarly, ESCOSA may only vary a licence if SAPN has requested the variation or agreed to the variation or ESCOSA has advised of the proposed variation and provided SAPN with a reasonable opportunity to make representation about the variation. Cancellation of a licence or a material variation to a licence that is inconsistent with SAPN’s commercial objectives would adversely affect the Group’s profits and financial position.

Financial and performance incentive schemes and reduced revenues

Under the NER, the DNSPs are subject to performance incentive schemes which influence revenue allowances. Currently SAPN is subject to four such schemes, being the Service Target Performance Incentive Scheme (“**STPIS**”), the Efficiency Benefit Sharing Scheme (“**EBSS**”), the Capital Expenditure Sharing Scheme (“**CESS**”) and the Guaranteed Service Level (“**GSL**”) payments scheme (which is established and enforced by ESCOSA).

Under STPIS, annual revenue is increased (or decreased) by up to 5% based on reliability performance against an AER established benchmark. The EBSS and CESS schemes reward (or penalise) the DNSP based on its expenditure performance. The reward (or penalty) is realised in the next regulatory control period and is shared with customers based on an approximate 30:70 sharing of the rewards (or penalties) i.e. 30 per cent. to the DNSP and 70 per cent. to customers. The STPIS, EBSS and CESS are complementary schemes that work together to balance the incentives for under or over investment in the network.

ESCOSA's GSL scheme requires payments to be made directly to customers where the service received by those customers does not meet the separately defined levels of service in the following areas:

- timeliness of appointments, connection of a new supply address and repair of faulty street lights (i.e. customer service levels); and
- frequency and duration of electricity supply interruptions (i.e. reliability service levels).

Failure to meet the predetermined performance targets under these incentive schemes may adversely affect the Group's profits and financial position.

Unregulated activities

SAPN has a Construction and Maintenance Services (“CaMS”) operation which provides competitive (unregulated) services and which has in aggregate accounted for approximately 11% of revenue in recent years. This business is subject to competitive pressures and the risk exists that contracts could be lost to other service providers, which could adversely affect the business operations of SAPN and its financial position.

Operational and occupational health and safety risks

By their nature the electricity distribution activities of SAPN are subject to fire, explosion, power line failure and third parties damaging network assets. The occurrence of such an event could adversely affect the business operations of SAPN and the Group's profits and financial position. To mitigate these risks SAPN operates a number of information technology systems, applications and business processes to monitor and manage the distribution network infrastructure for its critical functions. These systems also include business processes designed to ensure a rapid response to any of these risks to reduce the period of time customers are without supply and to ensure that commercially prudent steps are taken to recover losses caused by third parties.

The operation and maintenance of SAPN's electricity distribution network can pose public safety risks and occupational health and safety risks such as personnel being exposed to the risk of electrocution and asbestos related hazards as well as the inherently hazardous nature of maintenance and construction work (e.g. personnel working at heights, undertaking construction work, undertaking work on electricity assets and operating heavy machinery). The risk of accidents occurring and long-term injuries being sustained by personnel or the public is an inherent risk that is actively managed by SAPN and is subject to State and National laws. Failure to comply with health and safety statutory obligations may result in non-compliance penalties (monetary and criminal or civil sanctions). Actual or alleged violations arising under any health and safety laws may cause

interruptions to the business operations of SAPN and adversely affect its reputation. Such matters could adversely affect the business operations of SAPN and the Group's financial position.

Electric and Magnetic Fields ("**EMFs**") are found wherever there is electricity. For a long time controversy has existed over whether or not EMFs are detrimental to health. Based on findings of credible public health authorities, the body of scientific research has not established that exposure to EMFs at levels below recognised guidelines cause or contribute to any adverse health effects. Given the nature of the assets owned and operated by SAPN and the public and employee health concerns in respect of exposure to EMFs, SAPN has adopted a policy of 'prudence' and implemented business processes and safe work practices to manage, monitor and mitigate EMF exposure consistent with industry guidelines. Although there have been little or no developments in this field for a number of years, to the extent that advances in EMF scientific studies were radically revised this could materially affect the business operations and reputation of SAPN and the financial position of the Group.

Waste and hazardous materials

The business operations of SAPN are required to comply with the environmental laws and regulations concerning the protection of the environment, including the use of natural resources (e.g. water), release of air emissions, noise pollution, soil and groundwater contamination and waste water as well as the generation, storage, handling, transportation, treatment and disposal of waste and hazardous materials. Various materials and substances that are hazardous or environmentally sensitive such as oil, polychlorinated biphenyls, mercury, SF₆, polyaromatic hydrocarbons and asbestos have been used or are contained in the facilities and sites currently and historically owned and operated by SAPN. A major environmental hazard could expose SAPN to site remediation costs, result in penalties (monetary and civil or criminal sanctions) being incurred, in the case of either actual or alleged violations of environmental laws interruptions to business operations and damage to reputation. To mitigate this risk SAPN operates a number of systems, applications and business processes to monitor and manage environmental risk. However the occurrence of a major environmental hazard could adversely affect the business operations of SAPN and the Group's financial position.

Outsourcing or contractor risks

SAPN outsources part of its business operations to third parties. Examples include information technology development and support, property maintenance, some construction, vegetation management and some electricity asset maintenance. Failure by a service provider to manage their business operations and to supply and manage the provision of services to SAPN in accordance with their contractual obligations could adversely impact the business operations of SAPN and financial position of the Group.

Electricity Asset Maintenance and Construction Works

Electricity distribution networks require ongoing maintenance and construction works. Maintenance and construction works are undertaken on the SAPN's electricity network by its highly trained staff, or by contractors working under its control. Failure to undertake maintenance and construction works to the appropriate standards or in a timely manner could result in network failures which could adversely impact the business operations of SAPN and financial position of the Group. In this regard SAPN has established policies and guidelines to monitor and manage its maintenance and construction works.

In addition to conducting maintenance and construction works on its own networks SAPN also offers electricity asset maintenance and construction works to third parties. Failure to undertake

these works to industry and pre-agreed contractual standards and agreed time frames could (in aggregate) adversely affect the business operations of SAPN and financial position of the Group.

Network failures and unplanned outages (including network disruptions)

Network failures due to ageing assets, equipment breakdowns, planned or unplanned outages or damage to network assets caused unintentionally by third parties or by sabotage may result in the loss of supply of electricity to customers connected to SAPN's distribution network, asset and property damage and in some instances bushfires. If this risk is not managed correctly the rectification and remediation costs could be substantial. The realisation of this risk could adversely affect SAPN's business operations and reputation and to the extent not covered by insurances or recoverable from the party who caused the damage, result in costs that could adversely affect the Group's financial position. Business systems and processes have been implemented to monitor, manage and mitigate this risk.

Guidelines for the allocation of priorities for repair of asset defects recorded during inspection and for programmed maintenance are set out in the SAPN Technical Standard Line Inspection Manual. In general, the manual provides that:

- the allocation of priorities must be recorded in a consistent and uniform manner throughout the State; and
- priorities are to be determined after consideration is given to the current state of the asset, the projected rate of deterioration and the potential consequences should a failure occur.

In most cases, the inspection results are recorded in the field on data capture devices and downloaded into a SAP maintenance database.

Defects may deteriorate into a failure resulting in adverse outcomes. The potential risk to the network varies depending upon the locality and environment at the point of the defect.

SAPN has a Maintenance Risk Value ("MRV") System which assigns an MRV value to each identified defect based upon its risk potential.

The MRV is based upon:

- potential of the defect to start a fire;
- type, severity and rate of deterioration of the defect;
- consequence of the defect:
- safety;
- essential equipment out of service;
- loss of supply;
- environmental;
- the numbers of customers potentially affected if an interruption occurred;
- likelihood of failure; and
- standards.

Once the MRV for a defect is determined, a Defect Code is assigned to the defect based on the range within which its MRV value falls. The Defect Code is used to prioritise defect rectification, with the aim of rectification prior to failure. Enhanced methodologies for evaluation of defect risks are under investigation as part of continuous improvement strategies.

Potential natural disasters or terrorist attacks

The SAPN distribution network extends across much of South Australia, including some areas that are prone to extreme weather events, particularly bushfires. There is potential for more extreme weather that may adversely affect the distribution network infrastructure increasing the likelihood of

network outages and fire hazards. Business processes and systems are in place to monitor and manage the risks associated with extreme weather events (including, for example, the legislative authority to disconnect power supply to avoid danger to life and property on high fire risk days). In addition, insurance is maintained to cover bushfire liability and this is renewed annually. Insurance cover may not fully cover all liabilities incurred in extreme weather events. To this end, major damage to assets and loss of supply and significant third party claims associated with extreme weather events could adversely affect SAPN's business operations and reputation and the Group's financial position.

Terrorist acts on SAPN's distribution network assets could interrupt supply to customers and/or result in damage to a third party's property that are connected to the SAPN distribution network. Depending on the scale of the damage and its location, the cost and time involved in remediating any damage to network assets and assessing third party claims could adversely affect SAPN's business operations and reputation and to the extent not covered by insurances the Group's financial position.

In certain circumstances the AER may enable the Issuer to recover some of the costs associated with natural disasters or terrorist attacks.

Information Technology

The information technology requirements of SAPN include: (i) field mobile computing; (ii) the collection and storage of meter data (as required by the AER); (iii) customer data and information; (iv) web portal; (v) intercompany and business to business communications and reporting; (vi) electronic mapping systems; (vii) maintenance and outage management systems in respect of the existing electricity distribution networks managed by SAPN and construction and design in respect of augmentation works on those networks; (viii) financial information, personnel management, accounting and reporting capabilities.

A security breach or a break-down of SAPN information technology systems could adversely affect the business operations of SAPN. To mitigate these risks SAPN has implemented policies, practices and technologies in line with security industry-standards along with an active program of audit/review by third party experts to test the completeness of the information technology solutions and strategies implemented for the security and resilience of those systems. These policies, practices and technologies are continually reviewed and adjusted as new risks and threats become apparent.

SAPN aims to maintain availability, integrity and confidentiality of its systems and data through:

- a dedicated team to set and monitor SAPN's information security policy;
- Next Generation Firewalls and Demilitarised Zones for the various interconnected networks;
- Internet Gateway, e-mail Gateway and Anti-SPAM protection systems;
- Security Information and Event Management systems;
- Anti-Virus / Malware detection and prevention – antivirus software is installed on all desktop computer, laptops, servers and e-mail servers;
- application of security patches to all critical IT infrastructure;
- audits and testing of security systems by an internal team and third parties (including Internet Penetration testing);
- security policies, directives and Elevated Privileges Code of Practice;
- a security awareness program for employees, service providers and contractors;
- remote access – secure remote access requirements for all employees, service providers and contractors, including third parties accessing system for support or development purposes;
- segregated networks for corporate and SCADA environments; and

- security testing performed before the introduction of new technology / systems, particularly where the systems are available external to SAPN.

Litigation and other legal claims

The type of claims SAPN may have to defend include: (i) economic loss claims where there is interruption to the supply of power giving rise to economic loss; (ii) breach of contract in relation to non-regulated services provided by SAPN; (iii) property damage claims including those associated with bushfires; (iv) personal injury claims from members of the public and work cover claims including claims relating to asbestosis from employees and contractors; (v) employee relations related claims; (vi) regulatory claims; (vii) tax related claims; and (viii) class actions.

The types of claims SAPN may commence from time to time include economic loss and property damage claims. Protracted litigation or a material increase in the number of claims made against SAPN could adversely affect the reputation of SAPN and the Group's financial position.

Insurance coverage

SAPN maintains insurance that it considers prudent to protect against major operating and other risks. However not all risks are insured or insurable. In particular, SAPN does not carry insurance for low value assets. Due to changeable insurance market conditions, SAPN cannot be certain that adequate insurance coverage for potential losses and liabilities will be available in the future on commercially reasonable terms, and may also elect to self-insure and/or carry increased deductibles. If SAPN experiences a loss in the future, the proceeds of the applicable insurance policies, if any, may not be adequate to cover replacement costs, lost revenues, increased expenses or liabilities to third parties.

Relationship with shareholders

SAPN is ultimately 51 percent owned by Cheung Kong Infrastructure Holdings Ltd ("**CKI**") and Power Assets Holdings Limited ("**PAH**"). The remaining 49 percent is ultimately owned by Spark Infrastructure. CKI and PAH are members of the Cheung Kong Group and the companies are listed on the Hong Kong Stock Exchange. Spark Infrastructure was established on 21 December 2005 to develop a diversified portfolio of utility infrastructure assets. CKI, PAH and Spark Infrastructure (the "**Shareholders**") have put in place agreements, business practices and policies to manage their interests in SAPN and their relationship as shareholders. Whilst the Shareholders have a proven track record in their industries and in their roles as Shareholders of SAPN and other energy distribution and transmission companies in Australia, there can be no assurance that the Shareholders will continue to remain aligned on the business goals, interests and objectives of SAPN. This may have an impact on the Group's ongoing financial condition or operations.

Financial Risks

Risks in funding future capital needs

The Issuer relies on bank and debt capital markets to fund SAPN's business activities, with total outstanding senior debt of A\$3,035.1m at 31 December 2016. The ability to access debt markets and obtain funding may be limited in certain circumstances for example: (i) a material adverse change in SAPN's business profile; (ii) a reduction in the Issuer's credit rating; or (iii) during periods of increased stress, uncertainty and dislocation in global capital markets. SAPN actively mitigates these risks by restricting the amount of debt maturities within any 12-month period and diversifying debt funding sources.

Liquidity Risk

The Group uses a combination of operating cash flows and a committed credit line with a domestic bank to cover short term liquidity requirements. A reluctance of banks to provide credit lines or deterioration in operating cash flows could adversely affect the Group's liquidity position. SAPN's Board of Directors has adopted what it believes to be an appropriate liquidity risk management framework to manage the Group's funding and liquidity requirements. SAPN actively manages liquidity risk including by: (i) maintaining cash reserves, banking and reserve borrowing facilities and (ii) continuously monitoring forecast and actual cash flows.

Currency Fluctuations

Foreign exchange risk arises from recognised assets and liabilities that are denominated in a currency that is not the entity's functional currency. SAPN undertakes certain transactions denominated in foreign currencies, primarily US Dollars, from which exposure to exchange rate fluctuations arise. SAPN enters into the following derivative transactions to manage foreign currency risks: (i) cross currency swaps to eliminate all foreign currency risks associated with foreign currency denominated borrowings; and (ii) foreign currency forward contracts to hedge the exchange rate risk arising from payables and receivables denominated in foreign currencies.

Interest Rate Risk

SAPN is exposed to interest rate risk due to borrowing funds that reference variable interest rates. Interest rate risk is actively managed through the use of interest rate swap contracts and hedging activities are evaluated regularly to ensure that SAPN is not exposed to excess risk from interest rate volatility.

SAPN is also exposed to interest rate risk by virtue of any differential that may arise between the implied cost of debt assumed by the AER when determining the appropriate revenue cap to apply to SAPN, and the actual interest rates paid by SAPN for its debt. This risk is actively managed by closely aligning its hedging activities with the mechanism and timing used by the AER in setting the implied cost of debt.

Changes in Credit Ratings

As at the date of this Offering Circular the Issuer has an investment grade credit rating from S&P Global Ratings ("S&P"). Credit ratings are subject to revision, suspension or withdrawal by the rating agency and the methodologies applied to derive and assign credit ratings can change. A rating downgrade could adversely affect the Issuer's cost of funding, sources of liquidity and ability to access debt capital markets.

Accounting Standards

The Issuer prepares financial statements in accordance with the Corporations Act 2001, Australian Accounting Standards and Australian Accounting Interpretations. Changes to accounting standards and reporting requirements may impact the Issuer's Income Statement and/or Statement of Financial Position.

Hedge Accounting and income statement volatility

Derivative financial instruments are utilised by the Issuer to manage and mitigate financial market risks. When executing derivative transactions, hedge accounting requirements are considered to maximise hedge effectiveness and limit the amount of residual income statement volatility. Although derivative instruments are executed to economically hedge financial risk exposures, hedge accounting standards and reporting requirements are complex and in certain circumstances the financial reporting outcomes of derivative instruments may result in income statement volatility. The Group has elected to early adopt the new hedge accounting provisions of IFRS 9 effective 1

January 2015. The new standard represents a more principles-based approach that aligns hedge accounting more closely with risk management practices than the previous accounting standard provisions of IAS39.

Australian Taxation Office disputes – asset disputes

The Australian Taxation Office (“**ATO**”) has disputed the taxation treatment adopted by SAPN for internal labour and motor vehicle expenses incurred in the construction of network assets, and has denied deductions for certain labour and motor vehicle running costs incurred in the year ended 31 December 2010 and thereafter. These costs may however be claimed as depreciation allowance over the useful life of the assets created.

SAPN has entered into discussions with the ATO to settle this matter.

In a broader context outside of the asset dispute, any adverse development due to either changes in tax legislation or interpretation may have an adverse impact on the Group's financial position. It is important to note that any adverse impact from ATO decisions will affect the SAPN partners, being the entities which pay tax on the profits of the SAPN partnership.

Counterparty Credit Risk

The Group generates credit risk exposures primarily from accounts receivable owing from a small number of large energy retailers and exposures to derivative counterparties which fluctuate based on changes in underlying interest rates and exchange rates. Accordingly, the Group is exposed to counterparty credit risk in the event that energy retailers or derivative counterparties are unable to meet financial obligations to the Group when they become due and payable. Non-performance by one of the Group's material counterparties could have a material adverse impact on Group earnings. The Group actively monitors counterparty credit risk and actively assesses credit and tenor limits.

Counterparty credit risk is moderated by the role played by an AER mandated “retailer of last resort”, currently AGL Energy Ltd (“**AGL**”). If a retailer defaults, AGL has the responsibility to recover unpaid network charges from customers and SAPN also has the ability to seek compensation through the regulatory process by way of a pass-through application for unrecovered network revenue.

Retirement schemes

Certain qualifying employees of the Group are members of defined benefit superannuation plans. Under the plans, some employees are entitled to retirement benefits based on their average salary over a one-year period prior to retirement or resignation and others based on their final salary. The defined benefit superannuation plans are funded based on actuarial forecasts of various factors including future plan assets, interest rates and salary increases and there is a legal obligation to make up any deficit in the plans. The defined benefit superannuation plans have been closed to new employees since 1998.

There are a number of risks to which the defined benefit plan exposes the Group. The more significant risks relating to the defined benefits are: (i) *Investment risk* - The risk that investment returns will be lower than assumed and the Consolidated Entity will need to increase contributions to offset this shortfall; (ii) *Salary growth risk* - The risk that wages or salaries (on which future benefit amounts will be based) will rise more rapidly than assumed, increasing defined benefit amounts and thereby requiring additional employer contributions; (iii) *Legislative risk* - The risk is that legislative changes could be made which increase the cost of providing the defined benefits; (iv) *Pension risks* – The risks are firstly that pensioner mortality will be lighter than expected, resulting in pensions

being paid for a longer period. Secondly, that a greater proportion of eligible members will elect to take a pension benefit, which is generally more valuable than the corresponding lump sum benefit; (v) *Inflation risk* - The risk that inflation is higher than anticipated, increasing pension payments, and thereby requiring additional employer contributions.

The defined benefit plans had a deficit balance, determined on an accounting basis, of \$0.1m recognised in the Statement of Financial Position as at 31 December 2016. However, on an actuarial basis, at the time of the scheme's most recent financial report (30 June 2016) the net surplus of assets over vested benefits was \$63.0m. All other employees are part of defined contribution schemes, where the individual bears the investment risk of plan assets.

Retention of staff

The ongoing success of the Group is reliant on its ability to attract, develop and retain employees. Current staff turnover levels are low, however a failure to retain skilled and experienced staff without suitable replacement in the future could have an adverse impact on its operations.

Industrial Relations Actions

Approximately 95% of SAPN's employees operate under an enterprise bargaining agreement that governs pay and conditions. The agreement is negotiated every three years and it is only during this period that industrial action can be lawfully enacted. The three key unions party to these agreements are Professionals Australia (formerly known as the Association of Professional Engineers, Scientists and Managers Australia), Communications, Electrical, Electronic, Energy, Information, Postal, Plumbing and Allied Services Union of Australia ("**CEPU**") and the Australian Municipal, Administrative, Clerical and Services Union ("**ASU**"). Whilst SAPN strives to maintain good working relationships with the unions and meet regularly to discuss and resolve issues, there is still potential for industrial action in accordance with enterprise bargaining agreements which may adversely affect the SAPN's operations and financial performance.

Disruptive technology and changes to network demand

The development and emergence of disruptive technologies offer consumers alternatives from traditional electricity supply which may reduce future electricity consumption and demand from the grid. There has been a proliferation of residential solar generation installations following state and federal government incentives and significant improvements in battery technology and storage capabilities have the potential to reduce traditional demand by consumers. The AER has recently adopted a revenue cap which removes volume risk for the current regulatory reset period (July 2015 to June 2020). Beyond this period, further advancement and increased utilisation of disruptive technologies have the potential to reduce electricity consumption and demand from the grid. Conversely, there is potential for new technologies such as electric vehicles to require additional supply from the network.

Factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme

The Notes may not be a suitable investment for all investors

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Offering Circular or any applicable supplement;

- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including Notes with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;
- (iv) understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and
- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Some Notes are complex financial instruments. A potential investor should not invest in Notes which are complex financial instruments unless it has the expertise (either alone or with a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of the Notes and the impact this investment will have on the potential investor's overall investment portfolio. Each potential investor should consult its legal advisers to determine whether and to what extent (1) Notes are legal investments for it, (2) Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

Reliance on the Guarantee

The Notes are guaranteed pursuant to the Guarantee. The Issuer has minimal assets other than its loans to the Initial Guarantor. If any or all of the Guarantors' financial condition deteriorates, it is possible that the Issuer may not have access to the resources or liquidity to pay the amounts required under the Notes and the Guarantors, individually or collectively, may not have the financial resources or liquidity to pay the amounts required under the Guarantee. Consequently, investors in the Notes may suffer direct and materially adverse consequences.

The insolvency laws of Australia or the Bahamas may differ from equivalent laws of another jurisdiction with which Noteholders may be familiar

Insolvency proceedings relating to the Issuer or the Australian partners of SAPN or any other Australian entities which are Guarantors would involve Australian insolvency laws, the procedural and substantive provisions of which may differ from comparable provisions of bankruptcy law or the insolvency laws of other jurisdictions with which prospective investors may be familiar.

Insolvency proceedings relating to the Bahamian partners of SAPN would involve Bahamian insolvency laws, the procedural and substantive provisions of which may differ from comparable provisions of bankruptcy law or the insolvency laws of other jurisdictions with which prospective investors may be familiar.

In certain circumstances Additional Guarantors may be released from their obligations under the Guarantee

An Additional Guarantor may, at the option of the Issuer, be released from liability under the Guarantee:

- If no Event of Default has occurred and is subsisting as at the proposed date of release of that Guarantor (the "**Released Guarantor**"); and

- the aggregate of all current and non-current assets on a consolidated basis after eliminating all inter-company transactions of the remaining Guarantors is not less than 90 per cent. of the aggregate of all current and non-current assets on a consolidated basis after eliminating all inter-company transactions of each entity comprising the Group; and
- the aggregate operating profit (loss) of the remaining Guarantors before interest, income tax, depreciation, amortisation, extraordinary items, gains or losses on disposals, revaluations or impairments and before taking into account any unrealised gains or losses arising from movement in the fair value of derivative instruments or financial instruments in respect of the relevant period is not less than 90 per cent. of aggregate operating profit (loss) of the Group before interest, income tax depreciation, amortisation, extraordinary items, gains or losses on disposals, revaluations or impairments and before taking into account any unrealised gains or losses arising from movement in the fair value of derivative instruments or financial instruments in respect of such period,

each as set out more fully in Condition 3 and the Trust Deed.

In the circumstances above the Released Guarantor shall cease to be a Guarantor and to be bound by, or have any obligations or liability under, the Guarantee, and all such obligations and liabilities will be discharged.

The members of the Group that act as Guarantors (other than the Initial Guarantor) from time to time may change without the consent of the Noteholders provided that the requirements in Condition 3 and the Trust Deed are satisfied.

Risks related to the enforceability of the Guarantee generally

The enforceability of the Guarantee is subject to various limitations including:

- statutes of limitations, laws relating to administration, moratoria, bankruptcy, liquidation, insolvency, receivership, reorganisation, schemes of arrangement and similar laws affecting generally creditors' and counterparties' rights and specific court orders that may be made under such laws;
- defences such as set-off, laches, forbearance, election, abatement or counterclaim, the doctrine of frustration and the doctrine of estoppel and waiver and the fact that guarantees and certain other documents and obligations may be discharged as a matter of law in certain circumstances; and
- general law and statutory duties, obligations, prohibitions and limitations affecting the enforceability of, and exercise of rights under, guarantees generally; and
- the Guarantee or a transaction connected with the Guarantee may be voidable at the option of a party, or may be set aside by a court on application by a party, or a party may be entitled to rescind the Guarantee or a security interest and amounts paid or property transferred under it may be recovered by that party:
 - if that party entered into the Guarantee or transaction as a result of a mistake or another party's misrepresentation or as a result of fraud, duress or unreasonable or unconscionable conduct or misleading or deceptive conduct on the part of another party (or of a third person of which another party has actual or constructive knowledge) or as a result of a breach by another party (or of a third person of which another party has actual or constructive knowledge) of any duty owed to that party; or

- if that party's entry into the Guarantee or a transaction in connection with it constitutes an 'insolvent transaction' or an 'unfair loan' or an 'unreasonable director-related transaction' within the meaning of sections 588FC or 588FD or 588FDA respectively of the Corporations Act and the party is subsequently wound up.

Ranking of claims

The Notes are unsecured obligations of the Issuer and the guarantees of the Notes are unsecured obligations of the relevant Guarantors.

Although the terms and conditions of the Notes restrict the Issuer and the Guarantors granting security to secure other capital markets indebtedness, there is no restriction on the Issuer or Guarantors granting security to secure other obligations. To the extent such security was granted, the obligations secured thereby would rank ahead of the Notes and guarantees provided by the Guarantors.

To the extent that assets are held by Subsidiaries of the Guarantors other than the Issuer and the Guarantors, those assets would only be available to meet claims of Noteholders after the satisfaction of all liabilities of such subsidiaries and the return of any surplus assets as equity to the holding entity of the Subsidiary that is a Guarantor (if any). There is no restriction on the liabilities that may be incurred by Subsidiaries that are not Guarantors.

Risks related to the structure of a particular issue of Notes

A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of the most common features:

Notes subject to optional redemption by the Issuer

An optional redemption feature of Notes is likely to limit their market value. During any period when the Issuer may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

Index Linked Notes and Dual Currency Notes

The Issuer may issue Notes with principal or interest determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or other factors (each, a "**Relevant Factor**"). In addition, the Issuer may issue Notes with principal or interest payable in one or more currencies which may be different from the currency in which the Notes are denominated. Potential investors should be aware that:

- (i) the market price of such Notes may be volatile;
- (ii) they may receive no interest or less interest than expected;
- (iii) payment of principal or interest may occur at a different time or in a different currency than expected;
- (iv) they may lose all or a substantial portion of their principal;

- (v) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;
- (vi) if a Relevant Factor is applied to Notes in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable is likely to be magnified; and
- (vii) the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

The historical experience of an index should not be viewed as an indication of the future performance of such index during the term of any Index Linked Notes. Accordingly, each potential investor should consult its own financial and legal advisers about the risk entailed by an investment in any Index Linked Notes and the suitability of such Notes in light of its particular circumstances.

Partly-paid Notes

The Issuer may issue Notes where the issue price is payable in more than one instalment. Any failure by an investor to pay any subsequent instalment of the issue price in respect of his Notes could result in such investor losing all of his investment.

Variable rate Notes with a multiplier or other leverage factor

Notes with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

Inverse Floating Rate Notes

Inverse Floating Rate Notes may have an interest rate equal to a fixed rate minus a rate based upon a reference rate such as LIBOR. The market values of those Notes typically are more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms). Inverse Floating Rate Notes are more volatile because an increase in the reference rate not only decreases the interest rate of the Notes, but may also reflect an increase in prevailing interest rates, which further adversely affects the market value of these Notes.

Fixed/Floating Rate Notes

Fixed/Floating Rate Notes may bear interest at a rate that converts from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Where the Issuer has the right to effect such a conversion, this will affect the secondary market and the market value of the Notes since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate in such circumstances, the spread on the Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Issuer converts from a floating rate to a fixed rate in such circumstances, the fixed rate may be lower than then prevailing rates on its Notes.

Notes issued at a substantial discount or premium

The market values of securities issued at a substantial discount or premium from their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities,

the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

Risks related to Notes generally

Set out below is a brief description of certain risks relating to the Notes generally:

Modification, waivers and substitution

The Terms and Conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The Terms and Conditions of the Notes also provide that the Trustee may, without the consent of Noteholders and without regard to the interests of particular Noteholders, agree to (i) any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of the Notes or the Trust Deed or the Australian Deed Poll or any other document, or (ii) determine, without any such consent as aforesaid, that any Event of Default shall not be treated as such, where, in any such case, it is not, in the opinion of the Trustee having regard to its rights under the Trust Deed to obtain advice from professional advisers, materially prejudicial to the interests of the Noteholders so to do or may agree, without any such consent as aforesaid, and whether or not it would be so materially prejudicial to do so, or (iii) any modification to the provisions of the Notes or the Trust Deed or the Australian Deed Poll or any other document which is of a formal, minor or technical nature or to correct a manifest error or to comply with mandatory provisions of law, or (iv) the substitution of another company as principal debtor under any Notes in place of the Issuer, in the circumstances described in Condition 15 (Meetings of Noteholders, Modification, Waiver and Substitution).

Change of law

The Terms and Conditions of the Notes (other than the AMTNs) are based on English law in effect as at the date of this Offering Circular. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Offering Circular and any such change could materially adversely impact the value of any Notes affected by it.

The Terms and Conditions of the AMTNs are based on Australian law in effect as at the date of this Offering Circular. No assurance can be given as to the impact of any possible judicial decision or change to Australian law or administrative practice after the date of this Offering Circular and any such change could materially adversely impact the value of any AMTNs affected by it.

Notes where denominations involve integral multiples: definitive Notes

In relation to any issue of Notes which have denominations consisting of a minimum Specified Denomination (as described in the applicable Pricing Supplement) plus one or more higher integral multiples of another smaller amount, it is possible that such Notes may be traded in amounts that are not integral multiples of such minimum Specified Denomination. In such a case a holder who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time may not receive a definitive Note in respect of such holding (should definitive Notes be printed) and would need to purchase a principal amount of Notes such that its holding amounts to a Specified Denomination.

If such Notes in definitive form are issued, holders should be aware that definitive Notes which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

Trustee's actions

In certain circumstances (including the giving of notice to the Issuer and the Guarantors pursuant to Condition 10 (*Events of Default*), the Trustee may (at its sole discretion) request the Noteholders to provide an indemnity and/or security and/or pre-funding to its satisfaction before it takes actions on behalf of the Noteholders. The Trustee shall not be obliged to take any such actions if not indemnified and/or secured and/or pre-funded to its satisfaction. Even if the Noteholders agree to indemnify and/or provide security to and/or pre-fund the Trustee, the time taken to agree the indemnity and/or security and/or pre-funding may impact on when such actions are taken.

The Trustee may decline to take action requested by the Noteholders, notwithstanding the provision of an indemnity or security or prefunding to it, in breach of the terms of the Trust Deed and in such circumstances, or where there is uncertainty or dispute as to the applicable laws or regulations and to the extent permitted by the agreements and the applicable law, it will be for the holders of the Notes to take such actions directly.

Risks related to the market generally

Set out below is a brief description of certain market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

The secondary market generally

Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities.

Exchange rate risks and exchange controls

The Issuer will pay principal and interest on the Notes and the Guarantors will make any payments under the Guarantee in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the Investor's Currency) other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (1) the Investor's Currency-equivalent yield on the Notes, (2) the Investor's Currency-equivalent value of the principal payable on the Notes and (3) the Investor's Currency-equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate or the ability of the Issuer or the Guarantors to make payments in respect of the Notes or the Guarantee. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Interest rate risks

Investment in Fixed Rate Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the Fixed Rate Notes.

Credit ratings may not reflect all risks

One or more independent credit rating agencies may assign credit ratings to the Issuer, the Guarantors or the Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised, suspended or withdrawn by the rating agency at any time.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) Notes are legal investments for it, (2) Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

USE OF PROCEEDS

The net proceeds from the issue of Notes will be on-lent to the Initial Guarantor to be used for general corporate purposes.

SUMMARY FINANCIAL INFORMATION

The summary financial information presented below is as of and for the financial year ended 31 December 2016 (“FY2016”), 31 December 2015 (“FY2015”) and 31 December 2014 (“FY2014”) and has been derived from audited consolidated financial statements of SAPN. The consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (“AASB”) and other authoritative pronouncements of the Australian Accounting Standards Board and comply with International Financial Reporting Standards as issued by the International Accounting Standards Board. The summary financial information presented in this section “Summary Financial Information” should be read in conjunction with, and is qualified in its entirety by reference to, the consolidated financial statements and accompanying notes for the relevant period.

SAPN Consolidated Balance Sheet (A\$m)	2014	2015	2016
Current assets			
Cash and cash equivalents	191.8	239.9	213.3
Trade and other receivables	231.4	186.1	136.5
Other financial assets	-	32.6	0.1
Inventories	19.8	19.8	17.5
Intangible assets	-	5.1	5.1
Other	7.8	7.7	10.4
Total current assets	450.8	491.2	382.8
Non-current assets			
Inventories	8.7	8.4	9.6
Other financial assets	78.9	187.3	198.3
Property, plant and equipment	4,431.4	4,609.5	4,751.5
Intangible assets	936.5	926.3	921.3
Other	390.5	386.4	384.2
Total non-current assets	5,846.0	6,117.9	6,265.0
Total assets	6,296.8	6,609.1	6,647.8
Current liabilities			
Trade and other payables	227.0	237.8	270.9
Borrowings	304.7	769.5	501.7
Other financial liabilities	40.7	-	-
Provisions	90.0	88.7	95.9
Total current liabilities	662.4	1,096.1	868.5
Non-current liabilities			
Borrowings	3,465.6	3,160.4	3,349.5
Other financial liabilities	-	33.4	75.3
Deferred tax liabilities	2.0	-	-
Provisions	38.1	14.4	13.9
Total non-current liabilities	3,505.8	3,208.3	3,438.7
Total liabilities	4,168.2	4,304.3	4,307.2
Net assets	2,128.6	2,304.8	2,340.6
Equity			
Partners capital accounts	623.3	623.3	623.3
Partners current accounts	1,533.3	1,712.3	1,765.3
Reserves	(28.0)	(30.8)	(48.0)
Total equity	2,128.6	2,304.8	2,340.6

SAPN Consolidated Income Statement (A\$m)	2014	2015	2016
Revenue from ordinary activities⁽¹⁾			
Network Revenue ⁽²⁾	1,174.0	1,091.7	991.2
Contributed assets and contributions for capital works	80.4	80.6	79.6
Public lighting	17.4	17.2	16.4
Other	22.9	38.5	77.2
Unregulated services	147.5	174.2	154.5
Interest revenue	2.0	4.6	7.6
Total revenue	1,444.1	1,406.8	1,326.5
Other income / (expenses)	(0.8)	(1.3)	(1.0)
Transmission Use of System charges	(254.0)	(260.2)	(251.6)
Employee benefits expense	(192.1)	(182.8)	(202.9)
Raw materials and consumables used	(38.1)	(51.4)	(39.0)
Services and other expenses	(126.6)	(149.8)	(184.6)
EBITDA (excluding interest income)	830.5	756.8	639.8
Depreciation and amortization expense	(188.4)	(218.1)	(221.2)
EBIT (excluding interest income)	642.1	538.7	418.6
Finance costs	(277.7)	(249.7)	(210.8)
Profit before income tax expense	366.4	293.6	215.4
Income tax benefit	0.1	2.0	-
Net Profit after tax ⁽³⁾	366.5	295.6	215.4

- (1) Revenues are inclusive of gifted and customer contributed assets (2014: \$80.4m; 2015: \$80.6m; 2016: \$79.6m). From 1 January 2017 SAPN's accounting treatment will exclude these items from revenues.
- (2) The AER's preliminary decision for the 2015-2020 period negatively impacted revenues in H2 2015 and H1 2016. The AER's final decision provided a revenue uplift of \$626m being earned from 1 July 2016.
- (3) SAPN does not pay income tax as it is a Partnership. The net profit after tax includes income tax relating to minor subsidiaries only.

SAPN Consolidated Cash Flow Statement (A\$m)	2014	2015	2016
Cash flows from operating activities			
Receipts from customers	1,551.0	1,549.6	1,462.0
Payments to suppliers and employees	(733.7)	(726.8)	(753.1)
Interest and other costs of finance paid	(276.7)	(261.6)	(212.0)
Net cash provided by operating activities	540.6	561.2	496.9
Cash flows from investing activities			
Interest received	1.6	4.5	7.5
Payments for property, plant and equipment	(414.8)	(361.9)	(330.1)
Proceeds from sale of property, plant and	2.3	2.2	2.6
Net cash used in investing activities	(410.9)	(355.2)	(320.0)
Cash flows from financing activities			
Payments for debt issues	(3.5)	(3.5)	(4.2)
Proceeds from borrowings	397.3	309.5	708.8
Repayment of borrowings	(204.8)	(303.3)	(737.3)
Distributions paid	(182.6)	(160.6)	(170.8)
Net cash provided by financing activities	6.3	(158.0)	(203.5)
Net increase / (decrease) in cash and cash	136.0	48.1	(26.6)
Cash and cash equivalents at the beginning of	55.8	191.8	239.9
Cash and cash equivalents at the end of the year	191.8	239.9	213.3

As at 31 December 2016, SAPN had total senior debt outstanding of A\$3,035.1m and cash and cash equivalents of A\$213.3m, resulting in net senior debt of A\$2,821.8m. SAPN also has unsecured subordinated debt of A\$647.7m from Cheung Kong Infrastructure Finance (Australia) Pty Ltd ("CKIFA") and Hong Kong Electric International Finance (Australia) Pty Ltd ("HEIFA"), the financing arms of CKI and PAH respectively. SAPN's senior debt currently consists of notes. A brief description of the outstanding debt facilities is as follows:

Instrument	Amount (A\$m)	Maturity
Domestic 5.5 Year Fixed Rate Notes	200	Sep-17
Domestic 5 Year Fixed Rate Notes	150	Sep-17
Domestic 5 Year Floating Rate Notes	150	Oct-17
Domestic Credit Wrapped 11 Year Medium Term Notes	350	Apr-18
2009 US Private Placement (USD160m)	200	Sep-19
Domestic Credit Wrapped 12.5 Year Medium Term Notes	300	Oct-19
2004 US Private Placement (USD195m)	269	Oct-19
2014 US Private Placement (USD50m)	53	Jun-22
2014 US Private Placement (USD135m)	145	Sep-22
2016 US Private Placement (USD100m)	136	Aug-26
2014 US Private Placement (USD185m)	199	Sep-26
2015 US Private Placement (USD235m)	309	Jun-27
2016 US Private Placement (USD210m)	286	Aug-28
2016 US Private Placement (USD210m)	286	Aug-31
Total Capital Markets	3,035	

Notes

The bonds comprise A\$ Medium Term Notes and US Private Placement Notes. The borrowings are a mix of Australian and US dollars, and are a mix of variable and fixed interest rate debt. SAPN hedges the foreign currency portion of the loans using cross-currency interest rate swaps exchanging US dollar principal and fixed rate interest for Australian dollar principal and variable rate interest, and interest rate swaps exchanging variable rate interest for fixed rate interest.

Bank Loans

In addition to the debt issues listed above, SAPN also has a A\$75m bank facility. This facility is revolving in nature and benefits from the same Guarantor group as the bonds. As at the date of this Offering Circular this facility was undrawn. The bank facility expires in May 2017 and SAPN expects to renew it at that time following a market tender.

Subordinated Debt

SAPN has subordinated loans from CKIFA and HEIFA. The loans are subordinated to other borrowings pursuant to subordination deed polls entered into by CKIFA and HEIFA and have no predetermined repayment period.

Pursuant to the subordination arrangements:

- the subordinated loans cannot be repaid or prepaid until all senior debt (including the Notes) is repaid in full, or the subordinated debt is paid or prepaid from the proceeds of financial accommodation which is subordinated on the same terms, or from the proceeds of a subscription for ordinary shares;
- interest costs and fees on the subordinated loans may only be met by SAPN after meeting all interest and principal payments on the senior debt and provided it is otherwise able to pay all its debts as and when due; and
- in the event of a winding-up of SAPN, CKIFA and HEIFA cannot prove for the amount of the subordinated loans until all the senior debt is repaid in full.

DESCRIPTION OF THE GROUP

Industry Overview

1. Commonwealth of Australia

The Commonwealth of Australia consists of six States (including South Australia), two internal Territories and eight external Territories. There are three main levels of government in Australia – Commonwealth, State and Local, each directly elected by its constituents. Legislative authority is shared between the Commonwealth and the States according to the provisions of the Australian Constitution.

Broadly, with respect to electricity, the Commonwealth is responsible for national competition. Previously, the States were responsible for the regulation of their respective electricity supply industries, prior to regulation of the national wholesale electricity industry transferring to an independent national authority, the AER. The AER has been the regulator of electricity transmission networks since its inception in 2005. The responsibility for the regulation of the national distribution networks has been transferred over a staged process, with regulation for South Australia transferring to the AER from 1 July 2010.

Regulation is to occur in a manner consistent with national competition policy. The main legislative instrument governing competition policy is the Competition and Consumer Act of 2010 (Cth). National competition policy is administered by an independent Commonwealth statutory agency, the Australian Competition and Consumer Commission (“ACCC”).

2. State of South Australia

South Australia covers an area of approximately 984,000 square kilometres or about 13% of the Australian continent, and has a population of approximately 1.7 million people.¹ Adelaide is the capital city of South Australia and is linked to Australian and international cities through road, rail, air and sea transportation and telecommunications networks. The principal industries operating in South Australia include advanced manufacturing, agriculture, mining, defence industries and tourism. The Gross State Product of South Australia was A\$101.1Bn for the year ended June 2016, which was 6.1% of Australia's Gross Domestic Product.²

3. Reform of Electricity Distribution in Australia

Since the early 1990s, the Commonwealth, State and Territory governments have pursued a broad based policy of micro-economic reform designed to enhance Australia's global competitiveness. A key element has been the reform, restructuring and, in some cases, privatization of publicly owned services primarily in the telecommunications, electricity, gas, transport and water sectors.

Reforms in the Australian electricity sector were led by the State of Victoria which instituted a restructuring and privatization program from 1993 to 1998 followed by the States of New South Wales, Queensland and South Australia. The States of South Australia and Victoria are the only States to have fully privatised both the electricity transmission and distribution networks. NSW has recently privatised its transmission network and has partially privatised Ausgrid, one of its distribution networks.

¹ Australian Bureau of Statistics, 3101.0 Australian Demographic Statistics, June 2016

² Australian Bureau of Statistics, 5220.0 Australian National Accounts: State Accounts, June 2016

The Electricity Trust of South Australia was formed in 1946 (subsequently renamed ETSA Corporation) to carry out the vertically integrated electricity business in South Australia.

In January 1997, following a review of the structure of the South Australian electricity industry, the generation arm of ETSA Corporation, ETSA Generation, was separated as a new corporatised body and renamed SA Generation Corporation.

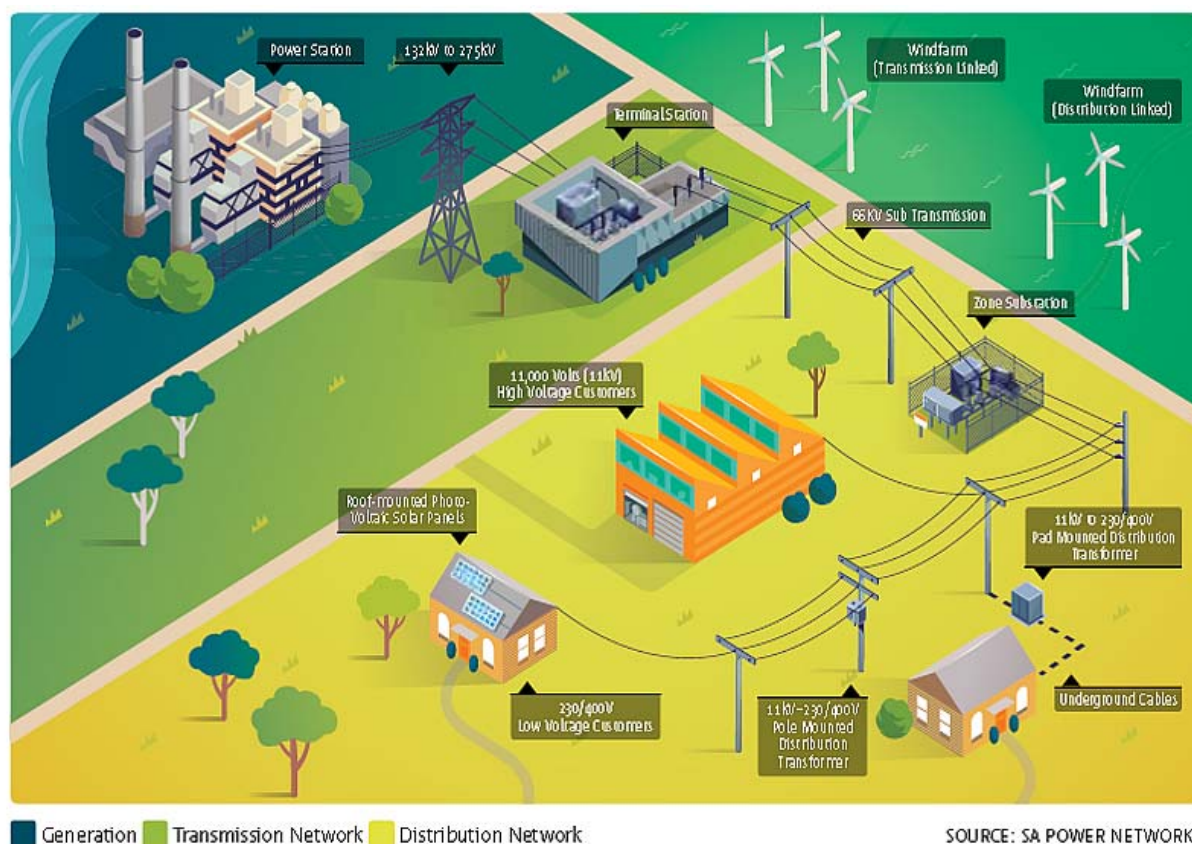
In February 1998, the South Australian Government announced plans for the further reform and privatization of the electricity sector. The State's remaining vertically integrated business (ETSA Corporation) was further restructured in October 1998 into 3 business units: transmission, distribution and retail.

Pursuant to this disaggregation of ETSA Corporation, ETSA Utilities Pty Ltd was established as the separate distribution business. The principal activity of ETSA Utilities Pty Ltd was the operation, maintenance and augmentation of the electricity distribution network in South Australia.

On 11 June 1999, the South Australian Parliament passed the Electricity Corporations (Restructuring and Disposal) Act 1999 (SA) ("**Restructuring and Disposal Act**"). The South Australian Government was permitted to privatise the State owned electricity generation, transmission, distribution and retail businesses. ETSA Utilities – subsequently renamed SA Power Networks ("**SAPN**") in 2012 - acquired the right to operate the distribution assets on a 200-year lease basis. The Issuer operates as the financing vehicle for SAPN.

4. South Australia's Electricity Distribution Market

South Australia's electricity supply system is depicted below.

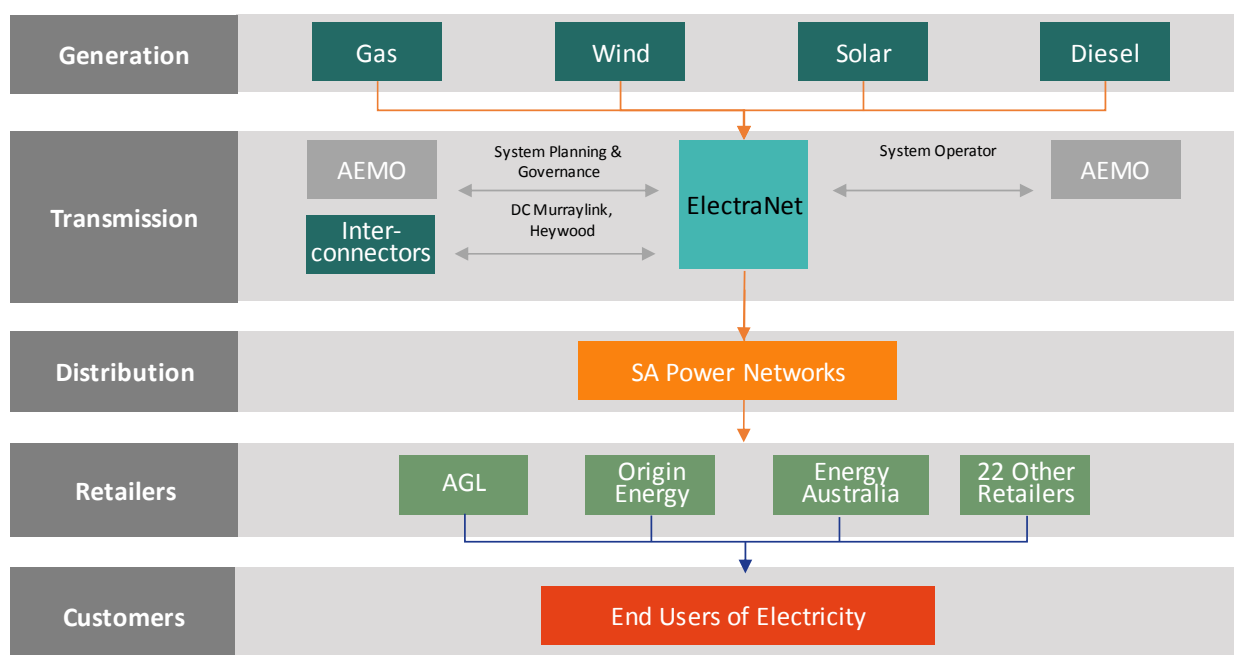


South Australia's Electricity Supply System

Generators generate electricity for sale into the wholesale electricity market. Power is transported from generators to the distribution system via the high voltage transmission network. As South Australia's principal electricity distributor, SAPN transports energy from the transmission network, and from sources such as wind farms, to homes and industry. Powerlines from zone substations supply pole and pad-mounted transformers that step down the electricity to the appropriate voltage for customers.

5. Industry Structure and Participants

Reform and privatization of the electricity supply industry in South Australia has led to a number of independent entities performing roles once fulfilled by the vertically integrated Electricity Trust of South Australia. Over time, with acquisition and merger activity this has evolved into the structure depicted as follows.



South Australia Electricity Industry Structure

Generators (either fossil fuelled or renewable) produce electricity, which is transported at high voltage across long distances by the transmission network (owned and operated by ElectraNet in South Australia), to around 70 transmission network 'exit points' in or near urban and rural centres.

South Australia's generation mix continues to evolve following the closure of all remaining coal-fired power generation in the State in 2016. Wind and solar now comprise approximately 51% of electricity generation in the State³. South Australia has 1.6GW of wind generation capacity, the largest of all Australian states.⁴

6. Geography

South Australia covers 984,000 square kilometres, approximately one eighth of the Australian continent. The State comprises vast desert and arid areas with approximately 20% having the rainfall and other characteristics suitable for agriculture and liveability.

³ 2016 South Australian Electricity Report, AEMO.

Two major gulfs penetrate the State, increasing the coastline length (over 5,000 kilometres) and extending the length of the network infrastructure required to service the State's dispersed settlements. This limits the opportunity for meshing of the distribution network system.

7. Climate

South Australia is Australia's driest State, with average annual rainfall in Adelaide of 544mm.⁴ The climate is characterised by long, hot, dry summers with relatively mild nights and cool winters. Due to the large variability in temperature, primarily extensive periods of extreme heat in the summer months, there has been a high penetration of air conditioners in South Australian households. Adding to the high penetration of air conditioners in South Australia is the trend to augment existing air conditioner capacity in homes, either by replacing old air conditioners with larger units or installation of additional units. This trend is driven by increasing household disposable incomes. Historically this has contributed to a growing trend in peak demand from customers, although recently the trend growth has flattened.

⁴ Commonwealth of Australia, Bureau of Meteorology, Adelaide 1977-2015, available at www.bom.gov.au

8. Industry Demand Drivers

National Drivers of Demand

Energy consumption in Australia showed consistent growth for many years. However there have been a number of factors in recent years that have led to flattening or falls in consumption in some areas. The drivers of this change include:

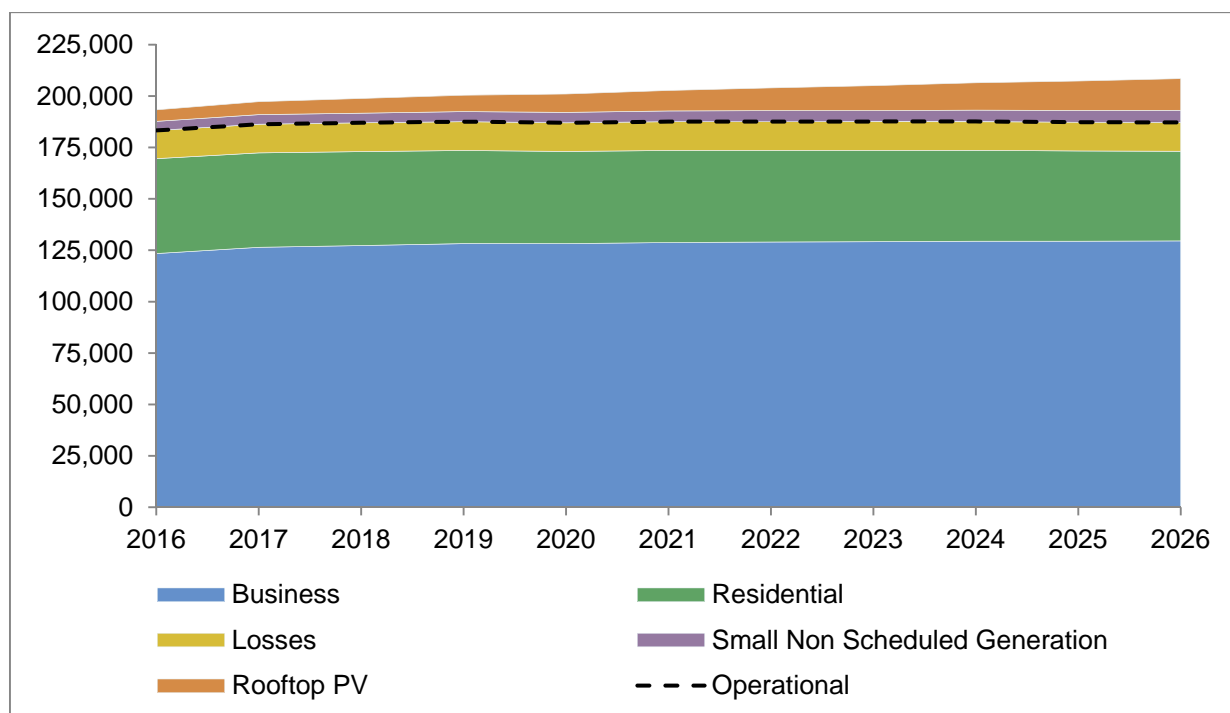
- reduced residential and commercial net consumption following the growing uptake of solar photo voltaics (“PV”);
- improved energy efficiency in residential and commercial sectors (with key contributions from air conditioning, refrigeration and electronics); and
- a reduction in consumption in response to higher electricity bill prices.

More recently, this decline has showed signs of a reversal and operational consumption over the short-term (2016 – 2019) is forecast by the Australian Energy Market Operator (“AEMO”) to grow at an annual rate of 0.8%⁵. In the longer term, operational consumption is expected to remain largely flat to 2026⁸.

Key factors influencing future demand forecasts include:

- Queensland's large LNG projects are expected to come online and will have large electricity demands;
- rooftop solar is anticipated to continue to penetrate the commercial and residential markets;
- population growth; and
- a lower than expected growth in industrial sectors, particularly following the impact of the closures of aluminium smelters and the car manufacturing industry.

NEM Annual Consumption (GWh)⁸



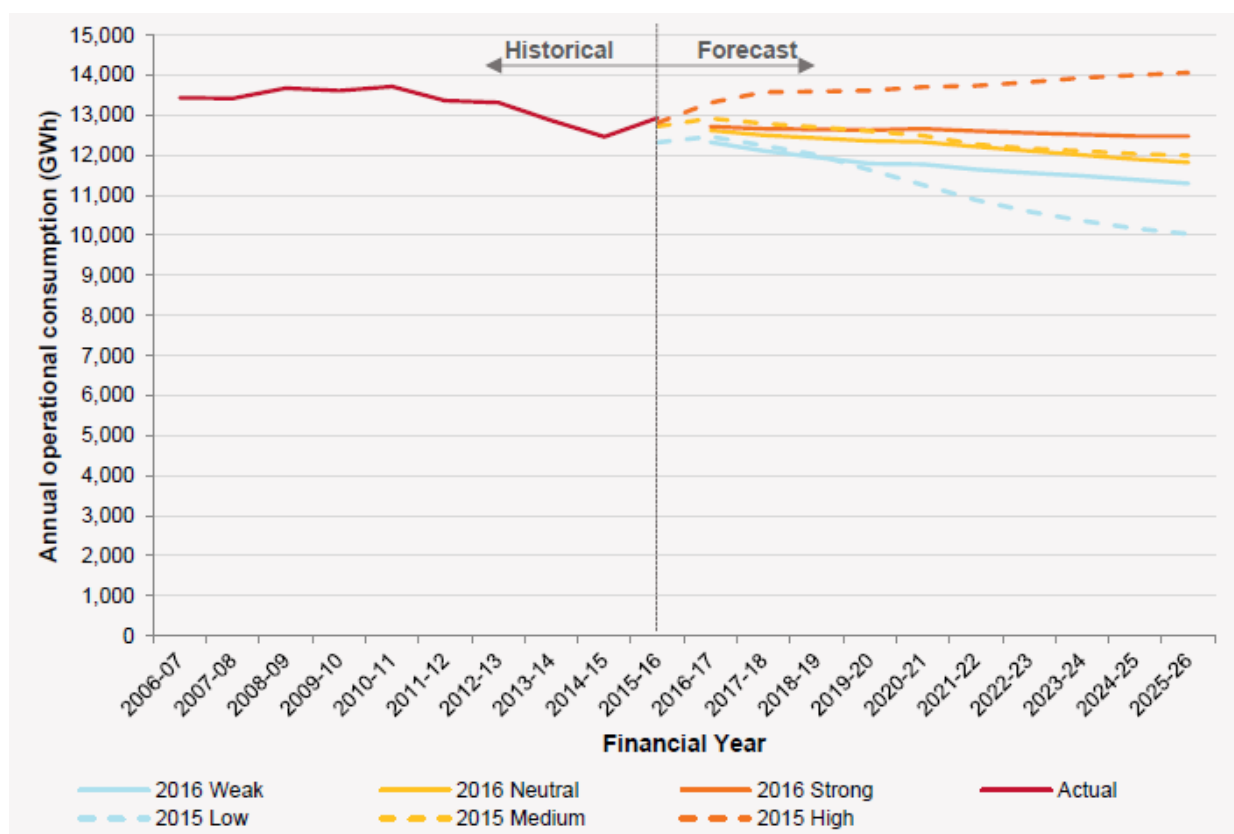
⁵ 2016 National Electricity Forecasting, AEMO

Average Demand in South Australia

Average demand does not correlate significantly with a distributor's costs but does influence customers' prices per unit of energy. South Australia's heavy industrial sector is more limited than most other states and thus makes a proportionately smaller contribution to average demand.

In 2015-16, South Australia's total annual energy consumption was 12,934 gigawatt hours ("GWh"), which is 466 GWh (3.7%) above the 2014-15 consumption of 12,468 GWh. Under the AEMO medium (most likely) economic growth scenario, consumption is forecast to decrease by 0.7% per year over the 10-year outlook period⁶.

South Australian Annual Energy Forecasts⁷



Key drivers of the 2016 annual energy and maximum demand forecasts for South Australia over the next 10 years are:

- continued high uptake of rooftop PV installations. South Australia and Queensland have the highest penetration of domestic rooftop PV installations per capita in the NEM. Increased rooftop PV installations result in less electricity being required from the grid;
- energy efficiency savings more than offset new connections growth and increasing household appliance use;
- consumer response to electricity price rises; and
- flat business consumption, with no growth in energy-intensive manufacturing and the expected reduction in automotive manufacturing.

⁶ 2016 National Electricity Forecasting Report, AEMO

⁷ Chapter 2, 2016 South Australian Electricity Report, AEMO

SAPN's 2015 – 2020 revenue determination applies a revenue cap form of control which guarantees revenue irrespective of changes in the level of consumption by customers. If in any year actual revenue is less than the revenue target, prices can be increased in the following years to recover the difference. Conversely, where actual income exceeds the target the excess must be given up by the business in the following years by reducing prices.

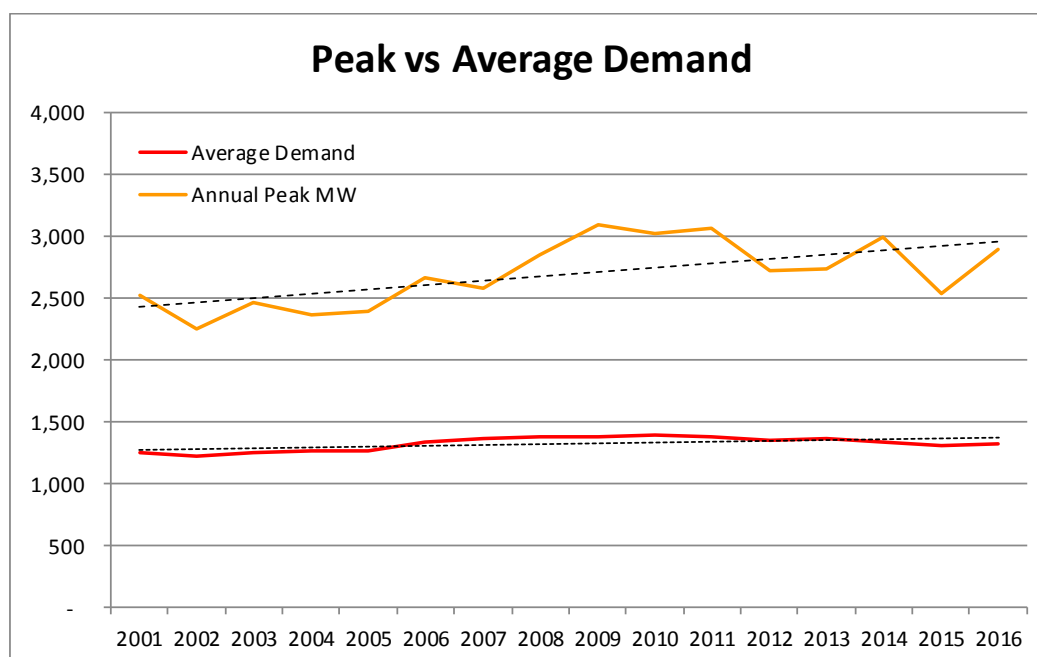
Peak Demand

Peak demand determines the required capacity of the distribution network and is historically a prime determinant of a distributor's costs. It consists of base demand, which is temperature insensitive, plus cooling demand. SAPN's record peak demand was measured at 3,086 megawatts ("MW") in 2009. In recent years, peak demand has been more than double the amount of average demand.

South Australia's "peakiness" of demand (reflected in the ratio of average demand to peak demand) is the highest in Australia and ranks among the highest in the world. At times, one-third of the network and generation capacity is required for only three to four days of the year, which is an issue that results in a significant level of low utilization and higher cost capacity in generation, transmission and distribution. In South Australia average demand for power is approximately half of its peak demand, whereas in other jurisdictions average demand can be two thirds of peak demand.

The chart below shows the long term trends in average and peak demands on the distribution network.

SAPN Peak vs Average Demand (MW)



Source: SAPN analysis

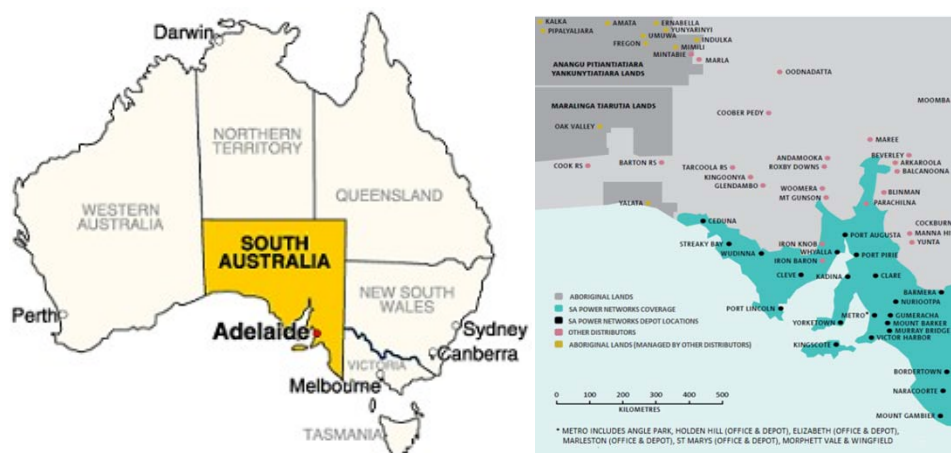
SA Power Networks Overview

1. Overview

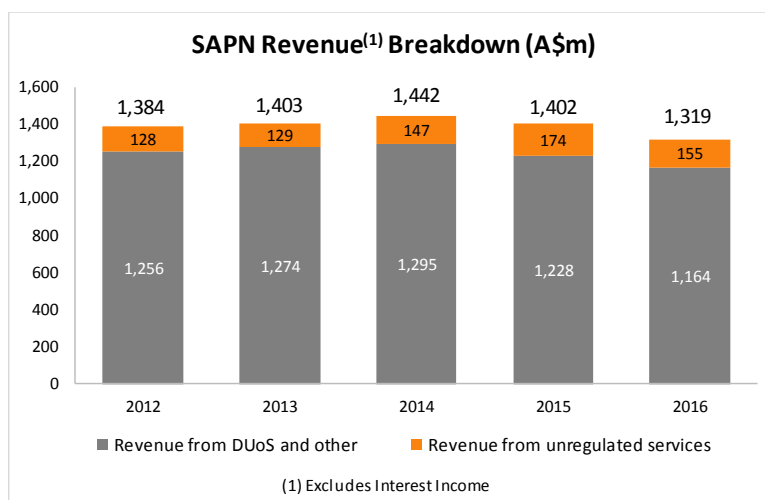
SAPN is the principal electricity distribution service provider in South Australia with a natural monopoly over all of the major population centres throughout the State of South Australia. SAPN is headquartered in Keswick, South Australia, and has 30 depots and six other business locations across the State of South Australia and a work base at Darwin in the Northern Territory.

SAPN operates the State's electricity distribution network under a 200-year lease from the South Australian Government. The lease has been prepaid in full, and is treated as an asset. SAPN is required to operate, maintain and repair the assets, and at the end of the lease period (2200) the asset can revert back to the State (refer to the section on Ownership, Lease and Guarantor Group for more information on SAPN's lease structure).

Map of Australia and SAPN's Office and Depot Locations



SAPN's revenue is derived from three streams: regulated, semi-regulated and unregulated businesses. For 2016, 81% of SAPN's revenue (excluding interest revenue) was derived from regulated distribution network charges. The remaining revenues were derived from semi-regulated activities (7%), such as public lighting services, customer-initiated connections and asset relocations; and unregulated activities (12% in 2016 and averaging 11% p.a. since 2012), including electrical and telecommunications infrastructure construction and maintenance services, and asset management services provided to other entities in Australia.



SAPN's core business is building, extending, maintaining, operating and upgrading the South Australian electricity distribution network – an asset which constitutes a core component of the State's energy infrastructure. SAPN delivers electricity from the transmission network and directly connected generators (primarily renewable) to residential, commercial and industrial customers. SAPN does not generate, purchase or sell energy. SAPN is also involved in unregulated electricity and telecommunications

infrastructure projects and provides construction and maintenance services to other businesses and government.

2. Corporate History

Key milestones in SAPN's history are provided below.

SAPN	
Key Milestones	
Year	Milestone
1946	<ul style="list-style-type: none"> The Electricity Trust of South Australia ("ETSA"), which subsequently became ETSA Corporation, was established by the State Government as a publicly owned utility company. The company operated vertically integrated businesses of electricity generation, transmission, distribution and retail in South Australia, and was responsible for the provision of electricity to all South Australians. Since its inception, ETSA has played a pivotal role in the development of the State, providing employment and ensuring homes and businesses function effectively. ETSA also participated in the post-war growth and industrialization of the South Australian economy, including providing modern and reliable power for regional areas.
1997	<ul style="list-style-type: none"> Following a review of the structure of the South Australian electricity industry, the generation arm of ETSA Corporation, ETSA Generation was separated as a new corporatised body and renamed SA Generation Corporation.
1998	<ul style="list-style-type: none"> ETSA Corporation was restructured and broken up into three different businesses. ETSA Utilities was formed to operate the South Australian distribution network. The restructure was undertaken following the State Government's announcement of its plans to reform and privatise the electricity sector.
1999	<ul style="list-style-type: none"> The South Australian Parliament passed legislation permitting the State to issue long term leases over its electricity distribution assets.
2000	<ul style="list-style-type: none"> ETSA Utilities was privatised and the new owners entered into a 200-year lease with the South Australian Government, in a transaction valued at A\$3.25Bn. ETSA Utilities was acquired by a consortium of 5 jointly owned subsidiaries of CKI and Hongkong Electric Holdings Ltd ("HKE") (now known as Power Assets Holdings Limited ("PAH")), and continued to carry on business as a general law partnership. CKI and HKE contributed A\$1.27Bn in the form of shareholders loans to ETSA Utilities. ETSA Utilities Finance Pty Ltd ("ETSA Finance"), the principal financing vehicle for ETSA Utilities, was incorporated.
2004	<ul style="list-style-type: none"> ETSA Finance successfully raised US\$387m senior secured notes in the US Private Placement market.
2005	<ul style="list-style-type: none"> Spark Infrastructure acquired a 49% interest in ETSA Utilities from CKI and HKE, which combined continue to hold a 51% stake in ETSA Utilities. Spark Infrastructure contributed A\$622.3m in preferred partnership capital. The shareholder loans from CKI and HKE were reduced to A\$647.7m.
2009	<ul style="list-style-type: none"> ETSA Finance successfully raised US\$500m senior notes in the US Private Placement market. ETSA Finance successfully raised A\$250m fixed rate notes in the Australian MTN market.
2011	<ul style="list-style-type: none"> ETSA Finance successfully raised A\$500m fixed and floating rate notes in the Australian MTN market.
2012	<ul style="list-style-type: none"> ETSA Utilities changed its name to SA Power Networks.
2014	<ul style="list-style-type: none"> ETSA Finance successfully raised US\$370m senior notes in the US Private Placement market.
2015	<ul style="list-style-type: none"> ETSA Finance successfully raised US\$235m senior notes in the US Private Placement market.
2016	<ul style="list-style-type: none"> ETSA Finance successfully raised US\$520m senior notes in the US Private Placement market.

3. Business Strategy

SAPN's strategic intent is to be a leader in delivering energy services that customers value.

In May 2010, the Future Directions initiative revised and re-shaped SAPN's directions and strategies, such that together with an organisational realignment process and the continued investment in its people, the business would be positioned to maintain momentum towards a step-change in its performance. SAPN continues to strive for improvements to how it operates, which will enable it to achieve its key objectives into the future including:

- delivering on the needs of shareholders, by achieving target returns, maintaining the business' risk profile, and protecting the long term value of the business;
- providing customers with safe, reliable, value for money energy services, and information that meets their needs;
- maintaining the business' standing in the community as an exemplary corporate citizen in South Australia;
- ensuring that the SAPN workforce is safe, skilled and committed and innovative, and that its resourcing arrangements can meet the work program needs; and
- maintenance and development of key capabilities that will help sustain SAPN's success into the future.

Strategic Framework

SAPN has identified three balanced Key Performance Indicators ("KPIs"), against which the Company measures its success:

- being valued by SAPN's customers;
- deliver outcomes at the lowest sustainable cost; and
- working together to deliver significant improvements.

These KPIs are achieved through four Core Areas of Focus (i.e. key outcomes SAPN must deliver on). To support the achievement of the KPIs, SAPN has also identified a number of Business Drivers (i.e. things that guide day to day actions). Furthermore, SAPN's strategic work program includes those activities that ensure the implementation of its strategy and drive business improvement.

SAPN corporate values include:

- believing in a workplace free of accidents and injuries;
- ensuring employees are set up to succeed;
- treating customers as we would wish to be treated;
- valuing and rewarding SAPN employees for their contribution to the business;
- seeking opportunities for growth and productivity improvements;
- taking pride in being a respected corporate citizen; and
- achieving the expectations of SAPN's shareholders.

The framework reflects SAPN's business objectives, strategies and philosophies. Among other things, the framework reflects:

- key priorities that emphasise employee safety as the top priority, customers at the forefront of decision making, an over-riding recognition that SAPN needs to be sustainably cost efficient and that all need to work together to deliver improvements to the business;
- recognition that the operating environment is changing and SAPN will respond by 'Shaping our Business for the Future';
- the ongoing need to integrate and streamline activities across the asset management, field delivery and customer relations groups;
- that customer service is as much about being responsive and providing timely and useful information to customers as it is about reliability and supply restoration; and
- that ongoing prudent investment in SAPN's people, assets, systems and data is key to a sustainable business.

4. Electricity Distribution Infrastructure

SAPN's distribution network comprises approximately 88,000 kilometres of powerlines and a Regulated Asset Base ("RAB") of A\$4Bn (as at 31 December 2016). The assets are leased from the South Australian Government under an original 200 year lease which expires in 2200. During the period of the lease, SAPN is responsible for all repairs, maintenance and upgrades and extensions to the network.

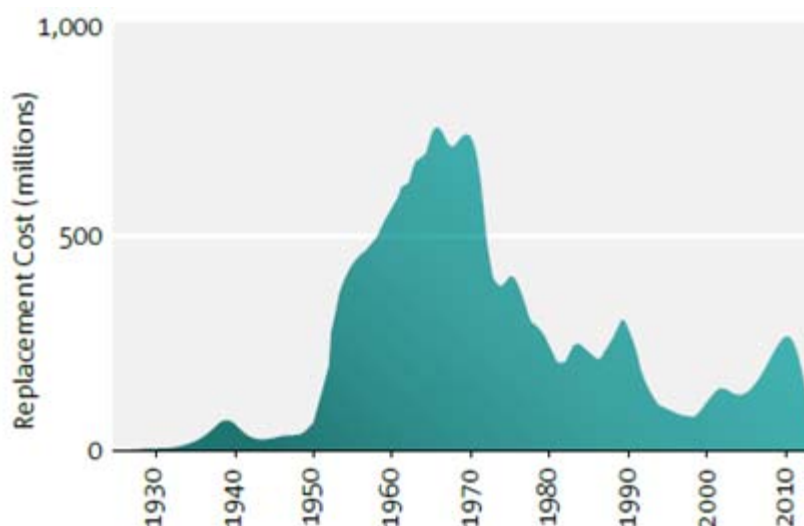
Network Statistics Summary for the year ended 31 December 2016

Customer Base	856,095
Regulated asset base	A\$4.0Bn
Electricity distributed	10,188 GWh
Network Availability	99.91%
Circuit kilometres of distribution line	88,920
Interconnected network supply area	178,200 sq km
Substations	428
Employees (inc. apprentices)	2,073

5. Age and Condition of Network Assets

Like most Australian electricity distributors, much of SAPN's distribution network was built between the 1950s to the early 1970s. Most assets have design lives in the range of 40 to 50 years, at the end of which they need to be either replaced or refurbished. The network has a significant amount of equipment that has lasted much longer than originally intended due to ongoing prudent management of the assets. Many of these assets need to be either managed to extend their lives, or be replaced.

SAPN has in place asset management plans and operations that incorporate a number of factors in order to optimise the replacement and refurbishment of its assets and ensure that the reliability and condition of the network assets are maintained at levels consistent with those required by regulators. SAPN's preferred approach is to either replace or refurbish on condition, whenever technically and economically feasible, in order to have a practical and cost effective management of the assets into the future. This approach is supplemented by replacement or refurbishment on age or failure, as appropriate. This highly efficient approach allows for optimising expenditures and maintaining customer service outcomes. The chart below summarises the age profile of SAPN's network assets as at the date of the 2015-2020 regulatory submission.



SOURCE: SA POWER NETWORKS ANALYSIS 2014

SAPN is required by its distribution licence to prepare a safety, reliability, maintenance and technical management plan (“**SRMTMP**”) and annually review and update the plan if necessary. The SRMTMP is approved by the Office of the Technical Regulator (“**OTR**”). The OTR conducts audits to verify compliance by SAPN with the safety and technical requirements of the plan.

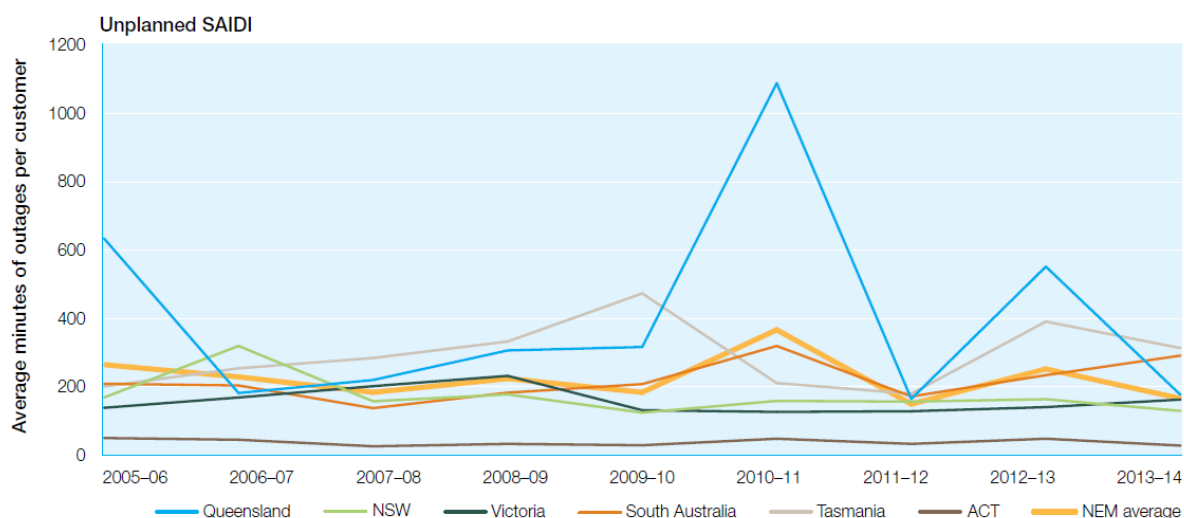
Ahead of each revenue determination period, SAPN develops detailed plans for capital investment directly into the distribution network to ensure that SAPN is capable of delivering any forecast increases in peak demand growth and to ensure that all reliability and safety requirements are met.

6. Network Performance, Reliability and Efficiency

SAPN is a reliability leader in Australia, regularly performing better than the national average, as measured by the System Average Interruption Duration Index (“**SAIDI**”), which is a measure of reliability averaged across all customers (average minutes without supply per annum).

In line with ESCOSA’s Service Standard Framework, SAPN seeks to ensure underlying reliability performance is maintained at current levels over the subsequent regulatory period. Further information is provided below under “Customers and Network Performance”. In addition, SAPN embraces technology and innovation in the efficient, reliable and safe operation of the network. Examples include implementation of an advanced distribution management system, targeted automation of feeder control, deployment of mobile equipment and exploring grid side battery storage, together with risk driven maintenance and efficient business practices including the smart bundling of work and use of mobility platforms in the field.

The Unplanned SAIDI on a state-by-state basis is provided in the chart below. SAPN’s performance has generally been better than the NEM average.



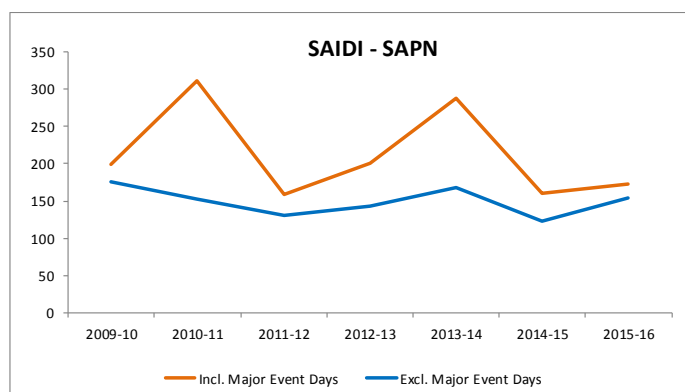
Source: AER 'State of the Energy Market 2015' regarding performance to 2013-14

Underperformance relative to the NEM average for 2013-14 was due to a series of severe storms in early 2014. Performance in recent regulatory years has been strong with SAPN recording a SAIDI result of 160 minutes in 2014-15 and 173 minutes in 2015-16. However, major storm activity in the first six months of 2016-17 will have a detrimental impact on the SAIDI result for the year ending 30 June 2017, inclusive of Major Event Days ("MEDs").

Weather is the major cause of power outages, with typically a quarter to a third of all outages caused by the weather, particularly lightning strikes on network infrastructure and the impact of high winds on vegetation, which then causes damage to overhead powerlines. When the impact of a weather event exceeds a specified threshold, they are deemed MEDs. The calendar years 2010 and 2014 and the second half of 2016 provided the greatest challenge in terms of weather-related outages due to a series of major weather events.

The impact of major weather events on SAIDI data is demonstrated in the chart below:

SAPN SAIDI Performance including and excluding MEDs



Source: SAPN analysis

7. Unregulated activities

SAPN has a Construction and Maintenance Services (“**CaMS**”) division which provides competitive (unregulated) services and which has in aggregate accounted for 11% of revenue in the 2014 – 2016 financial years. Activities include:

- major construction and maintenance contracts with the State’s Transmission business (ElectraNet) which were renewed in September 2016 for a further 5 years;
- other services provided within South Australia:
 - National Broadband Network contracts;
 - mining connections, as well as associated maintenance contracts;
 - government and wind farm infrastructure projects;
 - residential developments; and
- provision of energy services to residential and small business customers.

8. Environment

SAPN manages environmental matters associated with its business activities in accordance with regulatory and statutory requirements. SAPN also monitors media and community values to ensure that its management of the environment is consistent with the expectations of the community, policy makers and stakeholders. To ensure compliance with its environmental management objectives, SAPN maintains a robust Environmental Management System in line with ISO14001, the industry benchmark.

SAPN’s Environmental Management Plan is a key part of the system and provides direction for SAPN’s managers and employees in delivering the Environmental Policy.

SAPN’s Environmental and Climate Change Policies and Directives provide environmental direction for the organisation in managing its operations and individual responsibilities for managers and employees. The Environment Department is responsible for coordinating the implementation of the Environmental Management System, monitoring and reporting environmental performance of SAPN, providing legislative compliance requirements and other advice, as well as providing environmental training and conducting asset audits/risk assessments to determine environmental risk in conjunction with each SAPN Department.

SAPN’s Environmental Management Committee, comprising senior and operational managers, oversees the implementation of the Environmental Management Plan and monitors emerging legislation and issues. This committee reports via the Executive Management Group to the Board’s Risk Management and Compliance Committee.

The Environmental Management Plan’s objectives are consistent with State and Federal Government directions for Sustainable Development and Climate Change and are based on factors identified from a review of:

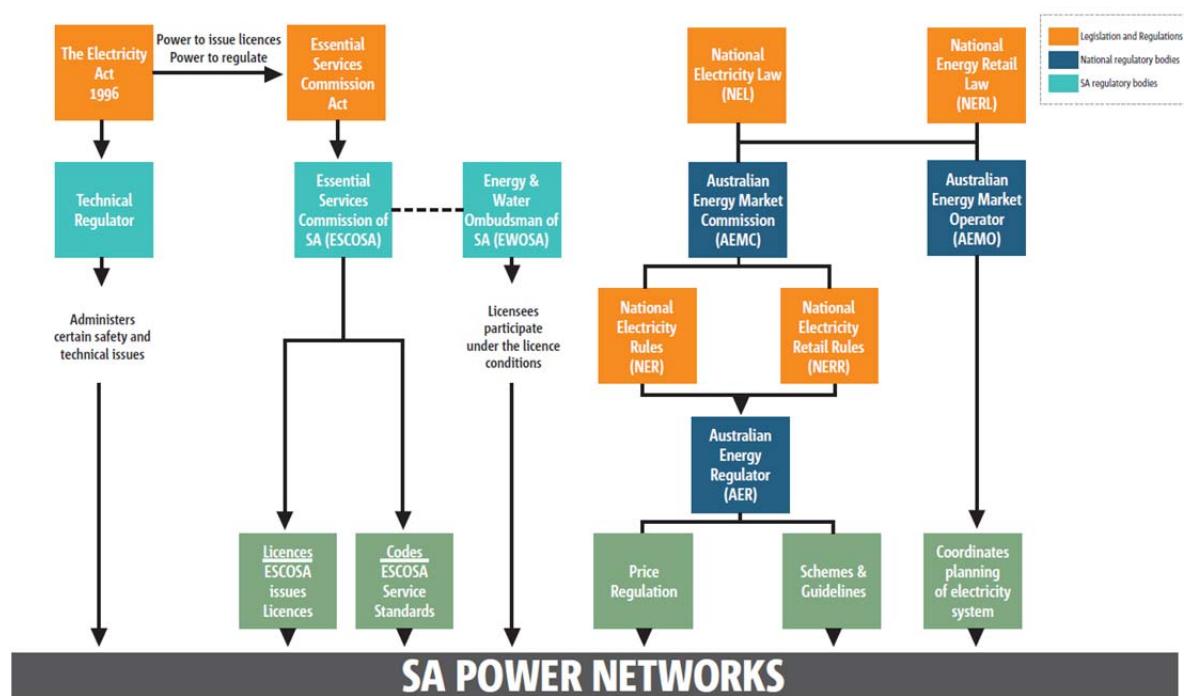
- national and international Government, industry and environmental policies;
- current and proposed State and Commonwealth legislation, in particular the Environment Protection Act, and initiatives of the Environment Protection and Heritage Council;
- recommendations of various best practice reviews;
- recommendations of operational risk exposure assessments;
- customer and Ombudsman enquiries;
- Office of the Technical Regulator requirements; and
- changing community expectations.

Regulatory Environment

1. Introduction

SAPN's business is subject to electricity regulation at both State and Federal levels:

- the COAG Energy Council sets energy policy and agrees changes to Energy Laws;
- National Electricity Market (“**NEM**”) arrangements administered under the National Electricity Law (“**NEL**”) through the National Electricity Rules (“**NER**”), National Energy Retail Law (“**NERL**”), and National Energy Retail Rules (“**NERR**”); and
- State based regulation administered primarily by an independent regulatory body, the Essential Services Commission of South Australia (“**ESCOSA**”), and by the Office of Technical Regulator.



2. National Electricity Market

The NEM includes a compulsory wholesale pool into which generators sell their electricity. The main customers for wholesale electricity are retailers, who purchase electricity for resale to business and household customers. While it is also possible for end-use customers to buy directly from the pool, few choose this option. The pool is a central dispatch system and is managed by AEMO. Wholesale trading in electricity is conducted as a spot market (which has a single clearing price for each dispatch period) where supply and demand are instantaneously matched in real time through a centrally coordinated dispatch process. Retailers and generators also enter into bilateral hedge contracts to manage the financial risks of the pool price which can be as high as A\$14,000 per MWh (the regulated maximum spot price in 2016-17).

Queensland, Victoria, New South Wales, Australian Capital Territory, South Australia and Tasmania are participating jurisdictions in the NEM and have all passed legislation giving effect to the NEL which provides the regulatory underpinning of the NEM. This co-operative approach ensures consistency of legislation in relation to the NEM.

The NEM is operated and administered by the following four bodies:

- AEMO is responsible for the day to day operation and administration of the wholesale spot market and the power system in accordance with the NER;
- the Australian Energy Market Commission (“**AEMC**”) is responsible for making and updating the NER and NERR under the NEL and the NERL respectively, and energy market development at a national level;
- the AER is responsible for economic regulation (including approving distribution network prices in South Australia), regulating the natural monopoly transmission and distribution sectors of the NEM, monitoring the wholesale electricity market and compliance with the NEL, NERL, NER and NERR. The AER also establishes ring-fencing guidelines for business operations with respect to regulated transmission and distribution services; and
- the ACCC has general powers to monitor and regulate competition law under the Competition and Consumer Law 2010 (Cth).

A memorandum of understanding between the AER, AEMC and the ACCC facilitates the operation of the national energy governance and institutional arrangements.

3. State Based Regulation

The States and Territories are responsible for regulating certain aspects of the industry including licensing and safety.

The *Electricity Act 1996* (SA) and regulations pursuant to that Act, together with the *Essential Services Commission Act 2002* (SA) (“**ESC Act**”), are the legislative basis for state regulation of the electricity supply industry in South Australia. This legislation is intended to promote a competitive electricity market in South Australia and to complement the NEM regulatory arrangements.

The ESC Act establishes ESCOSA as an independent body with regulatory powers in relation to certain aspects of electricity supply industry. The principal functions and powers of ESCOSA include compliance with service standards, performance monitoring and licensing of electricity transmission and distribution entities. ESCOSA’s revenue determination role for network businesses was transferred to the AER for regulatory periods commencing 1 July 2010 and beyond.

The National Energy Customer Framework (“**NECF**”) is a national regime for the sale and supply of electricity and gas by retailers and distributors to retail customers. It contains a range of consumer protections and replaces a number of state jurisdiction-based obligations upon distributors and retailers with national contract and rule-based obligations. On 1st February 2013 the NECF took effect in South Australia and from that date those aspects for South Australia were transferred to the national regime which is monitored and enforced by the AER. Under the NECF, the fundamental structure and effect of regulatory arrangements affecting SAPN remains consistent with the exception that the ROLR “Retailer of Last Resort” obligation was transferred from SAPN to AGL (if a retailer defaults, AGL has the responsibility to recover unpaid network charges from customers) and SAPN also has the ability to seek compensation through the regulatory process by way of a pass-through application for unrecovered network revenue.

Additionally, ESCOSA’s responsibility for retail price regulation has moved to price monitoring as a result of South Australia’s retail price deregulation.

4. Licence

It is necessary to have a licence issued under the Electricity Act to distribute electricity in South Australia.

SAPN has a non-exclusive licence ("**Licence**") to distribute electricity in the geographical area specified in the Licence. The Licence is for an unlimited period expiring on surrender or cancellation by ESCOSA.

Subject to SAPN's right to make prior reasonable representations, ESCOSA can step-in and take over management of the distribution business where there has been a major breach of the Licence and the regulator is of the view it is necessary to ensure electricity supply. This would be the last resort action by ESCOSA. No other persons or bodies have regulatory or administrative powers to control operation of the distribution business (other than during an industry-wide emergency situation).

ESCOSA has power to cancel or suspend the Licence following a material contravention of the Licence by SAPN or cessation of electricity distribution operations by SAPN. The Licence may only be varied or transferred in accordance with the Electricity Act. While there are no restrictions on granting additional distribution licences to eligible applicants, it is SAPN's belief that, given the broad coverage of its distribution network, availability of easements, environmental considerations and costs involved, it is highly unlikely that a competitor would seek to duplicate a material portion of the existing SAPN distribution network.

5. Better Regulation Program

In October 2011, the AEMC commenced a public consultation process on NER rule change proposals which were lodged by the AER on 29 September 2011. The AEMC made a final decision on the AER's proposed rule changes in November 2012. SAPN was fully engaged in the consultation process in order to both minimise the potential for adverse decision outcomes and also to encourage beneficial changes to the NER. The AEMC rule changes provided the AER with more discretion however they also required the AER to publish a number of guidelines in order to provide transparency and clarity to the revenue determination process.

In November 2013 the AER concluded its Better Regulation Program, culminating in the issuing of a number of guidelines. The scope of these are outlined in the table below:

Reform	What changed	Purpose	AER Activity	Impact on SAPN
Greater stakeholder involvement in regulatory reviews	<p>Creation of a Consumer Challenge Panel to assess whether:</p> <ul style="list-style-type: none">• distributors show that they have identified issues of concern to customers and how they are dealing with those issues• regulatory proposals and AER decisions are in the long-term interests of consumers• network businesses are engaging effectively with	<p>Strengthen accountability that regulatory reviews meet the national electricity objective to promote the long-term interests of consumers</p>	<p>First Consumer Challenge Panel established 1 July 2013. Stakeholder engagement guideline published October 2013</p>	<ul style="list-style-type: none">• SAPN supported requirements as good business practice• A comprehensive Stakeholder Engagement program was undertaken for 2015-20 revenue determination

Reform	What changed	Purpose	AER Activity	Impact on SAPN
	customers			
Stronger powers for the AER to assess and amend network spending proposals	<p>The AER can apply new tools and techniques to better forecast how much network businesses need to spend</p> <p>The new tools include benchmarking and trend techniques to test expenditure proposals and compare the relative performance of each business</p>	<p>Under the old rules the AER was required to assess expenditure forecasts on the basis of the business' proposal. The AER sought clarity in the new rules to provide them with more discretion to make adjustments to forecasts</p>	Expenditure assessment guideline published November 2013	<ul style="list-style-type: none"> • The AER are still required to consider network business proposals • Guidelines clarify scope of assessment techniques available to AER • Economic benchmarking to inform decisions • SAPN has historically been a leading performer relative to benchmarks
New approach to setting rates of return for network businesses	<p>A common approach now applies for setting the cost of capital across all electricity and gas network businesses, based on the costs for a benchmark efficient service provider</p> <p>The AER's assessment can account for a wider range of information than previously, and allows for decisions that better reflect conditions in capital markets</p> <p>The AER must undertake a full public review of its approach at least every three years</p>	<p>The old rules provided separate rate of return frameworks for electricity distribution, electricity transmission, and gas pipelines</p> <p>New rules require AER to consider the overall rate of return objective</p>	Rate of return guideline published December 2013. Guideline will be updated by December 2018	<ul style="list-style-type: none"> • The AER uses a broader range of information as inputs when applying the Sharpe Lintner CAPM model when setting the cost of equity • Move to a Trailing Historical Average cost of debt with transitional rules

Reform	What changed	Purpose	AER Activity	Impact on SAPN
New incentives for efficient investment	<p>A new incentive scheme ensures capital expenditure efficiency benefits are shared between consumers and network businesses</p> <p>On an ex-post basis (ie at the end of the regulatory control period), the AER can assess overspends of total capital expenditure allowance, and can exclude inefficient overspends from the RAB</p>	Under the old rules an efficiency benefit sharing scheme applied to operating expenditure but not capital expenditure (noting that SAPN has previously been subject to a capital efficiency scheme under the ESCOSA)	Expenditure incentives guideline published November 2013	<ul style="list-style-type: none"> • EBSS and STPIS continue • CESS provides improved incentive to underspend CAPEX through efficiency gains
Fairer arrangements for distribution of revenue from shared assets	Revenue earned by network businesses from third party use of regulated assets will be shared with customers, for example by reducing regulated revenue allowances	Under the old rules revenues earned from third party use of network assets were not shared with consumers	Shared assets guideline published November 2013	<ul style="list-style-type: none"> • Minimal impact on SAPN

Rate of Return Guideline

The following table provides further detail on the rate of return guideline issued by the AER.

Component	Final AER Rate Of Return Guidelines
Benchmark efficient entity	<p>A pure play, regulated energy network business operating within Australia.</p> <p>A single benchmark for electricity and gas, distribution and transmission.</p>
Rate of return on equity	<p>The SL CAPM is used as the foundation model.</p> <p>Black CAPM is used to inform the selection of equity beta.</p> <p>Dividend growth models inform the range and point estimate of the MRP.</p> <p>Equity beta: The AER discusses its proposals for beta, thereby conveying the impression that the matter is unsettled. The point estimate is 0.7, drawn from a range of 0.4-0.7.</p>
Rate of return on debt	<p>A 10-year term for the benchmark cost of debt.</p> <p>Benchmark credit rating BBB+.</p> <p>Return estimated by reference to a third party data series.</p> <p>Trailing Average to be used with annual observations (transition occurs over 10 years).</p>

Gearing	60% debt.
Rate of return	Nominal vanilla post-tax WACC.
Tax	Benchmark cost of tax calculation in the post-tax revenue model.
Value attributed to imputation credits (gamma)	Value of imputation credits is 0.40. The AER uses accounting values for determining theta, in essence a utilisation rate based on equity ownership.
Inflation	10 year forecast based on 2 year RBA forecast and for the next 8 years the midpoint of the RBA target range (2 to 3 percent).

6. Revenue Determinations and Annual Prices

As a regulated monopoly, SAPN's allowed revenue is determined by the AER. The allowed revenues are set for a five year period, with the current period commencing on 1 July 2015 and the next period starting on 1 July 2020.

During the Revenue Determination process, SAPN must submit a regulatory proposal, for operating, maintaining and building the network, to the AER. This proposal is reviewed by the AER in undertaking its revenue determination.

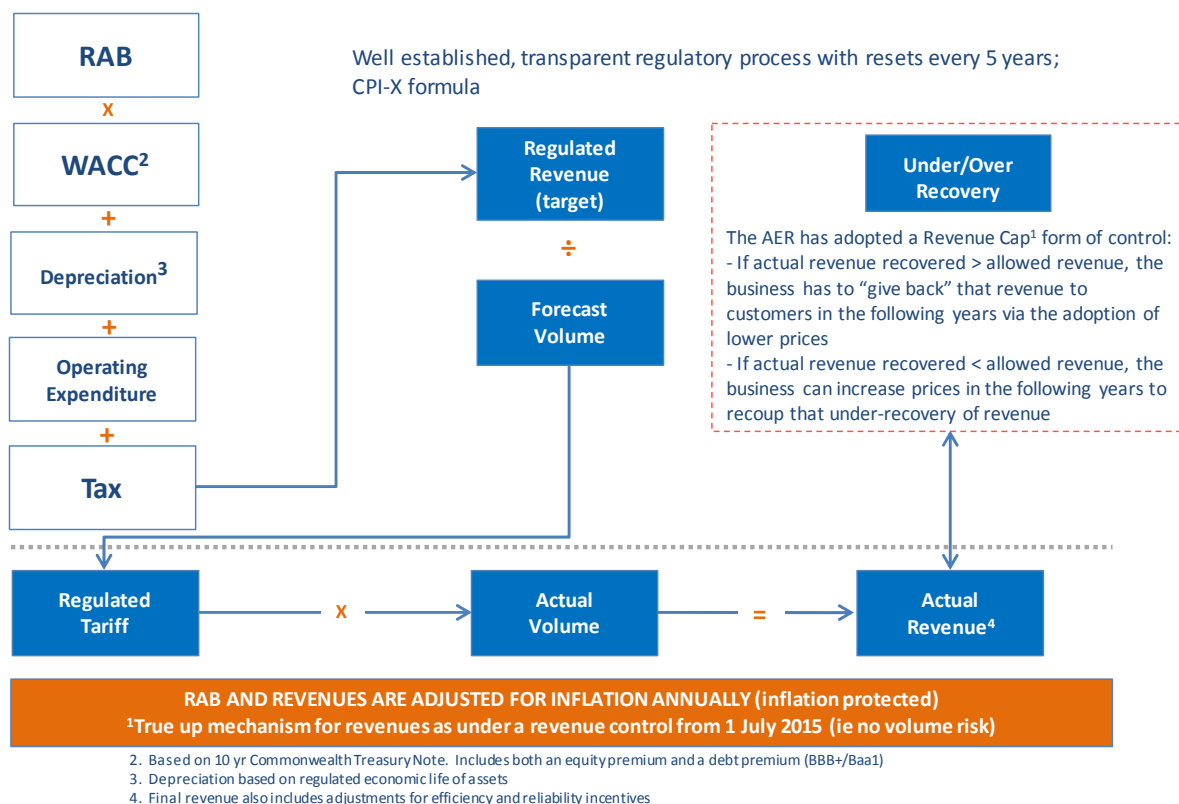
Allowed Revenue in each year of a regulatory period is the revenue amount required to compensate SAPN for costs incurred and to provide a fair return on investment.

The AER determines the allowed revenue using a building block approach comprising:

- Return on Assets;
- Regulatory Depreciation;
- Operating Expenditure;
- Tax Allowance; and
- Efficiency carryover.

Determination of the Target Revenue is represented by the following equations.

Target Revenue Build-up



Potential additional revenues from Incentive Based Mechanisms

The regulatory framework is designed to incentivise SAPN to outperform the regulatory benchmarks in a range of areas including electricity supply reliability, operating and capital expenditure forecasts.

Operating and capital expenditures for each regulatory period are set at a level by the AER to ensure the safe and reliable operation of the distribution business. In setting the capital and operating expenditures for the 2015-20 period the AER has taken into consideration expenditures in the prior period, forecast changes to demand and asset age and condition, actual historical safety, network reliability and customer service performance, and expenditures benchmarked against other distributors.

Through the operation of an efficiency benefit sharing scheme ("**EBSS**"), any outperformance of the operating expenditure allowance in the current regulatory period results in an 'operating efficiency carryover' which is shared approximately 30:70 between SAPN and consumers. This efficiency carryover is used to adjust the allowed revenue for the next regulatory period. Conversely, any over expenditure is also shared 30:70 between SAPN and customers.

A capital efficiency sharing scheme ("**CESS**") has been introduced for the 2015-20 regulatory period and will result in 'capital efficiency carryover' to be applied to the allowed revenues for the 2020-25 regulatory period. The CESS benefit is shared on the same basis as the operating efficiency being 30% business and 70% customers.

These mechanisms provide SAPN with an incentive to minimise the overall costs attributable to providing distribution services, while ensuring they are provided in a safe and reliable manner.

The third incentive scheme is the Service Target Performance Incentive Scheme (**STPIS**), whereby bonus payments or penalties are provided to SAPN depending on supply reliability performance during each year. Under this scheme SAPN has +/- 5%⁸ of revenue reward/penalty based on the reliability performance of the network excluding the impacts of major (weather) event days (**MED**). The reward or penalty applies as an adjustment to the annual allowed revenue 2 years after the year in which the reward/penalty is earned. Since the 2010/11 year SAPN has earned a cumulative \$73.4m reward via this scheme.

2015 Regulatory Determination Process

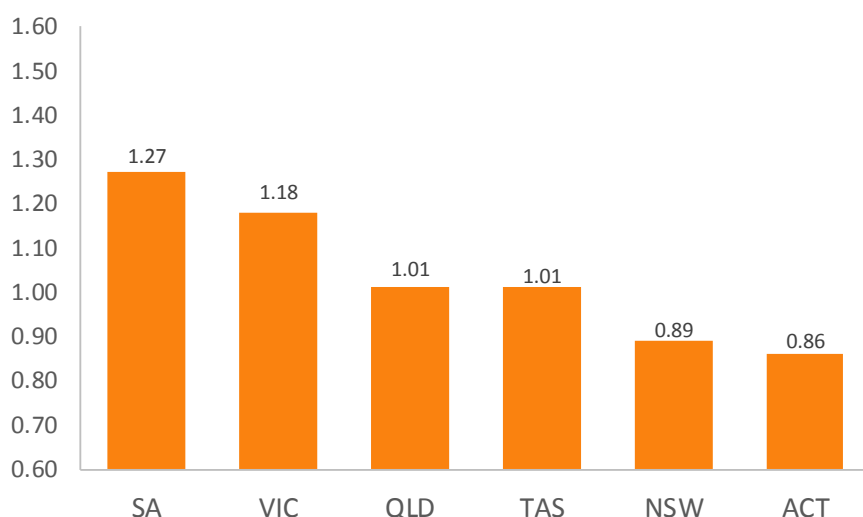
Following submission of SAPN's 2015 – 2020 regulatory proposal to the AER in October 2014, the AER made its preliminary determination in April 2015, and SAPN's new regulatory control period commenced on 1 July 2015. The preliminary determination resulted in a revenue reduction for 2015-16 of 27.6% compared to 2014 – 15.

SAPN's revised regulatory proposal was submitted to the AER on 3 July 2015, and the AER made its final determination on 29 October 2015. The final determination incorporated amendments to the preliminary determination including improved allowances in operating and capital expenditures, asset depreciation, return on capital and corporate tax allowance. The combined impact of the final determination increased the five year period revenue by A\$626m (for standard control services) over the preliminary determination and allowed A\$13m more for metering services (which are classified as alternative control services). This additional revenue will be recovered over the four year period from 1 July 2016 to 30 June 2020.

The AER considered the benchmark performance of network businesses across the NEM in forming their view of the allowed operating costs.

Benchmarking data released by the AER has repeatedly confirmed SAPN as one of the most efficient electricity distribution network operators in Australia. Based on the AER's preferred productivity models, on a state-wide basis SAPN is the most efficient DNSP in Australia, as is demonstrated in the following chart:

Multilateral Total Factor Productivity of Australian electricity distribution networks (2015 State Wide)



⁸ Applies from 1 July 2015 and was previously +/-3%.

Source: adapted by SAPN from AER 2016 distribution network service providers benchmarking report

In the AER's final decision on the SAPN determination for 2015 – 16 to 2019 – 20, the AER set out each component of the allowed revenue. These amounts are shown in nominal dollar terms below.

2015 - 20		
Building Block Factor	Standard Control Services (A\$m)	Alternative Control Services (metering) (A\$m) ⁹
Return of Capital (Depreciation)	917	38
Return on Capital (RAB x WACC)	1,313	24
Operating Expense	1,360	52
Tax	258	6
Revenue adjustments ¹⁰	(10)	-
Total Regulated Revenue	3,838	120
WACC (Nominal)	6.17%	6.17%
Closing RAB	4,882	68

The AER preliminary determination resulted in a 27.6% network charge reduction from 1 July 2015 which affected revenues over the 2015-16 regulatory year and thus part of each of the 2015 and 2016 calendar years. The AER's final determination resulted in an additional A\$639m revenue to be collected over the remaining 4 years of the regulatory control period and has resulted in the x-factors (real average price adjustments) shown in the following table. Note as the pricing is usually shown as a CPI-X regime a negative x-factor results in an average price increase of that amount above CPI (for example, an x-factor of minus 7.02% and a CPI of 2.50% results in an average price increase of 9.88% nominal).

Price changes (X-factors)					
	2015-16	2016-17	2017-18	2018-19	2019-20
Real per cent. change per annum	n/a	(7.02%)	(1.00%)	(1.00%)	(1.10%)

Additional information on the key quantitative changes between the preliminary and final determinations are set out below.

⁹ Calculated using unsmoothed revenue

¹⁰ Revenue adjustments include efficiency benefit sharing scheme carry-overs, forecast demand management innovation allowance and shared asset adjustments

I. Distribution Services (Standard Control Services)

Nominal A\$m	Preliminary Decision ¹¹	Final Decision	A\$m Change ¹²	% Change
Capex	1,819	1,988	+ 169	+ 9.3
Opex	1,334	1,360	+ 26	+ 1.9
Depreciation	534	917	+ 383	+ 71.7
Return on capital	1,185	1,313	+ 128	+ 10.8
Tax Allowance	189	258	+ 69	+ 36.5
Incentives	(6)	(2)	+ 4	+ 66.7
Revenue (smoothed)	3,211	3,838	+ 626	+ 19.5

II. Real Price Changes

Real % change per annum	2015-16	2016-17	2017-18	2018-19	2019-20
Preliminary Decision	-27.61%	-9.90%	-2.50%	-2.50%	-1.10%
Final Decision	-27.61%	+ 7.02%	+ 1.00%	+ 1.00%	+ 1.10%

III. Capital Expenditure Summary - Distribution Services (excludes metering)

June 2015 A\$m	Preliminary Decision	Final Decision	A\$m Change	% Change
Repex	657.1	712.1	+ 55.0	+ 8.4
Augex	504.7	514.8	+ 10.0	+ 2.0
Connections (Net)	189.4	190.8	+ 1.4	+ 0.8
Non-network	417.4	506.9	+ 89.5	+ 21.4
Superannuation	-47.9	-48.6	-0.7	+ 1.4
Escalation adjustment	-36.8	-30.2	+ 6.6	-17.9
TOTAL SCS (Net)	1,684.0	1,845.8	+ 161.9	+ 9.6

IV. Operating Cost - Summary

June 2015 A\$m	Preliminary Decision	Final Decision	A\$m Change
Base Year	1,195.3	1,189.4	-5.9
Step Changes	4.1	24.5	+ 20.4
Output growth – customers, line length	20.5	20.8	+ 0.3
Real Price Growth	5.9	16.7	+ 10.8
Productivity Adjustment	0.0	0.0	+ 0.0

¹¹ Preliminary Decision impacts 2015-16 regulatory year and 2015 and 2016 calendar years. The first full year to reflect the final determination will be 2017

¹² These additional revenues are being earned from 1 July 2016 to 30 June 2020.

TOTAL SCS (excl Debt Raising and DMIA)	1,225.8	1,251.4	+ 25.6
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Opex forecasts are developed on a 'base – step – trend' model and base year opex is adjusted for lower escalation based on actual CPI. An additional 3 step changes were allowed for Regulatory Information Notice ('RIN') compliance (data capture and reporting), new Billing System and Demand Side Participation stakeholder engagement and Mobile Radio capex/opex trade-off.

Real Price growth was increased using average of AER and SAPN forecasts.

V. Rate of Return

WACC assumptions	Preliminary Decision	Final Decision
Nominal Risk Free Rate	2.55%	2.96%
Nominal Pre-tax Cost of Debt	4.35%	5.28%
Market Risk Premium	6.50%	6.50%
Equity Beta	0.7	0.7
Post-tax Nominal Return on Equity	7.10%	7.5%
Nominal Vanilla WACC	5.45%	6.17%

VI. Replacement Capital

June 2015 A\$m	Preliminary Decision	Final Decision	A\$m Change	% Change
Repex	657.1	712.1	55.0	8.4

VII. Augmentation Capital

June 2015 A\$m	Preliminary Decision	Final Decision	A\$m Change	% Change
Augex	504.7	514.8	10.0	2.0
Demand driven	345.7	325.7	-20.0	-5.8
Reliability	28.1	45.6	17.5	62.2
Safety & bushfire	21.9	21.9	0.0	0.0
Environment	15.5	15.6	0.1	0.5
Strategic	47.2	59.6	12.4	26.2
PLEC	46.3	46.4	0.1	0.3

The AER's Final Decision for augmentation capex for 2015-20 was A\$515m, an uplift of A\$10m (2%) compared to its Preliminary Decision. The uplift related to reliability – hardening the network (A\$17.5m), strategic - SCADA to substations (A\$9.8m) and HV monitoring (using load loggers) for RIN compliance (A\$2.6m).

VIII. Non Network Capital

June 2015 A\$m	Preliminary Decision	Final Decision	A\$m Change
IT	213.6	264.9	51.3
Fleet	103.2	122.9	19.7
Property	71.8	71.8	0.0
Plant & tools	28.8	31.4	2.7

Telecom	0.0	15.9	15.9
Non-network	417.4	506.9	89.5

The AER's Final Decision for IT for 2015-20 was A\$265m, an uplift of A\$51m (24%) compared to the Preliminary Decision. The AER accepted the total portfolio with the exception of three projects where lower expenditure was substituted by the AER. The AER accepted SAPN's requirement for additional vehicles to undertake the capex program. It also accepted expenditure for Telecom - ADMS expansion and the Government Radio Network Migration.

IX. Asset Base and Depreciation

Nominal A\$m	Preliminary Decision	Final Decision	A\$m Change	% Change
Return of capital (Depreciation)	534	917	383	72

X. Metering Summary

June 2015 A\$m	Preliminary Decision	Final Decision	A\$m Change
Capex (Net)	10.6	19.7	9.1
New Connections	0.0	0.5	0.5
Replacement	10.6	17.5	6.9
IT Infrastructure	0.0	1.7	1.7
Opex (Excl debt raising costs A\$0.2M)	34.9	47.8	12.9

7. Pass-Through Events

SAPN's 2015 – 2020 Distribution Determination and the NER provides for events which if material (1% of regulated revenue in a regulatory year), entitle SAPN to financial compensation for the effect of those events ("pass-through events"), subject to favourable determination by the AER on SAPN's relevant pass-through application. The intention is that the financial effect of the pass through events be transferred to customers so that SAPN is in a financially neutral position. These pass-through events include:

- certain tax changes;
- changes to required service standards;
- changes in regulatory requirements;
- retailer insolvency;
- natural disaster;
- insurance cap, and insurer credit risk; and
- terrorism.

8. Negotiated Distribution Services

The allowed revenue and annual network charges under an AER Revenue Determination relate to direct control distribution services (ie direct control services are comprised of standard control services plus alternative control services). However, the NER further requires that the price SAPN charges for other 'negotiated distribution services' should be at least equal to the cost that would be avoided by not providing the service but no more than the cost of providing it on a stand-alone basis. Negotiated distribution services are those distribution services provided by SAPN to individual customers where SAPN is considered to be in a monopoly or near monopoly position (e.g. public lighting and asset relocation services).

Ownership, Lease and Guarantor Group

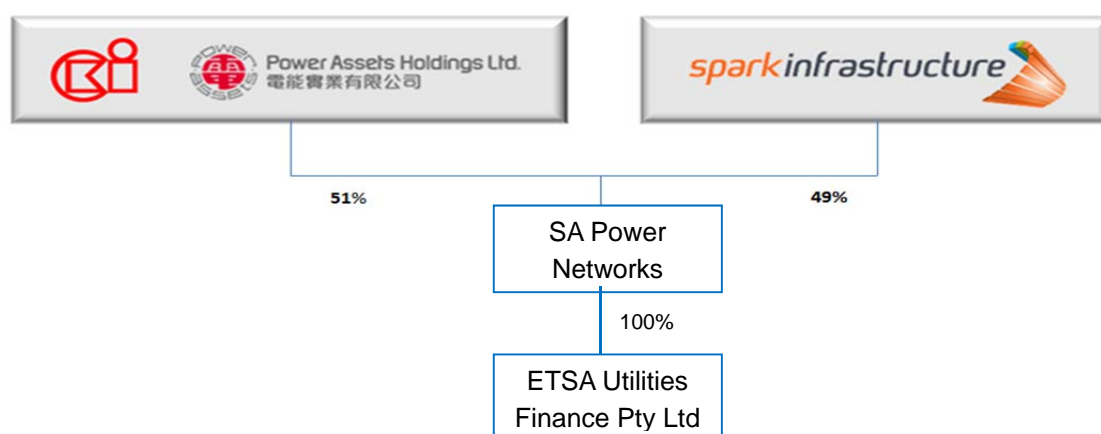
1. Ownership Structure

SAPN is a general law partnership between two jointly owned subsidiaries of CKI and PAH, which together have a 51% interest, and three subsidiaries of Spark Infrastructure, which own the remaining 49% interest (the “Partners”). CKI is currently rated A-/Stable by S&P and A-/Stable by Fitch and PAH is currently rated A-/Stable from S&P. Both CKI and PAH have strong financial profiles and extensive experience in the global power and infrastructure sector. Both CKI and PAH are part of the Cheung Kong Infrastructure Group. Spark Infrastructure is currently rated Baa1/Stable by Moody’s and is an ASX listed investment vehicle with a portfolio of regulated utility infrastructure assets.

2. Financing Structure and Guarantor Group

The diagram outlines SAPN’s financing structure and Guarantor arrangements.

SAPN Financing Structure



The Issuer is the financing vehicle for SAPN. SAPN guarantees the debt obligations of its financing vehicle. The Issuer is wholly owned and controlled by the Partners in the same proportions as their interests in SAPN.

The Issuer has held strong investment grade ratings since its establishment in 2000, and its existing USPP Notes are designated a NAIC-1 by the National Association of Insurance Commissioners. These ratings reflect SAPN’s regulated electricity distribution network operation in South Australia, the predictable regulatory environment in which it operates, and its ability to generate stable cash flow from its regulated operations. SAPN has a high level of earnings certainty and stability primarily due to its monopoly position in the regulated electricity distribution market, revenue certainty under a revenue cap regulatory regime and strong management track record.

Shareholder and Partnership Overview

Each of the partners is a single purpose company and carries on no activities other than the management and ownership of SAPN.

The table below summarises the current partnership structure.

Name of Entity	Ownership Interest
CKI Utilities Development Limited	25.5%
PAI Utilities Development Limited	25.5%

Name of Entity	Ownership Interest
Spark Infrastructure SA (No1) Pty Ltd	15.0%
Spark Infrastructure SA (No2) Pty Ltd	19.0%
Spark Infrastructure SA (No3) Pty Ltd	15.0%

SAPN has three experienced shareholders being CKI, PAH and Spark Infrastructure.

Cheung Kong Infrastructure Holdings Limited

CKI is one of the largest publicly listed infrastructure companies in Hong Kong¹³, with diversified investments in energy, transportation, water, waste management and waste to energy infrastructure related business. CKI operates in Hong Kong, Mainland China, the United Kingdom, the Netherlands, Portugal, Australia, New Zealand and Canada. The company listed on the Hong Kong stock exchange in July 1996, and had a market capitalization of HK\$156Bn as of 31 December 2016.

In addition to SAPN, CKI has an ownership interest in five other Australian utility and infrastructure Companies including Powercor Australia Limited, CitiPower Pty Limited, Australian Gas Networks Limited (formerly known as Envestra Limited), Spark Infrastructure Group and Transmission General Holdings (Australia) Pty Limited. As at 31 December 2016 CKI was rated A-/Stable by S&P and A-/Stable by Fitch.

Power Assets Holdings Limited

PAH is a global investor in power and utility-related businesses with investments in electricity generation, transmission and distribution, renewable energy, energy from waste and gas distribution¹⁴. PAH has a global presence with assets in Hong Kong, the United Kingdom, Australia, New Zealand, Mainland China, Canada, Thailand, Portugal and the Netherlands. The company is listed on the Hong Kong stock exchange and had a market capitalization of HK\$146Bn as of 31 December 2016.

PAH is a member of the Cheung Kong Group, a leading Hong Kong based multi-national conglomerate which includes CK Hutchinson Holdings Limited and Cheung Kong Infrastructure Holdings Limited. Specifically with respect to electricity distribution investments, PAH has an interest in four other United Kingdom, Australia and New Zealand assets being UK Power Networks Holdings Limited, Powercor Australia, CitiPower and Wellington Electricity Lines Limited. PAH also holds an interest in Australian Gas Networks Limited (formerly known as Envestra Limited) and PAH as at 31 December 2016 was rated A-/Stable by S&P.

Spark Infrastructure

Spark Infrastructure is an ASX listed investment vehicle with a portfolio of regulated utility infrastructure assets¹⁵. Spark Infrastructure's portfolio includes a 49% interest in SAPN, Powercor Australia Ltd and CitiPower Pty Ltd, as well as a 15.01% interest in TransGrid (the recently privatised New South Wales transmission network). As at 31 December 2016 Spark Infrastructure had a market capitalisation of A\$4.0Bn and was rated Baa1/Stable by Moody's.

3. Lease and Financing and Security Arrangement

¹³ http://www.cki.com.hk/english/about_CKI/cki_at_a_glance/index.htm

¹⁴ <https://www.powerassets.com/en/about-us>

¹⁵ <http://sparkinfrastructure.com/about>

SAPN has the sole lease to operate, extend and maintain South Australia's electricity distribution network.

Distribution Lessor Corporation ("**DLC**"), a South Australian State owned entity, entered into network and land leases ("**Leases**") with SAPN for a period of 200 years. The entire rental due under the Leases has been prepaid to the Treasurer of the State of South Australia.

The Business Sale Agreement ("**Sale Agreement**") transferred certain assets and liabilities of the former State owned distribution business to SAPN. These non-network assets were the assets that the State Government was permitted to sell under the terms of the **Restructuring and Disposal Act**.

In addition to the Leases and the Sale Agreement, a number of other agreements have been entered into between the State (and related corporations) and SAPN including documents relating to the use of easements, prepayment of the rent under the Leases and the recovery of unexpired prepayment of rent in specific cases of early termination of the Leases, security arrangements between SAPN and DLC in relation to the performance of SAPN's obligations under the Leases and an inter-creditor agreement ("**Tripartite Deed**") in relation to the rights of holders of security granted by SAPN over the Leases.

Each of the Leases has similar terms and various provisions relating to maintenance and repair of the distribution network, creation and use of new distribution assets, certain acknowledgments by DLC as to title, indemnities and releases for DLC, limited warranties by DLC, reporting requirements to DLC and the insurance of the assets by SAPN.

At the end of the lease period in 2200, SAPN must return the distribution network and the distribution network land to DLC in good condition. To secure the return of all of these network assets and of other assets incidental to the operation of the network, SAPN has granted DLC a charge over all of SAPN's assets. This charge is only enforceable when the Leases come to an end (either through natural maturity of the Lease or default).

Certain network expansions and other qualifying network asset expenditure since the commencement of the lease are owned by SAPN and do not form part of leased assets. At 31 December 2016, the value of such network assets was A\$1.020Bn¹⁶. Under the leases, SAPN has the option to acquire the interest of DLC in the distribution network and the distribution network land. Currently, the South Australian Parliament has not authorised the sale of the electricity assets and, as such, the Restructuring and Disposal Act prevents the State from selling DLC or its assets. If the State is able to sell DLC or its assets at any time in the future, SAPN has the first right of refusal to purchase those assets. It is likely that SAPN would exercise such option if the opportunity arose. While the obligations of DLC under the Leases and related agreements are not guaranteed by the State, the State is obliged, unless and until SAPN has been entitled to exercise the right to purchase DLC's assets, to retain sufficient control of DLC (or any State controlled and owned entity which owns the leased assets).

Default Events

The Leases contain certain limited default provisions which, if not cured, can give rise to rights of termination of the Leases by the DLC. The exercise of the rights of termination is subject to the terms of the Tripartite Deed which operates to the favour of the Initial Guarantor. The default events include:

- payment default;

¹⁶ SAPN Financial Report - year ended 31 December 2016.

- claims against or repayment of the prepaid lease amounts;
- insolvency events affecting SAPN;
- any unauthorised dealing in the distribution network or distribution network land;
- any failure to continue to hold the Licence;
- substantial cessation of use of the distribution network for a continuous period of three months after notice from DLC requiring resumption of the use of the distribution network (other than as a result of force majeure); and
- failure to maintain and operate the distribution network in accordance with good operating practices specified in the Leases.

Each of the specific default events has a different cure period before DLC may terminate the Leases ranging from 14 days (in a case of a liquidation of SAPN) through to 6 months (in relation to failure to maintain the distribution network). If a default under the Leases is not cured within the relevant cure period, then DLC must give notice under the terms of the Tripartite Deed to the Initial Guarantor. The Initial Guarantor has various additional cure rights pursuant to the Tripartite Deed.

If a default under the Leases is not cured by the Initial Guarantor within the relevant cure period, DLC may terminate the Leases.

A summary of the lease agreement default events is as follows:

Default Events	Cure period under the Leases	Additional cure period under the Tripartite Deed	Aggregate cure period
Payment default	45 days	45 days	90 days
Claims against or repayment of the prepaid lease amounts	3 months	90 days	3 months plus 90 days
Insolvency events affecting SAPN	No cure period	30 days	30 days
Any unauthorised dealing in the distribution network or distribution network land	No cure period	90 days	90 days
Any failure to continue to hold the License	60 days	90 days	150 days
Substantial cessation of use of the distribution network for a continuous period of three months after notice from DLC requiring resumption of the use of the distribution network (other than as a result of force majeure)	3 months	90 days	3 months plus 90 days
Failure to maintain and operate the distribution network in accordance with good operating practices specified in the Leases	3 or 6 months depending on the breach, with the possibility of further extensions up to twice the length of the otherwise applicable cure period	180 days	3 or 6 months, with the possibility of further extensions plus 180 days

Termination of the Leases

The Leases can terminate at the end of the term or earlier under any default which is not cured.

Upon termination of the Leases, the distribution network and the distribution network land must be returned to DLC. The Leases place a number of obligations on SAPN in relation to the condition of the returned assets. If the distribution network is subsequently disposed of by DLC within a specified period, SAPN may, subject to specified declarations, recover any prepaid rent for the unexpired term of the Leases.

Distribution network assets owned by SAPN (with a book value of A\$1.020Bn at 31 December 2016) may revert to the DLC at regulatory value at the end of the lease in 2200 or for no value in the event of termination for default. Other non-network SAPN assets pass to the State at agreed value at the end of the lease or for no value in the event of termination for default.

Provided certain obligations are satisfied and the balance of the term exceeds 15 years, DLC must at least twice within five years from the termination date seek to dispose, either by way of sale or re-lease, of the distribution network and the distribution network land. If termination of the Leases occurs a disposal attempt must be made within 30 months of the termination.

DLC is not obliged to ensure that the disposal attempts are successful or that the proceeds of disposal are maximised. Subject to payment of certain costs and expenses of DLC including transaction costs, operating losses, any moneys owing to DLC or the State for SAPN's breach or indemnities and interest, DLC will pay compensation to SAPN (as mortgagee pursuant to the Tripartite Deed) capped at an amount equivalent to prepayments under the Leases which would have otherwise been attributable to the unexpired period of the Leases.

The parties to the Leases have specifically agreed that their rights are restricted to those stated in the Leases (including in respect of rights of termination).

4. Board of Management

SAPN is managed by a Board of Directors which is responsible for the corporate governance of SAPN, including approval of the strategic direction and values, monitoring of financial and operational performance, ensuring adequate systems for the identification and management of risk and evaluating the performance and remuneration of senior management.

The four key objectives of the Board are to:

- set strategy (through a strategic business plan);
- establish a set of control systems to ensure strategy is achieved (through policy setting and Delegations of Authority);
- monitor performance (through a monthly performance report); and
- liaise with stakeholders (through external reporting).

Three sub-committees of the Board – an Audit Committee, a Risk Management and Compliance Committee and a Remuneration Committee – have been established to assist the Board in the discharge of its duties.

SAPN Board of Directors as at the date of this Offering Circular



Peter Tulloch - Chairman

Chairman, appointed 25 May 2005

Mr Tulloch has been Chairman of SA Power Networks and Victoria Power Networks Pty Ltd, as well as its subsidiaries CitiPower Pty Ltd and Powercor Australia Limited, since 2005. He was appointed as Chairman of Australian Gas Networks in 2014. He is also a Non-executive Director of CK Life Sciences Int'l (Holdings) Inc. Prior to moving to Australia in late 2002, Mr Tulloch worked for more than 30 years in banking in Asia. He was educated in Scotland and is a Fellow of the Institute of Canadian Bankers.



HL Kam

Director, appointed 8 March 2000

Mr Kam is also a Director of Victoria Power Networks Pty Ltd and its major subsidiary companies. He is the Group Managing Director of Cheung Kong Infrastructure Holdings Limited, Deputy Managing Director of CK Hutchison Holdings Limited, Deputy Managing Director and Member of Executive Committee of Cheung Kong Property Holdings Limited and President and Chief Executive Officer of CK Life Sciences Int'l (Holdings) Inc. Mr Kam holds a Bachelor of Science degree in Engineering and a Master's degree in Business Administration.



CT Wan

Director, appointed 1 June 2006

Mr Wan is also a Director of Victoria Power Networks Pty Ltd and its subsidiary companies. He has worked for the Power Assets Group since 1978 and was Group Managing Director of Power Assets Holdings Limited from January 2013 to January 2014. He is the Chief Executive Officer and an Executive Director of HK Electric Investments Limited, an Executive Director of HK Electric Investments Manager Limited which is the trustee-manager of HK Electric Investments, and Managing Director of The Hongkong Electric Company, Limited. Mr Wan holds a Bachelor of Science degree in Electrical Engineering and is also a Chartered Engineer. He is an Honorary Fellow of the Energy Institute in the United Kingdom, a Council Member of the Hong Kong Institution of Engineers, and a member of the Engineers Registration Board of Hong Kong.



Andrew Hunter

Director, appointed 1 December 2006

Mr Hunter is also a Director of Victoria Power Networks Pty Ltd and its subsidiary companies and a Director of Australian Gas Networks. He is the Deputy Managing Director of Cheung Kong Infrastructure Holdings Limited, and an Executive Director of Power Assets Holdings Limited. He is a member of the Institute of Chartered Accountants in Scotland and of the Hong Kong Institute of Certified Public Accountants and holds a Master of Arts degree and a Master's degree in Business Administration.



Loi Shun (Dominic) Chan

Director, appointed 13 February 2013

Mr Chan is an Executive Director and Chief Financial Officer of Cheung Kong Infrastructure Holdings Limited. He is an Executive Director of Power Assets Holdings Limited, HK Electric Investments Limited, HK Electric Investments Manager Limited as trustee-manager of HK Electric Investments, and a Director of the Hongkong Electric Company Limited. Mr Chan is also a Director of Australian Gas Networks and Victoria Power Networks Pty Ltd. Mr Chan joined Hutchison Whampoa Limited in 1992 and has been with the Cheung Kong Group since 1994. He is a fellow of the Hong Kong Institute of Certified Public Accountants, a fellow of the Association of Chartered Certified Accountants, and a member of the Institute of Certified Management Accountants (Australia).



Dr. Keith Turner

Director, appointed 27 November 2009

Dr Turner has extensive senior executive experience in the energy sector in New Zealand, working in the public and private sectors, as a private adviser to a range of large corporate clients and Government, and for nine years as Chief Executive of Meridian Energy. He is now a Professional Director and is currently Chair of Fisher and Paykel Appliances (NZ), former Deputy Chair of Auckland International Airport (NZ), and a Director of Spark Infrastructure, Victoria Power Networks, Transgrid (NSW) and Chorus (NZ). He has a PhD in electrical engineering and is a Distinguished Fellow of IPENZ.



Andrew Fay

Director, appointed 22 June 2011

Mr Fay is a Director of Spark Infrastructure, Victoria Power Networks Pty Ltd and its subsidiaries, BT Investment Management Limited, a Director of JO Hambro Capital Management based in UK and 100% owned by BTIM. He is Chairman of Deutsche Managed Investments Limited and was appointed in 2015 to the Board of ASX listed Gateway Lifestyle Ltd. He has extensive experience in the financial services/capital market sectors, most recently serving in a number of senior positions with Deutsche Asset Management (Australia) Ltd, and continues to consult to private business. Mr Fay has an Honours Degree in Agricultural Economics and is a member of the Financial Services Institute of Australasia.



Rick Francis

Director, appointed 1 June 2012

Mr Francis has extensive strategic and financial experience in the Australian energy and energy infrastructure industries. He is Managing Director and Chief Executive Officer of Spark Infrastructure. He was previously CFO for Spark Infrastructure and prior to that for gas transmission and energy infrastructure business APA Group and held a number of senior management roles with Origin Energy Limited. He has been non-executive director

and alternate-director of SAPN and Victoria Power Networks Pty Ltd since 2009.

Greg Botham



Director, appointed 31 March 2015

Mr Botham is Chief Financial Officer of Spark Infrastructure, and has extensive financial experience in both energy and transport infrastructure businesses in Australia. He is a member of the Institute of Chartered Accountants Australia, and holds a Bachelor of Business degree and a Master's degree in Applied Finance. He has been an alternate director of SA Power Networks and Victoria Power Networks Pty Ltd since 2012 and appointed Director of SA Power Networks on 31 March 2015.

FORM OF THE NOTES

1 Initial Issue of Notes

Global Notes and Global Certificates may be delivered on or prior to the original issue date of the Tranche to a Common Depositary.

Upon the initial deposit of a Global Note with a common depositary for Euroclear and Clearstream, Luxembourg (the “**Common Depositary**”) or registration of a Global Certificate in the name of any nominee for Euroclear and Clearstream, Luxembourg and delivery of such Global Certificate to the Common Depositary, Euroclear or Clearstream, Luxembourg will credit each subscriber with a nominal amount of Notes equal to the nominal amount thereof for which it has subscribed and paid.

Notes that are initially deposited with or delivered to the Common Depositary may also be credited to the accounts of subscribers with (if indicated in the relevant Pricing Supplement) other clearing systems through direct or indirect accounts with Euroclear and Clearstream, Luxembourg held by such other clearing systems. Conversely, Notes that are initially deposited with or delivered to any other clearing system may similarly be credited to the accounts of subscribers with Euroclear, Clearstream, Luxembourg or other clearing systems.

2 Relationship of Accountholders with Clearing Systems

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or any other clearing system (“**Alternative Clearing System**”) as the holder of a Note represented by a Global Note or a Global Certificate must look solely to Euroclear, Clearstream, Luxembourg or any such Alternative Clearing System (as the case may be) for his share of each payment made by the Issuer to the bearer of such Global Note or the holder of the underlying Registered Notes, as the case may be, and in relation to all other rights arising under the Global Notes or Global Certificates, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg, or such Alternative Clearing System (as the case may be). Such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are represented by such Global Note or Global Certificate and such obligations of the Issuer will be discharged by payment to the bearer of such Global Note or the holder of the underlying Registered Notes, as the case may be, in respect of each amount so paid.

3 Exchange

3.1 Temporary Global Notes

Each Temporary Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date:

- (i) if the relevant Pricing Supplement indicates that such Global Note is issued in compliance with the C Rules or in a transaction to which TEFRA is not applicable (as to which, see “*Overview of the Programme – Selling Restrictions*”), in whole, but not in part, for the Definitive Notes defined and described below; and
- (ii) otherwise, in whole or in part upon certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement for interests in a Permanent Global Note or, if so provided in the relevant Pricing Supplement, for Definitive Notes.

3.2 Permanent Global Notes

Each Permanent Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date in whole but not, except as provided under paragraph 3.4 below, in part for Definitive Notes:

- (i) if the Permanent Global Note is held on behalf of Euroclear or Clearstream, Luxembourg or an Alternative Clearing System and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or in fact does so; or
- (ii) if principal in respect of any Notes is not paid when due, by the holder giving notice to the Issuing and Paying Agent of its election for such exchange.

In the event that a Global Note is exchanged for Definitive Notes, such Definitive Notes shall be issued in Specified Denomination(s) only. A Noteholder who holds a principal amount of less than the minimum Specified Denomination will not receive a definitive Note in respect of such holding and would need to purchase a principal amount of Notes such that it holds an amount equal to one or more Specified Denominations.

3.3 Global Certificates

If the Pricing Supplement state that the Notes are to be represented by a Global Certificate on issue, the following will apply in respect of transfers of Notes held in Euroclear or Clearstream, Luxembourg or an Alternative Clearing System. These provisions will not prevent the trading of interests in the Notes within a clearing system whilst they are held on behalf of such clearing system, but will limit the circumstances in which the Notes may be withdrawn from the relevant clearing system.

Transfers of the holding of Notes represented by any Global Certificate pursuant to Condition 2(b) may only be made in part:

- (i) if the relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so; or
- (ii) if principal in respect of any Notes is not paid when due; or
- (iii) with the consent of the Issuer,

provided that, in the case of the first transfer of part of a holding pursuant to paragraph 3.3(i) or 3.3(ii) above, the Registered Holder has given the Registrar not less than 30 days' notice at its specified office of the Registered Holder's intention to effect such transfer.

3.4 Partial Exchange of Permanent Global Notes

For so long as a Permanent Global Note is held on behalf of a clearing system and the rules of that clearing system permit, such Permanent Global Note will be exchangeable in part on one or more occasions for Definitive Notes if so provided in, and in accordance with, the Conditions relating to Partly Paid Notes.

3.5 Delivery of Notes

On or after any due date for exchange the holder of a Global Note may surrender such Global Note or, in the case of a partial exchange, present it for endorsement to or to the order of the Issuing and Paying Agent. In exchange for any Global Note, or the part thereof to be exchanged, the Issuer will (i) in the case of a Temporary Global Note exchangeable for a Permanent Global Note, deliver, or procure the delivery of, a Permanent Global Note in an aggregate nominal amount equal to that of the whole or that part of a temporary Global Note that is being exchanged or, in the case of a subsequent exchange, endorse, or procure the endorsement of, a permanent Global Note to reflect such exchange or (ii) in the case of a Global Note exchangeable for Definitive Notes, deliver, or procure the delivery of, an equal aggregate nominal amount of duly executed and authenticated Definitive Notes. In this Offering Circular, "Definitive Notes" means, in relation to any Global Note, the definitive Bearer Notes for

which such Global Note may be exchanged (if appropriate, having attached to them all Coupons and Receipts in respect of interest or Instalment Amounts that have not already been paid on the Global Note and a Talon). Definitive Notes will be security printed in accordance with any applicable legal and stock exchange requirements in or substantially in the form set out in the Schedules to the Trust Deed. On exchange in full of each Permanent Global Note, the Issuer will, if the holder so requests, procure that it is cancelled and returned to the holder together with the relevant Definitive Notes.

3.6 Exchange Date

“Exchange Date” means, in relation to a Temporary Global Note, the day falling after the expiry of 40 days after its issue date and, in relation to a Permanent Global Note, a day falling not less than 60 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Issuing and Paying Agent is located and in the city in which the relevant clearing system is located.

4 Amendment to Conditions

The Temporary Global Notes, and Permanent Global Notes and Global Certificates contain provisions that apply to the Notes that they represent, some of which modify the effect of the terms and conditions of the Notes set out in this Prospectus. The following is a summary of certain of those provisions:

4.1 Payments

No payment falling due after the Exchange Date will be made on any Global Note unless exchange for an interest in a Permanent Global Note or for Definitive Notes is improperly withheld or refused. Payments on any Temporary Global Note issued in compliance with the D Rules before the Exchange Date will only be made against presentation of certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement. All payments in respect of Notes represented by a Global Note will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Notes, surrender of that Global Note to or to the order of the Issuing and Paying Agent or such other Paying Agent as shall have been notified to the Noteholders for such purpose. A record of each payment so made will be endorsed on each Global Note, which endorsement will be prima facie evidence that such payment has been made in respect of the Notes. For the purpose of any payments made in respect of a Global Note, the relevant place of presentation shall be disregarded in the definition of “business day” set out in Condition 7(i) (*Non-Business Days*).

All payments in respect of Notes represented by a Global Certificate will be made to, or to the order of, the person whose name is entered on the Register at the close of business on the record date which shall be on the Clearing System Business Day immediately prior to the date for payment, where “Clearing System Business Day” means Monday to Friday inclusive except 25 December and 1 January.

4.2 Prescription

Claims against the Issuer in respect of Notes that are represented by a Permanent Global Note will become void unless it is presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 8).

4.3 Meetings

The holder of a Permanent Global Note or of the Notes represented by a Global Certificate shall (unless such permanent Global Note or Global Certificate represents only one Note) be treated as being two persons for the purposes of any quorum requirements of a meeting of Noteholders and, at any such meeting, the holder of a Permanent Global Note shall be treated as having one vote in respect of each integral currency unit of the Specified Currency of the Notes. (All holders of Registered Notes

are entitled to one vote in respect of each integral currency unit of the Specified Currency of the Notes comprising such Noteholder's holding, whether or not represented by a Global Certificate.)

4.4 Cancellation

Cancellation of any Note represented by a Permanent Global Note that is required by the Conditions to be cancelled (other than upon its redemption) will be effected by reduction in the nominal amount of the relevant Permanent Global Note.

4.5 Purchase

Notes represented by a Permanent Global Note may only be purchased by the Issuer, the Guarantors or any of their respective subsidiaries if they are purchased together with the rights to receive all future payments of interest and Instalment Amounts (if any) thereon.

4.6 Issuer's Option

Any option of the Issuer provided for in the Conditions of any Notes while such Notes are represented by a Permanent Global Note shall be exercised by the Issuer giving notice to the Noteholders within the time limits set out in and containing the information required by the Conditions, except that the notice shall not be required to contain the serial numbers of Notes drawn in the case of a partial exercise of an option and accordingly no drawing of Notes shall be required. In the event that any option of the Issuer is exercised in respect of some but not all of the Notes of any Series, the rights of accountholders with a clearing system in respect of the Notes will be governed by the standard procedures of Euroclear, Clearstream, Luxembourg or any other clearing system (as the case may be).

4.7 Noteholders' Options

Any option of the Noteholders provided for in the Conditions of any Notes while such Notes are represented by a Permanent Global Note may be exercised by the holder of the permanent Global Note giving notice to the Issuing and Paying Agent within the time limits relating to the deposit of Notes with a Paying Agent set out in the Conditions substantially in the form of the notice available from any Paying Agent, except that the notice shall not be required to contain the serial numbers of the Notes in respect of which the option has been exercised, and stating the nominal amount of Notes in respect of which the option is exercised and at the same time presenting the Permanent Global Note to the Fiscal Agent, or to a Paying Agent acting on behalf of the Fiscal Agent, for notation.

4.8 Trustee's Powers

In considering the interests of Noteholders while any Global Note is held on behalf of, or Registered Notes are registered in the name of any nominee for, a clearing system, the Trustee may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to such Global Note or Registered Notes and may consider such interests as if such accountholders were the holders of the Notes represented by such Global Note or Global Certificate.

4.9 Notices

So long as any Notes are represented by a Global Note or Global Certificate and such Global Note or Global Certificate is held on behalf of a clearing system, notices to the holders of Notes of that Series may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions or by delivery of the relevant notice to the holder of the Global Note or Global Certificate.

5 AMTNs

5.1 Austraclear

On issue of any AMTNs, the Issuer may, as specified in the applicable Pricing Supplement, procure that the AMTNs are entered into the clearance and settlement system (“**Austraclear System**”) operated by Austraclear Ltd (ABN 94 002 060 773) (“**Austraclear**”). On entry, Austraclear will become the sole registered Noteholder and legal owner of the AMTNs. Subject to the rules and regulations known as the Austraclear Regulations established by Austraclear (as amended or replaced from time to time) to govern the use of the Austraclear System (“**Austraclear Regulations**”), together with any directions or instructions, participants of the Austraclear System (“**Accountholders**”) may acquire rights against Austraclear in relation to those AMTNs as beneficial owners and Austraclear is required to deal with the AMTNs in accordance with the directions and instructions of the Accountholders. Any potential investors who are not Accountholders would need to hold their interest in the relevant AMTNs through a nominee who is an Accountholder. All payments by the Issuer in respect of AMTNs entered in the Austraclear System will be made directly to an account agreed with Austraclear or as it directs in accordance with the Austraclear Regulations.

5.2 Holding of AMTNs through Euroclear and Clearstream, Luxembourg

On entry in the Austraclear System, interests in the AMTNs may be held through Euroclear or Clearstream, Luxembourg. In these circumstances, entitlements in respect of holdings of interests in the AMTNs in Euroclear would be held in the Austraclear System by HSBC Custody Nominees (Australia) Limited as nominee of Euroclear, while entitlements in respect of holdings of interests in the AMTNs in Clearstream, Luxembourg would be held in the Austraclear System by JP Morgan Nominees Australia Limited as nominee of Clearstream, Luxembourg. The rights of a holder of interests in AMTNs held through Euroclear or Clearstream, Luxembourg are subject to the respective rules and regulations of Euroclear and Clearstream, Luxembourg, the arrangements between Euroclear and Clearstream, Luxembourg and their respective nominees and the Austraclear Regulations.

5.3 Transfers

Any transfer of AMTNs will be subject to the Corporations Act and the other requirements set out in the Terms and Conditions of the AMTNs and, where the Notes are entered in the Austraclear System, the Austraclear Regulations. Secondary market sales of AMTNs settled in the Austraclear System will be settled in accordance with the Austraclear Regulations.

5.4 Relationship of Accountholders with Austraclear

Accountholders who acquire an interest in AMTNs entered in the Austraclear System must look solely to Austraclear for their rights in relation to such Notes and will have no claim directly against the Issuer in respect of such Notes although under the Austraclear Regulations, Austraclear may direct the Issuer to make payments direct to the relevant Accountholders.

Where Austraclear is registered as the Noteholder of any AMTNs that are lodged in the Austraclear System, Austraclear may, where specified in the Austraclear Regulations, transfer the AMTNs to the person in whose Security Record (as defined in the Austraclear Regulations) those AMTNs are recorded and, as a consequence, remove those AMTNs from the Austraclear System.

Potential investors in AMTNs should inform themselves of, and satisfy themselves with, the Austraclear Regulations and (where applicable) the rules of Euroclear and Clearstream, Luxembourg and the arrangements between them and their nominees in the Austraclear System.

6 Electronic Consent and Written Resolution

While any Global Note is held on behalf of, or any Global Certificate is registered in the name of any nominee for, a clearing system, then:

- (a) approval of a resolution proposed by the Issuer, the Guarantors or the Trustee (as the case may be) given by way of electronic consents communicated through the electronic communications systems of the relevant clearing system(s) in accordance with their operating rules and procedures by or on behalf of the holders of not less than 75 per cent. in nominal amount of the Notes outstanding (an “**Electronic Consent**” as defined in the Trust Deed) shall, for all purposes take effect as an Extraordinary Resolution, and shall be binding on all Noteholders and holders of Coupons, Talons and Receipts whether or not they participated in such Written Resolution and/or Electronic Consent; and
- (b) where Electronic Consent is not being sought, for the purpose of determining whether a Written Resolution (as defined in the Trust Deed) has been validly passed, the Issuer, the Guarantors and the Trustee shall be entitled to rely on consent or instructions given in writing directly to the Issuer and/or the Trustee, as the case may be, by (a) accountholders in the clearing system(s) with entitlements to such Global Note or Global Certificate and/or, where (b) the accountholders hold any such entitlement on behalf of another person, on written consent from or written instruction by the person identified by that accountholder as the person for whom such entitlement is held. For the purpose of establishing the entitlement to give any such consent or instruction, the Issuer, the Guarantors and the Trustee shall be entitled to rely on any certificate or other document issued by, in the case of (a) above, Euroclear, Clearstream, Luxembourg or any other relevant alternative clearing system (the “**relevant clearing system**”) and, in the case of (b) above, the relevant clearing system and the accountholder identified by the relevant clearing system for the purposes of (b) above. Any resolution passed in such manner shall be binding on all Noteholders and Couponholders, even if the relevant consent or instruction proves to be defective. Any such certificate or other document shall, in the absence of manifest error, be conclusive and binding for all purposes. Any such certificate or other document may comprise any form of statement or print out of electronic records provided by the relevant clearing system (including Euroclear’s EUCLID or Clearstream, Luxembourg’s CreationOnline system) in accordance with its usual procedures and in which the accountholder of a particular principal or nominal amount of the Notes is clearly identified together with the amount of such holding. Neither the Issuer nor the Trustee shall be liable to any person by reason of having accepted as valid or not having rejected any certificate or other document to such effect purporting to be issued by any such person and subsequently found to be forged or not authentic.

7 SGX-ST

For so long as any Notes (except in relation to AMTNs) are listed on the SGX-ST and the rules of the SGX-ST so require, the Issuer shall appoint and maintain a paying agent in Singapore, where such Notes may be presented or surrendered for payment or redemption, in the event that the Global Note(s) representing such Notes is exchanged for definitive Notes. In addition, in the event that the Global Note(s) is exchanged for definitive Notes, an announcement of such exchange will be made by or on behalf of the Issuer through the SGX-ST and such announcement will include all material information with respect to the delivery of the definitive Notes, including details of the paying agent in Singapore.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions that, subject to completion and amendment and as supplemented or varied in accordance with the provisions of the relevant Pricing Supplement, shall be applicable to the Notes (other than AMTNs) in definitive form (if any) issued in exchange for the Global Note(s) or the Global Certificate(s) representing each Series or the AMTNs (as defined below). Other than in relation to any AMTNs, either (i) the full text of these terms and conditions together with the relevant provisions of the Pricing Supplement or (ii) these terms and conditions as so completed, amended, supplemented or varied (and subject to simplification by the deletion of non-applicable provisions), shall be endorsed on such Bearer Notes or on the Certificates relating to such Registered Notes. In the case of any AMTNs, a copy of the Pricing Supplement will be kept with the Australian Register (as defined below) in respect of the Tranche (as defined below) of which this Note forms part. All capitalised terms that are not defined in these Conditions will have the meanings given to them in Part A of the relevant Pricing Supplement. Other than in relation to any AMTNs, those definitions will be endorsed on the definitive Notes or Certificates, as the case may be. References in the Conditions to “Notes” are to the Notes of one Series only, not to all Notes that may be issued under the Programme.

The Notes (other than the AMTNs) are constituted by a Trust Deed (as amended or supplemented as at the date of issue of the Notes (the “**Issue Date**”), the “**Trust Deed**”) dated 12 April 2017 between ETSA Utilities Finance Pty Ltd (ABN 78 091 701 825) (the “**Issuer**”) and SA Power Networks (an Australian partnership established and trading as a general partnership under the laws of South Australia between CKI Utilities Development Limited (ABN 65 090 718 880), PAI Utilities Development Limited (ABN 82 090 718 951), Spark Infrastructure SA (No1) Pty Ltd (ABN 54 091 142 380), Spark Infrastructure SA (No2) Pty Ltd (ABN 19 091 143 038) and Spark Infrastructure SA (No3) Pty Ltd (ABN 50 091 142 362)) (the “**Initial Guarantor**”) and The Bank of New York Mellon, London Branch (the “**Trustee**”, which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the Noteholders (as defined below).

The Notes, the Receipts and the Coupons have the benefit of a guarantee given by the Initial Guarantor and the Additional Guarantors (as defined in Condition 3(c), and together with the Initial Guarantor, the “**Guarantors**”) pursuant to and on the terms of the Guarantee (as defined in Condition 3(c)) set out in the Trust Deed.

AMTNs are registered uncertificated (or inscribed) notes which are constituted by a deed poll (as amended or supplemented as at the Issue Date,) (the “**Australian Deed Poll**”) dated 12 April 2017 made by the Issuer and the Initial Guarantor in favour of the Trustee and the Noteholders in respect of the AMTNs. The original of the Australian Deed Poll is held by the Australian Registrar (defined below). The particular provisions of these terms and conditions (“**Conditions**”) relating to Certificates, Bearer Notes, Registered Notes (unless otherwise specifically noted or the context requires), Receipts (as referred to below), Coupons (as referred to below) and Talons (as referred to below) do not apply to AMTNs.

These Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Bearer Notes, Registered Notes, Receipts, Coupons and Talons referred to below, and, in respect of the AMTNs, the Australian Deed Poll. An Agency Agreement (as amended or supplemented as at the Issue Date, the “**Agency Agreement**”) dated 12 April 2017 has been entered into in relation to the Notes (other than AMTNs) between the Issuer, the Initial Guarantor, the Trustee, The Bank of New York Mellon, London Branch as initial issuing and paying agent and the other agents named in it. An agency agreement (as amended or supplemented as at the Issue Date, the “**Australian Agency Agreement**”) dated 12 April 2017 has been entered into in relation to the AMTNs between the Issuer, the Initial Guarantor, the Trustee and BTA Institutional Services Australia Ltd (the “**Australian Agent**”, which expression shall include any successor agent) as initial paying agent and BTA Institutional Services Australia Ltd as registrar (the “**Australian Registrar**”, which expression shall include any successor registrar). The Australian Registrar will maintain a register of holders of the AMTNs (the “**Australian Register**”). The issuing and paying agent, the other paying agents, the registrar, the transfer agents and the calculation agent(s) for the time being (if any) are referred to below respectively as the “**Issuing and Paying Agent**”, the “**Paying Agents**” (which expression shall include the Issuing and Paying Agent), the “**Registrar**”, the “**Transfer Agents**” (which expression shall include the Registrar) and the “**Calculation**

Agent(s)". References to the Agent, the Paying Agent, the Registrar and the Register shall, in relation to AMTNs, be a reference to the Australian Agent, the Australian Paying Agents, the Australian Registrar and the Australian Register (as the case may be). Copies of the Trust Deed, the Australian Deed Poll, the Agency Agreement and the Australian Agency Agreement are available for inspection at all reasonable times during normal business hours at the principal office of the Trustee (presently at One Canada Square, London E14 5AL, United Kingdom) and at the specified offices of the Paying Agents and the Transfer Agents.

The Noteholders, the holders of the interest coupons (the "**Coupons**") relating to interest bearing Notes in bearer form and, where applicable in the case of such Notes, talons for further Coupons (the "**Talons**") (the "**Couponholders**") and the holders of the receipts for the payment of instalments of principal (the "**Receipts**") (the "**Receiptholders**") relating to Notes in bearer form of which the principal is payable in instalments are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed (and, in the case of the AMTNs, the Australian Deed Poll) and are deemed to have notice of those provisions applicable to them of the Agency Agreement (other than in the case of AMTNs) and the Australian Agency Agreement (in the case of AMTNs).

As used in these Conditions, "**Tranche**" means Notes which are identical in all respects. A reference in these Conditions to a matter being specified hereon shall, in the context of the AMTNs, be construed as a matter specified in the relevant Pricing Supplement.

1 Form, Denomination and Title

The Notes (other than the AMTNs) are issued in bearer form ("**Bearer Notes**") or in registered form ("**Registered Notes**"). Notes may also be issued in registered uncertificated form pursuant to the Australian Deed Poll ("**AMTNs**"). Notes are issued in the Specified Denomination(s) shown in the relevant Pricing Supplement. In these Conditions, a reference to Bearer Notes or Registered Notes does not include AMTNs.

The Notes are a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, an Index Linked Redemption Note, an Instalment Note, a Dual Currency Note or a Partly Paid Note, a combination of any of the foregoing or any other kind of Note, depending upon the Interest and Redemption/Payment Basis shown in the relevant Pricing Supplement.

Bearer Notes are serially numbered and are issued with Coupons (and, where appropriate, a Talon) attached, save in the case of Zero Coupon Notes in which case references to interest (other than in relation to interest due after the Maturity Date), Coupons and Talons in these Conditions are not applicable. Instalment Notes are issued with one or more Receipts attached.

Registered Notes are represented by registered certificates ("**Certificates**") and, save as provided in Condition 2(c), each Certificate shall represent the entire holding of Registered Notes by the same holder.

Title to the Bearer Notes and the Receipts, Coupons and Talons shall pass by delivery. Title to the Registered Notes and AMTNs shall pass by registration in the register that the Issuer shall procure to be kept by the Registrar in accordance with the provisions of the Agency Agreement or the Australian Agency Agreement (as applicable) (the "**Register**"). Except as ordered by a court of competent jurisdiction or as required by law, the holder (as defined below) of any Note, Receipt, Coupon or Talon shall be deemed to be and may be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on it (or on the Certificate representing it) or its theft or loss (or that of the related Certificate) and no person shall be liable for so treating the holder.

In these Conditions, "**Noteholder**" means the bearer of any Bearer Note and the Receipts relating to it or the person in whose name a Registered Note or an AMTN is registered (as the case may be), "**holder**" (in relation to a Note, Receipt, Coupon or Talon) means the bearer of any Bearer Note, Receipt, Coupon or Talon or the person in whose name a Registered Note or an AMTN is registered (as the case may be) and

capitalised terms have the meanings given to them hereon, the absence of any such meaning indicating that such term is not applicable to the Notes.

In the case of AMTNs, the following provisions shall apply and shall prevail over the foregoing provisions of this Condition 1 in the event of any inconsistency.

AMTNs will be debt obligations of the Issuer constituted by the Australian Deed Poll and will take the form of entries in the Register to be established and maintained by the Registrar in New South Wales, or such other place specified in the applicable Pricing Supplement or as otherwise agreed by the Issuer with the Registrar. The Issuer will arrange for the Registrar to maintain the Register so as to show at all times such details of the Noteholders and the AMTNs as are required to be shown on the Register by or for the effective operation of these Conditions or by law or which the Issuer and Registrar determine should be shown in the Register. The Agency Agreement is not applicable to AMTNs.

AMTNs will not be serially numbered. Each entry in the Register constitutes a separate and individual acknowledgement to the Trustee on behalf of, and to, the relevant Noteholder of the indebtedness of the Issuer to the Trustee on behalf of, and to, the relevant Noteholder. The obligations of the Issuer in respect of each AMTN constitute separate and independent obligations which the Noteholder and the Trustee are entitled to enforce in accordance with (and subject to) these Conditions, the Trust Deed and the Australian Deed Poll. No certificate or other evidence of title will be issued by or on behalf of the Issuer to evidence title to an AMTN unless the Issuer determines that certificates should be made available or it is required to do so pursuant to any applicable law or regulation.

No AMTN will be registered in the name of more than four persons. AMTNs registered in the name of more than one person are held by those persons as joint tenants. AMTNs will be registered by name only, without reference to any trusteeship and an entry in the Register in relation to an AMTN constitutes conclusive evidence that the person so entered is the absolute owner of such Note, subject to rectification for fraud or error.

Title to an AMTN and all rights and entitlements arising by virtue of the Australian Deed Poll or the Trust Deed in respect of that AMTN vest absolutely in the registered owner of the AMTN, subject to rectification of the Register for fraud or error, such that no person who has previously been registered as the holder of the AMTN has or is entitled to assert against the Issuer or the Registrar or the registered holder of the AMTN for the time being and from time to time any rights, benefits or entitlements in respect of the AMTN.

2 No Exchange of Notes and Transfers of Registered Notes and AMTNs

- (a) **No Exchange of Notes:** Registered Notes may not be exchanged for Bearer Notes or AMTNs. Bearer Notes of one Specified Denomination may not be exchanged for Bearer Notes of another Specified Denomination. Bearer Notes may not be exchanged for Registered Notes or AMTNs. AMTNs may not be exchanged for Bearer Notes or Registered Notes.
- (b) **Transfer of Registered Notes:** One or more Registered Notes may be transferred upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate representing such Registered Notes to be transferred, together with the form of transfer endorsed on such Certificate, (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed and any other evidence as the Registrar or Transfer Agent may reasonably require. In the case of a transfer of part only of a holding of Registered Notes represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. All transfers of Notes and entries on the Register will be made subject to the

detailed regulations concerning transfers of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Registrar and the Trustee. A copy of the current regulations will be made available by the Registrar to any Noteholder upon request.

(c) **Additional provisions relating to transfer of AMTNs:**

- (i) AMTNs may be transferred in whole but not in part. Unless lodged in the Austraclear System, AMTNs will be transferred by duly completed and (if applicable) stamped transfer and acceptance forms in the form specified by, and obtainable from, the Registrar or by any other manner approved by the Issuer and the Registrar. Each transfer and acceptance form must be signed by the transferor and transferee and be accompanied by such evidence (if any) as the Registrar may require to prove the title of the transferor or the transferor's right to transfer the AMTNs and that the form has been properly executed by both the transferor and transferee. Any such transfer will be subject to such reasonable regulations as the Issuer and the Registrar may from time to time prescribe (the initial such regulations being set out in the schedule to the Australian Agency Agreement).
- (ii) AMTNs lodged in the Austraclear System will be transferable only in accordance with the Austraclear Regulations. While an AMTN is lodged in the Austraclear System, neither the Issuer nor the Registrar will recognise any such interest other than the interest of Austraclear as the Noteholder.
- (iii) Application for the transfer of AMTNs must be made by the lodgement of a transfer and acceptance form with the Registrar.
- (iv) The transferor of an AMTN remains the Noteholder of that AMTN until the name of the transferee is entered in the Register in respect of that AMTN.
- (v) AMTNs may only be transferred if (i) the aggregate consideration payable by the transferee at the time of transfer is at least A\$500,000 (or the equivalent in another currency, in either case, disregarding moneys lent by the transferor or its associates) or the offer or invitation giving rise to the transfer otherwise does not constitute an offer or invitation for which disclosure is required to be made to investors in accordance with Part 6D.2 or Part 7.9 of the *Corporations Act 2001* (Cth) of Australia ("**Corporations Act**"), (ii) the transferee is not a "retail client" as defined in section 761G of the Corporations Act and (iii) the transfer is in compliance with all applicable laws, regulations or directives (including, without limitation, the laws of the jurisdiction in which the transfer takes place).
- (vi) A transfer of AMTNs to an unincorporated association is not permitted.
- (vii) A person becoming entitled to an AMTN as a consequence of the death or bankruptcy of a Noteholder or of a vesting order or a person administering the estate of a Noteholder may, upon producing such evidence as to that entitlement or status as the Registrar considers sufficient, transfer the AMTN or, if so entitled, become registered as the holder of the AMTN.
- (viii) Where the transferor executes a transfer of less than all AMTNs registered in its name, and the specific AMTNs to be transferred are not identified, the Registrar may register the transfer in respect of such of the AMTNs registered in the name of the transferor as the Registrar thinks fit, provided the aggregate principal amount of the AMTNs registered as having been transferred equals the aggregate principal amount of the AMTNs expressed to be transferred in the transfer.

- (d) **Exercise of Options or Partial Redemption in Respect of Registered Notes:** In the case of an exercise of an Issuer's or Noteholders' option in respect of, or a partial redemption of, a holding of Registered Notes represented by a single Certificate, a new Certificate shall be issued to the holder to reflect the exercise of such option or in respect of the balance of the holding not redeemed. In the case of a partial exercise of an option resulting in Registered Notes of the same holding having different terms, separate Certificates shall be issued in respect of those Notes of that holding that have the same terms. New Certificates shall only be issued against surrender of the existing Certificates to the Registrar or any Transfer Agent. In the case of a transfer of Registered Notes to a person who is already a holder of Registered Notes, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding.
- (e) **Delivery of New Certificates:** Each new Certificate to be issued pursuant to Conditions 2(b) or (d) shall be available for delivery within three business days of receipt of the form of transfer or Exercise Notice (as defined in Condition 6(e)) and surrender of the Certificate for exchange. Delivery of the new Certificate(s) shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such form of transfer, Exercise Notice or Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant form of transfer, Exercise Notice or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Transfer Agent the costs of such other method of delivery and/or such insurance as it may specify. In this Condition 2(e), "**business day**" means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).
- (f) **Transfers Free of Charge:** Transfers of Notes and Certificates on registration, transfer, exercise of an option or partial redemption shall be effected without charge by or on behalf of the Issuer, the Registrar or the Transfer Agents, but upon payment of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity as the Registrar or the relevant Transfer Agent may require).
- (g) **Closed Periods:** No Noteholder may require the transfer of a Registered Note or AMTN to be registered (i) during the period of 15 days ending on the due date for redemption of, or payment of any Instalment Amount in respect of, that Note, (ii) during the period of 15 days prior to any date on which Notes may be called for redemption by the Issuer at its option pursuant to Condition 6(d), (iii) after any such Note has been called for redemption or (iv) during the period of seven days ending on (and including) any Record Date (as defined in Condition 7(b) for Notes other than AMTNs and as defined in Condition 7(c) for the AMTNs).

3 **Guarantee and Status**

- (a) **Guarantee:** The Guarantors have unconditionally and irrevocably guaranteed, on a joint and several basis, the due payment of all sums expressed to be payable by the Issuer under the Trust Deed or the Australian Deed Poll (as applicable), the Notes, the Receipts and the Coupons. The Guarantors' obligations in that respect are contained in the Trust Deed.
- (b) **Status of Notes and Guarantee:** The Notes and the Receipts and Coupons relating to them constitute (subject to Condition 4) unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Notes and the Receipts and the Coupons relating to them and of each Guarantor under the Guarantee shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 4, at all times rank at least equally with all other unsecured and

unsubordinated indebtedness and monetary obligations of the Issuer and each Guarantor respectively, present and future, other than those preferred by statute or applicable law.

(c) **Joining and Releasing of Guarantors:**

- (i) The Issuer and the Initial Guarantor shall ensure that, subject to sub-paragraphs (c)(ii) and (c)(iii) below, at all times;
 - A. the Total Assets of the Guarantors are not less than 90 per cent. of the Total Group Assets; and
 - B. EBITDA of the Guarantors is not less than 90 per cent. of the Total Group EBITDA.
- (ii) The Issuer and the Initial Guarantor may from time to time and in accordance with the terms of the Trust Deed, procure any member of the Group which is not a Guarantor to accede as an Additional Guarantor in order to comply with sub-paragraph (c)(i) above. The Issuer and the Initial Guarantor shall ensure that any member of the Group that is required to become a Guarantor in order to comply with sub-paragraph (c)(i) above, within 30 days after the Issuer and the Initial Guarantor becoming aware of the requirement, or such greater time as is reasonably required to comply with the requirements of Part 2E.1 (related party transactions) and/or Part 2J.3 (financial assistance) of the Corporations Act (where applicable) (i) executes and delivers to the Trustee a supplemental deed in or substantially in the form scheduled to the Trust Deed (or in such other form as may be approved by the Trustee) whereby such member of the Group agrees to be bound as a Guarantor under the Trust Deed (ii) delivers to the Trustee certified copies of the constitutive documents of such member of the Group and internal authorisations relating to the entry into and performance of its obligations under the Guarantee and (iii) delivers to the Trustee legal opinions in such form as the Trustee may reasonably request, each as more fully set out in the Trust Deed.
- (iii) Provided that no Event of Default has occurred and is subsisting, the Issuer and the Initial Guarantor may at any time and from time to time deliver to the Trustee a certificate of two Directors of the Issuer (the “**Directors’ Certificate**”) certifying that (i) a member of the Group (other than the Initial Guarantor) is to be released as a Guarantor (either immediately or at such later time as is specified in such certificate), and (ii) the release of such Guarantor would not cause the Total Assets of the remaining Guarantors to be less than 90 per cent. of the Total Group Assets or the EBITDA of the remaining Guarantors to be less than 90 per cent. of the Total Group EBITDA. For the avoidance of doubt, the Initial Guarantor shall be a Guarantor at all times. Upon receipt by the Trustee of the Directors’ Certificate (or at such later time as specified in the certificate), such Guarantor shall immediately be released from such Guarantee. Notice of such release shall be given by the Issuer in accordance with Condition 16 (*Notices*) to the Noteholders (with a copy to the Trustee), the Receiptholders and Couponholders within 14 days. The Issuer and the Initial Guarantor shall only deliver the Directors’ Certificate if, upon the release of the Guarantor from such Guarantee, the Total Assets of the remaining Guarantors would not be less than 90 per cent. of the Total Group Assets and the EBITDA of the remaining Guarantors would not be less than 90 per cent. of the Total Group EBITDA. The Trustee and the Noteholders shall be deemed to be aware of and be bound by, and take their rights subject to, the provisions of this Condition 3(c) and any such release or permission. All Guarantors shall be deemed to be aware of and be bound by the provisions of this sub-paragraph 3(c)(iii) and any such release or permission. The remaining Guarantors after

any release shall continue to be bound by the terms of the Guarantee notwithstanding any release of any other Guarantor.

In these Conditions:

“**Accounting Standards**” means the accounting standards, principles and practices under the Australian equivalent of the IFRS as determined by the Australian Accounting Standards Board;

“**Additional Guarantor**” means a member of the Group which becomes an Additional Guarantor in accordance with Condition 3(c);

“**Directors**” means the Board of Directors for the time being of the Issuer, and Director means any member of such Board of Directors;

“**EBITDA**” means, in relation to any entity, the net profits attributable to the entity before interest, taxation, depreciation, amortisation, extraordinary items, gains or losses on disposals, revaluations or impairments and before taking into account any unrealised gains or losses arising from movement in the fair value of derivative instruments or financial instruments in respect of the period covered by the most recently prepared audited annual financial statements or unaudited semi-annual financial statements (consolidated or, as the case may be, unconsolidated) of such entity and the Group, in each case prepared in accordance with the Accounting Standards;

“**Group**” means the Initial Guarantor and its Subsidiaries taken as a whole, with each such entity, a “**member of the Group**”;

“**Guarantee**” means the guarantee referred to in Condition 3(a) and more fully set out in the Trust Deed pursuant to which the Guarantors jointly and severally guarantee to the Trustee and the Noteholders the due and punctual payment of all sums which may be payable in respect of the Notes and under the Trust Deed;

“**IFRS**” means International Financial Reporting Standards (formerly International Accounting Standards) issued by the International Accounting Standards Board (“**IASB**”) and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB (as amended, supplemented or re-issued from time to time);

“**Subsidiary**” has the meaning given in the Corporations Act, but as if body corporate includes any entity. It also includes any entity whose profit or loss is required by Accounting Standards to be included in the consolidated annual profit and loss statements of an entity or which would be required if that entity were a corporation;

“**Total Assets**” means, in relation to any entity, the aggregate of all current and non-current assets on a consolidated basis after eliminating all inter-company transactions as reflected in the most recently prepared audited annual financial statements or unaudited semi-annual financial statements (consolidated or, as the case may be, unconsolidated) of such entity and the Group, in each case prepared in accordance with the Accounting Standards;

“**Total Group Assets**” means the aggregate of all current and non-current assets of each entity comprising the Group on a consolidated basis, after eliminating all inter-company transactions as reflected in the most recently prepared audited consolidated annual financial statements or unaudited consolidated semi-annual financial statements of the Group, in each case prepared in accordance with the Accounting Standards; and

“**Total Group EBITDA**” means the EBITDA of the Group on a consolidated basis in respect of the period covered by the most recently prepared audited consolidated annual financial statements or unaudited consolidated semi-annual financial statements of the Group, in each case prepared in accordance with the Accounting Standards.

4 Negative Pledge

So long as any Note or Coupon remains outstanding (as defined in the Trust Deed), neither the Issuer nor any Guarantor will create, or have outstanding, any mortgage, charge, lien, pledge or other security interest (including any "security interest" as defined in the *Personal Property Securities Act 2009 (Cth)* of Australia), upon the whole or any part of its present or future undertaking, assets or revenues (including any uncalled capital) to secure any Relevant Indebtedness or to secure any guarantee or indemnity in respect of any Relevant Indebtedness, without at the same time or prior thereto according to the Notes and the Coupons:

- (i) the same security as is created or subsisting to secure any such Relevant Indebtedness, guarantee or indemnity; or
- (ii) such other security as either (i) the Trustee shall in its absolute discretion deem not materially less beneficial to the interest of the Noteholders or (ii) shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders.

In this Condition, "**Relevant Indebtedness**" means any indebtedness which is in the form of, or represented or evidenced by, bonds, notes, debentures, loan stock or other securities which for the time being are, or are intended to be or capable of being, quoted, listed or dealt in or traded on any stock exchange or over-the-counter or other securities market.

5 Interest and other Calculations

- (a) **Interest on Fixed Rate Notes:** Each Fixed Rate Note bears interest on its outstanding nominal amount from and including the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 5(h).
- (b) **Interest on Floating Rate Notes and Index Linked Interest Notes:**
 - (i) *Interest Payment Dates:* Each Floating Rate Note and Index Linked Interest Note bears interest on its outstanding nominal amount from and including the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 5(h). Such Interest Payment Date(s) is/are either shown hereon as Specified Interest Payment Dates or, if no Specified Interest Payment Date(s) is/are shown hereon, Interest Payment Date shall mean each date which falls the number of months or other period shown hereon as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.
 - (ii) *Business Day Convention:* If any date referred to in these Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment, (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next

calendar month, in which event such date shall be brought forward to the immediately preceding Business Day or (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.

- (iii) *Rate of Interest for Floating Rate Notes:* The Rate of Interest in respect of Floating Rate Notes for each Interest Accrual Period shall be determined in the manner specified hereon and the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified hereon.

(A) ISDA Determination for Floating Rate Notes

Where ISDA Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate. For the purposes of this sub-paragraph (A), “**ISDA Rate**” for an Interest Accrual Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

- (x) the Floating Rate Option is as specified hereon;
- (y) the Designated Maturity is a period specified hereon; and
- (z) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified hereon.

For the purposes of this sub-paragraph (A), “**Floating Rate**”, “**Calculation Agent**”, “**Floating Rate Option**”, “**Designated Maturity**”, “**Reset Date**” and “**Swap Transaction**” have the meanings given to those terms in the ISDA Definitions.

(B) Screen Rate Determination for Floating Rate Notes

- (x) Where Screen Rate Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period will, subject as provided below, be either:

- (1) the offered quotation; or
- (2) the arithmetic mean of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at either 11.00 a.m. (London time in the case of LIBOR or Brussels time in the case of EURIBOR) on the Interest Determination Date in question as determined by the Calculation Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean of such offered quotations.

If the Reference Rate from time to time in respect of Floating Rate Notes is specified hereon as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Notes will be determined as provided hereon.

- (y) if the Relevant Screen Page is not available or if, sub-paragraph (x)(1) applies and no such offered quotation appears on the Relevant Screen Page or if sub-paragraph (x)(2)

above applies and fewer than three such offered quotations appear on the Relevant Screen Page in each case as at the time specified above, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Accrual Period, in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Accrual Period). In the case of any AMTNs to which Screen Rate Determination is specified as applicable in the applicable Pricing Supplement, the applicable Pricing Supplement contains provisions for determining the Rate of Interest in the event that the Relevant Screen Page is not available or if, sub-paragraph (x)(1) applies and no such offered quotation appears on the Relevant Screen Page, or if sub-paragraph (x)(2) above applies and fewer than three such offered quotations appear, in each case as at the time specified above.

(C) Bank Bill Rate Determination for AMTNs

Where, in relation to an issue of AMTNs, Bank Bill Rate Determination is specified in the applicable Pricing Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period will be the relevant Bank Bill Rate plus or minus (as indicated in the applicable Pricing Supplement) the Margin (if any).

For the purposes of this sub-paragraph (C) “**Bank Bill Rate**”, for an Interest Accrual Period, means the Australian Bank Bill Swap Reference Rate administered by the Australian Financial Markets Association (or any other person which takes over the administration of that rate) for tenor closest to the Interest Accrual Period as displayed on the “BBSW” page of the Thomson Reuters Screen (or any replacement Thomson Reuters page which displays that rate) on the first day of that Interest Accrual Period as determined by the Paying Agent.

However, if the rate is not displayed by 10.30 a.m. on that day, or if it is displayed but the Paying Agent determines that there is an obvious error in that rate, Bank Bill Rate means the rate determined by the Paying Agent in good faith at approximately 10.30 a.m. on that day, having regard, to the extent possible, to the mid rate of the rates otherwise bid and offered for bank accepted bills of that tenor at or around that time.

(D) Linear Interpolation

Where Linear Interpolation is specified hereon as applicable in respect of an Interest Accrual Period, the Rate of Interest for such Interest Accrual Period shall be calculated by the Calculation Agent by straight line linear interpolation by reference to two rates based on the relevant Reference Rate (where Screen Rate Determination is specified hereon as applicable) or the relevant Floating Rate Option (where ISDA Determination is specified hereon as applicable), one of which shall be determined as if the Applicable Maturity were the period of time for which rates are available next shorter than the length of the relevant Interest Accrual Period and the other of which shall be determined as if the Applicable Maturity were the period of time for which rates are available next longer than the length of the relevant Interest Accrual Period provided however that if there is no rate available for the period of time next shorter or, as the case may be, next longer, then the Calculation Agent shall determine such rate at such time and by reference to such sources as it determines appropriate.

“**Applicable Maturity**” means: (a) in relation to Screen Rate Determination, the period of time designated in the Reference Rate, and (b) in relation to ISDA Determination, the Designated Maturity.

- (iv) *Rate of Interest for Index Linked Interest Notes:* The Rate of Interest in respect of Index Linked Interest Notes for each Interest Accrual Period shall be determined in the manner specified hereon and interest will accrue by reference to an Index or Formula as specified hereon.
- (c) **Zero Coupon Notes:** Where a Note the Interest Basis of which is specified in the applicable Pricing Supplement to be Zero Coupon is repayable prior to the Maturity Date and is not paid when due, the amount due and payable prior to the Maturity Date shall be the Early Redemption Amount of such Note. As from the Maturity Date, the Rate of Interest for any overdue principal of such a Note shall be a rate per annum (expressed as a percentage) equal to the Amortisation Yield (as described in Condition 6(b)(i)).
- (d) **Dual Currency Notes:** In the case of Dual Currency Notes, if the rate or amount of interest falls to be determined by reference to a Rate of Exchange or a method of calculating Rate of Exchange, the rate or amount of interest payable shall be determined in the manner specified hereon.
- (e) **Partly Paid Notes:** In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up nominal amount of such Notes and otherwise as specified hereon.
- (f) **Accrual of Interest:** Interest shall cease to accrue on each Note on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall continue to accrue (both before and after judgment) at the Rate of Interest in the manner provided in this Condition 5 to the Relevant Date (as defined in Condition 8).
- (g) **Margin, Maximum/Minimum Rates of Interest, Instalment Amounts and Redemption Amounts and Rounding:**
 - (i) If any Margin is specified hereon (either (x) generally, or (y) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (x), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (y), calculated in accordance with Condition 5(b) above by adding (if a positive number) or subtracting the absolute value (if a negative number) of such Margin, subject always to the next paragraph.
 - (ii) If any Maximum or Minimum Rate of Interest, Instalment Amount or Redemption Amount is specified hereon, then any Rate of Interest, Instalment Amount or Redemption Amount shall be subject to such maximum or minimum, as the case may be.
 - (iii) For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified), (x) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with 0.000005 of a percentage point being rounded up), (y) all figures shall be rounded to seven significant figures (provided that if the eighth significant figure is a 5 or greater, the seventh significant shall be rounded up) and (z) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with half a unit being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes “**unit**” means the lowest amount of such currency that is available as legal tender in the country of such currency.

- (h) **Calculations:** The amount of interest payable per Calculation Amount in respect of any Note for any Interest Accrual Period shall be equal to the product of the Rate of Interest, the Calculation Amount specified hereon, and the Day Count Fraction for such Interest Accrual Period, unless an Interest Amount (or a formula for its calculation) is applicable to such Interest Accrual Period, in which case the amount of interest payable per Calculation Amount in respect of such Note for such Interest Accrual Period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable per Calculation Amount in respect of such Interest Period shall be the sum of the Interest Amounts payable in respect of each of those Interest Accrual Periods. In respect of any other period for which interest is required to be calculated, the provisions above shall apply save that the Day Count Fraction shall be for the period for which interest is required to be calculated.
- (i) **Determination and Publication of Rates of Interest, Interest Amounts, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts and Instalment Amounts:** The Calculation Agent shall, as soon as practicable on each Interest Determination Date, or such other time on such date as the Calculation Agent may be required to calculate any rate or amount, obtain any quotation or make any determination or calculation, determine such rate and calculate the Interest Amounts for the relevant Interest Accrual Period, calculate the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or Instalment Amount, obtain such quotation or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Accrual Period and the relevant Interest Payment Date and, if required to be calculated, the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or any Instalment Amount to be notified to the Trustee, the Issuer, each of the Paying Agents, the Noteholders, the Registrar (in the case of AMTNs) and any other Calculation Agent appointed in respect of the Notes that is to make a further calculation upon receipt of such information and, if the Notes are listed on a stock exchange and the rules of such exchange or other relevant authority so require, such exchange or other relevant authority as soon as possible after their determination but in no event later than (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such exchange of a Rate of Interest and Interest Amount, or (ii) in all other cases, the fourth Business Day after such determination. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Condition 5(b)(ii), the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made with the consent of the Trustee by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If the Notes become due and payable under Condition 10, the accrued interest and the Rate of Interest payable in respect of the Notes shall nevertheless continue to be calculated as previously in accordance with this Condition but no publication of the Rate of Interest or the Interest Amount so calculated need be made unless the Trustee otherwise requires. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties.
- (j) **Determination or Calculation by agent appointed by Trustee:** If the Calculation Agent does not at any time for any reason determine or calculate the Rate of Interest for an Interest Accrual Period or any Interest Amount, Instalment Amount, Final Redemption Amount, Early Redemption Amount, Change of Control Redemption Amount or Optional Redemption Amount, the Trustee shall be entitled (but not obliged) to, at the expense of the Issuer, failing whom the Guarantor, appoint an agent on its behalf to do so and such determination or calculation shall be deemed to have been made by the Calculation Agent. In doing so, such agent shall apply the foregoing

provisions of this Condition 5, with any necessary consequential amendments, to the extent that, in its opinion, it can do so, and, in all other respects it shall do so in such manner as it shall deem fair and reasonable in all the circumstances. The Trustee shall not be liable to make any such calculation itself or to monitor or supervise any such agent, and shall not be liable to the Noteholders, the Issuer, the Guarantors or any other person for any calculation made by any agent appointed by it hereunder.

- (k) **Definitions:** In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

“**Austraclear**” means Austraclear Ltd (ABN 94 002 060 773).

“**Austraclear Regulations**” means rules and regulations known as the Austraclear Regulations established by Austraclear (as amended or replaced from time to time) to govern the use of the Austraclear System.

“**Austraclear System**” means the system operated by Austraclear for holding securities and the electronic recording and settling of transactions in those securities between members of that system.

“**Business Day**” means:

- (i) in the case of a currency other than euro, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such currency (and if the currency is Australian dollars or New Zealand dollars shall be Sydney and Auckland, respectively); and/or
- (ii) in the case of euro, a day on which the TARGET System is operating (a “**TARGET Business Day**”); and/or
- (iii) in the case of a currency and/or one or more Business Centres a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Business Centre(s) or, if no currency is indicated, generally in each of the Business Centres.

“**Day Count Fraction**” means, in respect of the calculation of an amount of interest on any Note for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting an Interest Period or an Interest Accrual Period, the “**Calculation Period**”):

- (i) if “**Actual/Actual**” or “**Actual/Actual – ISDA**” is specified hereon, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);
- (ii) if “**Actual/365 (Fixed)**” is specified hereon, the actual number of days in the Calculation Period divided by 365;
- (iii) if “**Actual/365 (Sterling)**” is specified hereon, the actual number of days in the Calculation Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;
- (iv) if “**Actual/360**” is specified hereon, the actual number of days in the Calculation Period divided by 360;

- (v) if “**30/360**”, “**360/360**” or “**Bond Basis**” is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“**Y₁**” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“**Y₂**” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**M₁**” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“**M₂**” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**D₁**” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D₁ will be 30; and

“**D₂**” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D₁ is greater than 29, in which case D₂ will be 30;

- (vi) if “**30E/360**” or “**Eurobond Basis**” is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“**Y₁**” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“**Y₂**” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**M₁**” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“**M₂**” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**D₁**” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D₁ will be 30; and

“**D₂**” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D₂ will be 30;

- (vii) if “**30E/360 (ISDA)**” is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“**Y₁**” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“**Y₂**” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**M₁**” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“**M₂**” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**D₁**” is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D₁ will be 30; and

“**D₂**” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D₂ will be 30;

- (viii) if “**Actual/Actual-ICMA**” is specified hereon,
 - (a) if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and
 - (b) if the Calculation Period is longer than one Determination Period, the sum of:
 - (x) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and
 - (y) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year

where:

“**Determination Period**” means the period from and including a Determination Date in any year to but excluding the next Determination Date; and

“**Determination Date**” means the date(s) specified as such hereon or, if none is so specified, the Interest Payment Date(s).

“**Euro-zone**” means the region comprised of member states of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community, as amended.

“**Interest Accrual Period**” means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Period Date and each

successive period beginning on (and including) an Interest Period Date and ending on (but excluding) the next succeeding Interest Period Date.

“Interest Amount” means:

- (i) in respect of an Interest Accrual Period, the amount of interest payable per Calculation Amount for that Interest Accrual Period and which, in the case of Fixed Rate Notes, and unless otherwise specified hereon, shall mean the Fixed Coupon Amount or Broken Amount specified hereon as being payable on the Interest Payment Date ending the Interest Period of which such Interest Accrual Period forms part; and
- (ii) in respect of any other period, the amount of interest payable per Calculation Amount for that period.

“Interest Commencement Date” means the Issue Date or such other date as may be specified hereon.

“Interest Determination Date” means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such hereon or, if none is so specified, (i) the first day of such Interest Accrual Period if the Specified Currency is Sterling or (ii) the day falling two Business Days in London for the Specified Currency prior to the first day of such Interest Accrual Period if the Specified Currency is neither Sterling nor euro or (iii) the day falling two TARGET Business Days prior to the first day of such Interest Accrual Period if the Specified Currency is euro.

“Interest Period” means the period beginning on and including the Interest Commencement Date and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date unless otherwise specified hereon.

“Interest Period Date” means each Interest Payment Date unless otherwise specified hereon.

ISDA Definitions means the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc., unless otherwise specified hereon.

“Rate of Interest” means the rate of interest payable from time to time in respect of this Note and that is either specified or calculated in accordance with the provisions hereon.

“Reference Rate” means the rate specified as such hereon.

“Relevant Screen Page” means such page, section, caption, column or other part of a particular information service as may be specified hereon (or any successor or replacement page, section, caption, column or other part of a particular information service).

“Specified Currency” means the currency specified as such hereon or, if none is specified, the currency in which the Notes are denominated.

“TARGET System” means the Trans-European Automated Real-Time Gross Settlement Express Transfer (known as TARGET2) System which was launched on 19 November 2007 or any successor thereto.

- (l) **Calculation Agent:** The Issuer shall procure that there shall at all times be one or more Calculation Agents if provision is made for them hereon and for so long as any Note is outstanding (as defined in the Trust Deed). Where more than one Calculation Agent is appointed in respect of the Notes, references in these Conditions to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under the Conditions. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the

Rate of Interest for an Interest Accrual Period or to calculate any Interest Amount, Instalment Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, or to comply with any other requirement, the Issuer shall (with the prior approval of the Trustee) appoint a leading bank or financial institution engaged in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid.

6 Redemption, Purchase and Options

(a) Redemption by Instalments and Final Redemption:

- (i) Unless previously redeemed, purchased and cancelled as provided in this Condition 6, each Note that provides for Instalment Dates and Instalment Amounts shall be partially redeemed on each Instalment Date at the related Instalment Amount specified hereon. The outstanding nominal amount of each such Note shall be reduced by the Instalment Amount (or, if such Instalment Amount is calculated by reference to a proportion of the nominal amount of such Note, such proportion) for all purposes with effect from the related Instalment Date, unless payment of the Instalment Amount is improperly withheld or refused, in which case, such amount shall remain outstanding until the Relevant Date relating to such Instalment Amount.
- (ii) Unless previously redeemed, purchased and cancelled as provided below, each Note shall be finally redeemed on the Maturity Date specified hereon at its Final Redemption Amount (which, unless otherwise provided hereon, is its nominal amount) or, in the case of a Note falling within paragraph (i) above, its final Instalment Amount.

(b) Early Redemption:

- (i) *Zero Coupon Notes:*
- (A) The Early Redemption Amount payable in respect of any Zero Coupon Note, the Early Redemption Amount of which is not linked to an index and/or a formula, upon redemption of such Note pursuant to Condition 6(c), Condition 6(d), Condition 6(e) or Condition 6(f) or upon it becoming due and payable as provided in Condition 10 shall be the Amortised Face Amount (calculated as provided below) of such Note unless otherwise specified hereon.
- (B) Subject to the provisions of sub-paragraph (C) below, the Amortised Face Amount of any such Note shall be the scheduled Final Redemption Amount of such Note on the Maturity Date discounted at a rate per annum (expressed as a percentage) equal to the Amortisation Yield (which, if none is shown hereon, shall be such rate as would produce an Amortised Face Amount equal to the issue price of the Notes if they were discounted back to their issue price on the Issue Date) compounded annually.
- (C) If the Early Redemption Amount payable in respect of any such Note upon its redemption pursuant to Condition 6(c), Condition 6(d), Condition 6(e) or Condition 6(f) or upon it becoming due and payable as provided in Condition 10 is not paid when due, the Early Redemption Amount due and payable in respect of such Note shall be the Amortised Face Amount of such Note as defined in sub-paragraph (B) above, except that such sub-paragraph shall have effect as though the date on which the Note becomes due and payable were the Relevant Date. The calculation of the Amortised Face Amount in

accordance with this sub-paragraph shall continue to be made (both before and after judgment) until the Relevant Date, unless the Relevant Date falls on or after the Maturity Date, in which case the amount due and payable shall be the scheduled Final Redemption Amount of such Note on the Maturity Date together with any interest that may accrue in accordance with Condition 5(c).

Where such calculation is to be made for a period of less than one year, it shall be made on the basis of the Day Count Fraction shown hereon.

- (ii) *Other Notes:* The Early Redemption Amount payable in respect of any Note (other than Notes described in (i) above), upon redemption of such Note pursuant to Condition 6(c), Condition 6(d), Condition 6(e) or Condition 6(f) or upon it becoming due and payable as provided in Condition 10, shall be the Final Redemption Amount unless otherwise specified hereon.

- (c) **Redemption for Taxation Reasons:** The Notes may be redeemed at the option of the Issuer in whole, but not in part, on any Interest Payment Date (if this Note is either a Floating Rate Note or an Index Linked Interest Note) or at any time (if this Note is neither a Floating Rate Note nor an Index Linked Interest Note), on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable) at their Early Redemption Amount (as described in Condition 6(b) above) (together with interest accrued to the date fixed for redemption), if (i) the Issuer (or, if the Guarantee were called, the Guarantors) has confirmed to the Trustee by giving the certificate described below immediately before the giving of such notice that:

- (i) it has or will become obliged to pay Additional Amounts (as defined in Condition 8) as a result of any change in, or amendment to, the laws or regulations of the Commonwealth of Australia or any political subdivision or, in each case, any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes; and
- (ii) such obligation cannot be avoided by the Issuer (or the Guarantor, as the case may be) taking reasonable measures available to it,

provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer (or the Guarantors, as the case may be) would be obliged to pay such Additional Amounts were a payment in respect of the Notes (or the Guarantee, as the case may be) then due. Prior to the publication of any notice of redemption pursuant to this Condition 6(c), the Issuer shall deliver to the Trustee a certificate signed by two Directors of the Issuer (or the Guarantor, as the case may be) stating that the obligation referred to in (i) above cannot be avoided by the Issuer (or the Guarantor, as the case may be) taking reasonable measures available to it an opinion of legal advisers to the effect that the Issuer or, as the case may be, the Guarantors has or will become obliged to pay such Additional Amounts as a result of such change or amendment and the Trustee shall be entitled to accept such certificate as sufficient evidence of the satisfaction of the condition precedent set out in (ii) above, in which event it shall be conclusive and binding on Noteholders and Couponholders.

- (d) **Redemption at the Option of the Issuer:** If Call Option is specified hereon, the Issuer may, on giving not less than 15 nor more than 30 days' irrevocable notice to the Noteholders (or such other notice period as may be specified hereon) redeem all or, if so provided, some of the Notes on any Optional Redemption Date. Any such redemption of Notes shall be at their Optional Redemption Amount specified hereon (which may be the Early Redemption Amount (as described in Condition 6(b) above)), together with interest accrued to the date fixed for redemption. Any such

redemption or exercise must relate to Notes of a nominal amount at least equal to the Minimum Redemption Amount to be redeemed specified hereon and no greater than the Maximum Redemption Amount to be redeemed specified hereon.

All Notes in respect of which any such notice is given shall be redeemed on the date specified in such notice in accordance with this Condition.

In the case of a partial redemption the notice to Noteholders shall also contain the certificate numbers of the Bearer Notes, or in the case of Registered Notes shall specify the nominal amount of Registered Notes drawn and the holder(s) of such Registered Notes, to be redeemed, which shall have been drawn in such place as the Trustee may approve and in such manner as it deems appropriate, subject to compliance with any applicable laws and stock exchange or other relevant authority requirements.

- (e) **Redemption at the Option of Noteholders:** If Put Option is specified hereon, the Issuer shall, at the option of the holder of any such Note, upon the holder of such Note giving not less than 15 nor more than 30 days' notice to the Issuer (or such other notice period as may be specified hereon) redeem such Note on the Optional Redemption Date(s) at its Optional Redemption Amount specified hereon (which may be the Early Redemption Amount (as described in Condition 6(b) above)), together with interest accrued to the date fixed for redemption.

To exercise such option the holder must deposit (in the case of Bearer Notes) such Note (together with all unmatured Receipts and Coupons and unexchanged Talons) with any Paying Agent or (in the case of Registered Notes) the Certificate representing such Note(s) with the Registrar or any Transfer Agent at its specified office, together with a duly completed option exercise notice ("**Exercise Notice**") in the form obtainable from any Paying Agent, the Registrar or any Transfer Agent (as applicable) within the notice period. No Note or Certificate so deposited and option exercised may be withdrawn (except as provided in the Agency Agreement) without the prior consent of the Issuer.

- (f) **Redemption for Change of Control:** If a Change of Control Put Event is specified hereon and a Change of Control Put Event occurs, the holder of any such Note will have the option (a "**Change of Control Put Option**") (unless prior to the giving of the relevant Change of Control Put Event Notice (as defined below) the Issuer has given notice of redemption under Condition 6(c) or Condition 6(d) above) to require the Issuer to redeem that Note on the Change of Control Put Date (as defined below) at its principal amount together with interest accrued to (but excluding) the Change of Control Put Date.

A "**Change of Control Put Event**" will be deemed to occur if:

- (i) a Change of Control occurs; and
- (ii) as a result of such a Change of Control the Applicable Rating which is current immediately prior to the occurrence of a Change of Control is withdrawn or reduced below a Standard & Poor's long term credit rating of A- (or the equivalent rating provided by another internationally recognised rating agency), provided that such withdrawal or reduction shall be deemed not to have occurred as a result of such Change of Control if the rating agency making the relevant withdrawal or reduction does not announce or publicly confirm that the withdrawal or reduction was the result, in whole or part, of the Change of Control.

Within five Business Days upon the Issuer becoming aware that a Change of Control Put Event has occurred the Issuer shall, and at any time upon the Trustee becoming similarly so aware the Trustee may, and if so requested by the holders of at least one-quarter in principal amount of the

Notes then outstanding or if so directed by an Extraordinary Resolution of the Noteholders, shall, (subject in each case to the Trustee being indemnified and/or secured to its satisfaction) give notice (a “**Change of Control Put Event Notice**”) to the Noteholders in accordance with Condition 16 specifying the nature of the Change of Control Put Event and the procedure for exercising the Change of Control Put Option.

To exercise the Change of Control Put Option, the holder of a Bearer Note must deliver such Note to the specified office of any Paying Agent at any time during normal business hours of such Paying Agent falling within the period (the “**Change of Control Put Period**”) of 30 days after a Change of Control Put Event Notice is given, accompanied by a duly signed and completed notice of exercise in the form (for the time being current) obtainable from the specified office of any Paying Agent (a “**Change of Control Put Notice**”). The Note should be delivered together with all Coupons appertaining thereto maturing after the date which is sixty days after the expiration of the Change of Control Put Period (the “**Change of Control Put Date**”), failing which the Paying Agent will require payment from or on behalf of the Noteholder of an amount equal to the face value of any missing such Coupon. Any amount so paid will be reimbursed to the Noteholder against presentation and surrender of the relevant missing Coupon (or any replacement therefor issued pursuant to Condition 6(f)) at any time after such payment, but before the expiry of the period of five years from the date on which such Coupon would have become due, but not thereafter. The Paying Agent to which such Note and Change of Control Put Notice are delivered will issue to the Noteholder concerned a non-transferable receipt in respect of the Note so delivered. Payment in respect of any Note so delivered will be made, if the holder duly specified a bank account in the Change of Control Put Notice to which payment is to be made, on the Change of Control Put Date by transfer to that bank account and, in every other case, on or after the Change of Control Put Date against presentation and surrender or (as the case may be) endorsement of such receipt at the specified office of any Paying Agent. A Change of Control Put Notice, once given, shall be irrevocable. For the purposes of these Conditions, receipts issued pursuant to this Condition 6(f) shall be treated as if they were Notes.

To exercise the Change of Control Put Option, the holder of a Registered Note must deposit the Certificate evidencing such Note(s) with the Registrar or any Transfer Agent at its specified office, together with a duly signed and completed Change of Control Put Notice obtainable from the Registrar or any Transfer Agent within the Change of Control Put Period. No Certificate so deposited and option so exercised may be withdrawn without the prior consent of the Issuer. Payment in respect of any Certificate so deposited will be made, if the holder duly specified a bank account in the Change of Control Put Notice to which payment is to be made, on the Change of Control Put Date by transfer to that bank account and, in every other case, by cheque drawn on a Bank and mailed to the holder (or to the first named of joint holders) of such Note at its address appearing in the Register.

The Issuer shall redeem or purchase (or procure the purchase of) the relevant Notes on the Change of Control Put Date unless previously redeemed (or purchased) and cancelled.

The Trustee is under no obligation to ascertain whether a Change of Control Put Event or Change of Control or any event which could lead to the occurrence of or could constitute a Change of Control Put Event or Change of Control has occurred, or to seek any confirmation from any rating agency pursuant to this Condition, and, until it shall have actual knowledge or notice pursuant to the Trust Deed to the contrary, the Trustee may assume that no Change of Control Put Event or Change of Control or other such event has occurred.

In this Condition 6(f):

“**Applicable Rating**” means the Standard & Poor’s long term credit rating of the Issuer or in the event that Standard & Poor’s shall, for any reason, no longer perform the functions of a securities rating agency or no longer provide a long term credit rating in respect of the Issuer, the long term credit rating of the Issuer provided by another internationally recognised rating agency designated by the Issuer in which cases the equivalent rating designation of that rating agency to those to Standard & Poor’s will apply.

“**Change of Control**” means, and shall be deemed to have occurred if, at any time the Initial Guarantor ceases to be at least 51% in aggregate beneficially (directly or indirectly) by the Cheung Kong Infrastructure Group and/or the Power Assets Group.

“**Cheung Kong Infrastructure Group**” means Cheung Kong Infrastructure Holdings Limited and its Subsidiaries.

“**Power Assets Group**” means Power Assets Holdings Limited (formerly known as Hongkong Electric Holdings Limited) and its Subsidiaries.

“**Standard & Poor’s**” means S&P Global Ratings (or its relevant Australian subsidiary) or its successors.

- (g) **Partly Paid Notes:** Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the provisions specified hereon.
- (h) **Purchases:** The Issuer and its Subsidiaries as defined in Condition 3 may at any time purchase Notes (provided that all unmatured Receipts and Coupons and unexchanged Talons relating thereto are attached thereto or surrendered therewith) in the open market or otherwise at any price.
- (i) **Cancellation:** All Notes (other than AMTNs) purchased by or on behalf of the Issuer or any of its Subsidiaries may be surrendered for cancellation, in the case of Bearer Notes, by surrendering each such Note together with all unmatured Receipts and Coupons and all unexchanged Talons to the Issuing and Paying Agent and, in the case of Registered Notes, by surrendering the Certificate representing such Notes to the Registrar and, in each case, if so surrendered, shall, together with all Notes redeemed by the Issuer, be cancelled forthwith (together with all unmatured Receipts and Coupons and unexchanged Talons attached thereto or surrendered therewith). All AMTNs purchased by or on behalf of the Issuer or any of its Subsidiaries may be cancelled, and such cancellation of an AMTN will be taken to have occurred upon redemption of the Note or an entry being made in the Register that the Note has been redeemed or cancelled or transferred to the Issuer. Any Notes so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer and the Guarantors in respect of any such Notes shall be discharged.

7 **Payments and Talons**

- (a) **Bearer Notes:** Payments of principal and interest in respect of Bearer Notes shall, subject as mentioned below, be made against presentation and surrender of the relevant Receipts (in the case of payments of Instalment Amounts other than on the due date for redemption and provided that the Receipt is presented for payment together with its relative Note), Notes (in the case of all other payments of principal and, in the case of interest, as specified in Condition 7(f)(vi)) or Coupons (in the case of interest, save as specified in Condition 7(f)(ii)), as the case may be, at the specified office of any Paying Agent outside the United States by a cheque payable in the relevant currency drawn on, or, at the option of the holder, by transfer to an account denominated in such currency with, a Bank. “**Bank**” means a bank in the principal financial centre for such currency or, in the case of euro, in a city in which banks have access to the TARGET System.

(b) **Registered Notes:**

- (i) Payments of principal (which for the purposes of this Condition 7(b) shall include final Instalment Amounts but not other Instalment Amounts) in respect of Registered Notes shall be made against presentation and surrender of the relevant Certificates at the specified office of any of the Transfer Agents or of the Registrar and in the manner provided in paragraph (ii) below.
- (ii) Interest (which for the purpose of this Condition 7(b) shall include all Instalment Amounts other than final Instalment Amounts) on Registered Notes shall be paid to the person shown on the Register at the close of business on the fifteenth day before the due date for payment thereof (the “**Record Date**”). Payments of interest on each Registered Note shall be made in the relevant currency by cheque drawn on a Bank and mailed to the holder (or to the first named of joint holders) of such Note at its address appearing in the Register. Upon application by the holder to the specified office of the Registrar or any Transfer Agent before the Record Date, such payment of interest may be made by transfer to an account in the relevant currency maintained by the payee with a Bank.

(c) **Payments in respect of AMTNs**

- (i) Payments of principal and interest in respect of AMTNs will be made in Australian dollars to the persons registered in the Register on the relevant Record Date (as defined below) as the holders of such AMTNs or (if so required by the Trustee by notice in writing following the occurrence of an Event of Default or Potential Event of Default (as defined in the Trust Deed) or following receipt by the Trustee of any money which it proposes to pay under clause 2.5 of the Trust Deed) to the Trustee. Payments to holders in respect of each AMTN will be made: (i) if the AMTN is held by Austraclear and entered in the Austraclear System, by crediting on the relevant Interest Payment Date, the Maturity Date or other date on which payment is due the amount then due to the account or accounts to which payments should be made in accordance with the Austraclear Regulations or as otherwise agreed with Austraclear; and (ii) if the AMTN is not held by Austraclear and entered in the Austraclear System, by crediting on the Interest Payment Date, the Maturity Date or other date on which payment is due, the amount then due to an account in Australia previously notified by the Noteholder(s) of the AMTN to the Issuer and the Registrar.
- (ii) Payment of an amount due in respect of an AMTN to the holder or otherwise in accordance with this Condition or to the Trustee discharges the obligation of the Issuer to all persons to pay that amount.
- (iii) Payments will for all purposes be taken to be made when the Issuer or the Agent gives irrevocable instructions for the making of the relevant payment by electronic transfer, being instructions which would be reasonably expected to result, in the ordinary course of banking business, in the funds transferred reaching the account to which the payment is to be made on the same day as the day on which the instructions are given.
- (iv) If, following the application of Condition 7(i) (*Non-Business Days*), a payment is due to be made under an AMTN to an account on a Payment Day on which banks are not open for general banking business in the city in which the account is located, the Noteholder is not entitled to payment of such amount until the next Payment Day on which banks in such city are open for general banking business and is not entitled to any interest or other payment in respect of any such delay.

- (v) Payments will be subject in all cases to any fiscal or other laws and regulations applicable thereto but without prejudice to the provisions of Condition 8 (*Taxation*).
- (vi) In these Conditions in relation to AMTNs, “**Record Date**” means, in the case of payments of principal or interest, close of business on the date which is the eighth calendar day before the due date for the relevant payment of principal or interest.
- (d) **Payments in the United States:** Notwithstanding the foregoing, if any Bearer Notes are denominated in U.S. dollars, payments in respect thereof may be made at the specified office of any Paying Agent in New York City in the same manner as aforesaid if (i) the Issuer shall have appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment of the amounts on the Notes in the manner provided above when due, (ii) payment in full of such amounts at all such offices is illegal or effectively precluded by exchange controls or other similar restrictions on payment or receipt of such amounts and (iii) such payment is then permitted by United States law, without involving, in the opinion of the Issuer, any adverse tax consequence to the Issuer.
- (e) **Payments subject to Laws:** All payments are subject in all cases to (i) any applicable fiscal or other laws, regulations and directives in the place of payment, but without prejudice to the provisions of Condition 8 and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the “**Code**”) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 8 (*Taxation*)) any law implementing an intergovernmental approach thereto. No commission or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.
- (f) **Appointment of Agents:** The Issuing and Paying Agent, the Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent initially appointed by the Issuer and the Guarantor and their respective specified offices are listed in the Agency Agreement or the Australian Agency Agreement (as the case may be). Subject to the terms of the Trust Deed, the Agency Agreement and the Australian Agency Agreement, the Issuing and Paying Agent, the Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent act solely as agents of the Issuer and the Guarantor and do not assume any obligation or relationship of agency or trust for or with any Noteholder or Couponholder. The Issuer and the Guarantor reserve the right at any time with the approval of the Trustee to vary or terminate the appointment of the Issuing and Paying Agent, any other Paying Agent, the Registrar, any Transfer Agent or the Calculation Agent(s) and to appoint additional or other Paying Agents or Transfer Agents, provided that the Issuer shall at all times maintain (i) an Issuing and Paying Agent, (ii) a Registrar in relation to Registered Notes, (iii) a Transfer Agent in relation to Registered Notes, (iv) one or more Calculation Agent(s) where the Conditions so require, and (v) such other agents as may be required by any other stock exchange on which the Notes may be listed in each case, as approved by the Trustee.

In addition, the Issuer and the Guarantor shall forthwith appoint a Paying Agent in New York City in respect of any Bearer Notes denominated in U.S. dollars in the circumstances described in paragraph (c) above.

Notice of any such change or any change of any specified office shall promptly be given to the Noteholders.

(g) **Unmatured Coupons and Receipts and unexchanged Talons:**

- (i) Upon the due date for redemption of Bearer Notes which comprise Fixed Rate Notes (other than Dual Currency Notes or Index linked Notes), such Notes should be surrendered for payment together with all unmaturing Coupons (if any) relating thereto, failing which an amount equal to the face value of each missing unmaturing Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unmaturing Coupon that the sum of principal so paid bears to the total principal due) shall be deducted from the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, due for payment. Any amount so deducted shall be paid in the manner mentioned above against surrender of such missing Coupon within a period of 10 years from the Relevant Date for the payment of such principal (whether or not such Coupon has become void pursuant to Condition 9).
 - (ii) Upon the due date for redemption of any Bearer Note comprising a Floating Rate Note, Dual Currency Note or Index Linked Note, unmaturing Coupons relating to such Note (whether or not attached) shall become void and no payment shall be made in respect of them.
 - (iii) Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon.
 - (iv) Upon the due date for redemption of any Bearer Note that is redeemable in instalments, all Receipts relating to such Note having an Instalment Date falling on or after such due date (whether or not attached) shall become void and no payment shall be made in respect of them.
 - (v) Where any Bearer Note that provides that the relative unmaturing Coupons are to become void upon the due date for redemption of those Notes is presented for redemption without all unmaturing Coupons, and where any Bearer Note is presented for redemption without any unexchanged Talon relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may require.
 - (vi) If the due date for redemption of any Note is not a due date for payment of interest, interest accrued from the preceding due date for payment of interest or the Interest Commencement Date, as the case may be, shall only be payable against presentation (and surrender if appropriate) of the relevant Bearer Note or Certificate representing it, as the case may be. Interest accrued on a Note that only bears interest after its Maturity Date shall be payable on redemption of such Note against presentation of the relevant Note or Certificate representing it, as the case may be.
- (h) **Talons:** On or after the Interest Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Bearer Note, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Issuing and Paying Agent in exchange for a further Coupon sheet (and if necessary another Talon for a further Coupon sheet) (but excluding any Coupons that may have become void pursuant to Condition 9).
- (i) **Non-Business Days:** If any date for payment in respect of any Note, Receipt or Coupon is not a business day, the holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this paragraph, “**business day**” means a day (other than a Saturday or a Sunday) on which banks and foreign exchange

markets are open for business in the relevant place of presentation, in such jurisdictions as shall be specified as “**Financial Centres**” hereon and:

- (i) (in the case of a payment in a currency other than euro) where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which foreign exchange transactions may be carried on in the relevant currency in the principal financial centre of the country of such currency (and if the currency is Australian dollars or New Zealand dollars shall be Sydney and Auckland, respectively); or
- (ii) (in the case of a payment in euro) which is a TARGET Business Day.

8 **Taxation**

All payments by or on behalf of the Issuer or the Guarantors in respect of the Notes, the Receipts and the Coupons shall be made free and clear of, and without withholding or deduction for, any present or future taxes, duties, assessments or governmental charges of whatever nature (“**Taxes**”) imposed, levied, collected, withheld or assessed by the Commonwealth of Australia or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. In that event, the Issuer or, as the case may be, the Guarantor shall pay such additional amounts (“**Additional Amounts**”) as shall result in receipt by the Noteholders and Couponholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such Additional Amounts shall be payable in relation to any payment with respect to any Note, Receipt or Coupon:

- (a) **Other connection:** to, or to a third party on behalf of, a holder who is liable to the Taxes in respect of such Note, Receipt or Coupon by reason of his having some connection with the Commonwealth of Australia other than the mere holding of the Note, Receipt or Coupon provided that such a holder shall not be regarded as being connected with the Commonwealth of Australia for the reason that such a holder is a resident of the Commonwealth of Australia within the meaning of the *Income Tax Assessment Act 1936* (Cth) of Australia as amended and replaced (the “**Australian Tax Act**”) where, and to the extent that, such tax is payable by reason of Section 128B(2A) of the Australian Tax Act; or
- (b) **Presentation more than 30 days after the Relevant Date:** presented (or in respect of which the Certificate representing it is presented) for payment more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such Additional Amounts on presenting it for payment on the thirtieth day or, in the case of an AMTN, a claim for payment being made after, such thirtieth day assuming that day to have been a business day (as defined in Condition 7(i) (*Non-Business Days*));
- (c) **Associate:** on account of Taxes which are payable by reason of the holder being an Offshore Associate of the Issuer for the purposes of Section 128F of the Australian Tax Act; or
- (d) “**Offshore Associate**” means, in respect of a Note, an Associate (within the meaning in section 128F(9) of the Australian Tax Act) of an entity that is either:
 - (i) a non-resident of Australia (as defined in section 6 of the Australian Tax Act) and the Note or an interest in the Note was not being, or would not be, acquired by the Associate in carrying on a business in Australia at or through a permanent establishment of the Associate in Australia; or
 - (j) a resident of Australia (as defined in section 6 of the Australian Tax Act) and the Note or an interest in the Note was being, or would be, acquired by the Associate in carrying on a business in a country outside Australia at or through a permanent establishment of the Associate in that country;

and, in either case, is not acquiring the Note in the capacity of a dealer, manager or underwriter in relation to the replacement of the Note or clearing house, payment agent, custodian, funds manager or responsible entity of a registered scheme within the meaning of the Corporation Act 2001;

- (e) **Provision of information:** in respect of a payment to, or to a third party on behalf of, a holder, in circumstances where such withholding or deduction would not have been required if the holder or any person acting on his behalf had provided to the Issuer an appropriate tax file number, business number or details of an exemption from providing those numbers; or
- (f) **Tax exemption:** held by or on behalf of a holder who could lawfully avoid (but has not so avoided) such deduction or withholding by complying, or procuring that any third party complies with any statutory requirements, by complying with or requesting the Issuer to provide information concerning the nationality, residence, identity, tax identification number or address of such holder or by making or procuring that any third party makes a declaration of non-resident or other similar claim for exemption to any Tax authority.

As used in these Conditions, “**Relevant Date**” in respect of any Note, Receipt or Coupon means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Noteholders that, upon further presentation of the Note (or relative Certificate), Receipt or Coupon being made in accordance with the Conditions, such payment will be made, provided that payment is in fact made upon such presentation.

9 Prescription

Claims against the Issuer and/or the Guarantor for payment in respect of the Notes, Receipts and Coupons (which, for this purpose, shall not include Talons) shall be prescribed and become void unless made within 10 years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect of them.

10 Events of Default

If any of the following events (“**Events of Default**”) occurs and is continuing, the Trustee at its discretion may, and if so requested by holders of at least one-quarter in nominal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution shall, give notice to the Issuer that the Notes are, and they shall immediately become, due and payable at their Early Redemption Amount together (if applicable) with accrued interest as provided in the Trust Deed:

- (i) **Non-Payment:** default is made for more than 14 days (in the case of interest) or 7 days (in the case of principal) in the payment on the due date of interest or principal in respect of any of the Notes; or
- (ii) **Breach of Other Obligations:** the Issuer or any Guarantor does not perform or comply with any one or more of its other obligations under the Notes or the Trust Deed which default is incapable of remedy or, if in the opinion of the Trustee capable of remedy, is not in the opinion of the Trustee remedied within 30 days after notice of such default shall have been given to the Issuer and the Guarantors by the Trustee; or
- (iii) **Cross-Default:** (A) any other present or future indebtedness of the Issuer or any Guarantor for or in respect of moneys borrowed or raised becomes due and payable prior to its stated maturity by reason of any actual or potential default, event of default or the like (howsoever described), or (B) any such indebtedness is not paid when due or, as the case may be, within any originally applicable grace period, or (C) the Issuer or any Guarantor fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any moneys

borrowed or raised provided that the aggregate amount of the relevant indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned above in this paragraph (iii) have occurred equals or exceeds A\$50,000,000 (or its equivalent in any other currency or currencies); or

- (iv) **Enforcement Proceedings:** a government appropriation, distress, attachment or execution or other legal process in an amount of at least A\$50,000,000 (or its equivalent in any other currency or currencies) is enforced against any part of the property, assets or revenues of the Issuer or any Guarantor and is not paid out, discharged or withdrawn within 30 days of the enforcement; or
- (v) **Security Enforced:** any mortgage, charge, pledge, lien or other encumbrance, present or future, created or assumed by the Issuer or any Guarantor in respect of indebtedness in an amount of at least A\$50,000,000 (or its equivalent in any other currency or currencies) becomes enforceable and any step is taken to enforce it (including the taking of possession or the appointment of a receiver, administrative receiver, administrator manager or other similar person); or
- (vi) **Insolvency:** any of the Issuer or any Guarantor is (or is deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts, stops, suspends or threatens to stop or suspend payment of all or a material part of its debts, proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts or a moratorium is agreed or declared or comes into effect in respect of or affecting all or any part of the debts of the Issuer or any Guarantor; or
- (vii) **Winding-up:** an administrator is appointed, an order is made or an effective resolution passed for the winding-up or dissolution or administration of the Issuer, or any Guarantor, or the Issuer or any Guarantor shall apply or petition for a winding-up or administration order in respect of itself or cease to carry on all or substantially all of its business or operations, in each case except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation (i) on terms approved by the Trustee or by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders or (ii) in the case of a Guarantor, whereby the undertaking and assets of the Guarantor are transferred to or otherwise vested in the Issuer or another of its Subsidiaries; or
- (viii) **Illegality:** it is or will become unlawful for the Issuer or any Guarantor to perform or comply with any one or more of its material obligations under any of the Notes or the Trust Deed; or
- (ix) **Enforceability:** a material provision of the Notes or the Trust Deed is void, voidable or unenforceable or is claimed to be so by the Issuer or a Guarantor, or the Issuer or a Guarantor claims to be entitled to, terminate, rescind or avoid any material provision of the Notes or the Trust Deed; or
- (x) **Guarantee:** the Guarantee is not (or is claimed by a Guarantor not to be) in full force and effect; or
- (xi) **Distribution Licence:** any Distribution Licence is revoked or cancelled or otherwise ceases to be maintained in full force and effect (in each case, other than (i) in circumstances where a license or similar authorisation or permission on substantially similar terms is granted to the Initial Guarantor or (ii) in circumstances where a regulatory restructure results in a distribution licence of the type previously held by Initial Guarantor no longer being required to be held by the Initial Guarantor in order to carry on the Core Business), in each case, in a way which is likely to have a Material Adverse Effect; or
- (xii) **Analogous Events:** any event occurs that under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing paragraphs.

For the purposes of this Condition:

“**Core Business**” means the business of electricity distribution and activities reasonably incidental to it in South Australia.

“**Distribution Licence**” means the electricity distribution licence issued under the Electricity Act 1996 of South Australia to the Issuer and transferred to the Guarantor by order of the Treasurer under section 25 of the Restructuring and Disposal Act 1999 of South Australia on 11 October 1999, as the same may be varied, amended or replaced from time to time.

“**Material Adverse Effect**” means something which materially adversely affects the ability of the Issuer or a Guarantor to perform its material obligations (including, without limitation, payment obligations) under the Notes, the Trust Deed or the Australian Deed Poll.

11 Meetings of Noteholders, Modification, Waiver and Substitution

- (a) **Meetings of Noteholders:** The Trust Deed and the Australian Deed Poll (in the case of AMTNs) each contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any provisions of the Trust Deed or the Australian Deed Poll (as applicable). Such a meeting may be convened by Noteholders holding not less than 10 per cent. in nominal amount of the Notes for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution shall be two or more persons holding or representing a clear majority in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting two or more persons being or representing Noteholders whatever the nominal amount of the Notes held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to amend the dates of maturity or redemption of the Notes, any Instalment Date or any date for payment of interest or Interest Amounts on the Notes, (ii) to reduce or cancel the nominal amount of, or any Instalment Amount of, or any premium payable on redemption of, the Notes, (iii) to reduce the rate or rates of interest in respect of the Notes or to vary the method or basis of calculating the rate or rates or amount of interest or the basis for calculating any Interest Amount in respect of the Notes, (iv) if a Minimum and/or a Maximum Rate of Interest, Instalment Amount or Redemption Amount is shown hereon, to reduce any such Minimum and/or Maximum, (v) to vary any method of, or basis for, calculating the Final Redemption Amount, the Early Redemption Amount or the Optional Redemption Amount, including the method of calculating the Amortised Face Amount, (vi) to vary the currency or currencies of payment or denomination of the Notes (vii) to modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass the Extraordinary Resolution, or (viii) to modify or cancel the Guarantee, in which case the necessary quorum shall be two or more persons holding or representing not less than 75 per cent, or at any adjourned meeting not less than 25 per cent, in nominal amount of the Notes for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Noteholders (whether or not they were present at the meeting at which such resolution was passed) and on all Couponholders.

The Trust Deed or the Australian Deed Poll (as applicable) provides that a resolution in writing signed by or on behalf of the holders of not less than 75 per cent. in nominal amount of the Notes outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

These Conditions may be amended, modified or varied in relation to any Series of Notes by the terms of the relevant Pricing Supplement in relation to such Series.

- (b) **Modification of the Trust Deed:** The Trustee may agree, without the consent of the Noteholders or Couponholders, to (i) any modification of any of the provisions of the Trust Deed, the Australian Deed Poll, the Agency Agreement or the Australian Agency Agreement that is of a formal, minor or technical nature or is made to correct a manifest error or to comply with any mandatory provision of law, and (ii) any other modification (except as mentioned in the Trust Deed or the Australian Deed Poll), and any waiver or authorisation of any breach or proposed breach, of any of the provisions of the Trust Deed, the Australian Deed Poll, the Agency Agreement or the Australian Agency Agreement that is in the opinion of the Trustee not materially prejudicial to the interests of the Noteholders. Any such modification, authorisation or waiver shall be binding on the Noteholders and the Couponholders and, unless the Trustee shall otherwise agree, such modification shall be notified to the Noteholders as soon as practicable.
- (c) **Substitution:** The Trustee may agree (but is not obliged to), subject to such amendment of the Trust Deed and the Australian Deed Poll and such other conditions as the Trustee may require, but without the consent of the Noteholders or the Couponholders, to the substitution of the Issuer's successor in business or any Subsidiary of the Issuer or its successor in business or of each Guarantor or its successor in business or any Subsidiary of the Guarantor or its successor in business in place of the Issuer or Guarantor, or of any previous substituted company, as principal debtor or Guarantor under the Trust Deed and (in the case of AMTNs) the Australian Deed Poll and the Notes. In the case of such a substitution the Trustee may agree, without the consent of the Noteholders or the Couponholders, to a change of the law governing the Notes, the Receipts, the Coupons, the Talons, the Trust Deed and/or the Australian Deed Poll provided that such change would not in the opinion of the Trustee be materially prejudicial to the interests of the Noteholders.
- (d) **Entitlement of the Trustee:** In connection with the exercise of its functions (including but not limited to those referred to in this Condition) the Trustee shall have regard to the interests of the Noteholders as a class and shall not have regard to the consequences of such exercise for individual Noteholders or Couponholders and the Trustee shall not be entitled to require, nor shall any Noteholder or Couponholder be entitled to claim, from the Issuer or the Guarantors any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders or Couponholders.

12 Enforcement

At any time after the Notes become due and payable, the Trustee may, at its discretion and without further notice, institute such proceedings against the Issuer and/or the Guarantors as it may think fit to enforce the terms of the Trust Deed, the Australian Deed Poll, the Notes, the Receipts and the Coupons, but it need not take any such proceedings unless (a) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Noteholders holding at least one-quarter in nominal amount of the Notes outstanding, and (b) it shall have been indemnified and/or secured and/or pre-funded to its satisfaction. No Noteholder, Receiptholder or Couponholder may proceed directly against the Issuer or the Guarantors unless the Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing.

13 Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility. The Trustee is entitled to enter into business transactions with the Issuer, the Guarantors and any entity related to the Issuer or the Guarantors without accounting for any profit.

The Trustee may rely without liability to Noteholders or Couponholders on a report, confirmation or certificate or any advice of any accountants, financial advisers, financial institution or any other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Trustee or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee may accept and shall be entitled to rely on any such report, confirmation or certificate or advice and such report, confirmation or certificate or advice shall be binding on the Issuer, the Trustee and the Noteholders.

14 Replacement of Notes, Certificates, Receipts, Coupons and Talons

If a Note, Certificate, Receipt, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations and stock exchange or other relevant authority regulations, at the specified office of the Issuing and Paying Agent in Luxembourg (in the case of Bearer Notes, Receipts, Coupons or Talons) and of the Registrar (in the case of Certificates) or such other Paying Agent or Transfer Agent, as the case may be, as may from time to time be designated by the Issuer for the purpose and notice of whose designation is given to Noteholders, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, *inter alia*, that if the allegedly lost, stolen or destroyed Note, Certificate, Receipt, Coupon or Talon is subsequently presented for payment or, as the case may be, for exchange for further Coupons, there shall be paid to the Issuer on demand the amount payable by the Issuer in respect of such Notes, Certificates, Receipts, Coupons or further Coupons) and otherwise as the Issuer may require. Mutilated or defaced Notes, Certificates, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

15 Further Issues

The Issuer may from time to time without the consent of the Noteholders or Couponholders create and issue further securities having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest on them) and so that such further issue shall be consolidated and form a single series with an outstanding Series. References in these Conditions to the Notes include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the Notes.

16 Notices

Notices to the holders of Registered Notes or AMTNs shall be mailed to them at their respective addresses in the Register and deemed to have been given on the fourth weekday (being a day other than a Saturday or a Sunday) after the date of mailing. Alternatively, notices to holders of AMTNs may be given by being published in a leading daily newspaper of general circulation in Australia. It is expected that such notices will normally be published in the *Australian Financial Review*. Notices to the holders of Bearer Notes shall be valid if published in a daily newspaper of general circulation in London (which is expected to be the *Financial Times*). If in the opinion of the Trustee any such publication is not practicable, notice shall be validly given if published in another leading daily English language newspaper with general circulation in Europe. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made, as provided above.

Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the holders of Bearer Notes in accordance with this Condition.

So long as the Notes are represented by a Global Note or a Global Certificate and such Global Note or Global Certificate is held on behalf of Euroclear or Clearstream, Luxembourg, or any other clearing system, notices to the holders of Notes of that Series may be given by delivery of the relevant notice to that

clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions or by delivery of the relevant notice to the holder of the Global Note.

17 CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

18 Governing Law and Jurisdiction

- (a) **Governing Law:** The Trust Deed, the Notes (other than the AMTNs), the Receipts, the Coupons and the Talons and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law. The Australian Deed Poll and the AMTNs are governed by, and shall be construed in accordance with, the laws of Victoria, Australia.
- (b) **Jurisdiction:** The Courts of England are to have jurisdiction to settle any disputes that may arise out of or in connection with any Notes (other than the AMTNs), Receipts, Coupons or Talons or the Guarantee (as it applies to Notes other than AMTNs) and accordingly any legal action or proceedings arising out of or in connection with any Notes (other than the AMTNs), Receipts, Coupons or Talons or the Guarantee (as it applies to Notes other than AMTNs) (“**Proceedings**”) may be brought in such courts. Each of the Issuer and the Guarantors have in the Trust Deed irrevocably submitted to the jurisdiction of such courts.
- (c) **Service of Process:** Each of the Issuer and the Guarantors have in the Trust Deed irrevocably appointed an agent in England to receive, for it and on its behalf, service of process in any Proceedings in England.
- (d) **AMTNs:** The AMTNs, the Australian Deed Poll and (unless otherwise specified in the applicable Pricing Supplement) the Australian Agency Agreement will be governed by, and construed in accordance with, the laws in force in Victoria, Australia, save that the provisions of Condition 10 (*Events of Default*), Condition 11 (*Meetings of Noteholders*) and Condition 12 (*Enforcement*) and definitions used therein shall be interpreted so as to have the same meaning they would have if governed by English law. In the case of AMTNs, the Issuer has irrevocably agreed for the benefit of Noteholders that the courts of Victoria, Australia are to have jurisdiction to settle any disputes which may arise out of or in connection with the AMTNs, the Guarantee (as it applies to AMTNs) the Australian Deed Poll and the Australian Agency Agreement and that accordingly any suit, action or proceedings arising out of or in connection with the AMTNs, the Guarantee (as it applies to AMTNs) the Australian Deed Poll or the Australian Agency Agreement may be brought in such courts.

FORM OF PRICING SUPPLEMENT

Set out below is the form of Pricing Supplement which will be completed for each Tranche of Notes issued under the Programme.

Pricing Supplement dated [●]

ETSA Utilities Finance Pty Ltd

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]

**Guaranteed by [SA Power Networks (an Australian partnership established and trading as a general partnership under the laws of South Australia between CKI Utilities Development Limited, PAI Utilities Development Limited, Spark Infrastructure SA (No1) Pty Ltd, Spark Infrastructure SA (No2) Pty Ltd and Spark Infrastructure SA (No3) Pty Ltd)]
under the €2,000,000,000
Euro Medium Term Note Programme**

PART A – CONTRACTUAL TERMS

This document constitutes the Pricing Supplement for the Notes described herein. This document must be read in conjunction with the Offering Circular dated [●] [and the supplement to it dated [●]] (the “**Offering Circular**”). Full information on the Issuer, the Guarantors and the offer of the Notes is only available on the basis of the combination of this Pricing Supplement and the Offering Circular. [Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the Conditions) set forth in the Offering Circular dated [original date] [and the supplement dated [●]] which are incorporated by reference in the Offering Circular.]¹

[PROHIBITION OF SALES TO EEA RETAIL INVESTORS] — The Notes are not intended[, from 1 January 2018,]² to be offered, sold or otherwise made available to and[, with effect from such date,]³ should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“EEA”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (“MiFID II”); or (ii) a customer within the meaning of Directive 2002/92/EC (“IMD”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently, no key information document required by Regulation (EU) No 1286/2014 (the “PRIIPs Regulation”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.]

[Include whichever of the following apply or specify as “Not Applicable” (N/A). Note that the numbering should remain as set out below, even if “Not Applicable” is indicated for individual paragraphs or sub-paragraphs. Italics denote guidance for completing the Pricing Supplement.]

- | | | |
|----------|----------------------|--|
| 1 | [(i)] Issuer: | ETSA Utilities Finance Pty Ltd |
| | [[(ii)] Guarantors: | [SA Power Networks (an Australian partnership established and trading as a general partnership under the |

¹ Only include this language where it is a fungible issue and the original Tranche was issued under an Offering Circular with a different date.

² Do not include this date reference in pricing supplements for offers concluded on or after 1 January 2018.

³ Do not include this date reference in pricing supplements for offers concluded on or after 1 January 2018.

		laws of South Australia between CKI Utilities Development Limited, PAI Utilities Development Limited, Spark Infrastructure SA (No1) Pty Ltd, Spark Infrastructure SA (No2) Pty Ltd and Spark Infrastructure SA (No3) Pty Ltd]
2	[(i)] Series Number:	[●]
	[(ii)] Tranche Number:	[●] ⁴
	[(iii)] Date on which the Notes become fungible:	[Not Applicable/The Notes shall be consolidated, form a single series and be interchangeable for trading purposes with the <i>[insert description of the Series]</i> on <i>[insert date/the Issue Date/exchange of the Temporary Global Note for interests in the Permanent Global Note, as referred to in paragraph 24 below [which is expected to occur on or about [insert date]].]</i>
3	Specified Currency or Currencies:	[●]
4	Aggregate Nominal Amount	[●]
	[(i)] Series:	[●]
	[(ii)] Tranche:	[●]
5	Issue Price:	[●] per cent. of the Aggregate Nominal Amount [plus accrued interest from <i>[insert date]</i> (if applicable)]
6	(i) Specified Denominations:	[●] ⁵ ⁶
	(ii) Calculation Amount: ⁷	[●]

⁴ If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible.

⁵ Section 6: Add the following language if the programme allows for issues of securities with a maturity of less than one year and the issuer is not an authorised person permitted to accept deposits or an exempt person under the UK Financial Services and Markets Act 2000. Delete square-bracketed text for issuers incorporated in the UK or within section 418 FSMA. The issue of securities with a maturity of less than one year by such issuers, where the issue proceeds are to be accepted in the United Kingdom, or, in the case of issuers incorporated in the UK or within section 418 FSMA in any country, will be subject to section 19 FSMA unless their denomination is £100,000 or more (or its equivalent in other currencies) and they are only issued to “professionals” within Article 9(2)(a) of the Financial Services and Markets Act (Regulated Activities) Order 2001:

“Notes [(including Notes denominated in Sterling) in respect of which the issue proceeds are to be accepted by the issuer in the United Kingdom or whose issue otherwise constitutes a contravention of Section 19 FSMA and] which have a maturity of less than one year must have a minimum redemption value of £100,000 (or its equivalent in other currencies).”

Add appropriate provisions to terms and conditions if included.

⁶ If the specified denomination is expressed to be €100,000 or its equivalent and multiples of a lower principal amount (for example €1,000), insert the additional wording below which follows the Guidance Note published by ICMA in November 2006 (or its replacement from time to time).

“€100,000 and integral multiples of [€1,000] in excess thereof up to and including [€199,000]. No notes in definitive form will be issued with a denomination above [€199,000].”

⁷ The applicable Calculation Amount (which is used for the calculation of interest and redemption amounts) will be (i) if there is only one Specified Denomination, the Specified Denomination of the relevant Notes or (ii) if there are several Specified Denominations or the circumstances referred to in Note 6 above apply (e.g. Specified Denominations of €100,000 and multiples of €1,000), the highest common factor of those Specified Denominations (note: there must be a common factor in the case of two or more Specified Denominations). If “Calculation Amount” is to be used in the Pricing Supplement, corresponding references to the Calculation Amount for interest, put and call options and redemption amount calculation purposes should be included in the terms and conditions set out in the base offering circular. Note that a Calculation Amount of less than 1,000 units of the relevant currency may result in practical difficulties for paying agents and/or ICSDs who should be consulted if such an amount is proposed.

- 7 (i) Issue Date: [●]
- (ii) Interest Commencement Date [Specify/Issue Date/Not Applicable]⁸
- 8 Maturity Date: [Specify date or (for Floating Rate Notes) Interest Payment Date falling in or nearest to the relevant month and year]
- 9 Interest Basis: [●] [per cent. Fixed Rate]
- [[specify reference rate] +/- [●] per cent. Floating Rate]
- [Zero Coupon]
- [Index Linked Interest]
- [Other (specify)]
- (further particulars specified below)
- 10 Redemption/Payment Basis: [Redemption at par]
- [Index Linked Redemption]
- [Dual Currency]
- [Partly Paid]
- [Instalment]
- [Other (specify)]
- 11 Change of Interest or Redemption/Payment Basis: [Specify details of any provision for convertibility of Notes into another interest or redemption/ payment basis]
- [Not Applicable]
- 12 Put/Call Options: [Investor Put]
- [Issuer Call]
- [(further particulars specified below)]
- 13 [(i)] Status of the Notes: [Senior]
- [(ii)] Status of the Guarantee: [Senior]
- PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE
- 14 Fixed Rate Note Provisions [Applicable/Not Applicable]
- (If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Rate[(s)] of Interest: [●] per cent. per annum payable in arrears on each Interest Payment Date
- (ii) Interest Payment Date(s): [●] in each year
- (iii) Fixed Coupon Amount[(s)]: [●] per Calculation Amount
- (iv) Broken Amount(s): [●] per Calculation Amount, payable on the Interest

⁸ An Interest Commencement Date will not be relevant for certain Notes, for example Zero Coupon Notes.

	Payment Date falling [in/on] [●]
(v) Day Count Fraction:	[30/360 / Actual/Actual (ICMA) / specify other]
(vi) [Determination Dates:	[●] in each year (<i>insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon. N.B. only relevant where Day Count Fraction is Actual/Actual (ICMA))</i>)]
(vii) [Ratings Step-up/Step-down:	[Applicable/Not Applicable]
[Step-up/Step-down Margin:	[●] per cent. per annum]]
(viii) Other terms relating to the method of calculating interest for Fixed Rate Notes:	[Not Applicable/give details]
15 Floating Rate Note Provisions	[Applicable/Not Applicable] (If not applicable, delete the remaining sub-paragraphs of this paragraph)
(i) Interest Period(s):	[●] [[, subject to adjustment in accordance with the Business Day Convention set out in (iv) below/, not subject to any adjustment[, as the Business Day Convention in (v) below is specified to be Not Applicable]]]
(ii) Specified Interest Payment Dates:	[[●] in each year[, subject to adjustment in accordance with the Business Day Convention set out in (iv) below/, not subject to any adjustment[, as the Business Day Convention in (iv) below is specified to be Not Applicable]]]
(iii) Interest Period Date:	[Not Applicable]/ [●][in each year[, subject to adjustment in accordance with the Business Day Convention set out in (v) below/, not subject to any adjustment[, as the Business Day Convention in (v) below is specified to be Not Applicable]]
(iv) First Interest Payment Date:	[●]
(v) Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other (<i>give details</i>)] [Not Applicable]
(vi) Business Centre(s):	[●]
(vii) Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination/other (<i>give details</i>)]
(viii) Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the [Agent]):	[●]
(ix) Screen Rate Determination:	
– Reference Rate:	[●]

	– Interest Determination Date(s):	[●]
	– Relevant Screen Page:	[●]
	(x) ISDA Determination:	
	– Floating Rate Option:	[●]
	– Designated Maturity:	[●]
	– Reset Date:	[●]
	ISDA Definitions	[2000/2006]
(xi)	[Linear Interpolation:	Not Applicable/Applicable – the Rate of Interest for the [long/short] [first/last] Interest Period shall be calculated using Linear Interpolation (<i>specify for each short or long interest period</i>)
(xii)	Margin(s):	[+/-][●] per cent. per annum
(xiii)	Minimum Rate of Interest:	[●] per cent. per annum
(xiv)	Maximum Rate of Interest:	[●] per cent. per annum
(xv)	Day Count Fraction:	[●]
(xvi)	[Ratings Step-up/Step-down:	[Applicable/Not Applicable]
	[Step-up/Step-down Margin:	[●] per cent. per annum]]
(xvii)	Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions:	[●]
16	Zero Coupon Note Provisions	[Applicable/Not Applicable] (If not applicable, delete the remaining sub-paragraphs of this paragraph)
	(i) Amortisation Yield:	[●] per cent. per annum
	(ii) [Day Count Fraction in relation to Early Redemption Amounts:	[[30/360][Actual/360][Actual/365]][specify other]] ⁹
	(iii) Any other formula/basis of determining amount payable:	[●]
17	Index-Linked Interest Note/other variable-linked interest Note Provisions	[Applicable/Not Applicable] (If not applicable, delete the remaining sub-paragraphs of this paragraph)
	(i) Index/Formula/other variable:	[give or annex details]
	(ii) Party responsible for calculating the Rate(s) of Interest and/or Interest	[●]

⁹ Consider applicable day count fraction if not U.S. dollar denominated.

- Amount(s) (if not the [Agent]):
- (iii) Provisions for determining Coupon where calculated by reference to Index and/or Formula and/or other variable: [•]
 - (iv) Determination Date(s): [•]
 - (v) Provisions for determining Coupon where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted: [•]
 - (vi) Interest or calculation period(s): [•]
 - (vii) Specified Interest Payment Dates: [•]
 - (viii) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other *(give details)*]
 - (ix) Business Centre(s): [•]
 - (x) Minimum Rate/Amount of Interest: [•] [per cent.] per annum
 - (xi) Maximum Rate/Amount of Interest: [•] [per cent.] per annum
 - (xii) Day Count Fraction: [•]
- 18** Dual Currency Note Provisions [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Rate of Exchange/method of calculating Rate of Exchange: [give details]
 - (ii) Party, if any, responsible for calculating the principal and/or interest due (if not the Agent): [•]
 - (iii) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable: [•]
 - (iv) Person at whose option Specified Currency(ies) is/are payable: [•]

PROVISIONS RELATING TO REDEMPTION

- 19** Call Option [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Optional Redemption Date(s): [•]

	(ii)	Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s):	[●] per Calculation Amount
	(iii)	If redeemable in part:	
	(a)	Minimum Redemption Amount:	[●] per Calculation Amount
	(b)	Maximum Redemption Amount:	[●] per Calculation Amount
	(iv)	Notice period ¹⁰	[●] days
20	Put Option		[Applicable/Not Applicable] <i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i>
	(i)	Optional Redemption Date(s):	[●]
	(ii)	Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s):	[●] per Calculation Amount/specify other/see Appendix
	(iii)	Notice period:	[●] days
21	[Change of Control Put Option/Put Event		[Applicable (see Appendix)/Not Applicable]]
	(i)	Optional Redemption Amount(s) of each Note:	[●] per Calculation Amount]
	(ii)	Put Period:	[●]]
	(iii)	Put Date:	[●]]
22	Final Redemption Amount of each Note		[●] per Calculation Amount
	In cases where the Final Redemption Amount is Index-Linked or other variable-linked:		
	(i)	Index/Formula/variable:	<i>[give or annex details]</i>
	(ii)	Party responsible for calculating the Final Redemption Amount (if not the [Agent]):	[●]
	(iii)	Provisions for determining Final Redemption Amount where calculated by reference to Index and/or Formula and/or other variable:	[●]
	(iv)	Determination Date(s):	[●]
	(v)	Provisions for determining Final	[●]

¹⁰ Conditions may set the notice period or state that it is to be specified in the Pricing Supplement. Where the notice period is to be specified in the Pricing Supplement, or the Issuer is using the Pricing Supplement to set notice periods which are different to those provided in the Conditions, issuers are advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the issuer and its fiscal agent or any trustee.

Redemption Amount where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted:

- (vi) Payment Date:
- (vii) Minimum Final Redemption Amount: [●] per Calculation Amount
- (viii) Maximum Final Redemption Amount: [●] per Calculation Amount

23 Early Redemption Amount

Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons or on event of default or other early redemption and/or the method of calculating the same (if required or if different from that set out in the Conditions): [●]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

24 Form of Notes:

Bearer Notes:

[Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note]

[Temporary Global Note exchangeable for Definitive Notes on [●] days' notice]¹¹

[Permanent Global Note exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note]

Registered Notes:

[Global Certificate registered in the name of a nominee for [a common depositary for Euroclear and Clearstream, Luxembourg]]

25 Financial Centre(s) or other special provisions relating to payment dates:

[Not Applicable/give details. Note that this paragraph relates to the date of payment, and not the end dates of interest periods for the purposes of calculating the amount of interest, to which sub-paragraphs 15(v) and 17(ix) relate]

26 Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on

[No/Yes. As the Notes have more than 27 coupon payments, talons may be required if, on exchange into

¹¹ The exchange upon notice/at any time options should not be expressed to be applicable if the Specified Denominations of the Notes in paragraph 6 includes language that reflects the circumstances referred to in Note 6 above (for example Specified Denominations of €100,000 and multiples of €1,000).

- | | |
|--|---|
| <p>which such Talons mature):</p> <p>27 Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment:</p> <p>28 Details relating to Instalment Notes: amount of each instalment, date on which each payment is to be made:</p> <p>29 Other terms or special conditions:</p> | <p>definitive form, more than 27 coupon payments are still to be made.]</p> <p>[Not Applicable/<i>give details</i>]</p> <p>[Not Applicable/<i>give details</i>]</p> <p>[Not Applicable/<i>give details</i>]</p> |
|--|---|

RESPONSIBILITY

The Issuer and the Guarantors accept responsibility for the information contained in this Pricing Supplement. [(*Relevant third party information*) has been extracted from (*specify source*). Each of the Issuer and the Guarantors confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by (*specify source*), no facts have been omitted which would render the reproduced information inaccurate or misleading.]¹²

Signed on behalf of **ETSA Utilities Finance Pty Ltd**:

By:

Duly authorised

¹² Consider including if third party information is provided, for example in relation to an index or its components, an underlying security or the issuer of an underlying security.

PART B – OTHER INFORMATION

1 LISTING

[Application has been made by the Issuer (or on its behalf) for the Notes to be listed on Singapore Exchange Securities Trading Limited with effect from [●].]
[Application is expected to be made by the Issuer (or on its behalf) for the Notes to be listed on Singapore Exchange Securities Trading Limited with effect from [●].] [Not Applicable.]

(Where documenting a fungible issue need to indicate that original Notes are already admitted to trading.)

2 RATINGS

Ratings:

The Notes to be issued have been rated:

[S & P: [●]]

[Moody's: [●]]

[[Fitch: [●]]

[[Other]: [●]]

(The above disclosure should reflect the rating allocated to Notes of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.)

[Credit ratings are for distribution only to a person (a) who is not a “retail client” within the meaning of section 761G of the Corporations Act 2001 (Cth) and is also a sophisticated investor, professional investor or other investor in respect of whom disclosure is not required under Parts 6D.2 or 7.9 of the Corporations Act, and (b) who is otherwise permitted to receive credit ratings in accordance with applicable law in any jurisdiction in which the person may be located. Anyone who is not such a person is not entitled to receive the relevant document and anyone who receives the relevant document must not distribute it to any person who is not entitled to receive it.]

3 INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE/OFFER

[Save for any fees payable to the [Managers/Dealers], so far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer. The [Managers/Dealers] and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuer [and the Guarantor] and [its/their] affiliates in the ordinary course of business.

(Amend as appropriate if there are other interests)]

4 OPERATIONAL INFORMATION

ISIN: [●]
Common Code: [●]
Any clearing system(s) other than Euroclear Bank SA/NV and Clearstream Banking, S.A. and the relevant identification number(s): [Not Applicable/give name(s) and number(s)]
Delivery: Delivery [against/free of] payment
Names and addresses of additional Paying Agent(s) (if any): [●]

5 DISTRIBUTION

- (i) Method of distribution: [Syndicated/Non-syndicated]
(ii) If syndicated, names of Managers: [Not Applicable/give names]
(iii) Stabilisation Manager(s) (if any): [Not Applicable/give names]
(iv) If non-syndicated, name of Dealer: [Not Applicable/give name]
(v) US Selling Restrictions: Reg. S Compliance Category [1/2]
TEFRA C/ TEFRA D/ TEFRA not applicable]
(vi) Prohibition of Sales to EEA Retail Investors: [Applicable/Not Applicable]
(If the offer of the Notes is concluded prior to 1 January 2018, or on and after that date the Notes clearly do not constitute “packaged” products, “Not Applicable” should be specified. If the offer of the Notes will be concluded on or after 1 January 2018 and the Notes may constitute “packaged” products and no KID will be prepared, “Applicable” should be specified.)
(vii) Additional selling restrictions: [Not Applicable/give details]

TAXATION

The information provided below does not purport to be a comprehensive description of all tax considerations that may be relevant to a decision to purchase Notes. In particular, the information does not consider any specific facts or circumstances that may apply to a particular purchaser. Neither these statements nor any other statements in this Offering Circular are to be regarded as advice on the tax position of any holder of the Notes or of any person acquiring, selling or otherwise dealing in the Notes or on any tax implications arising from the acquisition, sale or other dealings in the Notes. The statements do not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes and do not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities) may be subject to special rules.

Prospective purchasers of the Notes are advised to consult their own tax advisers as to the tax consequences of the purchase, ownership and disposition of the Notes, including the effect of any state or local taxes, under the tax laws of Australia and each country of which they are residents or countries of purchase, holding or disposition of the Notes.

Additionally, in view of the number of different jurisdictions where local laws may apply, this Offering Circular does not discuss the local tax consequences to a potential holder, purchaser or seller arising from the acquisitions, holding or disposition of the Notes. Prospective investors must, therefore, inform themselves as to any tax, exchange control legislation or other laws and regulations in force relating to the subscription, holding or disposition of the Notes at their place of residence and in the countries of which they are citizens or countries of purchase, holding or disposition of the Notes.

Australian Taxation

*The following is a summary of the taxation treatment under the Income Tax Assessment Act 1936 of Australia and where applicable, the Income Tax Assessment Act 1997 of Australia ("**Tax Act**"), at the date of this Offering Circular, of payments of interest (as defined in the Tax Act) on the Notes and certain other matters. It is not exhaustive and, in particular, does not deal with the position of certain classes of holders of the Notes (including, dealers in securities, custodians or other third parties who hold the Notes on behalf of any absolute beneficial holders of the Notes) nor does it deal with the Australian tax treatment of any Index Linked Notes or Dual Currency Notes; should the Issuer issue Notes of such kind, the Australian tax treatment of those Notes will be addressed in the applicable Pricing Supplement.*

The following is general guide and should be treated with appropriate caution. Prospective holders of the Notes should consult their professional advisers on the tax implications of an investment in the Notes for their particular circumstances.

Interest withholding tax

An exemption from Australian interest withholding tax imposed under Division 11A of Part III of the Tax Act ("**IWT**") is available in respect of the Notes under section 128F of the Tax Act if all the following conditions are satisfied:

- the Issuer is a resident of Australia when it issues the Notes;
- the Issuer is a resident of Australia when interest (as defined in section 128A(1AB) of the Tax Act) is paid. Interest is defined to include amounts in the nature of, or in substitution for, interest and certain other amounts;

- the Notes are issued in a manner which satisfies the ‘public offer test’ as outlined in section 128F of the Tax Act. The ‘public offer test’ should be satisfied where the Notes (whether in global form or otherwise) are offered for issue:
 - (a) to 10 or more lenders who are carrying on the business of providing finance, or investing or dealing in securities, in the course of operating in the financial market who are not associates of each other for the purposes of section 128F(9) of the Tax Act; or
 - (b) to at least 100 investors who have acquired debentures in the past or are likely to be interested in acquiring debentures; or
 - (c) as a result of being accepted for listing on a stock exchange under an agreement requiring listing; or
 - (d) publicly in electronic form, or in another form, that was used by financial markets for dealing in debentures or debt interests; or
 - (e) to a dealer, manager or underwriter who under an agreement offers to sell the Notes within 30 days by one of the preceding methods;
- the Issuer does not know, or have reasonable grounds to suspect, at the time of issue, that the Notes or interests in the Notes were being, or would later be, acquired, directly or indirectly, by an “associate” of the Issuer, except as permitted by section 128F(5) of the Tax Act; and
- at the time of the payment of interest, the Issuer does not know, or have reasonable grounds to suspect, that the payee is an “associate” of the Issuer, except as permitted by section 128F(6) of the Tax Act.

Associates

An “associate” of the Issuer for the purposes of section 128F of the Tax Act refers to entities such as natural persons, companies, trustees and partnerships that by reason of a family or business connection are regarded as associates of a particular entity.

The associate test operates to determine whether an entity is an associate of the Issuer. The associate test also considers whether the potential lenders are themselves associated with each other.

Where the Issuer and lenders are companies, associates of the Issuer/lender will broadly include:

- an entity who (together with its associates) holds a majority voting interest in the Issuer/lender;
- an entity who (together with its associates) sufficiently influences the Issuer/lender;
- an entity who is controlled by the Issuer/lender (and its associates) through a majority voting interest; or
- an entity that is sufficiently influenced by the Issuer/lender (and its associates).

Subsection 318(6) of the Tax Act provides that:

‘a company is sufficiently influenced by an entity or entities if the company, or its directors, are accustomed or under an obligation (whether formal or informal), or might reasonably be expected, to act in accordance with the directions, instructions or wishes of the entity or entities (whether those directions, instructions or wishes are, or might reasonably be expected to be, communicated directly or through interposed companies, partnerships or trusts)’.

Where the Issuer/lender is capable of benefiting (whether directly or indirectly) under a trust, associates of the Issuer/lender will include the trustee of such trusts.

Where the Issuer/lender is a person or entity who is an “associate” of another person or company which is an “associate” of the Issuer under any of the foregoing then they will be associates for the purposes of section 128F(9) of the Tax Act.

However, for the purposes of sections 128F(5) and (6) of the Tax Act (see the third and fourth bullet points above), “associate” does not include:

- onshore associates (i.e., Australian resident associates who do not hold the Notes in the course of carrying on business at or through a permanent establishment outside Australia and non-resident associates who hold the Notes in the course of carrying on business at or through a permanent establishment in Australia); or
- offshore associates (i.e., Australian resident associates who hold the Notes in the course of carrying on business at or through a permanent establishment outside Australia and non-resident associates who do not hold the Notes in the course of carrying on business through a permanent establishment in Australia), who are acting in the capacity of:
 - (a) in the case of section 128F(5), a dealer, manager or underwriter in relation to the placement of the Notes, a clearing house, custodian, funds manager or responsible entity of a registered scheme; or
 - (b) in the case of section 128F(6), a clearing house, paying agent, custodian, funds manager or responsible entity of a registered scheme.

Compliance with section 128F of the Tax Act

The Issuer intends to issue the Notes in a manner that satisfies the requirements of the exemption from IWT as outlined above.

Pursuant to the Dealer Agreement entered into between the Dealers and the Issuer, the relevant Dealer must not, as part of the primary distribution of any Tranche of Notes, sell any relevant Notes to any person that the employees of such Dealer directly involved in the sale of the Notes actually know or have reasonable grounds to suspect, or that the Issuer has notified the Dealer, is an Offshore Associate of the Issuer.

An “Offshore Associate” means an associate (as defined in section 128F(9) of the Tax Act) of the Issuer that is either a non-resident of the Commonwealth of Australia that does not acquire the Notes in carrying on a business at or through a permanent establishment in Australia or alternatively, a resident of Australia that acquires the Notes in carrying on business at or through a permanent establishment outside of Australia (other than, in either case, such an associate acting in the capacity of a dealer, manager or underwriter in relation to the placement of the Notes or in the capacity of a clearing house, paying agent custodian, funds manager or responsible entity of a registered scheme within the meaning of the Corporations Act).

If any employee of a relevant Dealer effecting the sale, or otherwise directly involved in the sale of the Notes, does not know, or does not have reasonable grounds to suspect, that a person is an Offshore Associate, then the relevant Dealer is not obliged to make positive inquiries of that person, to confirm that person is not such an Offshore Associate.

On that basis, no deduction or withholding in respect of Australian IWT should be required to be made from any payment of principal or interest made by the Issuer in respect of the Notes.

Double tax treaties

An exemption from Australian IWT may also be available for holders of the Notes that are resident in a country with which Australia has signed a double tax treaty that exempts the payment of interest from the Australian IWT to that holder.

Some recent double tax treaties exempt interest from IWT where that interest is derived by:

- (a) the governments of the relevant countries and certain governmental authorities and agencies in a those countries; and
- (b) a “financial institution” resident in a the relevant country which is unrelated to and dealing wholly independently with the relevant Issuer. The term “financial institution” refers to either a bank or any other enterprise which substantially derives its profits by carrying on a business of raising and providing finance. However, interest paid under a back-to-back loan or an economically equivalent arrangement will not qualify for this exemption.

Most relevantly Australia’s double tax agreement with the United Kingdom, the United States of America, Japan, France, Norway, South Africa, Finland, New Zealand, Switzerland and Germany (not yet in force) provide for these exemptions.

The Australian Federal Treasury maintains a listing of Australia’s double tax treaties which provides details of country, status, withholding tax rate limits and Australian domestic implementation. This listing is available to the public at the Federal Treasury’s Department website at:

<http://www.treasury.gov.au/Policy-Topics/Taxation/Tax-Treaties/HTML/Income-Tax-Treaties>

Other tax matters

Under Australian laws as presently in effect:

- *income tax* — offshore holders of the Notes — assuming the requirements of section 128F of the Tax Act are satisfied with respect to the Notes, payments of principal and interest (as defined in section 128A(1AB) of the Tax Act) to a Noteholder, who is a non-resident of Australia and who, during the taxable year, does not hold the Notes in the course of carrying on business at or through a permanent establishment in Australia, will not be subject to Australian income taxes; and
- *gains on disposal of Notes* — offshore holders of the Notes — a Noteholder, who is a non-resident of Australia and who, during the taxable year, does not hold the Notes in the course of carrying on business at or through a permanent establishment in Australia, will not be subject to Australian income tax on gains realised during that year on sale or redemption of the Notes, provided such gains do not have an Australian source. A gain arising on the sale of the Notes by a non-resident of Australia to another non-resident of Australia where Notes are sold outside Australia and all negotiations are conducted, and documentation executed, outside Australia would not generally be regarded as having an Australian source. The Notes will not constitute taxable Australian property where, broadly, they are not business assets of a permanent establishment in Australia; and
- *deemed interest* — there are specific rules that can apply to treat a portion of the purchase price of Notes as interest for withholding tax purposes when certain Notes originally issued at a discount or with a maturity premium or which do not pay interest at least annually are sold to an Australian resident (who does not acquire them in the course of carrying on business at or through a permanent establishment outside Australia) or a non-resident who acquires them in the course of carrying on business at or through a permanent establishment in Australia. These rules do not apply in circumstances where the deemed interest would have been exempt under section 128F of the Tax Act if the Notes had been held to maturity by a non-resident; and
- *death duties*—no Notes will be subject to death, estate or succession duties imposed by Australia, or by any political subdivision or authority therein having power to tax, if held at the time of death; and

- *stamp duty and other taxes* — no ad valorem stamp, issue, registration or similar taxes are payable in Australia on the issue or transfer of any Notes subject to the Note issued being ‘debt interests’ as described below; and
- *other withholding taxes on payments in respect of Notes* — section 12-140 of the Taxation Administration Act 1953 of Australia (the “**Taxation Administration Act**”) imposes a type of withholding tax at the rate of (currently) 49% on the payment of interest on certain registered securities unless the relevant payee has quoted an Australian tax file number (“**TFN**”), (in certain circumstances) an Australian Business Number (“**ABN**”) or proof of some other exception (as appropriate). Assuming the requirements of section 128F of the Tax Act are satisfied with respect to the Notes, then the requirements of section 12-140 do not apply to payments to a Noteholder in registered form who is not a resident of Australia and not holding those Notes in the course of carrying on business at or through a permanent establishment in Australia. Payments to other classes of holders of the Notes in registered form may be subject to a withholding where the Noteholder does not quote a TFN, ABN or provide proof of an appropriate exemption (as appropriate); and
- *supply withholding tax* — payments in respect of the Notes can be made free and clear of the “supply withholding tax” imposed under section 12-190 of the Taxation Administration Act; and
- *goods and services tax (GST)*—neither the issue nor receipt of the Notes will give rise to a liability for GST in Australia on the basis that the supply of the Notes will comprise either an input taxed financial supply or (in the case of an offshore subscriber) a GST-free supply. Furthermore, neither the payment of principal or interest by the Issuer, nor the disposal of Notes, would give rise to any GST liability in Australia; and
- *debt/equity rules* — Division 974 of the Tax Act contains tests for characterising debt (for all entities) and equity (for companies) for Australian tax purposes, including for the purposes of dividend withholding tax and IWT. The Issuer intends to issue Notes which are to be characterised as “debt interests” for the purposes of the tests contained in Division 974 and the returns paid on the Notes are to be “interest” for the purpose of section 128F of the Tax Act. Accordingly, Division 974 is unlikely to affect the Australian tax treatment of holders of the Notes; and
- *additional withholdings from certain payments to non-residents* — section 12-315 of the Taxation Administration Act gives the Governor-General power to make regulations requiring withholding from certain payments to non-residents. However, section 12-315 expressly provides that the regulations will not apply to interest and other payments which are already subject to the current interest withholding tax rules or specifically exempt from those rules. Further, regulations may only be made if the responsible minister is satisfied the specified payments are of a kind that could reasonably relate to assessable income of foreign residents. The regulations promulgated prior to the date of this Offering Circular are not relevant to any payments in respect of the Notes. Any further regulations should also not apply to repayments of principal under the Notes, as in the absence of any issue discount, such amounts will generally not be reasonably related to assessable income. The possible application of any future regulations to the proceeds of any sale of the Notes will need to be monitored;
- *garnishee directions by the Commissioner of Taxation* – the Commissioner of Taxation may give a direction requiring the Issuer to deduct from any payment to a holder of the Notes any amount in respect of Australian tax payable by holders of the Notes. If the Issuer is served with such a direction, then the Issuer will comply with that direction and will make any deduction required by that direction;
- *taxation of foreign exchange gains and losses* — Divisions 775 and 960 of the Tax Act contain rules to deal with the taxation consequences of foreign exchange transactions. The rules are complex and may

apply to any holders of the Notes who are Australian residents or non-residents that hold the Notes in the course of carrying on business in Australia. Any such Noteholder should consult their professional advisors for advice as to how to tax account for any foreign exchange gains or losses arising from their holding of the Notes; and

- *taxation of financial arrangements* — Division 230 of the Australian Tax Act imposes a regime for the taxation of financial arrangements issued, or held, by Australian residents (or non-residents operating through an Australian permanent establishment) (“**the TOFA regime**”). The TOFA regime as enacted does not contain any measures that would override the exemption from Australian IWT available under section 128F of the Tax Act.

Payments under the Guarantee

The Australian Taxation Office has expressed a view that payments by a guarantor in respect of a debt instrument may be exempt from Australian IWT under section 128F of the Tax Act if those payments would have been exempt had they been made by the issuer of the debt instrument. The basis for this view is that the amounts paid by the guarantor are said to be “in the nature of interest” and therefore interest for the purposes of the Tax Act. The opposing view is that the payments that may be required to be made by the Guarantors would not be interest and therefore would not be subject to Australian IWT in any event. If Australian withholding tax is payable in respect of payments of interest made by the Guarantors to non-resident holders, the Guarantors must pay additional amounts in accordance with the procedure set out below.

Interest on bearer securities

Pursuant to section 126 of the Tax Act, payments of interest in respect of Notes may be subject to Australian withholding tax at a rate of 47% if the Notes are in bearer form and the Issuer does not provide the names and addresses of the holders of the Notes to the Commissioner of Taxation. No such withholding is required if the Notes are held by non-resident holders (that do not hold the Notes in the course of carrying on a business at or through a permanent establishment in Australia) where the exemption provided by section 128F of the Tax Act is available or if Australian IWT is payable. However, section 126 of the Tax Act will apply to resident holders and non-residents who hold the Notes in the course of carrying on a business at or through a permanent establishment in Australia. The Issuer intends to treat operators of clearing systems as the holders of the Notes for these purposes.

Payment of additional amounts

If an amount of Australian withholding tax is required to be deducted or withheld by the Issuer (or a Guarantor) from payments of interest in relation to the Notes, then the Issuer or Guarantors (as the case may be) must, subject to certain exceptions set out in Condition 8 (*Taxation*) of the Notes, pay an additional amount that would result in the holders of the Notes receiving an amount equal to that which they would have received had no such deduction or withholding been made. In such circumstances and subject to the Terms and Conditions, the Issuer will have the option to redeem the Notes.

Australian Resident holders

The income received by Australian resident holders and non-residents who hold the Notes in the course of carrying on a business at or through a permanent establishment in Australia in respect of the Notes will be included in the assessable income of those holders for Australian income tax purposes. Australian resident holders and non-residents who hold the Notes in the course of carrying on a business at or through a permanent establishment in Australia that derive a gain on a sale or redemption of Notes may be subject to Australian tax on such gain.

United States — FATCA Withholding

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a “foreign financial institution” may be required to withhold on certain payments it makes (“**foreign passthru payments**”) to persons that fail to meet certain certification, reporting, or related requirements. The Issuer may be a foreign financial institution for these purposes. A number of jurisdictions have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA (“**IGAs**”), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, such withholding would not apply prior to 1 January 2019 and Notes issued on or prior to the date that is six months after the date on which final regulations defining “foreign passthru payments” are filed with the U.S Federal Register generally would be “grandfathered” for purposes of FATCA withholding unless materially modified after such date. However, if additional notes (as described under “Terms and Conditions – Further Issues”) that are not distinguishable from previously issued Notes are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Notes, including the Notes offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA. Holders should consult their own tax advisors regarding how these rules may apply to their investment in the Notes.

SUBSCRIPTION AND SALE

The Dealers have, in a dealer agreement dated 12 April 2017 (as amended and/or supplemented and/or restated from time to time, the “**Dealer Agreement**”), agreed with the Issuer and the Guarantors a basis upon which they or any of them may from time to time agree to purchase Notes. Any such agreement will extend to those matters stated under “*Form of the Notes*” and “*Terms and Conditions of the Notes*”. In the Dealer Agreement, the Issuer and the Guarantors have agreed to reimburse the Dealers for certain of their expenses in connection with the establishment and any further update of the Programme and the issue of Notes under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith. The Dealer Agreement entitles the Dealers to terminate any agreement that they make to subscribe for Notes in certain circumstances prior to payment for such Notes being made to the Issuer.

The Issuer and the Guarantors may also from time to time agree with the relevant Dealer(s) that the Issuer (failing whom the Guarantors) may pay certain third party commissions (including, without limitation, rebates to private banks as specified in the applicable Pricing Supplement).

If a jurisdiction requires that the offering be made by a licensed broker dealer and any of the Dealers or any affiliate of the Dealers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by such Dealers or such affiliate on behalf of the Issuer in such jurisdiction.

In order to facilitate the offering of any Tranche of the Notes, a nominated Dealer participating in the offering of the Tranche may engage in transactions that stabilise, maintain or otherwise affect, which support the market price of the relevant Notes during and after the offering of the Tranche. Specifically such persons may over-allot or create a short position in the Notes for their own account by selling more Notes than have been sold to them by the Issuer. Such persons may also elect to cover any such short position by purchasing Notes in the open market. In addition, such persons may stabilise or maintain the price of the Notes by bidding for or purchasing Notes in the open market and may impose penalty bids, under which selling concessions allowed to syndicate members or other broker-dealers participating in the offering of the Notes are reclaimed if Notes previously distributed in the offering are repurchased in connection with stabilisation transactions or otherwise. The effect of these transactions may be to stabilise or maintain the market price of the Notes at a level higher than that which might otherwise prevail in the open market. The imposition of a penalty bid may also affect the price of the Notes to the extent that it discourages resales thereof.

No representation is made as to the magnitude or effect of any such stabilising or other transactions. Such transactions, if commenced, may be discontinued at any time, and must be brought to an end after a limited period. Under U.K. laws and regulations, any stabilisation action or overallotment may begin on or after the date on which adequate disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may be ended at any time, but it must end after a limited period. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.

The Dealers and certain of their affiliates are full service financial institutions engaged in various activities which may include securities trading, commercial and investment banking, financial advice, investment management, principal investment, hedging, financing and brokerage activities. In connection with each Tranche of Notes issued under the Programme, the Dealers or certain of their affiliates may purchase Notes and be allocated Notes for asset management and/or proprietary purposes but not with a view to distribution. Further, in the ordinary course of their business activities, the Dealers or their respective affiliates may make or hold (on their own account, on behalf of their clients or in their capacity as investment advisers) a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the account of their customers, and

enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to such Notes and/or other securities of the Issuer, the Guarantors or their respective subsidiaries or affiliates at the same time as the offer and sale of each Tranche of Notes or in secondary market transactions. Such transactions, investments and securities activities may involve securities and instruments of the Issuer, the Guarantors or of their subsidiaries, including Notes under the Programme, may be entered into at the same time or proximate to offers and sales of Notes or at other times in the secondary market and be carried out with counterparties that are also purchasers, holders or sellers of Notes. As a result of such transactions, a Dealer or its affiliates may hold long or short positions relating to the Notes.

Each of the Dealers and its affiliates may also engage in investment or commercial banking and other dealings in the ordinary course of business with the Issuer, the Guarantors or their respective affiliates from time to time and may receive fees and commissions for these transactions. In addition to the transactions noted above, each Dealer and its affiliates may engage in other transactions with, and perform services for, the Issuer, the Guarantors or their affiliates in the ordinary course of their business. While each Dealer and its affiliates have policies and procedures to deal with conflicts of interests, any such transactions may cause a Dealer or its affiliates or its clients or counterparties to have economic interests and incentives which may conflict with those of an investor in the Notes. Each Dealer may receive returns on such transactions and has no obligation to take, refrain from taking or cease taking any action with respect to any such transactions based on the potential effect on a prospective investor in the Notes.

United States of America

The Notes and the Guarantee have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Regulation S under the Securities Act or pursuant to an exemption from the registration requirements of the Securities Act.

Bearer Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code and regulations thereunder.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has offered and sold and, in the case of Bearer Notes, delivered, and shall offer and sell and, in the case of Bearer Notes, delivered, any Series (1) as part of their distribution at any time and (2) otherwise until 40 days after the completion of the distribution of an identifiable tranche of which such Notes are a part, as determined and certified to the Issuer, the Guarantors and each Relevant Dealer, by the Trustee or, the Lead Manager, only in accordance with Rule 903 of Regulation S under the Securities Act and not within the United States or to, or for the account or benefit of U.S. persons. Accordingly, neither it, its affiliates nor any persons acting on its or their behalf have engaged or will engage in any directed selling efforts with respect to the Notes, and it and they have complied and shall comply with the offering restrictions requirement of Regulation S. Each Dealer agrees to notify the Trustee and the Issuing and Paying Agent or, in the case of a Syndicated Issue, the Lead Manager when it has completed the distribution of its portion of the Notes of any identifiable tranche so that the Trustee and the Issuing and Paying Agent or, in the case of a Syndicated Issue, the Lead Manager may determine the completion of the distribution of all Notes of that tranche and notify the other Relevant Dealers of the end of the distribution compliance period. Each Dealer agrees that, at or prior to confirmation of sale of Notes, it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases Notes from it during the distribution compliance period a confirmation or notice to substantially the following effect:

“The Securities covered hereby have not been registered under the United States Securities Act of 1933 (the “**Securities Act**”) and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of an identifiable tranche of Notes of which such Notes are a part, except in either case in accordance with Regulation S under the Securities Act. Terms used above have the meaning given to them by Regulation S under the Securities Act.”

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not entered and agrees that it will not enter into any contractual arrangement with any distributor (as such term is defined in Regulation S) with respect to the distribution or delivery of the Notes, except with its affiliates or with the prior written consent of the Issuer and the Guarantors.

Terms used in this paragraph have the meanings given to them by Regulation S.

The Notes and the Guarantee are being offered and sold outside the United States to non-U.S. persons in reliance on Regulation S.

In addition, until 40 days after the commencement of the offering of any identifiable tranche of Notes and Guarantee, an offer or sale of Notes and Guarantee within the United States by any dealer (whether or not participating in the offering of such tranche of Notes) may violate the registration requirements of the Securities Act.

European Economic Area – Prohibition of Sales to Retail Investors:

From 1 January 2018, unless the Pricing Supplement in respect of any Notes specifies the “Prohibition of Sales to EEA Retail Investors” as “Not Applicable”, each Dealer represents and agrees, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by the Offering Circular as completed by the Pricing Supplement in relation thereto to any retail investor in the European Economic Area. For the purposes of this provision:

- (a) the expression "retail investor" means a person who is one (or more) of the following:
 - i. a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**") or
 - ii. a customer within the meaning of Directive 2002/92/EC (as amended, the "**Insurance Mediation Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or
 - iii. not a qualified investor as defined in Directive 2003/71/EC (as amended, the "**Prospectus Directive**"); and
- (b) the expression an “offer” includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes.

Prior to 1 January 2018, and from that date if the Pricing Supplement in respect of any Notes specifies “Prohibition of Sales to EEA Retail Investors” as “Not Applicable”, each Dealer has represented and agreed, in relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “**Relevant Member State**”), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the

“**Relevant Implementation Date**”) it has not made and will not make an offer of Notes which are the subject of the offering contemplated by the Offering Circular as completed by the Pricing Supplement in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

- (a) if the pricing supplement in relation to the Notes specify that an offer of those Notes may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant Member State (a “**Non-exempt Offer**”), following the date of publication of a prospectus in relation to such Notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, provided that any such prospectus has subsequently been completed by the pricing supplement contemplating such Non-exempt Offer, in accordance with the Prospectus Directive, in the period beginning and ending on the dates specified in such prospectus or pricing supplement, as applicable, and the Issuer has consented in writing to its use for the purpose of that Non-exempt Offer;
- (b) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (c) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (d) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive, provided that no such offer of Notes referred to in (b) to (d) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive, or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an “offer of Notes to the public” in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression “Prospectus Directive” means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU), and includes any relevant implementing measure in the Relevant Member State.

United Kingdom

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) in relation to any Notes which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business; and (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or as agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the Financial Services and Markets Act 2000 (the “**FSMA**”) by the Issuer;
- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in

circumstances in which Section 21(1) of the FSMA does not apply to the Issuer and the Guarantors;
and

- (c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Australia

No prospectus or other disclosure document (as defined in the Corporations Act 2001 of Australia (the “**Corporations Act**”)) in relation to the Programme or any Notes has been, or will be, lodged with the Australian Securities and Investments Commission (“**ASIC**”), the ASX Limited or the financial market operated by it (ASX), or any other stock exchange or trading facility licensed under the Corporations Act. Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that unless the relevant Pricing Supplement provides it:

- (a) has not (directly or indirectly) made or invited, and will not make or invite, an offer of the Notes for issue or sale in Australia (including an offer or invitation which is received by a person in Australia); and
- (b) has not distributed or published, and will not distribute or publish, any offering circular or any other offering material or advertisement relating to the Notes in Australia,

unless (a) the aggregate consideration payable by each offeree or invitee is at least A\$500,000 (or its equivalent in other currencies, in either case, disregarding moneys lent by the offeror or its associates (as defined in the Corporations Act)) or the offer or invitation otherwise does not require disclosure to investors in accordance with Parts 6D.2 or 7.9 of the Corporations Act; (b) such action complies with all applicable laws, regulations and directives (including without limitation, the licensing requirements set out in Chapter 7 of the Corporations Act); (c) such action does not require any document to be lodged with ASIC or the ASX; and (d) the offer or invitation is not made to a person who is a “retail client” within the meaning of section 761G of the Corporations Act.

In addition, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not sell any Note to any person whom the Issuer has notified the Dealer in writing is an Offshore Associate.

Offshore Associate means an associate (as defined in section 128F of the Income Tax Assessment Act 1936 of Australia and any successor legislation) of the Issuer that is either a non-resident of Australia which does not acquire the Notes in carrying on a business in Australia at or through a permanent establishment in Australia or, alternatively, a resident of Australia that acquires the Notes in carrying on a business in a country outside Australia at or through a permanent establishment in that country.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the “**Financial Instruments and Exchange Act**”). Accordingly, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not, directly or indirectly, offered or sold and will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan, (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and other relevant laws and regulations of Japan.

Hong Kong

In relation to each Tranche of Notes issued by the Issuer, each Dealer has represented, and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes (except for Notes which are a “structured product” as defined in the Securities and Futures Ordinance (Cap 571) of Hong Kong) other than (i) to “professional investors” as defined in the Securities and Futures Ordinance (Cap 571) and any rules made under that Ordinance; or (ii) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and
- (b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

Singapore

Each Dealer has acknowledged and each further Dealer appointed under the Programme will be required to acknowledge, that this Offering Circular has not been and will not be registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Dealer has represented, and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of any Notes, whether directly or indirectly, to persons in Singapore other than (a) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the “**Securities and Futures Act**”), (b) to a relevant person pursuant to Section 275(1), or to any person pursuant to Section 275(1A) of the Securities and Futures Act, and in accordance with the conditions specified in Section 275 of the Securities and Futures Act or (c) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the Securities and Futures Act.

Where the Notes are subscribed or purchased under Section 275 of the Securities and Futures Act by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the Securities and Futures Act)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the Securities and Futures Act) of that corporation or the beneficiaries’ rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the Securities and Futures Act except:

- (a) to an institutional investor or to a relevant person defined in Section 275(2) of the Securities and Futures Act, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the Securities and Futures Act;
- (b) where no consideration is or will be given for the transfer;
- (c) where the transfer is by operation of law;
- (d) as specified in Section 276(7) of the Securities and Futures Act; or
- (e) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

Any person who may be in doubt as to the restrictions set out in the Securities and Futures Act or the laws, regulations and directives in each jurisdiction in which it subscribes for, purchases, offers, sells or delivers the Notes or any interest therein or rights in respect thereof and the consequences arising from a contravention thereof should consult his own professional advisers and should make his own inquiries as to the laws, regulations and directives in force or applicable in any particular jurisdiction at any relevant time.

The Netherlands

Each Dealer represents, warrants and agrees, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not and shall not offer of Notes to the public in the Netherlands in reliance on Article 3(2) of the Prospectus Directive, unless (i) such offer is made exclusively to persons or entities which are qualified investors as defined in the Dutch Financial Supervision Act (*Wet op het financieel toezicht*) or (ii) standard logo and exemption wording are disclosed as required by Section 5:20(5) of the Dutch Financial Supervision Act, provided that no such offer of Notes shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement of a prospectus pursuant to Article 16 of the Prospectus Directive.

Switzerland

In connection with the initial placement of any Notes in Switzerland, each Dealer appointed under the Programme has agreed that the Notes have not been offered or sold and will not be offered or sold in Switzerland save for to a limited group of persons within the meaning of the Art. 652a(2) of the Swiss Code of Obligations of 30 March, 1911 (as amended).

General

Each Dealer understands that no action has been taken in any jurisdiction that would permit a public offering of the Notes or possession or distribution of the Offering Circular or any other document, in any country or jurisdiction where action for that purpose is required.

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes the Offering Circular and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Issuer, the Guarantors, the Trustee nor any of the other Dealers shall have any responsibility therefor.

None of the Issuer, the Guarantors, the Trustee, the Arrangers and the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

These selling restrictions may be modified by the agreement of the Issuer and the Dealers following a change in a relevant law, regulation or directive. Any such modification will be set out in the Pricing Supplement issued in respect of the issue of Notes to which it relates or in a supplement to this Offering Circular.

With regard to each Tranche, the relevant Dealer will be required to comply with such other restrictions agreed between the Issuer and the relevant Dealer and set out in the applicable Pricing Supplement.

GENERAL INFORMATION

Authorisation

The establishment of the Programme and the issue of Notes and/or guarantee of such Notes (as the case may be) under the Programme have been duly authorised by resolutions of the Board of Directors of the Issuer dated 13 December 2016. The establishment of the Programme and the guarantee of Notes issued thereunder have been duly authorised by resolutions of the Board of Directors of the Initial Guarantor dated 13 December 2016 and will be authorised by each Additional Guarantor at the time such entity becomes a Guarantor.

Listing

Application has been made to the SGX-ST for permission to deal in and for the listing of any Notes which are agreed at the time of issue thereof to be so listed on the SGX-ST. Such permission will be granted when such Notes have been admitted to the Official List of the SGX-ST. There is no assurance that the application to the Official List of the SGX-ST will be approved. Admission to the Official List of the SGX-ST and listing of any Notes on the SGX-ST is not to be taken as an indication of the merits of the Issuer, the Programme or such Notes. The SGX-ST assumes no responsibility for the correctness of any of the statements made, opinions expressed or reports contained herein. If the application to the SGX-ST to list a particular series of Notes is approved, such Notes listed on the SGX-ST will be traded on the SGX-ST in a board lot size of at least S\$200,000 (or its equivalent in other currencies).

Unlisted Notes may be issued under the Programme. The Notes may also be listed on such other or further stock exchange(s) as may be agreed between the Issuer and the relevant Dealer in relation to each Series of Notes. The Pricing Supplement relating to each Series of Notes will state whether or not the Notes of such Series will be initially listed on any stock exchange(s) and, if so, on which stock exchange(s) the Notes are to be initially listed.

So long as the Notes (except in relation to AMTNs) are listed on the SGX-ST and the rules of the SGX-ST so require, the Issuer to appoint and maintain a paying agent in Singapore, where the Notes may be presented or surrendered for payment or redemption, in the event that the Global Notes or Global Certificates representing such Notes are exchanged for definitive Notes. In addition, if such event occurs, an announcement of such exchange will be made through the SGX-ST and such announcement shall include all material information with respect to the delivery of the definitive Notes, including details of the paying agent in Singapore.

Delisting of Notes

The Trust Deed provides that if the applicable Pricing Supplement indicates that the Notes are listed on a stock exchange (the “**relevant Stock Exchange**”), the Issuer will use its reasonable endeavours to maintain the listing on the relevant Stock Exchange of those of the Notes which are listed on the relevant Stock Exchange but if it is unable to do so, having used such reasonable endeavours, or if the maintenance of such listing is unduly onerous instead use all reasonable endeavours to obtain and maintain a listing of the Notes on another stock exchange and the admission to trading of the Notes on another securities market, in each case approved in writing by the Trustee, and upon obtaining a quotation or listing of such Notes issued by it on such other stock exchange or exchanges or securities market or markets enter into a trust deed supplemental to the Trust Deed to effect such consequential amendments to the Trust Deed as the Trustee may require or as shall be requisite to comply with the requirements of any such stock exchange or securities market.

Clearing Systems

Each series of Bearer Notes will be initially represented by either a Temporary Global Note or a Permanent Global Note that will be deposited on the issue date thereof with a common depositary on behalf of Euroclear

and Clearstream, Luxembourg or any other agreed clearance system compatible with Euroclear and Clearstream, Luxembourg. Each series of Registered Notes will be initially represented by interests in a Global Registered Note and deposited on the issue date thereof with a common depositary for, and registered in the name of a nominee of, Euroclear and Clearstream, Luxembourg. Each Series of AMTNs will (unless otherwise specified in the applicable Pricing Supplement) be registered in the name of Austraclear Ltd and entered in the Austraclear System. The appropriate Common Code and the ISIN for each series of Bearer Notes or Registered Notes allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Pricing Supplement. If the Notes are to be cleared through an additional or alternative clearing system, the appropriate information will be specified in the applicable Pricing Supplement.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels. The address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg.

Conditions for Determining Price

The price and amount of Notes to be issued under the Programme will be determined by the Issuer, the Guarantors and the relevant Dealer(s) at the time of issue in accordance with prevailing market conditions.

No significant or material change

Save as disclosed in this Offering Circular, there has been no significant change in the financial or trading position of the Initial Guarantor or the Issuer since 31 December 2016 and there has been no material adverse change in the financial or trading position or prospects of the Initial Guarantor or the Issuer since 31 December 2016.

Litigation

Neither of the Issuer nor the Initial Guarantor is involved in any material legal or arbitration proceedings (including any proceedings which are pending or threatened of which the Issuer or the Initial Guarantor are aware) which may have or have had in the 12 months preceding the date of this document a significant effect on the financial position of the Issuer and the Guarantors.

Independent Auditors

The Group's consolidated financial statements as at and for the years ended 31 December 2015 and 31 December 2016 were audited by Deloitte Touche Tohmatsu, in accordance with AASB.

Documents Available

So long as Notes are capable of being issued under the Programme, copies of the following documents will, when published, be available for from the registered office of the Issuer and from the specified office of the Issuing and Paying Agent:

- (a) the constitutional documents of the Issuer and the Guarantors;
- (b) the Group's audited consolidated financial statements in respect of the financial years ended 31 December 2015 and 2016;
- (c) the most recently published audited consolidated annual financial statements of the Guarantors and the most recently published unaudited unconsolidated interim financial statements of the Guarantors (if any), in each case together with any audit or review reports prepared in connection therewith (where relevant);
- (d) the Trust Deed, the Australian Deed Poll, the Agency Agreement, the Australian Agency Agreement, and the forms of the Temporary Global Notes, the Permanent Global Notes, the Definitive Bearer

Notes, the Receipts, the Coupons, the Talons, the Global Certificates and the Definitive Registered Notes;

- (e) a copy of this Offering Circular; and
- (f) any future offering circulars, prospectuses, information memoranda and supplements including Pricing Supplement (save that a Pricing Supplement relating to an unlisted Note will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer, the Guarantors and the Paying Agent as to its holding of Notes and identity) to this Offering Circular and any other documents incorporated herein or therein by reference.

INDEX TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS

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SA Power Networks Financial Statements as at and for the financial years ended 31 December 2015 and 31 December 2016



SA Power Networks

A partnership of:

CKI Utilities Development Limited

(ABN 65 090 718 880)

PAI Utilities Development Limited

(ABN 82 090 718 951)

Spark Infrastructure SA (No. 1) Pty Ltd

(ABN 54 091 142 380)

Spark Infrastructure SA (No. 2) Pty Ltd

(ABN 19 091 143 038)

Spark Infrastructure SA (No. 3) Pty Ltd

(ABN 50 091 142 362)

Financial Report

For the year ended 31 December 2015

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Statement of profit or loss and other comprehensive income
for the year ended 31 December 2015

	Note	Consolidated	
		Year ended	Year ended
		December	December
		2015 \$'000	2014 \$'000
Revenue	2 (a)	1,406,777	1,444,119
Loss on disposal of property, plant and equipment	2 (b)	(1,247)	(784)
Transmission Use of System charges		(260,194)	(254,005)
Employee benefits expense	2 (b)	(182,750)	(192,112)
Raw materials and consumables used		(51,363)	(38,064)
Services and other expenses		(149,804)	(126,588)
Depreciation and amortisation expense	2 (b)	(218,138)	(188,431)
Finance costs	2 (b)	(249,731)	(277,745)
Profit before income tax expense		293,550	366,390
Income tax benefit	3	2,040	68
Profit for the year		295,590	366,458
Other comprehensive income / (expense) for the year			
(Loss) / gain on cash flow hedges taken to equity	28	(2,756)	25,359
Actuarial gain / (loss) on defined benefit plans	25, 27	43,994	(48,155)
Income tax relating to components of other comprehensive income		-	-
Other comprehensive income / (expense) for the year (net of tax)		41,238	(22,796)
Total comprehensive income for the year		336,828	343,662

Notes to the financial statements are included on pages 6 to 56.

Statement of financial position

as at 31 December 2015

		Consolidated	
		December 2015	December 2014
	Note	\$'000	\$'000
Current assets			
Cash and cash equivalents	37	239,853	191,796
Trade and other receivables	6	186,142	231,414
Other financial assets	7	32,567	-
Inventories	8	19,839	19,827
Other	9	5,626	7,780
Total current assets		484,027	450,817
Non-current assets			
Inventories	10	8,400	8,705
Other financial assets	11	187,278	78,917
Property, plant and equipment	12	4,609,491	4,431,405
Intangible assets	13	931,396	936,459
Other	14	388,557	390,538
Total non-current assets		6,125,122	5,846,024
Total assets		6,609,149	6,296,841
Current liabilities			
Trade and other payables	16	237,804	227,040
Borrowings	17	769,516	304,658
Other financial liabilities	18	-	40,730
Provisions	19	88,743	89,981
Total current liabilities		1,096,063	662,409
Non-current liabilities			
Trade and other payables	20	-	-
Borrowings	21	3,160,438	3,465,618
Other financial liabilities	22	33,390	-
Deferred tax liabilities	3	-	2,040
Provisions	23	14,435	38,144
Total non-current liabilities		3,208,263	3,505,802
Total liabilities		4,304,326	4,168,211
Net assets		2,304,823	2,128,630
Equity			
Partners capital accounts	26	623,300	623,300
Partners current accounts	27	1,712,282	1,533,333
Reserves	28	(30,759)	(28,003)
Total equity		2,304,823	2,128,630

Notes to the financial statements are included on pages 6 to 56.

**Statement of changes in equity
for the year ended 31 December 2015**

	Partners capital accounts \$'000	Partners current accounts \$'000	Reserves \$'000	Total \$'000
Consolidated				
Balance as at 1 January 2014	623,300	1,397,665	(53,362)	1,967,603
Profit for the period	-	366,458	-	366,458
Gain on cash flow hedges	-	-	25,359	25,359
Actuarial loss on defined benefit plans	-	(48,155)	-	(48,155)
Income tax relating to components of other comprehensive income	-	-	-	-
Total comprehensive income for the period	-	318,303	25,359	343,662
Payment of distributions	-	(182,635)	-	(182,635)
Balance as at 31 December 2014	623,300	1,533,333	(28,003)	2,128,630
Balance as at 1 January 2015	623,300	1,533,333	(28,003)	2,128,630
Profit for the period	-	295,590	-	295,590
Loss on cash flow hedges	-	-	(2,756)	(2,756)
Actuarial gain on defined benefit plans	-	43,994	-	43,994
Income tax relating to components of other comprehensive income	-	-	-	-
Total comprehensive income for the period	-	339,584	(2,756)	336,828
Payment of distributions	-	(160,635)	-	(160,635)
Balance as at 31 December 2015	623,300	1,712,282	(30,759)	2,304,823

Notes to the financial statements are included on pages 6 to 56.

Statement of cash flows
for the year ended 31 December 2015

	Consolidated	
	Year ended	Year ended
	December	December
	2015	2014
Note	\$'000	\$'000
Cash flows from operating activities		
Receipts from customers	1,549,642	1,550,974
Payments to suppliers and employees	(726,794)	(733,676)
Interest and other costs of finance paid	(261,622)	(276,669)
Net cash provided by operating activities	37(c) 561,226	540,629
Cash flows from investing activities		
Interest received	4,465	1,598
Payments for property, plant and equipment	(361,852)	(414,788)
Proceeds from sale of property, plant and equipment	2,173	2,268
Net cash used in investing activities	(355,214)	(410,922)
Cash flows from financing activities		
Payments for debt issue costs	(3,467)	(3,547)
Proceeds from borrowings	309,455	397,326
Repayment of borrowings	(303,308)	(204,827)
Distributions paid	(160,635)	(182,635)
Net cash provided by financing activities	(157,955)	6,317
Net increase in cash and cash equivalents	48,057	136,024
Cash and cash equivalents at the beginning of the year	191,796	55,772
Cash and cash equivalents at the end of the year	37(a) 239,853	191,796

Notes to the financial statements are included on pages 6 to 56.

Notes to the financial statements for the year ended 31 December 2015

1 Summary of accounting policies

Statement of compliance

The financial report is a general purpose financial report, which has been prepared in accordance with the Partnership Agreement and Accounting Standards and Interpretations. Accounting Standards include Australian Accounting Standards. Compliance with the Australian Accounting Standards ensures that the financial statements and notes of the consolidated entity comply with International Financial Reporting Standards ("IFRS"). SA Power Networks is a for-profit entity.

The financial report includes the consolidated financial statements of the consolidated entity.

The financial report was authorised for issue by the Board of Management on 2 March 2016.

Basis of preparation

The financial report has been prepared on the basis of historical cost, except for certain non-current assets and financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below. Historical cost is generally based on the fair values of the consideration given in exchange for assets. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the consolidated entity takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for leasing transactions that are within the scope of AASB 117, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in AASB 102 or value in use in AASB 136.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly and applied within a valuation technique; and
- Level 3 inputs are unobservable inputs for the asset or liability and applied within a valuation technique.

All amounts are presented in Australian dollars and are rounded off to the nearest thousand dollars unless otherwise indicated.

Going concern

The financial report has been prepared on a going concern basis, which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business. At the balance date, the consolidated entity has a net working capital deficiency of \$612 million (2014: deficiency of \$212 million). The partners, after reviewing the cash flow forecasts, the consolidated entity's existing and planned financial facilities and the results of operations to the

Notes to the financial statements for the year ended 31 December 2015

1 Summary of accounting policies (continued)

date of this report, have determined that the consolidated entity is able to pay its debts as and when they fall due and are satisfied that it is appropriate for this financial report to be prepared on the going concern basis.

Critical accounting judgements and key sources of estimation uncertainty

In the application of the consolidated entity's accounting policies, which are described in Note 1, management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgements. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of the consolidated entity's accounting policies that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable, in the relevant notes to the financial statements.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

Adoption of new and revised Accounting Standards

In the current year, the consolidated entity has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current annual reporting period. The adoption of these new and revised Standards and Interpretations has resulted in no significant changes to the consolidated entity's accounting policies.

The consolidated entity early adopted, AASB 9: *Financial Instruments*, with an initial application date of 1 January 2015. The structure of the hedge relationships has been such that the valuations of these financial instruments give rise to no net gain or expense in the profit and loss account (excluding the impact of credit risk) similar to what was achieved under the previous standard (AASB 139), with any net gains or losses being taken to the hedge revaluation reserve, as set out in note 28.

Standards and Interpretations in issue not yet adopted

At the date of authorisation of the financial report, a number of Standards and Interpretations were in issue but not yet effective.

Initial application of the following standards will not affect any of the amounts recognised in the financial report, but will change the disclosures presently made in relation to the financial report of the consolidated entity:

Notes to the financial statements for the year ended 31 December 2015

1 Summary of accounting policies (continued)

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 2014-3 'Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations'	1 January 2016	31 December 2016
AASB 2014-4 'Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation'	1 January 2016	31 December 2016
AASB 15 'Revenue from Contracts with Customers', AASB 2014-5 'Amendments to Australian Accounting Standards arising from AASB 15' and AASB 2015-8 'Amendments to Australian Accounting Standards – Effective Date of AASB 15'	1 January 2018	31 December 2018
AASB 2014-9 'Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements'	1 January 2016	31 December 2016
AASB 2014-10 'Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture' and AASB 2015-10 'Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128'	1 January 2018	31 December 2018
AASB 2015-1 'Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle'	1 January 2016	31 December 2016
AASB 2015-2 'Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101'	1 January 2016	31 December 2016
AASB 2015-3 'Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality'	1 July 2015	31 December 2016
AASB 2015-4 'Amendments to Australian Accounting Standards – Financial Reporting Requirements for Australian Groups with a Foreign Parent'	1 July 2015	31 December 2016
AASB 2015-5 'Amendments to Australian Accounting Standards – Investment Entities: Applying the Consolidation Exception'	1 January 2016	31 December 2016
AASB 2015-9 'Amendments to Australian Accounting Standards – Scope and Application Paragraphs'	1 January 2016	31 December 2016

At the date of authorisation of the financial statements, the following IASB Standards and IFRIC Interpretations were also in issue but not yet effective, although Australian equivalent Standards and Interpretations have not yet been issued.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
IFRS 16 Leases	1 January 2019	31 December 2019
Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)	1 January 2017	31 December 2017
Disclosure Initiative (Amendments to IAS 7)	1 January 2017	31 December 2017

Notes to the financial statements for the year ended 31 December 2015

1 Summary of accounting policies (continued)

Significant accounting policies

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

a) Borrowing costs

Borrowing costs directly attributable to assets under construction are capitalised as part of the cost of those assets. With the exception of borrowing costs associated with refinancing debt (which are amortised over the life of the debt), all other borrowing costs are recognised in profit or loss in the period in which they are incurred.

b) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash in banks and investments in money market instruments, net of outstanding bank overdrafts.

c) Construction contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, as measured by the proportion that contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable.

Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

d) Derivative financial instruments

The consolidated entity enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including forward foreign exchange contracts, interest rate swaps and cross currency swaps. Further details of derivative financial instruments are disclosed in note 38 to the financial statements.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event, the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Notes to the financial statements for the year ended 31 December 2015

1 Summary of accounting policies (continued)

Hedge accounting

The consolidated entity designates certain hedging instruments, which include derivatives, embedded derivatives and non-derivatives in respect of foreign currency risk, as either fair value hedges or cash flow hedges. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship the consolidated entity documents the relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the consolidated entity documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in the fair values or cash flows of the hedged item.

Note 38 contains details of the fair values of the derivative instruments used for hedging purposes. Movements in the hedging reserve in equity are also detailed in note 28.

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that is attributable to the hedged risk. Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting. The adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss from that date.

Cash flow hedges

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

Amounts deferred in equity are recycled in profit or loss in the periods when the hedged item is recognised in profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in profit or loss.

Notes to the financial statements for the year ended 31 December 2015

1 Summary of accounting policies (continued)

e) Employee benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave, and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the consolidated entity in respect of services provided by employees up to reporting date.

Defined contribution plans

Payments in relation to defined contribution superannuation plans are expensed when employees have rendered service entitling them to the contributions.

Defined benefit plans

For defined benefit superannuation plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each reporting date. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the statement of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Past service cost is recognised in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are categorised as follows:

- service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements);
- net interest expense or income; and
- remeasurement.

The consolidated entity presents service cost in profit or loss in the line item 'employee benefits expense' and presents net interest expense or income in profit or loss in the line item 'finance costs'. Curtailment gains and losses are accounted for as past service costs.

The defined benefit obligation recognised in the statement of financial position represents the actual deficit or surplus in the consolidated entity's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Notes to the financial statements for the year ended 31 December 2015

1 Summary of accounting policies (continued)

f) Financial instruments

Financial assets and financial liabilities are recognised when the consolidated entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

g) Financial assets

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss', 'held-to-maturity' investments, 'available-for-sale' financial assets, and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Income is recognised on an effective interest rate basis for debt instruments, other than those financial assets 'at fair value through profit or loss'.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method less impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

Impairment of financial assets

Financial assets, other than those at fair value through profit and loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered impaired where there is objective evidence that as a result of one or more events that occurred after initial recognition of the financial asset the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated cash flows, discounted at the original effective interest rate.

Notes to the financial statements for the year ended 31 December 2015

1 Summary of accounting policies (continued)

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectable, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit and loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

h) Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

Financial guarantee contract liabilities

Financial guarantee contract liabilities are measured initially at their fair values and subsequently at the higher of the amount recognised as a provision and the amount initially recognised less cumulative amortisation in accordance with the revenue recognition policies in note 1 (u).

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at fair value through profit or loss' or other financial liabilities.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability. Fair value is determined in the manner described in note 38.

Other financial liabilities

Other financial liabilities, including borrowings and trade and other payables, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

Notes to the financial statements for the year ended 31 December 2015

1 Summary of accounting policies (continued)

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

i) Foreign currency

Foreign currency transactions

All foreign currency transactions during the financial year are brought to account using the exchange rate in effect at the date of the transaction. Foreign currency monetary items at reporting date are translated at the exchange rate existing at reporting date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined.

Exchange differences are recognised in profit or loss in the period in which they arise except that:

- i. exchange differences which relate to assets under construction for future productive use are included in the cost of those assets where they are regarded as an adjustment to interest costs on foreign currency borrowings; and
- ii. exchange differences on transactions entered into in order to hedge certain foreign currency risks (refer note 1(d)).

j) Goods and Services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- i. where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- ii. for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the statement of cash flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

k) Government grants

Government grants are assistance by the government in the form of transfers of resources to the consolidated entity in return for past or future compliance with certain conditions relating to the operating activities of the entity. Government grants include government assistance where there are no conditions specifically relating to the operating activities of the consolidated entity other than the requirement to operate in certain regions or industry sectors.

Notes to the financial statements for the year ended 31 December 2015

1 Summary of accounting policies (continued)

Government grants relating to income are recognised as income over the periods necessary to match them with the related costs. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the consolidated entity with no future related costs are recognised as income of the period in which it becomes receivable.

Government grants relating to assets are treated as deferred income and recognised in profit and loss over the expected useful lives of the assets concerned.

l) Impairment of assets

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

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

m) Income tax

The partnership is not subject to tax in its own right, as the partnership fully distributes any taxable income or tax losses to the partners.

Tax consolidation

Certain companies in the consolidated entity are part of a tax-consolidated group under Australian taxation law. Tax consolidation is not applicable to the partnership. The subsidiaries of the partnership are taxable entities and have adopted the following policies.

Notes to the financial statements for the year ended 31 December 2015

1 Summary of accounting policies (continued)

Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by 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).

Deferred tax

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

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are 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.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, branches, associates and joint ventures except where the consolidated entity is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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 tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the consolidated entity 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 partnership / consolidated entity intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in profit or loss, 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 the goodwill or excess.

Notes to the financial statements for the year ended 31 December 2015

1 Summary of accounting policies (continued)

n) Intangible assets

Intangible assets with finite lives are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

o) Inventories

Inventories are valued at the lower of cost and net realisable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventory on hand by the method most appropriate to each particular class of inventory, with the majority being valued on a weighted average cost basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

p) Lease premium

The lease premium, representing the fair value at acquisition of the SA Power Networks business, is recognised as an asset and amortised on a straight line basis over the lease period of 200 years and tested for impairment whenever there is an indication that the lease premium may be impaired. Any impairment is recognised immediately in profit or loss. Refer also note 1(l).

q) Leased assets

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.

Consolidated entity as lessee

Finance leases

Assets held under finance leases are initially recognised at their fair value or, if lower, at amounts equal to the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are charged in the profit or loss directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the consolidated entity's general policy on borrowing costs. Refer to note 1(a).

Finance leased assets are amortised on a straight line basis over the estimated useful life of the asset.

Notes to the financial statements for the year ended 31 December 2015

1 Summary of accounting policies (continued)

The consolidated entity has leased distribution network assets from the Distribution Lessor Corporation (a subsidiary of the Treasurer of South Australia). The finance lease liability for the distribution network lease has been prepaid. This prepayment is amortised on a straight-line basis over the lease period of 200 years.

Operating leases

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

Lease incentives

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

r) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the partnership and entities (including structured entities) controlled by the partnership and its subsidiaries. Control is achieved when the partnership:

- Has power over the investee;
- Is exposed, or has rights, to variable returns from its involvement with the investee;
- and
- Has the ability to use its power to affect its returns.

The partnership reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the partnership obtains control over the subsidiary and ceases when the partnership loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the partnership gains control until the date when the partnership ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the partnership and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the partnership and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the consolidated entity's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the consolidated entity are eliminated in full on consolidation.

Notes to the financial statements for the year ended 31 December 2015

1 Summary of accounting policies (continued)

s) Property, plant and equipment

Land and buildings, plant and equipment, leasehold improvements and property, plant and equipment under finance lease are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land. Depreciation is calculated on a straight line basis so as to write off the net cost or other revalued amount of each asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period, with the effect of any changes recognised on a prospective basis.

The following estimated useful lives are used in the calculation of depreciation:

Sub-transmission and distribution system	20 - 71 years
Buildings	10 - 40 years
Vehicles	3 - 15 years
Plant, tools, office and IT equipment	3 - 10 years

The consolidated entity has leased the distribution network and associated land from the Distribution Lessor Corporation. In general, any maintenance, replacement or upgrading of the distribution network will automatically become part of the distribution network, which is leased to the partnership.

If, however, one of the exceptions (as defined under the terms of the lease) below are satisfied, then that addition to the distribution network (including land) may be owned by, or registered in favour of the partnership:

- Capital works which are considered to be qualifying projects; or
- Any extension beyond the outer extremities of the distribution network as it existed at 28 January 2000.

Depreciation rates for classes of assets are reviewed annually and, if necessary, adjusted so that they reflect the most recent assessments of useful life. Where asset lives are revised the written down value of the asset is depreciated over its revised remaining life.

t) Provisions

Provisions are recognised when the consolidated entity has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

Notes to the financial statements for the year ended 31 December 2015

1 Summary of accounting policies (continued)

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 obligation.

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.

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.

u) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Distribution Use of System revenue

Distribution Use of System revenue represents revenue earned from the distribution of electricity. Distribution Use of System revenue is recorded when electricity is provided.

Unbilled Distribution Use of System revenue is an estimate of the Distribution Use of System revenue relating to electricity supplied to customers between the date of the last meter reading and year end and is included in the statement of financial position as a receivable and in profit or loss as operating revenue. This estimate is determined having regard to customers' actual usage as well as previous consumption patterns.

As Distribution Use of System revenue billing periods range from one month to three months, the estimated receivable from unbilled sales averages from fifteen days to one and a half months revenue.

Contributed assets and contributions for capital works

Contributed assets and contributions for capital works are assets contributed or monies paid to the consolidated entity by customers or developers seeking an augmentation of the electricity distribution system in circumstances where, in the ordinary course of events, such augmentation would not be undertaken by the consolidated entity. Contributed assets are recognised at fair value as revenue in profit or loss in the period that control of the asset passes to the consolidated entity. Capital contributions are recognised as revenue in profit or loss in the year that the control of the contribution passes to the consolidated entity.

Rendering of services

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract (refer note 1(c)).

Notes to the financial statements for the year ended 31 December 2015

1 Summary of accounting policies (continued)

Interest income

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the consolidated entity and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial assets to that asset's net carrying amount on initial recognition.

Notes to the financial statements

for the year ended 31 December 2015

		Consolidated	
		Year ended December 2015 \$'000	Year ended December 2014 \$'000
2	Profit from operations		
(a)	Revenue		
	Revenue from continuing operations consisted of the following items:		
	Revenue from the rendering of services:		
	Standard control services - Distribution Use of System revenue	1,091,724	1,173,972
	Standard control services - contributed assets and contributions for capital works	80,587	80,371
	Negotiated distribution services - public lighting	17,161	17,417
	Negotiated distribution services - other	38,478	22,859
	Unregulated services	174,237	147,476
		1,402,187	1,442,095
	Interest revenue:		
	Bank deposits	4,590	2,024
		1,406,777	1,444,119
(b)	Profit before income tax		
	Profit before income tax has been arrived at after (charging)/crediting the following gains and losses from continuing operations:		
	Loss on disposal of property, plant and equipment	(1,247)	(784)
	Profit before income tax has been arrived at after charging the following expenses from continuing operations:		
	Finance costs:		
	Interest on loans:		
	Other related parties - Cheung Kong Infrastructure Finance (Australia) Pty Ltd	(32,792)	(32,792)
	Other related parties - Hong Kong Electric International Finance (Australia) Pty Ltd	(39,686)	(39,686)
	Other entities	(169,259)	(203,706)
		(241,737)	(276,184)
	Net interest (expense)/benefit on defined benefit superannuation plans	(524)	1,901
	Other interest expense	(760)	(877)
	Total interest expense	(243,021)	(275,160)
	Gain arising on derivatives in a designated fair value hedge accounting relationship	174,701	115,283
	Loss arising on adjustment to hedged item in a designated fair value hedge accounting relationship	(178,491)	(115,283)
	Ineffectiveness arising from cash flow hedges	-	-
	Other finance costs	(2,920)	(2,585)
		(249,731)	(277,745)

Notes to the financial statements

for the year ended 31 December 2015

		Consolidated	
		Year ended December 2015 \$'000	Year ended December 2014 \$'000
2	Profit from operations (continued)		
(b)	Profit before income tax (continued)		
	Net bad and doubtful debts arising from: Other entities	(17)	(26)
	Amortisation of non-current assets		
	Lease premium	(5,063)	(5,063)
	Prepaid land lease	(2,112)	(2,112)
		(7,175)	(7,175)
	Depreciation of non-current assets	(210,963)	(181,256)
		(218,138)	(188,431)
	Asset rebates	(3,662)	(3,594)
	Operating lease rental expenses: Minimum lease payments	(1,312)	(1,636)
	Employee benefits expense: <i>Post employment benefits:</i>		
	Defined contribution plans	(3,738)	(3,251)
	Defined benefit plans	(25,535)	(22,268)
		(29,273)	(25,519)
	<i>Termination benefits</i>	(1,900)	(1,132)
	Other employee benefits	(151,577)	(165,461)
		(182,750)	(192,112)
3	Income tax		
(a)	Income tax recognised in profit / (loss)		
	Tax benefit comprises:		
	Current tax benefit	(182)	-
	Deferred tax benefit resulting from the origination and reversal of temporary differences	(1,858)	(68)
	Total tax benefit attributable to continuing operations	(2,040)	(68)
The prima facie income tax (benefit) / expense on pre-tax accounting profit / (loss) from operations reconciles to the income tax (benefit) / expense in the financial statements as follows:			
	Profit from operations	293,550	366,390
	Income tax expense calculated at 30%	88,065	109,917
	Non-assessable income	(90,105)	(109,985)
		(2,040)	(68)

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law. There has been no change in the corporate tax rate when compared with the previous reporting period.

Notes to the financial statements

for the year ended 31 December 2015

		Consolidated		
		Year ended December 2015 \$'000	Year ended December 2014 \$'000	
3	Income tax (continued)			
(b)	Income tax recognised directly in equity			
No amounts were credited directly to equity during the current or prior period.				
(c)	Deferred tax balances			
Deferred tax assets comprise:				
Taxable losses - revenue		182	-	
Deferred tax liabilities comprise:				
Temporary differences		(182)	(2,040)	
2015 Consolidated		Opening balance \$'000	(Charged) / credited to income \$'000	Closing balance \$'000
Gross deferred tax assets				
Tax losses - revenue		-	182	182
Gross deferred tax liabilities				
Temporary differences:				
Property, plant and equipment		(1,173)	991	(182)
Indemnity receivable		(867)	867	-
		(2,040)	1,858	(182)
2014 Consolidated		Opening balance \$'000	(Charged) / credited to income \$'000	Closing balance \$'000
Gross deferred tax assets				
Tax losses - revenue		-	-	-
Gross deferred tax liabilities				
Temporary differences:				
Property, plant and equipment		(4,027)	2,854	(1,173)
Indemnity receivable		1,919	(2,786)	(867)
		(2,108)	68	(2,040)

Notes to the financial statements for the year ended 31 December 2015

3 Income tax (continued)

(d) Tax consolidation

Relevance of tax consolidation to the consolidated entity

Certain subsidiaries of the partnership have formed a tax-consolidated group with effect from 1 January 2003 and are therefore taxed as a single entity from that date. The head entity in the tax-consolidated group is Utilities Management Pty Ltd. The members of the tax-consolidated group are identified at note 33.

The SA Power Networks partnership is not part of a tax-consolidated group.

Nature of tax funding arrangements and tax sharing agreements

Entities within the tax-consolidated group have entered into a tax funding arrangement and a tax-sharing agreement with the head entity. Under the terms of the tax funding arrangement, Utilities Management Pty Ltd and each of the entities in the tax-consolidated group has agreed to pay a tax equivalent payment to or from the head entity, based on the current tax liability or current tax asset of the entity. Such amounts are reflected in amounts receivable from or payable to other entities in the tax-consolidated group.

The tax sharing agreement entered into between members of the tax-consolidated group provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement, as the likelihood of payment of any amounts under the tax sharing agreement is considered to be remote.

Consolidated	
Year ended December	Year ended December
2015	2014
\$	\$

4 Key management personnel compensation

The aggregate compensation made to directors and other members of key management personnel of the consolidated entity and partnership is set out below:

Short-term employee benefits	6,182,868	5,715,634
Post-employment benefits	186,762	272,231
Other long-term employee benefits	1,923,823	2,231,518
	<u>8,293,453</u>	<u>8,219,383</u>

5 Remuneration of auditors

Auditor of the parent entity

Audit or review of the financial report	504,072	546,095
Accounting and assurance services*	447,026	968,064
Taxation services	114,475	117,675
Other non-audit services	63,556	534,906
	<u>1,129,129</u>	<u>2,166,740</u>

* The prior year comparative includes assurance work with respect to the Regulatory Information Notices for the periods 2012/2013 and 2013/2014.

The auditor of SA Power Networks is Deloitte Touche Tohmatsu.

Notes to the financial statements

for the year ended 31 December 2015

	Consolidated	
	December 2015 \$'000	December 2014 \$'000
6 Current trade and other receivables		
Distribution Use of System revenue trade receivables (i)	44,793	52,606
Allowance for doubtful debts	-	-
	44,793	52,606
Other trade receivables (i)	26,167	22,679
Allowance for doubtful debts (ii)	(3,613)	(3,613)
	67,347	71,672
Estimated revenue from unbilled sales	92,192	144,385
Amounts due from customers under construction contracts (note 34)	25,963	14,843
Interest receivable	640	514
	186,142	231,414

- (i) The average credit period on Distribution Use of System revenue is 14 days (2014: 14 days). No interest is charged on Distribution Use of System revenue trade receivables.

The average credit period on other trade receivables is 30 days (2014: 30 days). No interest is charged on other trade receivables. Trade receivables over 30 days are provided for based on estimated irrecoverable amounts from sales, determined by reference to past default experience.

Included in the consolidated entity's Distribution Use of System revenue trade receivable balance are debtors with a carrying amount of \$414,000 (2014: \$276,000) which are past due at reporting date and which have not been provided as there has not been a significant change in credit quality and it is considered that the amounts are still recoverable. The consolidated entity does not hold any collateral over these balances. The average age of these receivables is 65 days (2014: 61 days).

Included in the consolidated entity's other trade receivable balance are debtors with a carrying amount of \$1,846,000 (2014: \$2,937,000) which are past due at reporting date and which have not been provided as there has not been a significant change in credit quality and it is considered that the amounts are still recoverable. The consolidated entity does not hold any collateral over these balances. The average age of these receivables is 45 days (2014: 45 days).

- (ii) Movement in the allowance for doubtful debts - other trade receivables

Balance at the beginning of the year	3,613	3,613
Increase / (decrease) in allowance recognised in profit and loss	-	-
Balance at the end of the year	3,613	3,613

In determining the recoverability of a trade receivable the consolidated entity considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. There is a concentration of credit risk with respect to Distribution Use of System trade receivables to a small number of electricity retailers. The concentration of credit risk on other trade receivables is limited due to the customer base being large and unrelated. The partners believe that there is no further credit provision required in excess of the allowance for doubtful debts.

Included in the allowance for doubtful debts are specific trade receivables with a balance of \$nil (2014: \$nil) which have been placed under liquidation. Any impairment recognised represents the difference between the carrying amount of the specific trade receivable and the present value of the expected liquidation proceeds.

Notes to the financial statements

for the year ended 31 December 2015

		Consolidated	
		December	December
		2015	2014
		\$'000	\$'000
7	Other current financial assets		
	<u>At fair value</u>		
	Derivatives that are designated and effective as hedging instruments:		
	Cross currency swaps (i)	32,567	-
		<u>32,567</u>	<u>-</u>
(i)	The terms of cross currency swaps are disclosed in note 38 (f).		
8	Current inventories		
	Raw materials - at cost	56	264
	Work in progress - at cost	207	310
	Finished goods - at cost	<u>19,576</u>	<u>19,253</u>
		<u>19,839</u>	<u>19,827</u>
9	Other current assets		
	Prepayments	<u>5,626</u>	<u>7,780</u>
10	Non-current inventories		
	Finished goods - at cost	<u>8,400</u>	<u>8,705</u>
11	Other non-current financial assets		
	<u>At fair value</u>		
	Derivatives that are designated and effective as hedging instruments:		
	Interest rate swaps (i)	680	-
	Cross currency swaps (ii)	<u>186,598</u>	<u>78,917</u>
		<u>187,278</u>	<u>78,917</u>
(i)	The terms of interest rate swaps are disclosed in note 38 (g).		
(ii)	The terms of cross currency swaps are disclosed in note 38 (f).		

Notes to the financial statements
for the year ended 31 December 2015

12 Property, plant and equipment
Consolidated

	Freehold land at cost \$'000	Easements at cost \$'000	Buildings at cost \$'000	Distribution network system assets at cost \$'000	Vehicles at cost \$'000	Plant, tools, office and IT equipment at cost \$'000	Capital works in progress \$'000	Vehicles under finance lease at cost \$'000	Distribution network system assets under finance lease at cost \$'000	Total \$'000
Gross carrying amount										
Balance at 1 January 2014	55,802	8,443	22,169	814,788	105,946	409,981	273,092	4,395	3,807,233	5,501,849
Additions	-	-	-	3	-	-	430,484	-	10,062	440,549
Transfers	1,775	147	64	86,819	21,554	63,593	(410,757)	130	236,675	-
Disposals	-	-	-	-	(9,058)	(575)	-	(300)	-	(9,933)
Balance at 1 January 2015	57,577	8,590	22,233	901,610	118,442	472,999	292,819	4,225	4,053,970	5,932,465
Additions	25	-	-	165	-	-	382,054	-	10,225	392,469
Transfers	366	1,714	-	173,015	23,284	118,376	(451,041)	53	134,233	-
Disposals	-	-	-	-	(11,240)	(809)	-	(314)	-	(12,363)
Balance at 31 December 2015	57,968	10,304	22,233	1,074,790	130,486	590,566	223,832	3,964	4,198,428	6,312,571
Accumulated depreciation / amortisation and impairment										
Balance at 1 January 2014	-	-	(6,547)	(66,774)	(40,321)	(242,675)	-	(2,170)	(968,198)	(1,326,685)
Disposals	-	-	-	-	6,281	389	-	211	-	6,881
Transfers	-	-	-	(2)	-	(26)	-	-	28	-
Impairment losses charge to profit (i)	-	-	-	-	-	-	-	-	-	-
Depreciation expense	-	-	(819)	(15,204)	(10,606)	(42,608)	-	(187)	(111,832)	(181,256)
Balance at 1 January 2015	-	-	(7,366)	(81,980)	(44,646)	(284,920)	-	(2,146)	(1,080,002)	(1,501,060)
Disposals	-	-	-	-	8,084	711	-	148	-	8,943
Transfers	-	-	-	(2,203)	-	(629)	-	-	2,832	-
Impairment losses charge to profit (i)	-	-	-	-	-	-	-	-	-	-
Depreciation expense	-	-	(820)	(17,335)	(10,996)	(65,107)	-	(184)	(116,521)	(210,963)
Balance at 31 December 2015	-	-	(8,186)	(101,518)	(47,558)	(349,945)	-	(2,182)	(1,193,691)	(1,703,080)
Net book value										
As at 31 December 2014	57,577	8,590	14,867	819,630	73,796	188,079	292,819	2,079	2,973,968	4,431,405
As at 31 December 2015	57,968	10,304	14,047	973,272	82,928	240,621	223,832	1,782	3,004,737	4,609,491

	Year ended December 2015 \$'000	Year ended December 2014 \$'000
Aggregate depreciation allocated, whether recognised as an expense or capitalised as part of the carrying amount of other assets during the period:		
Buildings	(820)	(819)
Distribution network system assets	(17,335)	(15,204)
Vehicles	(10,996)	(10,606)
Plant, tools, office and IT equipment	(65,107)	(42,608)
Vehicles under finance lease	(184)	(187)
Distribution network system assets under finance lease	(116,521)	(111,832)
	(210,963)	(181,256)

Notes to the financial statements

for the year ended 31 December 2015

		Consolidated	
		December 2015 \$'000	December 2014 \$'000
13	Intangible assets		
	Lease premium		
	Gross carrying amount		
	Balance at 1 January	1,012,666	1,012,666
	Additions	-	-
	Balance at 31 December	1,012,666	1,012,666
	Accumulated amortisation and impairment		
	Balance at 1 January	(76,207)	(71,144)
	Amortisation expense (i)	(5,063)	(5,063)
	Balance at 31 December	(81,270)	(76,207)
	Net book value		
	As at 31 December	931,396	936,459
(i)	Amortisation expense is included in the line "depreciation and amortisation expense" in the statement of profit or loss and other comprehensive income.		
14	Other non-current assets		
	Prepaid land lease (note 31)	388,426	390,538
	Superannuation asset (note 25)	131	-
		388,557	390,538
15	Assets pledged as security		
	There are no assets pledged as security at 31 December 2015. Assets were pledged as security in the prior year which related to finance lease liabilities.		
16	Current trade and other payables		
	Trade payables (i)	106,761	120,440
	Amounts due to customers under construction contracts (note 34)	53,569	7,106
	Goods and services tax (GST) payable	7,198	8,496
	Deferred income (ii)	25,565	27,898
	Interest payable:		
	Other related parties - Cheung Kong Infrastructure Finance (Australia) Pty Ltd	5,570	5,570
	Other related parties - Hong Kong Electric International Finance (Australia) Pty Ltd	6,741	6,741
	Other entities	32,400	50,789
		44,711	63,100
		237,804	227,040

- (i) The average credit period on trade payables is 32 days (2014: 39 days). No interest is charged on trade payables.
- (ii) At 31 December 2015, included in deferred income is an estimated \$19 million of revenue earned in excess of the Regulatory Revenue Cap. At 30 June 2016, the aggregate amount of revenue earned in excess of the Regulatory Revenue Cap will be returned to consumers through tariffs from 1 July 2016.

Notes to the financial statements
for the year ended 31 December 2015

		Consolidated	
		December	December
		2015	2014
		\$'000	\$'000
17	Current borrowings		
	<u>Secured</u>		
	At amortised cost		
	Finance lease liabilities (i)	-	3,308
	<u>Unsecured</u>		
	At amortised cost		
	Bonds (ii)	737,263	300,000
	Bond premium	1,557	1,497
	Foreign exchange and fair value adjustments	30,707	-
	Capitalised borrowing costs	(11)	(147)
		769,516	304,658
(i)	The finance lease liabilities were at a fixed interest rate and were concluded in 2015. The weighted average effective interest rate for 2014 was 7.49%.		
(ii)	The borrowings are AUD dollar debt. The current weighted average effective interest rate on the borrowings is 5.24% (2014: 6.37%). The group hedges the loans using interest rate swaps exchanging variable rate interest for fixed rate interest.		
18	Other current financial liabilities		
	At fair value:		
	Derivatives that are designated and effective as hedging instruments:		
	Interest rate swaps	-	40,730
	Cross currency swaps	-	-
		-	40,730
19	Current provisions		
	Employee benefits (i)	81,810	84,582
	Self insurance (note 24)	6,933	5,109
	Site restoration (note 24)	-	290
		88,743	89,981
(i)	The current provision for employee benefits includes \$50,367,000 of annual leave and vested long service leave entitlements accrued but not expected to be taken within 12 months (2014: \$49,767,000).		
20	Non-current trade and other payables		
	Trade payables	-	-

Notes to the financial statements

for the year ended 31 December 2015

		Consolidated	
		December	December
		2015	2014
		\$'000	\$'000
21 Non-current borrowings			
Unsecured			
At amortised cost			
Bonds (i)		2,326,292	2,754,101
Bond premium		1,964	3,520
Foreign exchange and fair value hedge adjustments		190,296	66,189
Capitalised borrowing costs		(5,814)	(5,892)
		2,512,738	2,817,918
Loans from:			
Other related parties - Cheung Kong Infrastructure Finance (Australia) Pty Ltd (ii)		293,046	293,046
Other related parties - Hong Kong Electric International Finance (Australia) Pty Ltd (ii)		354,654	354,654
		647,700	647,700
		3,160,438	3,465,618
(i) The borrowings are a mix of Australian dollar and US dollar debt. The borrowings are a mix of variable rate and fixed interest rate debt. Repayment periods do not exceed 12 years. The current weighted average effective interest rate on the borrowings is 4.14% (2014: 6.42%). The group hedges a portion of the loans (all foreign borrowings) using cross-currency interest rate swaps exchanging US dollar fixed rate interest for Australian dollar variable rate interest and interest rate swaps exchanging variable rate interest for fixed rate interest.			
(ii) The loans are subordinated to other borrowings. The borrowings are variable rate debt with no predetermined repayment period. The current weighted average effective interest rate on the borrowings is 11.19% (2014: 11.19%). The group hedges the loans using interest rate swaps exchanging variable rate interest for fixed rate interest.			
22 Other non-current financial liabilities			
At fair value:			
Derivatives that are designated and effective as hedging instruments:			
Interest rate swaps (i)		30,229	-
Cross currency swaps (ii)		3,161	-
		33,390	-
(i) The terms of interest rate swaps are disclosed in note 38 (g).			
(ii) The terms of cross currency swaps are disclosed in note 38 (f).			

Notes to the financial statements

for the year ended 31 December 2015

	Consolidated	
	December	December
	2015	2014
	\$'000	\$'000
23 Non-current provisions		
Defined benefit superannuation contributions (note 25) (i)	-	21,791
Other employee benefits	12,651	14,808
Self insurance (note 24)	772	665
Site restoration (note 24)	1,012	880
	<u>14,435</u>	<u>38,144</u>

(i) The reduction in the 2015 year was driven by the actuarial valuation of superannuation.

24 Provisions

Consolidated	Self insurance (i) \$'000	Site restoration (ii) \$'000
Balance at 1 January 2015	5,774	1,170
Additional provisions recognised	4,162	96
Reductions arising from payments / other sacrifices of future economic benefits	(2,231)	(254)
Balance at 31 December 2015	<u>7,705</u>	<u>1,012</u>
Current (note 19)	6,933	-
Non-current (note 23)	<u>772</u>	<u>1,012</u>
	<u>7,705</u>	<u>1,012</u>

- (i) The provision for self insurance represents the partners best estimate of the future sacrifice of economic benefits that will be required in connection with claims from third parties with respect to self-insured risks, where a present obligation exists. Self insured risks include workers compensation and the insurance excess on bushfire and general liability claims.
- (ii) The provision for site restoration represents the partners best estimate of the future economic sacrifice of economic benefits that will be required to remediate contaminated land and remove hazardous materials, where it is probable that a present obligation exists, which can be reliably measured.

Notes to the financial statements for the year ended 31 December 2015

25 Defined benefit superannuation plans

The consolidated entity contributes to a defined benefit superannuation plan, the Electricity Industry Superannuation Scheme ("the Scheme"), in respect of employees of its subsidiary, Utilities Management Pty Ltd.

The Scheme is a multi-employer plan for the South Australian electricity supply industry, operating pursuant to the Electricity Corporations Act 1994 (SA). The Scheme is managed by the Electricity Industry Superannuation Board, a separate legal entity independent of the consolidated entity.

The Scheme comprises four divisions: the Lump Sum Scheme, the Pension Scheme, the RG Scheme and the Accumulation Scheme. All sub-schemes, except for the Accumulation Scheme, are closed to new members.

The Scheme provides retirement benefits to employees as follows:

Lump Sum Scheme: retirement benefits comprise member contributions plus interest and employer-provided defined-benefit components.

Pension Scheme: retirement benefits are primarily in the form of pensions based on contributions, period of membership and final salary. A pension may be commuted to a lump sum on retirement.

RG Scheme: retirement benefits comprise member contributions plus interest and an employer-provided component equal to 2 1/3 times the sum of the member contributions plus interest, subject to a limit based on final salary, plus an additional defined-benefit component.

Accumulation Scheme: retirement benefits are calculated on an accumulation basis at a level at least sufficient to ensure that the employer has no Superannuation Guarantee Charge liability.

The Scheme is a funded plan. The Scheme computes its obligations in accordance with Accounting Standard AAS 25 'Financial Reporting by Superannuation Plans' which prescribes a different measurement basis to that applied in this financial report. The net surplus determined in the Scheme's most recent financial report, for the financial year ended 30 June 2015, was a surplus of \$74.5 million relating to the consolidated entity (30 June 2014: net surplus of \$67.1 million relating to the consolidated entity).

Funding recommendations are made by the actuaries based on their forecasts of various matters, including future Scheme assets performance, interest rates and salary increases.

The consolidated entity may benefit from any surplus in the Scheme in the form of a contribution reduction or contribution holiday. Any reduction in contributions would normally be implemented only after advice from the Scheme's actuary. On wind-up of the Scheme, the consolidated entity may benefit from any surplus.

Notes to the financial statements for the year ended 31 December 2015

25 Defined benefit superannuation plans (continued)

	December 2015 %	December 2014 %
Key assumptions used (expressed as weighted averages):		
Discount rate	4.40	4.30
Expected rate of salary increase (i)	5.25	5.25
Expected rate of pension increase	2.50	2.50

The discount rate used was the 12 year AA corporate bond rate at 31 December 2015 of 4.40% (2014: 4.30%).

(i) For the December 2015 valuation, 5.25% was for the first year and then 4% p.a. thereafter.

	Consolidated	
	December 2015 \$'000	December 2014 \$'000
Amounts recognised in profit or loss in respect of defined benefit plans are as follows:		
Current service cost	25,535	22,268
Net interest expense / (benefit)	524	(1,901)
Total included in "employee benefits expense"	26,059	20,367
Actuarial (gains) / losses incurred during the year and recognised in the statement of profit or loss and other comprehensive income	(43,994)	48,155
Cumulative actuarial (gains) / losses recognised in the statement of profit or loss and other comprehensive income	(21,728)	22,266

Notes to the financial statements

for the year ended 31 December 2015

	Consolidated	
	December 2015 \$'000	December 2014 \$'000
25 Defined benefit superannuation plans (continued)		
The amount included in the statement of financial position arising from the entity's obligations in respect of its defined benefit plans is as follows:		
Present value of funded defined benefit obligations	(635,494)	(626,769)
Fair value of plan assets	635,625	604,978
Net asset / (liability) arising from defined benefit obligations	131	(21,791)
Included in the statement of financial position:		
Other non-current assets (note 14):		
Superannuation asset	131	-
Non-current provision for employee benefits (note 23):		
Defined benefit obligations	-	(21,791)
Net asset / (liability) arising from defined benefit obligations	131	(21,791)
Movements in the present value of the defined benefit obligations in the current period were as follows:		
Opening defined benefit obligation	626,769	525,549
Current service cost	25,535	22,268
Interest cost	25,509	30,128
Contributions from plan participants	10,438	9,898
Actuarial (gains) / losses arising from changes in financial assumptions	(19,682)	62,915
Actuarial losses arising from liability experience	3,498	9,863
Benefits paid	(41,569)	(36,125)
Taxes and premiums paid	(3,081)	(5,538)
Transfers in	8,077	7,811
Closing defined benefit obligation	635,494	626,769

Notes to the financial statements for the year ended 31 December 2015

	Consolidated	
	December	December
	2015	2014
	\$'000	\$'000
25 Defined benefit superannuation plans (continued)		
Movements in the fair value of the plan assets in the current period were as follows:		
Opening fair value of plan assets	604,978	552,031
Interest Income	24,985	32,029
Actual return on plan assets less interest income	27,810	24,623
Contributions from the employer	3,987	20,249
Contributions from plan participants	10,438	9,898
Benefits paid	(41,569)	(36,125)
Taxes and premiums paid	(3,081)	(5,538)
Transfers in	8,077	7,811
Assets distributed on settlements	-	-
Closing value of plan assets	635,625	604,978

The actual return on plan assets was a gain of \$52,795,000 (2014: gain of \$56,652,000).

The consolidated entity expects to make a contribution of \$12,418,000 (2014: \$12,483,000) to the defined benefit plans during the next financial year. The "target funding" method was used to determine the contribution rates.

The analysis of the plan assets is as follows:

Equity instruments	317,813	338,788
Debt instruments	66,741	84,697
Property	88,988	72,597
Other assets (including cash)	162,083	108,896
	635,625	604,978

The fair value of plan assets includes no amounts relating to:

- any of the consolidated entity's own financial instruments; and
- any property occupied by, or other assets used by, the consolidated entity.

The history of experience adjustments is as follows:

Experience adjustments gain / (loss) on plan liabilities	16,184	(72,778)
Experience adjustments gain on plan assets	27,810	24,623

Notes to the financial statements

for the year ended 31 December 2015

	Consolidated	
	December	December
	2015	2014
	\$'000	\$'000
26 Partners capital accounts		
Ordinary capital account (a)	1,000	1,000
Preferred partnership capital account (b)	622,300	622,300
	<u>623,300</u>	<u>623,300</u>

(a) Ordinary capital account

Balance at beginning of financial year	1,000	1,000
Balance at end of financial year	<u>1,000</u>	<u>1,000</u>

The ordinary capital account represents capital contributions by each of the partners in proportion to the partners respective ordinary capital share of the partnership. Additional contributions may be made, in accordance with the Partnership Agreement.

Ordinary capital confers the right to vote and the right to distributions. The partners may resolve to pay interest on the partner's ordinary capital contributions; no interest has been paid to date.

The partners share in the ordinary capital account is split in the following proportions:

	%	%
CKI Utilities Development Limited	25.5	25.5
PAI Utilities Development Limited	25.5	25.5
Spark Infrastructure SA (No. 1) Pty Ltd	15.0	15.0
Spark Infrastructure SA (No. 2) Pty Ltd	19.0	19.0
Spark Infrastructure SA (No. 3) Pty Ltd	15.0	15.0

(b) Preferred partnership capital account

	\$'000	\$'000
Balance at beginning of financial year	622,300	622,300
Contributions of partners' equity	-	-
Balance at end of financial year	<u>622,300</u>	<u>622,300</u>

Preferred partnership capital confers the right to cumulative distribution at 11.19%. Preferred partnership capital may be redeemed at the sole discretion of the partnership. Preferred partnership capital confers no right to vote or to share in any surplus assets or profits.

Cumulative ordinary distributions recognised	91,000	113,000
Cumulative preference distributions recognised	<u>69,635</u>	<u>69,635</u>
	<u>160,635</u>	<u>182,635</u>
Cumulative preference distributions not recognised	<u>11,638</u>	<u>11,638</u>

The partners share in the preferred partnership capital account is split in the following proportions:

	%	%
CKI Utilities Development Limited	-	-
PAI Utilities Development Limited	-	-
Spark Infrastructure SA (No. 1) Pty Ltd	30.6	30.6
Spark Infrastructure SA (No. 2) Pty Ltd	38.8	38.8
Spark Infrastructure SA (No. 3) Pty Ltd	30.6	30.6

Notes to the financial statements

for the year ended 31 December 2015

	Consolidated	
	December	December
	2015	2014
	\$'000	\$'000
27 Partners current accounts		
Balance at beginning of financial year	1,533,333	1,397,665
Net profit attributable to partners	295,590	366,458
Distributions provided for or paid (note 26(b))	(160,635)	(182,635)
Actuarial gains/(losses) (note 25)	43,994	(48,155)
Balance at end of financial year	1,712,282	1,533,333

Refer to note 26 (a) for the proportionate split between the partners.

28 Reserves

Hedge Reserve	(30,759)	(28,003)
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Hedge reserve

Balance at beginning of financial year	(28,003)	(53,362)
Gain / (loss) recognised:		
Interest rate swaps	11,181	70,821
Cross currency swaps	(13,937)	(45,462)
	(2,756)	25,359
Balance at end of financial year	(30,759)	(28,003)

The hedging reserve represents hedging gains and losses recognised on the effective portion of cash flow hedges. The cumulative deferred gain or loss on the hedge is recognised in profit or loss when the hedged transaction impacts the profit or loss, or is included as a basis adjustment to the non-financial hedged item, consistent with the applicable accounting policy.

29 Commitments for expenditure

Capital expenditure commitments

Plant and equipment

Not longer than 1 year	16,270	22,406
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Notes to the financial statements for the year ended 31 December 2015

	Consolidated	
	December 2015 \$'000	December 2014 \$'000
30 Contingent liabilities		
Environmental (i)	-	-
Guarantees for performance (ii)	15,154	16,398
Guarantee for workers compensation (iii)	2,696	3,658

- (i) The nature of the consolidated entity's business can create potential exposure to environmental matters which the consolidated entity may be required to remedy in the future. Hazardous materials are used in the distribution network of the consolidated entity. A system of control to ensure that all such hazardous materials are identified, managed and disposed of safely, in accordance with current legislation and other obligations has been implemented.

Certain matters associated with contaminants such as contaminated land and hazardous materials have been identified. A provision for site restoration has been established where the need for remediation has been identified. No amount has been recognised where there is significant uncertainty as to whether any future costs will be incurred.

The consolidated entity's operations are subject to changing environmental and related legislation, which could necessitate additional remedial work and breaches of this legislation could result in fines and penalties. It is not practicable to state an estimate of the potential financial impact of any such changing environmental and related legislation.

- (ii) As at 31 December 2015, \$15,154,000 (2014: \$16,398,000) of guarantees for performance were outstanding.
- (iii) As at 31 December 2015, there was an outstanding guarantee of \$2,696,000 (2014: \$3,658,000) given to Return To Work SA with respect of workers compensation.

Notes to the financial statements

for the year ended 31 December 2015

31 Leases

(a) Finance leases

Leasing arrangements

- (i) Distribution network system assets leased from the Distribution Lessor Corporation, with a lease term of 200 years. The finance lease liability for the distribution network lease has been prepaid and the unamortised amount at 31 December 2015 was \$388,426,000 (2014: \$390,538,000).
- (ii) Finance Leases with regard to vehicles were concluded in 2015.

Finance lease liabilities

	Minimum Future Lease Payments		Present Value of Minimum Future Lease Payments	
	December 2015	December 2014	December 2015	December 2014
	\$'000	\$'000	\$'000	\$'000
Consolidated				
Not later than 1 year	-	3,430	-	3,308
Later than 1 year and not later than 5 years	-	-	-	-
Later than 5 years	-	-	-	-
Minimum lease payments (i)	-	3,430	-	3,308
Less: Future finance charges	-	(122)	-	-
Present value of minimum lease payments	-	3,308	-	3,308
Included in the financial statements as:				
Current borrowings (note 17)			-	3,308
			-	3,308

- (i) Minimum future lease payments included the aggregate of all lease payments and any guaranteed residual.

(b) Operating leases

Leasing arrangements

Operating leases relate to:

Properties with lease terms of up to 10 years. The consolidated entity does not have an option to purchase the leased asset at the expiry of the lease period.

	Consolidated	
	December 2015	December 2014
	\$'000	\$'000
Non-cancellable operating lease payments		
Not longer than 1 year	2,927	2,618
Longer than 1 year and not longer than 5 years	5,984	7,444
Longer than 5 years	51	731
	8,962	10,793

No liabilities have been recognised with respect to non-cancellable operating leases.

Notes to the financial statements

for the year ended 31 December 2015

32 Economic dependency

The business of the consolidated entity is dependent upon the continued safe and reliable operation of the generation and transmission services provided by other electricity industry entities.

33 Subsidiaries

		Proportion of ownership interest and voting power held by consolidated entity	
		2015	2014
Name of entity	Country of Incorporation	%	%
Parent Entity			
SA Power Networks, a partnership of:			
CKI Utilities Development Limited	The Bahamas		
PAI Utilities Development Limited	The Bahamas		
Spark Infrastructure SA (No. 1) Pty Ltd	Australia		
Spark Infrastructure SA (No. 2) Pty Ltd	Australia		
Spark Infrastructure SA (No. 3) Pty Ltd	Australia		
Subsidiaries			
ETSA Utilities Finance Pty Ltd	Australia	100	100
Utilities Management Pty Ltd (i)	Australia	100	100
ETSA FRC Pty Ltd (i)	Australia	100	100
ETSA Ancillary Pty Ltd (i)	Australia	100	100

(i) These companies are members of a tax-consolidated group.

34 Construction contracts

	Consolidated	
	Year ended December 2015 \$'000	Year ended December 2014 \$'000
Recognised and included in the financial statements as amounts due:		
From customers under construction contracts (note 6)	25,963	14,843
To customers under construction contracts (note 16)	(53,569)	(7,106)
	(27,606)	7,737

At 31 December 2015, retentions held by customers for contract work amounted to \$nil (2014: \$nil). Advances received from customers for contract work amounted to \$53,569,000 (2014: \$7,106,000).

35 Related party disclosures

The immediate parent and ultimate controlling party of the consolidated entity respectively are CKI Spark Holdings No. Two Limited (incorporated in the Commonwealth of The Bahamas) and Cheung Kong Infrastructure Holdings Limited (incorporated in Bermuda).

(a) Equity interests in subsidiaries

Details of the percentage of ordinary shares held in subsidiaries are disclosed in note 33.

(b) Key management personnel compensation

Details of key management personnel compensation are disclosed in note 4 to the financial statements.

Notes to the financial statements

for the year ended 31 December 2015

35 Related party disclosures (continued)

(c) Transactions with other related parties

Other related parties include:

- the parent entity;
- entities with joint control or significant influence over the consolidated entity;
- associates;
- subsidiaries; and
- other related parties.

Transactions involving the parent entity

During the financial year, SA Power Networks provided other services totalling \$nil (2014: \$nil) to its subsidiaries at commercial rates. During the financial year, SA Power Networks purchased employee and other services totalling \$251,082,000 (2014: \$349,575,000) from its subsidiaries at commercial rates.

Transactions involving other related parties

The interest cost of borrowings from related parties is disclosed in note 2(b). Accrued interest payable to related parties is disclosed in note 16. Borrowings from related parties are disclosed in note 21.

	Consolidated	
	Year ended December 2015 \$'000	Year ended December 2014 \$'000
During the financial year the consolidated entity purchased goods or services from the following other related parties, on normal commercial terms and conditions:		
CKI/HEI Electricity Distribution Holdings (Australia) Pty Ltd	19,032	20,102
Hutchison Telecommunications (Australia) Ltd	181	145
	19,213	20,247

During the financial year the consolidated entity provided goods or services to the following other related parties, on normal commercial terms and conditions:

CKI/HEI Electricity Distribution Holdings (Australia) Pty Ltd	3,870	13,751
	3,870	13,751

(d) Parent entities

The parent entity in the consolidated entity is SA Power Networks. The ultimate Australian parent entity is SA Power Networks.

Total fees paid or payable to the immediate parent entity were \$310,000 (2014: \$310,000) and other related parties were \$161,250 (2014: \$105,000) with respect to directors fees.

36 Subsequent events

There has not been any matter or circumstance that has arisen since the end of the financial period that has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial periods.

Notes to the financial statements

for the year ended 31 December 2015

		Consolidated	
		Year ended December 2015 \$'000	Year ended December 2014 \$'000
37	Notes to the statement of cash flows		
(a)	Reconciliation of cash and cash equivalents		
For the purposes of the statement of cash flows, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the financial year as shown in the cash flow statement is reconciled to the related items in the statement of financial position as follows:			
	Cash at bank and short term deposits	239,853	191,796
(b)	Financing facilities		
Bank loan facilities, reviewed annually:			
	Amount used	-	-
	Amount unused	75,000	150,000
		75,000	150,000
(c)	Reconciliation of profit for the year to net cash flows from operating activities		
	Profit for the year	295,590	366,458
	Loss on disposal of property, plant and equipment	1,247	784
	Hedging losses	3,790	-
	Depreciation and amortisation of non-current assets	218,138	188,431
	Interest income received and receivable	(4,590)	(2,024)
	Non-cash interest expense	2,308	2,390
	Gifted asset revenue	(30,615)	(25,761)
	Decrease in deferred tax balances	(2,040)	(68)
	Changes in net assets and liabilities:		
	(Increase) / decrease in assets:		
	Current receivables	45,272	1,775
	Current inventories	(12)	(7,949)
	Other current assets	2,154	(325)
	Non-current inventories	305	531
	Other non-current assets	(131)	7,583
	Increase / (decrease) in liabilities:		
	Current payables	10,764	6,085
	Current provisions	(1,238)	9,161
	Non-current provisions	20,284	(6,442)
	Net cash inflow from operating activities	561,226	540,629
(d)	Non-cash financing and investing activities		

During the financial year, the partnership and consolidated entity acquired property plant and equipment with a value of \$30,615,000 (2014: \$25,761,000) through the gifting of assets by customers.

Notes to the financial statements

for the year ended 31 December 2015

38 Financial instruments

(a) Capital risk management

The group manages its capital to ensure that entities in the group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the group consists of debt, which includes the borrowings disclosed in note 17 and 21, cash and cash equivalents and equity attributable to equity holders of the parent, comprising partners capital accounts, partners current accounts and reserves as disclosed in notes 26, 27 and 28 respectively.

The Board and the risk management and compliance committee review's the capital structure on a regular basis. As part of this review, the committee considers the cost of capital and the risks associated with each class of capital. The group will balance its overall capital structure through the payment of dividends, new partner capital issues and partner capital redemption as well as the issue of new debt or the redemption of existing debt.

During the current and prior years, there were no defaults or breaches on any of our agreements with our lenders. The group's overall strategy remains unchanged from 2014.

(b) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis for measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 1 to the financial statements.

(c) Categories of financial instruments

Financial assets

	Consolidated	
	Year ended December 2015 \$'000	Year ended December 2014 \$'000
Interest rate swaps designated in a hedge accounting relationship	680	-
Cross currency swaps designated in a hedge accounting relationship	219,165	78,917
Trade and other receivables - amortised cost	186,142	231,414
Cash and cash equivalents	239,853	191,796
	645,840	502,127

Financial liabilities

Interest rate swaps designated in a hedge accounting relationship	30,229	40,730
Cross currency swaps designated in a hedge accounting relationship	3,161	-
Senior borrowings - amortised cost	3,282,254	3,122,576
Other related party borrowings - amortised cost	647,700	647,700
Trade and other payables - amortised cost	237,804	227,040
	4,201,148	4,038,046

Notes to the financial statements

for the year ended 31 December 2015

38 Financial instruments (continued)

(c) Categories of financial instruments (continued)

The group measures and recognises the following assets and liabilities at fair value on a recurring basis:

- Financial assets at fair value through profit or loss (FVTPL)
- Derivative financial instruments
- Available for sale financial assets

The table below provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) and applied within a valuation technique.
- Level 3 fair value measurements are those derived from inputs that are not based on observable market data (unobservable inputs) and applied within a valuation technique.

Foreign currency forward contracts: are measured using the discounted cash flow method. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties. These are classified as level 2 instruments.

Cross-currency swaps: are measured using the discounted cash flow method. Future cash flows are estimated based on forward currency rates (from observable yield curves at the end of the reporting period) and contract currency rates, discounted at a rate that reflects the credit risk of various counterparties. These are classified as level 2 instruments.

Interest rate swaps: are measured using the discounted cash flow method. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contract interest rates, discounted at a rate that reflects the credit risk of various counterparties. These are classified as level 2 instruments.

Consolidated	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Recurring fair value measurements				
Financial assets				
Interest rate swaps designated in a hedge accounting relationship	-	680	-	680
Cross-currency swaps designated in a hedge accounting relationship	-	219,165	-	219,165
Total financial assets	-	219,845	-	219,845
Financial liabilities				
Cross-currency swaps designated in a hedge accounting relationship	-	3,161	-	3,161
Interest rate swaps designated in a hedge accounting relationship	-	30,229	-	30,229
Total financial liabilities	-	33,390	-	33,390
2014				
Recurring fair value measurements				
Financial assets				
Cross-currency swaps designated in a hedge accounting relationship	-	78,917	-	78,917
Total financial assets	-	78,917	-	78,917
Financial liabilities				
Interest rate swaps designated in a hedge accounting relationship	-	40,730	-	40,730
Total financial liabilities	-	40,730	-	40,730

There were no transfers between Level 1 and 2 during the period. There were no transfers into or out of Level 3 during the period.

Notes to the financial statements for the year ended 31 December 2015

38 Financial instruments (continued)

(d) Financial risk management objectives

The group's treasury function provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the consolidated entity through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

The group seeks to minimise the effects of these risks, by using derivative financial instruments to hedge these risk exposures. The use of financial derivatives is governed by the group's policies, approved by the partners, which provide written policies on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. Compliance with policies and exposure limits is reviewed by the internal auditors. The group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The corporate treasury function reports to the risk management and compliance committee with regards to policy and key strategies, and derivative instrument matters. In addition, a Treasury report is provided to each Board meeting.

(e) Market risk

The group's activities expose it primarily to the financial risks of changes in foreign exchange rates and interest rates. The group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign currency risk, including:

- Cross currency swaps to manage the foreign currency risk associated with foreign currency denominated
- Interest rate swaps to mitigate the risk of rising interest rates;
- Foreign exchange forward contracts to hedge the exchange rate risk arising on the purchase of goods and service from overseas.

All derivatives are designated in effective hedge relationships based on contractual face value amounts and cash flows over the life of the contract.

At the group level, market risk exposures are measured using sensitivity analysis. There has been no change to the group's exposure to market risks or the manner in which it manages and measures the risk.

(f) Foreign currency risk management

The group undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts and cross-currency swaps.

Cross currency swaps

Under cross-currency swap contracts, the group agrees to exchange specified principal and interest foreign currency amounts at an agreed future date at a specified exchange rate. Such contracts enable the group to mitigate the risk of adverse movements in foreign exchange rates.

Notes to the financial statements

for the year ended 31 December 2015

38 Financial instruments (continued)

(f) Foreign currency risk management (continued)

Cross currency swaps

The following table details the cross-currency swaps outstanding as at reporting date.

Consolidated	Exchange	Interest rate	Contract value	Fair value
2015	rate Average	Average	(AUD)	\$'000
Buy USD		%	\$'000	
Less than 1 year	0.76	5.60	487,263	31,514
1 to 5 years	0.76	5.91	469,512	68,562
5 years +	0.86	3.36	706,781	115,928
			<u>1,663,556</u>	<u>216,004</u>
2014				
Buy USD				
Less than 1 year	-	-	-	-
1 to 5 years	0.76	5.75	956,775	12,319
5 years +	0.86	3.53	397,326	66,598
			<u>1,354,101</u>	<u>78,917</u>

Foreign exchange forward contracts

It is the policy of the group to enter into forward foreign exchange contracts to cover specific foreign currency payments and receipts within a significant proportion of the exposure generated.

Foreign currency sensitivity

The following table details the group's sensitivity to a 10% increase and decrease in the value of the AUD against the relevant foreign currencies. A sensitivity of 10% has been selected as it is considered reasonable given the current level of exchange rates and volatility observed both on an historical basis and in market expectations for future movements. The sensitivity analysis includes outstanding foreign currency denominated financial assets and liabilities (including derivatives) and adjusts their translation at period end for a 10% change in foreign exchange rates on a total portfolio basis with all other variables held constant.

The foreign currency risk exposure from recognised assets and liabilities arises primarily from long term borrowings denominated in foreign currencies. There is no significant impact on profit from foreign currency movements associated with these borrowings because they are effectively hedged.

	Net profit	Cash flow
	\$'000	hedge reserve
		\$'000
2015 - Consolidated		
Impact of 10% decrease in AUD		
Increase / (decrease)	-	9,794
Impact of 10% increase in AUD		
Increase / (decrease)	-	(8,177)

Notes to the financial statements

for the year ended 31 December 2015

38 Financial instruments (continued)

(g) Interest rate risk management

Interest rate swap contracts

Under interest rate swap contracts the group agrees to exchange the difference between fixed and floating interest amounts calculated on agreed notional principal amounts. Such contracts enable the group to mitigate the risk of changing interest rates on the fair value of fixed rate debt held and the cash flow exposures of floating rate debt held. The fair value of interest rate swaps at the reporting date is determined by discounting the future cash flows using the yield curves at the reporting date and the credit risk inherent in the contract. The average interest rate is based on the outstanding balances at the end of the financial year.

The following table details the notional principal amounts and remaining terms for interest rate swap contracts outstanding as at the reporting date:

Receive floating / pay fixed	Average fixed interest rate		Notional principal amount		Fair value	
	2015	2014	2015	2014	2015	2014
Consolidated	%	%	\$'000	\$'000	\$'000	\$'000
Less than 1 year	-	5.97	-	2,335,078	-	(40,730)
1 to 5 years	2.43	-	881,406	-	(3,720)	-
5 years +	3.07	-	1,528,771	-	(25,829)	-
			2,410,177	2,335,078	(29,549)	(40,730)

Interest rate swap contracts exchanging floating rate interest amounts for fixed rate interest amounts are designated as cash flow hedges in order to reduce the group's cash flow exposure resulting from variable interest rates on borrowings. The interest rate swaps and the interest payments on the loan occur simultaneously and the amount deferred in equity is recognised in profit or loss over the period.

The interest rate swaps settle on either a quarterly or semi-annual basis. The floating rate on the interest rate swaps is the Australian BBSW. The group will settle the difference between the fixed and floating interest rate on a net basis.

The following table details the expected transfer of the cash flow hedge reserve (as disclosed in note 28) to the profit and loss (after tax):

	0 to 1 Year	1 to 2 Years	Over 5 Years	Total
Consolidated	\$'000	\$'000	\$'000	\$'000
2015				
Transferred to profit & loss	9,640	27,478	(6,359)	30,759
	9,640	27,478	(6,359)	30,759

Notes to the financial statements

for the year ended 31 December 2015

38 Financial instruments (continued)

(g) Interest rate risk management (continued)

Interest rate sensitivity

The sensitivity analysis contained in the table below has been determined based on the exposure to interest rates for both derivative and non derivative instruments at the reporting date with the stipulated change taking place at the start of the financial year and held constant for the reporting period. A sensitivity of 0.5% (50 basis points) has been selected as this is considered reasonable given the current level of both short and long term interest rates.

Profit would have been affected mainly as a result of the ineffective portion of cash flow and fair value hedge transactions and floating rate financial assets and liabilities that are not in a cash flow hedge relationship. Equity, through the cash flow hedge reserve, would have been affected mainly as a result of an increase/decrease in the fair value of interest rate swaps which qualify for cash flow hedge accounting.

	Net profit	Equity Cash flow
	\$'000	\$'000
2015 - Consolidated		
Impact of 0.5% increase/(decrease) in interest rates (AUD)		
Impact of 0.5% increase in interest rates	665	61,518
Impact of 0.5% decrease in interest rates	(665)	(64,189)
Impact of 0.5% increase/(decrease) in interest rates (USD)		
Impact of 0.5% increase in interest rates	-	(1,656)
Impact of 0.5% decrease in interest rates	-	1,490

Notes to the financial statements

for the year ended 31 December 2015

38 Financial instruments (continued)

(h) Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the group. The 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. The group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions contracted are spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the audit committee annually.

Distribution Use of System revenue trade receivables consists of a small number of electricity retailers. Other trade receivables consist of a large number of customers, spread across diverse industries and geographical areas.

Ongoing credit evaluation is performed on the financial condition of accounts receivable, and where appropriate, bank guarantees are obtained and credit guarantee insurance cover is purchased.

The group has a significant credit risk exposure to a single counterparty and a group of counterparties having similar characteristics, namely electricity retailers and, in particular, one major electricity retailer. 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 financial statements, net of any allowances for losses, represents the group's maximum exposure to credit risk without taking account of the value of any collateral obtained.

The group does not have financial instruments that meet the presentation offset requirements of AASB 132 "Financial Instruments: Presentation" and as such each individual financial instrument is presented gross in the Financial Statements. However, the group has for credit management purposes, Master Netting arrangements where offset is permitted as a result of certain credit events. Application of these credit arrangements for the group at the financial reporting date would result in the following offsets as detailed below:

	Gross amounts of financial instruments presented in the statement of financial position	Gross amounts not offset in the statement of financial position		
		Financial instruments	Collateral received or pledged	Net amount
	Total \$'000	Total \$'000	Total \$'000	Total \$'000
Consolidated				
2015				
Assets				
Cross-currency swaps	219,165	25,219	-	193,946
Interest rate swaps	680	680	-	-
Total financial assets	219,845	25,899	-	193,946
Liabilities				
Cross-currency swaps	3,161	680	-	2,481
Interest rate swaps	30,229	25,219	-	5,010
Total financial liabilities	33,390	25,899	-	7,491

(i) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the partners, who have built an appropriate liquidity risk management framework for the management of the group's short, medium and long-term funding and liquidity management requirements. The group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Included in Note 37 (b) is a listing of additional undrawn facilities that the group has at its disposal to further reduce liquidity risk.

Notes to the financial statements

for the year ended 31 December 2015

38 Financial instruments (continued)

(i) Liquidity risk management

Liquidity and interest rate tables

The following table details the group's remaining contractual maturity for its derivative and non-derivative financial assets and liabilities. The table is drawn up based upon the future undiscounted principal and interest cash flows. The adjustment column represents the possible future cash flows attributable to the instrument included in the maturity analysis and which are not included in the carrying amount of the financial asset or liability in the Statement of financial position.

Consolidated	Weighted average effective interest rate %	Nominal cash flows				Carrying amount \$'000
		Less than 1 year \$'000	1 to 5 years \$'000	5 years + \$'000	Adjust \$'000	
2015						
Financial assets						
Trade & other receivables (Non-interest bearing)	-	186,142	-	-	-	186,142
Interest rate swaps	3.20	-	(217)	1,140	(243)	680
Cross-currency swaps						
- Receive USD	5.00	582,143	645,157	580,413	11,556	1,819,269
- Pay AUD	3.97	(538,733)	(587,798)	(473,573)	-	(1,600,104)
Cash and cash equivalents	2.43	244,650	-	-	(4,797)	239,853
Total financial assets		474,202	57,142	107,980	6,516	645,840
Financial liabilities						
Trade & other payables (Non-interest bearing)	-	237,804	-	-	-	237,804
Interest rate swaps	2.84	14,209	29,963	(11,897)	(2,046)	30,229
Cross-currency swaps						
- Receive USD	3.09	(9,963)	(39,852)	(387,184)	-	(436,999)
- Pay AUD	3.79	11,210	50,715	411,461	(33,226)	440,160
Variable rate instruments	2.23	21,446	839,595	-	(61,041)	800,000
Fixed rate instruments	5.18	881,060	1,056,680	967,598	(423,084)	2,482,254
Finance lease liabilities	-	-	-	-	-	-
Total financial liabilities		1,155,766	1,937,101	979,978	(519,397)	3,553,448
2014						
Financial assets						
Trade & other receivables (Non-interest bearing)	-	231,414	-	-	-	231,414
Interest rate swaps	-	-	-	-	-	-
Cross-currency swaps						
- Receive USD	5.00	12,540	247,875	-	99,802	360,217
- Pay AUD	4.33	(8,337)	(272,963)	-	-	(281,300)
Cash and cash equivalents	3.00	195,633	-	-	(3,837)	191,796
Total financial assets		431,250	(25,088)	-	95,965	502,127
Financial liabilities						
Trade & other payables (Non-interest bearing)	-	227,040	-	-	-	227,040
Interest rate swaps	5.97	58,805	-	-	(18,075)	40,730
Cross-currency swaps						
- Receive USD	-	-	-	-	-	-
- Pay AUD	-	-	-	-	-	-
Variable rate instruments	3.17	330,547	868,562	-	(99,109)	1,100,000
Fixed rate instruments	5.45	105,823	1,738,407	529,844	(354,806)	2,019,268
Finance lease liabilities	7.49	3,430	-	-	(122)	3,308
Total financial liabilities		725,645	2,606,969	529,844	(472,112)	3,390,346

Notes to the financial statements

for the year ended 31 December 2015

38 Financial instruments (continued)

(j) Fair value of financial instruments

Except as detailed in the following table, the directors consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values. These instruments are valued using the same methodology as the level 2 instruments as described above:

	Carrying Value \$'000	Fair value \$'000
Consolidated 2015		
Financial liabilities		
Senior borrowings	3,282,254	3,375,025
	<u>3,282,254</u>	<u>3,375,025</u>
2014		
Financial liabilities		
Senior borrowings	3,122,576	3,165,396
	<u>3,122,576</u>	<u>3,165,396</u>

(k) Hedging

Hedging refers to the way in which derivative financial instruments are used to manage exposures to financial risks as described below under "Types of hedging instruments". The gain or loss on the underlying instrument ("hedged item") is expected to move in the opposite direction to the gain or loss on the derivative ("hedging instrument"), therefore offsetting the risk position. Hedge accounting is a technique that enables the matching of the gains and losses on designated hedging instruments and hedged items in the same accounting period to minimise volatility in the profit or loss.

The group's major exposure to interest rate risk and foreign currency risk arises from long-term borrowings. The group also has translation foreign currency risk associated with transactional foreign currency exposures, such as purchases made in foreign currencies.

Types of hedging instruments

The consolidated entity is exposed to risk from movements in foreign exchange and interest rates. As part of the risk management strategy set out above, the consolidated entity holds the following types of derivative instruments:

Interest rate swap contracts: the consolidated entity agrees to exchange the difference between fixed and floating interest amounts calculated on agreed notional principal amounts. Such contracts enable the consolidated entity to mitigate the risk of changing interest rates on the fair value of fixed rate debt held and the cash flow exposures of floating rate debt held.

Cross-currency swap contracts: the consolidated entity agrees to exchange specified principal and interest foreign currency amounts at an agreed future date at a specified exchange rate. Such contracts enable the consolidated entity to mitigate the risk of adverse movements in foreign exchange rates.

The group enters into the above derivative instruments to offset the risks arising from long-term borrowings and transactions denominated in foreign currency. To the extent permitted by AASB 9, the group formally designates and documents these financial instruments as fair value and cash flow hedges for accounting purposes. In order to qualify for hedge accounting, AASB 9 requires that prospective hedge effectiveness testing meets all of the following criteria:

- an economic relationship exists between the hedged item and hedging instrument
- the effect of credit risk does not dominate the value changes resulting from the economic relationship
- the hedge ratio is the same as that resulting from amounts of hedged items and hedging instruments for risk management.

As a result of borrowing in foreign currency, the group is exposed to foreign exchange and foreign interest rate risk (USD). Cross-currency swaps are used to hedge both the foreign exchange risk and foreign interest rate risk over the full term of the foreign currency borrowing. The swaps are designated as cash flow hedges of foreign currency/AUD forward foreign exchange risk of the foreign currency borrowing, fair value hedge of the foreign currency benchmark interest rate risk of the foreign currency benchmark component and cash flow hedge of foreign currency/AUD spot foreign exchange risk of the foreign currency borrowing principal.

Notes to the financial statements for the year ended 31 December 2015

38 Financial instruments (continued)

(k) Hedging (continued)

	Consolidated				
	Notional \$'000	Weighted average effective interest rate %	Carrying amount Asset \$'000	Carrying amount Liability \$'000	Changes in fair value used for calculating hedge ineffectiveness * \$'000
2015					
Cross-currency swaps					
Fair value hedge	1,663,556	4.717	68,217	7,764	(18,703)
Cash flow hedge	1,663,556	4.717	150,948	(4,603)	155,790
Interest rate swaps					
Cash flow hedge	2,410,177	2.838	680	30,229	11,181
2014					
Cross-currency swaps					
Fair value hedge	1,354,101	5.089	79,156	-	44,373
Cash flow hedge	1,354,101	5.089	-	239	107,033
Interest rate swaps					
Cash flow hedge	2,335,078	5.972	-	40,730	70,821

The line item in the Statement of Financial position where the above hedging instruments are located are 'Other financial assets' and 'Other financial liabilities'.

* The change in fair value of the derivatives is used, this ignores any cash payments during the period.

Each hedge accounting method is described below:

Fair value hedges

The objective of the group's fair value hedging is to convert fixed interest rate borrowings to floating interest rate borrowings.

Cross-currency swaps are entered into to mitigate exposures to changes in the fair value of long-term offshore borrowings. Changes in the fair value of the hedging instrument and changes in the fair value of the hedged item that is attributable to the hedged risk ('fair value hedge adjustment') are recognised in profit or loss. Ineffectiveness reflects the extent to which the fair value movements do not offset and is primarily driven by movements in credit of the hedging instrument.

AASB 9 allows a component of the group's borrowing margin associated with cross-currency swaps ("foreign currency basis spread") to be deferred in equity. This component is included in interest on borrowings in the profit or loss over the remaining maturity of the borrowing. Fair value hedges have an economic relationship on the basis that the critical terms of the hedging instrument and hedged item (including face value, cash flows and maturity date) are aligned. The relationship between the hedged risk and the corresponding value of the hedging derivatives results in a hedge ratio of one.

The cumulative amount of fair value hedge adjustments which are included in the carrying amount of our borrowings in the Statement of Financial Position is shown below:

	Consolidated	
	2015 \$'000	2014 \$'000
Fixed rate instruments		
Face value as at 31 December	1,824,106	1,341,134
Unamortised bond premiums	(2,305)	(1,022)
Amortised cost	1,821,801	1,340,112
Cumulative fair value hedge adjustments	60,453	79,156
Carrying amount	1,882,254	1,419,268
Change in value of hedged item during period	(18,703)	44,373

For fixed rate instruments, face value represents the face value in the underlying currency converted at the spot exchange rate as at reporting date. Revaluation impacts since inception of the borrowings due to foreign exchange movements are reflected in the amortised cost balance.

Notes to the financial statements

for the year ended 31 December 2015

38 Financial instruments (continued)

(k) Hedging (continued)

Cash flow hedges

The objective of the group's cash flow hedging is to hedge the exposure arising from variability in future interest and foreign currency cash flows arising from borrowings that bear interest at variable rates, or are denominated in foreign currency. Cash flow hedging is also used to mitigate the foreign currency exposure arising from anticipated future transactions.

The group enters into interest rate swaps and cross-currency swaps as hedges of future cash flows arising from our borrowings. Ineffectiveness is recognised in the Profit or Loss if the change in the fair value of the hedging instrument exceeds the change in fair value of the underlying borrowing. The portion of fair value movement qualifying as effective movement is recognised in the cash flow hedge reserve in equity.

All the group's cash flow hedges are in effective hedge relationships on the basis that the critical terms of the hedging instrument and hedged item are aligned (including face values, cash flows and currency). During the year, there has been no material ineffectiveness attributable to our cash flow hedges.

The following table discloses amounts related to items designated as hedged items:

	Carrying amount of the hedged item		Accumulated amount of fair value hedge adjustment on the hedged item (included in carrying amount of hedged item)	Change in value used for calculating hedge ineffectiveness	Cash flow hedge reserve
	Asset \$'000	Liability \$'000	\$'000	\$'000	\$'000
2015					
Cash flow hedges					
Interest rate & foreign exchange rate risk	-	1,882,255	60,453	155,790	(1,210)
Interest rate risk - floating rate borrowings	-	800,000	-	11,181	(29,549)
Fair value hedges					
Interest rate risk	-	1,882,255	60,453	(18,703)	-

	Carrying amount of the hedged item		Accumulated amount of fair value hedge adjustment on the hedged item (included in carrying amount of hedged item)	Change in value used for calculating hedge ineffectiveness	Cash flow hedge reserve
	Asset \$'000	Liability \$'000	\$'000	\$'000	\$'000
2014					
Cash flow hedges					
Interest rate & foreign exchange rate risk	-	1,417,918	79,156	107,033	12,727
Interest rate risk - floating rate borrowings	-	1,100,000	-	70,821	(40,730)
Fair value hedges					
Interest rate risk	-	1,417,918	79,156	44,373	-

The line item in the Statement of financial position in which the above hedged items are located is 'Borrowings'.

The following table discloses amounts that have affected the statement of comprehensive income as a result of applying hedge accounting:

Notes to the financial statements
for the year ended 31 December 2015
38 Financial instruments (continued)
(k) Hedging (continued)

	Separate line item recognised in Profit or Loss as a result of a hedge of a net position \$'000	Change in the value of the hedging instrument recognised in OCI (after tax) \$'000	Hedge ineffectiveness recognised in profit or loss (after tax) \$'000	Change in amount reclassified from the cash flow hedge reserve to profit or loss during the year (after tax) \$'000
2015				
Cash flow hedges				
Interest rate & foreign exchange rate risk on cross-currency swaps	N/A	(13,937)	-	173,517
Interest rate risk on floating rate borrowings	N/A	11,181	-	-

Hedge ineffectiveness is booked in the profit or loss through the line item 'Finance costs'. There were no items affected in the profit or loss due to reclassification in the year.

	Ineffectiveness recognised in Profit or Loss
Fair value hedges	
2015	
Interest rate risk	(3,790)

The line item in the profit or loss that includes hedge ineffectiveness is 'Finance costs'.

Transition from AASB 139 to AASB 9:

During the current year the Group elected to early adopt AASB 9 'Financial Instruments' (AASB 9 (2010) as amended by AASB 2010-7, AASB 2012-6, AASB 2013-9). AASB 9 contains guidance on hedge accounting and classification & measurement that replaces the existing requirements of AASB 139 'Financial Instruments: Recognition and Measurement'. AASB 9 introduces changes to hedge effectiveness and eligibility requirements to align more closely with an entity's risk management framework. In addition, AASB 9 introduces new categories for classification of financial instruments, as outlined in section c) categories of financial instruments, which replace the previous categories, of which, have not changed the classification of our financial instruments. There has been no material impact on amounts reported in these financial statements as a result of the adoption of the standard, however application of this standard has resulted in additional disclosures which are incorporated in note 38 Financial Risk Management.

Notes to the financial statements for the year ended 31 December 2015

	December 2015 \$'000	December 2014 \$'000
39 Parent entity disclosures		
Financial Position		
Assets		
Current assets	484,027	450,817
Non-current assets	6,124,515	5,843,083
Total assets	6,608,542	6,293,900
Liabilities		
Current liabilities	1,096,063	662,409
Non-current liabilities	3,207,816	3,503,762
Total liabilities	4,303,879	4,166,171
Equity		
Partners capital accounts	623,300	623,300
Partners current accounts	1,712,122	1,532,432
Reserves	(30,759)	(28,003)
Total equity	2,304,663	2,127,729
Financial performance		
Profit for the year	340,325	318,462
Other comprehensive income	(2,756)	25,359
Total comprehensive income	337,569	343,821

40 Additional information

SA Power Networks ABN 13 332 330 749

is a partnership of:

CKI Utilities Development Limited	ABN 65 090 718 880
PAI Utilities Development Limited	ABN 82 090 718 951
(Each incorporated in The Bahamas)	

Spark Infrastructure SA (No. 1) Pty Ltd	ABN 54 091 142 380
Spark Infrastructure SA (No. 2) Pty Ltd	ABN 19 091 143 038
Spark Infrastructure SA (No. 3) Pty Ltd	ABN 50 091 142 362
(Each incorporated in Australia)	

Principal place of business:
1 Anzac Highway
Keswick, South Australia, 5035
Australia
Telephone (08) 8404 5667

Postal address:
GPO Box 77, Adelaide, SA 5001

Website:
www.sapowernetworks.com.au

Partners' statement

The partners declare that:

- (a) in the partners' opinion, there are reasonable grounds to believe that the partnership will be able to pay its debts as and when they become due and payable;
- (b) in the partners' opinion, the attached financial statements and notes thereto are in accordance with the Partnership Agreement; including compliance with accounting standards and giving a true and fair view of the financial position and performance of the partnership and consolidated entity; and
- (c) in the partners' opinion, the attached financial statements and notes thereto are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.

Signed in accordance with a resolution of the Board of Management.

On behalf of the Board of Management



Peter Tulloch
CHAIRMAN
Adelaide
2 March 2016



Robert Stobbe
CHIEF EXECUTIVE OFFICER

Independent Auditor's Report to the Partners of SA Power Networks

We have audited the accompanying financial report of SA Power Networks, which comprises the statement of financial position as at 31 December 2015, the statement of profit or loss and other comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the partners' statement of the consolidated entity comprising the partnership and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 2 to 56.

Partners' Responsibility for the Financial Report

The partners of the partnership are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and for such internal control as the partners determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the partners also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements 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. Those 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Auditor's Independence Declaration

In conducting our audit, we have complied with the independence requirements of the Australian professional accounting bodies.

Opinion

In our opinion:

- (a) The financial report of SA Power Networks:
 - (i) gives a true and fair view of the partnership's and consolidated entity's financial position as at 31 December 2015 and of their performance for the year ended on that date;
 - (ii) complies with Australian Accounting Standards; and
- (b) The financial statements also comply with International Financial Reporting Standards as disclosed in Note 1.

The logo for Deloitte Touche Tohmatsu, featuring the company name in a stylized, cursive script.

DELOITTE TOUCHE TOHMATSU

A handwritten signature in black ink, likely belonging to Jody Burton.

Jody Burton
Partner
Chartered Accountants
Adelaide, 2 March 2016



SA Power Networks

A partnership of:

CKI Utilities Development Limited	(ABN 65 090 718 880)
PAI Utilities Development Limited	(ABN 82 090 718 951)
Spark Infrastructure SA (No1) Pty Limited	(ABN 54 091 142 380)
Spark Infrastructure SA (No2) Pty Limited	(ABN 19 091 143 038)
Spark Infrastructure SA (No3) Pty Limited	(ABN 50 091 142 362)

Financial report

For the year ended 31 December 2016

SA Power Networks 13 332 330 749

Financial report - 31 December 2016

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SA Power Networks
Statement of profit or loss and other comprehensive income
For the year ended 31 December 2016

		Consolidated	
		Year ended December 2016 \$'000	Year ended December 2015 \$'000
Notes			
Revenue	2(a)	1,326,541	1,406,777
Loss on disposal of property plant and equipment	2(b)	(971)	(1,247)
Transmission Use of System charges		(251,562)	(260,194)
Employee benefits expense	2(b)	(202,948)	(182,750)
Raw materials and consumables used		(39,051)	(51,363)
Services and other expenses		(184,581)	(149,804)
Depreciation and amortisation expense	2(b)	(221,259)	(218,138)
Finance costs	2(b)	(210,819)	(249,731)
Profit before income tax expense		215,350	293,550
Income tax benefit	3	-	2,040
Profit for the year		215,350	295,590
Other comprehensive (expense)/income for the year			
Loss on cash flow hedges taken to equity	26	(17,246)	(2,756)
Actuarial gain on defined benefit plans	23, 25	8,549	43,994
Other comprehensive (expense)/income for the year (net of tax)		(8,697)	41,238
Total comprehensive income for the year		206,653	336,828

Notes to the financial statements are included on pages 6 to 65.

SA Power Networks
Statement of financial position
As at 31 December 2016

		Consolidated	
		December 2016	December 2015
		\$'000	\$'000
Notes			
Current assets			
Cash and cash equivalents	35	213,329	239,853
Trade and other receivables	6	136,491	186,142
Other financial assets	7	71	32,567
Inventories	8	17,504	19,839
Intangible assets	13	5,063	5,063
Other	9	10,373	7,738
Total current assets		382,831	491,202
Non-current assets			
Inventories	10	9,645	8,400
Other financial assets	11	198,349	187,278
Property, plant and equipment	12	4,751,514	4,609,491
Intangible assets	13	921,270	926,333
Other	14	384,203	386,445
Total non-current assets		6,264,981	6,117,947
Total assets		6,647,812	6,609,149
Current liabilities			
Trade and other payables	15	270,910	237,804
Borrowings	16	501,718	769,516
Other financial liabilities	17	1	-
Provisions	18	95,859	88,743
Total current liabilities		868,488	1,096,063
Non-current liabilities			
Borrowings	19	3,349,528	3,160,438
Other financial liabilities	20	75,233	33,390
Provisions	21	13,913	14,435
Total non-current liabilities		3,438,674	3,208,263
Total liabilities		4,307,162	4,304,326
Net assets		2,340,650	2,304,823
Equity			
Partners capital accounts	24	623,300	623,300
Partners current accounts	25	1,765,355	1,712,282
Reserves	26	(48,005)	(30,759)
Total equity		2,340,650	2,304,823

Notes to the financial statements are included on pages 6 to 65.

SA Power Networks
Statement of changes in equity
For the year ended 31 December 2016

Consolidated	Partners capital accounts \$'000	Partners current accounts \$'000	Reserves \$'000	Total \$'000
Balance as at 1 January 2015	623,300	1,533,333	(28,003)	2,128,630
Profit for the period	-	295,590	-	295,590
Loss on cash flow hedges	-	-	(2,756)	(2,756)
Actuarial gain on defined benefit plans	-	43,994	-	43,994
Total comprehensive income for the period	-	339,584	(2,756)	336,828
Payment of distributions	-	(160,635)	-	(160,635)
Balance as at 31 December 2015	623,300	1,712,282	(30,759)	2,304,823
Balance as at 1 January 2016	623,300	1,712,282	(30,759)	2,304,823
Profit for the period	-	215,350	-	215,350
Loss on cash flow hedges	-	-	(17,246)	(17,246)
Actuarial gain on defined benefit plans	-	8,549	-	8,549
Total comprehensive income for the period	-	223,899	(17,246)	206,653
Payment of distributions	-	(170,826)	-	(170,826)
Balance as at 31 December 2016	623,300	1,765,355	(48,005)	2,340,650

Notes to the financial statements are included on pages 6 to 65.

SA Power Networks
Statement of cash flows
For the year ended 31 December 2016

		Consolidated	
		Year ended	Year ended
		December	December
		2016	2015
Notes		\$'000	\$'000
Cash flows from operating activities			
	Receipts from customers	1,461,999	1,549,642
	Payments to suppliers and employees	(753,090)	(726,794)
	Interest and other costs of finance paid	(211,996)	(261,622)
35	Net cash provided by operating activities	496,913	561,226
Cash flows from investing activities			
	Interest received	7,510	4,465
	Payments for property, plant and equipment	(330,040)	(361,852)
	Proceeds from sale of property, plant and equipment	2,586	2,173
	Net cash used in investing activities	(319,944)	(355,214)
Cash flows from financing activities			
	Payments for debt issue costs	(4,221)	(3,467)
	Proceeds from borrowings	708,817	309,455
	Repayment of borrowings	(737,263)	(303,308)
	Distributions paid	(170,826)	(160,635)
	Net cash provided by financing activities	(203,493)	(157,955)
	Net (decrease) increase in cash and cash equivalents	(26,524)	48,057
	Cash and cash equivalents at the beginning of the year	239,853	191,796
35	Cash and cash equivalents at end of year	213,329	239,853

Notes to the financial statements are included on pages 6 to 65.

1 Summary of accounting policies

Statement of compliance

The financial report is a general purpose financial report, which has been prepared in accordance with the Partnership Agreement and Accounting Standards and Interpretations. Accounting Standards include Australian Accounting Standards. Compliance with the Australian Accounting Standards ensures that the financial statements and notes of the consolidated entity comply with International Financial Reporting Standards ("IFRS"). SA Power Networks is a for-profit entity.

The financial report includes the consolidated financial statements of the consolidated entity.

The financial report was authorised for issue by the Board of Management on 8 March 2017.

Basis of preparation

The financial report has been prepared on the basis of historical cost, except for certain non-current assets and financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below. Historical cost is generally based on the fair values of the consideration given in exchange for assets. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the consolidated entity takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for leasing transactions that are within the scope of AASB 117, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in AASB 102 or value in use in AASB 136.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly and applied within a valuation technique; and
- Level 3 inputs are unobservable inputs for the asset or liability and applied within a valuation technique.

All amounts are presented in Australian dollars and are rounded off to the nearest thousand dollars unless otherwise indicated.

Going concern

The financial report has been prepared on a going concern basis, which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business. At the balance date, the consolidated entity has a net working capital deficiency of \$486 million (2015: deficiency of \$612 million). The partners, after reviewing the cash flow forecasts, the consolidated entity's existing financial facilities and the results of operations to the date of this report, have determined that the consolidated entity is able to pay its debts as and when they fall due and are satisfied that it is appropriate for this financial report to be prepared on the going concern basis. In addition, SA Power Networks has a strong history of outperforming its financial plans and excellent credit ratings with two pre-eminent credit rating agencies.

Critical accounting judgements and key sources of estimation uncertainty

In the application of the consolidated entity's accounting policies, which are described in Note 1, management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgements. Actual results may differ from these estimates.

1 Summary of accounting policies (continued)

Critical accounting judgements and key sources of estimation uncertainty (continued)

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of the consolidated entity's accounting policies that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable, in the relevant notes to the financial statements.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

Adoption of new and revised Accounting Standards

In the current year, the consolidated entity has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current annual reporting period. The adoption of these new and revised Standards and Interpretations has resulted in no significant changes to the consolidated entity's accounting policies.

Standards and Interpretations in issue not yet adopted

At the date of authorisation of the financial report, a number of Standards and Interpretations were in issue but not yet effective.

Initial application of the following standards will not affect any of the amounts recognised in the financial report, but will change the disclosures presently made in relation to the financial report of the consolidated entity:

1 Summary of accounting policies (continued)

Adoption of new and revised Accounting Standards (continued)

Standard /Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 15 'Revenue from Contracts with Customers', AASB 2014-5 'Amendments to Australian Accounting Standards arising from AASB 15', AASB 2015-8 'Amendments to Australian Accounting Standards – Effective Date of AASB 15', and AASB 2016-3 'Amendments to Australian Accounting Standards - Clarifications to AASB 15'	1 January 2018	31 December 2018
AASB 16 'Leases'	1 January 2019	31 December 2019
AASB 2014-10 'Amendments to Australian Accounting Standard - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture', AASB 2015-10 'Amendments to Australian Accounting Standards - Effective Date of Amendments to AASB 10 and AASB 128'	1 January 2018	31 December 2018
AASB 2016-1 'Amendments to Australian Accounting Standards - Recognition of Deferred Tax Assets for Unrealised Losses'	1 January 2017	31 December 2017
AASB 2016-2 'Amendments to Australian Accounting Standards - Disclosure Initiative: Amendments to AASB 107'	1 January 2017	31 December 2017
AASB 2016-6 'Amendments to Australian Accounting Standards - Applying AASB 9 Financial Instruments with AASB 4 Insurance Contracts'	1 January 2018	31 December 2018

1 Summary of accounting policies (continued)

Significant accounting policies

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

(a) Borrowing costs

Borrowing costs directly attributable to assets under construction are capitalised as part of the cost of those assets. With the exception of borrowing costs associated with refinancing debt (which are amortised over the life of the debt), all other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(b) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash in banks and investments in money market instruments, net of outstanding bank overdrafts.

(c) Construction contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, as measured by the proportion that contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable.

Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

(d) Derivative financial instruments

The consolidated entity enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including forward foreign exchange contracts, interest rate swaps and cross currency swaps. Further details of derivative financial instruments are disclosed in note 36 to the financial statements.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event, the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Hedge accounting

The consolidated entity designates certain hedging instruments, which include derivatives, embedded derivatives and non-derivatives in respect of foreign currency risk, as either fair value hedges or cash flow hedges. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship the consolidated entity documents the relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the consolidated entity documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in the fair values or cash flows of the hedged item.

Note 36 contains details of the fair values of the derivative instruments used for hedge purposes. Movements in the hedging reserve in equity are also detailed in note 26.

1 Summary of accounting policies (continued)

(d) Derivative financial instruments (continued)

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that is attributable to the hedged risk. Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting. The adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss from that date.

Cash flow hedges

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

Amounts deferred in equity are recycled in profit or loss in the periods when the hedged item is recognised in profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in profit or loss.

(e) Employee benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave, and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the consolidated entity in respect of services provided by employees up to reporting date.

Defined contribution plans

Payments in relation to defined contribution superannuation plans are expensed when employees have rendered service entitling them to the contributions.

Defined benefit plans

For defined benefit superannuation plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each reporting date. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the statement of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Past service cost is recognised in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are categorised as follows:

- service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements);
- net interest expense or income; and
- remeasurement.

1 Summary of accounting policies (continued)

(e) Employee benefits (continued)

The consolidated entity presents service cost in profit or loss in the line item 'employee benefits expense' and presents net interest expense or income in profit or loss in the line item 'finance costs'. Curtailment gains and losses are accounted for as past service costs.

The defined benefit obligation recognised in the statement of financial position represents the actual deficit or surplus in the consolidated entity's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

(f) Financial instruments

Financial assets and financial liabilities are recognised when the consolidated entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

(g) Financial assets

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss', 'held-to-maturity' investments, 'available-for-sale' financial assets, and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Income is recognised on an effective interest rate basis for debt instruments, other than those financial assets 'at fair value through profit or loss'.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method less impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered impaired where there is objective evidence that as a result of one or more events that occurred after initial recognition of the financial asset the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectable, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

1 Summary of accounting policies (continued)

(g) Financial assets (continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit and loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

(h) Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

Financial guarantee contract liabilities

Financial guarantee contract liabilities are measured initially at their fair values and subsequently at the higher of the amount recognised as a provision and the amount initially recognised less cumulative amortisation in accordance with the revenue recognition policies in note 1(u).

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at fair value through profit or loss' or other financial liabilities.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability. Fair value is determined in the manner described in note 36.

Other financial liabilities

Other financial liabilities, including borrowings and trade and other payables, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

(i) Foreign currency

Foreign currency transactions

All foreign currency transactions during the financial year are brought to account using the exchange rate in effect at the date of the transaction. Foreign currency monetary items at reporting date are translated at the exchange rate existing at reporting date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined.

Exchange differences are recognised in profit or loss in the period in which they arise except that:

- (i) exchange differences which relate to assets under construction for future productive use are included in the cost of those assets where they are regarded as an adjustment to interest costs on foreign currency borrowings; and
- (ii) exchange differences on transactions entered into in order to hedge certain foreign currency risks (refer note 1(d)).

1 Summary of accounting policies (continued)

(j) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- (i) where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- (ii) for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the statement of cash flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

(k) Government grants

Government grants are assistance by the government in the form of transfers of resources to the consolidated entity in return for past or future compliance with certain conditions relating to the operating activities of the entity. Government grants include government assistance where there are no conditions specifically relating to the operating activities of the consolidated entity other than the requirement to operate in certain regions or industry sectors.

Government grants relating to income are recognised as income over the periods necessary to match them with the related costs. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the consolidated entity with no future related costs are recognised as income of the period in which it becomes receivable.

Government grants relating to assets are treated as deferred income and recognised in profit and loss over the expected useful lives of the assets concerned.

(l) Impairment of assets

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

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

1 Summary of accounting policies (continued)

(m) Income tax

The partnership is not subject to tax in its own right, as the partnership fully distributes any taxable income or tax losses to the partners.

Tax consolidation

Certain companies in the consolidated entity are part of a tax-consolidated group under Australian taxation law. Tax consolidation is not applicable to the partnership. The subsidiaries of the partnership are taxable entities and have adopted the following policies.

Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by 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).

Deferred tax

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

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are 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.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, branches, associates and joint ventures except where the consolidated entity is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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 tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the consolidated entity 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 partnership / consolidated entity intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in profit or loss, 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 the goodwill or excess.

1 Summary of accounting policies (continued)

(n) Intangible assets

Intangible assets with finite lives are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

(o) Inventories

Inventories are valued at the lower of cost and net realisable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventory on hand by the method most appropriate to each particular class of inventory, with the majority being valued on a weighted average cost basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

(p) Lease premium

The lease premium, representing the fair value at acquisition of the SA Power Networks business, is recognised as an asset and amortised on a straight line basis over the lease period of 200 years and tested for impairment whenever there is an indication that the lease premium may be impaired. Any impairment is recognised immediately in profit or loss. Refer also note 1(l).

(q) Leased assets

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.

Consolidated entity as lessee

Finance leases

Assets held under finance leases are initially recognised at their fair value or, if lower, at amounts equal to the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are charged in the profit and loss directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the consolidated entity's general policy on borrowing costs. Refer to note 1(a).

Finance leased assets are amortised on a straight line basis over the estimated useful life of the asset.

The consolidated entity has leased distribution network assets from the Distribution Lessor Corporation (a subsidiary of the Treasurer of South Australia). The finance lease liability for the distribution network lease has been prepaid. This prepayment is amortised on a straight-line basis over the lease period of 200 years.

Operating leases

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

1 Summary of accounting policies (continued)

(q) Leased assets (continued)

Lease incentives

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

(r) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the partnership and entities (including structured entities) controlled by the partnership and its subsidiaries. Control is achieved when the partnership:

- Has power over the investee;
- Is exposed, or has rights, to variable returns from its involvement with the investee; and
- Has the ability to use its power to affect its returns.

The partnership reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the partnership obtains control over the subsidiary and ceases when the partnership loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the partnership gains control until the date when the partnership ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the partnership and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the partnership and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the consolidated entity's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the consolidated entity are eliminated in full on consolidation.

(s) Property, plant and equipment

Land and buildings, plant and equipment, leasehold improvements and property, plant and equipment under finance lease are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land. Depreciation is calculated on a straight line basis so as to write off the net cost or other revalued amount of each asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period, with the effect of any changes recognised on a prospective basis.

1 Summary of accounting policies (continued)

(s) Property, plant and equipment (continued)

The following estimated useful lives are used in the calculation of depreciation:

Sub-transmission and distribution system	20 - 70 years
Buildings	10 - 40 years
Vehicles	3 - 15 years
Plant, tools, office and IT equipment	3 - 10 years

The consolidated entity has leased the distribution network and associated land from the Distribution Lessor Corporation. In general, any maintenance, replacement or upgrading of the distribution network will automatically become part of the distribution network, which is leased to the partnership.

If, however, one of the exceptions (as defined under the terms of the lease) below are satisfied, then that addition to the distribution network (including land) may be owned by, or registered in favour of the partnership:

- Capital works which are considered to be qualifying projects; or
- Any extension beyond the outer extremities of the distribution network as it existed at 28 January 2000.

Depreciation rates for classes of assets are reviewed annually and, if necessary, adjusted so that they reflect the most recent assessments of useful life. Where asset lives are revised the written down value of the asset is depreciated over its revised remaining life.

(t) Provisions

Provisions are recognised when the consolidated entity has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision 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 obligation.

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.

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.

(u) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Distribution Use of System revenue

Distribution Use of System revenue represents revenue earned from the distribution of electricity. Distribution Use of System revenue is recorded when electricity is provided.

Unbilled Distribution Use of System revenue is an estimate of the Distribution Use of System revenue relating to electricity supplied to customers between the date of the last meter reading and year end and is included in the statement of financial position as a receivable and in profit or loss as operating revenue. This estimate is determined having regard to customers' actual usage as well as previous consumption patterns.

As Distribution Use of System revenue billing periods range from one month to three months, the estimated receivable from unbilled sales averages from fifteen days to one and a half months revenue.

1 Summary of accounting policies (continued)

(u) Revenue recognition (continued)

Contributed assets and contributions for capital works

Contributed assets and contributions for capital works are assets contributed or monies paid to the consolidated entity by customers or developers seeking an augmentation of the electricity distribution system in circumstances where, in the ordinary course of events, such augmentation would not be undertaken by the consolidated entity. Contributed assets are recognised at fair value as revenue in profit or loss in the period that control of the asset passes to the consolidated entity. Capital contributions are recognised as revenue in profit or loss in the year that the control of the contribution passes to the consolidated entity.

Rendering of services

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract (refer note 1(c)).

Interest income

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the consolidated entity and the amount of revenue can be measured reliably.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial assets to that asset's net carrying amount on initial recognition.

2 Profit from operations

(a) Revenue

	Consolidated	
	Year ended December 2016 \$'000	Year ended December 2015 \$'000
Revenue from continuing operations consisted of the following items:		
Revenue from rendering of service:		
Standard control services - Distribution Use of System revenue	991,231	1,091,724
Standard control services - contributed assets and contributions for capital works	79,573	80,587
Negotiated distribution services - public lighting	16,425	17,161
Negotiated distribution services - other	77,182	38,478
Unregulated services	154,501	174,237
	1,318,912	1,402,187
Interest revenue:		
Bank deposits	7,629	4,590
	1,326,541	1,406,777

2 Profit from operations (continued)

(b) Profit before income tax

Profit before income tax has been arrived at after (charging) / crediting the following gains and losses from continuing operations:

	Consolidated	
	December	December
	2016	2015
	\$'000	\$'000
Loss on disposal of property, plant and equipment	(971)	(1,247)

Profit before income tax has been arrived at after charging the following expenses from continuing operations:

	Consolidated	
	Year ended	Year ended
	December	December
	2016	2015
	\$'000	\$'000
Finance costs:		
Interest on loans:		
Other related parties - Cheung Kong Infrastructure Finance (Australia) Pty Ltd	(32,886)	(32,792)
Other related parties - Hong Kong Electric International Finance (Australia) Pty Ltd	(39,790)	(39,686)
Other entities	(136,887)	(169,259)
	(209,563)	(241,737)
Net interest benefit/(expense) on defined benefit superannuation plans	282	(524)
Other interest expense	(652)	(760)
Total interest expense	(209,933)	(243,021)
Gain arising on derivatives in a designated fair value hedge accounting relationship	9,423	174,701
Loss arising on adjustments to hedged item in a designated fair value hedge accounting relationship	(7,979)	(178,491)
Other finance costs	(2,330)	(2,920)
	(210,819)	(249,731)
Net bad and doubtful debts arising from:		
Other entities	(3)	(17)
Amortisation of non-current assets		
Lease premium	(5,063)	(5,063)
Prepaid land lease	(2,112)	(2,112)
	(7,175)	(7,175)
Depreciation of non-current assets	(214,084)	(210,963)
	(221,259)	(218,138)
Asset Rebates	(5,566)	(3,662)
Operating lease rental expenses:		
Minimum lease payments	(3,247)	(1,312)

2 Profit from operations (continued)

(b) Profit before income tax (continued)

	Consolidated	
	Year ended December 2016 \$'000	Year ended December 2015 \$'000
Employee benefits expense:		
<i>Post employment benefits:</i>		
Defined contribution plans	(4,008)	(3,738)
Defined benefit plans	(23,298)	(25,535)
	(27,306)	(29,273)
Termination benefits	(3,814)	(1,900)
Other employee benefits	(171,828)	(151,577)
	(202,948)	(182,750)

3 Income tax

(a) Income tax recognised in profit / (loss)

	Consolidated	
	Year ended December 2016 \$'000	Year ended December 2015 \$'000
Tax benefit comprises:		
Current tax benefit	182	(182)
Deferred tax benefit resulting from the origination and reversal of temporary differences	(182)	(1,858)
Total tax benefit attributable to continuing operations	-	(2,040)

The prima facie income tax (benefit) / expense on pre-tax accounting profit from operations reconciles to the income tax (benefit) / expense in the financial statements as follows:

	Year ended December 2016 \$'000	Year ended December 2015 \$'000
Profit from continuing operations	215,350	293,550
Income tax expense calculated at 30%	64,605	88,065
Non-assessable income	(64,605)	(90,105)
	-	(2,040)

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law. There has been no change in the corporate tax rate when compared with the previous reporting period.

(b) Income tax recognised directly in equity

No amounts were credited directly to equity during the current or prior period.

3 Income tax (continued)

(c) Deferred tax balances

	Consolidated	
	Year ended December 2016 \$'000	Year ended December 2015 \$'000
Deferred tax assets comprise:		
Taxable income losses - revenue	-	182
Deferred tax liabilities comprise:		
Temporary differences	-	(182)

Consolidated 2016	Opening Balance \$'000	(Charged) / credited to income \$'000	Closing balance \$'000
Gross deferred tax assets			
- Tax losses - revenue	182	(182)	-
Gross deferred tax liabilities			
Temporary differences:			
- Property, plant and equipment	(182)	182	-
Consolidated 2015			
Gross deferred tax assets			
- Tax losses - revenue	-	182	182
Gross deferred tax liabilities			
Temporary differences:			
- Property, plant and equipment	(1,173)	991	(182)
- Indemnity receivable	(867)	867	-
	(2,040)	1,858	(182)

(d) Tax consolidation

Relevance of tax consolidation to the consolidated entity

Certain subsidiaries of the partnership have formed a tax-consolidated group with effect from 1 January 2003 and are therefore taxed as a single entity from that date. The head entity in the tax-consolidated group is Utilities Management Pty Ltd. The members of the tax-consolidated group are identified at note 31.

The SA Power Networks partnership is not part of a tax-consolidated group.

3 Income tax (continued)

(d) Tax consolidation (continued)

Nature of tax funding arrangements and tax sharing agreements

Entities within the tax-consolidated group have entered into a tax funding arrangement and a tax-sharing agreement with the head entity. Under the terms of the tax funding arrangement, Utilities Management Pty Ltd and each of the entities in the tax-consolidated group has agreed to pay a tax equivalent payment to or from the head entity, based on the current tax liability or current tax asset of the entity. Such amounts are reflected in amounts receivable from or payable to other entities in the tax-consolidated group.

The tax sharing agreement entered into between members of the tax-consolidated group provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement, as the likelihood of payment of any amounts under the tax sharing agreement is considered to be remote.

4 Key management personnel compensation

The aggregate compensation made to directors and other members of key management personnel of the consolidated entity and partnership is set out below:

	Consolidated	
	Year ended December 2016 \$	Year ended December 2015 \$
Short-term employee benefits	6,243,267	6,182,868
Post-employment benefits	185,423	186,762
Other long-term employee benefits	1,531,955	1,923,823
Termination benefits	195,000	-
	8,155,645	8,293,453

5 Remuneration of auditors

	Consolidated	
	Year ended December 2016 \$	Year ended December 2015 \$
Auditor of the parent entity		
Audit or review of the financial report	415,100	504,072
Accounting and assurance services	274,098	447,026
Taxation services	20,098	114,475
Other non-audit services	61,377	63,556
	770,673	1,129,129

The auditor of SA Power Networks is Deloitte Touche Tohmatsu.

6 Current trade and other receivables

	Consolidated	
	December 2016	December 2015
	\$'000	\$'000
Distribution Use of System revenue trade receivables (i)	41,335	44,793
Allowance for doubtful debts	-	-
	41,335	44,793
Other trade receivables (i)	18,077	26,167
Allowance for doubtful debts (ii)	(3,472)	(3,613)
	55,940	67,347
Estimated revenue from unbilled sales	73,337	92,192
Amounts due from customers under construction contracts (note 32)	6,455	25,963
Interest receivable	759	640
	136,491	186,142

- (i) The average credit period on Distribution Use of System revenue is 14 days (2015: 14 days). No interest is charged on Distribution Use of System revenue trade receivables.

The average credit period on other trade receivables is 30 days (2015: 30 days). No interest is charged on other trade receivables. Trade receivables over 30 days are provided for based on estimated irrecoverable amounts from sales, determined by reference to past default experience.

Included in the consolidated entity's Distribution Use of System revenue trade receivable balance are debtors with a carrying amount of \$342,000 (2015: \$414,000) which are past due at reporting date and which have not been provided as there has not been a significant change in credit quality and it is considered that the amounts are still recoverable. The consolidated entity does not hold any collateral over these balances. The average age of these receivables is 54 days (2015: 65 days).

Included in the consolidated entity's other trade receivable balance are debtors with a carrying amount of \$2,315,000 (2015: \$1,846,000) which are past due at reporting date and which have not been provided as there has not been a significant change in credit quality and it is considered that the amounts are still recoverable. The consolidated entity does not hold any collateral over these balances. The average age of these receivables is 46 days (2015: 45 days).

- (ii) Movement in the allowance for doubtful debts - other trade receivables

Balance at the beginning of the year	3,613	3,613
Decrease in allowance recognised in profit and loss	(141)	-
Balance at the end of the year	3,472	3,613

In determining the recoverability of a trade receivable the consolidated entity considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. There is a concentration of credit risk with respect to Distribution Use of System trade receivables to a small number of electricity retailers. The concentration of credit risk on other trade receivables is limited due to the customer base being large and unrelated. The partners believe that there is no further credit provision required in excess of the allowance for doubtful debts.

6 Current trade and other receivables (continued)

Included in the allowance for doubtful debts are specific trade receivables with a balance of \$nil (2015: nil) which have been placed under liquidation. Any impairment recognised represents the difference between the carrying amount of the specific trade receivable and the present value of the expected liquidation proceeds.

7 Other current financial assets

	Consolidated	
	December	December
	2016	2015
	\$'000	\$'000
At fair value		
Derivatives that are designated and effective as hedging instruments:		
Cross currency swaps (i)	-	32,567
Forward foreign exchange contracts (ii)	71	-
	71	32,567

(i) The terms of cross currency swaps are disclosed in note 36(f).

(ii) The terms of forward foreign exchange contracts are disclosed in note 36(f).

8 Current inventories

	Consolidated	
	December	December
	2016	2015
	\$'000	\$'000
Raw materials - at cost	110	56
Work in progress - at cost	185	207
Finished goods - at cost	17,209	19,576
	17,504	19,839

9 Other current assets

	Consolidated	
	December	December
	2016	2015
	\$'000	\$'000
Prepayments*	10,373	7,738

*The comparative figure has been amended as, in the partner's opinion, this reclassification more accurately reflects the split between the current and non-current portion of the prepaid land lease.

10 Non-current inventories

	Consolidated	
	December	December
	2016	2015
	\$'000	\$'000
Finished goods - at cost	9,645	8,400

11 Other non-current financial assets

	Consolidated	
	December	December
	2016	2015
	\$'000	\$'000
At fair value		
Derivatives that are designated and effective as hedging instruments:		
Interest rate swaps (i)	6,226	680
Cross currency swaps (ii)	192,061	186,598
Forward foreign exchange contracts (iii)	62	-
	198,349	187,278

- (i) The terms of interest rate swaps are disclosed in note 36(g).
- (ii) The terms of cross currency swaps are disclosed in note 36(f).
- (iii) The terms of forward foreign exchange contracts are disclosed in note 36(f).

SA Power Networks
Notes to the financial statements
31 December 2016
(continued)

12 Property, plant and equipment

				Distribution network system assets at cost \$'000	Vehicles at cost \$'000	Plant, tools and IT equipment at cost \$'000	Capital works in progress \$'000	Distribution network system assets under finance lease at cost \$'000	Total \$'000
Consolidated	Freehold land at cost \$'000	Easements at cost \$'000	Buildings at cost \$'000						
Gross carrying amount									
Balance at 1 January 2015	57,577	8,590	22,233	901,610	122,667	472,999	292,819	4,053,970	5,932,465
Additions	25	-	-	165	-	-	382,054	10,225	392,469
Transfers	366	1,714	-	173,015	23,337	118,376	(451,041)	134,233	-
Disposals	-	-	-	-	(11,554)	(809)	-	-	(12,363)
Balance at 1 January 2016	57,968	10,304	22,233	1,074,790	134,450	590,566	223,832	4,198,428	6,312,571
Additions	7	668	-	36,634	10,115	19,758	152,869	139,615	359,666
Transfers	3	69	-	29,109	3,121	44,086	(121,647)	45,259	-
Disposals	-	-	-	-	(11,622)	(1,007)	-	-	(12,629)
Balance at 31 December 2016	57,978	11,041	22,233	1,140,533	136,064	653,403	255,054	4,383,302	6,659,608

SA Power Networks
Notes to the financial statements
31 December 2016
(continued)

12 Property, plant and equipment (continued)

				Distribution network system assets at cost	Vehicles at cost	Plant, tools and IT equipment at cost	Capital works in progress	Distribution network system assets under finance lease at cost	Total
Consolidated	Freehold land at cost \$'000	Easements at cost \$'000	Buildings at cost \$'000	assets at cost \$'000	cost \$'000	at cost \$'000	\$'000	\$'000	\$'000
Accumulated depreciation / amortisation and impairments									
Balance at 1 January 2015	-	-	(7,366)	(81,980)	(46,792)	(284,920)	-	(1,080,002)	(1,501,060)
Disposals	-	-	-	-	8,232	711	-	-	8,943
Transfers	-	-	-	(2,203)	-	(629)	-	2,832	-
Depreciation expense	-	-	(820)	(17,335)	(11,180)	(65,107)	-	(116,521)	(210,963)
Balance at 1 January 2016	-	-	(8,186)	(101,518)	(49,740)	(349,945)	-	(1,193,691)	(1,703,080)
Disposals	-	-	-	-	8,189	881	-	-	9,070
Transfers	-	-	-	-	-	-	-	-	-
Depreciation expense	-	-	(820)	(19,146)	(10,798)	(63,502)	-	(119,818)	(214,084)
Balance at 31 December 2016	-	-	(9,006)	(120,664)	(52,349)	(412,566)	-	(1,313,509)	(1,908,094)
Net book value									
As at 31 December 2015	57,968	10,304	14,047	973,272	84,710	240,621	223,832	3,004,737	4,609,491
As at 31 December 2016	57,978	11,041	13,227	1,019,869	83,715	240,837	255,054	3,069,793	4,751,514

12 Property, plant and equipment (continued)

	Consolidated	
	December 2016	December 2015
	\$'000	\$'000
Aggregate depreciation allocated, whether recognised as an expense or capitalised as part of the carrying amount of other assets during the year:		
Buildings	(820)	(820)
Distribution network system assets	(19,146)	(17,335)
Vehicles	(10,798)	(11,180)
Plant, tools, office and IT equipment	(63,502)	(65,107)
Distribution network system assets under finance lease	(119,818)	(116,521)
	(214,084)	(210,963)

13 Intangible assets

	Consolidated	
	December 2016	December 2015
	\$'000	\$'000
Lease premium		
Gross carrying amount		
Balance at 1 January	1,012,666	1,012,666
Additions	-	-
Balance at 31 December	1,012,666	1,012,666
Accumulated amortisation and impairment		
Balance at 1 January	(81,270)	(76,207)
Amortisation expense (i)	(5,063)	(5,063)
Balance at 31 December	(86,333)	(81,270)
Current lease premium*	5,063	5,063
Non-current lease premium*	921,270	926,333
Net book value	926,333	931,396

(i) Amortisation expense is included in the line "depreciation and amortisation expense" in the statement of profit or loss and other comprehensive income.

*The comparative figure has been amended as, in the partner's opinion, this reclassification more accurately reflects the split between the current and non-current portion of the lease premium.

SA Power Networks
Notes to the financial statements
31 December 2016
(continued)

14 Other non-current assets

	Consolidated	
	December	December
	2016	2015
	\$'000	\$'000
Prepaid land lease* (note 29)	384,203	386,314
Superannuation asset (note 23)	-	131
	384,203	386,445

*The comparative figure has been amended as, in the partner's opinion, this reclassification more accurately reflects the split between the current and non-current portion of the prepaid land lease.

15 Current trade and other payables

	Consolidated	
	December	December
	2016	2015
	\$'000	\$'000
Trade payables and accruals (i)	150,308	106,761
Amounts due to customers under construction contracts (note 32)	50,212	53,569
Goods and services tax (GST) payable	5,535	7,198
Deferred income	21,021	25,565
Interest payable:		
Other related parties - Cheung Kong Infrastructure Finance (Australia) Pty Ltd	5,570	5,570
Other related parties - Hong Kong Electric International Finance (Australia) Pty Ltd	6,741	6,741
Other entities	31,523	32,400
	43,834	44,711
	270,910	237,804

(i) The average credit period on trade payables is 26 days (2015: 32 days). No interest is charged on trade payables.

16 Current borrowings

	Consolidated	
	December	December
	2016	2015
	\$'000	\$'000
Unsecured		
At amortised cost		
Bonds (i)	500,000	737,263
Bond premium	1,964	1,557
Foreign exchange and fair value hedge adjustments	-	30,707
Capitalised borrowing costs	(246)	(11)
	501,718	769,516

- (i) The borrowings are AUD dollar debt maturing in September and October 2017. The current weighted average effective interest rate on the borrowings is 5.21% (2015: 5.24%). The group hedges the loans using interest rate swaps exchanging variable rate interest for fixed rate interest.

17 Other current financial liabilities

	Consolidated	
	December	December
	2016	2015
	\$'000	\$'000
At fair value:		
Derivatives that are designated and effective as hedging instruments:		
Interest rate swaps	-	-
Cross currency swaps	-	-
Forward foreign exchange contracts (i)	1	-
	1	-

- (i) The terms of forward foreign exchange contracts are disclosed in note 36(f).

18 Current provisions

	Consolidated	
	December 2016 \$'000	December 2015 \$'000
Employee benefits (i)	86,116	81,810
Self insurance (note 22)	9,618	6,933
Site restoration (note 22)	125	-
	95,859	88,743

- (i) The current provision for employee benefits includes \$54,219,000 of annual leave and vested long service leave entitlements accrued but not expected to be taken within 12 months (2015: \$50,367,000).

19 Non-current borrowings

	Consolidated	
	December 2016 \$'000	December 2015 \$'000
Unsecured		
At amortised cost		
Bonds (i)	2,535,110	2,326,292
Bond premium	-	1,964
Foreign exchange and fair value hedge adjustments	173,536	190,296
Capitalised borrowing costs	(6,818)	(5,814)
	2,701,828	2,512,738
 Loans from:		
Other related parties - Cheung Kong Infrastructure Finance (Australia) Pty Ltd	293,046	293,046
Other related parties - Hong Kong Electric International Finance (Australia) Pty Ltd	354,654	354,654
	647,700	647,700
	3,349,528	3,160,438

- (i) The borrowings are a mix of Australian dollar and US dollar debt. The borrowings are a mix of variable rate and fixed interest rate debt. Repayment periods do not exceed 15 years. The current weighted average effective interest rate on the borrowings is 3.99% (2015: 4.14%). The group hedges a portion of the loans (all foreign borrowings) using cross-currency interest rate swaps exchanging US dollar fixed rate interest for Australian dollar variable rate interest and interest rate swaps exchanging variable rate interest for fixed rate interest.
- (ii) The loans are subordinated to other borrowings. The borrowings are variable rate debt with no predetermined repayment period. The current weighted average effective interest rate on the borrowings is 11.19% (2015: 11.19%). The group hedges the loans using interest rate swaps exchanging variable rate interest for fixed rate interest.

20 Other non-current financial liabilities

	Consolidated	
	December	December
	2016	2015
	\$'000	\$'000
At fair value:		
Derivatives that are designated and effective as hedging instruments:		
Interest rate swaps (i)	38,944	30,229
Cross currency swaps (ii)	36,289	3,161
	75,233	33,390

(i) The terms of interest rate swaps are disclosed in note 36(g).

(ii) The terms of currency swaps are disclosed in note 36(f).

21 Non-current provisions

	Consolidated	
	December	December
	2016	2015
	\$'000	\$'000
Defined benefit superannuation obligations (note 23) (i)	62	-
Other employee benefits	12,137	12,651
Self insurance (note 22)	1,095	772
Site restoration (note 22)	619	1,012
	13,913	14,435

22 Provisions

Consolidated	Self insurance (i) \$'000	Site restoration (ii) \$'000
Balance at 1 January 2016	7,705	1,012
Additional provisions recognised	5,777	307
Reductions arising from payments / other sacrifices of future economic benefits	(2,769)	(575)
Balance at 31 December 2016	10,713	744
Current (note 18)	9,618	125
Non-current (note 21)	1,095	619
	10,713	744

- (i) The provision for self insurance represents the partners best estimate of the future sacrifice of economic benefits that will be required in connection with claims from third parties with respect to self-insured risks, where a present obligation exists. Self insured risks include workers compensation and the insurance excess on bushfire and general liability claims.
- (ii) The provision for site restoration represents the partners best estimate of the future economic sacrifice of economic benefits that will be required to remediate contaminated land and remove hazardous materials, where it is probable that a present obligation exists, which can be reliably measured.

23 Defined benefit superannuation plans

The consolidated entity contributes to a defined benefit superannuation plan, the Electricity Industry Superannuation Scheme ("the Scheme"), in respect of employees of its subsidiary, Utilities Management Pty Ltd.

The Scheme is a multi-employer plan for the South Australian electricity supply industry, operating pursuant to the Electricity Corporations Act 1994 (SA). The Scheme is managed by the Electricity Industry Superannuation Board, a separate legal entity independent of the consolidated entity.

The Scheme comprises four divisions: the Lump Sum Scheme, the Pension Scheme, the RG Scheme and the Accumulation Scheme. All sub-schemes, except for the Accumulation Scheme, are closed to new members.

The Scheme provides retirement benefits to employees as follows:

- Lump Sum Scheme: retirement benefits comprise member contributions plus interest and employer-provided defined-benefit components.
- Pension Scheme: retirement benefits are primarily in the form of pensions based on contributions, period of membership and final salary. A pension may be commuted to a lump sum on retirement.
- RG Scheme: retirement benefits comprise member contributions plus interest and an employer-provided component equal to 2 1/3 times the sum of the member contributions plus interest, subject to a limit based on final salary, plus an additional defined-benefit component.
- Accumulation Scheme: retirement benefits are calculated on an accumulation basis at a level at least sufficient to ensure that the employer has no Superannuation Guarantee Charge liability.

The Scheme is a funded plan. The Scheme computes its obligations in accordance with Accounting Standard AAS 25 'Financial Reporting by Superannuation Plans' which prescribes a different measurement basis to that applied in this financial report. The net surplus determined in the Scheme's most recent financial report, for the financial year ended 30 June 2016, was a surplus of \$63.0 million related to the consolidated entity (30 June 2015: net surplus of \$74.5 million related to the consolidated entity).

23 Defined benefit superannuation plans (continued)

Funding recommendations are made by the actuaries based on their forecasts of various matters, including future Scheme assets performance, interest rates and salary increases.

The consolidated entity may benefit from any surplus in the Scheme in the form of a contribution reduction or contribution holiday. Any reduction in contributions would normally be implemented only after advice from the Scheme's actuary. On wind-up of the Scheme, the consolidated entity may benefit from any surplus.

	Consolidated	
	December 2016	December 2015
	%	%
Key assumptions used (expressed as weighted averages):		
Discount rate	4.30	4.40
Expected rate of salary increase (i)	4.25	5.25
Expected rate of pension increase	2.50	2.50

The discount rate used was the 12 year AA corporate bond rate at 31 December 2016 of 4.30% (2015: 4.40%).

(i) For the December 2016 valuation, 4.25% was for the first year and then 4.00% p.a. thereafter.

	Consolidated	
	December 2016	December 2015
	\$'000	\$'000
Amounts recognised in profit or loss in respect of these defined benefit plans are as follows:		
Current service cost	23,298	25,535
Net interest (benefit)/expense	(282)	524
Total included in "employee benefits expense"	23,016	26,059

	Consolidated	
	December 2016	December 2015
	\$'000	\$'000
Actuarial gains incurred during the year and recognised in the statement of profit or loss and other comprehensive income	(8,549)	(43,994)
Cumulative actuarial gains recognised in the statement of profit or loss and other comprehensive income	(30,277)	(21,728)

23 Defined benefit superannuation plans (continued)

Consolidated	
December	December
2016	2015
\$'000	\$'000

The amount included in the statement of financial position arising from the entity's obligations in respect of its defined benefit plans is as follows:

Present value of funded defined benefit obligations	(659,794)	(635,494)
Fair value of plan assets	659,732	635,625

Net (liability)/asset arising from defined benefit obligations	(62)	131
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Consolidated	
December	December
2016	2015
\$'000	\$'000

Included in the statement of financial position:

Other non-current assets (note 14):		
Superannuation asset	-	131
Non-current provision for employee benefits (note 21):		
Defined benefit obligations	(62)	-
Net (liability)/asset arising from defined benefit obligations	(62)	131

Consolidated	
December	December
2016	2015
\$'000	\$'000

Movements in the present value of the defined benefit obligations in the current period were as follows:

Opening defined benefit obligation	635,494	626,769
Current service cost	23,298	25,535
Interest cost	26,464	25,509
Contributions from plan participants	10,162	10,438
Actuarial losses/(gains) arising from changes in financial assumptions	511	(19,682)
Actuarial losses arising from liability experience	4,679	3,498
Benefits paid	(42,832)	(41,569)
Taxes and premiums paid	(5,007)	(3,081)
Transfers in	7,025	8,077
Closing defined benefit obligations	659,794	635,494

23 Defined benefit superannuation plans (continued)

	Consolidated	
	December	December
	2016	2015
	\$'000	\$'000
Movements in the present value of the plan assets in the current period were as follows:		
Opening fair value of plan assets	635,625	604,978
Interest income	26,746	24,985
Actual return on plan assets less interest income	13,739	27,810
Contributions from the employer	14,274	3,987
Contributions from plan participants	10,162	10,438
Benefits paid	(42,832)	(41,569)
Taxes and premiums paid	(5,007)	(3,081)
Transfers in	7,025	8,077
Closing value of plan assets	659,732	635,625

The actual return on plan assets was a gain of \$40,485,000 (2015: gain of \$52,795,000).

The consolidated entity expects to make a contribution of \$13,416,000 (2015: \$12,418,000) to the defined benefit plans during the next financial year. The "target funding" method was used to determine the contribution rates.

	Consolidated	
	December	December
	2016	2015
	\$'000	\$'000
The analysis of the plan assets is as follows:		
Equity instruments	329,866	317,813
Debt instruments	65,973	66,741
Property	98,960	88,988
Other assets (including cash)	164,933	162,083
	659,732	635,625

The fair value of plan assets includes no amounts relating to:

- any of the consolidated entity's own financial instruments; and
- any property occupied by, or other assets used by, the consolidated entity.

	Consolidated	
	December	December
	2016	2015
	\$'000	\$'000
The history of experience adjustments is as follows:		
Experience adjustments (loss)/gain on plan liabilities	(5,190)	16,184
Experience adjustments gain on plan assets	13,739	27,810

24 Partners capital accounts

	Consolidated	
	December 2016	December 2015
	\$'000	\$'000
Ordinary capital account (a)	1,000	1,000
Preferred partnership capital account (b)	622,300	622,300
	623,300	623,300

(a) Ordinary capital account

Balance at beginning of financial year	1,000	1,000
Balance at end of financial year	1,000	1,000

The ordinary capital account represents capital contributions by each of the partners in proportion to the partners respective ordinary capital share of the partnership. Additional contributions may be made, in accordance with the Partnership Agreement.

Ordinary capital confers the right to vote and the right to distributions. The partners may resolve to pay interest on the partner's ordinary capital contributions; no interest has been paid to date.

The partners share in the ordinary capital account is split in the following proportions:

	Consolidated	
	December 2016	December 2015
	%	%
CKI Utilities Development Limited	25.5	25.5
PAI Utilities Development Limited	25.5	25.5
Spark Infrastructure SA (No. 1) Pty Ltd	15.0	15.0
Spark Infrastructure SA (No. 2) Pty Ltd	19.0	19.0
Spark Infrastructure SA (No. 3) Pty Ltd	15.0	15.0

(b) Preferred partnership capital account

	Consolidated	
	December 2016	December 2015
	\$'000	\$'000
Balance at beginning of financial year	622,300	622,300
Contributions of partners' equity	-	-
Balance at end of financial year	622,300	622,300

Preferred partnership capital confers the right to cumulative distribution at 11.19%. Preferred partnership capital may be redeemed at the sole discretion of the partnership. Preferred partnership capital confers no right to vote or to share in any surplus assets or profits.

24 Partners capital accounts (continued)

	Consolidated	
	December 2016 \$'000	December 2015 \$'000
Cumulative ordinary distributions recognised	101,000	91,000
Cumulative preference distributions recognised	69,826	69,635
	170,826	160,635
Cumulative preference distributions not recognised	11,638	11,638

The partners share in the preferred partnership capital account is split in the following proportions:

	Consolidated	
	December 2016 %	December 2015 %
CKI Utilities Development Limited	-	-
PAI Utilities Development Limited	-	-
Spark Infrastructure SA (No. 1) Pty Ltd	30.6	30.6
Spark Infrastructure SA (No. 2) Pty Ltd	38.8	38.8
Spark Infrastructure SA (No. 3) Pty Ltd	30.6	30.6

25 Partners current accounts

	Consolidated	
	December 2016 \$'000	December 2015 \$'000
Balance at beginning of financial year	1,712,282	1,533,333
Net profit attributable to partners	215,350	295,590
Distributions provided for or paid (note 24(b))	(170,826)	(160,635)
Actuarial gains (note 23)	8,549	43,994
Balance at end of financial year	1,765,355	1,712,282

Refer to note 24(a) for the proportionate split between the partners.

SA Power Networks
Notes to the financial statements
31 December 2016
(continued)

26 Reserves

	Consolidated	
	December 2016 \$'000	December 2015 \$'000
Hedge reserve	(48,005)	(30,759)
Hedge reserve		
Balance at beginning of financial year	(30,759)	(28,003)
Gain / (loss) recognised:		
Interest rate swaps	(3,169)	11,181
Cross currency swaps	(14,209)	(13,937)
Foreign exchange contracts	132	-
	(17,246)	(2,756)
Balance at end of financial year	(48,005)	(30,759)

The hedge reserve represents hedging gains and losses recognised on the effective portion of cash flow hedges. The cumulative deferred gain or loss on the hedge is recognised in profit or loss when the hedged transaction impacts the profit or loss, or is included as a basis adjustment to the non-financial hedged item, consistent with the applicable accounting policy.

27 Commitments for expenditure

	Consolidated	
	December 2016 \$'000	December 2015 \$'000
Capital expenditure commitments		
Plant and equipment		
Not longer than 1 year	16,514	16,270

28 Contingent liabilities

	Consolidated	
	December 2016 \$'000	December 2015 \$'000
Environmental (i)	-	-
Guarantees for performance (ii)	16,240	15,154
Guarantee for workers compensation (iii)	3,736	2,696

- (i) The nature of the consolidated entity's business can create potential exposure to environmental matters which the consolidated entity may be required to remedy in the future. Hazardous materials are used in the distribution network of the consolidated entity. A system of control to ensure that all such hazardous materials are identified, managed and disposed of safely, in accordance with current legislation and other obligations has been implemented.

A provision for site restoration is established where the need for remediation has been identified. No amount has been recognised where there is significant uncertainty as to whether any future costs will be incurred.

The consolidated entity's operations are subject to changing environmental and related legislation, which could necessitate additional remedial work and breaches of this legislation could result in fines and penalties. It is not practicable to state an estimate of the potential financial impact of any such changing environmental and related legislation.

- (ii) As at 31 December 2016, \$16,240,000 (2015: \$15,154,000) of guarantees for performance were outstanding.
- (iii) As at 31 December 2016, there was an outstanding guarantee of \$3,736,000 (2015: \$2,696,000) given to Return to Work SA with respect of workers compensation.

29 Leases

(a) Finance leases

Leasing arrangements

Distribution network system assets leased from the Distribution Lessor Corporation, with a lease term of 200 years. The finance lease liability for the distribution network lease has been prepaid and the unamortised amount at 31 December 2016 was \$384,203,000 (2015: \$388,426,000).

(b) Operating leases

Leasing arrangements

Operating leases relate to:

Properties with lease terms of up to 5 years. The consolidated entity does not have an option to purchase the leased asset at the expiry of the lease period.

	Consolidated	
	December 2016 \$'000	December 2015 \$'000
Non-cancellable operating lease payments		
Not longer than 1 year	2,405	2,927
Longer than 1 year and not longer than 5 years	4,557	5,984
Longer than 5 years	-	51
	6,962	8,962

No liabilities have been recognised with respect to non-cancellable operating leases.

30 Economic dependency

The business of the consolidated entity is dependent upon the continued safe and reliable operation of the generation and transmission services provided by other electricity industry entities.

31 Subsidiaries

Name of entity	Country of incorporation	Proportion of ownership interest and voting power held by consolidated entity	
		2016 %	2015 %
Parent entity			
CKI Utilities Development Limited	The Bahamas		
PAI Utilities Development Limited	The Bahamas		
Spark Infrastructure SA (No. 1) Pty Ltd	Australia		
Spark Infrastructure SA (No. 2) Pty Ltd	Australia		
Spark Infrastructure SA (No. 3) Pty Ltd	Australia		
Subsidiaries			
ETSA Utilities Finance Pty Ltd	Australia	100	100
Utilities Management Pty Ltd (i)	Australia	100	100
ETSA FRC Pty Ltd (i)	Australia	100	100
ETSA Ancillary Pty Ltd (i)	Australia	100	100

(i) These companies are members of a tax-consolidated group.

32 Construction contracts

	Consolidated	
	December 2016 \$'000	December 2015 \$'000
Recognised and included in the financial statements as amounts due:		
From customers under construction contracts (note 6)	6,455	25,963
To customers under construction contracts (note 15)	(50,212)	(53,569)
	(43,757)	(27,606)

At 31 December 2016, retentions held by customers for contract work amounted to \$nil (2015: \$nil). Advances received from customers for contract work amounted to \$50,212,000 (2015: \$53,569,000).

33 Related party disclosures

The immediate parent and ultimate controlling party of the consolidated entity respectively are CKI Spark Holdings No. Two Limited (incorporated in the Commonwealth of The Bahamas) and Cheung Kong Infrastructure Holdings Limited (incorporated in Bermuda).

(a) Equity interests in subsidiaries

Details of the percentage of ordinary shares held in subsidiaries are disclosed in note 31.

(b) Key management personnel compensation

Details of key management personnel compensation are disclosed in note 4 to the financial statements.

33 Related party disclosures (continued)

(c) Transactions with other related parties

Other related parties include:

- the parent entity;
- entities with joint control or significant influence over the consolidated entity;
- associates;
- subsidiaries; and
- other related parties.

Transactions involving the parent entity

During the financial year, SA Power Networks provided other services totalling \$nil (2015: \$nil) to its subsidiaries at commercial rates. During the financial year, SA Power Networks purchased employee and other services totalling \$304,127,000 (2015: \$251,082,000) from its subsidiaries at commercial rates.

Transactions involving other related parties

The interest cost of borrowings from related parties is disclosed in note 2 (b). Accrued interest payable to related parties is disclosed in note 15. Borrowings from related parties are disclosed in note 19.

	Consolidated	
	December 2016 \$'000	December 2015 \$'000
During the financial year the consolidated entity purchased goods or services from the following other related parties, on normal commercial terms and conditions:		
Victoria Power Networks Pty Ltd	16,127	19,032
Hutchison Telecommunications (Australia) Ltd	173	181
	16,300	19,213

During the financial year the consolidated entity provided goods or services to the following other related parties, on normal commercial terms and conditions:

Victoria Power Networks Pty Ltd	137	3,870
	137	3,870

(d) Parent entities

The parent entity in the consolidated entity is SA Power Networks. The ultimate Australian parent entity is SA Power Networks.

Total fees paid or payable to the immediate parent entity were \$310,000 (2015: \$310,000) and other related parties were \$180,000 (2015: \$161,250) with respect to directors fees.

34 Subsequent events

There has not been any matter or circumstance that has arisen since the end of the financial period that has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial periods.

35 Notes to the statement of cash flows

(a) Reconciliation of cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the financial year as shown in the cash flow statement is reconciled to the related items in the statement of financial position as follows:

	Consolidated	
	December 2016 \$'000	December 2015 \$'000
Cash at bank and short term deposits	213,329	239,853

(b) Financing facilities

	Consolidated	
	December 2016 \$'000	December 2015 \$'000
Bank loan facilities, reviewed annually:		
Amount used	-	-
Amount unused	75,000	75,000
	75,000	75,000

35 Notes to the statement of cash flows (continued)

(c) Reconciliation of profit for the period to net cash flows from operating activities

	Consolidated	
	December	December
	2016	2015
	\$'000	\$'000
Profit for the year	215,350	295,590
Hedging (gains)/losses	(1,444)	3,790
Loss on disposal of property, plant and equipment	971	1,247
Depreciation and amortisation of non current assets	221,259	218,138
Interest income received and receivable	(7,629)	(4,590)
Non-cash interest (income)/expense	(564)	2,308
Gifted asset revenue	(29,626)	(30,615)
Decrease in deferred tax balances	-	(2,040)
Changes in net assets and liabilities:		
(Increase) / decrease in assets:		
Current receivables	49,651	45,272
Current inventories	2,335	(12)
Other current assets	(2,636)	2,154
Non-current inventories	(1,245)	305
Other non-current assets	2,242	(131)
(Increase) / decrease in liabilities:		
Current payables	33,106	10,764
Current provisions	7,116	(1,238)
Non-current provisions	8,027	20,284
Net cash inflow from operating activities	496,913	561,226

(d) Non-cash investing and financing activities

During the financial year, the partnership and consolidated entity acquired property plant and equipment with a value of \$29,626,000 (2015: \$30,615,000) through the gifting of assets by customers.

36 Financial instruments

(a) Capital risk management

The group manages its capital to ensure that entities in the group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the group consists of debt, which includes borrowings, cash and cash equivalents and equity attributable to equity holders of the parent, comprising partners capital accounts, partners current accounts and reserves as disclosed in notes 24, 25 and 26 respectively.

The group's risk management and compliance committee reviews the capital structure in the context of the annual planning process. As part of this review, the committee considers the cost of capital and the risks associated with each class of capital. The group balances its overall capital structure through the payment of dividends, and the issue of new debt or the redemption of existing debt, and also considers the need (if any) for partner capital issues or redemption.

During the current and prior years, there were no defaults or breaches on the group's agreements with lenders. The group's overall strategy remains unchanged from the prior year and is not subject to any externally imposed capital requirements.

36 Financial instruments (continued)

(b) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1 to the financial statements.

(c) Categories of financial instruments

	Consolidated	
	December 2016 \$'000	December 2015 \$'000
Financial assets		
Interest rate swaps designated in a hedge accounting relationship	5,648	680
Interest rate swaps - fair value through profit or loss	578	-
Cross currency swaps designated in a hedge accounting relationship	192,061	219,165
Forward foreign exchange contracts designated in a hedge accounting relationship	133	-
Trade and other receivables - amortised cost	136,491	186,142
Cash and cash equivalents	213,329	239,853
	548,240	645,840
Financial liabilities		
Interest rate swaps designated in a hedge accounting relationship	38,944	30,229
Cross currency swaps designated in a hedge accounting relationship	36,289	3,161
Forward foreign exchange contracts designated in a hedge accounting relationship	1	-
Senior borrowings - amortised cost	3,203,546	3,282,254
Other related party borrowings - amortised cost	647,700	647,700
Trade and other payables - amortised cost	270,910	237,804
	4,197,390	4,201,148

Fair value measurements in the Consolidated Statement of Financial Position

The group measures and recognises the following assets and liabilities at fair value on a recurring basis:

- Financial assets at fair value through profit or loss (FVTPL)
- Derivative financial instruments
- Available for sale financial assets

The table below provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) and applied within a valuation technique.
- Level 3 fair value measurements are those derived from inputs that are not based on observable market data (unobservable inputs) and applied within a valuation technique.

36 Financial instruments (continued)

(c) Categories of financial instruments (continued)

Foreign currency forward contracts: are measured using the discounted cash flow method. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties. These are classified as level 2 instruments.

Cross-currency swaps: are measured using the discounted cash flow method. Future cash flows are estimated based on forward currency rates (from observable yield curves at the end of the reporting period) and contract currency rates, discounted at a rate that reflects the credit risk of various counterparties. These are classified as level 2 instruments.

Interest rate swaps: are measured using the discounted cash flow method. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contract interest rates, discounted at a rate that reflects the credit risk of various counterparties. These are classified as level 2 instruments.

Consolidated 2016	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
------------------------------	---------------------------	---------------------------	---------------------------	-------------------------

Recurring fair value measurements

Financial assets

Interest rate swaps designated in a hedge accounting relationship	-	5,648	-	5,648
Interest rate swaps - fair value through profit or loss	-	578	-	578
Cross-currency swaps designated in a hedge accounting relationship	-	192,061	-	192,061
Foreign exchange forward contracts designated in a hedge accounting relationship	-	133	-	133
Total financial assets	-	198,420	-	198,420

Financial liabilities

Interest rate swaps designated in a hedge accounting relationship	-	38,944	-	38,944
Cross-currency swaps designated in a hedge accounting relationship	-	36,289	-	36,289
Foreign exchange forward contracts designated in a hedge accounting relationship	-	1	-	1
Total financial liabilities	-	75,234	-	75,234

36 Financial instruments (continued)

(c) Categories of financial instruments (continued)

Consolidated 2015	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Recurring fair value measurements				
Financial assets				
Interest rate swaps designated in a hedge accounting relationship	-	680	-	680
Cross-currency swaps designated in a hedge accounting relationship	-	219,165	-	219,165
Total financial assets	-	219,845	-	219,845
Financial liabilities				
Interest rate swaps designated in a hedge accounting relationship	-	30,229	-	30,229
Cross-currency swaps designated in a hedge accounting relationship	-	3,161	-	3,161
Total financial liabilities	-	33,390	-	33,390

There were no transfers between Level 1 and 2 during the period. There were no transfers into or out of Level 3 during the period.

(d) Financial risk management objectives

The group's treasury function provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the group through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

The group seeks to minimise the effects of these risk, by using derivative financial instruments to hedge these risk exposures. The use of financial derivatives is governed by the group's policies, approved by the partners, which provide written policies on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. Compliance with policies and exposure limits is reviewed by internal auditors. The group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The corporate treasury function reports to the risk management and compliance committee with regards to policy and key strategies, and derivative instrument matters. In addition, a comprehensive Treasury report is provided at each Board meeting.

(e) Market risk

The group's activities expose it primarily to the financial risks of changes in foreign exchange rates and interest rates. The group enters into the following derivative financial instruments to manage their exposure to these risks:

- Cross currency swaps to manage the foreign currency risk associated with foreign currency denominated borrowings and to determine the interest rate reference for the life of the borrowing;
- Interest rate swaps to mitigate the risk of rising interest rates;
- Foreign exchange forward contracts to hedge the exchange rate risk arising on the purchase of goods and service from overseas.

36 Financial instruments (continued)

(e) Market risk (continued)

All derivatives are designated in effective hedge relationships based on contractual face value amounts and cash flows over the life of the contract.

At the group level, market risk exposures are measured using sensitivity analysis. There has been no change to the group's exposure to market risks or the manner in which it manages and measures the risk.

(f) Foreign currency risk management

The group undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts and cross-currency swaps.

Cross currency swaps

Under cross-currency swap contracts, the group agrees to exchange specified principal and interest foreign currency amounts at an agreed future date at a specified exchange rate. Such contracts enable the group to mitigate the risk of adverse movements in foreign exchange rates.

The following table details the cross-currency swaps outstanding as at reporting date.

Cross currency swaps	Exchange rate	Interest rate	Contract	Fair value
Consolidated	Average	average	value (AUD)	\$'000
2016		%	\$'000	
Buy US Dollars				
Less than 1 year	-	-	-	-
1 to 5 years	0.76	5.91	469,512	60,303
5 years +	0.79	3.29	1,415,598	95,469
			<u>1,885,110</u>	<u>155,772</u>
2015				
Buy US Dollars				
Less than 1 year	0.76	5.60	487,263	31,514
1 to 5 years	0.76	5.91	469,512	68,562
5 years +	0.86	3.36	706,781	115,928
			<u>1,663,556</u>	<u>216,004</u>

Foreign exchange forward contracts

The foreign exchange contracts are effective hedges of their associated underlying exposures from both an economic and accounting perspective.

It is the policy of the group to enter into forward foreign exchange contracts to cover specific foreign currency payments and receipts within a significant proportion of the exposure generated.

	Exchange rate		Foreign currency		Contract value		Fair value	
	average							
Consolidated	Current	Prior	Current	Prior	Current	Prior	Current	Prior
Buy USD	Year	Year	Year	Year	Year	Year	Year	Year
	%	%	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
0 to 3 months	0.72	-	66	-	92	-	(1)	-
3 to 6 months	0.75	-	1,362	-	1,822	-	71	-
6 to 9 months	-	-	-	-	-	-	-	-
9 to 12 months	-	-	-	-	-	-	-	-
1 to 2 years	0.75	-	360	-	480	-	24	-
2 to 5 years	0.74	-	720	-	977	-	38	-
			<u>2,508</u>	<u>-</u>	<u>3,371</u>	<u>-</u>	<u>132</u>	<u>-</u>

36 Financial instruments (continued)

(f) Foreign currency risk management (continued)

Foreign currency sensitivity

The following table details the group's sensitivity to a 10% increase and decrease in the value of the AUD against the relevant foreign currencies. A sensitivity of 10% has been selected as it is considered reasonable given the current level of exchange rates and volatility observed both on an historical basis and in market expectations for future movements. The sensitivity analysis includes outstanding foreign currency denominated financial assets and liabilities (including derivatives) and adjusts their translation at period end for a 10% change in foreign exchange rates on a total portfolio basis with all other variables held constant.

The foreign currency risk exposure from recognised assets and liabilities arises primarily from long term borrowings denominated in foreign currencies. There is no significant impact on profit from foreign currency movements associated with these borrowings because they are effectively hedged.

	Net profit		Cash flow hedge reserve	
	Current Year	Prior Year	Current Year	Prior Year
	\$'000	\$'000	\$'000	\$'000
Consolidated				
2016				
Impact of 10% decrease in AUD				
Increase/(decrease)	-	-	9,288	9,794
Impact of 10% increase in AUD				
Increase/(decrease)	-	-	(7,551)	(8,177)

(g) Interest rate risk management

Interest rate swap contracts

Under interest rate swap contracts the group agrees to exchange the difference between fixed and floating interest amounts calculated on agreed notional principal amounts. Such contracts enable the group to mitigate the risk of changing interest rates on the fair value of fixed rate debt held and the cash flow exposures of floating rate debt held. The fair value of interest rate swaps at the reporting date is determined by discounting the future cash flows using the yield curves at the reporting date and the credit risk inherent in the contract. The average interest rate is based on the outstanding balances at the end of the financial year.

The following table details the notional principal amounts and remaining terms for interest rate swap contracts outstanding as at the reporting date.

	Average fixed interest rate	Notional principal amount	Fair value
		\$'000	\$'000
Receive floating / pay fixed			
Consolidated			
2016			
Less than 1 year	-	-	-
1 to 5 years	2.53	1,191,600	(8,413)
5+ years	3.05	1,521,956	(24,305)
		<u>2,713,556</u>	<u>(32,718)</u>
2015			
Less than 1 year	-	-	-
1 to 5 years	2.43	881,406	(3,720)
5+ years	3.07	1,528,771	(25,829)
		<u>2,410,177</u>	<u>(29,549)</u>

36 Financial instruments (continued)

(g) Interest rate risk management (continued)

Interest rate swap contracts exchanging floating rate interest amounts for fixed rate interest amounts are designated as cash flow hedges in order to reduce the group's cash flow exposure resulting from variable interest rates on borrowings. The interest rate swaps and the interest payments on the loan occur simultaneously and the amount deferred in equity is recognised in profit or loss over the period.

The interest rate swaps settle on either a quarterly or semi-annual basis. The floating rate on the interest rate swaps is the Australian BBSW. The group will settle the difference between the fixed and floating interest rate on a net basis.

Interest rate sensitivity

The sensitivity analysis contained in the table below has been determined based on the exposure to interest rates for both derivative and non derivative instruments at the reporting date with the stipulated change taking place at the start of the financial year and held constant for the reporting period. A sensitivity of 0.5% (50 basis points) has been selected as this is considered reasonable given the current level of both short and long term interest rates.

Profit can be affected mainly as a result of the ineffective portion of cash flow and fair value hedge transactions and floating rate financial assets and liabilities that are not in a cash flow hedge relationship. Equity, through the cash flow hedge reserve, can be affected mainly as a result of an increase/decrease in the fair value of interest rate swaps which qualify for cash flow hedge accounting.

	Net profit		Cash flow hedge reserve	
	Current Year	Prior Year	Current Year	Prior Year
	\$'000	\$'000	\$'000	\$'000
Consolidated				
Impact of 0.5% increase/(decrease) in interest rates (AUD)				
Impact of 0.5% increase in interest rates	2,125	665	61,152	61,518
Impact of 0.5% decrease in interest rates	(2,170)	(665)	(63,343)	(64,189)
Impact of 0.5% increase/(decrease) in interest rates (USD)				
Impact of 0.5% increase in interest rates	-	-	(7,045)	(1,656)
Impact of 0.5% decrease in interest rates	-	-	7,286	1,490

(h) Credit risk management

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the group. The 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. The group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded are spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved annually.

Distribution Use of System revenue trade receivables consists of a small number of electricity retailers. Other trade receivables consist of a large number of customers, spread across diverse industries and geographical areas.

Ongoing credit evaluation is performed on the financial condition of accounts receivable, and where appropriate, bank guarantees are obtained and credit guarantee insurance cover is purchased.

The group has a significant credit risk exposure to a single counterparty and a group of counterparties having similar characteristics, namely electricity retailers and, in particular, one major electricity retailer. 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.

36 Financial instruments (continued)

(h) Credit risk management (continued)

The carrying amount of financial assets recorded in the financial statements, net of any allowance for losses, represents the group's maximum exposure to credit risk without taking account of the value of any collateral obtained.

The group does not have financial instruments that meet the presentation offset requirements of AASB 132 "Financial Instruments: Presentation" and as such each individual financial instrument is presented gross in the Financial Statements. However, the group has for credit management purposes, Master Netting arrangements where offset is permitted as a result of certain credit events. Application of these credit arrangements for the group at the financial reporting date would result in the following offsets as detailed below:

	Gross amounts of financial instruments presented in the statement of financial position		Gross amounts not offset in the statement of financial position	
	Total	Financial instruments	Collateral received or pledged	Net amount
Consolidated 2016	Total \$'000	Total \$'000	Total \$'000	Total \$'000
Interest rate swaps - Assets	6,226	-	-	6,226
Cross-currency swaps - Assets	192,061	68,985	-	123,076
Forward foreign exchange contracts - Assets	133	-	-	133
Interest rate swaps - Liabilities	(38,944)	(32,696)	-	(6,248)
Cross-currency swaps - Liabilities	(36,289)	(36,289)	-	-
Forward foreign exchange contracts - Liabilities	(1)	-	-	(1)

	Gross amounts of financial instruments presented in the statement of financial position		Gross amounts not offset in the statement of financial position	
	Total	Financial instruments	Collateral received or pledged	Net amount
2015	Total \$'000	Total \$'000	Total \$'000	Total \$'000
Assets				
Interest rate swaps - Assets	680	680	-	-
Cross-Currency swaps - Assets	219,165	25,219	-	193,946
Interest rate swaps - liabilities	(30,229)	(25,219)	-	(5,010)
Cross-currency swaps - Liabilities	(3,161)	(680)	-	(2,481)

(i) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the partners, who have built an appropriate liquidity risk management framework for the management of the group's short, medium and long-term funding and liquidity management requirements. The group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Included in Note 35(b) is a listing of additional undrawn facilities that the group has at its disposal to further reduce liquidity risk.

36 Financial instruments (continued)

(i) Liquidity risk management (continued)

Liquidity and interest risk tables

The following table details the group's remaining contractual maturity for its derivative and non-derivative financial assets and liabilities. The table is drawn up based upon the future undiscounted principal and interest cash flows. The adjustment column represents the possible future cash flows attributable to the instrument included in the maturity analysis and which are not included in the carrying amount of the financial liability or derivative financial asset on the Statement of financial position.

	Weighted average effective interest rate %	Nominal cash flows				Carrying amount \$'000
		Less than 1 year \$'000	1 to 5 years \$'000	5+ years \$'000	Adjust \$'000	
Consolidated						
2016						
Financial assets						
Interest rate swaps	3.21	(1,895)	605	9,357	(1,841)	6,226
Cross currency swaps						
- Receive USD	4.30	57,278	427,308	1,185,435	21,436	1,691,457
- Pay AUD	4.04	(39,948)	(407,067)	(1,052,381)	-	(1,499,396)
Forward foreign exchange contracts	-	67	40	-	26	133
Trade & other receivables (Non-interest bearing)	-	136,491	-	-	-	136,491
Cash and cash equivalents	2.00	217,596	-	-	(4,267)	213,329
Total financial assets		369,589	20,886	142,411	15,354	548,240

36 Financial instruments (continued)

(i) Liquidity risk management (continued)

Liquidity and interest risk tables (continued)

	Weighted average effective interest rate %	Nominal cash flows			Adjust \$'000	Carrying Amount \$'000
		Less than 1 year \$'000	1 to 5 years \$'000	5+ years \$'000		
2016						
Financial liabilities						
Interest rate swaps	2.84	21,458	24,542	(1,142)	(5,914)	38,944
Cross-currency swaps						
- Receive USD	3.20	(23,110)	(92,306)	(902,969)	-	(1,018,385)
- Pay AUD	4.63	26,926	123,341	979,968	(75,561)	1,054,674
Forward foreign exchange contracts	-	2	-	-	(1)	1
Senior borrowings - variable rate	2.44	171,917	665,686	-	(38,065)	799,538
Senior borrowings - fixed rate	3.92	80,345	755,354	1,852,500	(284,191)	2,404,008
Trade & Other payables (Non-interest bearing)	-	270,910	-	-	-	270,910
Total financial liabilities		548,448	1,476,617	1,928,357	(403,732)	3,549,690

36 Financial instruments (continued)

(i) Liquidity risk management (continued)

Liquidity and interest risk tables (continued)

	Weighted average effective interest rate %	Nominal cash flows				Carrying amount \$'000
		Less than 1 year \$'000	1 to 5 years \$'000	5+ years \$'000	Adjust \$'000	
Consolidated						
2015						
Financial assets						
Interest rate swaps	3.20	-	(217)	1,140	(243)	680
Cross-currency swaps						
- Receive USD	5.00	582,143	645,157	580,413	11,556	1,819,269
- Pay AUD	3.97	(538,733)	(587,798)	(473,573)	-	(1,600,104)
Trade & other receivables						
(Non-interest bearing)	-	186,142	-	-	-	186,142
Cash and cash equivalents	2.43	244,650	-	-	(4,797)	239,853
Total financial assets		474,202	57,142	107,980	6,516	645,840

		Nominal cash flows				
	Weighted average effective interest rate %	Less than 1 year \$'000	1 to 5 years \$'000	5 years + \$'000	Adjust \$'000	Carrying amount \$'000
2015						
Financial liabilities						
Interest rate swaps	2.84	14,209	29,963	(11,897)	(2,046)	30,229
Cross-currency swaps						
- Receive USD	3.09	(9,963)	(39,852)	(387,184)	-	(436,999)
- Pay AUD	3.79	11,210	50,715	411,461	(33,226)	440,160
Senior borrowings - variable rate	2.23	21,446	839,595	-	(61,041)	800,000
Senior borrowings - fixed rate	5.18	881,060	1,056,680	967,598	(423,084)	2,482,254
Trade & other payables (Non-interest bearing)	-	237,804	-	-	-	237,804
Total financial liabilities		1,155,766	1,937,101	979,978	(519,397)	3,553,448

36 Financial instruments (continued)

(j) Fair value of financial instruments

Except as detailed in the following table, the directors consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values. These instruments are valued using the same methodology as the level 2 instruments as described above:

	Carrying Value \$'000	Fair value \$'000
Consolidated 2016		
Financial liabilities		
Senior Borrowings	3,203,546	3,296,449
	3,203,546	3,296,449
2015		
Financial liabilities		
Senior Borrowings	3,282,254	3,375,025
	3,282,254	3,375,025

(k) Hedging

Hedging refers to the way in which SA Power Networks uses derivative financial instruments, to manage exposure to financial risks as described below under "Types of hedging instruments". The gain or loss on the underlying instrument ("hedged item") is expected to move in the opposite direction to the gain or loss on the derivative ("hedging instrument"), therefore offsetting the group's risk position. Hedge accounting is a technique that enables the matching of the gains and losses on designated hedging instruments and hedged items in the same accounting period to minimise volatility in profit or loss.

The group's major exposure to interest rate risk and foreign currency risk arises from the group's long-term borrowings. The group also has translation foreign currency risk associated with transactional foreign currency exposures, such as purchases made in foreign currencies (The fair value of the group's forward foreign exchange contracts outstanding as at the reporting date were \$0.1 million (2015: \$nil)).

Types of hedging instruments

The group is exposed to risk from movements in foreign exchange and interest rates. As part of the risk management strategy set out above, the group holds the following types of derivative instruments:

Interest rate swap contracts: the group agrees to exchange the difference between fixed and floating interest amounts calculated on agreed notional principal amounts. Such contracts enable the group to mitigate the risk of changing interest rates on the fair value of fixed rate debt held and the cash flow exposures of floating rate debt held.

Cross-currency swap contracts: the group agrees to exchange specified principal and interest foreign currency amounts at an agreed future date at a specified exchange rate. Such contracts enable the group to mitigate the risk of adverse movements in foreign exchange rates.

Foreign exchange forward contracts: the group undertakes certain transactions denominated in foreign currencies, primarily USD, from which exposure to exchange rate fluctuations arise. Such contracts enable the group to lock in the exchange rate at the future date for the payment or receipt.

The group enters into the above derivative instruments to offset the risks arising from long-term borrowings. To the extent permitted by AASB 9, the group formally designates and documents these financial instruments as fair value and cash flow hedges for accounting purposes. In order to qualify for hedge accounting, AASB 9 requires that prospective hedge effectiveness testing meets all of the following criteria:

36 Financial instruments (continued)

(k) Hedging (continued)

Types of hedging instruments (continued)

- an accounting relationship exists between the hedged item and hedging instrument
- the effect of credit risk does not dominate the value changes resulting from the economic relationship
- the hedge ratio is the same as that resulting from amounts of hedged items and hedging instruments for risk management.

As a result of borrowing in foreign currency, the group is exposed to foreign exchange and foreign interest rate risk (USD). The cross currency swaps either directly convert fixed foreign currency borrowings to AUD floating borrowings or are combined with AUD interest rate swaps to convert fixed foreign currency borrowings to AUD fixed borrowings. When the cross currency swaps directly convert fixed foreign currency borrowings to AUD floating borrowings, the foreign currency benchmark interest component is the designated hedge item for change in value with the remaining non-benchmark interest component and principal component designated into a cash flow hedge relationship for changes in the foreign exchange rate. When the cross currency swaps are combined with AUD interest rate swaps the combination of swaps are designated as hedges of foreign exchange rate including the benchmark interest component in cash flow hedge.

	Consolidated					Changes in fair value used for calculating hedge ineffectiveness
	Notional \$'000	Weighted average effective interest rate %	Carrying amount Asset \$'000	Carrying amount Liability \$'000	Note reference	\$'000
2016						
Foreign currency risk						
Forward foreign exchange contracts - cash flow hedges	2,508	-	133	1	Notes 7,11,18	132
Cross-currency interest rate swaps - cash flow hedges	1,885,110	3.86	136,579	(15,463)	Notes 7,11,21	(7,299)
Interest rate risk						
AUD - interest rate swap contracts - cash flow hedges	2,685,110	2.82	5,648	38,944	Notes 11,21	(3,747)
Foreign currency - Cross-currency interest rate swaps - fair value hedges	1,885,110	3.86	55,482	51,752	Notes 7,11,21	(52,933)

36 Financial instruments (continued)

(k) Hedging (continued)

Types of hedging instruments (continued)

	Consolidated					Note reference	Changes in fair value used for calculating hedge effectiveness \$'000
	Notional \$'000	Weighted average effective interest rate %	Carrying amount Asset \$'000	Carrying Amount Liability \$'000			
2015							
Foreign currency risk							
Cross-currency interest rate swaps - cash flow hedges	1,663,556	4.72	150,948	(8,393)	Notes 7,11,21		159,580
Interest rate risk							
AUD - interest rate swap contracts - cash flow hedges	2,410,177	2.84	680	30,229	Notes 11,21		11,181
Foreign Currency - Cross-currency interest rate swaps - fair value hedges	1,663,556	4.72	66,638	9,975	Notes 7,11,21		(22,492)

Each hedge accounting method is described below:

Fair value hedges

The objective of the group's fair value hedging is to convert fixed interest rate borrowings to floating interest rate borrowings.

Cross-currency swaps are entered into to mitigate exposures to changes in the fair value of long-term offshore borrowings. Changes in the fair value of the hedging instrument and changes in the fair value of the hedged item that is attributable to the hedged risk ('fair value hedge adjustment') are recognised in profit or loss. Ineffectiveness reflects the extent to which the fair value movements do not offset and is primarily driven by movements in credit of the hedging instrument.

AASB 9 allows a component of the group's borrowing margin associated with cross-currency swaps ("foreign currency basis spread") to be deferred in equity. This component is included in interest on borrowings in the profit or loss over the remaining maturity of the borrowing. Fair value hedges have an economic relationship on the basis that the critical terms of the hedging instrument and hedged item (including face value, cash flows and maturity date) are aligned. The relationship between the hedged risk and the corresponding value of the hedging derivatives results in a hedge ratio of one.

The cumulative amount of fair value hedge adjustments which are included in the carrying amount of borrowings in the Statement of Financial Position is shown below:

36 Financial instruments (continued)

(k) Hedging (continued)

Fair value hedges (continued)

	Consolidated	
	2016	2015
	\$'000	\$'000
Fixed rate instruments		
Face value as at 31 December	2,051,993	1,824,106
Unamortised bond premiums	(6,445)	(2,305)
Amortised Cost	2,045,548	1,821,801
Cumulative fair value hedge adjustments	6,653	60,453
Carrying Amount	2,052,201	1,882,254
Change in value of hedged item during period	(50,010)	(18,703)

For fixed rate instruments, face value represents the face value in the underlying currency converted at the spot exchange rate as at reporting date. Revaluation impacts since inception of the borrowings due to foreign exchange movements are reflected in the amortised cost balance.

Cash flow hedges

The objective of the group's cash flow hedging is to hedge the exposure arising from variability in future interest and foreign currency cash flows arising from borrowings that bear interest at variable rates, or are denominated in foreign currency. Cash flow hedging is also used to mitigate the foreign currency exposure arising from anticipated future transactions.

The group enters into interest rate swaps and cross-currency swaps as hedges of future cash flows arising from the group's borrowings. Ineffectiveness is recognised in the Profit or Loss if the change in the fair value of the hedging instrument exceeds the change in fair value of the underlying borrowing. The portion of fair value movement qualifying as effective movement is recognised in the cash flow hedge reserve in equity.

All the group's cash flow hedges are in effective hedge relationships on the basis that the critical terms of the hedging instrument and hedged item are aligned (including face values, cash flows and currency). During the year, there has been no material ineffectiveness attributable to the group's cash flow hedges.

The table below shows the maturities of the payments in the group's cash flow hedges (i.e. when the cash flows are expected to occur). These amounts represent the undiscounted cash flows reported in Australian dollars based on the applicable exchange rate as at reporting date and represent the identified foreign currency exposures at reporting date.

	2016	2015
	\$'000	\$'000
Consolidated		
Fixed rate foreign borrowings		
Less than 1 year	80,345	592,310
1 to 5 years	755,354	684,805
5 years +	1,852,500	967,598
Total	2,688,199	2,244,713

These amounts will affect Profit or Loss in the same period in which the cash flows are expected to occur.

The impact from foreign currency movements associated with these borrowings will affect the group's Profit or Loss over the life of the borrowing, however the net impact on Profit or Loss is expected to be nil as the borrowings are effectively hedged.

36 Financial instruments (continued)

(k) Hedging (continued)

Fair value hedges (continued)

The following table discloses amounts related to items designated as hedged items:

	Carrying amount of the hedged item		Accumulated amount of fair value hedge adjustment on the hedged item included in carrying amount of hedged item	Note reference	Change in value used for calculating hedge ineffectiveness of the hedged item for 31 December 2016	Cash flow hedge reserve
2016	Asset \$'000	Liability \$'000	\$'000		\$'000	\$'000
Foreign currency risk						
Forward foreign exchange contracts - cash flow hedges	133	1	-	7,11,18	132	132
Cross-currency interest rate swaps - cash flow hedges	-	2,051,993	-	36	(7,299)	(14,839)
Interest rate risk						
AUD - interest rate swap contracts - cash flow hedges	192,061	2,894,472	-	11	(3,747)	(33,298)
Foreign currency - Cross-currency interest rate swaps - fair value hedges	-	6,653	6,653	36	(52,933)	-

36 Financial instruments (continued)

(k) Hedging (continued)

Fair value hedges (continued)

	Carrying amount of the hedged item		Accumulated amount of fair value hedge adjustment on the hedged item included in carrying amount of hedged item	Note reference	Change in value used for calculating hedge ineffectiveness of the hedged item for 31 December 2015	Cash flow hedge reserve
2015	Asset \$'000	Liability \$'000	\$'000		\$'000	\$'000
Foreign currency risk						
Cross-currency interest rate swaps - cash flow hedges	-	1,824,106	-	36	159,580	(1,209)
Interest rate risk						
AUD - interest rate swap contracts - cash flow hedges	221,376	1,887,626	-	11	11,181	(29,550)
Foreign currency - Cross-currency interest rate swaps - fair value hedges	-	60,453	60,453	36	(22,492)	-

36 Financial instruments (continued)

(k) Hedging (continued)

Fair value hedges (continued)

The following table discloses amounts that have affected the statement of comprehensive income as a result of applying hedge accounting:

2016	Separate line item recognised in Profit or Loss as a result of a hedge of a net position \$'000	Change in the value of the hedging instrument recognised in OCI (after tax) \$'000	Hedge ineffectiveness recognised in profit or loss (after tax) \$'000	Line item in Profit or Loss (that includes hedged ineffectiveness)	Amount reclassified from the cash flow hedge reserve to profit or loss during the year (after tax) \$'000	Line item affected in Profit or Loss due to reclassification
Foreign currency risk						
Forward foreign exchange contracts - cash flow hedges	n/a	132	-	Other income / (expenses)	-	Other income / (expenses)
Cross-currency interest rate swaps - cash flow hedges	n/a	(13,630)	-	n/a	(6,333)	Finance costs
Interest rate risk						
AUD - interest rate swap contracts - cash flow hedges	n/a	(3,747)				
Interest rate risk	Ineffectiveness recognised in Profit or Loss	Loss that includes hedge ineffectiveness				
Foreign Currency - Cross-currency interest rate swaps - fair value hedges	866	Other income / (expenses)				

36 Financial instruments (continued)

(k) Hedging (continued)

Fair value hedges (continued)

2015	Separate line item recognised in profit or loss as a result of a hedge of a net position \$'000	Change in the value of the hedging instrument recognised in OCI (after tax) \$'000	Hedge ineffectiveness recognised in profit or loss (after tax) \$'000	Line item in profit or loss (that includes hedge ineffectiveness)	Amount reclassified from the cash flow hedge reserve to profit or loss \$'000	Line item affected in profit or loss due to the reclassification
Foreign currency risk						
Cross-currency interest rate swaps - cash flow hedges	n/a	(13,937)	-	n/a	173,517	Finance costs
Interest rate risk						
AUD - interest rate swap contracts - cash flow hedges	n/a	11,181				
				Line item in profit or loss (that includes hedge ineffectiveness)		
Interest rate risk	Ineffectiveness recognised in profit or loss					
Foreign Currency - Cross-currency interest rate swaps - fair value hedges	(3,790)	Other income / (expenses)				

36 Financial instruments (continued)

(k) Hedging (continued)

Fair value hedges (continued)

The following table details the expected transfer of the cash flow hedge reserve to the profit and loss (after tax):

	0 to 1 Year	2 to 5 Years	Over 5 Years	Total
	\$'000	\$'000	\$'000	\$'000
2016				
Transferred to profit and loss	20,192	30,211	(2,266)	48,137
Transferred to inventory	(70)	(62)	-	(132)
	<u>20,123</u>	<u>30,148</u>	<u>(2,266)</u>	<u>48,005</u>
2015				
Transferred to profit and loss	9,640	27,478	(6,359)	30,759
Transferred to inventory	-	-	-	-
	<u>9,640</u>	<u>27,478</u>	<u>(6,359)</u>	<u>30,759</u>

During the prior year the Group elected to early adopt AASB 9 'Financial Instruments' (AASB 9 (2010) as amended by AASB 2010-7, AASB 2012-6, AASB 2013-9). AASB 9 contains guidance on hedge accounting and classification & measurement that replaces the existing requirements of AASB 139 'Financial Instruments: Recognition and Measurement'. AASB 9 introduces changes to hedge effectiveness and eligibility requirements to align more closely with an entity's risk management framework. In addition, AASB 9 introduces new categories for classification of financial instruments as outlined in "Note 36(c) Financial assets and financial liabilities" of which replace the previous categories. The changes in categories have not changed the classification of the Group's financial instruments. There has been no material impact on amounts reported in these financial statements as a result of the adoption of the standard, however, application of this standard has resulted in additional disclosures which are incorporated in "Note 36(d) Financial Risk Management".

SA Power Networks
Notes to the financial statements
31 December 2016
(continued)

37 Parent entity disclosures

	December 2016 \$'000	December 2015 \$'000
Financial position		
Assets		
Current assets	382,831	484,027
Non-current assets	6,264,981	6,124,515
Total assets	6,647,812	6,608,542
Liabilities		
Current liabilities	868,488	1,096,063
Non-current liabilities	3,438,674	3,207,816
Total liabilities	4,307,162	4,303,879
Equity		
Partners capital accounts	623,300	623,300
Partners current accounts	1,765,355	1,712,122
Reserves	(48,005)	(30,759)
Total equity	2,340,650	2,304,663
Financial performance		
Profit for the year	223,899	340,325
Other comprehensive income	(17,246)	(2,756)
Total comprehensive income	206,653	337,569

38 Additional information

SA Power Networks ABN 13 332 330 749

is a partnership of:

CKI Utilities Development Limited	ABN 65 090 718 880
PAI Utilities Development Limited	ABN 82 090 718 951
(Each incorporated in The Bahamas)	

Spark Infrastructure SA (No1) Pty Limited	ABN 54 091 142 380
Spark Infrastructure SA (No2) Pty Limited	ABN 19 091 143 038
Spark Infrastructure SA (No3) Pty Limited	ABN 50 091 142 362
(Each incorporated in Australia)	

Principal place of business:
1 Anzac Highway
Keswick, South Australia, 5035, Australia
Telephone (08) 8404 5667

Postal address:
GPO Box 77, Adelaide, SA 5001

Website:
www.sapowernetworks.com.au

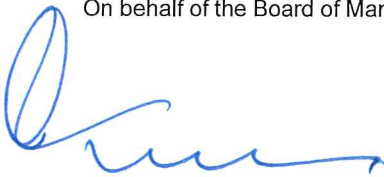
**SA Power Networks
Partners' statement
31 December 2016**

The partners declare that:

- (a) in the partners' opinion, there are reasonable grounds to believe that the partnership will be able to pay its debts as and when they become due and payable;
- (b) in the partners' opinion, the attached financial statements and notes thereto are in accordance with the Partnership Agreement; including compliance with accounting standards and giving a true and fair view of the financial position and performance of the partnership and consolidated entity; and
- (c) in the partners' opinion, the attached financial statements and notes thereto are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.

Signed in accordance with a resolution of the Board of Management.

On behalf of the Board of Management



Peter Tulloch
Chairman



Robert Stobbe
Chief Executive Officer

Adelaide
8 March 2017

Independent Auditor's Report to the Partners of SA Power Networks

Opinion

We have audited the financial report of SA Power Networks (the "Entity") and its subsidiaries (the "Group") which comprises the consolidated statement of financial position as at 31 December 2016, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and declaration by the partners as set out on pages 2 to 66.

In our opinion, the accompanying financial report gives a true and fair view of the Group's financial position as at 31 December 2016 and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Responsibilities of Management and the Partners for the Financial Report

Management of the Entity is responsible for the preparation of the financial report in accordance with Australian Accounting Standards and for such internal control as management determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

In preparing the financial report, management is responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The partners are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Report

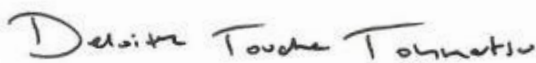
Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in

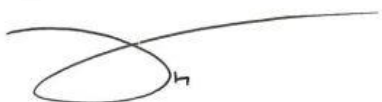
the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group's audit. We remain solely responsible for our audit opinion.

We communicate with management and the partners regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.


DELOITTE TOUCHE TOHMATSU



Darren Hall
Partner
Chartered Accountants
Adelaide, 8 March 2017

ISSUER

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1 Anzac Highway
Keswick South Australia 5035 Australia

INITIAL GUARANTOR

**SA Power Networks (an Australian partnership established and trading as a general partnership
under the laws of South Australia between
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Spark Infrastructure SA (No1) Pty Ltd, Spark Infrastructure SA (No2) Pty Ltd
and Spark Infrastructure SA (No3) Pty Ltd)**
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