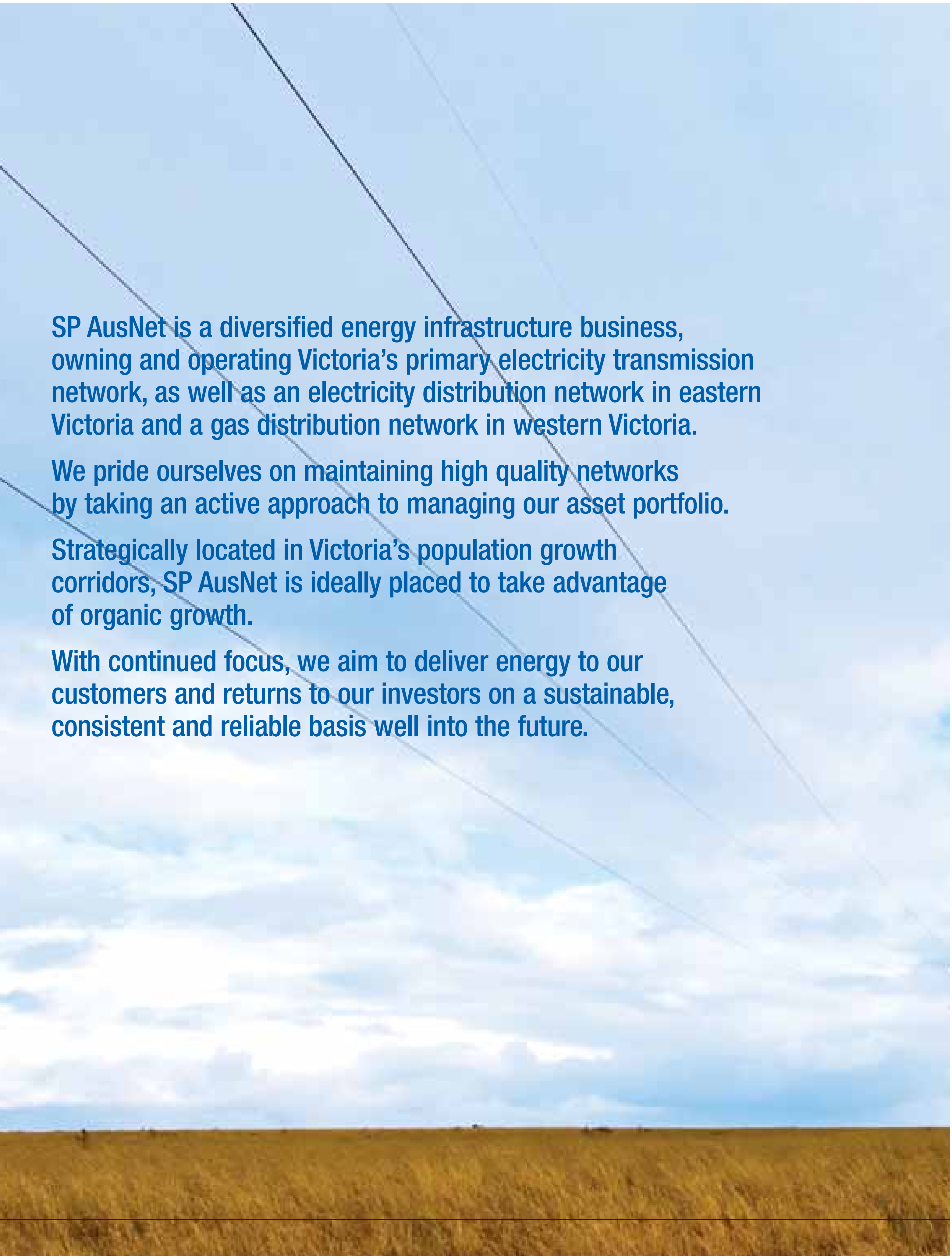
SP AusNet™
A member of Singapore Power Group

ANNUAL REPORT 2006



SP AusNet is a diversified energy infrastructure business, owning and operating Victoria's primary electricity transmission network, as well as an electricity distribution network in eastern Victoria and a gas distribution network in western Victoria.

We pride ourselves on maintaining high quality networks by taking an active approach to managing our asset portfolio.

Strategically located in Victoria's population growth corridors, SP AusNet is ideally placed to take advantage of organic growth.

With continued focus, we aim to deliver energy to our customers and returns to our investors on a sustainable, consistent and reliable basis well into the future.

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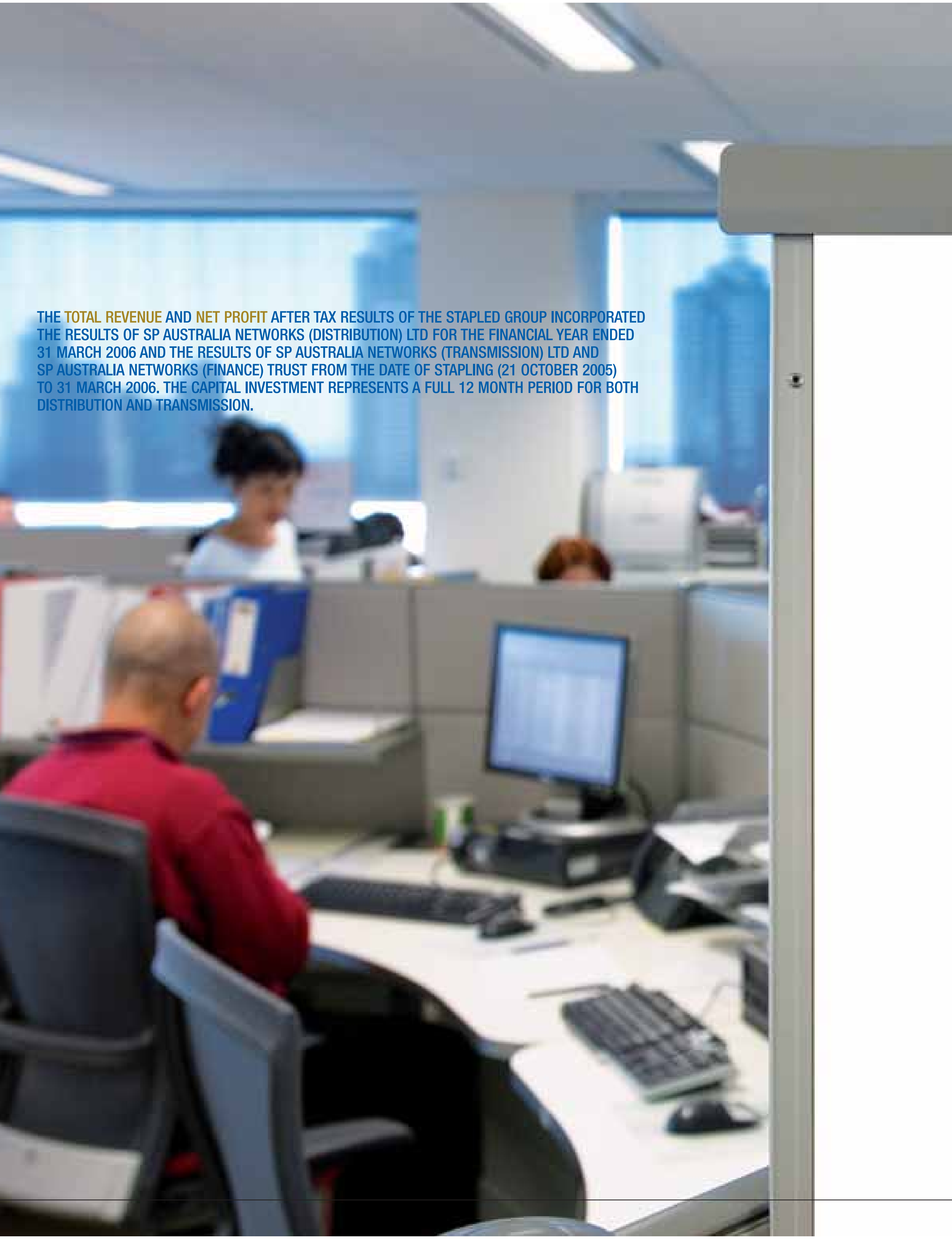


THE TOTAL REVENUE AND NET PROFIT AFTER TAX RESULTS OF THE STAPLED GROUP INCORPORATED THE RESULTS OF SP AUSTRALIA NETWORKS (DISTRIBUTION) LTD FOR THE FINANCIAL YEAR ENDED 31 MARCH 2006 AND THE RESULTS OF SP AUSTRALIA NETWORKS (TRANSMISSION) LTD AND SP AUSTRALIA NETWORKS (FINANCE) TRUST FROM THE DATE OF STAPLING (21 OCTOBER 2005) TO 31 MARCH 2006. THE CAPITAL INVESTMENT REPRESENTS A FULL 12 MONTH PERIOD FOR BOTH DISTRIBUTION AND TRANSMISSION.

SP AUSNET HAS DELIVERED…

- Total revenue of $757.5 million driven by organic growth including increased usage and expansion of the network.

- Net Profit After Tax of $335.2 million, with $175.7 million from continuing operations and $159.5 million from businesses divested during the year.

- An outperformance of the prospectus forecast for Earnings Before Interest and Tax (EBIT) by $16.2 million (3.8 per cent).

- A distribution totalling 3.25 cents per security in line with prospectus forecast, comprising:
  – A fully franked dividend of 0.15 cents per security
  – An income distribution of 0.89 cents per security
  – A capital return distribution of 2.21 cents per security.

- Total capital investment of $375.4 million in the transmission and distribution networks to secure future revenue growth.

Note: Unless otherwise stated, all financial figures quoted are in Australian currency.

SP AUSNET (THE GROUP) DELIVERS ENERGY AND ASSOCIATED SERVICES SAFELY, RELIABLY, RESPONSIBLY AND PROFITABLY THROUGH AN INTEGRATED BUSINESS MODEL TO ENHANCE THE LIVES OF ITS CUSTOMERS TODAY AND INTO THE FUTURE. THE GROUP ACHIEVES THIS THROUGH:

PERFORMANCE

We focus on long-term asset sustainability and continuous improvement in network performance.

Long-term asset sustainability is key to the performance of our networks. Delivering operational and capital programs aligned to these strategies will ensure improved reliability and customer service.

Continuous improvement in operational efficiency and network performance is achieved through our people, processes and culture.

The health and safety of employees, customers, the public and environment is the primary focus in everything we do.

GROWTH

We grow our existing energy network businesses through their strategic location in major Victorian growth corridors.

INVESTMENT

We invest in high quality energy networks, whilst maintaining our "A" credit rating.

We are well positioned to participate in future acquisition opportunities of publicly-listed, privately-held or government-owned energy network businesses.

We have the capability to identify, acquire and integrate businesses and drive efficiencies.

We have support from our major securityholder, Singapore Power Limited.

OUR VALUES

COMMITMENT

We commit to creating value for our customers, our people and our securityholders. We uphold the highest standards of service and performance.

INTEGRITY

We act with honesty. We practice the highest ethical standards.

PASSION

We take pride and ownership in what we do.

TEAMWORK

We support, respect and trust each other. We continually learn and share ideas and knowledge.

CHAIRMAN'S REPORT

Dear securityholders

I am pleased to present SP AusNet's inaugural annual report for the financial year ended 31 March 2006.

It has been a busy year for SP AusNet – a year in which we integrated and re-branded our Transmission and Distribution businesses, and listed on both the Australian Stock Exchange (ASX) and Singapore Exchange Securities Trading Limited (SGX-ST). Following the listing, SP AusNet has been included in the S&P/ASX 200 index. This is a positive milestone for our business and our investors.

SP AusNet recorded net profit after tax of $335.2 million for the 12 months ended 31 March 2006. $175.7 million was from continuing operations and $159.5 million from businesses divested during the year. Our earnings before interest and tax on a pro forma basis of $446.1 million was 3.8 per cent higher than the prospectus forecast. These positive results were largely due to our commitment to deliver sustainable and stable income from our regulated assets and our continued focus on the integration of the transmission and distribution businesses.

A distribution of 3.25 cents per security has been approved (comprising 27.4 per cent income distribution, 68.0 per cent capital return distribution and 4.6 per cent fully franked dividend). This is in line with the forecast distribution at the time of our listing.

Our financial position remains strong with a credit rating of 'A' by Standard and Poor's. In addition, Moody's Investors Service has assigned an 'A1' Corporate Family Rating to SP AusNet.

Moving forward, we will continue to focus on organic growth and a selective approach to acquisitions to deliver sustainable distributions to securityholders. SP AusNet is positioned in the growth corridors of Victoria, which allow us to expand our networks to service more homes and businesses in the State. This year, we welcomed over 22,000 new customers to our networks.

Our annual capital works program was in excess of $370 million. Some of our major projects were the natural gas extension program to 12 regional towns and upgrades to the transmission stations at Rowville and Moorabool. Such projects serve to meet the growing energy needs of consumers in Victoria and provide the organic growth to our business which will translate into future sustainable income streams. In this connection, the regulatory regime has provided us with the confidence to continue to invest in our networks to further improve customer service.

In closing, I would like to thank my fellow board members for their invaluable advice, counsel and support; and our staff for their commendable efforts to deliver the high standards of operational performance and the positive financial results. I would also like to thank our business partners for their support, and customers for their invaluable patronage. They have indeed contributed to the continued growth and success of our business.

And finally to you, our securityholders, I thank all of you for your confidence in and support of SP AusNet.

Sincerely

Ng Kee Choe
Chairman

MANAGING DIRECTOR'S REPORT

It has been an exciting time for SP AusNet, with a number of notable achievements during the year bringing us to our successful position today.

Our focus has been on making a successful transition to a listed company and ensuring that we continue with our strategy of providing a solid investment for our securityholders and a reliable energy service to our customers.

DELIVERING long-term value for securityholders

The three networks owned by SP AusNet are regulated which provides stable and predictable revenues. One of the principal drivers of revenue is the returns earned on the regulated asset base (RAB) of each network. This gives SP AusNet a high degree of revenue certainty and delivers predictable cash flows.

Growth in our regulated asset base leads to growth in revenue. All SP AusNet's networks are growing at rates that are greater than average for the regulated infrastructure industry in Victoria. We are focused, therefore, on running and growing a sustainable operation that delivers long-term value to our securityholders.

In late 2005, the Victorian Essential Services Commission released the *Electricity Distribution Price Review (2006–2010)* (EDPR) final decision. The outcomes resulted in sufficient revenue to provide funding for the key works program and ensure a stable revenue stream from our electricity distribution business until the end of 2010, when the next regulatory period is due to commence.

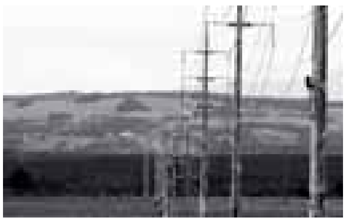
We are positive about our continued ability to operate and grow a stable business. The Board's decision to approve a 3.25 cent distribution is an indication of their support and confidence.

DELIVERING ongoing efficiencies

The integration of our electricity transmission business and our electricity and gas distribution business continues to generate synergies and efficiencies which benefit our customers and securityholders.

In mid 2005 we re-branded the transmission and distribution business 'SP AusNet', signalling the integration between the former SPI PowerNet and TXU businesses and we have also since consolidated our corporate headquarters in Southbank, Melbourne.

SP AusNet is committed to continuous improvement. Our people are key to our business success and our ability to sustain this capability relies on strong succession planning.



DELIVERING asset sustainability

SP AusNet's electricity transmission and distribution and gas distribution assets enable us to deliver safe, reliable network services to industrial, commercial and domestic customers. The networks operate within vastly diverse geographic locations, ranging from high density suburban areas to remote and rugged mountainous and coastal regions.

The challenge ahead for SP AusNet is to further focus on the business to continually improve network reliability and take advantage of opportunities to improve, which will benefit customers and securityholders for the long term.

In the past year we undertook maintenance, reliability and vegetation clearing programs ensuring that we continue to meet the mandated reliability and environmental targets. Our ability to deliver these programs with due consideration for community expectations has been strengthened through the formation of the inaugural Stakeholder Consultative Committee in late 2005.

Long-term asset management strategies have been developed for our transmission and distribution networks, including investment in new terminal stations, substations, distribution feeders and gas infrastructure. Within these, five year asset management plans outline our key priorities in terms of maintenance and upgrades to ensure the sustainability of our networks and the integrity of our assets.

DELIVERING on growth

In December 2005, SP AusNet was successful in a competitive tendering process for two major transmission network augmentation projects at Rowville and Moorabool. The two competitive contracts were awarded by VENCorp (the Victorian energy system planner) and are intended to support load growth in Victoria's metropolitan and regional areas. Our experience in delivering large capital projects on time and within budget, coupled with our technical and commercial expertise, enabled us to secure these contracts.

Sizeable urban growth in Melbourne's outer south-eastern corridor contributed to the significant number of electricity distribution customers joining our network over the last year. Some 9,000 new connections were made across the network area, which also takes in the rapidly growing outer northern suburbs, where we are committing significant capital investment needed to support the expected population growth.

The roll-out of our $40 million project to supply 12 regional towns in Victoria with natural gas commenced in 2005, with customer connections already made in Creswick and a further five towns on track for completion by the end of 2006. Across our gas network, we connected over 13,000 new customers, reaching the landmark 500,000th gas connection in May 2005.

In addition to the strong organic growth profile of the business, SP AusNet is dedicated to evaluating future opportunities for investment and acquisition in Australia and New Zealand. Our commitment to building a sustainable, long-term business will always shape our decisions and acquisition strategy. Our objective is to maintain a solid and reliable business that generates steady, long-term value for our investors.

You will find further information about SP AusNet's performance to date and our outlook for the year ahead outlined in the reports that follow.

In financial year 2007, we will remain focused on our commitment to securityholders, customers and the communities in which we operate. I am confident that we can meet these challenges and will deliver against our targets.

Nino Ficca
Managing Director

Ng Kee Choe

CHAIRMAN, NON-EXECUTIVE

Age 61

Bachelor of Science (Honours), University of Singapore

Mr Ng became Chairman of SP AusNet Transmission on 26 October 2005, Chairman of SP AusNet Distribution on 31 May 2005 and Chairman of the Responsible Entity on 9 September 2005.

Nino Ficca

MANAGING DIRECTOR, CHIEF EXECUTIVE OFFICER

Age 46

Bachelor of Engineering (Electrical) (Honours), Deakin University

Graduate Diploma in Management, Deakin University

Managing Director, Mr Ficca has been a Director of SP AusNet Transmission since 7 September 2005, a Director of SP AusNet Distribution since 31 May 2005 and a Director of the Responsible Entity since 31 May 2005.

OUR DIRECTORS

FROM LEFT TO RIGHT NG KEE CHOE, NINO FICCA, JEREMY GUY ASHCROFT DAVIS, ERIC GWEE TECK HAI, GEORGE ALLISTER LEFROY, MARTYN KENNETH MYER, QUEK POH HUAT, IAN ANDREW RENARD

For more details on Directors' experience, turn to page 44.

Jeremy Guy Ashcroft Davis

NON-EXECUTIVE DIRECTOR

Age 63

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

Prof. Davis has been a Director of SP AusNet Transmission since 26 October 2005, a Director of SP AusNet Distribution since 31 May 2005 and a Director of the Responsible Entity since 9 September 2005.

Eric Gwee Teck Hai

NON-EXECUTIVE DIRECTOR

Age 67

Bachelor of Engineering (Mechanical), University of Melbourne

Mr Gwee became a Director of SP AusNet Transmission on 26 October 2005, a Director of SP AusNet Distribution on 31 May 2005 and a Director of the Responsible Entity on 9 September 2005.

George Allister Lefroy

NON-EXECUTIVE DIRECTOR

Age 66

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

Dr Lefroy has been a Director of SP AusNet Transmission since 26 October 2005, a Director of SP AusNet Distribution since 31 May 2005 and a Director of the Responsible Entity since 9 September 2005.

Martyn Kenneth Myer

NON-EXECUTIVE DIRECTOR

Age 48

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

Mr Myer has been a Director of SP AusNet Transmission since 26 October 2005, a Director of SP AusNet Distribution since 9 September 2005 and a Director of the Responsible Entity since 9 September 2005.

Quek Poh Huat

NON-EXECUTIVE DIRECTOR

Age 59

Bachelor of Science (Chemical Engineering), First class Honours, University of Leeds
Master of Science (Management) with Distinction, Naval Postgraduate School, Monterey
Advanced Management Programme, Harvard Business School

Mr Quek has served as a Director of SP AusNet Transmission since 26 October 2005, a Director of SP AusNet Distribution since 31 May 2005 and a Director of the Responsible Entity since 9 September 2005.

Ian Andrew Renard

NON-EXECUTIVE DIRECTOR

Age 59

Bachelor of Arts, University of Melbourne
Bachelor of Laws, University of Melbourne
Master of Laws, University of Melbourne

Mr Renard has been a Director of SP AusNet Transmission since 26 October 2005, a Director of SP AusNet Distribution since 31 May 2005 and a Director of the Responsible Entity since 9 September 2005.

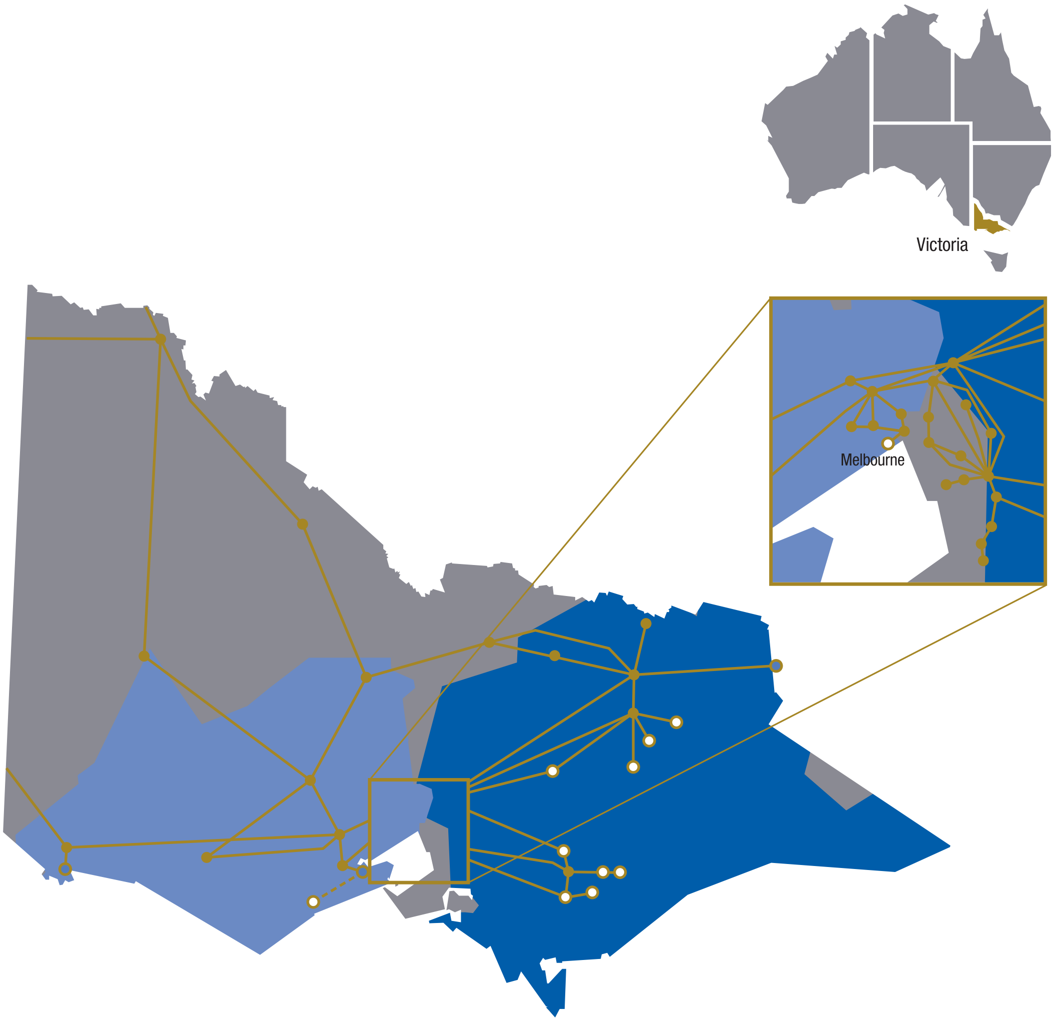
OUR MANAGEMENT TEAM

FROM LEFT TO RIGHT JOHN AZARIS, GENERAL MANAGER HUMAN RESOURCES AND COMMUNICATIONS. PAUL ADAMS, GENERAL MANAGER, NETWORK SERVICES GROUP. CHARLES POPPLE, GENERAL MANAGER, REGULATORY AND BUSINESS STRATEGY. PETER BUCK, GENERAL MANAGER, DISTRIBUTION NETWORK DEVELOPMENT. ADRIAN HILL, DIRECTOR STRATEGIC PROJECTS. NINO FICCA, MANAGING DIRECTOR. PETER MERRITT, GENERAL MANAGER, BUSINESS SYSTEMS AND SERVICES. ELIZABETH MILDWATER, GENERAL COUNSEL AND COMPANY SECRETARY. NORM DREW, GENERAL MANAGER, TRANSMISSION NETWORK DEVELOPMENT. TERRY FOWLER, GENERAL MANAGER, FINANCE

SP AUSNET'S ASSETS INCLUDE:

Victoria's electricity transmission network
An electricity distribution network located in eastern Victoria
A gas distribution network located in western Victoria

THESE BUSINESSES HAVE EXPERIENCED STEADY DEMAND GROWTH AND GENERATE PREDICTABLE CASH FLOWS.



SP AusNet Electricity Distribution Network

SP AusNet Terminal/ Switching/Substation

Non-SP AusNet Power Station

Non-SP AusNet Transmission Lines

SP AusNet Gas Distribution Network

Non-SP AusNet Terminal/ Switching/Substation

SP AusNet Transmission Lines

OUR ASSETS: ELECTRICITY TRANSMISSION ELECTRICITY DISTRIBUTION GAS DISTRIBUTION

Electricity transmission assets

SP AusNet's electricity transmission network consists of over 6,500 km of transmission lines operating at voltages ranging from 66 kV up to 500 kV. Supported by more than 12,800 towers, they carry electricity from power stations to electricity distributors and large customers around Victoria.

This network is centrally located amongst the five eastern states of Australia that form the National Electricity Market, and provides key links between the electricity transmission networks of South Australia, New South Wales and Tasmania.

Electricity distribution assets

SP AusNet's 29,660 km electricity distribution network carries electricity from the high voltage transmission grid to substations for distribution to connected electricity customers.

The electricity distribution network services over 580,000 customers across an area of about 80,000 square kilometres in the eastern half of Victoria, including the eastern metropolitan region of Melbourne.

Gas distribution assets

SP AusNet transports gas through its distribution network to approximately 510,000 gas customers across an area of about 60,000 square kilometres in central and western Victoria. The distribution network is approximately 8,800 km in length. SP AusNet also owns about 183 km of transmission gas pipelines.

ELECTRICITY TRANSMISSION NETWORK

Delivering a high quality and reliable transmission network is pivotal to SP AusNet's role in Victoria's electricity system and the wider National Electricity Market.

Wind monitoring equipment fitted to this 220 kV tower is a state-of-the-art innovation, developed by SP AusNet.

Financial performance and growth

Electricity transmission financial highlights of 2005/06:

– $132.0 million in regulated revenue
– $10.4 million in non-regulated revenue
– $3.2 million in other revenue

Steady load growth and replacement of ageing assets are expected to drive ongoing high investments in the transmission network as VENCorp and electricity distributors require increased capacity.

In October 2005, VENCorp published *Vision 2030*, a planning document that provides a 25-year vision of the future of the energy industry in Victoria. It uses a scenario approach to define the possible development of electricity and gas infrastructure, including an outline of the augmentation that may be required to electricity and gas transmission over the next 25 years. It examines a number of different options in relation to the growth in demand and the source of additional generation and concludes that around $1 billion to $2 billion is required to be invested in electricity and gas transmission over the 25 year period depending on the scenario.

Network performance

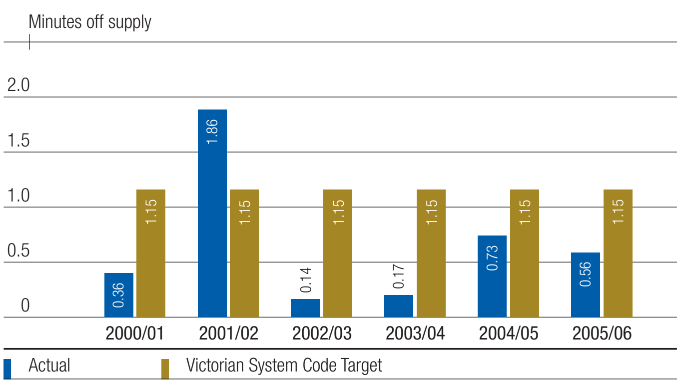
SP AusNet's transmission network reported a favourable result of 0.56 customer minutes off supply – significantly outperforming the Victorian System Code target of 1.15 minutes (see graph below). This result was achieved in 2006 the face of severe weather conditions during January and February 2006.

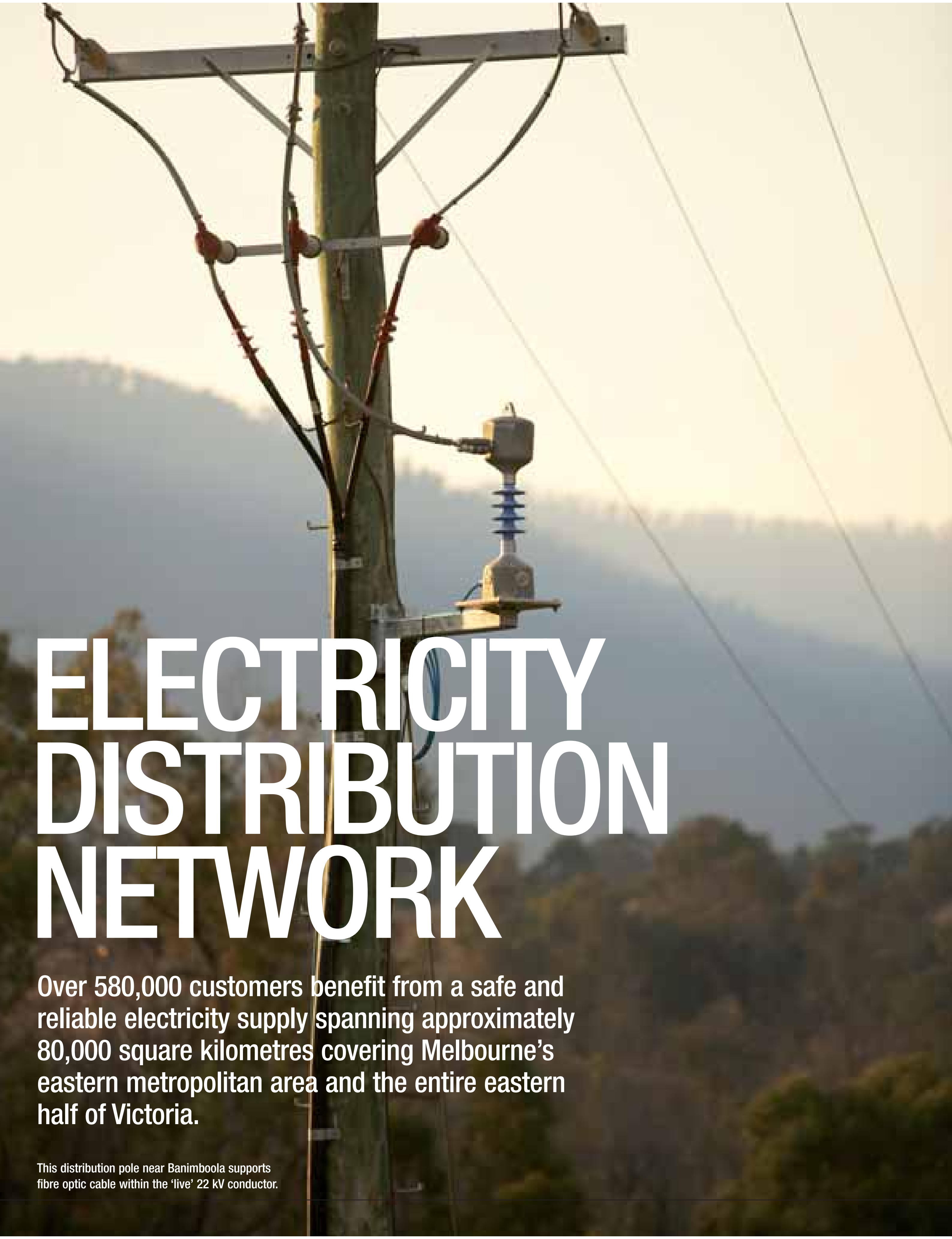
Capital expenditure projects

A total of $131 million in gross capital expenditure was invested in the transmission network representing a record investment for a 12-month period. Key projects undertaken during the year included:

– *Terminal station rebuilding* – refurbishment of several 220 kV terminal stations throughout Victoria – at Ballarat, Bendigo, Brunswick, Horsham, Malvern, Mt Beauty, Red Cliffs, Shepparton and Terang.
– *Brooklyn and Altona Terminal Stations* – construction of new 220 kV switchbays and other required high voltage assets to accommodate the connection of Snowy Hydro Limited's new 320 MW gas-fired Laverton North power station to the shared high voltage network.
– *Wind monitoring on 220 kV transmission lines* – installation of weather stations and mechanical strain gauges on several rural transmission lines to provide digital real-time data for advanced load rating analysis. As a result, the load ratings of the lines can be increased under certain conditions at times of high load demand, meaning SP AusNet can provide additional capacity to VENCorp at significantly reduced costs compared to traditional methods. This state-of-the-art process was developed by SP AusNet.
– *Asset condition monitoring* – introduction of innovative radio frequency scanning, X-ray inspection and ultrasonic scanning of high voltage equipment to give insights into the service condition of assets. All three techniques are being used to gather information to plan maintenance, refurbishment and replacements reducing operating expenditure and risk, and extending the life of the asset base.

TRANSMISSION SYSTEM MINUTES OFF SUPPLY





ELECTRICITY DISTRIBUTION NETWORK

Over 580,000 customers benefit from a safe and reliable electricity supply spanning approximately 80,000 square kilometres covering Melbourne’s eastern metropolitan area and the entire eastern half of Victoria.

This distribution pole near Banimboola supports fibre optic cable within the ‘live’ 22 kV conductor.

Financial performance and growth

Electricity distribution financial highlights of 2005/06:

– $367.7 million in regulated revenue
– $22.4 million in excluded services revenue
– $26.6 million in customer contributions revenue
– $8.6 million in other revenue

Electricity distribution revenues are expected to grow at 3 to 4 per cent per annum and SP AusNet is ideally located, operating in expanding growth corridors. In the 12 months to 31 March 2006, the number of customers connected to the distribution network grew by approximately 1.6 per cent to 580,063.

Network performance

A total of 7,179 GWh of electricity energy was delivered through the electricity distribution network in 2005/06. This represented an increase of 1.7 per cent on the previous year, and was attributable to strong customer growth and a slightly favourable summer air-conditioning load.

The electricity supply reliability measure – USAIDI (which relates to the total number of minutes, on average, that a customer could expect in unplanned interruptions to the electricity supply over a calendar year) – was recorded as 162.1 minutes for calendar year 2005, the best achieved in five years. This result took into account exemptions from the Essential Services Commission (ESC) for storm events in February and August 2005 of 97.2 minutes. This was a favourable result against the ESC target of 188.0.

The graph below shows the USAIDI for each of the last five calendar year based on the new ESC reliability regime resulting in an adjustment of the 2005 outcome from 162.1 minutes to 207.0 minutes.

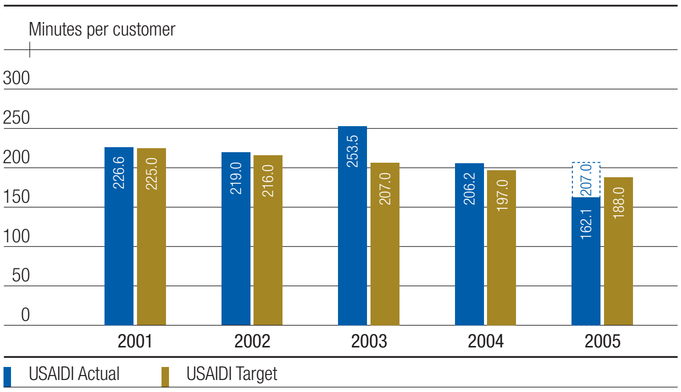
In January 2006, the State of Victoria was again subjected to severe storms and bushfires, resulting in disruptions to electricity supply having an early negative effect on the USAIDI for calendar year 2006.

Capital expenditure projects

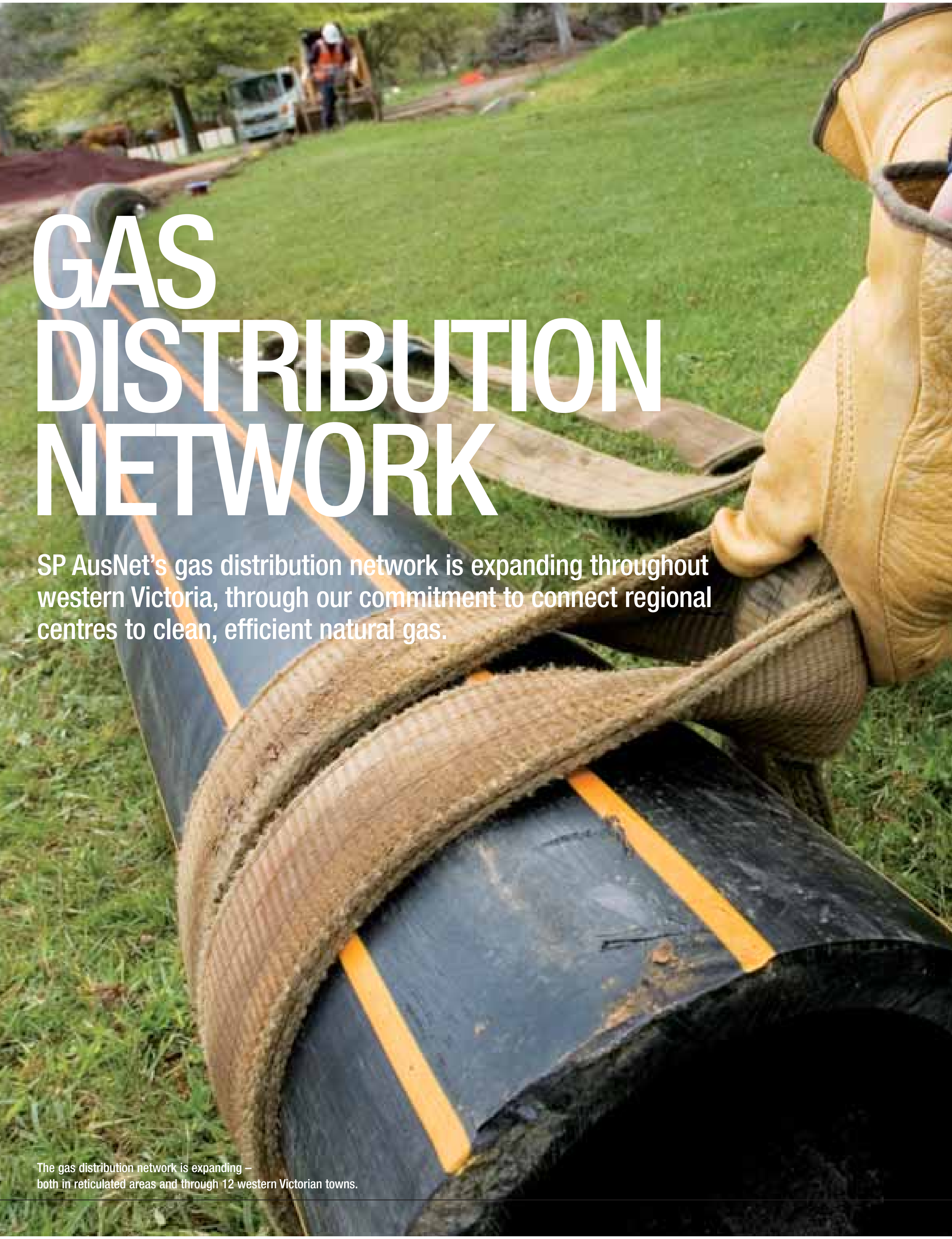
Capital expenditure for the electricity distribution network was committed to the following projects:

– *Barnawatha Zone Substation* – construction of a 66 kV zone substation for the Logica Subdivision, commissioned in September 2005.
– *Banimboola Power Station dedicated 22 kV power line* – construction of a dedicated 22 kV line to carry the output of Southern Hydro's 12.2 MW Banimboola Power Station to the existing switchyard at Dartmouth Power Station. It was completed in November 2005.
– *Wonthaggi Wind Farm new 22 kV distribution feeder* – construction of a new 22 kV feeder from the Wonthaggi Zone Substation to the 12 MW Wonthaggi Wind Farm. Regional Wind Farms awarded the contract, which was completed in November 2005.
– *Morwell West Substation* – construction of the new 66 kV/6.6 kV substation and associated power line extensions for International Power. The new substation was commissioned in March 2006.
– *High voltage expulsion drop out fuse strategy* – an internal commitment to replace targeted older Expulsion Drop Out fuse units with new 'group fusing' technology. This will improve network reliability and safety.
– C*ompleted network augmentations* – to enable the expansion of manufacturing plants and industrial estates in Leongatha, Sale and Traralgon.
– *Boosted network capacity* – to meet growing supply demands of manufacturing plants at Monbulk and Rowville.
– *Completed network upgrades* – in the northern Melbourne growth corridor as a result of upgrades to water and sewerage infrastructure.

UNPLANNED SUPPLY AVERAGE INTERRUPTION DURATION INDEX (USAIDI)[1]



1 USAIDI – Unplanned System Average Duration Index. 2005 outcome adjusted to reflect new ESC reliability regime.



GAS DISTRIBUTION NETWORK

SP AusNet's gas distribution network is expanding throughout western Victoria, through our commitment to connect regional centres to clean, efficient natural gas.

The gas distribution network is expanding – both in reticulated areas and through 12 western Victorian towns.

Financial performance and growth

Gas distribution financial highlights of 2005/06:

- $131.7 million in regulated revenue
- $10.8 million in excluded services revenue
- $1.3 million in other revenue

Network performance

Over the past year, 13,185 new connections were made to SP AusNet's gas distribution network, growing the distribution main total length by 131 km to 8,812 km. This increase was driven by continuing demand for natural gas in Victoria's growth corridors, particularly in the outer western metropolitan area of Melbourne.

A total of 66.3 PJ of gas energy was delivered through the SP AusNet gas distribution network in the 12 months to 31 March 2006. This was despite milder weather conditions during Victoria's winter and spring in 2005 which resulted in a 6.9 per cent reduction in volumes delivered compared to the previous year.

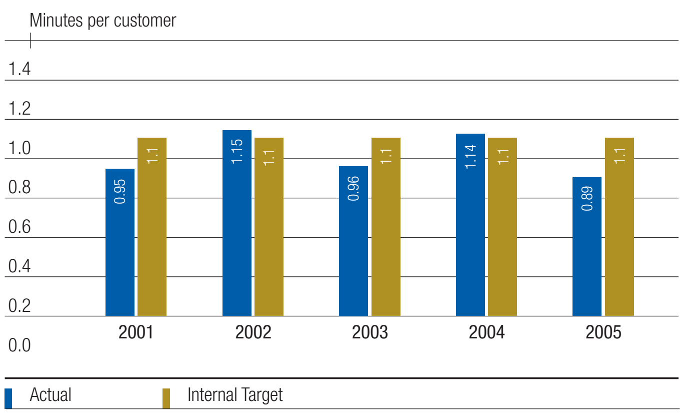
SP AusNet's gas network experienced its best reliability performance in five years, recording an average 0.89 minutes of unplanned interruptions over the course of the 2005 calendar year. This compares favourably to the internal target of 1.1 minutes (see graph below).

Capital expenditure projects

Capital expenditure was invested in the following key gas distribution network projects:

- *Reticulation to regional towns* – extension of the reticulated gas network to Creswick in western Victoria – the first of 12 regional towns in western Victoria to benefit from SP AusNet's $40 million capital investment.
- *Suburban growth* – expansion of the existing gas reticulation network including connection of approximately 13,000 new customers.
- *Mains renewal program* – replacement of 69 km of cast iron pipe with polyethylene-based pipes. The renewal program provides improved supply capacity, reliability and network safety.

UNPLANNED SUPPLY AVERAGE INTERRUPTION DURATION INDEX (USAIDI)



GROWTH

The strategic location of SP AusNet's assets in Victorian growth corridors enhances organic growth opportunities across the diverse energy networks including electricity transmission and gas and electricity distribution.

Victorian Minister for Energy Industries and Minister for Resources, The Honourable Theo Theophanous MLC, speaks with Managing Director, Nino Ficca, at the launch of a new urban subdivision at South Morang.

All SP AusNet's networks are growing at rates greater than average for the regulated infrastructure industry as a result of the Group's strategic location in Victoria's growth corridors. The additional value this adds to the regulated asset bases of the networks contributes to higher revenue levels and sustains securityholder value in the long term.

VENCorp has foreshadowed between 2 per cent and 3 per cent growth per annum due to population growth and increased energy usage. SP AusNet remains well placed to take advantage of this natural increase in demand.

Growing the electricity transmission network

VENCorp's *2030 Report*, released in October 2005, predicts a significant level of future transmission requirements and SP AusNet intends to actively pursue these opportunities.

In December, VENCorp awarded SP AusNet two major transmission network augmentation projects at Rowville and Moorabool terminal stations with a combined capital value of $60 million.

The Rowville 1000 MVA transformer project involves modifications to existing facilities including 220 kV switching works. This project is due for completion in September 2007.

The Moorabool 1000 MVA transformer project includes similar works and is due for completion in September 2008.

Growing the electricity distribution network

SP AusNet has developed a 30 year plan for distribution network development. The plan identifies the need to invest in building 17 new zone substations, 250 km of 66 kV lines and 200 new 22 kV distribution feeders over the 30 year period to service the energy needs of Victoria's growing population.

SP AusNet's electricity distribution network currently services an area with a population of over 1.2 million, with forecasts predicting that this will grow to 1.8 million over the next 30 years.

Many regions across SP AusNet's operating area have benefited from the expansion and development of the electricity distribution network to support social and economic infrastructure activity.

SP AusNet is committed to making investments that provide network performance and meet customer needs. This will also grow the future revenue stream.

During the 2006–2010 regulatory period, growth driven projects will include the construction of four new zone substations in the northern and south-eastern growth corridors, and augmentation and rebuilding of another eight existing zone substations. All new work will incorporate the most up-to-date network automation schemes that will enhance network reliability.

Growing the gas distribution network

SP AusNet is delivering on a Victorian Government tender to supply natural gas to 12 regional towns across the west of the State that will enable up to 15,000 properties to access natural gas for the first time and promote the extension of natural gas.

The project commenced in March 2005. The construction program constitutes six discrete projects and the 12 towns will be reticulated by the end of the 2007 calendar year. SP AusNet will own and operate the new gas infrastructure once it is installed.

By the end of 2005, works were complete in Creswick, and the towns of Gisborne, New Gisborne, Macedon, Port Fairy and Woodend are due for reticulation by the end of 2006. The towns of Barwon Heads, Camperdown, Lancefield, Maiden Gully, Riddells Creek and Romsey will follow in 2007.

These first stage works have increased SP AusNet's regulated gas asset base by 131 km of main and have added eight major regulating facilities, positioning SP AusNet to extend the network in each town as further growth occurs.

Delivery of natural gas to regional areas benefits the local communities by providing lower energy costs, and drives future investment and employment growth.

OTHER BUSINESS

Unregulated business accounts for approximately 13 per cent of SP AusNet's total revenue and offers growth potential derived from our considerable expertise.

A contract to read water meters for North East Water Authority will allow DMS to develop its multi-utility meter reading capability.

Data and Measurement Solutions Pty Ltd

Data and Measurement Solutions Pty Ltd (DMS) is a wholly-owned subsidiary of SP AusNet Distribution and one of the top three metering and data managers in Australia. DMS is a leading end-to-end electricity and gas metering business including meter data agent provider, meter provisioning services, franchise data services and network new connections. It is accredited and registered with NEMMCO as a metering provider and meter data provider.

Strategically placed in the growing metering and two-way communications market, DMS has proven success in competitively tendering for works. Significant achievements for DMS in 2005/06 were:

– *Electricity business to business* – DMS contributed to development of the 'NEMMCO HUB' that allows industry subscribers to request service orders from each other, deliver meter data, request site access details and request verification of metering data.
– *VENCorp Meter Data Agent Services* – DMS won the contract to provide meter data agent services to VENCorp for a further five-year period starting 1 October 2006. Under the contract, DMS reads gas interval meters on behalf of VENCorp and delivers hourly data into VENCorp's IT systems for market settlements by industry participants.
– *North East Water Authority meter reading contract* – DMS won a tender to read over 40,000 water meters per quarter for the North East Water Authority (NEWA) for a three-year period from 1 March 2006. The contract will enable DMS to develop multi-utility dual reading capability over the next few years by aligning meter reading routes.

Antenna site leasing

SP AusNet leases some of its structures to third parties to install telecommunications antennas on transmission towers or distribution poles. The transmission system includes optical fibre for critical communications and protection for the network.

Technical Services Group

Based at SP AusNet's Yarraville facility, the Technical Services Group offers specialist expertise to businesses throughout Australia and Asia through its:

– *Chemical Services Group* – providing chemical testing and analysis of insulating oils, gases and other materials.
– *Condition Monitoring Group* – providing high voltage testing and diagnostic services on electrical assets.
– *Protection and Measurement Group* – providing NATA-accredited calibration and repairs of electrical instrumentation and equipment.
– *Metering Group* – providing energy metering design, installation, calibration and maintenance.

MEETING REGULATORY OBLIGATIONS

Revenue applications

The Victorian Essential Services Commission final decision for the *Electricity Distribution Price Review (2006–2010)* (EDPR) was published on 19 October 2005. The final decision provided for a reduction of electricity distribution prices by 9.3 per cent from 1 January 2006.

The primary driver of the 9.3 per cent price reduction was low prevailing bond yields at the time of the determination which were used to determine the risk free return required by the market. Cost allowances for the period were comparable to the previous five-year determination and provide for network investment required to meet the strong organic growth being experienced on the network.

The decision also provides for strong incentives to improve long-term network performance by providing rewards in excess of the regulated return for investing in network reliability improvement.

As part of the EDPR appeal process, SP AusNet successfully appealed to correct factual errors relating to reliability targets for momentary outages. Other items of concern were resolved outside the appeal process.

Preparation of the revenue and price applications for electricity transmission and gas distribution are well underway. The reset for the transmission network is due on 1 April 2008, and the gas distribution price review is due on 1 January 2008.

Regulatory reform

Regulatory framework reviews are in progress, and SP AusNet remains closely involved in industry consultation with these reviews.

The Ministerial Council on Energy (MCE) has assumed responsibility for overseeing energy sector policy, and two new independent institutions have been established:

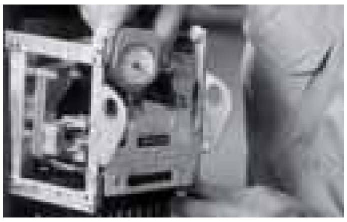
- the Australian Energy Regulator (AER); and
- the Australian Energy Market Commission (AEMC).

In addition to these structural changes, the MCE is reviewing network pricing principles for the energy sector, with a view to establishing a national framework. The MCE's decisions will form the basis of legislative amendments and new rules relating to the regulation of gas and electricity distribution in particular. This work will continue throughout 2006.

The AER has succeeded the ACCC in economic regulation of electricity transmission, and will absorb the economic regulation of electricity and gas distribution progressively from 1 January 2007. However, during this transitional period, SP AusNet's gas distribution price review will be conducted by the Victorian jurisdictional regulator, the Victorian Essential Services Commission.

Eighty-seven per cent of SP AusNet's revenue is regulated providing sustainable and predictable cash flows diversified across the three energy asset networks.

SP AusNet actively maintains positive and professional relationships with Government and the relevant regulators to ensure quality and compliance.



ONE COMPANY ONE PEOPLE ONE FUTURE

The SP AusNet team is a committed and driven workforce dedicated to delivering Victoria's energy needs safely, reliably and responsibly.

Teamwork is a key part of SP AusNet's culture.

Business integration

In April 2005 two businesses merged to form SP AusNet, which by 31 March 2006, employed a permanent workforce of approximately 1100 people.

Work has been undertaken on bringing together business systems and practices to service a single organisational unit. A significant milestone was reached when the numerous commercial and engineering functions were consolidated in one location, at Freshwater Place, in Melbourne's Southbank precinct.

In March 2006 the 'Creating the SP AusNet Way' program was launched to encourage employees to come together, harmonise the business and deliver improvements to organisational effectiveness.

Health, safety and environment performance

SP AusNet's safety performance was better than the industry average, however it was unable to achieve its target 'zero' lost-time injury frequency rate (number of injuries per million hours worked) for the 12-month period, recording a result of 2.32.

SP AusNet employees and contractors share a commitment to achieving an accident-free workplace.

SP AusNet has a high-level Health, Safety and Environment (HS&E) Policy and Strategy Committee, three Workplace HS&E Committees and eight local Employee Consultative Groups. This is a new structure introduced with the integration of the businesses.

This structured health, safety and environment process gives the workforce a forum for raising issues and seeing them through to resolution.

Commitment to quality systems

SP AusNet maintains ISO9001 quality, AS/NZS4801 safety and ISO14001 environmental certification for various activities. Each certification system ensures that SP AusNet's processes are capable of meeting regulatory, business and stakeholder requirements. They also serve to foster a workforce culture of continuous improvement.

Learning and development initiatives

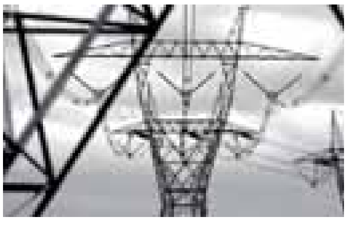
Training offered to SP AusNet employees ranges from short-term training and development to, in some cases, fully-sponsored university degrees. Employees with management potential can also participate in a Graduate Certificate of Management.

SP AusNet is committed to employing apprentices and trainees in support of the industry-wide drive to accelerate the resource and skill replacement requirements of an ageing workforce. Ninety apprentices, technical trainees and graduates are being trained, further bolstering SP AusNet 's capacity to manage electricity and gas networks into the future.

Educational support

SP AusNet supports several educational initiatives run by external bodies with the aim of attracting people to join the energy sector:

– *Diploma/Advanced Diploma of Electrical Power Systems* – offered by the Northern Melbourne Institute of TAFE, the course is open to members of the public and gives SP AusNet's secondary trainees the theoretical knowledge to support their on-the-job training.
– *Lightning Room at Scienceworks Museum at Spotswood* – the 120-seat theatre, specifically caters for school groups and students. Groups can view demonstrations of electrical concepts including simulated lightning strikes.
– *'Skilling for the Future' marketing group* – encourages young people into rewarding and challenging careers in the energy industry.



RESPECTING THE COMMUNITY AND ENVIRONMENT

SP AusNet shares the landscape with the Victorian community and is committed to continuing this positive relationship for the long term.

Stakeholder Consultative Committee

As part of its community consultation strategy, in December SP AusNet launched a Stakeholder Consultative Committee (SCC). The Committee is a collective and representative stakeholder voice on the business's activities.

The SCC brings together a high calibre group of individuals with varied experience in consumer advocacy and law, IT, the environment, development and building, local government, the retail and major customer sectors, employer groups and strategic thinking.

The SCC meets quarterly to discuss programs to improve energy delivery services and provides key advice for the business on community relations and topical issues.

Regional stakeholder forums

SP AusNet hosts regional stakeholder forums that give customers and communities the opportunity to provide direct feedback on all aspects of SP AusNet's activities.

The forums are held across three regional areas covered by SP AusNet's electrical distribution licence:

- northern (taking in towns around Benalla and Wangaratta);
- central (Melbourne's outer eastern and northern growth corridors); and
- eastern (south, central and east Gippsland).

Additional forums will also be hosted in the western parts of Victoria to include areas covered by SP AusNet's gas distribution network.

Community partnerships

SP AusNet's partnerships demonstrate that it does more than deliver safe and reliable energy to more than a million customers across Victoria. Several were established or continued during the year.

- *Victorian Energy Education and Training (VEET) Program* – forges links between industry, education providers and community leaders to give young people a first hand understanding of the industry and better opportunities for job placement.
- *REACH program* – a community-based program that runs school-based workshops to empower young people with life skills.
- *Owl Land Development program* – a partnership with the Mt Evelyn Environment Protection Association to preserve the natural habitat of one of Australia's most rare indigenous bird species, the Powerful Owl, or *Ninox strenua*.
- *Raising the Ripple* – funding of security lighting and observation decks surrounding the replica of the ketch Ripple, being built at Inverloch.
- *Plan* – employees make personal donations to support four children and their communities in Bolivia, China, Indonesia and Kenya.

Environmental partnership with Landcare

Since 1999, SP AusNet has targeted funding to Landcare to effect landscape change, develop native growth corridors near transmission easements and educate landowners on managing vegetation.

SP AusNet's longstanding commitment has now been elevated to a silver level sponsorship agreement worth $75,000 per annum including partnerships with about 30 Landcare groups around Victoria.

SP AusNet also encourages securityholders to register to receive their securityholder notices electronically through the eTree program. For each investor who signs up, SP AusNet donates $2 to Landcare Australia to fund planting of indigenous trees in the community.

Rehabilitation of contaminated gas sites

SP AusNet is undertaking a program to rehabilitate former town gas sites in Western Victoria. The site at Colac has been successfully completed, with work underway at a further three sites.

Bushfire mitigation

Bushfire prevention is a constant focus for SP AusNet and audits of vegetation growing near its towers, poles, overhead lines and other assets occur annually. More than $18 million is committed per annum to the bushfire mitigation program which incorporates maintenance and prevention work.

SP AusNet also undertakes a wide reaching media and community information campaign to educate property owners about keeping private powerlines clear of vegetation and remaining vigilant over the high risk summer period.

Station security upgrades

SP AusNet has upgraded terminal station security by installing remotely-monitored access systems, closed circuit television and electric fences. The security upgrade improves SP AusNet's ability to control the access of authorised and trained employees and contractors. The electric fencing, designed and installed in accordance with Australian standards, protects both the assets and the public by preventing unauthorised entry into key sites.

CORPORATE GOVERNANCE

1 SP AusNet's approach to corporate governance

SP AusNet (the Group) is committed to achieving high standards of corporate governance in line with the ASX Corporate Governance Council's *Principles of Good Corporate Governance and Best Practice Recommendations* (ASX Recommendations). As a recently restructured and listed entity, SP AusNet is managing the introduction of multiple initiatives, in both business and governance, and is doing so in a practical and balanced manner. Initiatives have been prioritised and continue to be progressively introduced, so that the highest standards of governance can be achieved over time.

Material relating to the corporate governance practices of SP AusNet is published on the corporate governance section of the SP AusNet website at www.sp-ausnet.com.au.

SP AusNet's corporate governance practices for the period (commencing on 14 December 2005 (when it was listed) and ending on 31 March 2006) are set out below. The Group substantially complies with the ASX Recommendations except as detailed in sections 2.2, 2.3, 2.5 and 3.2 below.

2 Role and composition of the Board

2.1 Role of the Board

The Board oversees and appraises the strategies, policies and performance of SP AusNet including the performance of management. It sets SP AusNet's values and standards, including monitoring compliance with regulatory requirements and ensures that securityholders are kept informed of SP AusNet's performance and major developments affecting its state of affairs. The functions and responsibilities of the Board are set out in the Board Charter, which is available on the Group's website.

The Board Charter reserves a number of matters for the Board or its committees such as the approval of dividends and distributions, corporate governance principles and policies and the provision of services by SPI Management Services Pty Ltd ("SPI Management Services").

Management must supply the Board with information to enable the Board to discharge its duties effectively. The Directors are entitled to request additional information, including external advice, at any time. The Board is responsible for reviewing the role and responsibilities of management, including the Managing Director. The Board approves corporate objectives and is ultimately responsible for management and control of the Group.

The Board intends to review the Board Charter at least annually.

2.2 Board composition

The composition of the Board of SP AusNet is determined in accordance with the Group's constitutions and the Board Charter, which among other things require that the Board comprise Directors with a broad range of skills, expertise and experience from a diverse range of backgrounds. The Board controls its size and composition and intends to review its composition at least annually. The constitutions provide for a minimum of four and a maximum of 14 Directors.

From the date of listing to 31 March 2006, the SP AusNet Board comprised seven Non-executive Directors, three of whom were independent and one executive Director, the Managing Director.

The Board has adopted the definition of independence set out in the ASX Best Practice Recommendations and as defined in the 2002 guidelines of the Investment and Financial Services Association Limited.

Having regard to this definition, the Board generally considers a Director to be independent if he or she is not a member of management and is free of any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Group. The Board will assess the materiality of any given relationship that may affect independence on a case by case basis and has adopted materiality guidelines to assist in that assessment.

Each Director's independence is assessed by the Board on an individual basis, with reference to the above materiality guidelines and focusing on an assessment of each Director's capacity to bring independence of judgment to Board decisions. In this context, Directors are required to promptly disclose their interests in contracts and other directorships and offices held.

Having regard to these guidelines, the Board considers that Jeremy Davis, Ian Renard and Martyn Myer were independent Non-executive Directors throughout the period of this report. Subsequent to the date of this report, the appointment of Tony Iannello, an additional independent Non-executive Director will take effect. The four Non-executive Directors not considered independent by the Board are nominee Directors of the majority securityholder of SP AusNet, Singapore Power Limited. These are Ng Kee Choe, Quek Poh Huat, Eric Gwee and George Lefroy.

SP AusNet acknowledges ASX Principle 2, Recommendation 2.1 that recommends that a majority of the Board should be independent Directors. However, SP AusNet believes that the current composition of its Board is appropriate having regard to Singapore Power's 51% securityholding in SP AusNet and the corporate knowledge and expertise that the non-independent Directors contribute to SP AusNet. The Singapore Power nominee Directors have provided continuity to the affairs of SP AusNet before and after listing. The Board intends to review its composition periodically and will continually assess whether the range of skills, expertise, experience and backgrounds of its Directors best serve the interests of securityholders.

Details of the members of the Board, their experience, expertise, qualifications, term of office and independence are set out in the Directors' Report. These details are also published on the SP AusNet website in the *About SP AusNet* section.

2.3 Role of the Chairman and the Managing Director

The Chairman, Ng Kee Choe, is responsible for leading the Board, for the organisation and conduct of the Board's function, and for the briefing of all Directors in relation to issues raised at Board meetings. Although the Chairman is also a Director and the Non-executive Chairman of Singapore Power and is therefore not independent, the Board considers him to be the best choice for the role as Chairman of SP AusNet given his extensive experience in the industry in which the Group operates.

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

The roles of Chairman and Managing Director are exercised by separate individuals.

2.4 Appointment of new Directors

The Group's Nomination and Remuneration Committee reviews and makes recommendations to the Board regarding the appointment of new Directors and engages in transparent and formal procedures for the identification of suitable candidates. It reviews Board membership and establishes criteria for Board membership and processes for the review of the performance of individual Directors and the Board as a whole. It also makes recommendations regarding succession plans for the Board. New appointees, such as Tony Iannello, will be sought on the basis not only of their independence, but their ability to complement the Board's current composition.

The Committee also reviews the commitments of Non-executive Directors prior to their appointment and annually thereafter to ensure that Non-executive Directors are able to meet the Board's expectations concerning time commitment.

All Directors, other than the Managing Director, are subject to re-election in accordance with the ASX Listing Rules.

2.5 Performance evaluation

Given the short period for which the SP AusNet Board has been together, it would not have been appropriate to conduct an assessment of Board or committee performance prior to 31 March 2006. However, Board performance assessment will be considered by the Nomination and Remuneration Committee during the next financial year with a view to conducting a performance assessment.

3 Board committees

The Board has established a number of Board committees to assist with the effective discharge of its duties. Each committee will provide to the Board a report of actions and/or a copy of the minutes of the committee meeting together with recommendations at the next Board meeting. The Chairman of the Board and all Directors may request additional information from the committees.

3.1 Audit and Risk Management Committee (ARMC)

The ARMC assists the Board in discharging its statutory and oversight responsibilities relating to the financial reporting process, the audit process, the Group's systems of internal controls, the Group's process for monitoring compliance with applicable laws, regulations and codes of conduct (including in relation to "interested" party transactions) and the Group's risk appetite.

The ARMC is chaired by Jeremy Davis who was an independent Director throughout the period of this report. The other members are Eric Gwee, Ian Renard, George Lefroy and Martyn Myer. All members of the Committee are Non-executive Directors and a majority of members are independent Directors. In order to further strengthen the composition of the Committee, Tony Iannello will become a member of the Committee subsequent to the date of this report and, subject to his election by securityholders at the AGM, the Board intends to appoint him as Chairman of that Committee in August 2006. Members of management may attend meetings of the Committee by invitation.

All members of the ARMC are financially literate and have sufficient knowledge and understanding to allow them to discharge their responsibilities.

The role and responsibilities, composition, structure and membership requirements of the ARMC are set out in its Charter, a copy of which has been published on the SP AusNet website. Specifically, the role of the ARMC includes:

- reviewing the appropriateness of accounting principles adopted by SP AusNet in the composition and presentation of financial reports and approving all significant accounting policy changes;
- reviewing the adequacy and effectiveness of the Group's risk management, internal compliance and control systems and the process and evidence the Managing Director and General Manager, Finance adopt to satisfy themselves of these factors;
- reviewing the legal and regulatory matters that are brought to the attention of the Committee by the internal and external auditors; and
- overseeing the conduct and scope of the external and internal audit functions, including making recommendations to the Board on the appointment, performance, remuneration and replacement of the external or internal auditor.

Details of the qualifications of members of the ARMC and their attendance at meetings of the Committee are set out in the Directors' Report.

External Auditor – independence and non-audit services

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

The ARMC reviews the performance of the external auditors annually and is responsible for making recommendations to the Board in relation to the appointment or re-appointment of the external auditors. The ARMC determines the terms of the auditors appointment and reviews the scope and results of the audit and its cost-effectiveness.

The Board of SP AusNet has appointed KPMG as external auditors. The reappointment of KPMG will be put to securityholders for approval at the AGM as required by the Corporations Act. KPMG is required to rotate its audit engagement partner for SP AusNet at least every five years.

For the purpose of supporting the independence of their function, the external and internal auditors have a direct line of reporting to the Committee.

The ARMC reviews the nature and extent of any non-audit services provided by the auditors and seeks to balance the maintenance of independence and objectivity and value for money. The Committee also provides written advice to the Board relating to the amounts paid or payable for any non-audit services provided by the external auditors, whether the Committee believes that the non-audit services are compatible with the general standard of independence for the external auditors and the reasons for the Committee's views.

3.2 Nomination and Remuneration Committee

The Board has established a Nomination and Remuneration Committee. The Nomination and Remuneration Committee is chaired by the Chairman of the Board, Ng Kee Choe. The other members are Quek Poh Huat and George Lefroy.

SP AusNet recognises that ASX Principle 9, Recommendation 9.2 recommends that a remuneration committee should consist of a majority of independent Directors and be chaired by an independent Director. However, for the time being, Committee workload is being shared amongst directors in the manner most appropriate to their individual expertise. The members of the Nomination and Remuneration Committee were selected on this basis, even though they are not independent.

The Charter of the Nomination and Remuneration Committee is published on the SP AusNet website and sets out its role and responsibilities, composition, structure and membership requirements. The role of the Committee is to advise the Board on matters relating to the appointment and remuneration of the Directors, the Managing Director, senior executives and employees of SP AusNet. It also reviews SP AusNet's obligations on matters such as superannuation and other employment benefits and entitlements.

Specifically, the Nomination and Remuneration Committee is responsible for:

- making recommendations to the Board regarding the appointment of new Directors, including establishing procedures for the identification of candidates suitable for appointment to the Board;
- reviewing the composition of the Board, including establishing criteria for Board membership (such as developing and implementing a plan for identifying, assessing and enhancing the skills and desirable competencies of Board members);
- conducting an annual review of the performance of the Managing Director, individual Directors and the Board as a whole; and
- making recommendations to the Board regarding the remuneration framework and any other applicable arrangements for Directors and senior executives of the Group.

The Nomination and Remuneration Committee met once in the period and is scheduled to meet again in November 2006. Details of the qualifications of members of the Committee and their attendance at meetings of the Committee are set out in the Directors' Report.

3.3 The Compliance Committee for SP Australia Networks (RE) Ltd

A Compliance Committee for SP Australia Networks (RE) Ltd ("the Responsible Entity") has been established for SP AusNet Finance Trust. The Compliance Committee comprises a majority of external and independent Directors and the Chairman is external and independent. The Compliance Committee, for the period from 9 September 2005 to 31 March 2006 comprised Ian Renard (Chairman), Jeremy Davis, Martyn Myer and Eric Gwee. Tony Iannello will become a member of the Compliance Committee from 6 June 2006, providing an additional independent Director for that Committee.

The Compliance Committee's Charter is available on SP AusNet's website. Its functions include:

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

The Compliance Committee, as required by the Australian Financial Services Licence, has also established a complaints handling process and it receives reports on that process. Details of the qualifications of members of the Committee and their attendance at meetings of the Committee are set out in the Directors' Report.

4 Remuneration of Directors and Executives

Executives

SPI Management Services is a wholly-owned subsidiary of Singapore Power International Pte Limited. SPI Management Services entered into a management services agreement with SP AusNet Transmission and SP AusNet Distribution on 10 October 2005 and with the Responsible Entity on 4 November 2005. SPI Management Services provides the services of the executive team of SP AusNet, including the Managing Director. Further details about SP AusNet's relationship with SPI Management Services are set out in section 11 below.

The remuneration and incentive package for the Managing Director and other executives is paid by SPI Management Services. However, SP AusNet's Nomination and Remuneration Committee may make recommendations to SPI Management Services in relation to remuneration and incentive payments and programs at any time to promote alignment of 'owner-management' interests. In this regard, SP AusNet aims to ensure that the remuneration of its key executives is market competitive, consistent with best practice and supportive of the interests of securityholders. These executives are remunerated through a combination of base salary and performance-based cash bonuses of up to 40% of base salary (for the 2006/07 financial year). SP AusNet is currently reviewing a long-term incentive plan for executives and employees, as is common in the market place, to attract and retain staff that are important to the creation of long-term value for securityholders.

Non-executive Directors

The remuneration of Non-executive Directors is not linked to the performance of the Group in order to maintain their independence and impartiality. In setting fee levels, the Nomination and Remuneration Committee takes into account:

- SP AusNet's existing remuneration policies;
- independent professional advice;
- fees paid by comparable companies;
- the general time commitment required from Directors and the risks associated with discharging the duties attaching to the role of Director; and
- the level of remuneration necessary to attract and retain Directors of a suitable calibre.

The structure and details of the remuneration paid to Directors, the Managing Director and other senior executives during the period are set out in the Director's Reports and in the notes to the financial statements.

5 Certification of Financial Report and Risk Management Systems

The Managing Director and General Manager Finance have provided the following certifications to the Board in connection with the approval by the Board of the financial reports for SP AusNet and the individual entities comprising SP AusNet for the financial year ended 31 March 2006:

- the financial reports present a true and fair view of the Group's financial position and performance in accordance with the relevant accounting standards;
- the above statement is founded on sound systems of risk management and internal compliance and control which implement the policies of the Board; and

– the systems of risk management and internal compliance and control are operating efficiently and effectively in all material respects.

6 Risk management and internal controls

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

The Board is responsible for reviewing and guiding the Group's overall systems of risk management and internal control and ensuring investors are informed of material changes to the Group's risk profile. The ARMC has oversight of the adequacy and effectiveness of the Group's risk management and internal controls including the establishment and maintenance of processes and making recommendations to the Board about the appropriate level of risk appetite for the Group. The Managing Director is accountable to the ARMC and the Board for the implementation of the risk management processes in line with good corporate governance practices.

The Group's systematic and consistent approach to risk management is based on AS/NZS4360 Risk Management: 2004. It aims to integrate risk management into all activities to identify and manage risk before it impacts on the business. All employees are responsible for risk management in their day-to-day activities. The accountability for individual risks and their effective management resides with line management.

The Managing Director and General Manager, Finance also make annual written certifications to the Board as set out above in Section 5 of this statement.

7 *Continuous Disclosure Policy*

SP AusNet's *Continuous Disclosure Policy* sets out SP AusNet's practices in relation to continuous disclosure including recording and communicating SP AusNet's commitment to continuous disclosure, establishing a best practice procedure relating to compliance with continuous disclosure obligations, identifying material price sensitive information, reporting such information to the Company Secretary for review and ensuring SP AusNet and individual officers are aware of the penalties for contravening the relevant legislative provisions. A copy of the *Continuous Disclosure Policy* is available on SP AusNet's website.

The Company Secretary is the person primarily responsible for the operation of the *Continuous Disclosure Policy* and for all communications with the Australian Stock Exchange (ASX) and Singapore Exchange Securities Trading Limited (SGX-ST) in relation to the continuous disclosure obligations of SP AusNet. However no announcements are made to the ASX and SGX-ST without the prior approval of the Managing Director (or his delegate).

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

8 Investor Relations

SP AusNet has developed a Securityholder Communications Plan to assist with communicating information to the market in a timely and efficient manner. A copy of this plan is published on is SP AusNet's website which also allows SP AusNet to communicate with securityholders electronically.

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

SP AusNet encourages securityholders to attend SP AusNet's AGM to meet the Directors and management and to ask questions. The inaugural AGM of SP AusNet will be web-cast in order to improve access for securityholders unable to be physically present at meetings. The full text of notices of meeting and explanatory material will be published on SP AusNet's website.

SP AusNet's auditors, KPMG, are required to attend the annual general meeting. Securityholders will be allowed a reasonable opportunity to ask questions of the auditor or their representative concerning the conduct of the audit and the preparation and content of the auditor's report.

9 *Code of Business Conduct*

SP AusNet is committed to acting ethically and responsibly in all of its business dealings. The Group has developed a *Code of Business Conduct* to guide all Directors, officers, employees, contractors and consultants as to the practices necessary to maintain confidence in SP AusNet's integrity and the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

Specifically, the *Code of Business Conduct* outlines how the Group expects the Directors and employees to behave and conduct business in the workplace on a range of issues. This includes:

– maintaining good corporate governance standards;
– delivering securityholder value in a responsible way;
– maintaining confidence in the Group's integrity and ensuring that it is an organisation that people can trust;
– maintaining the highest ethical standards by fostering the responsibility and accountability of individuals within the Group for reporting and investigating reports of unethical practices; and
– ensuring compliance with the Group's legal and other obligations in respect of its key stakeholders, to ensure that the Group is dedicated to the broader community and ensuring its role in the community is an honest, legal and ethical one.

The *Code of Business Conduct* specifically addresses conflicts of interests, business gifts and entertainment, improper use of SP AusNet property and assets, dealing with government officials and political activities. The *Code of Business Conduct* is published on SP AusNet's website.

10 Dealing in securities

SP AusNet has adopted *Guidelines for Dealing in Securities* which are published on its website. Through a trading windows approach, the guidelines establish a best practice procedure relating to buying and selling securities for SP AusNet Directors, executives and staff.

Pursuant to these guidelines, no person may acquire, sell or otherwise trade in the Group's securities if they possess material price-sensitive information which is not available in the public domain. A Director, executive or employee of SP AusNet may only trade in the Group's securities in the period of 31 days from the second day following:

– the announcement of half-yearly results;

– the announcement of annual results; or

– the holding of the Annual General Meeting.

Outside these periods, such persons must receive clearance from the Chairman or his representative (as set out in the guidelines) prior to any proposed dealings in the Group's securities either by themselves or by their associates. Persons also may not deal in the Group's securities on a short-term trading basis, except in circumstances of special hardship, with the approval of the Chairman of the Board or the Managing Director.

11 Relationship with SPI Management Services

Under the management services agreement (MSA), SP AusNet Transmission and SP AusNet Distribution have engaged SPI Management Services to perform management services and to manage the electricity transmission and electricity and gas distribution networks (the Business) on SP AusNet's behalf. SPI Management Services will consult with, and seek advice from, Singapore Power Limited and its subsidiaries from time to time in the performance of its work. The term of the MSA is for an initial period of ten years commencing on 1 October 2005. SP AusNet may renew the MSA for two further ten-year periods.

SP AusNet has agreed to pay SPI Management Services a Management Fee comprising a Management Services Charge and a Performance Fee for each financial year during the terms of the MSA. The Management Services Charge is to compensate SPI Management Services for expenses relating to all remuneration and other employment entitlements and benefits of the employees of SPI Management Services. The Performance Fee is to incentivise SPI Management Services to meet or better the non-financial and financial performance of SP AusNet's and to align the interests of SPI Management Services with those of SP AusNet.

FINANCIAL STATEMENTS

General Purpose Financial Report
For the financial period ended 31 March 2006

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SP AUSTRALIA NETWORKS (DISTRIBUTION) LTD

(ACN 108 788 245)

General Purpose Financial Report

For the financial period ended 31 March 2006

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This financial report covers both SP Australia Networks (Distribution) Ltd as an individual entity and the consolidated entity consisting of SP Australia Networks (Distribution) Ltd and its subsidiaries, SP Australia Networks (Transmission) Ltd and its subsidiaries, and SP Australia Networks (Finance) Trust. The financial report is presented in the Australian currency.

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

Level 31, 2 Southbank Boulevard
Southbank
Victoria 3006
Australia

A description of the nature of the Group's operations and its principal activities is included in the Directors' report on pages 40-53.

The financial report was authorised for issue by the Directors on 5 June 2006.

DIRECTORS' REPORT

The Directors of SP Australia Networks (Distribution) Ltd ("SP AusNet Distribution") submit herewith the general purpose financial report of the company and consolidated entity for the financial year ended 31 March 2006.

SP AusNet Distribution entered into a Stapling Deed effective on 21 October 2005 with the following entities:

- SP Australia Networks (Transmission) Ltd ("SP AusNet Transmission"); and
- SP Australia Networks (Finance) Trust ("SP AusNet Finance Trust").

The Stapled Group is referred to as SP AusNet.

For statutory reporting purposes, SP AusNet Distribution was identified as the acquirer in the Stapled Group based on the size of its net assets and operations, and as such has prepared the consolidated financial report of SP AusNet. Accordingly, the book values of SP AusNet Distribution were combined with the fair values of the identifiable assets, liabilities and contingent liabilities of SP AusNet Transmission and SP AusNet Finance Trust from the date of stapling.

The income statement and cash flow statement for the current year therefore disclose the consolidated results and cash flows of SP AusNet Distribution for the financial year ended 31 March 2006 and the results and cash flows of SP AusNet Transmission and SP AusNet Finance Trust from the date of stapling to 31 March 2006. The comparative figures for the Stapled Group reflect only the consolidated results and cash flows of SP AusNet Distribution from the date of acquisition of TXU Australia Group Pty Ltd on 30 July 2004 to 31 March 2005. From the date of incorporation on 21 April 2004 to 30 July 2004 SP AusNet Distribution did not trade.

The Stapled Group balance sheet as at 31 March 2006 reflects the financial position for SP AusNet Distribution, SP AusNet Transmission and SP AusNet Finance Trust. The comparative figures for the Stapled Group reflect only the financial position of SP AusNet Distribution and its controlled entities at 31 March 2005.

As SP AusNet Distribution was identified as the acquirer at the time of stapling, 100% of the ownership interests in SP AusNet Transmission and SP AusNet Finance Trust are disclosed as minority interests as these entities are not owned by SP AusNet Distribution but rather by securityholders directly.

Directors

The following persons were Directors of SP AusNet Distribution during or since the end of financial year and up to the date of this report:

Ng Kee Choe, appointed 31 May 2005 (Chairman)
Nino **Ficca**, appointed 31 May 2005 (Managing Director)
Jeremy Guy Ashcroft **Davis**, appointed 31 May 2005
Eric **Gwee** Teck Hai, appointed 31 May 2005
George Allister **Lefroy**, appointed 31 May 2005
Martyn Kenneth **Myer**, appointed 9 September 2005
Quek Poh Huat, appointed 31 May 2005
Ian Andrew **Renard**, appointed 31 May 2005
Wong Toon Suan, resigned 31 May 2005
Yap Chee Keong, resigned 31 May 2005

Principal activities

During the year the principal continuing activities of the Stapled Group consisted of:

- ***Electricity distribution*** – The energy delivery business delivers electricity to approximately 580,063 consumer supply points over 80,000 square kilometres in eastern Victoria. Although the distribution area is predominantly rural, it incorporates Melbourne's outer eastern suburbs.
- ***Gas distribution*** – The energy delivery business delivers natural gas to approximately 510,990 consumer connection points over 2,000 square kilometres in central and western Victoria, including some of Melbourne's western suburbs.
- ***Merchant energy business (MEB)*** – The merchant energy business comprised a portfolio of complementary upstream and downstream assets involved in the generation of electricity, storage of gas, purchase of electricity and gas, and retailing of electricity and gas to over one million wholesale and retail customers, primarily in Victoria and South Australia. The MEB was sold on 31 May 2005 .
- ***Transmission*** – The transmission of electricity within the state of Victoria.

The Stapled Group's principal operations are conducted through the following main operating group companies:

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

Distributions

No distributions were paid to members during the financial year.

Since the end of the financial year the Directors have approved a distribution of $68,012,100 (3.25 cents per fully paid security) to be paid on 26 June 2006 comprised as follows:

	Cents per security	Total distribution $
Fully franked dividend payable by SP AusNet Transmission	0.15	3,139,020
Interest income payable by SP AusNet Finance Trust	0.89	18,624,852
Capital distribution payable by SP AusNet Finance Trust	2.21	46,248,228
	3.25	68,012,100

Review of operations

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

	Segment revenues		Segment results	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Distribution – electricity	**448,250**	278,042	**182,776**	92,200
Distribution – gas	**143,357**	85,246	**86,731**	48,543
Transmission – electricity	**146,263**	–	**79,640**	–
Discontinuing operations	**292,685**	1,253,398	**238,609**	86,763
Inter segment eliminations	**(54,482)**	(241,947)	**–**	–
	976,073	1,374,739	**587,756**	227,506
Unallocated revenue less unallocated expenses			**(171,624)**	(69,148)
Profit from ordinary activities before related income tax expense			**416,132**	158,358
Income tax expense			**(80,900)**	(64,641)
Net profit			**335,232**	93,717
Net profit attributable to members of SP AusNet Transmission and SP AusNet Finance Trust			**39,882**	–
Net profit attributable to members of SP AusNet Distribution			**295,350**	93,717
Net Profit			**335,232**	93,717

Discussion and analysis for the year ended 31 March 2006

This discussion and analysis is provided to assist readers in understanding the annual financial statements.

Income Statements

SP AusNet achieved a net profit after tax of $335.2 million for the 12 months ending 31 March 2006, comprising an after tax profit of $175.6 million from continuing operations and an after tax profit from discontinued operations of $159.6 million.

SP AusNet derives most of its continuing earnings from three regulated energy network businesses based in Victoria involving electricity transmission, and electricity and gas distribution.

In the current year, SP AusNet has achieved better than anticipated customer growth and energy delivered through the networks, despite the mild weather conditions in Victoria during winter and spring, which adversely affected gas usage.

The effective tax rate of SP AusNet is lower than the corporate tax rate of 30% due partly to interest deductions incurred by SP AusNet Transmission and SP AusNet Distribution in respect of loans from SP AusNet Finance Trust, and also partly due to favourable tax accounting impacts arising from SP AusNet Distribution adopting the tax consolidation regime.

Electricity distribution business

SP AusNet's electricity distribution business in eastern Victoria contributed $376.7 million in regulated revenues for the 12 months ending 31 March 2006. The electricity excluded services revenue was $22.4 million, the customer contributions revenue was $26.6 million, and other electricity distribution revenue was $8.6 million.

In terms of network performance, a total of 7,179 GWh of electricity energy was delivered through the network in the 12 months to 31 March 2006, which represented an increase of 1.7% on the previous financial period. The increase in energy distributed was driven by strong customer growth and increased summer air-conditioning load.

The USAIDI was 162.1 minutes off supply per customer. This is a favourable result, which was well below the target of 188 minutes.

In the 12 months to 31 March 2006 the number of customers connected to the network system grew by 1.6% to 580,063. New customer connections in the growth corridors of Victoria have been growing at 6-7%.

Gas distribution business

SP AusNet's gas distribution business in western Victoria contributed $131.7 million in regulated revenues for the 12 months ending 31 March 2006. The gas excluded services revenue was $10.8 million, the customer contributions revenue was $13.6 million and other gas distribution revenue was $1.3 million.

In terms of network performance, a total of 66.3 PJ of gas energy was delivered through the gas network in the 12 months to 31 March 2006. This figure was down 6.9% compared to the previous financial period due to the milder weather conditions in Victoria's winter and spring in 2005.

The gas reliability measure, USAIDI, was 0.89 minutes off supply per customer for calendar year 2005 which was very favourable compared to the internal target of 1.1 minutes.

Customers connected to SP AusNet's gas distribution network at 31 March 2006 totalled 510,990, representing an increase of 2.6% compared to the previous financial year. The length of the gas networks extended 1.5% to 8,812 km which reflected continuing demand for energy in Victoria's growth corridors. SP AusNet continues to improve the quality of the gas distribution assets, replacing 69 km of old low pressure gas mains with new polyethylene mains.

Electricity transmission business

SP AusNet's electricity transmission business contributed $132.0 million in regulated revenues and $10.4 million in excluded services revenue and $3.2 million in other transmission revenue since the date of stapling 21 October 2005.

In terms of electricity transmission network performance, the system minutes lost for the year ending 31 March 2006 was 0.56 minutes, which significantly outperformed the system code agreement (between VENCorp and SP AusNet) target of 1.15 minutes. Considering the severity of weather conditions in January/February 2006 causing bushfires under transmission lines, the electricity transmission business continues to outperform reliability targets while meeting the increasing demand from customers.

DIRECTORS' REPORT (continued)

Discontinued operations

SP AusNet Distribution sold the merchant energy business ("MEB") to CLP Power Australia Energy Holdings Pty Ltd on 31 May 2005. MEB comprised a portfolio of complementary upstream and downstream assets involved in the generation of electricity, storage of gas, purchase of electricity and gas, and retailing of electricity and gas to over one million wholesale and retail customers, primarily in Victoria and South Australia.

MEB's principal operations were conducted through the following main operating group companies:

– SPI Retail Pty Ltd;

– SPI (South Australia) Pty Ltd; and

– SPI Torrens Island Pty Ltd.

In addition, on 29 August 2005, SP AusNet Distribution sold its investment in the SEAGas joint venture to CLP Power Australia Energy Holdings Pty Ltd.

	Consolidated 2006 $'000
Profit from discontinued operations:	
Revenue from ordinary activities	291,040
Profit on divestment of business	255,621
Other income	1,645
	548,306
Expenses	(309,698)
Profit before income tax expense	238,608
Attributable income tax expense on divestment	(90,000)
Attributable income tax benefit on underlying operations	10,955
Profit from discontinued operations	159,563

Refer to note 10 in the financial statements for details of the disposal.

Balance Sheets

SP AusNet's total assets as at 31 March 2006 were $6,947.0 million comprising principally property, plant and equipment of $6,227.1 million. Cash was $8.7 million, current receivables were $132.0 million and derivative financial instruments were $188.8 million.

Current liabilities as at 31 March 2006 were $981.2 million due mostly to interest bearing liabilities of $644.4 million and derivative financial instruments of $173.7 million.

Non-current liabilities as at 31 March 2006 were $3,384.3 million comprising mostly interest bearing liabilities of $2,870.4 million.

Securityholders' equity was $2,581.6 million as at 31 March 2006. Total securityholders equity includes 100% of the ownership interests in SP AusNet Transmission and SP AusNet Finance Trust which have been disclosed as minority interests as they are owned by the securityholders directly.

The Stapled Group's current liabilities exceed its current assets due primarily to the maturity of certain debt securities within 12 months of balance date. The Directors are considering a range of refinancing options for the maturing debt. In addition, the Stapled Group has the ability to draw down on existing loan facilities to refinance the maturing debt.

Cash Flow Statements

Net operating cash flows for the year were $177.9 million a decrease of $135.4 million on the previous year. This decrease reflects the effect on net operating cash flows from the sale of the MEB on 31 May 2005. Partially offsetting this decrease is the inclusion of operating cash flows from SP AusNet Transmission from the date of stapling.

Net inflows from investing activities of $1,750.7 million results from the receipt of the proceeds from the sale of the merchant energy business and the SEAGas joint venture. Partially offsetting are payments to acquire property, plant and equipment of $294.8 million primarily reflecting the inclusion of SP AusNet Transmission in the Stapled Group from the date of stapling.

The net outflow from financing activities of $1,966.8 million results from the repayment of related party debt of $996.0 million and external debt of $1,055.3 million from the proceeds of the sale of the MEB.

Future developments

VENCorp's "VISION 2030" report, which was released in October 2005, identified a significant level of future new transmission requirements. SP AusNet intends to actively pursue these investment opportunities and other expansionary distribution network opportunities to organically grow the business.

SP AusNet is forecasting capital expenditure in the 2006/07 financial year to be approximately $360.0 million which is required to meet the growing demand for energy and to improve network reliability. Importantly, the capital expenditure on these businesses ultimately will grow the regulated asset base and non-regulated revenues of SP AusNet which will underpin cash flows and distributions to securityholders.

Project work is also on-going which aims at increasing operational efficiencies and reducing the cost of network services.

SP AusNet continues to actively survey the Australian and New Zealand energy network market for acquisition opportunities, which align with the Group's strategy and its core competencies of energy network ownership and management. SP AusNet's management team has built extensive experience in identifying, acquiring and integrating network businesses as well as selling non-core business.

Earnings per share	2006 Cents	2005 Cents
Earnings per share from profit from continuing operations		
Basic earnings per share	**6.49**	1.40
Diluted earnings per share	**6.49**	1.40
Earnings per share from profit attributable to securityholders		
Basic earnings per share	**14.11**	4.48
Diluted earnings per share	**14.11**	4.48

Significant changes in the state of affairs

(a) In order to effect the stapling, on 19 October 2005 SP AusNet Distribution effected a share split with the result that it had 2,092,680,010 shares on issue.

On 20 October 2005 SP AusNet Distribution became a public company. On 21 October 2005 pursuant to the Stapling Deed, each of SP AusNet Distribution's shares was stapled to a share in SP AusNet Transmission and a unit in SP AusNet Finance Trust. On 14 December 2005 the Stapled Group was listed on the Australian and Singapore Stock Exchanges.

(b) SP AusNet Distribution was deemed to acquire the following entities on 21 October 2005 as a result of executing a Stapling Deed:

- SP AusNet Transmission; and
- SP AusNet Finance Trust

The Stapled Group is referred to as SP AusNet.

Under the terms of the Stapling Deed, there is no cross ownership by one entity of the others, rather each is owned in equal parts by all securityholders. Nevertheless, SP AusNet Distribution was identified as the acquirer for accounting purposes and as such has prepared the consolidated accounts of the Stapled Group. Accordingly, the book values of SP AusNet Distribution were combined with the fair values of the identifiable assets, liabilities and contingent liabilities of SP AusNet Transmission and SP AusNet Finance Trust from the date of stapling.

As SP AusNet Distribution was identified as the acquirer at the time of stapling, 100% of the ownership interests in SP AusNet Transmission and SP AusNet Finance Trust are disclosed as minority interests as these entities are not owned by SP AusNet Distribution but rather by securityholders directly.

(c) Discontinued operations

SP AusNet Distribution sold the MEB to CLP Power Australia Energy Holdings Pty Ltd on 31 May 2005. MEB comprised a portfolio of complementary upstream and downstream assets involved in the generation of electricity, storage of gas, purchase of electricity and gas, and retailing of electricity and gas to over one million wholesale and retail customers, primarily in Victoria and South Australia.

MEB's principal operations were conducted through the following main operating group companies:

- SPI Retail Pty Ltd;
- SPI (South Australia) Pty Ltd; and
- SPI Torrens Island Pty Ltd.

In addition, on 29 August 2005, SP AusNet Distribution sold its investment in the SEAGas joint venture to CLP Power Australia Energy Holdings Pty Ltd.

Refer to note 10 in the financial statements for details of the disposal.

Sale of merchant energy business	2006 $'000
Profit before income tax expense	**238,608**
Attributable income tax expense on divestment	**(90,000)**
Attributable income tax benefit on underlying operations	**10,955**
Profit from discontinued operations	**159,563**

Net assets disposed were $1,786.7 million.

Matters subsequent to the end of the financial year

(a) Resolution between Singapore Power and CLP

During the year ended 31 March 2006, CLP Power Asia Ltd had written to Singapore Power Ltd raising certain concerns relating to the disclosure of information by Singapore Power Ltd in the lead up to the sale in May 2005 to CLP of the Merchant Energy Business (MEB) that was previously owned by SP AusNet Distribution. Since balance date SP and CLP Holdings Limited have resolved this matter on mutually agreed terms.

Singapore Power International Pte Ltd (a wholly-owned subsidiary of Singapore Power Ltd and the owner of the international investments of Singapore Power (including its interest in SP AusNet)) has agreed to indemnify SP AusNet against any claims arising from the sale of the MEB. As a result resolution of this matter was at no cost to SP AusNet.

(b) Distribution

Since 31 March 2006, the Directors have approved a distribution of 3.25 cents per fully paid stapled security totalling $68.0 million. This distribution is comprised of a fully franked dividend of 0.15 cents per security payable by SP AusNet Transmission and interest income of 0.89 cents per security and a capital distribution of 2.21cents per security payable by SP AusNet Finance Trust.

Likely developments and expected results of operations

Additional comments on expected results of certain operations of the Stapled Group are included in this report under the review of operations.

Further information on likely developments in the operations of the Stapled Group and the expected results of operations have not been included in this report because the Directors believe it would be likely to result in unreasonable prejudice to the Stapled Group.

Environmental regulation

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

Information on officeholders

Ng Kee Choe *Chairman – Non-executive.* Age 61
Bachelor of Science (Honours), University of Singapore

Mr Ng became Chairman of SP AusNet Transmission on 26 October 2005, Chairman of SP AusNet Distribution on 31 May 2005 and Chairman of the Responsible Entity on 9 September 2005. He has been Chairman and Director of Singapore Power since 15 September 2000 and Chairman of NTUC Income Insurance Co-operative Ltd since 20 May 2005. He also serves as a Director of Singapore Airport Terminal Services Ltd and Singapore Exchange Ltd. He is also a Commissioner of PT Bank Danamon Tbk, a member of the Temasek Advisory Panel and a member of the International Advisory Council of China Development Bank. Previously, Mr Ng was the Vice-Chairman and Director of DBS Group Holdings Ltd. He retired from his executive position with DBS Group Holdings Ltd in July 2003 after 33 years of service in various executive roles.

Mr Ng is Chairman of the Nomination and Remuneration Committee.

Interests in securities
150,000 securities in SP AusNet held by The Central Depository Pte Ltd. The securities were acquired at the time of the Initial Public Offering on the same terms and conditions as other securityholders.

Nino Ficca *Managing Director and Chief Executive Officer.* Age 46
Bachelor of Engineering (Electrical) (Honours), Deakin University
Graduate Diploma in Management, Deakin University

Managing Director, Mr Ficca has been a Director of SP AusNet Transmission since 7 September 2005, a Director of SP AusNet Distribution since 31 May 2005 and a Director of the Responsible Entity since 31 May 2005. He was appointed as a Director of SPI Management Services Pty Ltd ("SPI Management Services") on 19 August 2005. He has worked in the energy industry since 1983. Since January 2003, Mr Ficca has served as the Managing Director of SPI PowerNet. Since August 2004 he has served as the Chief Executive Officer of SPI Electricity Pty Ltd. Prior to taking on these roles, Mr Ficca served in a number of senior management roles with SPI/GPU PowerNet.

Mr Ficca is a Director and the Deputy Chairman of the Energy Supply Association of Australia, and is a member of the Australian Institute of Company Directors and of the National Electricity Market Operations Committee.

Interests in securities
100,000 securities in SP AusNet. The securities were acquired at the time of the Initial Public Offering on the same terms and conditions as other security holders.

Prof. Jeremy Guy Ashcroft Davis
Independent non-executive Director. Age 63
Bachelor of Economics (Honours), University of Sydney
MBA, Stanford University
AM (Economics), Stanford University

Prof. Davis has been a Director of SP AusNet Transmission since 26 October 2005, a Director of SP AusNet Distribution since 31 May 2005 and a Director of the Responsible Entity since 9 September 2005. Prof Davis is a Professor Emeritus of the University of New South Wales, after retiring from the Australian Graduate School of Management (AGSM) in January 2006. He is currently a Director of Transurban Group and CHAMP Ventures Pty Ltd, a private equity and venture capital group, and deputy Chairman of AMWIN Management Ltd.

Previously, Prof. Davis spent 10 years as a management consultant with the Boston Consulting Group and has served as a Director of the Australian Stock Exchange Ltd.

Prof. Davis is the Chairman of the Audit and Risk Management Committee and a member of the Compliance Committee.

Interests in securities
50,000 securities in SP AusNet. The securities were acquired at the time of the Initial Public Offering on the same terms and conditions as other securityholders.

Eric Gwee Teck Hai *Non-executive Director.* Age 67
Bachelor of Engineering (Mechanical), University of Melbourne

Mr Gwee became a Director of SP AusNet Transmission on 26 October 2005, a Director of SP AusNet Distribution on 31 May 2005 and a Director of the Responsible Entity on 9 September 2005. Mr Gwee has been a Director of Singapore Power Ltd since 1 January 2001 and is the Chairman of SP Services Ltd.

Mr Gwee is also a non-executive Director of WorleyParsons Ltd and the Melbourne Business School Ltd. He was formerly Chairman of the Public Transport Council, and serves as Chairman of the Board of Governors for the Institute of Technical Education (ITE) and ITE Holding Pte Ltd both in Singapore. Mr Gwee was the Chairman of CPG Corporation Pte Ltd and was formerly a Director of ExxonMobil Singapore Private Ltd.

Mr Gwee is a member of the Audit and Risk Management Committee and the Compliance Committee.

Interests in securities
100,000 securities in SP AusNet held by The Central Depository Pte Ltd. The securities were acquired at the time of the Initial Public Offering on the same terms and conditions as other securityholders.

Dr George Allister Lefroy *Non-executive Director.* Age 66
Bachelor of Engineering (First Class Honours), University of Western Australia
Master of Engineering Science, University of Western Australia
PhD in Chemical Engineering, Cambridge University

Dr Lefroy has been a Director of SP AusNet Transmission since 26 October 2005, a Director of SP AusNet Distribution since 31 May 2005 and a Director of the Responsible Entity since 9 September 2005. He has been a Director of Singapore Power Ltd since 1 June 2000. He has recently been appointed President Commissioner of PT Chandra Asri, Jakarta and a Director of Cobar Consolidated Resources Ltd. Until February 2005, he was a Director of Australian Power and Energy and until May 2004, he was Director of International Training Australia Pty Ltd.

Dr Lefroy is Chairman of the Cambridge Australian Trust, Victorian Committee and a State Councillor of St. John Ambulance Australia (Victoria) Pty Ltd. Dr Lefroy was formerly an executive Vice President of Shell Chemicals Ltd, London.

Dr Lefroy is a member of the Nomination and Remuneration Committee and the Audit and Risk Management Committee.

Interests in securities
100,000 securities in SP AusNet held by Serp Hills Pty Ltd as trustee for Serp Hills Super Fund. Immediate members of Dr Lefroy's family hold a further 8,700 securities in SP AusNet. The securities were acquired at the time of the Initial Public Offering on the same terms and conditions as other securityholders.

Martyn Kenneth Myer *Independent non-executive Director.* Age 48
Bachelor of Engineering (Mechanical), Swinburne College of Technology
Master of Engineering Science, Monash University
Master of Science in Management, Sloan School of Management, Massachusetts Institute of Technology (MIT)

Mr Myer has been a Director of SP AusNet Transmission since 26 October 2005, a Director of SP AusNet Distribution since 9 September 2005 and a Director of the Responsible Entity since 9 September 2005. Mr Myer has extensive experience in financial services, engineering and biotechnology. He is Chairman of Cogstate Ltd, a Director of Coles Myer Ltd, Diversified United Investments Ltd, and from 1994 until 2002, Managing Director of Merlyn Asset Management Pty Ltd, a boutique funds management company. Prior to his move to the financial services industry, Mr Myer had extensive experience with some of Australia's leading manufacturers. Mr Myer has involvement in several philanthropic activities, including as President of the Howard Florey Institute at the University of Melbourne and as a member of the board of The Myer Foundation. Previous appointments include Director of The Myer Family Company Pty Ltd and The Myer Family Investments Pty Ltd.

Mr Myer is a member of the Audit and Risk Management Committee and the Compliance Committee.

Interests in securities
650,000 securities in SP AusNet held by MF Custodians Ltd as custodian for Mpyer Investments Pty Ltd. The securities were acquired at the time of the Initial Public Offering on the same terms and conditions as other securityholders.

Quek Poh Huat *Non-executive Director.* Age 59
Bachelor of Science (Chemical Engineering), First Class Honours, University of Leeds
Master of Science (Management) with Distinction, Naval Postgraduate School, Monterey
Advanced Management Programme, Harvard Business School

Mr Quek has served as a Director of SP AusNet Transmission since 26 October 2005, a Director of SP AusNet Distribution since 31 May 2005 and a Director of the Responsible Entity since 9 September 2005. Mr Quek is also Group Chief Executive Officer and a Director of Singapore Power Ltd. Within the Singapore Power Ltd Group, Mr Quek serves as Director on the boards of SP PowerAssets Ltd, SP PowerGrid Ltd and SP Services Ltd. He is also currently Chairman and Director of PowerGas Ltd and a Director of Singapore Technologies Engineering Ltd. Mr Quek was appointed Chairman and Director of SPI Management Services Pty Ltd on 30 September 2005.

Mr Quek was formerly the President of Temasek Holdings (Private) Ltd.

Mr Quek is a member of the Nomination and Remuneration Committee.

Interests in securities
200,000 securities in SP AusNet held by The Central Depository Pte Ltd. Immediate members of Mr Quek's family hold a further 6,000 securities in SP AusNet. The securities were acquired at the time of the Initial Public Offering on the same terms and conditions as other securityholders.

Ian Andrew Renard *Independent non-executive Director.* Age 59
Bachelor of Arts, University of Melbourne
Bachelor of Laws, University of Melbourne
Master of Laws, University of Melbourne

Mr Renard has been a Director of SP AusNet Transmission since 26 October 2005, a Director of SP AusNet Distribution since 31 May 2005 and a Director of the Responsible Entity since 9 September 2005. Mr Renard is currently a Director of CSL Ltd, Newcrest Mining Ltd and Hillview Quarries Pty Ltd. He also serves as Chancellor of the University of Melbourne and as a trustee of the R E Ross Trust.

Mr Renard was a partner of the law firm Arthur Robinson & Hedderwicks from 1979 to 2001, including his service during 1989 to 1991 as the firm's full-time Managing Partner.

Mr Renard is Chairman of the Compliance Committee and a member of the Audit and Risk Management Committee.

Interests in securities
30,000 securities in SP AusNet. The securities were acquired at the time of the Initial Public Offering on the same terms and conditions as other securityholders.

Company secretary

The company secretary of each of SP AusNet Transmission, SP AusNet Distribution and the Responsible Entity is Elizabeth Marie **Mildwater**.

Ms Mildwater holds a Bachelor of Economics and a Bachelor of Laws (Honours) from Sydney University, and a Master of Contemporary Asian Analysis from the University of Melbourne. She has over 15 years of legal, company secretarial and other relevant experience, including significant in-house legal and company secretarial experience in the electricity transmission and project development areas with SPI PowerNet and PowerGen UK Plc. Prior to her in-house work, she was a solicitor with the Australian law firms Blake Dawson Waldron and Freehills.

Meetings of Directors

The numbers of meetings of the company's Board of Directors and of each Board committee held during the year ended 31 March 2006, and the numbers of meetings attended by each Director were:

	Full meetings of Directors		Meetings of committees: Audit and Risk Management		Meetings of committees: Nomination and Remuneration	
	A	B	A	B	A	B
Ng Kee Choe (Chairman)	5	5	**	**	1	1
Nino **Ficca**	5	5	**	**	**	**
Jeremy Guy Ashcroft **Davis**	5	5	6	6	**	**
Eric **Gwee** Teck Hai	5	5	6	6	**	**
George Allister **Lefroy**	5	5	4	4	1	1
Martyn Kenneth **Myer**	4	4	6	6	**	**
Quek Poh Huat	5	5	**	**	1	1
Ian Andrew **Renard**	5	5	6	6	**	**
Wong Toon Suan*	–	–	**	**	**	**
Yap Chee Keong*	–	–	**	**	**	**

A = Number of meetings attended
B = Number of meetings held during the time the Director held office or was a member of the committee during the year
* = Resigned 31 May 2005
** = Not a member of the relevant committee

Retirement, election and continuation in office of Directors

Prof. Jeremy Davis retires by rotation in accordance with the constitutions of SP AusNet Transmission and SP AusNet Distribution, and being eligible, offers himself for re-election.

Mr Eric Gwee retires by rotation in accordance with the company's constitutions of SP AusNet Transmission and SP AusNet Distribution, and being eligible, offers himself for re-election.

Remuneration Report

The Directors of SP AusNet present the Remuneration Report prepared in accordance with section 300A of the *Corporations Act* for SP AusNet for the financial year ending 31 March 2006. This Remuneration Report forms part of the Directors' Report.

This Remuneration Report includes information which is common to SP AusNet Distribution, SP AusNet Transmission (together "the Companies") and SP Australia Networks (RE) Ltd, the responsible entity of SP AusNet Finance Trust ("the Responsible Entity"). Accordingly, this Remuneration Report will be reproduced in the Directors' Reports accompanying the general purpose financial reports of SP AusNet Distribution, SP AusNet Transmission and SP AusNet Finance Trust.

SPI Management Services Pty Ltd ("SPI Management Services"), a wholly-owned subsidiary of a related party Singapore Power International Pte Ltd, entered into management services agreements with the Companies and the Responsible Entity which commenced on 1 October 2005. SPI Management Services provides the services of key senior management, including the Managing Director and the executive management team of SP AusNet.

Most of the key senior management transferred their employment to SPI Management Services from other entities within the SP AusNet group on 1 October 2005, prior to the float of SP AusNet. Although not employed by SP AusNet, by virtue of the operation of the management services agreement, these individuals are deemed to qualify as key management personnel of SP AusNet.

The Directors and key management personnel of SP AusNet are engaged to provide services to the SP AusNet group and are not exclusive to any particular entity within SP AusNet. Accordingly, the details of remuneration disclosed in this Remuneration Report are for services provided to SP AusNet.

An overview of the elements of remuneration are set out in the table below. A more detailed discussion of each element is contained in this Remuneration Report.

	Elements of remuneration	Directors: Non-executive	Directors: Executive	Senior Executives
Fixed remuneration	Fees	✓	✗	✗
	Salary	✗	✓	✓
	Superannuation	✓	✓	✓
	Other benefits	✗	✓	✓
At-risk remuneration	Short-term incentive	✗	✓	✓
	Long-term incentive	✗	✗ (To be developed for future financial years)	
Post employment	Notice periods and termination payments	✗	✓	✓

The Remuneration Report is set out under the following main headings:

A Nomination and Remuneration Committee

B Policy and principles used to determine the nature and amount of remuneration

C Details of remuneration

D Service agreements

E Introduction of long-term incentive plan

A Nomination and Remuneration Committee

SP AusNet Transmission and SP AusNet Distribution have a Nomination and Remuneration Committee. The membership, responsibilities, authority and activities of the Nomination and Remuneration Committee are set out in the Nomination and Remuneration Committee Charter, which has been approved by the Board. The responsibilities of the Nomination and Remuneration Committee are to:

– advise the Board on matters relating to the remuneration of Directors and the senior management of SP AusNet;
– review the entity's obligations on matters such as superannuation and other employment benefits and entitlements;
– review and make recommendations to the Board regarding the appointment of new Directors, including the development of criteria for Board membership;
– review Board membership, including reviewing the performance of individual Directors and the Board as a whole and assessing the skills required on the Board; and
– make recommendations regarding succession plans for the Board.

During the financial year, membership of the Nomination and Remuneration Committee comprised:

– **Ng** Kee Choe (Chairman);
– **Quek** Poh Huat; and
– George Allister **Lefroy**.

The Nomination and Remuneration Committee has had one meeting since listing date held on 28 March 2006. The Managing Director and General Manager Human Resources & Communications (Committee Secretary) attend the Nomination and Remuneration Committee meetings by invitation and assisted the Nomination and Remuneration Committee in its deliberations, except on matters associated with their own remuneration.

From time to time, external specialist remuneration advice is sought in respect of general remuneration arrangements and in particular, advice on remuneration market movements is sought on an annual basis. Principal advisers are Mercer Human Resource Consulting and the Hay Group.

B Policy and principles used to determine the nature and amount of remuneration

SP AusNet has a remuneration strategy which is designed to attract, retain and motivate appropriately qualified and experienced Directors and senior executives. The Nomination and Remuneration Committee reviews SP AusNet's reward philosophy and principles to ensure they remain contemporary and consistent with generally acceptable market practice. Details of SP AusNet's remuneration strategy for the 2005/06 financial year are set out in this Remuneration Report.

Remuneration of Directors and executives is disclosed in accordance with the definition of compensation in AASB 124.

B.1 Non-executive Directors Remuneration

Fees paid to Non-executive Directors are set at levels that reflect both the responsibilities of, and the time commitments required from, each non-executive Director to discharge their duties. Fee levels are set having regard to independent professional advice and fees paid by comparable companies. To maintain objectivity and independence, the fees paid to non-executive Directors are not linked to the performance of SP AusNet.

The Non-executive Directors of SP AusNet during the period were:

– **Ng** Kee Choe (Chairman)
– Jeremy Guy Ashcroft **Davis**
– Eric **Gwee** Teck Hai
– George Allister **Lefroy**
– Martyn Kenneth **Myer**
– **Quek** Poh Huat
– Ian Andrew **Renard**

Former Non-executive Directors

– **Wong** Toon Suan, resigned as a Director of SP AusNet Distribution and the Responsible Entity on 31 May 2005
– **Yap** Chee Keong, resigned as a Director of SP AusNet Distribution and the Responsible Entity on 31 May 2005 and SP AusNet Transmission on 31 October 2005

The constitutions of the Companies and the Responsible Entity provide that Directors are entitled to such remuneration from the Companies for their services as Directors as the Board decides, but the total amount provided to all Directors must not exceed in aggregate in any financial year the amount fixed by the Companies in general meeting. This excludes remuneration paid to executive Directors.

Accordingly the Board wishes to set the total remuneration pool for non-executive Directors and the Chairman's remuneration (inclusive of superannuation) at $1,000,000 per year with effect from 1 April 2006 and has submitted this amount for the securityholders' approval at the inaugural Annual General Meeting to be held on 18 July 2006.

In general, Directors are paid a fixed fee for their services to SP AusNet. The Chairman, taking into account the greater time commitment required, receives a higher amount. Directors who serve on committees of the Board receive additional yearly fees and the chairs of those committees are also paid an additional amount. Fees payable to non-executive Directors of SP AusNet as at the date of this report are set out in the table below:

Non-executive Directors' base fees

	Board		Audit and Risk Management Committee		Nomination and Remuneration Committee		Compliance Committee	
	Chair	Member	Chair	Member	Chair	Member	Chair	Member
Fee	$100,000	$70,000	$10,000	$7,000	$10,000	$7,000	$10,000	$7,000

In accordance with rules 11.3 of the Companies' constitutions and rule 6.3 of the Responsible Entity's constitution, Directors may also be paid additional fees for special duties or exertions. Such fees are not included in the aggregate remuneration cap approved by securityholders. No such fees were paid during the year.

Directors are also entitled to be reimbursed for all business-related expenses, including travel on company business, as may be incurred in the discharge of their duties.

Superannuation contributions are made on behalf of the Non-executive Directors in accordance with the Group's statutory superannuation obligations.

The Board will continue to review its approach to Non-executive Director remuneration to ensure it remains in line with general industry practice and best practice principles of corporate governance.

B.2 Executive Director and senior executive remuneration

Reward philosophy

The objective of SP AusNet's overall reward philosophy is to manage a total reward framework (described below) designed to:

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

The remuneration and incentive package for the Managing Director and other executives is determined and paid by SPI Management Services. SP AusNet's Nomination and Remuneration Committee may make recommendations to SPI Management Services in relation to remuneration, incentive payments and programs, and key performance measures in respect of senior management at any time to promote alignment of "owner-management" interests.

The disclosures in this section relate to those executives listed below, being the Managing Director and the senior executives with authority and responsibility for planning, directing and controlling the activities of the Companies and the Stapled Group during the financial year.

Managing Director

Nino **Ficca**	Managing Director

Senior executives

Paul **Adams**[1]	General Manager – Network Services
Peter **Buck**	General Manager – Distribution Network Development
Norman **Drew**	General Manager – Transmission Network Development
Terrence **Fowler**[2]	General Manager – Finance
Peter **Merritt**	General Manager – Business Systems and Services
Charles **Popple**	General Manager – Regulatory and Business Strategy

Reward principles for the Managing Director and senior executives

SP AusNet's reward philosophy is based on a performance management framework. Central to this is the principle that the highest performers and those showing greatest potential and future capability should receive the greatest rewards. The framework sets out the manner in which performance should be assessed and recognised, and how performance should then impact on the components of total reward.

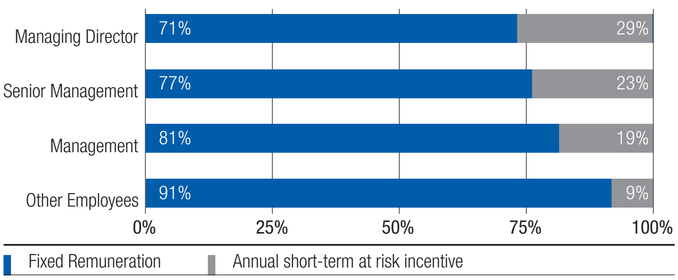
The "Performance Development Planning" framework that is used throughout SP AusNet, including for key management personnel and the company secretary, comprises various key performance development areas and indicators (KPIs). These include management and development of talent and behaviour. The framework is underpinned with a formal performance management review process conducted twice a year, which provides a forward-looking view of an individual's potential capability.

Structure of total reward

The reward principles set out the relevant elements of remuneration to make up the "total reward". For the majority of SP AusNet employees, total reward consists of fixed remuneration and "at risk" remuneration through short-term incentive plans. SP AusNet is considering the introduction of long-term incentive plans (see Section E below). An appropriate mix of these components is determined for each level of management and employees.

The total reward mix for various levels of seniority in SP AusNet for the reporting period, expressed as a percentage of total reward, is shown in the table below.

TOTAL REWARD MIX



Fixed remuneration

Fixed remuneration is comprised of salary, company superannuation contributions and benefits, salary-sacrificed items such as motor vehicles and fringe benefits tax. Fixed remuneration reviews are undertaken annually in an effort to maintain competitive remuneration levels in the relevant markets in which SP AusNet competes for talent.

Fixed remuneration reflects the scope of the role and the level of skill and experience of the individual. Fixed remuneration is generally set at the median level (50th percentile) of the applicable remuneration market. SP AusNet typically applies a range of 80% to 120% around the selected fixed remuneration market percentile.

1 Mr Adams was an executive Director of the Responsible Entity from 31 May 2005 to 9 September 2005, prior to SP AusNet's listing. He did not receive any remuneration for these services.
2 Mr Fowler was an executive Director of the Responsible Entity from 31 May 2005 to 9 September 2005 and of SP AusNet Transmission from 7 September 2005 to 31 October 2005, prior to SP AusNet's listing. He did not receive any remuneration for these services.

At-risk remuneration – short-term incentive scheme (cash bonuses)

The variable component of the total reward is based on an annual short-term incentive (STI) scheme, which consists entirely of cash bonuses and does not involve securities. The payments under the STI scheme, known as annual incentive payments (AIPs), are determined using a set of corporate financial and non-financial measures as well as stretch individual performance hurdles.

The corporate measures set for 2005/06 include:

- net profit;
- health, safety and environment targets;
- network performance and reliability targets; and
- program delivery (capital and maintenance) targets.

During 2005, SP AusNet implemented a performance development planning framework for key management personnel and employees under incentive based employment agreements (approximately 500 employees). The key elements of the framework are as follows:

- setting corporate KPIs for SP AusNet at the commencement of the performance period, which roll down into individual KPIs for each employee via an individual performance development plan. Each individual's performance plan defines what is required to achieve stretch individual performance hurdles;
- a review process where managers review, compare and calibrate the performance of their direct reports. The review process allows for performance to be differentiated, and confirms individual performance ratings and the related reward outcomes (fixed remuneration percentile and STI multiple). The review also identifies those employees who require development and those who are performing poorly;
- a mid-year review is conducted to track progress of the achievement of performance plan objectives and personal development plans with the aim of enabling succession planning and career development for individuals; and
- an annual 360 degree peer review is undertaken that assesses employees' contribution to SP AusNet's performance capability, through strong leadership behaviour that supports and underpins SP AusNet's corporate values and culture.

By linking individual rewards to the achievement of overall corporate targets, this framework aligns the interests of employees and managers with those of SP AusNet.

Commencement and retention awards

SP AusNet has not entered into commencement awards. Limited retention awards have been provided to key individuals in roles where retention is critical over the medium term (two to three years). In the current absence of an established LTI plan, these have taken the form of staggered cash payments and subject to individual performance hurdles being met.

When TXU Australia Group ("TXU") was acquired in 2004, there was a recognised need to retain certain key TXU executives or attract them to new positions over a transitional period. Under an arrangement with TXU's parent company, key executives were entitled to redundancy benefits in certain circumstances following a "change in control". More particularly, redundancy benefits were payable if the employment was terminated by the employer or the employee terminated their employment due to a significant change in their role during the two years following the change in control. This arrangement was intended to operate as a form of guaranteed payment in the event that the executive's employment was subsequently terminated or altered by the new owner.

In order to retain Paul Adams (General Manager, Networks Services Group), who was identified as a key TXU executive, following the acquisition, he was offered a form of retention payment based on his entitlement under the arrangement with TXU. However, instead of a lump sum payment, the amount was made payable over four years (ending on 1 April 2008) as part of his remuneration structure. In addition, his entitlement is subject to a fixed and variable formula with the latter being linked to his achievement of individual performance targets.

Similarly, Peter Buck (General Manager, Distribution Network Development) was offered two payments across two years with the second and final amount payable in August 2006. This amount comprises a fixed and a variable component which is linked to Mr Buck's achievement of individual performance targets.

Loans to Directors and executives

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

C Details of remuneration

Details of the remuneration of each Director of SP AusNet and each of the key management personnel of SP AusNet for the year ended 31 March 2006 are set out in the following tables. The STI cash bonuses are dependent on the satisfaction of performance conditions as set out in the section headed *At-risk remuneration* above. No other elements of remuneration are directly related to performance.

Director Remuneration

Details of Non-executive and executive Directors' remuneration for the reporting period are set out in the following tables.

Non-executive Director remuneration

	Cash salary and fees	Super-annuation Contributions[1]	Insurance	Total
Ng Kee Choe (Chairman)	70,422	6,338	5,555	82,315
Jeremy Guy Ashcroft **Davis**	66,819	6,014	5,555	78,388
Eric **Gwee** Teck Hai	70,322	–	5,555	75,877
George Allister **Lefroy**[2]	93,199	8,376	5,555	107,130
Martyn Kenneth **Myer**	43,177	3,886	5,555	52,618
Quek Poh Huat[3]	77,000	–	5,555	82,555
Ian Andrew **Renard**[2]	89,188	8,027	5,555	102,770
Wong Toon Suan[4]	–	–	–	–
Yap Chee Keong[4]	–	–	–	–

1 Superannuation contributions made on behalf of Non-executive Directors to satisfy SP AusNet's obligations under applicable Superannuation Guarantee legislation.
2 Dr Lefroy and Mr Renard received Directors' fees during the financial year for services provided during the year ended 31 March 2005. Dr Lefroy received $23,383 and Mr Renard $16,395, including superannuation contributions. These amounts are included in the table above.
3 As Mr Quek is an executive of Singapore Power and a nominee Director of Singapore Power on the Board of SP AusNet, Singapore Power receives the fees for Mr Quek's services as a Director of SP AusNet. Fees for Mr Quek's services as a Director during the period ending 31 March 2006 have not yet been paid.
4 Mr Wong and Mr Yap both resigned on 31 May 2005. Mr Wong and Mr Yap are both employees of Singapore Power and no fees are payable for their services as Directors during the period ending 31 March 2006.

SP AusNet does not make retirement payments to Directors.

Executive Director Remuneration

	Primary				Post-employment		Equity	
Name	Cash salary and fees	Retention payment	Cash bonus	Insurance	Super-annuation	Retirement benefits	Options	Total
Nino **Ficca**	398,658	–	86,212	5,555	39,990	–	–	530,415
Paul **Adams**[1]	230,443	104,892	17,865	5,000	23,716	–	–	381,916
Terrence **Fowler**[2]	204,922	–	77,031	5,000	18,385	–	–	305,338

1 Mr Adams was a Director of the Responsible Entity from 31 May 2005 to 9 September 2005.
2 Mr Fowler was a Director of the Responsible Entity from 31 May 2005 to 9 September 2005 and a Director of SP AusNet Transmission from 7 September 2005 to 31 October 2005.

The above payments were made to Mr Ficca, Mr Adams and Mr Fowler for the provision of services as executives of SP AusNet and not for their services as Directors.

Executive Remuneration
Details of the remuneration of SP AusNet executives for the reporting period are set out in the following table.

	Primary				Post-employment		Equity	
Name	**Cash salary and fees**	**Retention payment**	**Cash bonus**	**Insurance**	**Super-annuation**	**Retirement benefits**	**Options**	**Total**
Nino **Ficca**	398,658	–	86,212	5,555	39,990	–	–	530,415
Paul **Adams**	230,443	104,892[1]	17,865[2]	5,000	23,716	–	–	381,916
Peter **Buck**	185,331	67,657[1]	11,415[2]	5,000	16,811	–	–	286,214
Norman **Drew**	200,268	–	63,757[3]	5,000	20,036	–	–	289,061
Terrence **Fowler**	204,922	–	77,031[4]	5,000	18,385	–	–	305,338
Peter **Merritt**	169,892	–	32,935	5,000	17,130	–	–	224,957
Charles **Popple**	205,333	–	53,430[5]	5,000	20,899	–	–	284,622

1 Further details in relation to the retention payments to Mr Adams and Mr Buck are set out under heading *Commencement and retention awards* above.
2 Bonuses paid to Mr Adams and Mr Buck during the financial year represent a "stub" payment for the period 1 January 2005 to 31 March 2005 to bring their remuneration periods into line with the remaining executives following after the acquisition of TXU Australia Group. They did not receive additional bonuses under the SP AusNet STI plan.
3 Mr Drew's cash bonus paid during the reporting period consisted of a payment of $36,757 pursuant to the SP AusNet STI plan and a special discretionary bonus of $27,000, awarded prior to the listing of SP AusNet by Singapore Power Ltd in recognition of exceptional performance.
4 Mr Fowler's cash bonus paid during the reporting period consisted of a payment of $47,031 pursuant to the SP AusNet STI plan and a special discretionary bonus of $30,000, awarded prior to the listing of SP AusNet by Singapore Power Ltd in recognition of exceptional performance.
5 Mr Popple's cash bonus paid during the reporting period consisted of a payment of $38,430 pursuant to the SP AusNet STI plan and a special discretionary bonus of $15,000, awarded prior to the listing of SP AusNet by Singapore Power Ltd in recognition of exceptional performance.

STI – Cash bonuses
For each cash bonus included in the above tables, the percentage of the available bonus that was paid, or that vested, in the financial year, and the percentage that was forfeited because the person did not meet the service and performance criteria is set out below. No part of the bonuses are payable in future years.

Name	Paid %	Forfeited %
Nino **Ficca**	100.0	–
Paul **Adams**	N/A	N/A
Peter **Buck**	N/A	N/A
Norman **Drew**[1]	87.0	13.0
Terrence **Fowler**[1]	100.0	–
Peter **Merritt**	90.9	9.1
Charles **Popple**[1]	80.9	19.1

1 This percentage relates to the cash bonus paid to Mr Drew, Mr Fowler and Mr Popple pursuant to the SP AusNet STI plan.

The above bonuses were based on the executive's performance during the year ended 31 March 2005 but were not approved or paid until the financial year ended 31 March 2006. Bonuses for executive performance for the year ended 31 March 2006 have not yet been approved or paid.

D Service agreements

Duration of contracts
Remuneration and other terms of employment for the Managing Director and specified senior management are formalised in individual employment agreements. Each of these agreements provides for performance-related cash bonuses, fringe benefits plus other benefits. Under the terms of these agreements, the Managing Director and other members of the senior executive team continue to be employed until their employment is terminated.

Notice periods and payments on termination
The employment agreements provide for termination payments to be made in certain circumstances. In particular, SP AusNet may terminate the employment of the Managing Director and other executives (except Mr Paul Adams) on giving one month's notice. Mr Adams' agreement provides for a notice period of three months. SP AusNet may make a payment in lieu of notice. In general, the Managing Director and other executives must give the Group at least one month's notice of resignation.

Termination benefits are generally calculated as three weeks' pay for every year of service paid at the executive's Fixed Annual Remuneration (FAR) rate and capped at a specified period. This specified termination payment cap period is set at six months for the Managing Director and other executives except Mr Adams. Mr Adams' termination payment cap is set at nine months.

In addition, in the event that SP AusNet or Mr Adams terminates his employment in prescribed circumstances, he is entitled to be paid the remainder of the fixed and variable amounts of retention payment outstanding as at the date of his termination.

E Introduction of long-term incentive plan
SP AusNet proposes to introduce a long-term incentive (LTI) plan into the remuneration structure for the Managing Director, direct reports to the Managing Director and selected key individuals who can influence long-term security value. This plan will be presented to the Nomination and Remuneration Committee and the Board for consideration.

Loans to Directors and executives
SP AusNet Distribution has made no loans to the Directors or to other key management personnel during the financial year. There were no amounts outstanding from Directors or other key management personnel at 31 March 2006.

Indemnification and Insurance of Directors and Officers

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

During the financial year, the Stapled Group paid a premium of $444,359 to insure the Directors and secretaries of the company and its Australian-based controlled entities, and the general managers of each of the divisions of SP AusNet.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in SP AusNet, and any other payments arising from liabilities incurred by the officers in connection with such proceedings, other than where such liabilities arise out of conduct involving a willful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the Stapled Group. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

Proceedings on behalf of SP AusNet

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of SP AusNet, or to intervene in any proceedings to which SP AusNet is a party, for the purpose of taking responsibility on behalf of the Stapled Group for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of SP AusNet with leave of the Court under section 237 of the *Corporations Act 2001*.

Management Services Agreements

SPI Management Services, a wholly-owned subsidiary of Singapore Power International Pte Ltd, has entered into a management services agreements with the Companies and the Responsible Entity.

SPI Management Services comprises key senior management (including the Managing Director and the executive management team) and staff who transferred from SP AusNet prior to the Initial Public Offering. The Managing Director and the executive management team are deemed by virtue of the operation of the management services agreement to be the key management personnel of SP AusNet. The management staff have in-depth knowledge of SP AusNet's assets, having mostly managed their operations both prior to and following their acquisition by Singapore Power Ltd. In addition, SPI Management Services will consult with, and seek advice from, Singapore Power Ltd and its subsidiaries from time to time in the performance of its work.

Under the management services agreement with the Companies, SPI Management Services has been appointed for an initial period of 10 years commencing 1 October 2005, with SP AusNet having options to renew for two further ten-year periods. Non-renewal by the Companies (in the absence of a terminable breach by SPI Management Services) will result in a termination fee equal to the previous financial year's Services Charge paid or payable to SPI Management Services for the financial year immediately prior to the financial year in which termination occurs. Any variation to the material terms of the management services agreement will be subject to securityholder approval.

Under the Management Services Agreement, SPI Management Services will ensure core management services are provided to SP AusNet, including:

– employee management;
– business management;
– evaluation of business opportunities;
– management of regulatory compliance and relations with regulators;
– financial and management accounting;
– management of information technology;
– management and coordination of maintenance and engineering services;
– public and investor relations;
– legal and company secretarial services; and
– general administration and company reporting.

SPI Management Services's actions are subject to oversight by the Boards of Directors and the Audit and Risk Management Committees of SP AusNet Transmission, SP AusNet Distribution and the Compliance Committee of SP AusNet Finance Trust, to whom SPI Management Services is required to report regularly. All related (interested) party transactions with Singapore Power Ltd are subject to review by the Audit and Risk Management Committees of the Companies and the Compliance Committee of SP AusNet Finance Trust.

There are rights of termination under the Management Services Agreement which may be exercised by SP AusNet Transmission, SP AusNet Distribution, the Responsible Entity and SPI Management Services in certain circumstances and do not require the approval of securityholders. SP AusNet Transmission, SP AusNet Distribution and SP AusNet Finance Trust will be entitled to terminate the Management Services Agreement immediately by giving SPI Management Services written notice upon the occurrence of SPI Management Services's failure to meet 50% or more of the agreed key performance indicators for two consecutive financial years for events under their control.

Auditor

KPMG continues in office in accordance with section 327 of the *Corporations Act 2001*.

A copy of the auditors' independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 54.

KPMG will stand for appointment as auditor of the Companies at the Annual General Meeting in accordance with section 327B of the *Corporations Act 2001*.

Non-audit services

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

Details of the amounts paid or payable to the auditor (KPMG) for audit and non-audit services provided during the year are set out below.

The Board of Directors has considered the position and, in accordance with the advice received from the Audit and Risk Management Committee is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

– all non-audit services have been reviewed by the Audit and Risk Management Committee to ensure they do not impact the impartiality and objectivity of the auditor; and

– none of the services undermine the general principles relating to auditor independence as set out in Professional Statement F1, including reviewing or auditing the auditor's own work, acting in a management or a decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risk and rewards.

A copy of the auditors' independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 54.

	Consolidated	
	2006 $	2005 $
During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:		
Assurance services		
1. Audit services		
KPMG Australian firm:		
Audit and review of financial reports and other audit work under the *Corporations Act 2001*	**756,000**	880,000
Total remuneration for audit services	**756,000**	880,000
2. Other assurance services		
KPMG Australian firm:		
Audit of regulatory returns	**315,000**	110,000
Due diligence services	**247,469**	350,000
Total remuneration for other assurance services	**562,469**	460,000
Total remuneration for assurance services	**1,318,469**	1,340,000
Taxation services		
KPMG Australian firm:		
Tax compliance services, including review of company income tax returns	**362,895**	122,904
Total remuneration for taxation services	**362,895**	122,904
Advisory services		
KPMG Australian firm:		
Information technology staff providing assistance to the Internal Audit Department	**24,484**	–
Total remuneration for advisory services	**24,484**	–
Total fees	**1,705,848**	**1,462,904**

In relation to all non-statutory audit services KPMG's appointment as a service provider has been subject to the company's corporate governance procedures encompassing the selection of service providers and the setting of their remuneration.

Rounding of amounts

The company is of a kind referred to in Class Order 98/0100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the Directors' Report. Amounts in the Directors' report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

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

Nino Ficca

Melbourne
5 June 2006

LEAD AUDITORS' INDEPENDENCE DECLARATION under section 307C of the *Corporations Act 2001*

To: the Directors of SP Australia Networks (Distribution) Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 31 March 2006 there have been:

(i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

Alison Kitchen
Partner

Melbourne
5 June 2006

INCOME STATEMENTS For the year ended 31 March 2006

	Notes	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent entity 2006 $'000	Parent entity 2005 $'000
Revenue from continuing operations	5	**757,535**	396,712	**2,761**	311
Expenses excluding finance costs	7	**(393,824)**	(184,122)	**(1,714)**	–
Finance costs	7	**(186,187)**	(140,995)	**(8,655)**	–
Profit before income tax		**177,524**	71,595	**(7,608)**	311
Income tax benefit/(expense)	8	**(1,855)**	(24,795)	**1,795**	(118)
Profit from continuing operations		**175,669**	46,800	**(5,813)**	193
Profit from discontinued operations (after tax)	10	**159,563**	46,917	**–**	–
Profit for the year		**335,232**	93,717	**(5,813)**	193
Profit attributable to SP AusNet Transmission and SP AusNet Finance Trust (minority interest)		**39,882**	–	**–**	–
Profit attributable to SP AusNet Distribution		**295,350**	93,717	**(5,813)**	193
Total profit for the year		**335,232**	93,717	**(5,813)**	193

	Notes	Cents	Cents
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the company:			
Basic and diluted earnings per share	9	**6.49**	1.40
Earnings per share for profit attributable to the ordinary equity holders of the company:			
Basic and diluted earnings per share	9	**14.11**	4.48

The above Income Statements should be read in conjunction with the accompanying notes.

The comparative period for the parent entity and the consolidated group is from 21 April 2004, the date of incorporation of SP AusNet Distribution, to 31 March 2005. SP AusNet Distribution did not commence trading until 30 July 2004 when it acquired TXU Australia Group Pty Ltd.

STATEMENTS OF RECOGNISED INCOME AND EXPENSE For the year ended 31 March 2006

		Consolidated		Parent entity	
	Notes	2006 $'000	2005* $'000	2006 $'000	2005* $'000
Adjustment on adoption of AASB 132 and AASB 139, net of tax, to:					
– Retained profits, net of tax	42(h)(i)	**65,299**	–	**–**	–
– Reserves, net of tax	42(h)(i)	**(22,800)**	–	**–**	–
Actuarial gains, net of tax	27	**3,403**	3,592	**–**	–
Cash flow hedges, net of tax	29	**5,244**	–	**–**	–
Net income recognised directly in equity		**51,146**	3,592	**–**	–
Profit for the year		**335,232**	93,717	**(5,813)**	193
Total recognised income and expense for the year		**386,378**	97,309	**(5,813)**	193
Total recognised income and expense for the year is attributable to:					
Members of SP AusNet Distribution		**346,349**	97,309	**(5,813)**	193
SP AusNet Transmission and SP AusNet Finance Trust (minority interest)		**40,029**	–	**–**	–
Total recognised income and expense for the year		**386,378**	97,309	**(5,813)**	193

The above Statements in Recognised Income and expense should be read in conjunction with the accompanying notes.

The comparative period for the parent entity and the SP AusNet group is from 21 April 2004, the date of incorporation of SP AusNet Distribution, to 31 March 2005. SP AusNet Distribution did not commence trading until 30 July 2004 when it acquired TXU Australia Group Pty Ltd.

BALANCE SHEETS As at 31 March 2006

		Consolidated		Parent entity	
	Notes	2006 $'000	2005 $'000	2006 $'000	2005 $'000
ASSETS					
Current assets					
Cash and cash equivalents	11	**8,708**	46,893	**31**	1
Receivables	12	**132,005**	300,157	**–**	17
Inventories	13	**6,472**	34,933	**–**	–
Derivative financial instruments	14	**188,829**	165,605	**–**	–
Other current assets	15	**5,753**	10,367	**300**	–
Total current assets		**341,767**	557,955	**331**	18
Non-current assets					
Receivables	12	**373**	525	**1,694**	–
Investments accounted for using the equity method	16	**–**	87,172	**–**	–
Other financial assets	17	**–**	366,730	**2,226,471**	2,220,424
Inventories – non-current	13	**11,797**	9,090	**–**	–
Property, plant and equipment	18	**6,227,087**	3,799,152	**–**	–
Deferred tax assets	19	**–**	–	**167,888**	194,459
Intangible assets	20	**354,505**	979,364	**–**	–
Other non-current assets	15	**11,498**	16,537	**–**	–
Total non-current assets		**6,605,260**	5,258,570	**2,396,053**	2,414,883
Total assets		**6,947,027**	5,816,525	**2,396,384**	2,414,901
LIABILITIES					
Current liabilities					
Payables	21	**140,314**	221,571	**165,016**	194,577
Interest bearing liabilities	22	**644,444**	200,001	**–**	–
Derivative financial instruments	14	**173,657**	223,922	**–**	–
Current tax liabilities		**8,869**	–	**–**	–
Provisions	23	**13,879**	28,970	**–**	–
Total current liabilities		**981,163**	674,464	**165,016**	194,577
Non-current liabilities					
Interest bearing liabilities	22	**2,870,364**	4,715,709	**2,236,988**	2,220,131
Other financial liabilities	24	**4,098**	221,422	**–**	–
Deferred tax liabilities	25	**475,197**	20,977	**–**	–
Provisions	26	**34,609**	86,644	**–**	–
Total non-current liabilities		**3,384,268**	5,044,752	**2,236,988**	2,220,131
Total liabilities		**4,365,431**	5,719,216	**2,402,004**	2,414,708
Net assets		**2,581,596**	97,309	**(5,620)**	193
EQUITY					
Equity holders of SP AusNet Distribution					
Contributed equity	28	**–**	–	**–**	–
Reserves	29(a)	**(10,707)**	3,592	**–**	–
Retained profits	29(b)	**454,365**	93,717	**(5,620)**	193
		443,658	97,309	**(5,620)**	193
Equity holders of SP AusNet Transmission and SP AusNet Finance Trust (minority interest)	28(c)	**2,137,938**	–	**–**	–
Total equity		**2,581,596**	97,309	**(5,620)**	193

The above Balance Sheets should be read in conjunction with the accompanying notes.

CASH FLOW STATEMENTS For the year ended 31 March 2006

	Notes	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent entity 2006 $'000	Parent entity 2005 $'000
Cash flows from operating activities					
Receipts from customers (inclusive of goods and services tax)		**915,347**	1,626,139	**16**	311
Payments to suppliers and employees (inclusive of goods and services tax)		**(574,311)**	(1,190,077)	**(2,636)**	(17)
Income tax paid		**(1,168)**	–	**–**	
Interest received		**6,052**	4,879	**2,745**	–
Dividends received		**5,972**	5,710	**–**	–
Interest and other costs of finance paid		**(174,017)**	(133,356)	**(8,655)**	–
Net cash inflow from operating activities	41	**177,875**	313,295	**(8,530)**	294
Cash flows from investing activities					
Payment for purchase of controlled entity, net of cash acquired	36	**–**	(1,978,288)	**(5,500)**	(2,220,424)
Payments for property, plant and equipment		**(294,835)**	(163,168)	**–**	–
Payment of customer deposits		**(567)**	2,568	**–**	–
Proceeds from sale of property, plant and equipment		**3,813**	281	**–**	–
Proceeds from sale of business	10	**2,042,297**	–	**–**	–
Net cash inflow/(outflow) from investing activities		**1,750,708**	(2,138,607)	**(5,500)**	(2,220,424)
Cash flows from financing activities					
Net inflow/(outflow) from loans with related parties		**(996,000)**	1,996,102	**(996,000)**	2,220,131
Proceeds of cash balance on stapling		**8,059**	–	**–**	–
Proceeds from borrowings		**76,500**	813,872	**1,010,060**	–
Repayment of borrowing costs		**–**	731	**–**	–
Repayment of borrowings		**(1,055,327)**	(938,500)	**–**	–
Net cash inflow/(outflow) from financing activities		**(1,966,768)**	1,872,205	**14,060**	2,220,131
Net (decrease)/increase in cash held		**(38,185)**	46,893	**30**	1
Cash at the beginning of the financial period		**46,893**	–	**1**	–
Cash at the end of the financial period	11	**8,708**	46,893	**31**	1

The above Cash Flow Statements should be read in conjunction with the accompanying notes.

The comparative period for the parent entity and the consolidated group is from 21 April 2004, the date of incorporation of SP AusNet Distribution, to 31 March 2005. SP AusNet Distribution did not commence trading until 30 July 2004 when it acquired TXU Australia Group Pty Ltd.

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Note 1 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial report are set out below. The financial report includes separate financial statements for SP AusNet Distribution, as an individual entity and the Stapled Group consisting of SP AusNet Distribution and its subsidiaries, SP AusNet Transmission and its subsidiaries and SP AusNet Finance Trust. The Stapled Group of companies is referred to as SP AusNet.

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRSs), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

This general purpose financial report is presented in Australian dollars.

The Stapled Group's current liabilities exceed its current assets due primarily to the maturity of certain debt securities within 12 months of balance date. The financial report has been prepared on a going concern basis, which contemplates the continuity of normal trading operations including the refinancing of maturing debt securities. The Directors are considering a range of refinancing options for the maturing debt. In addition, the Stapled Group has the ability to draw down on existing loan facilities to refinance the maturing debt.

Compliance with IFRSs

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards. Compliance with AIFRSs ensures that the consolidated financial statements and notes of the Stapled Group comply with International Financial Reporting Standards (IFRSs). The parent entity financial statements and notes also comply with IFRSs except that it has elected to apply the relief provided to parent entities in respect of certain disclosure requirements contained in AASB 132 *Financial Instruments: Presentation and Disclosure*.

Application of AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*

These financial statements are the first annual financial statements to be prepared by SP AusNet Distribution in accordance with AIFRSs. AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* has been applied in preparing the financial statements.

Financial statements of SP AusNet Distribution until 1 April 2005 had been prepared in accordance with previous Australian Generally Accepted Accounting Principles (AGAAP). AGAAP differs in certain respects from AIFRSs. In the application of AIFRSs the Directors are required to amend certain accounting, valuation and consolidation methods applied in the AGAAP financial statements to comply with AIFRSs. With the exception of financial instruments, the comparative figures were restated to reflect these adjustments. The Stapled Group has taken the exemption available under AASB 1 to only apply AASB 132 and AASB 139 from 1 April 2005.

Reconciliations and descriptions of the effect of transition from previous AGAAP to AIFRSs on the Stapled Group's equity and its net income are given in note 42.

Early adoption of standard

The Stapled Group has elected to apply the following accounting standards to the annual reporting period beginning 1 April 2005:

- AASB 119 *Employee Benefits* (issued December 2004)
- AASB 2004-3 *Amendments to Australian Accounting Standards* (AASB 1, AASB 101, AASB 124 issued December 2004)
- AASB 2005-1 *Amendments to Australian Accounting Standards* (AASB 139 issued May 2005)
- AASB 2005-3 *Amendments to Australian Accounting Standards* (AASB 119 issued June 2005)
- AASB 2005-4 *Amendments to Australian Accounting Standards* (AASB 139, AASB 132, AASB 1 issued June 2005)
- AASB 2005-5 *Amendments to Australian Accounting Standards* (AASB 1, AASB 139 issued June 2005)
- AASB 2005-6 *Amendments to Australian Accounting Standards* (AASB 3 issued June 2005)
- AASB 2005-7 *Amendments to Australian Accounting Standards* (AASB 134 issued June 2005)
- AASB 2005-10 *Amendments to Australian Accounting Standards* (AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1 issued September 2005)
- AASB 2006-1 *Amendments to Australian Accounting Standards* (AASB 121 issued January 2006)
- AASB 2006-2 *Amendments to Australian Accounting Standards* (AASB 1 issued March 2006)

AASB 7 *Financial Instruments: Disclosures* is applicable to annual reporting periods beginning on or after 1 January 2007. The Stapled Group has not adopted this standard early. Application of the standard will not effect any of the amounts recognised in the financial statements but will impact the type of information disclosed in relation to the Stapled Group's financial instruments.

AASB 2005-9 *Amendments to Australian Accounting Standards* (AASB 4, AASB 1023, AASB 139 and AASB 132) is applicable to reporting periods commencing on or after 1 January 2006. The transmission group has not adopted this standard early. AASB 2005-9 amends AASB 139 *Financial Instruments: Recognition and Measurement* to include financial guarantee contracts within its scope. As a result of the changes, guarantee contracts will have to be recognised initially at their fair value and subsequently at the higher of the amount determined in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* and fair value less amortisation (if appropriate). The guidance surrounding the valuation of non-arm's length guarantees is still evolving. No expected impact from the adoption of AASB 2005-9 has therefore been disclosed.

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities (including derivative instruments) at fair value through the income statement.

Critical accounting estimates

The preparation of financial statements in conformity with AIFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Stapled Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

(b) Principles of consolidation

(i) Stapling

Pursuant to the Stapling Deed dated 19 October 2005 (effective from 21 October 2005) a Stapled Group was established for the purpose of facilitating a joint quotation of SP AusNet Distribution, SP AusNet Transmission and SP AusNet Finance Trust on the Australian Stock Exchange (ASX) and the Singapore Exchange Securities Trading Limited (SGX-ST).

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

For statutory reporting purposes the purchase method of accounting has been applied to the stapling arrangement, refer to note 1(h).

SP AusNet Distribution has been identified as the acquirer in the Stapled Group based on the size of its net assets and its operations and accordingly, it presents the consolidated financial report of the Stapled Group.

In applying the purchase method in the preparation of the consolidated financial statements of SP AusNet Distribution, the carrying amounts of the assets and liabilities of SP AusNet Distribution at the date of the stapling arrangement have been combined with the fair values of the identifiable assets, liabilities and contingent liabilities of SP AusNet Transmission and SP AusNet Finance Trust at the date of the stapling arrangement. Refer to note 36 for details of the fair value of assets and liabilities acquired at the date of stapling.

The income statements and statements of cash flows therefore disclose the consolidated results and cash flows of SP AusNet Distribution for the financial year ended 31 March 2006 and of SP AusNet Transmission and SP AusNet Finance Trust from the date of stapling to 31 March 2006. The comparative figures for the consolidated entity reflect only the consolidated results and cash flows of SP AusNet Distribution from the date of acquisition of TXU Australia Group Pty Ltd on 30 July 2004 to 31 March 2005. From the date of incorporation on 21 April 2004 to 30 July 2004 SP AusNet Distribution did not trade.

The consolidated balance sheets as at 31 March 2006 reflect the financial position for SP AusNet Distribution, SP AusNet Transmission and SP AusNet Finance Trust. The comparative figures for the consolidated entity reflect only the consolidated financial position of SP AusNet Distribution at 31 March 2005.

As the business combination has been effected by contract alone, the total ownership interest in SP AusNet Transmission and SP AusNet Finance Trust is presented as minority interest in the consolidated financial statements of SP AusNet Distribution, notwithstanding that by virtue of the stapling arrangement SP AusNet Distribution, SP AusNet Transmission and SP AusNet Finance Trust have common equity holders (securityholders) with the effect that total equity of the Stapled Group belongs to the securityholders.

The components of minority interest, being share capital, reserves and retained earnings in the case of SP AusNet Transmission and unit holders' funds in the case of SP AusNet Finance Trust have been separately presented in the notes to the financial statements. The retained earnings of SP AusNet Transmission and the unit holders' funds of SP AusNet Finance Trust are available for distribution directly to securityholders.

(ii) Subsidiaries

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

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

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group, refer to note 1(h).

Intercompany transactions, balances and unrealised gains on transactions between stapled entities are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the accounting policies of the Stapled Group.

Minority interests in the results and equity of subsidiaries are shown separately in the stapled income statement and balance sheet respectively and belong to security holders.

Note 1 Summary of significant accounting policies (continued)

(iii) Associates
Associates are all entities over which the Stapled Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for in the parent entity financial statements using the cost method and in the stapled financial statements using the equity method of accounting, after initially being recognised at cost. The Stapled Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Stapled Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates are recognised in the parent entity's income statement, while in the stapled financial statements they reduce the carrying amount of the investment.

When the Stapled Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Stapled Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Stapled Group and its associates are eliminated to the extent of the Stapled Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Stapled Group.

(iv) Joint venture entities
The interest in a joint venture partnership is accounted for in the financial statements for the Stapled Group using the equity method and is carried at cost by the parent entity. Under the equity method, the share of the profits or losses of the partnership is recognised in the income statement, and the share of movements in reserves is recognised in reserves in the balance sheet. Details relating to joint venture entities are set out in note 38.

Profits or losses on transactions establishing the joint venture partnership and transactions with the joint venture are eliminated to the extent of the Stapled Group's ownership interest until such time as they are realised by the joint venture partnership on consumption or sale, unless they relate to an unrealised loss that provides evidence of the impairment of an asset transferred.

(c) Segment reporting
A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of segments operating in other economic environments.

(d) Foreign currency translation

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

(ii) Transactions and balances
All foreign currency transactions are accounted for using the exchange rate at the date of the transaction. At balance date, monetary items are translated at the exchange rate existing at that date. Resultant exchange differences are recognised in the income statement for the year, except for the following:

- Exchange differences which are related to assets under construction for future productive use are included in the cost of those assets; and
- The net amounts receivable or payable under foreign currency hedge contracts and the associated deferred gains or losses are recorded on the balance sheet from the date of inception of the hedge transaction. When the forecast transaction subsequently results in the recognition of a non-financial asset, the associated cumulative gain or loss is removed from equity and included in the initial cost or other carrying amount of the non-financial asset. The net receivables and payables are revalued using the exchange rate applicable at the reporting date.

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

(i) Sales of Goods and Rendering of Services

Transmission revenue
Transmission revenue is revenue earned from the transmission of electricity and related services and represents services rendered.

Distribution revenue

- Distribution revenue is revenue earned from external network services, customer transfer and reconnection, meter reading and other services.
- Revenues from a contract to provide services is recognised by reference to the stage of completion of the contract.

Merchant energy business (MEB)

- Revenue from the sale of goods represents revenue earned (net of discounts and allowances) from the sale of energy (electricity and gas) and power generation. Accrued revenue for energy sales is determined having regard to the period since a customer's last billing date and the customer's previous consumption patterns. Since the divestment of the MEB in May 2005 the Stapled Group does not retail gas or electricity.

(ii) Energy trading

The Stapled Group entered into financial transactions and other contractual commitments for energy trading purposes. Contracts entered into for trading purposes are recorded on a mark-to-market basis with gains and losses recognised in earnings in the period in which such valuation changes occur. The portfolio of electricity trading contracts is subject to back-to-back electricity contracts with a counterparty since the sale of the MEB. The offsetting pass through asset or liability is valued using the same methodology. Since the divestment of the MEB in May 2005 the Stapled Group has not entered into any new electricity trading contracts.

(iii) Contributions from customers for capital works

Contributions received from customers to assist in the financing of construction of assets are recognised as revenue when the project is complete.

(iv) Interest income

Interest revenue is recognised as it accrues, taking into account the effective yield on the financial asset.

(v) Dividends

Revenue from dividends and distributions from controlled, associated and joint venture entities is recognised by the parent entity when they are declared by the controlled entities, being the date that the parent establishes the right to receive payment.

(f) Income tax

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 the reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

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. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

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

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

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

Tax Consolidations

SP AusNet Distribution and SP AusNet Transmission are the head entities in two separate tax consolidated groups comprising each of these entities and their Australian wholly-owned subsidiaries. The effective dates of the adoption of the tax consolidation regime for the respective consolidated groups were as follows:

- SP AusNet Distribution tax consolidated group – 2 August 2004; and
- SP AusNet Transmission tax consolidated group – 19 October 2005.

Note 1 Summary of significant accounting policies (continued)

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

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

Each head entity recognises deferred tax assets arising from unused tax losses of its tax consolidated group to the extent that it is probable that future taxable profits of the tax consolidated group will be available against which the assets can be utilised.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses assumed from subsidiaries are recognised by the head entity only.

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

(g) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

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 balance sheet as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Stapled Group's general policy on borrowing costs.

Property, plant and equipment acquired under finance leases are capitalised and amortised over the shorter of the lease term and the useful life of the plants.

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

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

(h) Acquisitions of assets

The purchase method of accounting is used for all acquisitions of assets (including business combinations) regardless of whether equity instruments or other assets are acquired. Cost is determined as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. All potential intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair value can be measured reliably. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (refer to note 1(s)). If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

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

For reporting purposes the purchase method of accounting was applied to the establishment of the Stapled Group. Refer note 1(b).

(i) Impairment of assets

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

Goodwill, licences and other intangible assets with indefinite useful lives are tested for impairment at each reporting date and whenever there is an indication that the asset may be impaired. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

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 the income statement immediately.

In assessing recoverable amounts of non-current electricity and gas distribution assets, the allowable return on those distribution assets set out in the Victorian Electricity Supply Industry Tariff Order and the Victorian Gas Industries Tariff Order respectively have been taken into account. Similarly, in assessing recoverable amounts of transmission assets, the allowable return on those assets set out in the Australian Competition and Consumer Commission Revenue Determination has been included.

(j) Cash and cash equivalents

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

(k) Trade receivables

Trade receivables, loans and non-trade receivables are initially recognised at fair value and subsequently measured at amortised cost, less provision for doubtful debts.

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

(l) Customer deposits

Customer deposits are recognised as liabilities and represent refundable payments received in advance from customers held as security over future electricity and gas usage and deposits received in advance as finance on capital projects.

(m) Inventories

(i) Raw materials and stores, construction, general purpose materials and maintenance stocks

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

(ii) Gas rights

The Stapled Group recognised its rights to access and sell its gas stored in its underground reservoirs as inventory. Gas rights were recorded at the weighted average cost. Since the divestment of the energy business the Group has no gas rights.

(n) Non-current assets (or disposal groups) held for sale

Non-current assets (or disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell and are included in current assets.

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable, the asset is available for immediate sale in its present condition and the sale of the asset (or disposal group) is expected to be completed within one year from the date of classification.

(o) Investments

Subsequent to initial recognition, investments in subsidiaries are measured at cost.

Note 1 Summary of significant accounting policies (continued)

(p) Derivatives

The Stapled Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including forward foreign exchange contracts, forward interest rate contracts and interest rate swaps. In accordance with treasury policy, the Stapled Group does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting, even when entered into for hedging purposes, are accounted for as trading instruments.

SP AusNet's electricity transmission and distribution businesses and gas distribution business revenues and cost structures are impacted directly by changes in interest rates via the five-yearly regulatory price review. This is a result of the "building block" approach where interest rates are used to determine the weighted average costs of capital and consequently the regulated revenue. The objective of hedging activities in relation to these businesses is to minimise the exposure to change in interest rates by matching the actual cost of debt with the cost of debt assumed by the regulator when setting the rate of return for the relevant business.

From 21 April 2004 to 31 March 2005

The Stapled Group has taken the exemption available under AASB 1 to apply AASB 132 and AASB 139 from 1 April 2005. The Stapled Group has applied previous AGAAP in the comparative information on financial instruments within the scope of AASB 132 and AASB 139.

The following sets out how derivatives are accounted for under previous AGAAP:

Interest rate swaps

The net amount receivable or payable under interest swap agreements is progressively brought to account over the period to settlement. The amount recognised is accounted for as an adjustment to interest and finance charges during the period and included in other debtors or other creditors at each reporting date.

Where an interest rate swap is terminated early and the underlying hedged transaction is:

(a) still expected to occur as designated: the gains or losses arising on the swap upon its early termination continue to be deferred and are progressively brought to account over the period during which the hedged transactions are recognised;

(b) no longer expected to occur as designated: the gains or losses arising on the swap upon its early termination are recognised in the income statement at the date of termination.

Forward foreign exchange contracts

Gains or costs arising from entering into a contract intended to hedge the purchase or sale of goods or services, together with the subsequent exchange gains or losses resulting from remeasurement of those contracts by reference to movements in spot exchange rates are deferred in the balance sheet from the inception of the hedging transaction up to the date of the purchase or sale and included in the measurement of the purchase or sale.

Early termination of forward foreign exchange contracts is accounted for on a basis consistent with interest rate swaps (refer above). For foreign exchange contracts, if the hedged transaction is not expected to occur as originally designated, or if the hedge is no longer expected to be effective, any previously deferred gains or losses are recognised as revenue or expense immediately.

Gains and losses on speculative foreign currency transactions are brought to account as they arise. These gains and losses are measured by reference to movements in the forward exchange rates for the relative currencies.

Adjustments on transition date: 1 April 2005

The nature of the main adjustments to make this information comply with AASB 132 and AASB 139 are that derivatives are measured on a fair value basis going forward. At the date of transition (1 April 2005) changes in the carrying amounts of derivatives are taken to retained earnings or reserves, depending on whether the criteria for hedge accounting are satisfied at the transition date.

For further information concerning the adjustments on transition date reference should be made to:

- Derivative financial instruments – note 14 and note 30
- Reserves and retained profits – note 29
- Explanation of transition to AIFRSs – note 42

From 1 April 2005

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

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

The fair values of various derivative financial instruments used for hedging purposes are disclosed in note 14. Movements in the hedging reserve in shareholders' equity are shown in note 29.

Fair value hedge

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

Cash flow hedge

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

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

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

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

Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement.

(q) Fair value estimation

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

The fair value of financial instruments traded in active markets is based on quoted market prices at the measurement date. The quoted market price used for financial assets held by the Stapled Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The Stapled Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest-rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at the balance sheet date.

Electricity contracts

The Stapled Group maintains a portfolio of electricity trading contract subject to back-to-back electricity contracts with a counterparty. The values of the contracts are measured by comparing the contracted prices to forecast pool prices. The offsetting pass through asset or liability is valued using the same methodology. Since the divestment of the merchant energy business in May 2005, the Stapled Group has not entered into new electricity contracts.

Non-trading

In the prior period hedging contracts were entered into with individual generators to cover forecasted electricity purchases. These contracts fixed the price of electricity within a certain range for the purpose of hedging or protecting against fluctuations in the spot market price. The values of the contracts were measured by comparing the contracted prices to forecasted pool prices. Since the divestment of the merchant energy business in May 2005, the Stapled Group has not entered into new hedging contracts to cover forecast electricity purchases.

Note 1 Summary of significant accounting policies (continued)

(r) Property, plant and equipment

Items of property, plant and equipment are stated at historical cost less depreciation. Historical cost includes all expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

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

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

Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land and easements. Depreciation is calculated on a straight-line basis so as to write off the net cost of each asset over its estimated useful life to its estimated residual value. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period.

The expected average useful lives of major asset classes are as follows:

	Years
Distribution network (gas)	60 – 120
Buildings	40 – 100
Transmission network	35 – 70
Distribution network (electricity)	30 – 70
Other general assets	3 – 10
Motor vehicles and heavy machinery	3 – 10
Computers equipment and software	3 – 5

Capital works at cost

Construction work in progress is stated at cost plus attributable overheads. Cost includes all costs directly related to specific projects and an allocation of overhead expenses.

(s) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of the Stapled Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is not amortised. Instead, goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

(ii) Distribution licences

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

(t) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. Trade and other payables are stated at cost and are unsecured.

(u) Borrowings

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

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(v) Net financing costs

Net financing costs comprise net financial borrowing costs calculated using the effective interest method, dividends on redeemable preference shares, interest receivable on funds invested, dividend income, foreign exchange gains and losses, and gains and losses on hedging instruments that are recognised in the income statement.

Borrowing costs directly attributable to a qualifying asset are capitalised to the cost of that asset.

The capitalisation rate used to determine the amount of borrowing costs to be included in the cost of qualifying assets is the weighted average interest rate of 6.5% applicable to the Stapled Group's outstanding borrowing during the period.

(w) Provisions

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

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

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

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

(i) Land remediation

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

(ii) Provision for uninsured losses

The Provision for Uninsured Losses records the assessment of probable or actual claims made against the Stapled Group for personal injury, property damage or financial loss, including public liability claims. The amount provided for public liability claims is limited to the applicable excess under the Stapled Group's insurance policies.

(iii) Onerous contracts

A provision for onerous contracts is recognised when expected benefits are less than unavoidable costs of meeting the contractual obligations. A provision is recognised for the net present value of the amount of unavoidable costs that exceed the benefits. Changes in the provision and interest charges are taken to the statement of financial performance.

(iv) Promotional rebate

A provision has been recognised for rebates to which new customers are entitled when they remain a customer for a predetermined period.

(x) Employee benefits

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

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

(ii) Long service leave

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

Note 1 Summary of significant accounting policies (continued)

(iii) Retirement benefit obligations

All employees of the Stapled Group are entitled to benefits on retirement, disability or death from the Group's superannuation plans. The Stapled Group has a defined benefit sections and defined contribution sections within its plans. The defined benefit sections provide defined lump sum benefits based on years service and final average salary. The defined contribution sections receive fixed contributions from Stapled Group companies and the Stapled Group's legal or constructive obligation is limited to these contributions to the fund.

Contributions made to defined contribution superannuation plans are expensed when incurred. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

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

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

Past service cost is the increase in the present value of the defined benefit obligation for employee services in prior periods, resulting in the current period from the introduction of, or changes to, past employment benefits or other long-term employee benefits. Past service costs may be either positive (where benefits are introduced or improved) or negative (where existing benefits are reduced).

When the benefits of the plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the income statement on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in the income statement.

Actuarial gains and losses are recognised in full directly in equity, in the period in which they occur, and are presented in the statement of recognised income and expenses.

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

(y) Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the consideration.

Distributions

Provision is made for the amount of any distributions approved on or before the end of the financial year but not distributed at balance date.

(z) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to members of the Stapled Group, excluding the minority interest and costs of servicing equity other than distributions, by the weighted average number of shares outstanding during the financial year, adjusted for bonus elements in shares issued during the year.

Because 100% of the profits of SP AusNet Transmission and SP AusNet Finance Trust are included in minority interests, but are available to the securityholders, an alternative presentation of earnings per share is also presented which is calculated as above, but includes earnings attributable to minority interests.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential shares.

(aa) Rounding of amounts

The Stapled Group is of a kind referred to in Class Order 98/0100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

Note 2 Financial risk management

The Stapled Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. The use of financial derivatives is governed by the Stapled Group's policies approved by the Board of Directors, which provide written principles on the use of financial derivatives. Compliance with policies and exposure limits is reviewed by the internal auditors.

The Stapled Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Stapled Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign currency risk, including:

– forward foreign exchange rate contracts;
– interest rate swap contracts;
– forward interest rate contracts; and
– currency swap contracts.

Risk management is carried out by a central treasury department (Stapled Group Treasury) under policies approved by the Board of Directors. Stapled Group Treasury identifies, evaluates and hedges financial risks in close cooperation with the Stapled Group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as mitigating foreign exchange, interest rate and credit risks, use of derivative financial instruments and investing excess liquidity.

(a) Market risk

Foreign exchange risk

The Stapled 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 currency swap agreements.

Currency swap contracts

The Stapled Group enters into currency swap contracts to manage foreign currency exposures primarily in US dollars.

Under currency swap contracts, the Stapled 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.

As at 31 March 2006, the Stapled Group had currency swap contracts for its US dollar denominated borrowings. The notional amount outstanding on currency swaps was A$1,291.0 million. These cross-currency swaps mature in December 2006 for A$359.9 million, November 2013 for A$407.1 million, November 2014 for A$400.5 million and December 2016 for A$123.5 million, respectively. The maturity of these swaps coincides with the maturity of the US dollar denominated borrowings.

Forward foreign exchange contracts

The Stapled Group has entered into contracts to hedge the exchange rate risk in relation to specific purchase orders. The Stapled Group has entered into forward foreign exchange contracts (for terms not exceeding 24 months) to hedge the exchange rate risk arising from these anticipated future transactions.

It is the policy of the Stapled Group to enter into forward foreign exchange contracts to cover 100% of the material exposure generated by specific foreign currency payments.

As at reporting date the aggregate amount of unrealised gains under forward foreign exchange contracts relating to anticipated future transactions is A$0.8 million. In the current year, these unrealised gains have been deferred in the hedging reserve to the extent the hedge is effective.

For details of currency swap contracts outstanding and forward foreign exchange contracts at the reporting date refer to note 14 and note 30.

(b) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Stapled Group. The Stapled Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The Stapled Group exposure and the credit ratings of its counterparties are continuously monitored and the aggregate values of transactions concluded are spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the Audit and Risk Management Committee annually. The Stapled Group measures credit risk on a fair value basis.

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

As part of the sale process in relation to the energy business (as detailed in note 10) the Group retained credit risk relating to the back-to-back electricity and gas contracts which at 31 March 2006 were valued at $111.9 million. The credit risk arises from a counterparty's ability to trade electricity and gas in accordance with the requirements of these contracts. Should the counterparty default on their contractual obligations the credit risk is assumed by the Stapled Group.

Note 2 Financial risk management (continued)

Other than in relation to the residual exposure arising from the sale of the MEB the Stapled Group does not have any significant credit risk exposure to any single counterparty or any Stapled Group of counterparties having similar characteristics. 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.

Except as detailed in the following table, the carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the Stapled Group's maximum exposure to credit risk without taking account of the value of any collateral obtained:

Financial assets and other credit exposures

	Maximum credit risk 2006 $'000	Maximum credit risk 2005 $'000
Cross-Currency Swaps	33,333	9,513
US Interest Rate Swaps	19,492	36,727
Energy Trading Contracts	111,964	163,943
Energy Hedging Purchases	–	11,830
AUD Interest Rate Swaps	16,969	1,205

(c) Liquidity risk

The Stapled 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.

(d) Interest rate risk management

The Stapled Group is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. The risk is managed by maintaining an appropriate mix between fixed and floating rate borrowings, by the use of interest rate swap contracts and forward interest rate contracts.

Interest rate swap contracts

Under interest rate swap contracts, the Stapled Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Stapled Group to mitigate the risk of changing interest rates on debt held. The fair value of interest rate swaps are based on market values of equivalent instruments at the reporting date and are disclosed below. The average interest rate is based on the outstanding balances at the start of the financial year.

From the beginning of the accounting period, the date of transition for application of AASB 132 and AASB 139, interest rate swap contracts exchanging floating rate interest amounts for fixed rate interest amounts are designated and effective as cash flow hedges. Interest rate swaps outstanding at 31 March 2006 were recognised as financial assets on adoption of the accounting policies specified in note 1.

Note 3 Critical accounting estimates and assumptions

The Stapled Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

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

The Stapled Group tests annually whether intangible assets with an indefinite life have suffered any impairment, in accordance with the accounting policy stated in note 1(i). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, which represent management's best estimates and judgments which are continuously being evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Both the electricity and gas distribution licences' impairment tests are based on value in use. In assessing value in use of non-current electricity and gas distribution assets, the allowable return on those distribution assets set out in the Victorian Electricity Supply Industry Tariff Order and the Victorian Gas Industries Tariff Order respectively have been used to prepare discounted cash flows for 20 years and a terminal multiple has been applied. The pre-tax discount rate used in these calculations is 9%.

(ii) Income taxes

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

The tax expense assumes that SP AusNet Distribution can carry forward income tax losses. If there is a change in the majority underlying ownership of SP AusNet Distribution as a result of a reduction in Singapore Power Limited's ownership position, this assumption may cease to be applicable, in which case future tax payments may increase which could have a material adverse impact on the financial position.

The Stapled Group has taken positions in relation to the potential income tax and GST consequences of the acquisition by SP AusNet Distribution of the Australian assets from TXU Corp the restructuring and sale of the merchant energy business (including the amount of capital gain resulting from the sale) and the restructuring and subsequent acquisition of the SP AusNet Transmission group. SP AusNet Transmission has taken positions in relation to the availability of certain deductions related to franchise fees and intellectual property. Certain of these positions are reflected in current and deferred tax outcomes in the Stapled Group's financial statements.

If the assumptions and tax positions adopted are ultimately determined to be different from what is expected, for example as a result of legislative change or interpretation, future tax payments may be increased which could have a material adverse impact on the financial performance.

(iii) Accrued revenue

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

(iv) Derivatives

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value on a quarterly basis. The method of recognising gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The relationship between hedging instruments and hedged items is documented at the inception of the transaction, including the SP AusNet risk management objectives and strategy for entering and maintaining the hedge transaction. SP AusNet also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair value or cash flow hedge items.

Derivatives not designated as hedging derivatives are classified as held for trading. These include:

– non-qualifying hedging derivatives and ineffective hedging derivatives;
– non-qualifying hedging derivatives which are entered into for risk management purposes but do not meet the criteria for hedge accounting; and
– ineffective hedging derivatives which were previously designated as hedges, but no longer meet the criteria for hedge accounting.

Cash flow hedge

The portion of a gain or loss on an instrument used to hedge that is determined to be effective is recognised directly in the Equity (Hedge Reserve). Any ineffective portion is recognised immediately in the income statement.

Fair value hedge

Gain or loss on remeasuring the hedging item adjusts the carrying amounts at that time and is recognised immediately in the income statement. The gain or loss on remeasuring the hedging item is recognised in the income statement.

Held for trading

The gains or losses of such derivatives are recognised immediately in the income statement.

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

Note 4 Segment information

(a) Description of segments

Business segments

The Stapled Group is organised into the following divisions by service.

(i) Electricity distribution

The electricity distribution network carries electricity from the high voltage transmission grid to end-users. The Stapled Group's network covers eastern Victoria including the eastern metropolitan region of Melbourne, Victoria, Australia.

The Stapled Group charges retailers and some large customers regulated rates for the use of the distribution network.

Note 4 Segment information (continued)

(ii) Gas distribution
The gas distribution network carries natural gas to commercial and residential end users and earns revenues at regulated rates for the distribution services provided by its network. The Stapled Group network covers central and western Victoria. The Stapled Group does not purchase or sell gas.

(iii) Electricity transmission
The Stapled Group owns and manages the majority of the electricity transmission network in Victoria. The Stapled Group's transmission network consists of the transmission lines and towers which carry electricity at high voltages from power stations to electricity distributors around Victoria, forming the backbone of the Victorian electricity grid. It is centrally located amongst the five eastern states of Australia that form the National Electricity Market, and provides key links between the electricity transmission networks of South Australia, New South Wales and Tasmania.

The transmission business earns network charges and connection charges and also earns network availability and reliability incentive payments within a regulated regime.

(iv) MEB/discontinued operations
The MEB comprised a portfolio of complementary upstream and downstream assets involved in the generation of electricity, storage of gas, purchase of electricity and gas, and retailing of electricity and gas to over one million wholesale and retail customers, primarily in Victoria and South Australia. The MEB was sold during the year ended 31 March 2006.

(b) Primary reporting format – business segments

2006	Electricity distribution $'000	Gas distribution $'000	Transmission $'000	Discontinued operations $'000	Inter-segment eliminations $'000	Consolidated $'000
Sales to external customers	360,824	122,204	132,014	276,559	–	891,601
Inter-segment sales (note (ii))	37,843	9,228	–	7,411	(54,482)	–
Total sales revenue	398,667	131,432	132,014	283,970	(54,482)	891,601
Other revenue/income	49,583	11,925	14,249	8,715	–	84,472
Total segment revenue/income	448,250	143,357	146,263	292,685	(54,482)	976,073
Segment result	182,776	86,731	79,640	238,609	–	587,756
Unallocated revenue less unallocated expenses						(171,624)
Profit before income tax						416,132
Income tax expense						(80,900)
Net profit for the year						335,232
Segment assets	2,486,997	1,329,823	2,942,470	–	–	6,759,290
Unallocated assets						187,737
Total assets						6,947,027
Segment liabilities	281,267	43,095	75,092	–	–	399,454
Unallocated liabilities						3,965,977
Total liabilities						4,365,431
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets						
Depreciation and amortisation expense	91,533	31,213	25,834	5,895	–	154,475
Impairment of trade receivables (note 12)	288	–	3	7,538	–	7,829
Other non-cash expenses	401	282	71	119	–	873

2005	Electricity distribution $'000	Gas distribution $'000	Transmission $'000	Discontinued operations $'000	Inter-segment eliminations $'000	Consolidated $'000
Sales to external customers	99,153	44,243	–	1,191,652	–	1,335,048
Inter-segment sales (note (ii))	154,068	36,013	–	51,866	(241,947)	–
Total sales revenue	253,221	80,256	–	1,243,518	(241,947)	1,335,048
Other revenue/income	24,821	4,990	–	9,880	–	39,691
Total segment revenue/income	278,042	85,246	–	1,253,398	(241,947)	1,374,739
Segment result	92,200	48,543	–	86,763	–	227,506
Unallocated revenue less unallocated expenses						(69,148)
Profit before income tax						158,358
Income tax expense						(64,641)
Net profit for the year						93,717
Segment assets	2,101,314	1,307,029	–	1,554,412	–	4,962,755
Unallocated assets						853,770
Total assets						5,816,525
Segment liabilities	92,514	41,447	–	766,795	–	900,756
Unallocated liabilities						4,818,460
Total liabilities						5,719,216
Investments in associates and joint venture partnership	–	–	–	145,693		145,693
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets						–
Depreciation and amortisation expense	51,048	21,557	–	27,771	–	100,376
Impairment of trade receivables (note 12)	132	–	–	7,624	–	7,756
Other non-cash expenses	249	637	–	10	–	896

(c) Secondary reporting format – geographical segments

The Stapled Group only operates in one geographical segment, being Victoria, Australia.

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

(i) Accounting policies

Segment information is prepared in conformity with the accounting policies of the entity as disclosed in note 1 and accounting standard AASB 114 *Segment Reporting*.

Segment revenues, expenses, assets and liabilities are those that are directly attributable to a segment and the relevant portion that can be allocated to the segment on a reasonable basis. Segment assets include all assets used by a segment and consist primarily of operating cash, receivables, inventories, property, plant and equipment and goodwill and other intangible assets, net of related provisions. While most of these assets can be directly attributable to individual segments, the carrying amounts of certain assets used jointly by segments are allocated based on reasonable estimates of usage. Segment liabilities consist primarily of trade and other creditors, employee benefits and provision for service warranties. Segment assets and liabilities do not include income taxes.

(ii) Inter-segment transfers

Segment revenues, expenses and results include transfers between segments. Such transfers are priced on an “arm’s-length” basis and are eliminated on consolidation.

Note 5 Revenue

	Consolidated		Parent entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Revenue from continuing operations				
Transmission regulated revenue	**132,014**	–	**–**	–
Electricity distribution regulated revenue	**376,720**	236,114	**–**	–
Gas distribution regulated revenue	**131,705**	85,113	**–**	–
Transmission excluded services	**10,449**	–	**–**	–
Electricity excluded services	**22,398**	5,200	**–**	–
Gas excluded services	**10,834**	1,057	**–**	–
	684,120	327,484	**–**	–
Other revenue				
Interest income	**17,327**	44,944	**2,761**	50
Interest income – related parties	**2,745**	–	**–**	–
Customer contributions	**40,246**	18,463	**–**	–
Other transmission revenue	**3,169**	–	**–**	–
Other distribution revenue	**9,928**	5,821	**–**	261
	73,415	69,228	**2,761**	311
Total Revenue from continuing operations	**757,535**	396,712	**2,761**	311
From discontinued operations				
Energy revenues	**278,545**	1,328,557	**–**	–

Note 6 Other income

Net foreign exchange gains/losses

	Consolidated		Parent entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Net foreign exchange losses recognised in profit before income tax for the year	**407**	–	**–**	–

Note 7 Expenses

	Consolidated		Parent entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Profit before income tax includes the following specific expenses:				
Expenses, excluding finance costs, included in the income statement				
Cost of sales	**50,524**	39,917	**–**	–
Materials	**801**	120	**–**	–
External maintenance services	**5,081**	138	**–**	–
Information technology and communication costs	**7,282**	1,800	**–**	–
Taxes and licences	**1,610**	1,951	**–**	–
External consulting, legal and accounting costs	**9,835**	1,523	**1,665**	–
Insurance expense	**1,535**	1,153	**–**	–
Property taxes	**22,104**	550	**–**	–
Other administrative expenses	**8,372**	4,018	**–**	–
Management fees	**17,146**	14,752	**38**	–
Office, travel and consumable expense	**1,448**	390	**–**	–
Consultants' and contractors' expense	**48,272**	28,398	**11**	–
Other costs	**2,366**	1,481	**–**	–
	176,376	96,191	**1,714**	–
Depreciation				
Buildings	**1,587**	370	**–**	–
Plant and equipment	**146,993**	72,235	**–**	–
Total depreciation	**148,580**	72,605	**–**	–
Impairment of non-current assets	**(1,931)**	(8,866)	**–**	–
Net loss on disposal of property, plant and equipment	**754**	885	**–**	–
Operating lease rental expense	**8,809**	3,094	**–**	–
Unrealised losses				
Derivatives	**810**	–	**–**	–
Employee benefits				
Defined contribution superannuation expense	**2,735**	(389)	**–**	–
Other employee expenses	**56,997**	20,601	**–**	–
Bad and doubtful debts expense including movement in provision for doubtful debts	**291**	132	**–**	–
Other expenses	**403**	(131)	**–**	–
Total expenses, excluding finance costs	**393,824**	184,122	**1,714**	–
Finance costs	**469**	348	**–**	–
Interest expense	**178,329**	136,530	**–**	–
Interest paid/payable (other entities)	**–**	–	**8,655**	–
Other finance charges	**11,714**	4,117	**–**	–
Capitalised finance charge	**(4,325)**	–	**–**	–
Total Finance Costs	**186,187**	140,995	**8,655**	–
Total Expenses	**580,011**	325,117	**10,369**	–

Note 8 Income tax expense

	Consolidated		Parent entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
(a) Income tax expense				
Current tax	**39,228**	41,983	**(1,795)**	118
Deferred tax	**41,672**	22,658	**–**	–
	80,900	64,641	**(1,795)**	118
Income tax expense is attributable to:				
Profit from continuing operations	**1,855**	24,795	**(1,795)**	118
Profit from discontinued operations	**79,045**	39,846	**–**	–
Aggregate income tax expense	**80,900**	64,641	**(1,795)**	118
Deferred income tax (revenue) expense included in income tax expense comprises:				
Decrease (increase) in deferred tax assets (note 19)	**(28,493)**	(364)	**–**	–
(Decrease) increase in deferred tax liabilities (note 25)	**70,165**	23,022	**–**	–
	41,672	22,658	**–**	–
(b)(i) Numerical reconciliation of income tax expense to prima facie tax payable (continuing operations)				
Profit from continuing operations before income tax expense	**177,524**	71,595	**(7,608)**	311
Tax at the Australian tax rate of 30% (2005: 30%)	**53,257**	21,479	**(2,282)**	93
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
Impact of entry into tax consolidation regime	**(38,765)**	–	**–**	–
Sundry items	**(12,637)**	3,316	**487**	25
Income tax expense	**1,855**	24,795	**(1,795)**	118
(b)(ii) Numerical reconciliation of income tax expense to prima facie tax payable (discontinued operations)				
Profit from discontinued operations before income tax expense	**238,608**	86,763	**–**	–
Tax at the Australian tax rate of 30% (2005: 30%)	**71,583**	26,029	**–**	–
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
Difference between tax and accounting gain on sale of MEB	**13,313**	–	**–**	–
Sundry items	**(5,851)**	13,817	**–**	–
Income tax expense	**79,045**	39,846	**–**	–
(c) Amounts recognised directly in equity				
Aggregate current and deferred tax arising in the reporting period and not recognised in net the income statement but directly debited or credited to equity				
Current tax – credited directly to equity (note 29)	**(7,033)**	–	**–**	–
Actuarial gain/loss	**1,458**	1,540	**–**	–
Net deferred tax – debited (credited) directly to equity (notes 19 and 25)	**(5,575)**	1,540	**–**	–

Effective 2 August 2004, for the purpose of income tax, SP AusNet Distribution and its wholly-owned subsidiaries formed a tax consolidated group. As a result of entering into tax consolidations, the Group is able to reset the tax bases property, plant and equipment which gives rise to increased future tax depreciation deductions and hence reduces the carrying amount of deferred tax liabilities.

Note 9 Earnings per share

(i) Basic earnings per share

	Consolidated	
	2006 Cents	**2005 Cents**
Profit from continuing operations attributable to the ordinary equity holders of the Company	**135,787**	29,234
Profit from discontinued operation	**159,563**	64,483
Profit attributable to the ordinary equity holders of the Company	**295,350**	93,717
Weighted average number of shares ('000)	**2,092,680**	2,092,680
Earnings per share from profit from continuing operations	**6.49**	1.40
Earnings per share from profit attributable to securityholders	**14.11**	4.48

(ii) Diluted earnings per share

There were no factors causing a dilution of either the profit or loss attributable to ordinary shareholders or the weighted average number of ordinary shares outstanding during the financial year ended 31 March 2006. Accordingly, basic and diluted earnings per share are the same.

(iii) Information concerning the classification of securities

Stapled Securities

Stapled Securities carry the right to participate in distributions in proportion to the amount paid relative to the total issue price and to that extent they have been recognised as ordinary share equivalents in the determination of basic earnings per share. Amounts uncalled on partly paid stapled securities and calls in arrears are treated as the equivalent of options to acquire ordinary stapled securities and are included as potential ordinary stapled securities in the determination of diluted earnings per share.

As the business combination has been effected by contract alone, the total ownership interest in SP AusNet Transmission and total unit holders' funds of SP AusNet Finance Trust is presented as minority interest in the consolidated financial statements of SP AusNet Distribution.

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

	Consolidated	
	2006 Cents	**2005 Cents**
Profit from continuing operations attributable to the ordinary securityholders of the Stapled Group	**175,669**	29,234
Profit from discontinued operation	**159,563**	64,483
Profit attributable to the ordinary securityholders of the Stapled Group	**335,232**	93,717
Weighted average number of shares ('000)	**2,092,680**	2,092,680
Earnings per stapled security from profit from continuing operations (stapled)	**8.39**	1.40
Earnings per stapled security from profit attributable to securityholders (stapled)	**16.02**	4.48

(iv) Distributions

No distributions were paid to members during the financial year.

Since the end of the financial year the Directors have approved a final distribution of $68,012,100 (3.25 cents per fully paid security) to be paid on 26 June 2006 comprised as follows:

	Cents per security	Total distribution $
Fully franked dividend payable by SP AusNet Transmission	0.15	3,139,020
Interest income payable by SP AusNet Finance Trust	0.89	18,624,852
Capital distribution SP AusNet Finance Trust	2.21	46,248,228
	3.25	**68,012,100**

Note 10 Discontinued operations

Divestment of the merchant energy business

On 7 March 2005 a Share Sale Agreement was entered into between SPI Electricity & Gas Australia Holdings Pty Ltd and CLP Australia Energy Holdings Pty Ltd for the sale of the MEB division of SP Australia Networks (Distribution) Ltd. The activities of the MEB consisted of the purchase, distribution and retailing of electricity and natural gas, the generation of electricity, and energy trading primarily in the States of Victoria and South Australia and, underground gas storage and call centre management. The disposal of the MEB was completed on 31 May 2005.

The SEAGas joint venture was sold on 29 August 2005.

The results of the discontinued operations which have been included in the income statement are as follows. The comparative profit and cash flows from discontinued operations have been re-presented to include those operations classified as discontinued in the current period:

	Consolidated	
	2006 $'000	**2005 $'000**
Profit from discontinued operations:		
Revenue from ordinary activities	**291,040**	1,250,077
Profit on divestment of business	**255,621**	–
Other income	**1,645**	3,321
	548,306	1,253,398
Expenses	**(309,698)**	(1,166,635)
Profit before income tax expense	**238,608**	86,763
Attributable income tax expense on divestment	**(90,000)**	–
Attributable income tax benefit on underlying operations	**10,955**	(39,846)
Profit from discontinued operations	**159,563**	46,917
Cash flows from discontinued operations:		
Net cash flows from operating activities	**(407,167)**	229,370
Net cash flows from investing activities	**646,199**	262,965
Net cash flows from financing activities	**(141,946)**	491,371
Net cash flows	**97,086**	983,706
Carrying amounts of assets and liabilities		
The carrying amounts of assets and liabilities at the date of sale are:		
Property, plant and equipment	**752,768**	806,655
Trade receivables	**259,377**	144,346
Inventories	**35,722**	46,838
Investment – Pipelines	**144,576**	144,844
Deferred tax asset	**99,954**	–
Intangibles	**624,859**	624,859
Other assets	**418,677**	5,157,025
Total assets	**2,335,933**	6,924,567
Trade creditors	**116,704**	507,280
Provision for employee benefits	**101,486**	446,853
Deferred tax liability	**129,844**	138,547
Other liabilities	**201,224**	4,064,235
Total liabilities	**549,258**	5,156,915
Net assets	**1,786,675**	1,767,652

	Consolidated
	2006 $'000
Divestment of business	
Consideration received or receivable:	**2,149,795**
Cash	**(107,498)**
Total disposal consideration	**2,042,297**
Carrying amount of net assets sold	**(1,786,676)**
Gain on sale before income tax	**255,621**
Income tax expense	**(90,000)**
Gain on sale after income tax	**165,621**

Note 11 Cash and cash equivalents

	Consolidated		Parent entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Cash at bank and in hand	**8,708**	43,735	**31**	1
Restricted cash on deposit (c)	**–**	3,158	**–**	–
	8,708	46,893	**31**	1

(a) Reconciliation to cash at the end of the year

The above figures are reconciled to cash at the end of the financial year as shown in the statement of cash flows as follows:

	Consolidated		Parent entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Balances per statement of cash flows	**8,708**	46,893	**31**	1

(b) Cash at bank and on hand

These are non-interest bearing.

(c) Restricted cash on deposit

In the prior period, to support a subordinated loan to the SEAGas Partnership, the Stapled Group was required to issue a standby, irrevocable letter of credit in favour of SEA Gas Pty Ltd as an agent for the SEAGas Partnership. As a security for the issue of the letter of credit, the Stapled Group placed a deposit with the relevant bank.

While the deposit remained undrawn by the SEAGas Partnership, the Stapled Group was entitled to floating interest rates of 5% (2005: 5%).

Note 12 Receivables

	Consolidated		Parent entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Current receivables				
Accounts receivable (i)	**77,574**	130,659	**–**	–
Provision for doubtful receivables	**(309)**	(7,933)	**–**	–
GST receivable	**–**	–	**–**	17
Related party receivable	**865**	37	**–**	–
	78,130	122,763	**–**	17
Accrued revenue	**53,800**	177,275	**–**	–
Employee advances and loans	**75**	119	**–**	–
	132,005	300,157	**–**	17
Non-current receivables				
Employee advances and loans	**373**	525	**–**	–
Related party receivable	**–**	–	**1,694**	–
	373	525	**1,694**	–
Total receivables	**132,378**	300,682	**1,694**	17

(i) The average credit period on sales of transmission and distribution services is 10 Business Days. An allowance has been made for estimated irrecoverable amounts from the sale of goods, determined by reference to past default experience. The movement in the allowance of $7,538 million (company: nil) was recognised in the income statement for discontinued operations in the current financial year.

(a) Bad and doubtful trade receivables

The Stapled Group has recognised a loss of $291,000 (2005: $132,000) in respect of bad and doubtful trade receivables during the year ended 31 March 2006.

Note 13 Inventories

	Consolidated		Parent entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Current inventories				
Construction, maintenance stocks and general purpose materials	**6,472**	7,408	**–**	–
Gas rights – at cost	**–**	19,259	**–**	–
Fuel for generating plants – at cost	**–**	8,266	**–**	–
	6,472	34,933	**–**	–
Non-current inventories				
Gas rights – at cost	**–**	9,090	**–**	–
Construction, maintenance stocks and general purpose materials	**11,797**	–	**–**	–
	11,797	9,090	**–**	–
Total inventories	**18,629**	44,023	**–**	–

Note 14 Derivative financial instruments

	Consolidated		Parent entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Current Assets				
Interest rate swap contracts	**5,114**	–	**–**	–
Cross-currency swaps	**70,195**	–	**–**	–
Energy derivatives	**111,964**	165,605	**–**	–
Forward foreign exchange contracts	**1,556**	–	**–**	–
Total current derivative financial instrument assets	**188,829**	165,605	**–**	–
Current Liabilities				
Interest rate swap contracts	**3,070**	–	**–**	–
Cross-currency swaps	**57,874**	–	**–**	–
Energy derivatives	**111,964**	223,922	**–**	–
Forward foreign currency contracts	**749**	–	**–**	–
Total current derivative financial instrument liabilities	**173,657**	223,922	**–**	–

(a) Transition to AASB 132 and AASB 139

The Stapled Group has taken the exemption available under AASB 1 to apply AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* from 1 April 2005. At the date of transition to these standards on 1 April 2005:

A pre-tax net adjustment of a $60.7 million increase in net assets was recognised representing:

- the recognition of cash flow hedges under AASB 139 and measurement to fair value of $(29.4) million;
- the recognition of fair value hedges under AASB 139 and measurement to fair value of $105.7 million; and
- a loss of $15.6 million on the remeasurement of financial instrument contracts held for trading to fair value.

For further information refer to note 1(p) and part (h)(i) of note 42.

Note 15 Other assets

	Consolidated		Parent entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Current – other assets				
Prepayments	**5,707**	6,546	**300**	–
Renewable energy certificates	**–**	3,117	**–**	–
Interest receivable	**46**	704	**–**	–
	5,753	10,367	**300**	–
Non-current – other assets				
Unfunded superannuation asset	**10,655**	–	**–**	–
Prepayments	**843**	9	**–**	–
Unamortised swap buy backs	**–**	1,391	**–**	–
Unamortised loan floatation lost amortisation	**–**	15,137	**–**	–
	11,498	16,537	**–**	–
Total other assets	**17,251**	26,904	**300**	–

Note 16 Non-current assets – investments accounted for using the equity method

	Consolidated		Parent entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Shares in associates	**–**	849	**–**	–
Interest in joint venture partnership (note 38)	**–**	86,323	**–**	–
	–	87,172	**–**	–

Note 17 Non-current assets – other financial assets

	Consolidated		Parent entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Energy risk management asset	**–**	141,423	**–**	–
Deferred derivative gains	**–**	30,948	**–**	–
Option premiums	**–**	133,626	**–**	–
Loan to joint venture partnership (note 38)	**–**	58,521	**–**	–
Futures initial margin deposit	**–**	2,212	**–**	–
Investment in subsidiary	**–**	–	**2,226,471**	2,220,424
	–	366,730	**2,226,471**	2,220,424

Note 18 Non-current assets – property, plant and equipment

2006

Consolidated	Freehold land at cost $'000	Buildings at cost $'000	Easements at cost $'000	Trans-mission system at cost	Distribution system at cost	Other plant and equipment at cost	Capital works at cost $'000	Total $'000
Carrying amount at 1 April 2005	2,507	135,782	–	–	2,740,265	846,120	74,478	3,799,152
Additions	–	–	–	–	–	–	320,420	320,420
Assets acquired at date of stapling (note 36)	230,915	72,985	1,334,679	1,264,976	–	34,735	77,399	3,015,689
Transfers	27,290	(28,118)	174	46,156	238,172	47,341	(331,015)	–
Disposals	–	–	–	–	(538)	(393)	–	(931)
Depreciation charge	–	(1,731)	–	(20,170)	(96,030)	(36,544)	–	(154,475)
Divestment of MEB	(7,295)	(77,327)	–	–	–	(639,654)	(28,492)	(752,768)
Carrying amount at 31 March 2006	253,417	101,591	1,334,853	1,290,962	2,881,869	251,605	112,790	6,227,087
Net book value at 31 March 2006								
Cost	253,417	103,402	1,334,853	1,311,132	3,035,358	358,024	112,790	6,508,976
Accumulated depreciation	–	(1,811)	–	(20,170)	(153,489)	(106,419)	–	(281,889)
Carrying amount at 31 March 2006	253,417	101,591	1,334,853	1,290,962	2,881,869	251,605	112,790	6,227,087

The parent entity holds no property, plant and equipment.

2005

Consolidated	Freehold land at cost $'000	Buildings at cost $'000	Easements at cost $'000	Trans-mission system at cost $'000	Distribution system at cost $'000	Other plant and equipment at cost $'000	Capital works at cost $'000	Total $'000
Carrying amount at 1 April 2004	–	–	–	–	–	–	–	–
Additions	–	581	–	–	117,664	4,984	38,262	161,491
Assets acquired through acquisition	2,507	133,751	–	–	2,682,130	870,849	49,696	3,738,933
Transfers	–	2,189	–	–	–	11,291	(13,480)	–
Disposals	–	–	–	–	(619)	(277)	–	(896)
Depreciation charge	–	(739)	–	–	(58,910)	(40,727)	–	(100,376)
Carrying amount at 31 March 2005	2,507	135,782	–	–	2,740,265	846,120	74,478	3,799,152
Net book value at 31 March 2005								
Cost	2,507	136,521	–	–	2,798,677	884,841	74,478	3,897,024
Accumulated depreciation	–	(739)	–	–	(58,412)	(38,721)	–	(97,872)
Carrying amount at 31 March 2006	2,507	135,782	–	–	2,740,265	846,120	74,478	3,799,152

Note 19 Non-current assets – deferred tax assets

	Consolidated		Parent entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
The balance comprises temporary differences attributable to:				
Amounts recognised in the income statement				
Doubtful debts	**93**	2,380	**–**	–
Employee benefits	**8,558**	11,392	**–**	–
Other accruals/provisions	**8,855**	30,633	**–**	–
Derivatives	**62,552**	49,698	**–**	–
Intangible/licences	**30,449**	83,579	**–**	–
Tax losses	**168,574**	194,459	**167,888**	194,459
	279,081	372,141	**167,888**	194,459
Set-off of deferred tax liabilities of parent entity pursuant to set-off provisions (note 25)	**(279,081)**	(372,141)	**–**	–
Net deferred tax assets	**–**	–	**167,888**	194,459
Movements:				
Opening balance at 1 April	**372,141**	–	**194,459**	–
Asset acquired on business combination	**–**	396,998	**–**	219,680
Asset acquired on stapling (note 36)	**4,972**	–	**–**	–
Credited/(charged) to the income statement (note 8)	**28,493**	364	**–**	–
Credit on divestment	**(99,954)**	–	**–**	–
Tax losses utilised	**(26,571)**	(25,221)	**(26,571)**	(25,221)
Sell-off of deferred tax liabilities of parent entity pursuant to set-off provisions (note 25)	**(279,081)**	(372,141)	**–**	–
Closing balance at 31 March	**–**	–	**167,888**	194,459

Note 20 Non-current assets – intangible assets

Year ended 31 March 2006

Consolidated	Goodwill $'000	Lease of gas storage licence $'000	Distributions licences $'000	Total $'000
Opening net book amount	**607,121**	**17,738**	**354,505**	**979,364**
Divested	**(607,121)**	**(17,738)**	**–**	**(624,859)**
Closing net book amount	**–**	**–**	**354,505**	**354,505**
Year ended 31 March 2005				
Additions	607,121	17,738	354,505	979,364
Closing net book amount	607,121	17,738	354,505	979,364

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

– the licence has been issued in perpetuity provided the licensee achieves certain licence requirements;

– the Stapled Group monitors its performance against those licence requirements and ensures that they are met; and

– the Stapled Group intends to continue to maintain the network for the foreseeable future.

Note 20 Non-current assets – intangible assets (continued)

(a) Impairment tests for cash-generating units containing intangible assets with an indefinite life

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

	2006 $'000	2005 $'000
Electricity distribution	**117,200**	117,200
Gas distribution	**237,305**	237,305
	354,505	354,505

For the purpose of testing the recoverable amount of the cash-generating units (CGU), the above intangible assets have been considered in conjunction with the associated tangible assets. Each CGU represents a segment, details of which are disclosed in note 4. Recoverable amount of each CGU is determined based on value-in-use calculations.

Both the Electricity and Gas distribution licences' impairment tests are based on value in use. In assessing value in use of non-current electricity and gas distribution assets, the allowable return on those distribution assets set out in the Victorian Electricity Supply Industry Tariff Order and the Victorian Gas Industries Tariff Order respectively have been used to prepare discounted cash flows for 20 years and a terminal multiple has been applied. The pre-tax discount rate used in these calculations is 9%.

Goodwill was allocated for impairment testing purposes to one individual cash-generating unit, the MEB.

Note 21 Current liabilities – payables and other liabilities

	Consolidated		Parent entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Trade payables	**83,986**	163,377	**–**	–
Accrued interest	**37,045**	36,288	**–**	–
GST payable	**3,987**	2,205	**–**	–
Customer deposits	**10,744**	19,374	**–**	–
Deferred revenue	**512**	327	**–**	–
Related party payables	**–**	–	**165,016**	194,577
Other	**4,040**	–	**–**	–
	140,314	221,571	**165,016**	194,577

Note 22 Interest bearing liabilities

Current	Consolidated		Parent entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Unsecured				
Working Capital Borrowings	**45,500**	–	**–**	–
Medium term notes:				
Domestic medium term notes (b):				
$200 million, 7.00% due 21/9/2005	**–**	200,001	**–**	–
$40 million, floating rate notes due 22/5/2006	**40,000**	–	**–**	–
$110 million, 5.75% due 15/11/2006	**110,000**	–	**–**	–
$100 million, floating rate notes due 15/11/2006	**100,000**	–	**–**	–
US Senior notes:				
US$250 million, 6.75 mature 1/12/2006	**348,944**	–	**–**	–
Total current interest bearing borrowings	**644,444**	200,001	**–**	–

(a) Syndicate bank borrowings

On 31 May 2005 SPI Electricity and Gas Australia Holdings Pty Ltd $1.1billion syndicated bank debt facility (drawn $850 million as at 31 March 2005) was cancelled and repaid with proceeds from the sale of the MEB.

On 20 December 2005 SP Australia Finance Pty Ltd $250 million Syndicated Bank Loan Facility ($226 million drawn) was cancelled and repaid. The Facility was replaced by a new $500 million Syndicated Bank Loan Facility, which comprised of two $250 million tranches due to mature on 20 March 2011 and 20 March 2013 respectively. As at 31 March 2006 the new facility was drawn to $205 million.

(b) Domestic medium term notes

No domestic medium term notes matured during the course of 2005/06.

Non-current	Consolidated		Parent entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Unsecured				
At amortised cost:				
Commercial paper	**173,831**	–	**–**	–
Syndicated bank debt due 20/3/2011 (ii)	**204,590**	850,000	**–**	–
US Senior Notes:				
US$250 million, 6.75%, mature 1/12/2006 (i)	**–**	324,002	**–**	–
US$300 million, 6.15%, mature 15/11/2013 (i), (ii)	**415,328**	388,802	**–**	–
US$300 million, 5.00%, mature 4/11/2014 (i), (ii)	**417,457**	388,802	**–**	–
US$100 million, 7.25%, mature 1/12/2016 (i), (ii)	**137,027**	131,931	**–**	–
Domestic medium term notes (b)				
$102.5 million, floating rate notes due 7/9/2007	**102,500**	–	**–**	–
$185 million, floating rate notes due 7/9/2007	**185,000**	–	**–**	–
$275 million, floating rate notes due 21/9/2007 (ii)	**273,616**	275,000	**–**	–
$150 million, floating rate notes due 3/11/2008 (ii)	**149,650**	–	**–**	–
$30 million, floating rate notes due 14/11/2008	**30,000**	–	**–**	–
$140 million, 6.25% mature 14/11/2008	**140,000**	–	**–**	–
$185 million, floating rate notes due 7/9/2010	**185,000**	–	**–**	–
$200 million, 6.5% due 3/11/2011 (ii)	**199,533**	200,996	**–**	–
$85 million, floating rate notes due 30/11/2011	**85,000**	–	**–**	–
$150 million, 6.25% mature 30/11/2011	**150,000**	150,000	**–**	–
Amounts owed to related parties:				
Amounts owed to ultimate parent entity	**18,402**	17,496	**16,949**	14,451
Amounts owed to others	**3,430**	1,988,680	**2,220,039**	2,205,680
Total non-current interest bearing liabilities	**2,870,364**	4,715,709	**2,236,988**	2,220,131

(i) The US Senior Notes have been hedged into Australian dollars using cross-currency swaps. As at 31 March 2006, the notes have been translated from US dollars at the spot rate of A$/US$ 0.7156 (2005: 0.7716).

(ii) Debt instruments are measured including transactional costs, fees received at inception and all other premiums or discounts as per AASB 139 requirements.

Note 22 Interest bearing liabilities (continued)

	Consolidated		Parent entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Financing facilities				
Unsecured bank overdraft facility, reviewed annually and payable at call:				
– amount used	**–**	–	**–**	–
– amount unused	**2,500**	2,000	**–**	–
	2,500	2,000	**–**	–
Unsecured working capital facility, reviewed annually:				
– amount used	**45,500**	–	**–**	–
– amount unused	**104,500**	75,000	**–**	–
	150,000	75,000	**–**	–
Unsecured bank loan facilities with various maturity dates and which may be extended by mutual agreement:				
– amount used	**205,000**	850,000	**–**	–
– amount unused	**295,000**	250,000	**–**	–
	500,000	1,100,000	**–**	–
Unsecured commercial paper standby facilities				
– amount used	**–**	–	**–**	–
– amount unused	**120,000**	–	**–**	–
	120,000	–	**–**	–

Note 23 Current liabilities – provisions

	Consolidated		Parent entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Employee entitlements	**8,029**	15,348	**–**	–
Sundry provision (note 26)	**790**	–	**–**	–
Land remediation (note 26)	**3,400**	7,648	**–**	–
Promotional rebates (note 26)	**–**	4,214	**–**	–
Uninsured losses (note 26)	**1,660**	1,760	**–**	–
	13,879	28,970	**–**	–

Note 24 Non-current liabilities – other financial liabilities

	Consolidated		Parent entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
At fair value:				
Deferred derivative losses	**–**	36,641	**–**	–
Deferred revenue	**4,098**	–	**–**	–
Deferred option premium income	**–**	89,173	**–**	–
Option premium payable	**–**	35,831	**–**	–
Net hedge payable	**–**	59,777	**–**	–
	4,098	221,422	**–**	–

Note 25 Non-current liabilities – deferred tax liabilities

	Consolidated		Parent entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
The balance comprises temporary differences attributable to:				
Amounts recognised in the income statement				
Accrued revenue	**20,240**	70,900	**–**	–
Derivatives held for trading and fair value hedges	**43,625**	10,768	**–**	–
Section 163AA impost/intellectual property deductions	**71,521**	–	**–**	–
General interest charge	**11,717**	–	**–**	–
Defined benefit fund	**(2,024)**	–	**–**	–
Deferred charges (non-current)	**684**	1,510	**–**	–
Deferred capital gains	**53,700**	–	**–**	–
Property, plant and equipment	**499,999**	308,400	**–**	–
	699,462	391,578	**–**	–
Amounts recognised directly in equity				
Defined benefit plan	**5,220**	1,540	**–**	–
Cash flow hedges	**(7,524)**	–	**–**	–
Tax effect of fair value adjustment on stapling	**57,120**	–	**–**	–
	54,816	1,540	**–**	–
Set-off of deferred tax liabilities of parent entity pursuant to set-off provisions (note 19)	**(279,081)**	(372,141)	**–**	–
Net deferred tax liabilities	**475,197**	20,977	**–**	–
Movements:				
Opening balance at 1 April 2005	**393,118**	–	**–**	–
Change on adoption of AASB 132 and AASB 139 (note 42)	**18,214**	–	**–**	–
Liability acquired on business combination	**–**	368,556	**–**	–
Liability acquired on stapling (note 36)	**408,200**	–	**–**	–
Divestment	**(129,844)**	–	**–**	–
Charged/(credited) to the income statement (note 8)	**70,165**	23,022	**–**	–
Charged/(credited) to equity (notes 8 and 29)	**(5,575)**	1,540	**–**	–
	754,278	393,118	**–**	–
Set-off deferred tax liabilities of parent entity pursuant to set-off provisions (note 19)	**(279,081)**	(372,141)	**–**	–
Closing balance at 31 March 2006	**475,197**	20,977	**–**	–

The deferred tax liability recognised in respect of property, plant and equipment arises due to prior period accelerated depreciation for tax purposes and increases in the carrying value of property, plant and equipment.

Section 163AA impost/intellectual property deductions/general interest charges

The consolidated entity has not recognised a deferred tax asset with respect to tax losses relating to the following:

- A section 163AA impost intellectual property deduction levied under the Electricity Industry Act 1993 – $53.250 million.
- Division 373 of the Income Tax Assessment Act 1997 (Intellectual Property) $18.271 million.

Prior year tax returns lodged with the Australian Taxation Office have claimed deductions for the above amounts. Accordingly no tax payments have been made in respect of prior year current tax and during the current year, only $1.2 million of tax was paid. The current tax not paid to the taxation authority as a result of section 163AA/intellectual property deductions iv included in deferred tax liabilities.

As at 31 March 2006 carry forward tax losses in respect of the above deductions of nil (2005: $5.3 million) were recorded by the company for taxation purposes.

Note 26 Non-current liabilities – provisions

	Consolidated		Parent entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Provision for onerous contracts (i)	**–**	22,725	**–**	–
Provision for land remediation (ii)	**14,013**	24,668	**–**	–
Employee benefits	**20,596**	22,709	**–**	–
Unfunded superannuation liability	**–**	16,542	**–**	–
	34,609	86,644	**–**	–

(a) Movement in provision

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

	Consolidated		
	Uninsured losses $'000	Onerous contracts[i] $'000	Land remediation[ii] $'000
Balance at 1 April 2005	1,759	22,725	32,317
Additional provisions recognised	319	(320)	1,749
Amount utilised	(418)	–	(3,836)
Reductions resulting from remeasurement or settlement without cost	–	–	(1,659)
Provision disposed on sale	–	(22,405)	(11,158)
Balance at 31 March 2006	1,660	–	17,413
Current (note 23)	1,660	–	3,400
Non-current (note 26)	–	–	14,013
Total	1,660	–	17,413

	Consolidated	
	Promotional rebates $'000	Sundry provisions $'000
Balance at 1 April 2005	4,214	–
Provision acquired on stapling	–	790
Additional provisions recognised	210	–
Reductions arising from payments/other sacrifices of future economic benefits	148	–
Provision disposed of on sale	(4,572)	–
Balance at 31 March 2006	–	790
Current (note 23)	–	790
Non-current (note 26)	–	–
Total	–	790

(i) A provision for onerous contracts is recognised when expected benefits are less than unavoidable costs of meeting the contractual obligations. A provision is recognised for the net present value of the amount of unavoidable costs that exceed the benefits.

(ii) A provision for land remediation costs is made for the rehabilitation of sites based on the estimated costs of the rehabilitation. The liability includes the costs of reclamation, plant closure and dismantling, and waste site closure. Annual adjustments to the liability are charged to the income statement over the estimated life of the sites. The costs are estimated based on the assumption of the current legal requirements and technologies. The changes in estimates are dealt with on a prospective basis.

Note 27 Non-current liabilities – retirement benefit obligations

Permanent employees and casual employees are entitled to benefits on retirement, disability or death from Equipsuper or the Electricity Industry Superannuation Scheme (for employees based in South Australia). Some Directors and senior executives of the consolidated entity have elected to have equivalent superannuation contributions paid into other approved funds. The parent entity does not have any employees.

Following the disposal of the MEB on 31 May 2005, SP AusNet no longer has any liability towards the Employee Industry Superannuation Scheme as all employees participating in this scheme were part of the MEB. Similarly those employees who were part of the Equipsuper scheme but form part of the MEB are no longer members of the Equipsuper scheme.

The following sets out details in respect of the defined benefit section only.

Equipsuper

The Equipsuper defined benefit superannuation plan provides lump sum and benefits on retirement, death, disablement and withdrawal. Some categories of members receive only defined contribution, accumulation style benefits. The defined benefit section of the plan is closed to new members.

Actuarial valuations of the funds were performed by Mr Scott, FIAA of Mercer Investment Nominees Limited as at 31 March 2006 and 31 March 2005.

The net deficit/asset positions of the fund, together with the actuarial assumptions are set out below.

The consolidated entity has a legal liability to make up a deficit in the plans but no legal right to use any surplus in the plans to further its own interests.

	2006 %	2005 %
Key assumptions used (expressed as weighted averages):		
Discount rate (active members)	**4.60**	4.80
Discount rate (pensioners)	**5.40**	5.70
Expected return on plan assets	**7.00**	7.00
Expected rate(s) of salary increase	**4.00**	4.00
Expected pension increase rate	**3.00**	3.00

	Consolidated	
	2006 $'000	2005 $'000
Amounts recognised in income in respect of these defined benefit plans are as follows:		
Expected change in contributions tax provision	**(413)**	(196)
Current service cost	**3,100**	2,041
Interest cost	**5,539**	2,745
Expected return on plan assets	**(7,568)**	(3,807)
Effect of curtailments/settlements	**412**	–
Total	**1,070**	783
Actuarial losses/(gains) incurred during the year and recognised in the statement of recognised income and expense	**(4,861)**	(5,132)
Cumulative actuarial gains and losses recognised in the statement of recognised income and expense	**(9,993)**	(5,132)
The amount included in the balance sheet arising from SP AusNet's obligations in respect of its defined benefit plans is as follows:		
Present value of funded defined benefit obligations	**(132,215)**	(97,748)
Fair value of plan assets	**171,202**	98,219
Net liability before adjustment for contributions tax	**38,987**	471
Adjustment for contributions tax	**(28,332)**	83
Net asset arising from defined benefit obligations recognised on the balance sheet	**10,655**	554

Note 27 Non-current liabilities – retirement benefit obligations (continued)

	Consolidated	
	2006 $'000	2005 $'000
Movements in the present value of the defined benefit obligations in the current period were as follows:		
Opening defined benefit obligation	**97,665**	–
Current service cost	**2,687**	1,845
Interest cost	**5,539**	2,745
Contributions by plan participants	**1,492**	1,027
Actuarial losses/(gains)	**6,292**	(768)
Acquired in business combinations	**68,238**	94,435
Curtailments	**412**	–
Transfers in	**–**	702
Settlements	**(17,863)**	–
Benefits, taxes and premiums paid	**(3,915)**	(2,321)
Closing defined benefit obligation	**160,547**	97,665
Movements in the present value of the plan assets in the current period were as follows:		
Opening fair value of plan assets	**98,219**	–
Expected return on plan assets net of investment and admin expenses	**7,568**	3,807
Actuarial gains	**11,153**	4,364
Acquired in business combination	**74,480**	88,376
Contributions from the employer	**2,470**	2,264
Contributions from plan participants	**1,492**	1,027
Transfers in	**–**	702
Settlements	**(20,265)**	–
Benefits, taxes and premiums paid	**(3,915)**	(2,321)
Closing fair value of plan assets	**171,202**	98,219

Settlements relate to instances where the employer has been relieved of the superannuation benefit obligation of members who have exited the fund, such as those members whose obligations were assigned to SPI Management Services.

The actual return on plan assets was $18,721,000.

SP AusNet does not expect to make a contribution to the defined benefit plans during the next financial year. The Target Funding method was used to determine the contribution rates. Under the Target Funding method, the employer contribution rate is set at a level such that the plan's assets are expected to equal 105% of the plan's liabilities within 5 years. The plan assets are currently 107% of the plan's liabilities.

The analysis of the plan assets and the expected rate of return at the balance sheet date is as follows:

	Fair value of plan assets	
	2006^ %	2005 %
Australian equities	**39**	40
International equities	**24**	24
Fixed interest securities	**20**	21
Property	**10**	8
Cash	**7**	7
Weighted average expected return	**100**	100

^ Asset allocation as at 31 March 2006 is currently unavailable. Asset allocation as at 31 December 2005 has been used.

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

Historic summary

	2006 $'000	2005 $'000
Defined benefit plan obligation	**(160,547)**	(97,665)
Plan assets	**171,202**	98,219
Surplus	**10,655**	554
Experience adjustments arising on plan liabilities	**4,052**	(772)
Experience adjustments arising on plan assets	**(11,153)**	8,968

The distribution group has used the AASB 1.20A exemption and disclosed amounts under AASB 1.20A (p) above for each annual reporting period prospectively from the date of transition.

Electricity Superannuation Scheme ("EIS")

On 30 July 2004 the company purchased the former TXU business. One of the subsidiary companies acquired contained a defined benefit superannuation (EIS) plan for certain of its employees. Following the disposal of this part of the business on 31 May 2005, the scheme is no longer part of the Stapled Group, and therefore as at 31 March 2006, there are no balances relating to this scheme.

An actuarial valuation of the fund was performed by Mr Scott, FIAA of Mercer Investment Nominees Limited as at 31 March 2005 and forms the basis of the scheme's position at the date of disposal.

The net deficit position of the fund, as at 31 March 2005 together with the actuarial assumptions is set out below.

SP AusNet has a legal liability to make up a deficit in the plans but no legal right to use any surplus in the plans to further its own interests.

EIS	2006 %	2005 %
Key assumptions used (expressed as weighted averages):		
Discount rate	–	4.80
Expected return on plan assets	–	7.00
Expected rate(s) of salary increase	–	4.00
Pension increase rate	–	2.50

	Consolidated	
EIS	2006 $'000	2005 $'000
Included in the balance sheet:		
Provision for contributions tax liability	–	(2,565)
Defined benefit obligations	–	(14,531)
Net liability arising from defined benefit obligations	–	(17, 096)

EIS		2005 $'000
Defined benefit obligation	–	(66,248)
Contributions tax payable	–	(2,565)
Total defined benefit obligation	–	(68,813)
Net market value of assets	–	51,717
Net superannuation deficit	–	(17,096)

Note 27 Non-current liabilities – retirement benefit obligations (continued)

The analysis of the plan assets and the expected rate of return at the balance sheet date is as follows:

	Fair value of plan assets	
EIS	**2006 %**	**2005 %**
Australian equities	–	51
Fixed interest securities	–	23
Property	–	15
Other assets	–	11
	–	100

Note 28 Contributed equity

		Parent entity	
	Notes	**2006 Shares**	**2005 Shares**
Share capital			
Ordinary shares – fully paid	(a), (b)	**2,092,680,010**	2

(a) Ordinary shares

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

On 20 October 2005 SP AusNet Distribution converted to a public company.

(b) Movements in ordinary share capital:

Date	Details	Notes	Number of shares	Issue price	$
1 April 2005	Opening balance		2		2
19 October 2005	Shares arising on share split	(1)	2,092,680,008		–
31 March 2006	Closing balance		2,092,680,010		2

(1) In order to effect the stapling, which occurred on 21 October 2005, it was necessary for each of the stapled entities to have the same number of shares or units on issue. Accordingly, SP Australia Networks (Distribution) Ltd affected a share split with the result that it has 2,092,680,010 shares on issue which have no par value.

(c) Changes in equity during the year

	Notes	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent entity 2006 $'000	Parent entity 2005 $'000
Capital and reserves attributable to stapled Security holders as:					
Equity holders of SP Australia Networks (Distribution) Ltd					
Contributed equity		**–**	–	**–**	–
Reserves	29(a)	**(10,707)**	3,592	**–**	–
Retained profits	29(b)	**454,365**	93,717	**5,620**	193
Parent interest		**443,658**	97,309	**5,620**	193
Equity holders of other stapled entities – SP AusNet Transmission and SP AusNet Finance					
Contributed equity		**649,787**	–	**–**	–
Units		**2,092,680**	–	**–**	–
Reserves	29(a)	**5,331**	–	**–**	–
Retained profit	29(b)	**351,916**	–	**–**	–
Fair Value Adjustment on Stapling		**133,280**	–	**–**	–
SP AusNet Transmission other equity		**(1,095,056)**	–	**–**	–
Minority interest		**2,137,938**	–	**–**	–
Total equity		**2,581,596**	97,309	**5,620**	193
Total equity at the beginning of the financial year		**97,309**	–	**193**	–
Contributions of equity, net of transaction costs		**2,742,467**	–	**–**	–
Pre-acquisition retained profits and reserves of SP AusNet Transmission and SP AusNet Finance at date of stapling		**317,218**	–	**–**	–
Fair value adjustment on stapling		**133,280**	–	**–**	–
SP AusNet Tranmission other equity		**(1,095,056)**	–	**–**	–
Total profit for the year and net expenses recorded directly in equity		**386,378**	97,309	**(5,813)**	193
Total equity at the end of the financial year		**2,581,596**	97,309	**(5,620)**	193

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

As the business combination has been effected by contract alone, the total ownership interest in SP AusNet Transmission and total unit holders' funds of SP AusNet Finance Trust is presented as Minority Interest in the consolidated financial statements of SP AusNet Distribution, notwithstanding that by virtue of the stapling arrangement of SP AusNet Distribution, SP AusNet Transmission and SP AusNet Finance Trust have common equity holders (the Security holders) with the effect that total equity belongs to the securityholders.

The retained earnings of SP AusNet Transmission and the unit holders' funds of SP AusNet Finance Trust are available for distribution directly to securityholders.

Note 29 Reserves and retained profits

	Consolidated		Parent entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
(a) Reserves				
Hedge reserve *(i)*				
Hedging reserve – cash flow hedges – parent	16,688	–	–	–
Hedging reserve – cash flow hedges – SP AusNet Transmission and SP AusNet Finance (minority interest)	868	–	–	–
Total hedge reserve – cash flow	17,556	–	–	–
Defined benefit reserve *(ii)*				
Defined benefit reserve – parent	(5,981)	(3,592)	–	–
Defined benefit reserve – SP AusNet Transmission and SP AusNet Finance (minority interest)	(6,199)	–	–	–
Total general reserve	(12,180)	(3,592)	–	–
Total reserves	5,376	(3,592)	–	–
Movements in above stapled holders' reserves comprise:				
(i) Hedge reserve – cash flow hedges				
Balance at beginning of financial year:	–	–	–	–
Adjustment on adoption of AASB 132 and AASB 139, net of tax (note 14)	22,800	–	–	–
Movements in cash flow hedges	1,789	–	–	–
Deferred tax liability (note 25)	(7,033)	–	–	–
Balance at end of financial year	17,556	–	–	–
(ii) Defined benefit reserve				
Balance at beginning of financial year:	(3,592)	–	–	–
Defined benefit fund	(10,046)	(5,132)	–	–
Deferred tax liability (note 25)	1,458	1,540	–	–
Balance at end of financial year	(12,180)	(3,592)	–	–
(b) Retained profits				
Movements in retained profits were as follows:				
Equity holders of the parent				
Retained profits	454,365	93,717	(5,620)	193
Other stapled entities				
SP AusNet Transmission – retained profits	333,275	–	–	–
SP AusNet Finance – retained profits	18,641	–	–	–
Total stapled Security holders retained profits	806,281	93,717	(5,620)	193
Balance at beginning of financial year:	93,717	–	193	–
Pre acquisition adjustment – SP AusNet Transmission and SP AusNet Finance	312,033	–	–	–
Adjustment on adoption of AASB 132 and AASB 139, net of tax (notes 14 and 30)	65,299	–	–	–
Net profit/loss for the year attributable to stapled Security holders of the Stapled Group	335,232	93,717	(5,813)	193
Balance at end of financial year	806,281	93,717	(5,620)	193

(c) Nature and purpose of reserves

(i) Hedging reserve
The hedging reserve is used to record gains or losses on a hedging instrument in a cash flow hedge that are recognised directly in equity, as described in note 1(p). Amounts are recognised in profit and loss when the associated hedged transaction affects profit and loss.

(ii) General reserve
The general reserve is used to record actuarial gains and losses on the defined benefit obligation that are recognised directly in equity, as described in note 1(x).

Note 30 Financial instruments

(a) Financial risk management objectives
The consolidated entity does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. The use of financial derivatives is governed by the consolidated entity's policies approved by the board of Directors, which provide written principles on the use of financial derivatives. Compliance with policies and exposure limits is reviewed by the internal auditors.

The consolidated entity's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The consolidated entity enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign currency risk.

(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) Foreign currency risk management
Under 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.

A controlled entity enters into currency swaps on behalf of the Stapled Group to manage foreign currency exposures, primarily in US dollars.

As at 31 March 2006, the consolidated entity had cross-currency swaps for its US dollar denominated borrowings. The notional amount outstanding on cross-currency swaps was $1,291.0 million. These cross-currency swaps mature in December 2006 for $359.9 million, November 2013 for $407.1 million, November 2014 for $400.5 million and December 2016 for $123.5 million, respectively. The maturity of these swaps coincides with the maturity of the US dollar denominated borrowings.

Currency swaps and interest rate swaps
The following table details the currency swaps outstanding as at reporting date.

Outstanding contracts	Average interest rate 2006 %	Average exchange rate 2006 $	Contract value 2006 $'000	Fair value 2006 $'000
Cross-currency swaps maturity 1 December 2006	**6.10**	**0.7156**	**359,937**	**(10,629)**
Cross-currency swaps maturity 15 November 2013	**7.42**	**0.7156**	**407,055**	**(8,894)**
Cross-currency swaps maturity 4 November 2014	**6.40**	**0.7156**	**400,534**	**(9,330)**
Cross-currency swaps maturity 1 December 2016	**6.34**	**0.7156**	**123,456**	**16,681**
*US interest rate swap maturity 1 December 2006	**5.20**	**0.7156**	**359,937**	**4,689**
*US interest rate swap maturity 1 December 2016	**5.42**	**0.7156**	**123,456**	**14,802**

* Note: The US interest rate swaps form part of the 1 December 2006 and 1 December 2016 Cross Currency Hedge.

Note that fair values include accrued interest as at 31 March 2006.

Note 30 Financial instruments (continued)

Forward foreign exchange contracts
It is the policy of the consolidated entity to enter into forward foreign exchange contracts to cover 100% of the exposure generated by specific foreign currency payments and receipts.

The following table details the forward foreign currency contracts outstanding as at reporting date:

Outstanding contracts	Average exchange rate 2006 $	Foreign currency 2006 FC'000	Contract value 2006 $'000	Fair value 2006 $'000
Bought EUR and sold AUD	0.606	2,886	4,731	4,938
Bought SEK and sold AUD	5.65	2,584	457	470
Bought SGD and sold AUD	1.16	418	360	339
Bought USD and sold AUD	0.732	4,604	6,289	6,549
Bought GBP and sold AUD	0.41	36	88	89
Bought JPY and sold AUD	80.6	643,143	7,981	8,292
				20,677

The consolidated entity has entered into contracts to hedge the exchange rate risk in relation to specific purchase orders. The consolidated entity has entered into forward foreign exchange contracts (for terms not exceeding 24 months) to hedge the exchange rate risk arising from these transactions.

As at the reporting date the aggregate amount of unrealised gains under forward foreign exchange contracts relating to these transactions is $0.8 million. In the current year, these unrealised gains have been deferred in the hedging reserve to the extent the hedge is effective.

(d) Interest rate risk management

SP AusNet is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. The risk is managed by maintaining an appropriate mix between fixed and floating rate borrowings, by the use of interest rate swap contracts and forward interest rate contracts.

Interest rate swap contracts

Under interest rate swap contracts, SP AusNet agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable SP AusNet to mitigate the risk of changing interest rates on debt held. The fair value of interest rate swaps are based on market values of equivalent instruments at the reporting date and are disclosed below. The average interest rate is based on the outstanding balances at the start of the financial year.

Interest rate swap contracts exchanging fixed rate interest for floating rate interest are designated and effective as fair value hedges.

The following tables detail the notional principal amounts and remaining terms of interest rate swap contracts outstanding as at reporting date:

Outstanding floating for fixed contacts	Average contracted fixed interest rate 2006 %	Notional principal amount 2006 $'000	Fair value 2006 $'000
A$ IRS maturity 7 November 2008	6.25	140,000	538
A$ IRS maturity 3 November 2011	5.75	200,000	(848)
A$ IRS maturity 30 November 2011	6.25	150,000	897
A$ IRS maturity 7 March 2008	6.25	150,000	2,175

From 1 April 2005, interest rate swap contracts exchanging floating rate interest amounts for fixed rate interest amounts are designated and effective as cash flow hedges. Interest rate swaps outstanding at 31 March 2006 were recognised as financial assets on adoption of the accounting policies specified in note 1.

Outstanding fixed for floating contracts	Average contracted floating interest rate 2006 %	Notional principal amount 2006 $'000	Fair value 2006 $'000
A$ IRS maturity 1 December 2006	5.65	359,937	(982)
A$ IRS maturity 3 November 2007	5.62	50,000	194
A$ IRS maturity 3 February 2008	5.62	100,000	(673)
A$ IRS maturity 4 February 2008	5.63	300,000	(2,004)
A$ IRS maturity 15 November 2008	5.62	100,000	401
A$ IRS maturity 7 March 2008	5.62	472,500	1,902
A$ IRS maturity 20 March 2008	5.62	645,000	(2,005)
A$ IRS maturity 15 November 2010	5.62	407,056	4,507
A$ IRS maturity 1 December 2010	5.65	123,456	1,487
A$ IRS maturity 21 January 2011	5.62	275,000	2,144
Forward start A$ IRS maturity 1 January 2011	–	360,000	2,722
Forward start A$ IRS maturity 21 January 2011	–	110,000	(394)
		3,302,949	7,299

Note that fair values include accrued interest as at 31 March 2006.

Maturity profile of financial instruments

The following table details the consolidated entity's exposure to interest rate risk as at 31 March 2006:

2006	Weighted average effective interest rate %	Variable interest rate $'000	Maturity dates: Less than 1 year $'000	1-5 years $'000	More than 5 years $'000	Total $'000
Financial assets:						
Cash and cash equivalents	5.10	8,708	–	–	–	8,708
Derivative assets						
Cross-currency swaps	5.46	483,394	–	–	807,590	1,290,984
Foreign interest rate swaps	6.89	–	349,357	–	139,743	489,100
Domestic interest rate swaps	5.66	2,832,950	–	150,000	–	2,982,950
Forward start interest rate swaps	–	470,000	–	490,000	–	960,000
Financial liabilities:						
Medium term notes	6.24	1,152,500	110,000	140,000	350,000	1,752,500
Senior notes	6.08	–	349,357	–	978,200	1,327,557
Commercial Paper	5.66	175,000	–	–	–	175,000
Syndicated Bank Debt	6.03	205,000	–	–	–	205,000
Working Capital Facility	5.73	45,500	–	–	–	45,500
Derivative liabilities						
Cross-currency swaps	6.62	1,290,984	–	–	–	1,290,984
Foreign interest rate swaps	5.26	489,100	–	–	–	489,100
Domestic interest rate swaps	5.71	150,000	359,937	2,473,013	–	2,982,950
Forward start interest rate swaps	–	490,000	–	470,000	–	960,000

Note: Cross-currency swap notional amounts translated at prevalent exchange rate on inception. Senior Notes and USD Interest rate swaps are translated at prevalent exchange rate. Commercial paper, bank debt and medium term notes are detailed at face value.

Note 30 Financial instruments (continued)

Maturity profile of financial instruments

The following table details the consolidated entity's exposure to interest rate risk as at 31 March 2005:

2005	Weighted average effective interest rate %	Variable interest rate $'000	Maturity dates: Less than 1 year $'000	Maturity dates: 1-5 years $'000	Maturity dates: More than 5 years $'000	Total $'000
Financial assets:						
Cash and cash equivalents	5.38	46,893	–	–	–	46,893
Derivative assets						
Cross-currency swaps	3.35	483,394	–	–	807,590	1,290,984
Foreign interest rate swaps	6.89	–	–	324,002	129,601	453,603
Domestic interest rate swaps	5.52	2,165,450	–	–	200,000	2,365,450
Financial liabilities:						
Bank loans	5.95	850,000	–	–	–	850,000
Medium term notes	6.44	–	200,001	425,000	203,325	828,326
Senior notes	6.06	–	–	324,002	907,205	1,231,207
Derivative liabilities						
Cross-currency swaps	6.48	1,290,984	–	–	–	1,290,984
Foreign interest rate swaps	3.35	453,603	–	–	–	453,603
Domestic interest rate swaps	6.02	200,000	825,000	809,937	530,513	2,365,450

Note: Cross-currency swap notional amounts are translated at the prevalent exchange rate on inception.

(e) Fair value of financial instruments

Except as detailed in the following table, the Directors consider the carrying amount of financial assets and financial liabilities recorded in the financial statements approximates their fair values (2005: net fair value).

The fair values and net fair values of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;
- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis; and
- the fair value of derivative instruments, included in hedging assets and liabilities, are calculated using quoted prices. Where such prices are not available use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments.

Transaction costs are included in the determination of net fair value.

The following tables detail the fair value (2005: net fair value) of financial assets and financial liabilities:

2006	Carrying amount $'000	Fair value $'000
Financial liabilities		
Current		
Working capital borrowings	45,500	45,654
Domestic medium term notes:		
$40 million, floating rate notes due 22/5/2006	40,000	40,080
$100 million, floating rate notes due 15/11/2006	100,000	100,767
$110 million, 5.75% due 15/11/2006	110,000	112,200
US senior notes:		
US$250 million, 6.75%, mature 1/12/2006 (i), (ii)	348,944	360,470
Total current	**644,444**	**659,171**
Non-current		
At cost:		
Commercial paper	173,831	173,831
At amortised cost:		
Syndicated bank debt due 20/3/2011 (i)	204,590	207,241
US senior notes:		
US$300 million, 6.15%, mature 15/11/2013 (i), (ii)	415,328	447,479
US$300 million, 6.15%, mature 4/11/2014 (i), (ii)	417,457	414,897
US$100 million, 7.25%, mature 1/12/2016 (i), (ii)	137,027	162,922
Domestic medium term notes:		
$102.5 million, floating rate notes due 7/9/2007	102,500	102,926
$185 million, floating rate notes due 7/9/2007	185,000	185,768
$275 million, floating rate notes due 21/9/2007 (ii)	273,616	275,503
$150 million, floating rate notes due 3/11/2008 (ii)	149,650	151,430
$30 million, floating rate notes due 14/11/2008	30,000	30,229
$140 million, 6.25% due 14/11/2008	140,000	144,264
$185 million, floating rate notes due 7/9/2010	185,000	185,768
$200 million, 6.5% due 3/11/2011 (ii)	199,533	212,509
$85 million, floating rate notes due 30/11/2011	85,000	85,454
$150 million, 6.25% due 1/12/2011	150,000	153,991
Amount owed to ultimate parent entity	18,402	18,402
Amount owed to others	3,430	3,430
Total non-current	**2,870,364**	**2,956,044**

(i) The US dollar senior notes have been hedged in Australian dollars using cross-currency swaps. As at 31 March 2006 the notes have been translated from US dollars at the spot rate of A$/US$0.7156.

(ii) Debt instruments are measured including transactional cost, fees received at inception and all other premiums or discounts as per AASB 139 requirements.

Note 30 Financial instruments (continued)

2005	Carrying amount $'000	Fair value $'000
Financial liabilities		
Current		
Discount loan on notes	33	33
Medium term notes due 22/5/2005	199,968	200,860
Total current	**200,001**	**200,893**
Non-current		
Tranche A due 26/10/2009	300,000	300,000
Tranche B due 26/10/2007	550,000	550,000
Medium term notes due 21/9/2007	275,000	275,000
Medium term notes due 3/11/2008	150,000	150,000
Medium term notes due 3/11/2011	200,996	199,400
Senior notes due 1/12/2006	324,002	336,586
Senior notes due 15/11/2013	388,802	411,306
Senior notes due 4/11/2014	388,802	378,316
Senior notes due 1/12/2016	131,931	151,487
Total non-current	**2,709,533**	**2,752,095**

Note 31 Key management personnel disclosures

SPI Management Services, a wholly-owned subsidiary of related party Singapore Power International Pte Ltd, entered into a management services agreement with the SP AusNet on 10 October 2005. SPI Management Services provides the services of key senior management, including the Managing Director and the executive management team of SP AusNet.

Most of the key senior management transferred their employment to SPI Management Services from other entities within the SP AusNet group on 1 October 2005, prior to the float of SP AusNet. Although not employed by SP AusNet, by virtue of the operation of the management services agreement, these individuals are deemed to qualify as key management personnel of SP AusNet.

The Directors and key management personnel of SP AusNet are engaged to provide services to the SP AusNet group and are not exclusive to any particular entity within SP AusNet. Accordingly, the details of remuneration disclosed in the Remuneration Report are for services provided to SP AusNet.

Directors

Name	Position
Ng Kee Choe	Non-executive Chairman
Nino **Ficca**	Managing Director (executive)
Jeremy **Davis**	Non-executive Director
Eric **Gwee**	Non-executive Director
George **Lefroy**	Non-executive Director
Martyn **Myer**	Non-executive Director
Quek Poh Huat	Non-executive Director
Ian **Renard**	Non-executive Director

The following persons were Directors from the commencement of the financial year until their resignations on 31 May 2005:

Name	Position
Paul **Adams**	Executive Director
Terrence **Fowler**	Executive Director
Wong Toon Suan	Non-executive Director
Yap Chee Keong	Non-executive Director

Key management personnel

Name	Position	Employer
Nino **Ficca**	Executive Managing Director	SPI Management Services
Paul **Adams**	General Manager, Network Services	SPI Management Services
Peter **Buck**	General Manager, Distribution Network Development	SPI Management Services
Norman **Drew**	General Manager, Transmission Network Development	SPI Management Services
Terrence **Fowler**	General Manager, Finance	SPI Management Services
Peter **Merritt**	General Manager, Business Systems and Services	SPI Management Services
Charles **Popple**	General Manager, Regulatory and Business Strategy	SPI Management Services

Policy and principles used to determine the nature and amount of remuneration

SP AusNet has a remuneration strategy which is designed to attract, retain and motivate appropriately qualified and experienced Directors and senior executives. The Nomination and Remuneration Committee reviews SP AusNet's reward philosophy and principles to ensure they remain contemporary and consistent with generally acceptable market practice. Details of SP AusNet's remuneration strategy for the 2005/06 financial year is set out in the Remuneration Report.

Remuneration of Directors and executives is disclosed in accordance with the definition of compensation in AASB 124.

Non-executive Directors' Remuneration

Fees paid to Non-executive Directors are set at levels that reflect both the responsibilities of, and the time commitments required from, each Non-executive Director to discharge their duties. Fee levels are set having regard to independent professional advice and fees paid by comparable companies. To maintain objectivity and independence, the fees paid to Non-executive Directors are not linked to the performance of SP AusNet.

The Non-executive Directors of SP AusNet during the period were:

- **Ng** Kee Choe (Chairman)
- Jeremy Guy Ashcroft **Davis**
- Eric **Gwee** Teck Hai
- George Allister **Lefroy**
- Martyn Kenneth **Myer**
- **Quek** Poh Huat
- Ian Andrew **Renard**

Former Non-executive Directors

- **Wong** Toon Suan, resigned as a Director of SP AusNet Distribution and the Responsible Entity on 31 May 2005.
- **Yap** Chee Keong, resigned as a Director of SP AusNet Distribution and the Responsible Entity on 31 May 2005 and SP AusNet Transmission on 31 October 2005.

The constitutions of the Companies and the Responsible Entity provide that Directors are entitled to such remuneration from the Companies for their services as Directors as the Board decides, but the total amount provided to all Directors must not exceed in aggregate in any financial year the amount fixed by the Companies in general meeting. This excludes remuneration paid to executive Directors.

Accordingly, the Board set the total remuneration pool for Non-executive Directors and the Chairman's remuneration (inclusive of superannuation) at $1,000,000 per year in September 2005 and has submitted this amount for the securityholders' approval at the inaugural Annual General Meeting to be held on 18 July 2006.

Note 31 Key management personnel disclosures (continued)

In general, Directors are paid a fixed fee for their services to the Group. The Chairman, taking into account the greater time commitment required, receives a higher amount. Directors who serve on committees of the Board receive additional yearly fees and the chairs of those committees are also paid an additional amount. Fees payable to Non-executive Directors of SP AusNet as at the date of this report are set out in the table below:

Non-executive Directors' base fees

	Board		Audit and Risk Management Committee		Nomination and Remuneration Committee		Compliance Committee	
	Chair	Member	Chair	Member	Chair	Member	Chair	Member
Fee	$100,000	$70,000	$10,000	$7,000	$10,000	$7,000	$10,000	$7,000

In accordance with rule 11.3 of the Companies' constitutions and rule 6.3 of the Responsible Entity's constitution, Directors may also be paid additional fees for special duties or exertions. Such fees are not included in the aggregate remuneration cap approved by securityholders. No such fees were paid during the year.

Directors are also entitled to be reimbursed for all business related expenses, including travel on company business, as may be incurred in the discharge of their duties.

Superannuation contributions are made on behalf of the non-executive Directors in accordance with the Stapled Group's statutory superannuation obligations.

The Board will continue to review its approach to non-executive Director remuneration to ensure it remains in line with general industry practice and best practice principles of corporate governance.

Executive Director and senior executive remuneration

Reward philosophy

The objective of SP AusNet's overall reward philosophy is to manage a total reward framework (described below) designed to:

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

The remuneration and incentive package for the Managing Director and other executives is determined and paid by SPI Management Services. SP AusNet's Nomination and Remuneration Committee may make recommendations to SPI Management Services in relation to remuneration, incentive payments and programs, and key performance measures in respect of senior management at any time to promote alignment of "owner-management" interest.

The disclosures in this section relate to those executives listed below, being the Managing Director and the senior executives with authority and responsibility for planning, directing and controlling the activities of the Companies and the Group during the financial year.

Managing Director
Nino **Ficca** Managing Director

Senior executives
Paul **Adams**[1] General Manager – Network Services
Peter **Buck** General Manager – Distribution Network Development
Norman **Drew** General Manager – Transmission Network Development
Terrence **Fowler**[2] General Manager – Finance
Peter **Merritt** General Manager – Business Systems and Services
Charles **Popple** General Manager – Regulatory and Business Strategy

Reward principles for the Managing Director and senior executives

SP AusNet's reward philosophy is based on a performance management framework. Central to this is the principle that the highest performers and those showing greatest potential and future capability should receive the greatest rewards. The framework sets out the manner in which performance should be assessed and recognised, and how performance should then impact on the components of total reward.

1 Mr Adams was an executive Director of the Responsible Entity from 31 May 2005 to 9 September 2005, prior to SP AusNet's listing. He did not receive any remuneration for these services.
2 Mr Fowler was an executive Director of the Responsible Entity from 31 May 2005 to 9 September 2005 and of SP AusNet Transmission from 7 September 2005 to 31 October 2005, prior to SP AusNet's listing. He did not receive any remuneration for these services.

The "Performance Development Planning" framework that is used throughout SP AusNet, including for key management personnel and the company secretary, comprises various key performance development areas and indicators (KPIs). These include management and development of talent and behaviour. The framework is underpinned with a formal performance management review process conducted twice a year, which provides a forward-looking view of an individual's potential capability.

Structure of total reward

The reward principles set out the relevant elements of remuneration to make up the "total reward". For the majority of SP AusNet employees, total reward consists of fixed remuneration and "at risk" remuneration through short-term incentive plans. SP AusNet is considering the introduction of long-term incentive plans. An appropriate mix of these components is determined for each level of management and employees.

Fixed remuneration

Fixed remuneration is comprised of salary, company superannuation contributions and benefits, salary-sacrificed items such as motor vehicles and fringe benefits tax. Fixed remuneration reviews are undertaken annually in an effort to maintain competitive remuneration levels in the relevant markets in which SP AusNet competes for talent.

Fixed remuneration reflects the scope of the role and the level of skill and experience of the individual. Fixed remuneration is generally set at the median level (50th percentile) of the applicable remuneration market. SP AusNet typically applies a range of 80% to 120% around the selected fixed remuneration market percentile.

At-risk remuneration – short-term incentive scheme (cash bonuses)

The variable component of the total reward is based on an annual short-term incentive (STI) scheme, which consists entirely of cash bonuses and does not involve securities. The payments under the STI scheme, known as annual incentive payments (AIPs), are determined using a set of corporate financial and non-financial measures as well as stretch individual performance hurdles.

The corporate measures set for 2005/06 include:

– net profit;
– health, safety and environment targets;
– network performance and reliability targets; and
– program delivery (capital and maintenance) targets.

During 2005, SP AusNet implemented a performance development planning framework for key management personnel and employees under incentive based employment agreements (approximately 500 employees). The key elements of the framework are as follows:

– setting corporate KPIs for SP AusNet at the commencement of the performance period, which roll down into individual KPIs for each employee via an individual performance development plan. Each individual's performance plan defines what is required to achieve stretch individual performance hurdles;
– a review process where managers review, compare and calibrate the performance of their direct reports. The review process allows for performance to be differentiated, and confirms individual performance ratings and the related reward outcomes (fixed remuneration percentile and STI multiple). The review also identifies those employees who require development and those who are performing poorly;
– a mid-year review is conducted to track progress of the achievement of performance plan objectives and personal development plans with the aim of enabling succession planning and career development for individuals; and
– an annual 360 degree peer review is undertaken that assesses employees' contribution to SP AusNet's performance capability, through strong leadership behaviour that supports and underpins SP AusNet's corporate values and culture.

By linking individual rewards to the achievement of overall corporate targets, this framework aligns the interests of employees and managers with those of SP AusNet.

Note 31 Key management personnel disclosures (continued)

Commencement and retention awards

SP AusNet has not entered into commencement awards. Limited retention awards have been provided to key individuals in roles where retention is critical over the medium term (two to three years). In the current absence of an established LTI plan, these have taken the form of staggered cash payments and subject to individual performance hurdles being met.

When TXU Australia Group Pty Ltd ("TXU") was acquired in 2004, there was a recognised need to retain certain key TXU executives or attract them to new positions over a transitional period. Under an arrangement with TXU's parent company, key executives were entitled to redundancy benefits in certain circumstances following a "change in control". More particularly, redundancy benefits were payable if the employment was terminated by the employer or the employee terminated their employment due to a significant change in their role during the two years following the change in control. This arrangement was intended to operate as a form of guaranteed payment in the event that the executive's employment was subsequently terminated or altered by the new owner.

In order to retain Paul Adams (General Manager, Networks Services Group), who was identified as a key TXU executive, following the acquisition, he was offered a form of retention payment based on his entitlement under the arrangement with TXU. However, instead of a lump sum payment, the amount was made payable over four years (ending on 1 April 2008) as part of his remuneration structure. In addition, his entitlement is subject to a fixed and variable formula with the later being linked to his achievement of individual performance targets.

Similarly, Peter Buck (General Manager, Distribution Network Development) was offered two payments across two years with the second and final amount payable in August 2006. This amount comprises a fixed and a variable component which is linked to Mr Buck's achievement of individual performance targets.

Loans to Directors and executives

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

Details of remuneration

Details of the remuneration of each Director of SP AusNet and each of the key management personnel of SP AusNet for the year ended 31 March 2006 are set out in the following tables. The STI cash bonuses are dependent on the satisfaction of performance conditions as set out in the section headed *At-risk remuneration* above. No other elements of remuneration are directly related to performance.

Director remuneration

Details of Non-executive and executive Directors' remuneration for the reporting period are set out in the following tables.

Non-executive Directors Remuneration

2006	Cash salary and fees	Superannuation Contributions[1]	Insurance	Total
Ng Kee Choe (Chairman)	70,422	6,338	5,555	82,315
Jeremy Guy Ashcroft **Davis**	66,819	6,014	5,555	78,388
Eric **Gwee** Teck Hai	70,322	–	5,555	75,877
George Allister **Lefroy**[2]	93,199	8,376	5,555	107,130
Martyn Kenneth **Myer**	43,177	3,886	5,555	52,618
Quek Poh Huat[3]	77,000	–	5,555	82,555
Ian Andrew **Renard**[2]	89,188	8,027	5,555	102,770
Wong Toon Suan[4]	–	–	–	–
Yap Chee Keong[4]	–	–	–	–

1 Superannuation contributions made on behalf of Non-executive Directors to satisfy SP AusNet's obligations under applicable Superannuation Guarantee legislation.
2 Dr Lefroy and Mr Renard received Directors' fees during the financial year for services provided during the year ended 31 March 2005. Dr Lefroy received $23,383 and Renard $16,395 including superannuation contributions. These amounts are included in the table above.
3 As Mr Quek is an executive of Singapore Power and a nominee Director of Singapore Power on the Board of SP AusNet, Singapore Power receives the fees for Mr Quek's services as a Director of SP AusNet. Fees for Mr Quek's services as a Director during the period ended 31 March 2006 have not yet been paid.
4 Mr Wong and Mr Yap both resigned on 31 May 2005. Mr Wong and Mr Yap are both employees of Singapore Power and no fees are payable for their services as Directors during the period ended 31 March 2006.

SP AusNet does not make retirement payments to Directors.

2005	Cash salary and fees	Superannuation contributions[1]	Insurance	Total
Wong Toon Suan[1]	–	–	–	–
Yap Chee Keong[1]	–	–	–	–

1 Mr Wong and Mr Yap both resigned on 31 May 2005. Mr Wong and Mr Yap are both employees of Singapore Power and no fees are payable for their services as Directors during the period ended 31 March 2005.

Executive Director remuneration

	Primary				Post-employment		Equity	
Name	Cash salary and fees	Retention payment	Cash bonus	Insurance	Super-annuation	Retirement benefits	Options	Total
Nino **Ficca**	398,658	–	86,212	5,555	39,990	–	–	530,415
Paul **Adams**[1]	230,443	104,892	17,865	5,000	23,716	–	–	381,916
Terrence **Fowler**[2]	204,922	–	77,031	5,000	18,385	–	–	305,338

1 Mr Adams was a Director of the Responsible Entity from 31 May 2005 to 9 September 2005.
2 Mr Fowler was a Director of the Responsible Entity from 31 May 2005 to 9 September 2005 and a Director of SP AusNet Transmission from 7 September 2005 to 31 October 2005.

The above payments were made to Mr Ficca, Mr Adams and Mr Fowler for the provision of services as executives of SP AusNet and not for their services as Directors.

Executive remuneration

Details of the remuneration of SP AusNet executives for the reporting period are set out in the following table.

2006	Primary				Post-employment		Equity	
Name	Cash salary and fees	Retention payment	Cash bonus	Insurance	Super-annuation	Retirement benefits	Options	Total
Nino **Ficca**	398,658	–	86,212	5,555	39,990	–	–	530,415
Paul **Adams**	230,443	104,892[1]	17,865[2]	5,000	23,716	–	–	381,916
Peter **Buck**	185,331	67,657[1]	11,415[2]	5,000	16,811	–	–	286,214
Norman **Drew**	200,268	–	63,757[3]	5,000	20,036	–	–	289,061
Terrence **Fowler**	204,922	–	77,031[4]	5,000	18,385	–	–	305,338
Peter **Merritt**	169,892	–	32,935	5,000	17,130	–	–	224,957
Charles **Popple**	205,333	–	53,430[5]	5,000	20,899	–	–	284,622

1 Further details in relation to the retention payments to Mr Adams and Mr Buck are set out under heading *Commencement and retention awards* above.
2 Bonuses paid to Mr Adams and Mr Buck during the financial year represent a "stub" payment for the period 1 January 2005 to 31 March 2005 to bring their remuneration periods into line with the remaining executives following after the acquisition of TXU Australia Services Pty Ltd. They did not receive additional bonuses under the SP AusNet STI plan.
3 Mr Drew's cash bonus paid during the reporting period consisted of a payment of $36,757 pursuant to the SP AusNet STI plan and a special discretionary bonus of $27,000 awarded prior to the listing by Singapore Power Ltd in recognition of exceptional performance.
4 Mr Fowler's cash bonus paid during the reporting period consisted of a payment of $47,031 pursuant to the SP AusNet STI plan and a special discretionary bonus of $30,000 awarded prior to the listing by Singapore Power Ltd in recognition of exceptional performance.
5 Mr Popple's cash bonus paid during the reporting period consisted of a payment of $38,430 pursuant to the SP AusNet STI plan and a special discretionary bonus of $15,000 awarded prior to the listing by Singapore Power Ltd in recognition of exceptional performance.

Note 31 Key management personnel disclosures (continued)

2005	Primary				Post-employment		Equity	
Name	Cash salary and fees	Retention payment	Cash bonus	Insurance	Super-annuation	Retirement benefits	Options	Total
Nino **Ficca**	293,488	–	93,093	–	23,618	–	–	410,199
Paul **Adams**[1]	113,539	–	61,050	–	11,950	–	–	186,539
Michael **Dundon**[1]	129,304	–	25,861	–	6,534	–	–	161,699
Len **Gill**[1]	240,177	–	216,000	–	25,778	1,986,727	–	2,468,682
Charles **Popple**	182,303	–	40,334	–	15,127	–	–	237,764
Wong Toon Suan[2]	–	–	–	–	–	–	–	–
Yap Chee Keong[2]	–	–	–	–	–	–	–	–

1 The remuneration shown for Mr Adams, Mr Dundon and Mr L Gill was for the period 30 July 2004, the date of acquisition of TXU Australia Group Pty Ltd until 31 March 2005.
2 Mr Wong and Mr Yap are both employees of Singapore Power Ltd and no remuneration was paid for their services during the period ended 31 March 2005.

Service agreements

Duration of contracts

Remuneration and other terms of employment for the Managing Director and specified senior management are formalised in individual employment agreements. Each of these agreements provides for performance-related cash bonuses, fringe benefits plus other benefits. Under the terms of these agreements, the Managing Director and other members of the senior executive team continue to be employed until their employment is terminated.

Notice periods and payments on termination

The employment agreements provide for termination payments to be made in certain circumstances. In particular, the company may terminate the employment of the Managing Director and other executives (except Mr Paul Adams) on giving one month's notice. Mr Adams' agreement provides for a notice period of three months. The company may make a payment in lieu of notice. In general, the Managing Director and other executives must give the Stapled Group at least one month's notice of resignation.

Termination benefits are generally calculated as three weeks' pay for every year of service paid at the executive's Fixed Annual Remuneration (FAR) rate and capped at a specified period. This specified termination payment cap period is set at six months for the Managing Director and other executives except Mr Adams. Mr Adams' termination payment cap is set at nine months.

In addition, in the event that SP AusNet or Mr Adams terminates his employment in prescribed circumstances, he is entitled to be paid the remainder of the fixed and variable amounts of retention payment outstanding as at the date of his termination.

Loans to Directors and executives

SP AusNet Finance Trust has made no loans to the Directors of the Responsible Entity or to other key management personnel during the financial year. There were no amounts outstanding from Directors or other key management personnel at 31 March 2006.

Other transactions with key management personnel

The Managing Director, Mr N Ficca is the Deputy Chairman of the Energy Supply Association of Australia (ESAA). The ESAA has supplied services to SP AusNet Transmission over several years on normal terms and conditions.

A Non-executive Director, Prof J Davis, is a Director of Transurban Holdings Ltd and a number of its controlled entities. Transurban Holdings Ltd and its controlled entities have supplied services to SP AusNet Transmission over several years on normal terms and conditions.

A Non-executive Director, Mr E Gwee, is a Director of Melbourne Business School Ltd and WorleyParsons Ltd. Melbourne Business School Ltd and WorleyParsons Ltd have both supplied sources to SP AusNet Transmission over several years on normal terms and conditions.

From time to time, Directors of SP AusNet Distribution and its controlled entities, or their Director related entities, may purchase goods from the consolidated entity. The purchases are on the same terms and conditions as those entered into by other consolidated entity employers or customers and are trivial or domestic in nature.

Aggregate amounts of each of the above types of other transactions with key management personnel are as follows:

	2006 $	2005 $
Training expenses	**8,798**	1,650
Motor vehicle expenses	**49,976**	37,443
General expenses	**10,545**	16,650
Technical engineering advice	**94,160**	146,691
	163,479	202,434

Note 32 Remuneration of auditors

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

	Consolidated		Parent entity	
	2006 $	2005 $	2006 $	2005 $
(a) Assurance services				
Audit services				
Audit and review of financial reports and other audit work under the *Corporations Act 2001*	**756,000**	880,000	**–**	–
Total remuneration for audit services	**756,000**	880,000	**–**	–
Other assurance services				
Audit of regulatory returns	**315,000**	110,000	**–**	–
Due diligence services	**247,469**	350,000	**–**	–
Total remuneration for other assurance services	**562,459**	460,000	**–**	–
Total remuneration for assurance services	**1,318,469**	1,340,000	**–**	–
(b) Taxation services				
Tax compliance services, including review of company income tax returns	**362,895**	122,904	**–**	–
Total remuneration for taxation services	**362,895**	122,904	**–**	–
(c) Advisory services				
Information technology assistance to Internal Audit Department	**24,484**	–	**–**	–
Total remuneration for advisory services	**24,484**	–	**–**	–
Total fees	**1,705,848**	1,462,904	**–**	–

The auditor of SP AusNet is KPMG. Audit fees for the parent entity are paid by another entity in the Group.

Note 33 Contingencies

Contingent liabilities

Details of contingent liabilities which may arise and for which no provisions are included in the financial statements are as follows:

Management Services Agreement

SPI Management Services, a wholly-owned subsidiary of Singapore Power International Pte Ltd, provides management services to the Companies under the management services agreement.

The term of the management services agreement is for an initial period of 10 years, commencing on 1 October 2005. The Companies have options to renew the management services agreement for two further 10 year periods. Non-renewal by SP AusNet (in the absence of a terminable breach by SPI Management Services) will result in a termination fee equal to the previous financial year's Management Services Charge to SPI Management Services.

Potential Successor Liability

Pursuant to Allocation Statements made under the *Electricity Industry Act 1993* (Vic.) and the *Gas Industry Act 1994* (Vic.), SPI Electricity Pty Ltd and SPI Networks (Gas) Pty Ltd were allocated liability for all claims arising in respect of certain causes of action accrued against their predecessors as of 29 September 1994 in the case of SPI Electricity Pty Ltd, 9 October 1998 in the case of SPI Networks (Gas) Pty Ltd. The consolidated entity cannot predict at this time the impact of these contingent liabilities on the financial condition, results of operations or cash flows of the consolidated entity.

Environmental

Provisions have been made for land remediation for sites in Victoria based on the estimate of the land remediation costs following site reviews and testings. These costs may increase if the extent of contamination is worse than testing indicated at the time of the reviews. Under the current environmental legislation, the Victorian Environment Protection Authority have the power to order the consolidated entity to incur such costs to remedy the contamination of land.

Hazardous materials are used in certain operational areas 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.

The Directors are not aware of any significant breaches of legislation, which are material in nature. The Directors are not aware of any other remedial action required, and based on the results received to date, have no reason to believe that any possible legal or remedial action would result in a material cost or loss to the consolidated entity, other than as provided for in these financial statements and as noted above.

Note 33 Contingencies (continued)

VENCorp

SP AusNet has a contingent liability in respect of electricity transmission use of system charges of approximately $32.7 million for 2006/07 and $40.7 million for 2007/08 and increased approximately by CPI in the subsequent years.

Longford Claim

The Longford litigation was a class action commenced in the Federal Court by affected gas users in October 1998, following an outage of the State of Victoria's sole source of supply of gas resulting from an explosion at a processing plant at Longford. The litigation was later transferred to the Supreme Court of Victoria.

Other than the named plaintiffs, the affected gas users who brought the claim (Group Members) were:

– domestic users of gas;
– business users of gas; and
– workers who were stood down as a result of the cessation of gas supply.

Esso joined SPI Networks (Gas) Pty Ltd and all other state owned and controlled as well as other privately owned downstream participants as cross-respondents.

The Longford litigation was settled under a Deed of Settlement dated 23 September 2004 (Settlement Deed). The Settlement Deed released SPI Networks (Gas) Pty Ltd from further claims by the named plaintiffs and the Group Members.

The Settlement Deed does not prevent a claim being made against any of the entities above in the event that a claim is brought by:

– a person who has "opted out" of the current proceedings;
– a Group Member who has taken steps to cease being a Group Member; or
– a person who is not a Group Member (that is, a person who is not a domestic user, business user or stood down worker).

AGL Victoria Pty Ltd Litigation

Litigation in the Supreme Court of Victoria against SPI Networks (Gas) Pty Ltd, a controlled entity, and VENCorp was commenced on 25 August 2003 by AGL Victoria Pty Ltd (AGL). In this litigation AGL Victoria Pty Ltd (AGL) is seeking orders from the Court requiring VENCorp to re-open and re-determine its determination of unaccounted for gas reconciliation amounts for the years 1999 and 2000.

SPI Networks (Gas) Pty Ltd was successful in its defence of the claim in the Supreme Court and judgment was made in its favour including in relation to costs. AGL has appealed to the Full Court of the Supreme Court of Victoria.

SPI Networks (Gas) Pty Ltd believes it will be successful in defending this claim. If, however, the appeal by AGL is successful, it is likely SPI Networks (Gas) Pty Ltd will become liable for damages in an amount of approximately $10.7 million plus costs.

Contingent consideration

t squared/Tenix

SP AusNet has a NSAA with Tenix known as "t squared", under which t squared performs most of the operations and maintenance work in relation to SP AusNet's electricity and gas distribution networks. t squared also performs some replacement capital works, asset replacement capital works initiated by SP AusNet, customer-initiated capital works and support services. SP AusNet reimburses t squared for operating and capital expenditures. SP AusNet pays fees to Tenix that represent an agreed margin and reimbursement of Tenix's Alliance employee and other expenses plus other agreed performance based incentive fees.

If SP AusNet terminates the Network Services Alliance Agreement ("NSAA") after five years from its creation, SP AusNet would be required to pay Tenix Alliance a $5 million termination fee. If SP AusNet terminates the NSAA after 10 years from its creation, no termination fee is payable. Termination or restructuring of the NSAA prior to five years from its creation would be subject to agreement between SP AusNet and Tenix Alliance.

Other

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

Apart from any legal actions specifically mentioned in these notes, there are various claims on foot against the entity for alleged injuries and financial loss from third parties which are in dispute but which in total would not exceed $3 million in sums claimed as at 31 March 2006.

Other than listed above, the Directors are not aware of any contingent liabilities as at 31 March 2006.

Guarantees

Other Bank Guarantees

Certain entities are required to provide bank guarantees in the form of tender bid bonds or performance bonds for contractual obligations. The controlled entities have guarantee facilities with a number of financial institutions totalling $10 million of which $5.6 million was lodged with third parties at 31 March 2005.

Note 34 Commitments

(a) Capital commitments

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

	Consolidated		Parent entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Property, plant and equipment				
Payable:				
Within one year	**111,490**	27,284	**–**	–
Later than one year, but not later than five years	**7,855**	11,290	**–**	–
	119,345	38,574	**–**	–

(b) Other expenditure commitments

	Consolidated		Parent entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Payable:				
Within one year	**17,704**	103,886	**–**	–
Later than one year but not later than five years	**38,430**	318,777	**–**	–
Later than five years	**91,731**	739,083	**–**	–
	147,865	1,161,746	**–**	–

(c) Lease commitments

	Consolidated		Parent entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities, payable:				
Within one year	**5,897**	11,332	**–**	–
Later than one year but not later than five years	**17,840**	33,946	**–**	–
Later than five years	**14,992**	1,140	**–**	–
	38,729	46,418	**–**	–
Representing:				
Non-cancellable operating leases	**38,729**	46,418	**–**	–
	38,729	46,418	**–**	–

Operating leases

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

(d) Gas take-or-pay contracts

In the prior period SP AusNet was party to various types of contracts and/or heads of agreement for the purchase of gas subject to back-to-back gas contracts with a counterparty. These include "take-or-pay" obligations under which the buyer agrees to pay for a minimum quantity of gas in a year. These contracts were divested with the sale of the MEB.

(e) Renewable energy contracts

In the prior period SP AusNet was party to various contracts for the purchase of goods or services to satisfy our obligations under the legislation for reduction in Australian greenhouse gas emissions. At 31 March 2006, SP AusNet's contingent liabilities resulting from these contracts amounted to a net present value estimated at $nil.

Note 35 Related party transactions

(a) Parent entities

By virtue of the Stapling Deed entered into on 21 October 2005, SP AusNet Distribution is deemed to be the parent entity in the Stapled Group. The immediate parent of the Stapled Group is Singapore Power International Pte Ltd, a company incorporated in Singapore, a wholly-owned subsidiary of Singapore Power Ltd. Singapore Power International Pte Ltd owns 51% of the issued shares in SP AusNet Transmission as part of its ownership of 51% of the securities issued in the Stapled Group.

The ultimate parent is Temasek Holdings (Private) Limited (a company incorporated in Singapore).[1]

(b) Related entities

SPI Management Services Pty Ltd (SPI Management Services), a wholly-owned subsidiary of Singapore Power International Pte Ltd, provides management services to SP AusNet under the Management Services Agreement.

Under the management services agreement, SP AusNet Transmission and SP AusNet Distribution have engaged SPI Management Services to perform management services and to manage the electricity transmission and electricity and gas distribution networks on behalf of SP AusNet Transmission and SP AusNet Distribution and their subsidiaries, in accordance with all applicable laws, regulations and guidelines. SPI Management Services will consult with, advise, and seek advice from, Singapore Power Ltd and its subsidiaries from time to time in the performance of its work. Any variation to the material terms or the Management Services Agreement will be subject to securityholder approval.

The term of the management services agreement is for an initial period of 10 years commencing on 1 October 2005. SP AusNet Transmission and SP AusNet Distribution have options to renew the management services agreement for two further 10 year periods. Non-renewal by SP AusNet Transmission and SP AusNet Distribution (in the absence of a terminable breach by SPI Management Services) will result in a termination fee equal to the previous financial year's Management Services Charge to SPI Management Services. The management service charge was negotiated on behalf of the company by the independent Directors and is on normal commercial arm's length terms.

SP AusNet Transmission and SP AusNet Distribution have agreed to pay SPI Management Services a management fee comprising a management services charge and a performance fee for each financial year during the term of the Management Services Agreement. The management service charge is to compensate SPI Management Services for expenses relating to all remuneration and other employment entitlements and benefits of the employees of SPI Management Services required under any applicable statutory requirements. The performance fee is to incentivise SPI Management Services to meet or better the non-financial and financial performance of the business and to align the interest of SPI Management Services with those of SP AusNet Transmission and SP AusNet Distribution, investors and the regulators. The maximum performance fee payable by SP AusNet Transmission and SP AusNet Distribution each financial year is capped at 0.75% of the market capitalisation of the securities.

SP AusNet Transmission and SP AusNet Distribution indemnify SPI Management Services from all claims, liabilities, fines and penalties suffered or incurred by SPI Management Services to the extent it is caused by or arises from negligence, fraud or dishonesty of SP AusNet Transmission, SP AusNet Distribution and their subsidiaries in the performance of their obligations.

SPI Management Services is not liable to SP AusNet Transmission, SP AusNet Distribution and their subsidiaries by way of indemnity for any indirect, incidental or consequential loss including loss of opportunity or economic loss.

The total liability of SPI Management Services to SP AusNet Transmission, SP AusNet Distribution and their subsidiaries in relation to the performance of or breaches of the Management Services Agreement is limited to $5 million in any financial year. The Responsible Entity has entered into a management services agreement with SPI Management Services commencing 1 October 2005. Pursuant to this agreement, SPI Management Services is entitled to a management fee of $100,000 per year.

Singapore Power Ltd has granted SP AusNet a licence for consideration $1 million per year to use the "flame logo" and image in connection with its business and the use of the terms "SP", "SP Australia Networks" and "SP AusNet". The fee payable is on normal commercial terms.

(c) Subsidiaries

Interests in subsidiaries are set out in note 37.

(d) Key management personnel

Disclosures relating to Directors and specified executives are set out in note 31.

1 Temasek Holdings (Private) LImited's sole shareholder is the Minister of Finance (Incorporated), a body corporate under the Minister for Finance (Incorporation) Act, Chapter 183 of Singapore.

(e) Transactions with related parties

The following transactions occurred with related parties:

	Consolidated		Parent entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Sales of goods and services				
Rental income	**520**	567	**–**	–
Sales of assets	**–**	1,850	**–**	–
Sundry revenue	**226**	–	**–**	–
Purchases of goods				
Regulated electricity expenses	**5,033**	5,504	**–**	–
Rental and maintenance expenses	**871**	104	**–**	–
Management fees	**12,537**	3,044	**–**	–
Director's fees*	**77**	–	**–**	–
Sundry costs	**2,355**	–	**–**	–
Loans from related parties				
Loans advanced to:				
Commonly controlled entities	**250,000**	–	**–**	–
Loan repayments from:				
Commonly controlled entities	**(250,000)**	–	**–**	–
Loans advanced from:				
Commonly controlled entities	**–**	2,213,102	**–**	2,437,131
Loan repayments to:				
Commonly controlled entities	**(996,000)**	(217,000)	**(996,000)**	(217,000)
Interest revenue				
Commonly controlled entities	**2,745**	–	**–**	–

*Mr Quek is an executive of Singapore Power Ltd and a nominee Director of Singapore Power Ltd on the Board of SP AusNet. Singapore Power Ltd receives the fees for Mr Quek's services as a Director of SP AusNet.

(f) Outstanding balances

The following balances are outstanding at the reporting date in relation to transactions with related parties:

	Consolidated		Parent entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Current receivables (sales of goods and services)				
Entities under common control	**865**	37	**–**	–
Non-current receivables (loans)				
Subsidiaries	**–**	–	**1,694**	–
Current payables (loans)				
Entities under common control	**–**	–	**165,016**	194,577
Non-current payables (loans)				
Entities under common control	**3,430**	1,988,680	**2,220,039**	2,205,680
Parent entity	**18,402**	17,496	**16,949**	14,451

No provisions for doubtful debts have been raised in relation to any outstanding balances, and no expense has been recognised in respect of bad or doubtful debts due from related parties.

Note 35 Related party transactions (continued)

(g) Terms and conditions

SP AusNet Transmission and SP AusNet Distribution each have four loan agreements in place with SP AusNet Finance Trust. The amounts loaned to SP AusNet Distribution and SP AusNet Transmission are $992.7 million and $1,100 million respectively. Of the $992.7 million loaned to SP AusNet Distribution, $602.7 million had an interest rate of 0% per annum and $390.0 million had an interest rate of 7.5% per annum for the period 14 December 2005 to 31 March 2006. Of the $1,100 million loaned to SP AusNet Transmission, $650.0 million had an interest rate of 0% per annum and $450.0 million had an interest rate of 7.5% per annum for the period 14 December 2005 to 31 March 2006.

The loan agreements are for a term of 10 years. The loan agreements to SP AusNet Distribution and SP AusNet Transmission mature in July 2014 and October 2015 respectively. The loan agreements have similar terms and conditions which can be summarised as follows:

– The interest period and interest rate to apply to the loans are agreed by the Borrower and the Lender.
– Interest accrues from day to day and is payable on the last day of the interest period.
– Interest which is payable may be capitalised by the Lender at intervals which the Lender determines, or if no determination is made, on the first day of each quarter.
– The Borrower must repay the principal outstanding and any accrued but unpaid interest on or before the end of the term of the agreement.
– The Lender may demand repayment of the outstanding principal and any unpaid accrued interest on demand by giving at least 28 days' notice (or a shorter period agreed between the parties).
– The Borrower can prepay outstanding principal and any unpaid accrued interest by giving at least 28 days' notice (or a shorter period agreed between the parties).
– The Lender may terminate its obligations if an Event of Default occurs.

The loans from SP AusNet Finance Trust are unsecured and are not guaranteed by any of SP AusNet Distribution or SP AusNet Transmission's subsidiaries.

Note 36 Business combination

(a) Summary of acquisition

Pursuant to the Stapling Deed dated 19 October 2005 (effective from 21 October 2005) a Stapled Group was established for the purpose of facilitating a joint quotation of SP AusNet Distribution, SP AusNet Transmisson and SP AusNet Finance Trust on the Australian Stock Exchange (ASX) and the Singapore Exchange Securities Trading Limited (SGX-ST).

For Statutory reporting purposes the purchase method of accounting has been applied to the stapling arrangement.

In applying the purchase method in the preparation of the consolidated financial statements of SP Australia Networks (Distribution) Ltd, the carrying amounts of the assets and liabilities of SP Australia Networks Distribution at the date of the stapling arrangement have been combined with the fair values of the identifiable assets, liabilities and contingent liabilities of SP AusNet Transmisson and SP AusNet Finance Trust at the date of the stapling arrangement.

The acquired businesses contributed revenues of $175.7 million and net profit of $39.9 million to the Group for the period from 21 October 2005 to 31 March 2006. If the acquisition had occurred on 1 April 2005, consolidated revenue and consolidated profit for the year ended 31 March 2006 would have been $399.0 million and $77.3 million respectively.

At the date of acquisition, the acquired entities were involved in the transmission of electricity within the state of Victoria and finance respectively.

Details of the fair value of the assets and liabilities acquired are as follows:

(b) Assets and liabilities deemed to be acquired

The assets and liabilities arising from the acquisition are as follows:

SP Australia Networks (Transmission) Ltd	SP AusNet Transmission carrying amount $'000	Fair value $'000
Cash	8,059	8,059
Trade receivables	33,775	33,775
Inventories	15,871	15,871
Plant and equipment	2,825,269	3,015,689
Deferred tax asset	4,972	4,972
Other assets	15,322	15,322
Trade payables	(34,839)	(34,839)
Provision for employee benefits	(12,500)	(12,500)
Deferred tax liability	(351,080)	(408,200)
Retirement benefit obligations	6,242	6,242
Loan related party	(1,100,000)	(1,100,000)
Other liabilities	(1,544,391)	(1,544,391)
Net assets	(133,300)	–
Net identifiable assets acquired		–

* The fair value of SP AusNet Transmission at the date of stapling was considered to be $nil, comprising $1.1 billion of operating assets and liabilities funded by $1.1 billion of borrowings from SP AusNet Finance Trust. The value of the operating assets and liabilities was supported by a discounted cash flow forecast in relation to the transmission business, and independent valuations of the underlying assets comprising land, easements and property, plant and equipment. In recognising the total fair value of SP AusNet Transmission acquired for accounting purposes by SP AusNet Distribution at the time of the stapling, an additional $190.4 million of property plant and equipment was recognised together with associated deferred tax liabilities of $57.1 million. The increase in the net assets of $133.3 million was transferred to minority interest.

SP Australia Networks (Finance) Trust	SP AusNet Finance Trust carrying amount $'000	Fair value $'000
Loans to SP AusNet Transmission	1,100,000	1,100,000
Loans to SP AusNet Distribution	992,680	992,680
Net assets	2,092,680	2,092,680
Net identifiable assets acquired		2,092,680

The carrying value of all the assets and liabilities in SP AusNet Finance Trust approximate fair value at the date of the deemed acquisition by SP AusNet Distribution and accordingly, no adjustments to their carrying value were made as a result of the deemed acquisition.

An amount of $2,092.7 million was transferred to minority interest at the date of stapling which represented the fair values of SP AusNet Transmission of $nil, the fair value of SP AusNet Finance of $992.7 million, and $1.1 billion of units subscribed as part of the reverse acquisition, detailed above, whereby SPI PowerNet (the major operating subsidiary of SP AusNet Transmission), was deemed to be the acquirer for accounting purposes of SP AusNet Transmission.

31 March 2005

On 30 July 2004 the parent entity acquired 100% of the issued share capital of SPI Australia Group Pty Ltd, the principal activity is that of a holding company of the Group's operations in Australia.

The operating results of this controlled entity have been included in the consolidated entity's results since the date of acquisition.

Note 36 Business combination (continued)

	Book value $'000	Fair value adjustment $'000	Total fair value on acquisition $'000
Details of acquisition are as follows:			
Cash	242,136	–	242,136
Property, plant and equipment	3,416,433	322,500	3,738,933
Inventory	37,715	4,600	42,315
Intangibles	372,243	–	372,243
Trade debtors	413,628	–	413,628
Deferred tax asset	396,998	–	396,998
Other assets	655,599	32,500	688,099
Trade creditors	(210,850)	–	(210,850)
Deferred tax liabilities	(368,556)	–	(368,556)
Interest bearing liabilities	(3,137,760)	–	(3,137,760)
Provisions	(123,996)	–	(123,996)
Other liabilities	(439,887)	–	(439,887)
Net assets acquired	**1,253,703**	**359,600**	**1,613,303**
Goodwill on acquisition	966,721	(359,600)	607,121
Cost of acquisition (cash consideration)	**2,220,424**	**–**	**2,220,424**
Less: cash acquired	(242,136)	–	(242,136)
Net cash flow	**1,978,288**	**–**	**1,978,288**

Note 37 Subsidiaries

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

			Equity holding	
Name of entity	Country of incorporation	Class of shares	2006 %	2005 %
SP Australia Networks (Distribution) Ltd	**Australia**	**Ordinary**	**100**	100
Subsidiaries:				
SPI Australia Networks (RE) Ltd	Australia	Ordinary	**100**	100
SPI Australia Group Pty Ltd	Australia		**100**	100
SPI Australia (LP) No. 1 Limited	UK		**100**	100
SPI Australia (LP) No. 2 Limited	UK		**100**	100
SPI Australia Holdings (AGP) Pty Ltd	Australia		**100**	100
SPI Pipelines Holdings Pty Ltd	Australia		**–**	100
SPI Pipelines Pty Ltd	Australia		**–**	100
SPI Sea Gas SPV 1 Pty Ltd	Australia		**–**	100
SPI Sea Gas SPV 2 Pty Ltd	Australia		**–**	100
SPI Australia Holdings (Partnership) Limited Partnership	Australia		**100**	100
SPI Electricity & Gas Australia Holdings Pty Ltd	Australia		**100**	100
SPI Electricity & Gas Australia Pty Ltd	Australia		**–**	100
SPI Electricity Pty Ltd	Australia		**100**	100
SPI Networks Pty Ltd	Australia		**100**	100
SPI Customer Services Pty Ltd	Australia		**–**	100
SPI Australia Services Pty Ltd	Australia		**–**	100
SPI Joule Resources Pty Ltd (ii)	Australia		**–**	100
SPI Torrens Island Pty Ltd	Australia		**–**	100
SPI (South Australia) Pty Ltd	Australia		**–**	100
SPI (No. 6) Pty Ltd (i), (ii)	Australia		**–**	100
SPI Australia (Queensland) Pty Ltd (ii)	Australia		**–**	100
SPI (No. 7) Pty Ltd (ii)	Australia		**–**	100
SPI Gas Storage Pty Ltd	Australia		**–**	100
SPI (No. 8) Pty Ltd	Australia		**100**	100
SPI (No. 9) Pty Ltd (ii)	Australia		**100**	100
SPI Networks (Gas) Pty Ltd	Australia		**100**	100
SPI Retail Pty Ltd	Australia		**–**	100
SPI (No. 12) Pty Ltd (i), (ii)	Australia		**100**	100
SPI (No. 13) Pty Ltd (ii)	Australia		**–**	100
SPI (No. 14) Pty Ltd (i), (ii)	Australia		**–**	100
SPI (Tallawara) Pty Ltd (ii)	Australia		**–**	100
SPI Home Services Pty Ltd	Australia		**–**	100
Data and Measurement Solutions Pty Ltd	Australia		**100**	100
SPI MEB Holdings Pty Ltd (i), (ii)	Australia		**–**	100
SPI MEB Pty Ltd (i), (ii)	Australia		**–**	100
SPI VN Pty Ltd (i), (ii)	Australia		**–**	100
SPI Victoria Networks Pty Ltd (ii)	Australia		**100**	100
SPI Share Plans Pty Ltd (ii)	Australia		**–**	100
SPI (Tallawara Pipelines) Pty Ltd (ii)	Australia		**–**	100
SP Australia Networks (Transmission) Ltd	**Australia**	**Ordinary**	**–***	–*
Subsidiaries:				
ACN 092 329 461 Pty Ltd	Australia		**–**	–
SPI PowerNet Pty Ltd	Australia		**100**	–
SPI Australia Finance Pty Ltd	Australia		**100**	–
SPI PowerNet Investments Pty Ltd	Australia		**–**	–
SP Australia Networks (Finance) Trust	Australia		**–***	–*

(i) Dormant during 2006.
(ii) Entity is a wholly-owned entity and is a small proprietary company pursuant to the *Corporations Act 2001* and consequently is relieved from the requirement to prepare audited financial statements.
* In accordance with AASB 3 *Business combination* SP AusNet Distribution is deemed to acquire SP AusNet Transmission and SP AusNet Finance Trust.

Note 38 Interests in joint ventures

Joint venture partnership

The parent entity had a 33.3% interest in both the SEAGas Partnership and SEA Gas Pty Ltd until they were disposed of on 29 August 2005.

SEA Gas Pty Ltd acted as an agent and manager for the SEAGas Partnership.

SEAGas Partnership constructed, owned and operated a gas pipeline from Port Campbell in Western Victoria through to Adelaide in South Australia.

	Consolidated		Parent entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Carrying amount of investment in partnership	**–**	86,323	**–**	–

	Consolidated	
	2006 $'000	2005 $'000
Share of partnership's assets and liabilities		
Current assets	**–**	8,364
Non-current assets	**–**	160,702
Total assets	**–**	169,066
Current liabilities	**–**	32
Non-current liabilities	**–**	115,211
Total liabilities	**–**	115,243
Fair value adjustment	**–**	32,500
Net assets	**–**	86,323
Share of partnership's revenue, expenses and results		
Revenues	**9,019**	13,772
Expenses	**(6,543)**	(8,971)
Profit before income tax	**2,476**	4,801
Share of partnership's commitments		
Capital commitments 1 year or less	**–**	3,978

Note 39 Economic dependency

The consolidated entity is dependent to a significant extent upon various consortia for the administration and operation of the wholesale national electricity market, control and operation of the state electricity transmission systems, control of the gas transmission, operation of the gas wholesale market, transmission of natural gas through the gas transmission network and distribution of electricity and gas.

Note 40 Events occurring after the balance sheet date

Since the end of the financial year the Directors have recommended the payment of a distribution of $68,012,100 (3.25 cents per fully paid security) to be paid on 26 June 2006 comprised as follows:

	Cents per security	Total distribution $
Fully franked dividend payable to SP AusNet transmission	0.15	3,139,020
Interest income payable to SP AusNet Finance Trust	0.89	18,624,852
Capital distribution payable to SP AusNet Finance Trust	2.21	46,248,228
	3.25	68,012,100

Resolution between Singapore Power and CLP

During the year ended 31 March 2006, CLP Power Asia Ltd had written to Singapore Power Limited (SP) raising certain concerns relating to the disclosure of information by SP in the lead up to the sale in May 2005 to CLP of the Merchant Energy Business (MEB) that was previously owned by SP AusNet Distribution. Since balance date, SP and CLP Holdings Limited have resolved this matter on mutually agreeable terms.

Singapore Power International Pte Ltd (SPI – a wholly-owned subsidiary of SP) has agreed to indemnify SP AusNet against any claims arising from the sale of the MEB. The resolution of this matter is at no cost to SP AusNet.

Note 41 Reconciliation of profit after income tax to net cash inflow from operating activities

	Consolidated		Parent entity	
	2006 $'000	**2005 $'000**	**2006 $'000**	**2005 $'000**
Profit from ordinary activities after related income tax	**335,232**	93,717	**(5,813)**	193
Depreciation and amortisation of non-current assets	**154,475**	100,377	**–**	–
Impairment of stock	**–**	1,800	**–**	–
Net loss on sale of non-current assets	**754**	885	**–**	–
Share of equity accounted investments' net profit	**4,327**	2,215	**–**	–
Net gain on divestment of business	**(255,621)**	–	**–**	–
Changes in operating assets and liabilities, net of effects from acquisition of businesses:				
(Increase)/decrease in receivables	**(50,996)**	60,539	**–**	(49)
(Increase)/decrease in inventories	**(3,186)**	(6,308)	**–**	–
(Increase)/decrease in other financial assets	**(56,803)**	52,389	**–**	–
(Increase)/decrease in other assets	**1,842**	1,265	**(300)**	–
Increase/(decrease) in trade payables	**(23,071)**	(1,503)	**(29,560)**	–
Increase/(decrease) in other financial liabilities	**37,748**	(41,137)	**–**	–
Increase/(decrease) in other liabilities	**(48,486)**	281	**–**	–
Increase/(decrease) in provisions	**1,928**	(81)	**–**	–
Movement in tax balances	**79,732**	48,856	**27,143**	150
Net cash inflow/(outflow) from operating activities	**177,875**	313,295	**(8,530)**	294

Note 42 Explanation of transition to Australian equivalents to IFRSs

The consolidated entity changed its accounting policies on 1 April 2005 to comply with Australian equivalents to International Financial Reporting Standards (AIFRS). The transition to AIFRS is accounted for in accordance with Accounting Standard AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*, with 21 April 2004 as the date of transition, except for financial instruments, including derivatives, where the date of transition is 1 April 2005 (refer note 1).

An explanation of how the transition from superseded policies to AIFRS has affected the company and consolidated entity's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

Effect of AIFRS on the balance sheet as at 21 April 2004

The transition date of the Group to AIFRS was 21 April 2004, the date of incorporation of the parent entity. As at this date, the company had no assets or liabilities other than those related to the first issue of equity. The Group first acquired trading entities on 30 July 2004 when it bought SPI Australia Group Pty Ltd. As a result, there are no AIFRS adjustments at transition date and no reconciliation of opening retained earnings is required. The acquisition of this group gave rise to a number of transitional AIFRS adjustments. As these entities were acquired after their transition date, any AIFRS adjustments were made at transition date in the acquired entities, which were required to be accounted for as part of the acquisition. Full details of changes to fair value on acquisition arising from AIFRS adjustments are set out below:

Note 42 Explanation of transition to Australian equivalents to IFRSs (continued)

(1) Reconciliation of equity reported under previous Australian Generally Accepted Accounting Principles (AGAAP) to equity under Australian equivalents to IFRSs (AIFRSs)

(i) At the end of the last reporting period under previous AGAAP: 31 March 2005

		Consolidated			Parent entity		
	Notes	Previous AGAAP $'000	Effect of transition to AIFRS $'000	AIFRS $'000	Previous AGAAP $'000	Effect of transition to AIFRS $'000	AIFRS $'000
ASSETS							
Current assets							
Cash and cash equivalents		46,893	–	46,893	1	–	1
Receivables		300,157	–	300,157	17	–	17
Inventories		34,933	–	34,933	–	–	–
Other financial assets		165,605	–	165,605	–	–	–
Other current assets		10,367	–	10,367	–	–	–
Total current assets		**557,955**	**–**	**557,955**	**18**	**–**	**18**
Non-current assets							
Receivables		692	(167)	525	–	–	–
Inventories – non-current		9,090	–	9,090	–	–	–
Equity accounted investments		87,172	–	87,172	–	–	–
Other financial assets	4(g)	451,658	(84,928)	366,730	2,220,424	–	2,220,424
Property, plant and equipment		3,799,152	–	3,799,152	–	–	–
Deferred tax assets	4(f)	235,480	(235,480)	–	235,480	(41,021)	194,459
Intangible assets	4(c)	859,520	119,844	979,364	–	–	–
Other non-current assets		16,526	11	16,537	–	–	–
Total non-current assets		**5,459,290**	**(200,720)**	**5,258,570**	**2,455,904**	**(41,021)**	**2,414,883**
Total assets		**6,017,245**	**(200,720)**	**5,816,525**	**2,455,922**	**(41,021)**	**2,414,901**
LIABILITIES							
Current liabilities							
Payables	4(f)	221,571	–	221,571	(33)	194,610	194,577
Interest bearing liabilities		200,001	–	200,001	–	–	–
Derivative financial instruments		223,922	–	223,922	–	–	–
Provisions	4(a)	33,896	(4,926)	28,970	–	–	–
Total current liabilities		**679,390**	**(4,926)**	**674,464**	(33)	**194,610**	**194,577**
Non-current liabilities							
Interest bearing liabilities		4,715,709	–	4,715,709	2,220,131	–	2,220,131
Other financial liabilities		221,422	–	221,422	–	–	–
Deferred tax liabilities	4(f)	235,622	(214,645)	20,977	235,631	(235,631)	–
Provisions	4(a)	77,458	9,186	86,644	–	–	–
Total non-current liabilities		**5,250,211**	**(205,459)**	**5,044,752**	**2,455,762**	**(235,631)**	**2,220,131**
Total liabilities		**5,929,601**	**(210,385)**	**5,719,216**	**2,455,729**	**(41,021)**	**2,414,708**
Net assets		**87,644**	**9,665**	**97,309**	**193**	**–**	**193**
EQUITY							
Contributed equity		–	–	–	–	–	–
Reserves	4(a)	–	3,592	3,592	–	–	–
Retained earnings	4(h)	87,644	6,073	93,717	193	–	193
Total equity		**87,644**	**9,665**	**97,309**	**193**	**–**	**193**

(2) Reconciliation of profit for the year ended 31 March 2005

		Consolidated			Parent entity		
	Notes	Previous AGAAP $'000	Effect of transition to AIFRS $'000	AIFRS $'000	Previous AGAAP $'000	Effect of transition to AIFRS $'000	AIFRS $'000
Revenue from continuing operations	4(b)	1,338,427	(941,715)	396,712	311	–	311
Expenses excluding finance costs	4(a), 4(b), 4(c) and 4(d)	(1,058,189)	874,067	(184,122)	–	–	–
Finance costs – net	4(b)	(142,639)	1,644	(140,995)	–	–	–
Share of profit (loss) from associates and joint ventures – equity accounted	4(b)	3,495	(3,495)	–	–	–	–
Profit before income tax		**141,094**	**(69,499)**	**71,595**	**311**	**–**	**311**
Income tax expense	4(b) and 4(f)	(53,450)	28,655	(24,795)	(118)	–	(118)
Profit from continuing operations	4(b)	87,644	(40,844)	46,800	193	–	193
Profit from discontinued operations		–	46,917	46,917	–	–	–
Profit for the year		**87,644**	**6,073**	**93,717**	**193**	**–**	**193**
Profit attributable to minority interest		–	–	–	–	–	–
Profit attributable to members of the company		**87,644**	**6,073**	**93,717**	**193**	**–**	**193**

(3) Reconciliation of cash flow statement for the year ended 31 March 2005

The adoption of AIFRSs has not resulted in any material adjustments to the cash flow statement.

(4) Notes to the reconciliations

(a) Defined benefit superannuation plans

Two defined benefit superannuation plan obligations became part of the consolidated entity on 30 July 2004, following the acquisition of the issued share capital of TXU Australia Group Pty Ltd.

Under superseded policies, contributions to defined benefit superannuation plans were expensed when due and payable and no asset or liability was recognised in relation to the plans, while a part of the pension obligation remained unfunded.

Equipsuper

(i) As at 30 July 2004

The recognition of the Equipsuper scheme resulted in a defined benefit obligation at acquisition date of $6,058,000. This gave rise to a deferred tax asset of $1,817,000 being recognised at acquisition date. All of these amounts were brought to account as part of the acquisition of assets at 30 July 2004.

(ii) As at 31 March 2005

The Equipsuper defined benefit obligation decreased by $6,612,000 to a surplus of $554,000 and the deferred tax asset decreased by $1,983,200 to a deferred tax liability of $166,200 as at 31 March 2005. Adjustments were made to recognise actuarial gains directly to reserves (net of tax) of $3,592,400.

(iii) Period from 21 April 2004 to 31 March 2005

Employee benefit expenses decreased by $1,480,000 under AIFRS.

Note 42 Explanation of transition to Australian equivalents to IFRSs (continued)

Electricity Industry Scheme ("EIS")

(i) As at 30 July 2004

The recognition of the EIS scheme resulted in a defined benefit obligation of $19,639,000 at acquisition date. Previously the subsidiary company had recognised a provision for its share of the unfunded deficit and at 1 August 2004 the total provision balance of $13,391,000 was reclassified to be part of the defined benefit deficit, thereby reducing the impact of AIFRS. This adjustment gave rise to an additional deferred tax asset of $1,874,000 being recognised at acquisition date. All of these amounts were brought to account as part of the acquisition of assets at 30 July 2004.

(ii) As at 31 March 2005

The EIS defined benefit obligation decreased by $2,544,000 to a deficit of $17,095,000 and the deferred tax asset decreased by $763,200 to $5,129,000 as at 31 March 2004. The existing provision balance as at 31 March 2005 was $12,282,000 thereby reducing the AIFRS adjustment to $4,814,000.

(b) Discontinued operations

Under AIFRSs, the consolidated entity discloses revenue and expenses, including tax expenses, attributable to discontinued operations as part of a single line item 'profit from discontinued operations' on the income statement. There was no requirement under previous GAAP to split out revenue and expenses attributable to discontinued operations in this manner and accordingly, amounts are reclassified from the various line items in which they were recognised under previous GAAP to 'profit from discontinued operations' on adoption of AIFRSs.

As a result, the adjustment in the reconciliation of profit can be split between a reclassification in relation to discontinued operations and adjustment to profit as detailed below:

	Discontinued operations $'000	Other $'000
Revenue from continuing operations	941,715	–
Expenses excluding finance costs	(856,803)	(17,264)
Finance costs – net	(1,644)	–
Share of profit (loss) from associates and joint ventures – equity accounted	3,495	–
Income tax expense	(39,846)	11,191
	46,917	**6,073**
Profit from discontinued operations	46,917	–
Impact on profit for the year	–	**6,073***
* The impact can profit from the introduction of AIFRSs can be allocated as follows:		
• Continuing operations		(2,813)
• Discontinued operations		8,886
		6,073

(c) Goodwill

(i) As at 30 July 2004 and 31 March 2005

Because the date of acquisition of controlled entities was after the date of transition to AIFRS, changes to goodwill arise from the restatement of the fair value of assets and liabilities of the controlled entities to AIFRS. The significant changes to goodwill are as follows:

	$'000
Recognition of deficits in defined benefit obligation outlined in note (a) above	12,306
Restatement of the master hedge agreement outlined in note (g) below	81,185
Changes to deferred tax balances on adoption of AASB 112 at 30 July 2004	6,127
Movement in goodwill for the period 21 April 2004 to 30 July 2004	99,618
Write-back goodwill amortisation for the period 31 July 2004 to 31 March 2005	20,226
Movement in goodwill for the period 31 July 2004 to 31 March 2005	119,844

(ii) Period from 21 April 2004 to 31 March 2005

Goodwill, which was amortised under superseded accounting policies, is not amortised under AIFRS from the date of transition (30 July 2004, being the date of acquisition). The effect of the change is an increase in the carrying amount of goodwill by $20,226,000 and an increase in net profit before tax by the same amount. There is no tax effect, as deferred taxes are not recognised for temporary differences arising from goodwill for which amortisation is not deductible.

(d) Classification of licences as intangible assets

On transition to AIFRS, the distribution licence is considered to be an intangible asset with an indefinite useful economic life. The asset was reviewed for impairment on transition, and is subject to annual impairment reviews thereafter.

(e) Revenue

Under superseded policies, the consolidated entity recognised the gain or loss on disposal of property, plant and equipment on a "gross" basis by recognising the proceeds from sale as revenue, and the carrying amount of the property, plant and equipment disposed as an expense. Under AIFRS, the gain or loss on disposal is recognised on a "net" basis, and is classified as income, rather than revenue. Accordingly, the "gross" amounts have been reclassified within the income statement for AIFRS reporting purposes.

(f) Income tax

Under superseded policies, the consolidated entity adopted tax-effect accounting principles whereby income tax expense was calculated on pre-tax accounting profits after adjustment for permanent differences. The tax-effect of timing differences, which occur when items were included or allowed for income tax purposes in a period different to that for accounting were recognised at current taxation rates as deferred tax assets and deferred tax liabilities, as applicable.

Under AIFRS, deferred tax is determined using the 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 their corresponding tax bases.

Under AIFRS, deferred tax balances of wholly-owned subsidiaries in a tax-consolidated group are not recognised by the head entity. These balances were recognised under the superseded policies.

Under AIFRSs, deferred tax assets and deferred tax liabilities are netted off to the extent that they relate to the same taxation authority and taxable entity.

(i) At 31 March 2005

The effects on the deferred tax balances of the adoption of AIFRS are as follows (tax rate of 30%):

	31 March 2005	
	Consolidated $'000	Parent entity $'000
Defined benefit obligation	(876)	–
Adjustments arising from adoption of AASB 112	5,519	194,610
Master hedge agreement	(25,478)	–
Net increase (decrease) in deferred tax liability	(20,835)	194,610

Under previous AGAAP the parent entity recognised current and deferred tax amounts relating to transactions, events and balances of the consolidated group. Under AIFRS, the parent entity only recognises the current tax payable and deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax-consolidated group.

(ii) Period from 21 April 2004 to 31 March 2005

Income tax expense increased by $11,191,000 under AIFRS.

(g) Master hedge agreement

(i) As at 30 July 2004

Under superseded accounting policies the discontinued business accounted for its agreement to enter into hedge contracts in relation to rights to obtain the output from certain power stations as a principal instrument that was measured at fair value.

The Group has determined that in accordance with AASB 117 *Leases*, this contract should be accounted for as an operating lease. The effect of the change is a reduction in the carrying value of amounts prepaid under the contract of $81,185,000.

(ii) As at 31 March 2005

The carrying value of amounts prepaid under the contract has been reduced by an additional $3,742,000.

(iii) Period from 21 April 2004 to 31 March 2005

Amortisation expense increased by $3,742,000.

(h) Retained earnings

There was no impact to retained earnings because the transition date is after the date of incorporation. The adjustment to retained earnings in the restated balance sheet as at 31 March 2005 relates wholly to the restatement of profit for the period to 31 March 2005.

(i) Adjustments on transition to AASB 132 Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement: 1 April 2005

In the current financial year the Group adopted AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement*. This change in accounting policy has been adopted in accordance with transition rules contained in AASB 1, which does not require the restatement of comparative information for financial instruments within the scope of AASB 132 and AASB 139.

Note 42 Explanation of transition to Australian equivalents to IFRSs (continued)

The adoption of AASB 139 has resulted in the Group recognising available-for sale investments and all derivative financial instruments as assets or liabilities at fair value. This change has been accounted for by adjusting the opening balances of equity (retained earnings and hedging reserve) as at 1 April 2005.

The impact on the balance sheet in the comparative period is set out as an adjustment to the opening balance sheet as at 1 April 2005.

	Consolidated			Parent entity		
	31 March 2005 $'000	Adjustment $'000	1 April 2005 $'000	31 March 2005 $'000	Adjustment $'000	1 April 2005 $'000
ASSETS						
Current assets						
Cash and cash equivalents	46,893	–	46,893	1	–	1
Receivables	300,157	–	300,157	17	–	17
Inventories	34,933	–	34,933	–	–	–
Derivative financial instruments	165,605	(215,044)	(49,439)	–	–	–
Other current assets	10,367	–	10,367	–	–	–
Total current assets	**557,955**	**(215,044)**	**342,911**	**18**	**–**	**18**
Non-current assets						
Receivables	525	–	525	–	–	–
Equity accounted investments	87,172	–	87,172	–	–	–
Other financial assets	366,730	–	366,730	2,220,424	–	2,220,424
Inventories – non-current	9,090	–	9,090	–	–	–
Property, plant and equipment	3,799,152	–	3,799,152	–	–	–
Deferred tax assets	–	–	–	194,459	–	194,459
Intangible assets	979,364	–	979,364	–	–	–
Other non-current assets	16,537	–	16,537	–	–	–
Total non-current assets	**5,258,570**	**–**	**5,258,570**	**2,414,883**	**–**	**2,414,883**
Total assets	**5,816,525**	**(215,044)**	**5,601,481**	**2,414,901**	**–**	**2,414,901**
LIABILITIES						
Current liabilities						
Payables	221,571	–	221,571	194,577	–	194,577
Interest bearing liabilities	200,001	–	200,001	–	–	–
Derivative financial instruments	223,922	(210,276)	13,646	–	–	–
Provisions	28,970	–	28,970	–	–	–
Total current liabilities	**674,464**	**(210,276)**	**464,188**	**194,577**	**–**	**194,577**
Non-current liabilities						
Interest bearing liabilities	4,715,709	(65,481)	4,650,228	2,220,131	–	2,220,131
Other financial liabilities	221,422	–	221,422	–	–	–
Deferred tax liabilities	20,977	18,214	39,191	–	–	–
Provisions	86,644	–	86,644	–	–	–
Total non-current liabilities	**5,044,752**	**(47,267)**	**4,997,485**	**2,220,131**	**–**	**2,220,131**
Total liabilities	**5,719,216**	**(257,543)**	**5,461,673**	**2,414,708**	**–**	**2,414,708**
Net assets	**97,309**	**42,499**	**139,808**	**193**	**–**	**193**
EQUITY						
Contributed equity	–	–	–	–	–	–
Reserves	3,592	(22,800)	(19,208)	–	–	–
Retained earnings	93,717	65,299	159,016	193	–	193
Total equity	**97,309**	**42,499**	**139,808**	**193**	**–**	**193**

Refer to notes 1(p) and 1(q) for further information on the transition to AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* on 1 April 2005.

DIRECTORS' DECLARATION

In the Directors' opinion:

(a) the financial statements and notes set out on pages 55 to 124 are in accordance with the *Corporations Act 2001*, including:

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

 (ii) giving a true and fair view of the company's and consolidated entity's financial position as at 31 March 2006 and of their performance, as represented by the results of their operations and their cash flows, for the financial year ended on that date; and

(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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

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

Nino Ficca

Melbourne
5 June 2006

INDEPENDENT AUDITORS' REPORT to the stapled security holders of SP Australia Networks (Distribution) Ltd, SP Australia Networks (Transmission) Ltd and SP Australia Networks (Finance) Trust

Scope

We have audited the combined financial report of SP Australia Networks (Distribution) Ltd for the financial year ended 31 March 2006, consisting of the income statements, statements of recognised income and expense, balance sheets, statements of cash flows, accompanying notes 1 to 42 and the Directors' declaration as set out on pages 55 to 125. The combined financial report of SP Australia Networks (Distribution) Ltd comprises the financial statements of the SP Australia Networks (Distribution) Ltd economic entity, being SP Australia Networks (Distribution) Ltd and its controlled entities, SP Australia Networks (Transmission) Ltd and its controlled entities, and SP Australia Networks (Finance) Trust.
The directors of SP Australia Networks (Distribution) Ltd and the directors of the Responsible Entity of SP Australia Networks (Finance) Trust, SP Australia Networks RE Pty Ltd are responsible for the financial report. The directors are also responsible for preparing the relevant reconciling information regarding the adjustments required under Australian Accounting Standard AASB 1 *First-time Adoption of Australian equivalents to International Financial Reporting Standards*. We have conducted an independent audit of this combined financial report in order to express an opinion on it to the stapled security holders of SP Australia Networks (Distribution) Ltd, SP Australia Networks (Transmission) Ltd and SP Australia Networks (Finance) Trust.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the combined financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the combined financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the combined financial report is presented fairly in accordance with Australian equivalents to International Financial Reporting Standards and other mandatory professional reporting requirements in Australia and statutory requirements so as to present a view which is consistent with our understanding of the Company's and the Stapled Entity's financial position, and performance as represented by the results of their operations, changes in equity and their cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Audit opinion

In our opinion, the combined financial report of SP Australia Networks (Distribution) Ltd is in accordance with:

(a) the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Company's and the combined entity's financial position as at 31 March 2006 and of their performance for the financial year ended on that date; and

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

(b) other mandatory professional reporting requirements in Australia.

KPMG

KPMG

Alison Kitchen

Alison Kitchen
Partner

Place: Melbourne
Date: 5 June 2006

SP AUSTRALIA NETWORKS (TRANSMISSION) LTD

(ACN 116 124 362)

General Purpose Financial Report

For the financial period ended 31 March 2006

CONTENTS

This financial report covers both SP Australia Networks (Transmission) Ltd as an individual entity and the consolidated entity. The financial report is presented in Australian currency.

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

Level 31, 2 Southbank Boulevard
Southbank, Victoria 3006
Australia

A description of the nature of the Group's operations and its principal activities is included in the Directors' Report on pages 128-139.

The financial report was authorised for issue by the Directors on 5 June 2006.

DIRECTORS' REPORT

The Directors of SP Australia Networks (Transmission) Ltd ("SP AusNet Transmission") submit herewith the general purpose financial report of the company and consolidated transmission entity for the financial year ended 31 March 2006.

SP AusNet Transmission was incorporated on 7 September 2005. On 19 October 2005 SP AusNet Transmission executed a reverse acquisition, which resulted in SPI PowerNet Pty Ltd being deemed, for accounting purposes, to be the parent entity for the SP AusNet Transmission group.

On 21 October 2005 pursuant to the Stapling Deed, each of SP AusNet Transmission's shares were stapled to a share in SP Australia Networks (Distribution) Ltd ("SP AusNet Distribution") and a unit in SP Australia Networks (Finance) Trust ("SP AusNet Finance Trust"). On 14 December 2005 the Stapled Group was listed.

The Stapled Group of companies is referred to as SP AusNet.

Under the terms of the Stapling Deed, there is no cross ownership by one entity of the others, rather each is owned in equal parts by all securityholders. Nevertheless, SP AusNet Distribution was identified as the acquirer for accounting purposes and as such has prepared the consolidated accounts of the Stapled Group.

SPI PowerNet Pty Ltd ("SPI PowerNet") was deemed to acquire the following entities on 19 October 2005 as the result of a reverse acquisition:

– SP AusNet Transmission; and

– SPI Australia Finance Pty Ltd ("SPI Finance").

SP AusNet Transmission is the legal parent entity. Accordingly, the results of the parent entity are for the period 7 September 2005 (the date of incorporation) to 31 March 2006. As the company was not incorporated until 7 September 2005, no comparative information has been provided.

For accounting purposes, the transaction has been accounted for as a reverse acquisition. SPI PowerNet was identified as the acquirer and as such has prepared the transmission consolidated accounts. The consolidated results for the financial year ended 31 March 2006, are for the transmission consolidated group, and the comparative consolidated results for the financial year ended 31 March 2005 are for SPI PowerNet.

Directors

The following persons were Directors of SP AusNet Transmission during or since year end and up to the date of this report:

Ng Kee Choe, appointed 26 October 2005 (Chairman)
Nino **Ficca**, appointed 7 September 2005 (Managing Director)
Jeremy Guy Ashcroft **Davis**, appointed 26 October 2005
Terrence Richard **Fowler**, appointed 7 September 2005, resigned 31 October 2005
Eric **Gwee** Teck Hai, appointed 26 October 2005
George Allister **Lefroy**, appointed 26 October 2005
Martyn Kenneth **Myer**, appointed 26 October 2005
Quek Poh Huat, appointed 26 October 2005
Ian Andrew **Renard**, appointed 26 October 2005
Yap Chee Keong, appointed 7 September 2005, resigned 31 October 2005

Principal activities

During the year the principal continuing activities of the transmission consolidated entity consisted of the transmission of electricity within the state of Victoria.

The transmission consolidated entity's principal operations are conducted through SPI PowerNet and SPI Finance.

Dividends

No dividend was paid to members during the financial year.

Since the end of the financial year the Directors have approved a fully franked dividend of $3,139,020 (0.15 cents per fully paid share) to be paid on 26 June 2006.

Review of operations

A summary of the transmission group's consolidated revenues and results is set out below:

Revenue	2006 $'000	2005 $'000
Electricity transmission revenue	**389,362**	325,416
Other	**9,694**	10,650
	399,056	336,066
Profit from ordinary activities before related income tax expense	**86,663**	98,530
Income tax expense	**(178,048)**	(32,751)
Net profit/(loss) attributable to members of SP Australia Networks (Transmission) Ltd	**(91,385)**	65,779

Discussion and analysis for the year ended 31 March 2006

This discussion and analysis is provided to assist readers in understanding the annual financial statements.

Income Statements

SP AusNet Transmission recorded a net loss after tax of $91.4 million (2005: profit of $65.8 million) for the 12 months ending 31 March 2006. Total revenues of $399.1 million (2005: $336.1 million) included $369.2 million (2005: $312.2 million) in regulated revenues and $20.2 million (2005: $13.2 million) in excluded services revenue. Revenue increased by 18.7% from the prior year mainly as a result of the full year effect of the pass through of easement land tax. Profit before tax was $86.7 million (2005: $98.5 million). The decrease of 12.0% was primarily attributable to increased financing costs and employee expenses. The result was affected by an income tax expense of $149.1 million arising from the SP AusNet Transmission group adopting the tax consolidation regime in October 2005. The income tax expense impact attributed to tax consolidation does not give rise to a current or future cash tax liability. SP AusNet Transmission adopted the tax consolidation regime prior to stapling.

Operational performance

In terms of electricity transmission network performance, the system minutes lost for the year ending 31 March 2006 was 0.56 minutes, significantly below the target limit of 1.15 minutes set by the system code agreement (between VENCorp and SP AusNet) target of 1.15 minutes. Considering the severity of weather conditions in January/February 2006 causing bushfires under transmission lines, the electricity transmission business has outperformed reliability targets while meeting the increasing demand from customers.

Balance Sheets

SP AusNet Transmission's total assets as at 31 March 2006 were $2,970.4 million comprising principally Property, Plant and Equipment of $2,873.0 million. Cash was $2.6 million and current receivables at $42.6 million.

Current liabilities as at 31 March 2006 were $1,463.7 million comprising mostly of external interest bearing liabilities of $250 million and payables to related parties of $1,110.0 million.

Non-current liabilities as at 31 March 2006 were $1,613.3 million comprising mostly interest bearing liabilities of $1,255.9 million.

Although the transmission consolidated entity has a deficiency of net assets and working capital, the financial report has been prepared on a going concern basis as the SP AusNet Transmission group is trading profitability and has the capacity to refinance debt. Further, $1,100.0 million of short-term payables is internal to the Stapled Group and is funded by SP AusNet Finance Trust from securityholders' funds.

Cash flow statements

For the year ended 31 March 2006, net operating cash flows were $142.1 million, a decrease of $5.5 million from the comparative year. The net cash outflow from investing activities of $123.5 million primarily reflects an increase in capital expenditure to $127.0 million. The increase in capital expenditure reflects the growth in energy demand in Victoria and the Group's own initiated replacement and expansionary capital investment program to improve network reliability and to meet anticipated growth in electricity demand.

The net cash outflow from financing activities of $26.6 million arose from a net repayment of debt during the financial year.

Earnings per share	2006 Cents	2005 Cents
Basic earnings per share	**(4.4)**	3.1
Diluted earnings per share	**(4.4)**	3.1

Significant changes in the state of affairs

Significant changes in the state of affairs of the transmission consolidated entity during the financial year were as follows:

(a) SP AusNet Transmission, the legal parent entity of the transmission consolidated group, was incorporated on 7 September 2005 with contributed equity of $2.

(b) On 19 October 2005 SP AusNet Transmission executed a reverse acquisition, which resulted in SPI PowerNet Pty Ltd being deemed, for accounting purposes, to be the parent entity for the SP AusNet Transmission group.

SPI PowerNet was deemed to acquire the following entities on the 19 October 2005 as a result of a reverse acquisition;

- SP AusNet Transmission; and
- SPI Finance.

SP AusNet Transmission is the legal parent entity. Accordingly, the results of the parent entity are for the period 7 September 2005 (the date of incorporation) to 31 March 2006. As the company was not incorporated until 7 September 2005, no comparative information has been provided.

For accounting purposes, on consolidation the transaction has been accounted for as a reverse acquisition. SPI PowerNet was identified as the acquirer and as such has prepared the transmission consolidated accounts. The transmission consolidated results for the financial ended 31 March 2006, are for the transmission consolidated group, and the comparative consolidated results for the financial year ended 31 March 2005 are for SPI PowerNet and SPI Finance.

(c) SP AusNet Transmission is the head entity of a tax consolidated group comprising the head entity and all of its Australian wholly-owned subsidiaries. The effective date of the tax consolidation was 19 October 2005. The transmission group's adoption of the tax consolidation regime resulted in $149.1 million of income tax expense for the year ended 31 March 2006. Further information concerning the transmission group's entry into the tax consolidation can be found in note 1(f) of the financial statements.

(d) On 21 October 2005 pursuant to the Stapling Deed, each of SP AusNet Transmission's shares were stapled to a share in SP AusNet Distribution and a unit in SP AusNet Finance Trust. On 14 December 2005 the Stapled Group was listed.

The Stapled Group of companies is referred to as SP AusNet.

Under the terms of the Stapling Deed, there is no cross ownership by one entity of the others, rather each is owned in equal parts by all securityholders. Nevertheless, SP AusNet Distribution was identified as the acquirer for accounting purposes and as such has prepared the consolidated accounts of the Stapled Group.

Matters subsequent to the end of the financial year

Dividends

Since the end of the financial year the Directors have approved a fully franked dividend of $3,139,020 (0.15 cents per fully paid share) to be paid on 26 June 2006.

Likely developments and expected results of operations

Further information on likely developments in the operations of the transmission group and the expected results of operations have not been included in this report because the Directors believe it would be likely to result in unreasonable prejudice to the transmission group.

Environmental regulation

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

Information on officeholders

Ng Kee Choe *Chairman – Non-executive.* Age 61
Bachelor of Science (Honours), University of Singapore

Mr Ng became Chairman of SP AusNet Transmission on 26 October 2005, Chairman of SP AusNet Distribution on 31 May 2005 and Chairman of the Responsible Entity on 9 September 2005. He has been Chairman and Director of Singapore Power since 15 September 2000 and Chairman of NTUC Income Insurance Co-operative Ltd since 20 May 2005. He also serves as a Director of Singapore Airport Terminal Services Ltd and Singapore Exchange Ltd. He is also a Commissioner of PT Bank Danamon Tbk, a member of the Temasek Advisory Panel and a member of the International Advisory Council of China Development Bank. Previously, Mr Ng was the Vice-Chairman and Director of DBS Group Holdings Ltd. He retired from his executive position with DBS Group Holdings Ltd in July 2003 after 33 years of service in various executive roles.

Mr Ng is Chairman of the Nomination and Remuneration Committee.

Interests in securities
150,000 securities in SP AusNet held by The Central Depository Pte Ltd. The securities were acquired at the time of the Initial Public Offering on the same terms and conditions as other securityholders.

Nino Ficca *Managing Director and Chief Executive Officer.* Age 46
Bachelor of Engineering (Electrical) (Honours), Deakin University
Graduate Diploma in Management, Deakin University

Managing Director, Mr Ficca has been a Director of SP AusNet Transmission since 7 September 2005, a Director of SP AusNet Distribution since 31 May 2005 and a Director of the Responsible Entity since 31 May 2005. He was appointed as a Director of SPI Management Services Pty Ltd ("SPI Management Services") on 19 August 2005. He has worked in the energy industry since 1983. Since January 2003, Mr Ficca has served as the Managing Director of SPI PowerNet. Since August 2004, he has served as the Chief Executive Officer of SPI Electricity Pty Ltd. Prior to taking on these roles, Mr Ficca served in a number of senior management roles with SPI/GPU PowerNet.

Mr Ficca is a Director and the Deputy Chairman of the Energy Supply Association of Australia, and is a member of the Australian Institute of Company Directors and of the National Electricity Market Operations Committee.

Interests in securities
100,000 securities in SP AusNet. The securities were acquired at the time of the Initial Public Offering on the same terms and conditions as other securityholders.

Prof. Jeremy Guy Ashcroft Davis
Independent Non-executive Director. Age 63
Bachelor of Economics (Honours), University of Sydney
MBA, Stanford University
AM (Economics), Stanford University

Prof. Davis has been a Director of SP AusNet Transmission since 26 October 2005, a Director of SP AusNet Distribution since 31 May 2005 and a Director of the Responsible Entity since 9 September 2005. Prof. Davis is a Professor Emeritus of the University of New South Wales, after retiring from the Australian Graduate School of Management (AGSM) in January 2006. He is currently a Director of Transurban Group and CHAMP Ventures Pty Ltd, a private equity and venture capital group, and deputy Chairman of AMWIN Management Ltd.

Previously, Prof. Davis spent 10 years as a management consultant with the Boston Consulting Group and has served as a Director of the Australian Stock Exchange Ltd.

Prof. Davis is the Chairman of the Audit and Risk Management Committee and a member of the Compliance Committee.

Interests in securities
50,000 securities in SP AusNet. The securities were acquired at the time of the Initial Public Offering on the same terms and conditions as other securityholders.

Eric Gwee Teck Hai *Non-executive Director.* Age 67
Bachelor of Engineering (Mechanical), University of Melbourne

Mr Gwee became a Director of SP AusNet Transmission on 26 October 2005, a Director of SP AusNet Distribution on 31 May 2005 and a Director of the Responsible Entity on 9 September 2005. Mr Gwee has been a Director of Singapore Power Ltd since 1 January 2001 and is the Chairman of SP Services Ltd.

Mr Gwee is also a non-executive Director of WorleyParsons Ltd and the Melbourne Business School Ltd. He was formerly Chairman of the Public Transport Council, and serves as Chairman of the Board of Governors for the Institute of Technical Education (ITE) and ITE Holding Pte Ltd both in Singapore. Mr Gwee was the Chairman of CPG Corporation Pte Ltd and was formerly a Director of ExxonMobil Singapore Private Ltd.

Mr Gwee is a member of the Audit and Risk Management Committee and the Compliance Committee.

Interests in securities
100,000 securities in SP AusNet held by the Central Depository Pte Ltd. The securities were acquired at the time of the Initial Public Offering on the same terms and conditions as other securityholders.

Dr George Allister Lefroy *Non-executive Director.* Age 66
Bachelor of Engineering (First Class Honours), University of Western Australia
Master of Engineering Science, University of Western Australia
PhD in Chemical Engineering, Cambridge University

Dr Lefroy has been a Director of SP AusNet Transmission since 26 October 2005, a Director of SP AusNet Distribution since 31 May 2005 and a Director of the Responsible Entity since 9 September 2005. He has been a Director of Singapore Power Ltd since 1 June 2000. He has recently been appointed President Commissioner of PT Chandra Asri, Jakarta and a Director of Cobar Consolidated Resources Ltd. Until February 2005, he was a Director of Australian Power and Energy and until May 2004 he was a Director of International Training Australia Pty Ltd.

Dr Lefroy is Chairman of the Cambridge Australian Trust, Victorian Committee and a State Councillor of St. John Ambulance Australia (Victoria) Pty Ltd. Dr Lefroy was formerly an executive Vice President of Shell Chemicals Ltd.

Dr Lefroy is a member of the Nomination and Remuneration Committee and the Audit and Risk Management Committee.

Interests in securities
100,000 securities in SP AusNet held by Serp Hills Pty Ltd as trustee for Serp Hills Super Fund. Immediate members of Dr Lefroy's family hold a further 8,700 securities in SP AusNet. The securities were acquired at the time of the Initial Public Offering on the same terms and conditions as other securityholders.

Martyn Kenneth Myer *Independent Non-executive Director.* Age 48
Bachelor of Engineering (Mechanical), Swinburne College of Technology
Master of Engineering Science, Monash University
Master of Science in Management, Sloan School of Management, Massachusetts Institute of Technology (MIT)

Mr Myer has been a Director of SP AusNet Transmission since 26 October 2005, a Director of SP AusNet Distribution since 9 September 2005 and a Director of the Responsible Entity since 9 September 2005. Mr Myer has extensive experience in financial services, engineering and biotechnology. He is Chairman of Cogstate Ltd, a Director of Coles Myer Ltd, Diversified United Investments Ltd, and from 1994 until 2002, Managing Director of Merlyn Asset Management Pty Ltd, a boutique funds management company.

Prior to his move to the financial services industry, Mr Myer had extensive experience with some of Australia's leading manufacturers. Mr Myer has involvement in several philanthropic activities, including as President of the Howard Florey Institute at the University of Melbourne and as a member of the board of The Myer Foundation. Previous appointments include Director of The Myer Family Company Pty Ltd and The Myer Family Investments Pty Ltd.

Interests in securities
650,000 securities in SP AusNet held by MF Custodians Ltd as custodian for Mpyer Investments Pty Ltd. The securities were acquired at the time of the Initial Public Offering on the same terms and conditions as other securityholders.

Quek Poh Huat *Non-executive Director.* Age 59
Bachelor of Science (Chemical Engineering), First Class Honours, University of Leeds
Master of Science (Management) with Distinction, Naval Postgraduate School, Monterey
Advanced Management Programme, Harvard Business School

Mr Quek has served as a Director of SP AusNet Transmission since 26 October 2005, a Director of SP AusNet Distribution since 31 May 2005 and a Director of the Responsible Entity since 9 September 2005. Mr Quek is also the Group Chief Executive Officer and a Director of Singapore Power Ltd. Within the Singapore Power Ltd Group, Mr Quek serves as Director on the boards of SP PowerAssets Ltd, SP PowerGrid Ltd and SP Services Ltd. He is also currently Chairman and Director of PowerGas Ltd, ST Kinetics Ltd and a Director of Singapore Technologies Engineering Ltd. Mr Quek was appointed Chairman and Director of SPI Management Services Pty Ltd on 30 September 2005.

Mr Quek was formerly the President of Temasek Holdings (Private) Ltd.

Mr Quek is a member of the Nomination and Remuneration Committee.

Interests in securities
200,000 securities The Central Depository Pte Ltd. Immediate members of Mr Quek's family hold a further 6,000 securities in SP AusNet. The securities were acquired at the time of the Initial Public Offering on the same terms and conditions as the securityholders.

Ian Andrew Renard *Independent Non-executive Director.* Age 59
Bachelor of Arts, University of Melbourne
Bachelor of Laws, University of Melbourne
Master of Laws, University of Melbourne

Mr Renard has been a Director of SP AusNet Transmission since 26 October 2005, a Director of SP AusNet Distribution since 31 May 2005 and a Director of the Responsible Entity since 9 September 2005. Mr Renard is currently a Director of CSL Ltd, Newcrest Mining Ltd and Hillview Quarries Pty Ltd. He also serves as Chancellor of the University of Melbourne and as a trustee of the R E Ross Trust.

Mr Renard was a partner of the law firm Arthur Robinson & Hedderwicks from 1979 to 2001, including his service during 1989 to 1991 as the firm's full-time Managing Partner.

Mr Renard is Chairman of the Compliance Committee and a member of the Audit and Risk Management Committee.

Interests in securities
30,000 securities in SP AusNet. The securities were acquired at the time of the Initial Public Offering on the same terms and conditions as other securityholders.

Company secretary

The company secretary of each of SP AusNet Transmission, SP AusNet Distribution and the Responsible Entity is Elizabeth Marie **Mildwater**.

Ms Mildwater holds a Bachelor of Economics and a Bachelor of Laws (Honours) from Sydney University, and a Master of Contemporary Asian Analysis from the University of Melbourne. She has over 15 years of legal, company secretarial and other relevant experience, including significant in-house legal and company secretarial experience in the electricity transmission and project development areas with SPI PowerNet and PowerGen UK Plc. Prior to her in-house work, she was a solicitor with the Australian law firms Blake Dawson Waldron and Freehills.

Meetings of Directors

The numbers of meetings of SP AusNet transmission's Board of Directors and of each Board committee held during the year ended 31 March 2006, and the numbers of meetings attended by each Director were:

	Full meetings of Directors		Meetings of committees: Audit and Risk Management		Meetings of committees: Nomination and Remuneration	
	A	B	A	B	A	B
Ng Kee Choe (Chairman)	3	3	**	**	1	1
Nino **Ficca** (Managing Director)	3	3	**	**	**	**
Jeremy Guy Ashcroft **Davis**	3	3	3	3	**	**
Terrence Richard **Fowler**	–	–	**	**	**	**
Eric **Gwee** Teck Hai	3	3	3	3	**	**
George Allister **Lefroy**	3	3	3	3	1	1
Martyn Kenneth **Myer**	3	3	3	3	**	**
Quek Poh Huat	3	3	**	**	1	1
Ian Andrew **Renard**	3	3	3	3	**	**
Yap Chee Keong	–	–	**	**	**	**

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

Retirement, election and continuation in office of Directors

Prof. Jeremy Davis retires by rotation in accordance with the company's constitution, and being eligible, offers himself for re-election.

Mr Eric Gwee retires by rotation in accordance with company's constitution, and being eligible, offers himself for re-election.

Remuneration Report

The Directors of SP AusNet present the Remuneration Report prepared in accordance with section 300A of the *Corporations Act* for SP AusNet for the financial year ending 31 March 2006. This Remuneration report forms part of the Directors' Report.

This Remuneration report includes information which is common to SP AusNet Distribution, SP AusNet Transmission (together "the Companies") and the SP Australia Networks (RE) Ltd ("Responsible Entity"). Accordingly, this Remuneration report will be reproduced in the Directors' reports accompanying the general purpose financial reports of SP AusNet Distribution, SP AusNet Transmission and SP AusNet Finance Trust.

SPI Management Services, a wholly-owned subsidiary of a related party Singapore Power International Pte Ltd, entered into management services agreements with the Companies and Responsible Entity effective 1 October 2005. SPI Management Services provides the services of key senior management, including the Managing Director and the executive management team of SP AusNet.

Most of the key senior management transferred their employment to SPI Management Services from other entities within the SP AusNet group on 1 October 2005, prior to the float of SP AusNet. Although not employed by SP AusNet, by virtue of the operation of the management services agreements, these individuals are deemed to qualify as key management personnel of SP AusNet.

The Directors and key management personnel of SP AusNet are engaged to provide services to the SP AusNet group and are not exclusive to any particular entity within SP AusNet. Accordingly, the details of remuneration disclosed in this Remuneration report are for services provided to SP AusNet.

An overview of the elements of remuneration are set out in the table below. A more detailed discussion of each element is contained in this Remuneration report.

	Elements of remuneration	Directors: Non-executive	Directors: Executive	Senior Executives
Fixed remuneration	Fees	✓	✗	✗
	Salary	✗	✓	✓
	Superannuation	✓	✓	✓
	Other benefits	✗	✓	✓
At-risk remuneration	Short-term incentive	✗	✓	✓
	Long-term incentive	✗	✗ (To be developed for future financial years)	
Post employment	Notice periods and termination payments	✗	✓	✓

The Remuneration Report is set out under the following main headings:

A Nomination and remuneration committee

B Policy and principles used to determine the nature and amount of remuneration

C Details of remuneration

D Service agreements

E Introduction of long-term incentive plan

A Nomination and remuneration committee

SP AusNet Transmission and SP AusNet Distribution have a Nomination and Remuneration Committee. The membership, responsibilities, authority and activities of the Nomination and Remuneration Committee are set out in the Nomination and Remuneration Committee Charter, which has been approved by the Board. The responsibilities of the Nomination and Remuneration Committee are to:

- advise the Board on matters relating to the remuneration of Directors and the senior management of SP AusNet;
- review the entity's obligations on matters such as superannuation and other employment benefits and entitlements;
- review and make recommendations to the Board regarding the appointment of new Directors, including the development of criteria for Board membership;
- review Board membership, including reviewing the performance of individual Directors and the Board as a whole and assessing the skills required on the Board; and
- make recommendations regarding succession plans for the Board.

During the financial year, membership of the Nomination and Remuneration Committee comprised:

- **Ng** Kee Choe (Chairman);
- **Quek** Poh Huat; and
- George Allister **Lefroy**.

The Nomination and Remuneration Committee has had one meeting since listing date held on 28 March 2006. The Managing Director and General Manager Human Resources & Communications (Committee Secretary) attend the Nomination and Remuneration Committee meetings by invitation and assist the Nomination and Remuneration Committee in its deliberations, except on matters associated with their own remuneration.

From time to time, external specialist remuneration advice is sought in respect of general remuneration arrangements and in particular, advice on remuneration market movements is sought on an annual basis. Principal advisers are Mercer Human Resource Consulting and the Hay Group.

B Policy and principles used to determine the nature and amount of remuneration

SP AusNet has a remuneration strategy which is designed to attract, retain and motivate appropriately qualified and experienced Directors and senior executives. The Nomination and Remuneration Committee reviews SP AusNet's reward philosophy and principles to ensure they remain contemporary and consistent with generally acceptable market practice. Details of SP AusNet's remuneration strategy for the 2005/06 financial year are set out in this Remuneration report.

Remuneration of Directors and executives is disclosed in accordance with the definition of compensation in AASB 124.

B.1 Non-executive Directors' remuneration

Fees paid to non-executive Directors are set at levels that reflect both the responsibilities of, and the time commitments required from, each non-executive Director to discharge their duties. Fee levels are set having regard to independent professional advice and fees paid by comparable companies. To maintain objectivity and independence, the fees paid to non-executive Directors are not linked to the performance of SP AusNet.

The non-executive Directors of SP AusNet during the period were:

- **Ng** Kee Choe (Chairman)
- Jeremy Guy Ashcroft **Davis**
- Eric **Gwee** Teck Hai
- George Allister **Lefroy**
- Martyn Kenneth **Myer**
- **Quek** Poh Huat
- Ian Andrew **Renard**

Former Non-executive Directors

- **Yap** Chee Keong, resigned as a Director of SP AusNet Distribution and the Responsible Entity on 31 May 2005 and SP AusNet Transmission on 31 October 2005.

The constitutions of SP AusNet Transmission and SP AusNet Distribution and the Responsible Entity provide that Directors are entitled to such remuneration from the Companies for their services as Directors as the Board decides, but the total amount provided to all Directors must not exceed in aggregate in any financial year the amount fixed by the Companies in general meeting. This excludes remuneration paid to executive Directors.

Accordingly the Board wishes to set the total remuneration pool for non-executive Directors and the Chairman's remuneration (inclusive of superannuation) at $1,000,000 per year with effect from 1 April 2006 and has submitted this amount for the securityholders' approval at the inaugural Annual General Meeting to be held on 18 July 2006.

In general, Directors are paid a fixed fee for their services to the Stapled Group. The Chairman, taking into account the greater time commitment required, receives a higher amount. Directors who serve on committees of the Board receive additional yearly fees and the chairs of those committees are also paid an additional amount. Fees payable to non-executive Directors of SP AusNet as at the date of this report are set out in the table below:

Non-executive Directors' base fees

	Board		Audit and Risk Management Committee		Nomination and Remuneration Committee		Compliance Committee	
	Chair	Member	Chair	Member	Chair	Member	Chair	Member
Fee	$100,000	$70,000	$10,000	$7,000	$10,000	$7,000	$10,000	$7,000

In accordance with rule 11.3 of the Companies' constitutions and rule 6.3 of the Responsible Entity's constitution, Directors may also be paid additional fees for special duties or exertions. Such fees are not included in the aggregate remuneration cap approved by securityholders. No such fees were paid during the financial year.

Directors are also entitled to be reimbursed for all business related expenses, including travel on company business, as may be incurred in the discharge of their duties.

Superannuation contributions are made on behalf of the non-executive Directors in accordance with the Stapled Group's statutory superannuation obligations.

The Board will continue to review its approach to non-executive Director remuneration to ensure it remains in line with general industry practice and best practice principles of corporate governance.

B.2 Executive Director and senior executive remuneration

Reward philosophy

The objective of SP AusNet's overall reward philosophy is to manage a total reward framework (described below) designed to:

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

The remuneration and incentive package for the Managing Director and other executives is determined and paid by SPI Management Services. SP AusNet's Nomination and Remuneration Committee may make recommendations to SPI Management Services in relation to remuneration, incentive payments and programs, and key performance measures in respect of senior management at any time to promote alignment of "owner-management" interests.

The disclosures in this section relate to those executives listed below, being the Managing Director and the senior executives with authority and responsibility for planning, directing and controlling the activities of the Companies and the Stapled Group during the financial year.

Managing Director

Nino **Ficca**	Managing Director

Senior executives

Paul **Adams**[1]	General Manager – Network Services
Peter **Buck**	General Manager – Distribution Network Development
Norman **Drew**	General Manager – Transmission Network Development
Terrence **Fowler**[2]	General Manager – Finance
Peter **Merritt**	General Manager – Business Systems and Services
Charles **Popple**	General Manager – Regulatory and Business Strategy

Reward principles for the Managing Director and senior executives

SP AusNet's reward philosophy is based on a performance management framework. Central to this is the principle that the highest performers and those showing greatest potential and future capability should receive the greatest rewards. The framework sets out the manner in which performance should be assessed and recognised, and how performance should then impact on the components of total reward.

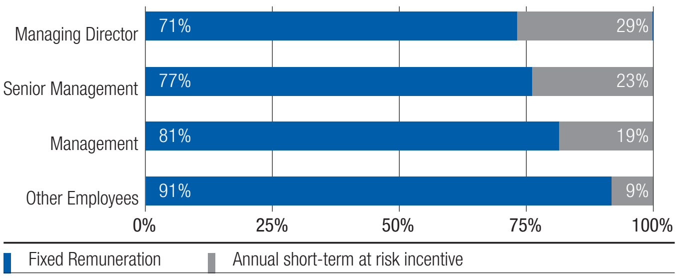
The "Performance Development Planning" framework that is used throughout SP AusNet, including for key management personnel and the company secretary, comprises various key performance development areas and indicators (KPIs). These include management and development of talent and behaviour. The framework is underpinned with a formal performance management review process conducted twice a year, which provides a forward-looking view of an individual's potential capability.

Structure of total reward

The reward principles set out the relevant elements of remuneration to make up the "total reward". For the majority of SP AusNet employees, total reward consists of fixed remuneration and "at risk" remuneration through short-term incentive plans. SP AusNet is considering the introduction of long-term incentive plans (see Section E below). An appropriate mix of these components is determined for each level of management and employees.

The total reward mix for various levels of seniority in SP AusNet for the reporting period, expressed as a percentage of total reward, is shown in the table below.

TOTAL REWARD MIX



1 Mr Adams was an executive Director of the Responsible Entity from 31 May 2005 to 9 September 2005, prior to SP AusNet's listing. He did not receive any remuneration for these services.
2 Mr Fowler was an executive Director of the Responsible Entity from 31 May 2005 to 9 September 2005 and of SP AusNet Transmission from 7 September 2005 to 31 October 2005, prior to SP AusNet's listing. He did not receive any remuneration for these services.

Fixed remuneration

Fixed remuneration is comprised of salary, company superannuation contributions and benefits, salary-sacrificed items such as motor vehicles and fringe benefits tax. Fixed remuneration reviews are undertaken annually in an effort to maintain competitive remuneration levels in the relative markets in which SP AusNet competes for talent.

Fixed remuneration reflects the scope of the role and the level of skill and experience of the individual. Fixed remuneration is generally set at the median level (50th percentile) of the applicable remuneration market. SP AusNet typically applies a range of 80% to 120% around the selected fixed market remuneration percentile.

At-risk remuneration – short-term incentive scheme (cash bonuses)

The variable component of the total reward is based on an annual short-term incentive (STI) scheme, which consists entirely of cash bonuses and does not involve securities. The payments under the STI scheme, known as annual incentive payments (AIPs), are determined using a set of corporate financial and non-financial measures as well as stretch individual performance hurdles.

The corporate measures set for 2005/06 include:

- net profit;
- health, safety and environment targets;
- network performance and reliability targets; and
- program delivery (capital and maintenance) targets.

During 2005, SP AusNet implemented a performance development planning framework for key management personnel and employees under incentive based employment agreements (approximately 500 employees). The key elements of the framework are as follows:

- setting corporate KPIs for SP AusNet at the commencement of the performance period, which roll down into individual KPIs for each employee via an individual performance development plan. Each individual's performance plan defines what is required to achieve stretch individual performance hurdles;
- a review process where managers review, compare and calibrate the performance of their direct reports. The review process allows for performance to be differentiated, and confirms individual performance ratings and the related reward outcomes (fixed remuneration percentile and STI multiple). The review also identifies those employees who require development and those who are performing poorly;
- a mid-year review is conducted to track progress of the achievement of performance plan objectives and personal development plans with the aim of enabling succession planning and career development for individuals; and
- an annual 360 degree peer review is undertaken that assesses employees' contribution to SP AusNet's performance capability, through strong leadership behaviour that supports and underpins SP AusNet's corporate values and culture.

By linking individual rewards to the achievement of overall corporate targets, this framework aligns the interests of employees and managers with those of SP AusNet.

Commencement and retention awards

SP AusNet has not entered into commencement awards. Limited retention awards have been provided to key individuals in roles where retention is critical over the medium term (two to three years). In the current absence of an established Long-term Incentive ("LTI") plan, these have taken the form of staggered cash payments and are subject to individual performance hurdles being met.

When TXU Australia Group Pty Ltd ("TXU") was acquired in 2004, there was a recognised need to retain certain key TXU executives or attract them to new positions over a transitional period. Under an arrangement with TXU's parent company, key executives were entitled to redundancy benefits in certain circumstances following a "change in control". More particularly, redundancy benefits were payable if the employment was terminated by the employer or the employee terminated their employment due to a significant change in their role during the two years following the change in control. This arrangement was intended to operate as a form of guaranteed payment in the event that the executive's employment was subsequently terminated or altered by the new owner.

In order to retain Paul Adams (General Manager, Networks Services Group), who was identified as a key TXU executive, following the acquisition, he was offered a form of retention payment based on his entitlement under the arrangement with TXU. However, instead of a lump sum payment, the amount was made payable over four years (ending on 1 April 2008) as part of his remuneration structure. In addition, his entitlement is subject to a fixed and variable formula with the later being linked to his achievement of individual performance targets.

Similarly, Peter Buck (General Manager, Distribution Network Development) was offered two payments across two years with the second and final amount payable in August 2006. This amount comprises a fixed and a variable component which is linked to Mr Buck's achievement of individual performance targets.

Loans to Directors and executives

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

C Details of remuneration

Details of the remuneration of each Director of SP AusNet and each of the key management personnel of SP AusNet for the year ended 31 March 2006 are set out in the following tables. The STI cash bonuses are dependent on the satisfaction of performance conditions as set out in the section headed At-risk remuneration above. No other elements of remuneration are directly related to performance.

Director remuneration

Details of non-executive and executive Directors' remuneration for the reporting period are set out in the following tables.

Non-executive Director remuneration

	Cash salary and fees	Superannuation Contributions[1]	Insurance	Total
Ng Kee Choe (Chairman)	70,422	6,338	5,555	82,315
Jeremy Guy Ashcroft **Davis**	66,819	6,014	5,555	78,388
Eric **Gwee** Teck Hai	70,322	–	5,555	75,877
George Allister **Lefroy**[2]	93,199	8,376	5,555	107,130
Martyn Kenneth **Myer**	43,177	3,886	5,555	52,618
Quek Poh Huat[3]	77,000	–	5,555	82,555
Ian Andrew **Renard**[2]	89,188	8,027	5,555	102,770
Wong Toon Suan[4]	–	–	–	–
Yap Chee Keong[4]	–	–	–	–

1 Superannuation contributions made on behalf of non-executive Directors to satisfy SP AusNet's obligations under applicable Superannuation Guarantee legislation.
2 Dr Lefroy and Mr Renard received Directors' fees during the financial year for services provided during the year ended 31 March 2005. Dr Lefroy received $23,383 and Mr Renard $16,395, including superannuation. These are included in the table above.
3 As Mr Quek is an executive of Singapore Power and a nominee Director of Singapore Power on the Board of SP AusNet, Singapore Power receives the fees for Mr Quek's services as a director of SP AusNet. Fees for Mr Quek's services as a Director during the period ending 31 March 2006 have not yet been paid.
4 Mr Wong and Mr Yap both resigned on 31 May 2005. Mr Wong and Mr Yap are both employees of Singapore Power and no fees are payable for their services as Directors during the period ending 31 March 2006.

SP AusNet does not make retirement payments to Directors.

Executive Director remuneration

	Primary				Post-employment		Equity	
Name	Cash salary and fees	Retention payment	Cash bonus	Insurance	Super-annuation	Retirement benefits	Options	Total
Nino **Ficca**	398,658	–	86,212	5,555	39,990	–	–	530,415
Paul **Adams**[1]	230,443	104,892	17,865	5,000	23,716	–	–	381,916
Terrence **Fowler**[2]	204,922	–	77,031	5,000	18,385	–	–	305,338

1 Mr Adams was a Director of the Responsible Entity from 31 May 2005 to 9 September 2005.
2 Mr Fowler was a Director of the Responsible Entity from 31 May 2005 to 9 September 2005 and a director of SP AusNet Transmission from 7 September 2005 to 31 October 2005.

The above payments were made to Mr Ficca, Mr Adams and Mr Fowler for the provision of services as executives of SP AusNet and not for their services as Directors.

Executive remuneration

Details of the remuneration of SP AusNet executives for the reporting period are set out in the following table. All values are in A$ unless otherwise stated.

	Primary				Post-employment		Equity	
Name	Cash salary and fees	Retention payment	Cash bonus	Insurance	Super-annuation	Retirement benefits	Options	Total
Nino **Ficca**	398,658	–	86,212	5,555	39,990	–	–	530,415
Paul **Adams**	230,443	104,892[1]	17,865[2]	5,000	23,716	–	–	381,916
Peter **Buck**	185,331	67,657[1]	11,415[2]	5,000	16,811	–	–	286,214
Norman **Drew**	200,268	–	63,757[3]	5,000	20,036	–	–	289,061
Terrence **Fowler**	204,922	–	77,031[4]	5,000	18,385	–	–	305,338
Peter **Merritt**	169,892	–	32,935	5,000	17,130	–	–	224,957
Charles **Popple**	205,333	–	53,430[5]	5,000	20,899	–	–	284,622

1 Further details in relation to the retention payments to Mr Adams and Mr Buck are set out under heading Commencement and retention awards above.
2 Bonuses paid to Mr Adams and Mr Buck during the financial year represent a "stub" payment for the period 1 January 2005 to 31 March 2005 to bring their remuneration periods into line with the remaining executives following after the acquisition of TXU Australia Services Pty Ltd. They did not receive additional bonuses under the SP AusNet STI plan.
3 Mr Drew's cash bonus paid during the reporting period consisted of a payment of $36,757 pursuant to the SP AusNet STI plan and a special discretionary bonus of $27,000 awarded prior to the listing of SP AusNet by Singapore Power Ltd in recognition of exceptional performance.
4 Mr Fowler's cash bonus paid during the reporting period consisted of a payment of $47,031 pursuant to the SP AusNet STI plan and a special discretionary bonus of $30,000 awarded prior to the listing of SP AusNet by Singapore Power Ltd in recognition of exceptional performance.
5 Mr Popple's cash bonus paid during the reporting period consisted of a payment of $38,430 pursuant to the SP AusNet STI plan and a special discretionary bonus of $15,000 awarded prior to the listing of SP AusNet by Singapore Power Ltd in recognition of exceptional performance.

STI – Cash bonuses

For each cash bonus included in the above tables, the percentage of the available bonus that was paid, or that vested, in the financial year, and the percentage that was forfeited because the person did not meet the service and performance criteria is set out below. No part of the bonuses are payable in future years.

Name	Paid %	Forfeited %
Nino **Ficca**	100.0	–
Paul **Adams**	N/A	N/A
Peter **Buck**	N/A	N/A
Norman **Drew**[1]	87.0	13.0
Terrence **Fowler**[1]	100.0	–
Peter **Merritt**	90.9	9.1
Charles **Popple**[1]	80.9	19.1

1 This percentage relates to the cash bonus paid to Mr Drew, Mr Fowler and Mr Popple pursuant to the SP AusNet STI plan.

The above bonuses were based on the executive's performance during the year ended 31 March 2005 but were not approved or paid until the financial year ended 31 March 2006. Bonuses for executive performance for the year ended 31 March 2006 have not yet been approved or paid.

D Service agreements

Duration of contracts

Remuneration and other terms of employment for the Managing Director and specified senior management are formalised in individual employment agreements. Each of these agreements provides for performance-related cash bonuses, fringe benefits plus other benefits. Under the terms of these agreements, the Managing Director and other members of the senior executive team continue to be employed until their employment is terminated.

Notice periods and payments on termination

The employment agreements provide for termination payments to be made in certain circumstances. In particular, SP AusNet may terminate the employment of the Managing Director and other executives (except Mr Paul Adams) on giving one month's notice. Mr Adams' agreement provides for a notice period of three months. SP AusNet may make a payment in lieu of notice. In general, the Managing Director and other executives must give SP AusNet at least one month's notice of resignation.

Termination benefits are generally calculated as three weeks' pay for every year of service paid at the executive's Fixed Annual Remuneration (FAR) rate and capped at a specified period. This specified termination payment cap period is set at six months for the Managing Director and other executives except Paul Adams. Mr Adams' termination payment cap is set at nine months.

In addition, in the event that SP AusNet or Mr Adams terminates his employment in prescribed circumstances, he is entitled to be paid the remainder of the fixed and variable amounts of retention payment outstanding as at the date of his termination.

E Introduction of long-term incentive plan

SP AusNet proposes to introduce a LTI plan into the remuneration structure for the Managing Director, direct reports to the Managing Director and selected key individuals who can influence long-term security value. This plan will be presented to the Nomination and Remuneration Committee for deliberation and a recommendation made to the Board for approval.

Indemnification and Insurance of Directors and Officers

No insurance premiums are paid out of the assets of SP AusNet in regard to insurance cover provided to the auditor of SP AusNet, KPMG. The auditor is not indemnified out of the assets of the SP AusNet.

During the financial year, SP AusNet paid a premium of $444,359 to insure the Directors and officers of SP AusNet.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in SP AusNet, and any other payments arising from liabilities incurred by the officers in connection with such proceedings, other than where such liabilities arise out of conduct involving a willful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to SP AusNet. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

Proceedings on behalf of the company

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of SP AusNet Transmission, or to intervene in any proceedings to which SP AusNet Transmission is a party, for the purpose of taking responsibility on behalf of the company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of SP AusNet Transmission with leave of the Court under section 237 of the *Corporations Act 2001*.

Management Services Agreement

SPI Management Services, a wholly-owned subsidiary of Singapore International Pte Ltd, has entered into a Management Services Agreement with SP AusNet Transmission.

SPI Management Services comprises key senior management (including the Managing Director and the executive management team) and staff who transferred from SP AusNet prior to the Initial Public Offering. The management staff have in-depth knowledge of SP AusNet Transmission's assets, having mostly managed their operations both prior to and following their acquisition by Singapore Power Ltd. In addition, SPI Management Services will consult with, and seek advice from, Singapore Power Ltd and its subsidiaries from time to time in the performance of its work.

Under the Management Services Agreement, SPI Management Services has been appointed for an initial period of 10 years commencing 10 October 2005, with SP AusNet Transmission having options to renew for two further ten-year periods. Non-renewal by SP AusNet Transmission (in the absence of a terminable breach by SPI Management Services) will result in a termination fee equal to the previous financial year's Management Services Charge being payable to SPI Management Services. Any variation to the material terms of the Management Services Agreement will be subject to securityholder approval.

Under the Management Services Agreement, SPI Management Services will ensure core management services are provided to SP AusNet Transmission, including:

- employee management;
- business management;
- evaluation of business opportunities;
- management of regulatory compliance and relations with regulators;
- financial and management accounting;
- management of information technology;
- management and coordination of maintenance and engineering services;
- public and investor relations;
- legal and company secretarial services; and
- general administration and company reporting.

SPI Management Services' actions are subject to oversight by the Board of Directors and the Audit and Risk Management Committee of SP AusNet Transmission, to whom SPI Management Services is required to report regularly. All related party transactions with Singapore Power Ltd will be subject to review by the Audit and Risk Management Committee of SP AusNet Transmission.

There are rights of termination under the Management Services Agreement which may be exercised by SP AusNet Transmission and SPI Management Services in certain circumstances and do not require the approval of securityholders. SP AusNet Transmission will be entitled to terminate the Management Services Agreement immediately by giving SPI Management Services written notice upon the occurrence of SPI Management Services' failure to meet 50% or more of the agreed key performance indicators for two consecutive financial years for events under their control.

Auditor

KPMG continues in office in accordance with section 327 of the *Corporations Act 2001*.

KPMG will stand for appointment as auditor of SP AusNet Transmission at the Annual General Meeting in accordance with section 327B of the *Corporations Act 2001*.

Non-audit services

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

Details of the amounts paid or payable to the auditor (KPMG) for audit and non-audit services provided during the year are set out below.

The Board of Directors has considered the position and, in accordance with the advice received from the audit committee is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in Professional Statement F1, including reviewing or auditing the auditor's own work, acting in a management or a decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risk and rewards.

A copy of the auditors' independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 140.

	Consolidated	
	2006 $	2005 $
During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:		
Assurance services		
1. Audit services		
KPMG Australian firm:		
Audit and review of financial reports and other audit work under the *Corporations Act 2001*	**150,000**	107,000
Total remuneration for audit services	**150,000**	107,000
2. Other assurance services		
KPMG Australian firm:		
Audit of regulatory returns	**27,000**	27,000
Due diligence services	**7,000**	–
IFRS accounting services	**30,000**	40,000
Total remuneration for other assurance services	**64,000**	67,000
Total remuneration for assurance services	**214,000**	**174,000**

Rounding of amounts

The company is of a kind referred to in Class Order 98/0100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the Directors' report. Amounts in the Directors' report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

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

Nino Ficca

Melbourne
5 June 2006

LEAD AUDITORS' INDEPENDENCE DECLARATION under section 307C of the *Corporations Act 2001*

To: the Directors of SP Australia Networks (Transmission) Ltd

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 31 March 2006 there have been:

(i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Alison Kitchen

Alison Kitchen
Partner

Melbourne
5 June 2006

INCOME STATEMENTS For the year ended 31 March 2006

		Consolidated		Parent entity	
	Notes	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Revenue	4	**399,056**	336,066	**–**	
Other income	5	**–**	9,952	**–**	
Expenses excluding finance costs	6	**(208,896)**	(152,333)	**(200)**	
Finance costs	6	**(103,497)**	(95,155)	**(9,986)**	
Profit/(Loss) before income tax		**86,663**	98,530	**(10,186)**	
Income tax (expense)/benefit	7	**(178,048)**	(32,751)	**3,056**	
Profit/(Loss) for the year attributable to ordinary equity holders of SP AusNet Transmission	25(b)	**(91,385)**	65,779	**(7,130)**	
Earnings per share – profit/(loss) from continuing operations attributable to the ordinary equity holders of SP AusNet Transmission		Cents	Cents		
Basic earnings per share	8	**(4.4)**	3.1		
Diluted earnings per share	8	**(4.4)**	3.1		

The above Income Statements should be read in conjunction with the accompanying notes.

The parent entity was incorporated on 7 September 2005, accordingly the parent entity results are for the period 7 September 2005 to 31 March 2006, with no comparative figures.

STATEMENTS OF RECOGNISED INCOME AND EXPENSE For the year ended 31 March 2006

		Consolidated		Parent entity	
	Notes	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Adjustment on adoption of AASB 132 and AASB 139, net of tax, no reserves	25	**(190)**	–	**–**	
Actuarial gains, net of tax	25	**2,435**	3,763	**–**	
Cash flow hedges, net of tax	25	**(678)**	–	**–**	
Net income recognised directly in equity		**1,567**	3,763	**–**	
Profit/(Loss) for the year		**(91,385)**	65,779	**(7,130)**	
Total recognised income and expense for the year attributable to ordinary equity holders of SP AusNet Transmission		**(89,818)**	69,542	**(7,130)**	

The above Statements of Changes in Recognised Income and Expense should be read in conjunction with the accompanying notes.

The parent entity was incorporated on 7 September 2005, accordingly the parent entity results are for the period 7 September 2005 to 31 March 2006, with no comparative figures.

BALANCE SHEETS As at 31 March 2006

	Notes	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent entity 2006 $'000	Parent entity 2005 $'000
ASSETS					
Current assets					
Cash and cash equivalents	9	**2,634**	10,589	**–**	
Receivables	10	**42,600**	34,234	**6,117**	
Inventories	11	**3,722**	2,069	**–**	
Derivative financial instruments	12	**23,529**	–	**–**	
Other current assets	13	**2,807**	1,663	**200**	
Total current assets		**75,292**	48,555	**6,317**	
Non-current assets					
Other financial assets	14	**–**	–	**1,096,939**	
Inventories – non-current	11	**11,797**	11,797	**–**	
Property, plant and equipment	15	**2,873,023**	2,805,197	**–**	
Deferred tax assets	16	**–**	–	**–**	
Other non-current assets	13	**10,249**	3,825	**–**	
Total non-current assets		**2,895,069**	2,820,819	**1,096,939**	
Total assets		**2,970,361**	2,869,374	**1,103,256**	
LIABILITIES					
Current liabilities					
Payables	17	**69,513**	67,342	**–**	
Interest bearing liabilities	18	**1,359,986**	231,500	**1,110,386**	
Derivative financial instruments	12	**21,542**	–	**–**	
Current tax liabilities		**9,125**	–	**–**	
Provisions	19	**3,561**	4,936	**–**	
Total current liabilities		**1,463,727**	303,778	**1,110,386**	
Non-current liabilities					
Interest bearing liabilities	18	**1,255,907**	1,299,147	**–**	
Other financial liabilities	20	**1,490**	–	**–**	
Deferred tax liabilities	21	**348,669**	179,743	**–**	
Provisions	22	**7,243**	8,496	**–**	
Total non-current liabilities		**1,613,309**	1,487,386	**–**	
Total liabilities		**3,077,036**	1,791,164	**1,110,386**	
Net assets		**(106,675)**	1,078,210	**(7,130)**	
EQUITY					
Equity holders					
Contributed equity	24	**649,787**	649,787	**–**	
Reserves	25(a)	**5,330**	3,763	**–**	
Retained profits	25(b)	**333,275**	424,660	**(7,130)**	
		988,392	1,078,210	**(7,130)**	
Other equity component arising from reverse acquisition	24	**(1,095,067)**	–	**–**	
Total equity		**(106,675)**	1,078,210	**(7,130)**	

The above Balance Sheets should be read in conjunction with the accompanying notes.

The parent entity was incorporated on 7 September 2005, accordingly the parent entity has no comparative figures.

CASH FLOW STATEMENTS For the year ended 31 March 2006

		Consolidated		Parent entity	
	Notes	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Cash flows from operating activities					
Receipts from customers (inclusive of goods and services tax)		**417,361**	330,139	**–**	
Payments to suppliers and employees (inclusive of goods and services tax)		**(172,054)**	(92,200)	**–**	
Interest received		**978**	1,598	**–**	
Borrowing costs		**(103,030)**	(91,899)	**(3,061)**	
Income taxes paid		**(1,168)**	–	**–**	
Net cash inflow from operating activities	36	**142,087**	147,638	**(3,061)**	
Cash flows from investing activities					
Payments for property, plant and equipment		**(126,968)**	(112,779)	**–**	
Proceeds from sale of property, plant and equipment		**3,492**	6,427	**–**	
Payment for purchase of controlled entity, net of cash acquired	32	**–**	–	**(2,196,939)**	
Net cash outflow from investing activities		**(123,476)**	(106,352)	**(2,196,939)**	
Cash flows from financing activities					
Proceeds from contract retentions		**–**	3	**–**	
Dividend – return on investment	32	**–**	–	**828,769**	
Return of share capital	32	**–**	–	**271,231**	
Proceeds of loans to related parties		**–**	(51,769)	**–**	
Proceeds from borrowings		**563,434**	–	**1,100,000**	
Repayment of borrowings		**(590,000)**	–	**–**	
Net cash outflow from financing activities		**(26,566)**	(51,766)	**2,200,000**	
Net decrease in cash and cash equivalents		**(7,955)**	(10,480)	**–**	
Cash and cash equivalents at the beginning of the financial period		**10,589**	21,069	**–**	
Cash and cash equivalents at end of year	9	**2,634**	10,589	**–**	

The above Cash Flow Statements should be read in conjunction with the accompanying notes.

The parent entity was incorporated on 7 September 2005, accordingly the parent entity cash flows are for the period 7 September 2005 to 31 March 2006, with no comparative figures.

NOTES TO THE FINANCIAL STATEMENTS 31 March 2006

Contents

Note 1 Summary of significant accounting policies

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

(a) Basis of Preparation

This general purpose financial report has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRSs), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

This general purpose financial report is presented in Australian Dollars.

Compliance with IFRSs

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards. Compliance with AIFRSs ensures that the consolidated financial statements and notes of the transmission group comply with International Financial Reporting Standards (IFRSs). The parent entity financial statements and notes also comply with IFRSs except that it has elected to apply the relief provided to parent entities in respect of certain disclosure requirements contained in AASB 132 *Financial Instruments: Presentation and Disclosure*.

Application of AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*

These financial statements are the first annual financial statements to be prepared by SP Australia Transmission in accordance with AIFRSs. AASB 1 *First-time Adoption of Australia Equivalents to International Financial Reporting Standards* has been applied in preparing the financial statements.

Financial statements of SP AusNet Transmission until 1 April 2005 had been prepared in accordance with previous Australian Generally Accepted Accounting Principles (AGAAP). AGAAP differs in certain respects from AIFRSs. In the application of AIFRSs the Directors are required to amend certain accounting, valuation and consolidation methods applied in the AGAAP financial statements to comply with AIFRSs. With the exception of financial instruments, the comparative figures were restated to reflect these adjustments. The transmission group has taken the exemption available under AASB 1 to only apply AASB 132 and AASB 139 from 1 April 2005.

Reconciliations and descriptions of the effect of transition from previous AGAAP to AIFRSs on the transmission group's equity and its net income are given in note 37.

Early adoption of standards

The transmission group has elected to apply the following accounting standards to the annual reporting period beginning 1 April 2005:

- AASB 119 *Employee Benefits* (issued December 2004)
- AASB 2004-3 *Amendments to Australian Accounting Standards* (AASB 1, AASB 101, AASB 124 issued December 2004)
- AASB 2005-1 *Amendments to Australian Accounting Standards* (AASB 139 issued May 2005)
- AASB 2005-3 *Amendments to Australian Accounting Standards* (AASB 119 issued June 2005)
- AASB 2005-4 *Amendments to Australian Accounting Standards* (AASB 139, AASB 132, AASB 1 issued June 2005)
- AASB 2005-5 *Amendments to Australian Accounting Standards* (AASB 1, AASB 139 issued June 2005)
- AASB 2005-6 *Amendments to Australian Accounting Standards* (AASB 3 issued June 2005)
- AASB 2005-7 *Amendments to Australian Accounting Standards* (AASB 134 issued June 2005)
- AASB 2005-10 *Amendments to Australian Accounting Standards* (AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1 issued September 2005)
- AASB 2006-1 *Amendments to Australian Accounting Standards* (AASB 121 issued January 2006)
- AASB 2006-2 *Amendments to Australian Accounting Standards* (AASB 1 issued March 2006)

AASB 7 *Financial Instruments: Disclosures* is applicable to annual reporting periods beginning on or after 1 January 2007. SP AusNet Transmission has not adopted this standard early. Application of the standard will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the transmission group's financial instruments.

AASB 2005-9 *Amendments to Australian Accounting Standards* (AASB 4, AASB 1023, AASB 139 and AASB 132) is applicable to reporting periods commencing on or after 1 January 2006. The transmission group has not adopted this standard early. AASB 2005-9 amends AASB 139 *Financial Instruments: Recognition and Measurement* to include financial guarantee contracts within its scope. As a result of the changes, guarantee contracts will have to be recognised initially at their fair value and subsequently at the higher of the amount determined in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* and fair value less amortisation (if appropriate). The guidance surrounding the valuation of non-arms length guarantees is still evolving. No expected impact from the adoption of AASB 2005-9 has therefore been disclosed.

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities (including derivative instruments) at fair value through the income statement.

The transmission consolidated entity has a deficiency of net assets and working capital. The financial report has been prepared on a going concern basis as the transmission group is trading profitably and has the capacity to refinance short-term debt. Further, $1.1billion of short-term payables is internal to the Stapled Group and is funded by SP AusNet Finance Trust from securityholders funds.

Critical accounting estimates

The preparation of financial statements in conformity with AIFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the transmission group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

(b) Principles of consolidation

(i) Reverse Acquisition

On 19 October 2005, SP AusNet Transmission executed a reverse acquisition deeming SPI PowerNet to be the parent entity of the SP AusNet Transmission group.

SP AusNet Transmission is the legal parent entity. Accordingly, the results of the parent entity are for the period 7 September 2005 (the date of incorporation) to 31 March 2006. As the legal parent entity was not incorporated until 7 September 2005, no comparative information has been provided.

For accounting purposes, SPI PowerNet was identified as the acquirer and as such has prepared the consolidated accounts. The consolidated results for the financial year ended 31 March 2006, are for the transmission consolidated group, and the comparative consolidated results for the financial year ended 31 March 2005 are for SPI PowerNet only.

(ii) Stapling

Pursuant to the Stapling Deed dated 19 October 2005 (effective from 21 October 2005) a Stapled Group was established for the purpose of facilitating a joint quotation of SP AusNet Distribution, SP AusNet Transmission, and SP AusNet Finance Trust, on the Australian Stock Exchange (ASX) and the Singapore Exchange Securities Trading Limited (SGX-ST).

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

SP AusNet Distribution has been identified as the acquirer in the Stapled Group based on the size of its net assets and its operations and accordingly, it presents the consolidated financial report of the Stapled Group.

By virtue of the stapling arrangement SP AusNet Distribution, SP AusNet Transmission and SP AusNet Finance Trust have common equity holders (securityholders) with the effect that total equity of the Stapled Group belongs to the securityholders.

For Statutory reporting purposes the purchase method of accounting has been applied to the stapling arrangement, refer to note 1(h).

(iii) Subsidiaries

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

Subsidiaries are fully consolidated from the date on which control is transferred to the transmission group. They are deconsolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the transmission group, refer to note 1(h).

Intercompany transactions, balances and unrealised gains on transactions between transmission group entities are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the accounting policies of the transmission group.

(c) Segment information

The transmission group owns and manages the majority of the electricity transmission network in Victoria. The transmission group's network consists of the transmission lines and towers which carry electricity at high voltages from power stations to electricity distributors around Victoria, forming the backbone of the Victorian electricity grid. It is centrally located amongst the five eastern states of Australia that form the National Electricity Market, and provides key links between the electricity transmission networks of South Australia, New South Wales and Tasmania. As a result SP AusNet Transmission is only operating in one geographic and business segment.

The transmission business earns network charges and connection charges and also earns network availability and reliability incentive payments within a regulated regime.

Note 1 Summary of significant accounting policies (continued)

(d) Foreign currency translation

(i) Functional and presentation currency
Items included in the financial statements of each of the transmission group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The transmission consolidated financial statements are presented in Australian dollars, which is the Group's functional and presentation currency.

(ii) Transactions and balances
All foreign currency transactions are accounted for using the exchange rate at the date of the transaction. At balance date, monetary items are translated at the exchange rate existing at that date. Resultant exchange differences are recognised in the income statement for the year, except for the following:

– Exchange differences, which are related to assets under construction for future productive use are included in the cost of those assets.
– The net amounts receivable or payable under foreign currency hedge contracts and the associated deferred gains or losses are recorded on the balance sheet from the date of inception of the hedge transaction. When the forecasted transaction subsequently results in the recognition of a non-financial asset, the associated cumulative gain or loss is removed from equity and included in the initial cost or other carrying amount of the non-financial asset. The net receivables and payables are revalued using the exchange rate applicable at the reporting date.

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

(i) Sales of goods and rendering of services
Transmission revenue is revenue earned from the transmission of electricity and related services and represents services rendered.

(ii) Interest income
Interest revenue is recognised as it accrues, taking into account the effective yield on the financial asset.

(iii) Dividends
Revenue from dividends and distributions from controlled, associated and joint venture entities is recognised by the parent entity when they are approved by the controlled entities, being the date that the parent establishes the right to receive payment.

(f) Income tax
The income tax expense for the period is the tax payable on the current period's taxable income based on the income tax rate, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not effect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Tax Consolidation
SP AusNet Transmission is the head entity of a tax consolidated group comprising of the entity and all Australian wholly-owned subsidiaries. The effective date of adoption of the tax consolidation regime for the transmission consolidated group was 19 October 2005.

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

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

The head entity recognises deferred tax assets arising from unused tax losses of the tax consolidated group to the extent that it is probable that future taxable profits of the tax consolidated group will be available against which the assets can be utilised.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses assumed from subsidiaries are recognised by the head entity only.

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

(g) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

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 balance sheet as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the transmission group's general policy on borrowing costs.

Property, plant and equipment, acquired under finance leases are capitalised and amortised over the shorter of the lease term and the useful life of the plants.

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

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

(h) Acquisition of assets

The purchase method of accounting is used for all acquisitions of assets (including business combinations) regardless of whether equity instruments or other assets are acquired. Cost is determined as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. All potential intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair value can be measured reliably. The excess of the cost of acquisition over the fair value of the transmission group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

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

(i) Impairment of assets

At each reporting date, the transmission group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. 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 Group 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.

Note 1 Summary of significant accounting policies (continued)

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 (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in the income statement immediately.

In assessing recoverable amounts of transmission assets, the allowable return on those assets set out in the Australian Competition and Consumer Commission Revenue Determination has been included.

(j) Cash and cash equivalents

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

(k) Trade receivables

Trade receivables, loans and non-trade receivables are initially recognised at fair value and subsequently measured at amortised cost, less provision for doubtful debts.

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

(l) Inventories

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

(m) Investments

Subsequent to initial recognition, investments in subsidiaries are measured at cost.

(n) Derivatives

The transmission group 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, forward interest rate contracts and interest rate swaps. In accordance with treasury policy, the transmission group does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting, even when entered into for hedging purposes, are accounted for as trading instruments.

SP AusNet Transmission's business revenue and cost structure are impacted directly by changes in interest rates via the five-yearly regulatory price review. This is a result of the "building block" approach where interest rates are used to determine the weighted average costs of capital and consequently the regulated revenue. The objective of hedging activities in relation to this business is to minimise the exposure to change in interest rates by matching the actual cost of debt with the cost of debt assumed by the regulator when setting the rate of return for the business.

From 1 April 2004 to 31 March 2005

The transmission group has taken the exemption available under AASB 1 to apply AASB 132 and AASB 139 from 1 April 2005. The transmission group has applied previous AGAAP in the comparative information on financial instruments within the scope of AASB 132 and AASB 139.

The following sets out how derivatives are accounted for under previous AGAAP.

Interest rate swaps

The net amount receivable or payable under interest swap agreements is progressively brought to account over the period to settlement. The amount recognised is accounted for as an adjustment to interest and finance charges during the period and included in other debtors or other creditors at each reporting date.

Where an interest rate swap is terminated early and the underlying hedged transaction is:

(a) still expected to occur as designated: the gains or losses arising on the swap upon its early termination continue to be deferred and are progressively brought to account over the period during which the hedged transactions are recognised; or

(b) no longer expected to occur as designated: the gains or losses arising on the swap upon its early termination are recognised in the income statement at the date of termination.

Forward foreign exchange contracts

Gains or costs arising from entering into a contract intended to hedge the purchase or sale of goods or services, together with the subsequent exchange gains or losses resulting from remeasurement of those contracts by reference to movements in spot exchange rates are deferred in the balance sheet from the inception of the hedging transaction up to the date of the purchase or sale and included in the measurement of the purchase or sale.

Early termination of forward foreign exchange contracts is accounted for on a basis consistent with interest rate swaps (refer above). For both interest rate swaps and foreign exchange contracts, if the hedged transaction is not expected to occur as originally designated, or if the hedge is no longer expected to be effective, any previously deferred gains or losses are recognised as revenue or expense immediately. Early termination of forward foreign exchange contracts is accounted for on a basis consistent with interest rate swaps (refer above).

Adjustments on transition date: 1 April 2005

The nature of the main adjustments to make this information comply with AASB 132 and AASB 139 are that derivatives are measured on a fair value basis. At the date of transition (1 April 2005) changes in the carrying amounts of derivatives are taken to retained earnings or reserves, depending on whether the criteria for hedge accounting are satisfied at the transition date.

For further information concerning the adjustments on transition date reference should be made to:

– Derivative financial instruments – note 12 and note 26

– Reserves and retained profits – note 25

– Explanation of transition to AIFRSs – note 37

From 1 April 2005

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

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

The fair values of various derivative financial instruments used for hedging purposes are disclosed in note 12, movements in the hedging reserve in shareholders' equity are shown in note 25.

Fair value hedge

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

Cash flow hedge

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

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

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

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

Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement.

Note 1 Summary of significant accounting policies (continued)

(o) Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the measurement date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The transmission group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest-rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at the balance sheet date.

(p) Property, plant and equipment

Items of property, plant and equipment are stated at historical cost less depreciation. Historical cost includes all expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

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

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

Depreciation is provided on property, plant and equipment, including buildings but excluding land and easements. Depreciation is calculated on a straight-line basis so as to write off the net cost of each asset over its estimated useful life to its estimated residual value. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period.

The expected average useful lives of major asset classes are as follows:

	Years
Buildings	40 – 100
Transmission network assets	35 – 70
Other general assets	3 – 10
Motor vehicles and heavy machinery	3 – 10
Computer equipment and software	3 – 5

Capital works at cost

Construction work in progress is stated at cost plus attributable overheads. Cost includes all costs directly related to specific projects and an allocation of overhead expenses.

(q) Trade and other payables

These amounts represent liabilities for goods and services provided to the transmission group prior to the end of financial year which are unpaid. Trade and other payables are stated at cost and are unsecured.

(r) Borrowings

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

Borrowings are classified as current liabilities unless the transmission group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(s) Net financing costs

Net financing costs comprise net financial borrowing costs calculated using the effective interest method. Interest receivable on funds invested, dividend income, foreign exchange gains and losses, and gains and losses on hedging instruments that are recognised in the income statement.

Borrowing costs directly attributable to a qualifying asset are capitalised to the cost of that asset.

The capitalisation rate used to determine the amount of borrowing costs to be included in the cost of qualifying assets is the weighted average interest rate applicable to the transmission group's outstanding borrowings during the period.

(t) Provisions

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

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

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

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

(u) Employee benefits

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

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

(ii) Long service leave

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

(iii) Retirement benefit obligations

All employees of the transmission group are entitled to benefits on retirement, disability or death from the transmission group's superannuation plans. The transmission group has a defined benefit section and a defined contribution section within its plans. The defined benefit section provides defined lump sum benefits based on years service and final average salary. The defined contribution section receives fixed contributions from transmission group's companies and the Group's legal or constructive obligation is limited to these contributions to the fund.

Contributions made to defined contribution superannuation plans are expensed when incurred. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

The transmission group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets is deducted.

The discount rate is the yield at the balance sheet date on government bonds that have maturity dates approximating to the terms of transmission group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

Past service cost is the increase in the present value of the defined benefit obligation for employee services in prior periods, resulting in the current period from the introduction of, or changes to, post employment benefits or other long-term employee benefits. Past service costs may be either positive (where benefits are introduced or improved) or negative (where existing benefits are reduced).

When the benefits of the plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the income statement on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in the income statement.

Actuarial gains and losses are recognised in full directly in reserves, in the period in which they occur, and are presented in the statement of recognised income and expenses.

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

Note 1 Summary of significant accounting policies (continued)

(v) Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from proceeds. Incremental costs directly attributable to the issue of new shares for the acquisition of a business are not included in the cost of the acquisition as part of the consideration.

Dividends

Provision is made for the amount of any dividend approved on or before the end of the financial year but not distributed at balance date.

(w) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to members of the transmission group, excluding any minority interest and costs of servicing equity other than dividends, by the weighted average number of shares outstanding during the financial year, adjusted for bonus elements in shares issued during the year.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential share.

(x) Rounding of amounts

The transmission group is of a kind referred to in Class Order 98/0100, issued by the Australian Securities and Investments Commission, relating to the “rounding off” of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

Note 2 Financial risk management

The transmission group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. The use of financial derivatives is governed by the transmission group’s policies approved by the Board of Directors, which provide written principles on the use of financial derivatives. The internal auditors review compliance with policies and exposure limits.

The transmission group’s activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The transmission group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign currency risk, including:

– Forward exchange rate contracts

– Interest rate swap contracts

Risk management is carried out under policies approved by the Board of Directors. The policies identify, evaluate and hedge financial risks in close cooperation with the transmission group’s operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as mitigating foreign exchange, interest rate and credit risks, use of derivative financial instruments and investing excess liquidity.

(a) Market risk

Foreign exchange risk

The transmission 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.

Forward foreign exchange contracts

The transmission group has entered into contracts to hedge the exchange rate risk in relation to specific purchase orders. The transmission group has entered into forward foreign exchange contracts (for terms not exceeding 24 months) to hedge the exchange rate risk arising from these anticipated future transactions. It is the policy of the transmission group to enter into forward foreign exchange contracts to cover 100% of the material exposure generated by specific foreign currency payments.

As at reporting date the aggregate amount of unrealised gains under forward foreign exchange contracts relating to anticipated future transactions is A$0.8 million. In the current year, these unrealised gains have been deferred in the hedging reserve to the extent the hedge is effective.

For details of currency swap contracts outstanding and forward foreign exchange contracts at the reporting date refer to note 12 and note 26.

(b) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The transmission group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The transmission group exposure and the credit ratings of its counterparties are continuously monitored and the aggregate values of transactions concluded are spread amongst approved counterparties. Credit exposure is controlled by counterparty limits are reviewed by the Audit and Risk Management Committee annually. The transmission group measures credit risk on a fair value basis.

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

The transmission group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. 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.

Except as detailed in the following table, the carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the transmission group's maximum exposure to credit risk without taking account of the value of any collateral obtained:

Financial assets and other credit exposures

	Maximum credit risk 2006 $'000	Maximum credit risk 2005 $'000
AUD interest rate swaps	5,914	5,161

(c) Liquidity risk

The transmission 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.

(d) Interest rate risk management

The Group is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. The risk is managed by maintaining an appropriate mix between fixed and floating rate borrowings, by the use of interest rate swap contracts.

Interest rate swap contracts

Under interest rate swap contracts, the transmission group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the transmission group to mitigate the risk of changing interest rates on debt held. The fair value of interest rate swaps are based on market values of equivalent instruments at the reporting date and are disclosed below. The average interest rate is based on the outstanding balances at the start of the financial year.

From the beginning of the accounting period, the date of transition for application of AASB 132 and AASB 139, interest rate swap contracts exchanging floating rate interest amounts for fixed rate interest amounts are designated and effective as cash flow hedges. Interest rate swaps outstanding at 31 March 2006 were recognised as financial assets or liabilities on adoption of the accounting policies specified in note 1.

Note 3 Critical accounting estimates and assumptions

The transmission group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

(i) Income taxes

The tax expense and deferred tax balances assume certain tax outcomes and values of assets in relation to the application of the Australian tax consolidation regime as it applies to SP AusNet Transmission. These outcomes affect factors such as capital allowance deductions and the taxation treatment of transactions between members of the transmission consolidated group.

SP AusNet Transmission has taken positions in relation to the potential income tax and GST consequences of the acquisition by SP AusNet Transmission of the Australian assets held by SPI Australia Holdings Pty Ltd and subsequent restructuring.

SP AusNet Transmission has taken positions in relation to the availability of certain deductions related to franchise fees and intellectual property.

If the assumptions and tax positions adopted are ultimately determined to be different from what is expected, for example as a result of legislative change or interpretation, future tax payments may arise, which could have a material adverse impact on the financial performance of the Group.

(ii) Derivatives

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

The fair value of financial instruments traded in active markets is based on quoted market prices at the measurement date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The transmission group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest-rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at the balance sheet date.

Note 4 Revenue

	Consolidated		Parent entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Revenue from continuing operations				
Transmission regulated revenue	**369,153**	312,241	**–**	
Transmission excluded services	**20,209**	13,175	**–**	
	389,362	325,416	**–**	
Other revenue				
Interest income	**989**	1,585	**–**	
Other transmission revenue	**8,705**	9,065	**–**	
	399,056	336,066	**–**	

Note 5 Other income

	Consolidated		Parent entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Net gain on disposal of property, plant and equipment	–	**9,952**	–	

Note 6 Expenses

	Consolidated		Parent entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Profit before income tax includes the following specific expenses:				
Expenses, excluding finance costs, included in the income statement				
Materials	**1,252**	1,379	**–**	
External maintenance services	**10,622**	11,074	**–**	
Information technology and communication costs	**2,173**	2,775	**–**	
Taxes and licences	**516**	482	**–**	
External consulting, legal and accounting costs	**7,496**	4,506	**–**	
Insurance expense	**2,917**	2,880	**–**	
Property taxes [1]	**82,921**	34,827	**–**	
Other administrative expenses	**2,257**	1,261	**–**	
Management fees	**4,697**	1,500	**200**	
Availability rebate	**1,664**	1,010	**–**	
Office, travel and consumable expense	**1,886**	1,440	**–**	
Consultants' and contractors' expense	**6,481**	6,258	**–**	
	124,882	69,392	**200**	
Depreciation				
Buildings	**3,780**	4,761	**–**	
Transmission system	**48,327**	52,468	**–**	
Other plant and equipment	**10,432**	8,109	**–**	
Total depreciation	**62,539**	65,338	**–**	
Net loss on disposal of property, plant and equipment	**241**	–	**–**	
Operating lease rental expense	**1,630**	1,475	**–**	
Employee benefits				
Defined benefit superannuation expense	**(3,601)**	(3,438)	**–**	
Defined contribution superannuation expense	**1,696**	1,976	**–**	
Other employee expenses	**21,506**	17,590	**–**	
Bad and doubtful debts expense including movement in provision for doubtful debts	**3**	–	**–**	
Total expenses, excluding finance costs	**208,896**	152,333	**200**	
Finance costs				
Interest expense	**94,347**	101,011	**–**	
Interest expense – related parties	**12,731**	–	**9,986**	
Other finance charges	**1,206**	(2)	**–**	
Capitalised finance charge (Capitalisation rate of 6.4%)	**(4,787)**	(5,854)	**–**	
Total finance costs	**103,497**	95,155	**9,986**	
Total expenses	**312,393**	247,488	**10,186**	

1 In April 2004, the Victorian Parliament passed the *Land Tax (Amendment) Act 2004*, extending the land tax to transmission easements owned by electricity transmission companies in Victoria. The new tax applied from 1 July 2004. As the tax was a significant new and unforeseen cost for the business, SP AusNet sought and received approval from the ACCC to adjust its revenue cap to 'pass-through' or recover the full costs of the new tax from VENCorp for both the 2005 and 2006 financial years. The current year expense included the full year effect of the pass through of the full cost.

Note 7 Income tax expense

	Consolidated		Parent entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
(a) Income tax expense				
Current tax	**15,138**	11,933	**(3,056)**	
Deferred tax	**162,910**	20,818	**–**	
	178,048	32,751	**(3,056)**	
Deferred income tax (revenue) expense included in income tax expense comprises:				
Decrease (increase) in deferred tax assets (note 16)	**244,275**	2,206	**–**	
(Decrease) increase in deferred tax liabilities (note 21)	**(81,365)**	18,612	**–**	
	162,910	20,818	**–**	
(b) Numerical reconciliation of income tax expense to prima facie tax payable				
Profit from continuing operations before income tax expense	**86,663**	98,530	**(10,186)**	
Tax at the Australian tax rate of 30% (2005 – 30%)	**25,999**	29,559	**(3,056)**	
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
Non-deductible expenses	**829**	20	**–**	
Impact of adopting tax consolidation during the period	**149,106**	–	**–**	
Overprovision in prior year	**(1,553)**	–	**–**	
Sundry items	**3,667**	3,172	**–**	
Income tax expense	**178,048**	32,751	**(3,056)**	
(c) Amounts recognised directly in equity				
Aggregate current and deferred tax arising in the reporting period and not recognised in net the income statement but directly debited or credited to equity				
Hedge movements (note 25)	**(373)**	–	**–**	
Actuarial gain/loss (note 25)	**1,044**	1,613	**–**	
Net deferred tax – debited (credited) directly to equity (notes 16 and 21)	**671**	1,613	**–**	

Note 8 Earnings per share

On 19 October 2005, SP AusNet Transmission executed a reverse acquisition deeming SPI PowerNet to be the parent entity. The following earnings per share have been calculated recognising the substance of the reverse acquisition, which means that the calculation is based on the earnings of the accounting parent SPI PowerNet and the share capital of the legal parent SP AusNet Transmission.

(i) Basic earnings per share

The calculation of basic earnings per share at 31 March 2006 was based on the loss attributable to ordinary shareholders of $91.385 million (2005: profit of $65.779 million) and a weighted average number of ordinary shares outstanding during the financial year ended 31 March 2006 of 2,092,680,010 (2005: 2,092,680,010), calculated as follows:

	Consolidated	
	2006	2005
Profit/(loss) attributable to securityholders ($'000)	**(91,385)**	65,779
Weighted average number of shares ('000)	**2,092,680**	2,092,680
Basic earnings per share (cents)	**(4.4)**	3.1

(ii) Diluted earnings per share

There were no factors causing a dilution of either the profit or loss attributable to ordinary shareholders or the weighted average number of ordinary shares outstanding during the financial year ended 31 March 2006 accordingly basic and diluted earnings per share are the same.

Dividends

No dividends were paid to members during the financial year.

Since the end of the financial year the Directors have approved a fully franked dividend of $3,139,020 (0.15 cents per fully paid security) to be paid on 26 June 2006.

Note 9 Cash and cash equivalents

	Consolidated		Parent entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Cash at bank and in hand	**2,634**	10,589	**–**	

(a) Reconciliation to cash at the end of the year

The above figures are reconciled to cash at the end of the financial year as shown in the statement of cash flows as follows:

	Consolidated		Parent entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Balances per statement of cash flows	**2,634**	10,589	**–**	

(b) Cash at bank and on hand

Cash balance held at bank is non-interest bearing.

Note 10 Receivables

	Consolidated		Parent entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Current receivables				
Accounts receivable (i)	**34,025**	29,252	**–**	
Related party receivables	**7,859**	812	**6,117**	
Provision for doubtful receivables	**(33)**	(30)	**–**	
	41,851	30,034	**6,117**	
Accrued revenue	**685**	4,148	**–**	
Employee advances and loans	**64**	52	**–**	
	42,600	34,234	**6,117**	

(i) The average credit period on sales of services is 10 Business Days. An allowance has been made for estimated irrecoverable amounts from revenue determined by reference to past default experience.

Note 11 Inventories

	Consolidated		Parent entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Current inventories				
Construction, maintenance stocks and general purpose materials – at cost	**3,722**	2,069	**–**	
Non-current inventories				
Construction, maintenance stocks and general purpose materials – at cost	**11,797**	11,797	**–**	
Total inventories	**15,519**	13,866	**–**	

Note 12 Derivative financial instruments

	Consolidated		Parent entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Current assets				
Interest rate swap contracts	**21,972**	–	**–**	
Forward foreign exchange contracts	**1,557**	–	**–**	
Total current derivative financial instrument assets	**23,529**	–	**–**	
Current liabilities				
Interest rate swap contracts	**20,793**	–	**–**	
Forward foreign currency contracts	**749**	–	**–**	
Total current derivative financial instrument liabilities	**21,542**	–	**–**	

(a) Transition to AASB 132 and AASB 139

The Group has taken the exemption available under AASB 1 to apply AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* from 1 April 2005.

For further information refer to note 1(n).

Note 13 Other assets

	Consolidated		Parent entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Current – other assets				
Prepayments	**2,762**	1,631	**200**	
Interest receivable	**45**	32	**–**	
	2,807	1,663	**200**	
Non-current – other assets				
Deferred Expenses	**2,282**	–	**–**	
Defined Benefit Surplus	**7,967**	3,825	**–**	
	10,249	3,825	**–**	
Total other assets	**13,056**	**5,488**	**200**	

Note 14 Non-current assets – other financial assets

	Consolidated		Parent entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Shares in subsidiaries (note 33)	**–**	–	**1,096,939**	

Note 15 Non-current assets – property, plant and equipment

Consolidated	Freehold land at cost $'000	Buildings at cost $'000	Easements at cost $'000	Transmission system at cost $'000	Plant and equipment at cost $'000	Other capital works at cost $'000	Total $'000
Carrying amount at 1 April 2005	230,916	55,363	1,144,289	1,231,904	34,985	107,740	2,805,197
Additions	–	–	–	–	–	130,577	130,577
Transfers	–	30,561	(10)	109,160	20,314	(160,025)	–
Disposals	–	–	–	–	(212)	–	(212)
Depreciation	–	(3,780)	–	(48,327)	(10,432)	–	(62,539)
Carrying amount at 31 March 2006	**230,916**	**82,144**	**1,144,279**	**1,292,737**	**44,655**	**78,292**	**2,873,023**
Net Asset Values at 31 March 2006							
Cost	230,916	90,914	1,144,279	1,404,056	89,385	78,292	3,037,842
Accumulated Depreciation	–	(8,770)	–	(111,319)	(44,730)	–	(164,819)
	230,916	**82,144**	**1,144,279**	**1,292,737**	**44,655**	**78,292**	**2,873,023**
Carrying amount at 1 April 2004	233,687	52,704	1,144,289	1,196,980	28,726	95,086	2,751,472
Additions	–	–	–	–	–	122,880	122,880
Transfers	–	7,433	–	88,302	14,491	(110,226)	–
Disposals	(2,771)	(13)	–	(910)	(123)	–	(3,817)
Depreciation		(4,761)	–	(52,468)	(8,109)	–	(65,338)
Carrying amount at 31 March 2005	**230,916**	**55,363**	**1,144,289**	**1,231,904**	**34,985**	**107,740**	**2,805,197**
Net Asset values at 31 March 2005							
Cost	230,916	60,353	1,144,289	1,294,896	69,806	107,740	2,908,000
Accumulated Depreciation	–	(4,990)	–	(62,992)	(34,821)	–	(102,803)
	230,916	55,363	1,144,289	1,231,904	34,985	107,740	2,805,197

The parent entity holds no property, plant and equipment.

Note 16 Non-current assets – deferred tax assets

	Consolidated		Parent entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
The balance comprises temporary differences attributable to:				
Doubtful debts	**10**	9	**–**	
Employee benefits	**3,004**	3,955	**–**	
Other accruals and provisions	**780**	1,083	**–**	
Intangibles/Licences	**–**	243,480	**–**	
Tax losses	**686**	–	**–**	
	4,480	248,527	**–**	
Set-off of deferred tax liabilities of parent entity pursuant to set-off provisions (note 21)	**(4,480)**	(248,527)	**–**	
Net deferred tax assets	**–**	–	**–**	
Movements:				
Opening balance at 1 April	**248,527**	250,733	**–**	
Assets acquired on business combination	**693**	–	**–**	
Credited/(charged) to the income statement (note 7)	**(244,275)**	(2,206)	**–**	
Negative balance transferred to deferred tax liability (note 21)	**(465)**	–	**–**	
Set-off of deferred tax liabilities of parent entity pursuants to set-of provisions (note 21)	**(4,480)**	**(248,527)**	**–**	
Closing balance at 31 March 2006	**–**	–	**–**	

The deferred tax asset attributable to tax losses does not exceed taxable amounts arising from the reversal of existing assessable temporary differences.

The deferred tax asset in respect of intangibles/licences arose under AASB 112 to the extent that the tax base (represented by the capital gains tax cost base) exceeded its carrying value prior to adopting the tax consolidated regime (see note 37).

Note 17 Current liabilities – payables and other liabilities

	Consolidated		Parent entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Trade payables	**49,935**	45,613	**–**	
Accrued interest	**12,262**	16,954	**–**	
GST payable	**3,940**	2,853	**–**	
Related party payables	**2,399**	1,500	**–**	
Other	**977**	422	**–**	
	69,513	67,342	**–**	

Note 18 Interest bearing liabilities

	Consolidated		Parent entity	
Current	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Unsecured				
Syndicate bank debt due 20/3/2006	**–**	230,000	**–**	
Domestic medium term notes:				
$40 million floating rate note due 22/5/2006	**40,000**	–	**–**	
$110 million, 5.75% due 15/11/2006	**110,000**	–	**–**	
$100 million floating rate note due 15/11/2006	**100,000**	–	**–**	
Amount owed to related parties (note 30)	**1,109,986**	1,500	**1,110,386**	
Total current interest bearing borrowings	**1,359,986**	231,500	**1,110,386**	

(a) Syndicate bank borrowings

On the 20 December 2005 SP Australia Finance Pty Ltd $250 million Syndicated Bank Loan Facility ($226 million drawn) was cancelled and repaid. The Facility was replaced by a new $500 million Syndicated Bank Loan Facility, which comprised of two $250 million tranches due to mature on the 20 March 2011 and 20 March 2013 respectively. As at 31 March 2006 the new facility was drawn to $205 million.

(b) Domestic medium term notes

No domestic medium term notes matured during the course of 2005/6

	Consolidated		Parent entity	
Non-Current	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Unsecured				
At amortised cost:				
Commercial paper	**173,831**	173,810	**–**	
Syndicate bank debt due 20/3/2011 (a)	**204,590**	–	**–**	
Domestic medium term notes:				
$40 million floating rate note due 20/5/2006	**–**	40,000	**–**	
$110 million, 5.75% due 15/11/2006	**–**	110,000	**–**	
$100 million floating rate note due 15/11/2006	**–**	100,000	**–**	
$102.5 million floating rate note due 7/9/2007	**100,931**	100,337	**–**	
$185 million floating rate note due 7/9/2007	**185,000**	185,000	**–**	
$30 million floating rate note due 14/11/2008	**30,000**	30,000	**–**	
$140 million 6.25% due 14/11/2008	**140,000**	140,000	**–**	
$185 million floating rate note due 7/9/2010	**186,555**	185,000	**–**	
$85 million floating rate note due 30/11/2011	**85,000**	85,000	**–**	
$150 million 6.25% due 1/12/2011	**150,000**	150,000	**–**	
Total non-current interest bearing liabilities	**1,255,907**	1,299,147	**–**	

Debt instruments are measured including transactional costs, fees received or paid at inception and all other premiums or discounts.

Other Bank Guarantees

Certain entities are required to provide bank guarantees in the form of tender bid bonds or performance bonds for the contractual obligations. The controlled entities have guarantee facilities with a number of institutions amounting to $10 million of which $5.6 million was lodged with third parties at the 31 March 2006.

	Consolidated		Parent entity	
Financing facilities	**2006 $'000**	**2005 $'000**	**2006 $'000**	**2005 $'000**
Unsecured bank overdraft facility, reviewed annually and payable at call:				
– amount used	**–**	–	**–**	
– amount unused	**500**	500	**–**	
	500	500	**–**	
Unsecured syndicated bank facility:				
– amount used	**205,000**	230,000	**–**	
– amount unused	**295,000**	20,000	**–**	
	500,000	250,000	**–**	
Unsecured commercial paper standby facilities:				
– amount used	**–**	–	**–**	
– amount unused	**120,000**	120,000	**–**	
	120,000	120,000	**–**	

Note 19 Current liabilities – provisions

	Consolidated		Parent entity	
	2006 $'000	**2005 $'000**	**2006 $'000**	**2005 $'000**
Employee entitlements	**2,771**	3,135	**–**	
Sundry provisions	**790**	1,801	**–**	
	3,561	4,936	**–**	

(a) Movement in provisions

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

	Sundry provisions $'000
Balance at 1 April 2005	1,801
Provision utilised during the year	(1,011)
Balance at 31 March 2006	790

Note 20 Non-current liabilities – other financial liabilities

	Consolidated		Parent entity	
	2006 $'000	**2005 $'000**	**2006 $'000**	**2005 $'000**
At fair value:				
Deferred revenue	**1,081**	–	**–**	
Other	**409**	–	**–**	
	1,490	–	**–**	

Note 21 Non-current liabilities – deferred tax liabilities

	Consolidated		Parent entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
The balance comprises temporary differences attributable to:				
Amounts recognised in the income statement				
Accrued revenue	**14**	10	**–**	
Construction work in progress	**–**	1,950	**–**	
Fair value hedges	**501**	–	**–**	
Section 163 AA impost/intellectual property deductions	**71,521**	66,201	**–**	
General interest charge	**11,717**	8,050	**–**	
Defined benefit fund	**(265)**	–	**–**	
Deferred charges (non-current)	**684**	–	**–**	
Property, plant and equipment	**266,694**	350,446	**–**	
	350,866	426,657	**–**	
Amounts recognised directly in equity				
Defined benefit fund	**2,656**	1,613	**–**	
Derivatives held for trading and fair value hedges	**(373)**	–	**–**	
	2,283	1,613	**–**	
Set-off of deferred tax assets of parent entity pursuant to set-off provisions (note 16)	**(4,480)**	(248,527)	**–**	
Net deferred tax liabilities	**348,669**	179,743	**–**	
Movements				
Opening balance at 1 April 2005	**428,270**	398,096	**–**	
Business combinations (note 32)	**801**	–	**–**	
Transfer of Section 163AA impost from current to deferred liability	**5,319**	9,949	**–**	
Change on adoption of AASB 132 and AASB 139 (note 1)	**(82)**	–	**–**	
Charged/(credited) to the income statement (note 7)	**(81,365)**	18,612	**–**	
Charged/(credited) to equity (note 25)	**671**	1,613	**–**	
Negative balance transferred from deferred tax asset (note 16)	**(465)**	–	**–**	
	353,149	428,270	**–**	
Set-off deferred tax liabilities of parent entity pursuant to set-off provisions (note 16)	**(4,480)**	(248,527)	**–**	
Closing balance at 31 March 2006	**348,669**	179,743	**–**	

The deferred tax liability recognised in respect of property, plant and equipment arises due to prior period accelerated depreciation for tax purposes and increases in the carrying value of property, plant and equipment.

Section 163AA impost/Intellectual property deductions

The transmission consolidated entity has not recognised a deferred tax asset with respect to tax losses relating to the following:

- A section 163AA impost levied under the Electricity Industry Act 1993 – $53.250 million
- Division 373 of the Income Tax Assessment Act 1997 (Intellectual Property) $18.271 million

Prior year's tax returns which have been lodged with the Australian Taxation Office have claimed deductions for the above amounts; accordingly no tax payments have been made in respect of prior year's current tax and during the current year only $1.2 million of tax was paid. The current tax not paid to the taxation authority has been included in deferred tax liabilities.

As at 31 March 2006 carry forward tax losses in respect of the above deductions of nil (2005: $5.320 million) were recorded by the company for taxation purposes.

Note 22 Non-current liabilities – provisions

	Consolidated		Parent entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Employee entitlements	**7,243**	8,496	**–**	

Note 23 Non-current liabilities – retirement benefit obligations

Permanent employees and casual employees are entitled to benefits on retirement, disability or death from Equipsuper. Some Directors and senior executives of the transmission group have elected to have equivalent superannuation contributions paid into other approved funds. The parent entity does not have any employees.

The following sets out details in respect of the defined benefit fund only.

Equipsuper

The Equipsuper defined benefit superannuation plan provides lump sum and benefits on retirement, death, disablement and withdrawal. Some categories of members receive only defined contribution, accumulation style benefits. The defined benefit section of the plan is closed to new members.

Actuarial valuations of the funds were performed by Mr Scott, BA, FIAA of Mercer Human Resource Consulting as at 31 March 2006 and 31 March 2005.

The transmission group has a legal liability to make up a deficit in the plans but no legal right to use any surplus in the plans to further its own interests.

The net deficit/asset positions of the fund, together with the actuarial assumptions are set out below.

	2006 %	2005 %
Key assumptions used (expressed as weighted averages):		
Discount rate (active members)	**4.60**	4.80
Discount rate (pensioners)	**5.40**	5.70
Expected return on plan assets	**7.00**	7.00
Expected rate(s) of salary increase	**4.00**	4.00
Expected pension increase rate	**3.00**	3.00

	Consolidated	
	2006 $'000	2005 $'000
Amounts recognised in income in respect of these defined benefit plans are as follows:		
Expected change in contributions tax provision	**(282)**	(237)
Current service cost	**1,300**	1,490
Interest cost	**3,102**	3,193
Expected return on plan assets	**(4,749)**	(4,691)
Effect of curtailments/settlements	**130**	–
Total	**(499)**	(245)
Actuarial losses/(gains) incurred during the year and recognised in the statement of recognised income and expense	**3,479**	5,376
Cumulative actuarial gains and losses recognised in the statement of recognised income and expense	**8,855**	5,376
The amount included in the balance sheet arising from the entity's obligations in respect of its defined benefit plans is as follows:		
Present value of funded defined benefit obligations	**(66,258)**	(73,258)
Fair value of plan assets	**73,030**	76,509
Net asset before adjustment for contributions tax	**6,772**	3,251
Adjustment for contributions tax	**1,195**	574
Net asset arising from defined benefit obligations recognised on the balance sheet	**7,967**	3,825

Note 23 Non-current liabilities – retirement benefit obligations (continued)

	Consolidated	
	2006 $'000	2005 $'000
Movements in the present value of the defined benefit obligations in the current period were as follows:		
Opening defined benefit obligation	**72,684**	73,243
Current service cost	**1,018**	1,253
Interest cost	**3,102**	3,193
Contributions from plan participants	**812**	959
Actuarial losses/(gains)	**1,055**	400
Curtailments	**130**	–
Transfers in/(out)	**–**	(342)
Settlements	**(12,682)**	–
Benefits, taxes and premiums paid	**(1,056)**	(6,022)
Closing defined benefit obligation	**65,063**	72,684
Movements in the present value of the plan assets in the current period were as follows:		
Opening fair value of plan assets	**76,509**	70,048
Expected return on plan assets net of investment and admin expenses	**4,749**	4,691
Actuarial gains/(losses)	**4,534**	5,776
Contributions from the employer	**164**	1,399
Contributions from plan participants	**812**	959
Transfers in/(out)	**–**	(342)
Settlements [1]	**(12,682)**	–
Benefits, taxes and premiums paid	**(1,056)**	(6,022)
Closing fair value of plan assets	**73,030**	76,509

1 Settlements relate to instances where the employer has been relieved of the superannuation benefit obligation of members who have exited the fund, such as those members whose obligations were assigned to SPI Management Services.

The actual return on plan assets was $9,283,000.

The transmission group does not expect to make a contribution to the defined benefit plans during the next financial year. The Target Funding method is used to determine the contribution rates. Under the Target Funding method, the employer contribution rate is set at a level such that the plan's assets are expected to equal 105% of the plan's liabilities within five years. The plan assets are currently 112% of the plan's liabilities.

The analysis of the plan assets and the expected rate of return at the balance sheet date is as follows:

	Fair value of plan assets	
	2006 %	2005 %
Australian equities	**39**	42
Fixed interest securities	**24**	23
Property	**20**	20
Other assets	**10**	9
	7	6
	100	100

Asset allocation as at 31 March 2006 is currently unavailable. Asset allocation as at 31 December 2005 has been used.

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

Historic summary	Consolidated 2006 $'000	2005 $'000
Defined benefit plan obligation	**(65,063)**	(72,684)
Plan assets	**73,030**	76,509
Surplus/(deficit)	**7,967**	3,825
Experience adjustments arising on plan liabilities	**12**	1,596
Experience adjustments arising on plan assets	**(4,534)**	(5,776)

The transmission group has used the AASB 1.20A exemption and disclosed amounts under AASB 1.20A (p) above for each annual reporting period prospectively from the date of transition.

Note 24 Contributed equity

	Notes	Parent entity 2006 Shares	2005 Shares
Share capital			
Ordinary shares – fully paid	(a),(b)	**2,092,680,010**	

In accordance with the requirements of reverse accounting under AASB 3 *Business Combinations* the number of shares disclosed is that of the legal parent, SP Australia Networks (Transmission) Ltd.

(a) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares issued. Holders of ordinary shares are entitled to one vote per share at shareholders' meetings.

On 20 October 2005 SP AusNet Transmission converted to a public company.

(b) Movements in ordinary share capital

Date	Details	Number of shares	Issue price	$'000
1 April 2005	Opening balance	2,092,680,010	–	649,787
31 March 2006	Closing balance	2,092,680,010	–	649,787

In order to effect the stapling, which occurred on 21 October 2005, it was necessary for each of the stapled entities to have the same number of shares or units on issue. Accordingly, SP Australia Networks (Transmission) Ltd affected a share split such that it has 2,092,680,010 shares on issue which have no par value.

(c) Changes in equity during the year

	Notes	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent entity 2006 $'000	Parent entity 2005 $'000
Capital and reserves attributable to stapled securityholders as:					
Contributed equity		**649,787**	649,787	**–**	
Reserves	25(a)	**5,330**	3,763	**–**	
Retained profits	25(b)	**333,275**	424,660	**(7,130)**	
Parent interest		**998,392**	1,078,210	**(7,130)**	
Other equity component arising from reverse acquisition [1]		**(1,095,067)**	–	**–**	
Total Equity		**(106,675)**	1,078,210	**(7,130)**	

1 Other equity components result from the application of reverse acquisition accounting and represents the difference between the net assets of SP AusNet Transmission and SPI Finance and the purchase price paid by the legal acquirer, SP AusNet Transmission.

Note 25 Reserves and retained profits

	Consolidated		Parent entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
(a) Reserves				
Hedge reserve (i)	**(868)**	–	**–**	
Pension reserve (ii)	**6,198**	3,763	**–**	
	5,330	3,763	**–**	
Movements in reserves comprise:				
(i) Hedge reserve – cash flow hedges				
Balance at beginning of financial year:	**–**	–	**–**	
Adjustment on adoption of AASB 132 and AASB 139, net of tax	**(190)**	–	**–**	
Restated balance at beginning of financial year	**(190)**	–	**–**	
Forward exchange contracts	**(1,051)**	–	**–**	
Deferred tax liability (note 21)	**373**	–	**–**	
Balance at end of financial year	**(868)**	–	**–**	
(ii) Pension reserve				
Balance at beginning of financial year:	**3,763**	–	**–**	
Employee superannuation	**3,479**	5,376	**–**	
Deferred tax asset/liability (note 16 and note 21)	**(1,044)**	(1,613)	**–**	
Balance at end of financial year	**6,198**	3,763	**–**	
(b) Retained profits				
Movements in retained profits were as follows:				
Balance at beginning of financial year:	**424,660**	358,881	**–**	
Net profit/(loss)for the year	**(91,385)**	65,779	**(7,130)**	
Balance at end of financial year	**333,275**	424,660	**(7,130)**	

(i) Hedging reserve

The hedging reserve is used to record gains or losses on a hedging instrument in a cash flow hedge that are recognised directly in equity, as described in note 1(n). Amounts are recognised in profit and loss when the associated hedged transaction affects profit and loss.

(ii) Pension reserve

The pension reserve is used to record actuarial gains and losses on the defined benefit obligation that are recognised directly in equity, as described in note 1(u).

Note 26 Financial instruments

(a) Financial risk management objectives

The transmission group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. The use of financial derivatives is governed by the transmission group's policies approved by the Board of Directors, which provide written principles on the use of financial derivatives. Compliance with policies and exposure limits is reviewed by the internal auditors.

The transmission group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The transmission group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign currency risk.

(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) Forward foreign exchange contracts

The transmission group has entered into contracts to hedge the exchange rate risk in relation to specific purchase orders. The transmission group has entered into forward foreign exchange contracts (for terms not exceeding 24 months) to hedge the exchange rate risk arising from these transactions.

As at reporting date the aggregate amount of unrealised gains under forward foreign exchange contracts relating to these transactions is $0.8 million. In the current year, these unrealised gains have been deferred in the hedging reserve to the extent the hedge is effective.

Outstanding contracts	Average exchange rate 2006 $	Foreign currency 2006 FC$'000	Contract value 2006 $'000	Fair value 2006 $'000
Bought EUR and sold AUD	0.606	2,886	4,731	4,938
Bought SEK and sold AUD	5.65	2,479	457	470
Bought SGD and sold AUD	1.16	418	360	339
Bought USD and sold AUD	0.732	4,604	6,289	6,549
Bought GBP and sold AUD	0.41	36	88	89
Bought JPY and sold AUD	80.6	643,143	7,981	8,292
				20,677

(d) Interest rate risk management

The transmission group is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. The risk is managed by maintaining an appropriate mix between fixed and floating rate borrowings, by the use of interest rate swap contracts and forward interest rate contracts.

SP AusNet Transmission's business revenue and cost structure are impacted directly be charges in interest rates via the five-year regulatory price review. This is a result of the 'building block' approach where interest rates are used to determine the weighted average costs of capital and consequently the regulated revenue. The objective of hedging activities in relation to this business is to minimise the exposure to change in interest rates by matching the actual cost of debt with the cost of debt assumed by the regulator when setting the rate of return for the business.

Interest rate swap contracts

Under interest rate swap contracts, the transmission group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the transmission group to mitigate the risk of changing interest rates on debt held. The fair value of interest rate swaps are based on market values of equivalent instruments at the reporting date and are disclosed below. The average interest rate is based on the outstanding balances at the start of the financial year. Interest rate swap contracts exchanging fixed rate interest for floating rate interest are designated and effective as fair value hedges.

The following tables detail the notional principal amounts and remaining terms of interest rate swap contracts outstanding as at reporting date:

Outstanding floating for fixed contracts

	Average contracted fixed interest rate 2006 %	Notional principal amount 2006 $'000	Fair value 2006 $'000
A$ IRS maturity 7 March 2008	6.25	150,000	2,175
A$ IRS maturity 14 November 2008	6.25	140,000	538
A$ IRS maturity 30 November 2011	6.25	150,000	897
Total		**440,000**	**3,610**

From 1 April 2005, interest rate swap contracts exchanging floating rate interest amounts for fixed rate interest amount are designated and effective as cash flow hedges. Interest rate swaps outstanding at 31 March 2006 were recognised as financial assets on adoption of the accounting policies specified in note 1.

Outstanding fixed for floating contracts	2006 %	2006 $'000	2006 $'000
A$ IRS maturity 3 February 2008	5.62	100,000	673
A$ IRS maturity 7 March 2008	5.62	472,500	1,902
A$ IRS maturity 20 March 2008*	5.62	645,000	2,005
Forward start A$ IRS maturity 17 March 2008	N/A	110,000	394
Total		**1,327,500**	**4,974**

* These swaps were forward start as at end March 2005 and replaced swaps maturing 20 June 2005

Interest rate swap contracts exchanging fixed rate interest for floating rate interest are designated and effective as fair value hedges.

Note 26 Financial instruments (continued)

Maturity profile of financial instruments

The following table details the transmission group's exposure to interest rate risk as at 31 March 2006:

2006	Weighted average effective interest rate %	Variable interest rate $'000	Maturity dates Less than 1 year $'000	1-5 years $'000	More than 5 years $'000	Non-interest bearing $'000	Total $'000
Financial assets:							
Cash and cash equivalents	4.53	2,634	–	–	–	–	2,634
Derivative assets							
Domestic interest rate swaps	5.74	1,217,500	–	150,000	–	–	1,367,500
Forward start interest rate swaps	N/A	110,000	–	290,000	–	–	400,000
Financial liabilities:							
Medium term notes	6.17	727,500	110,000	140,000	150,000	–	1,127,500
Commercial paper	5.66	175,000	–	–	–	–	175,000
Syndicated bank debt	6.03	205,000	–	–	–	–	205,000
Related party	7.50	–	450,000	–	–	–	450,000
Related party	0.00	–	650,000	–	–	–	650,000
Derivative liabilities							
Domestic interest rate swaps	5.69	150,000	–	1,217,500	–	–	1,367,500
Forward start interest rate swaps	N/A	290,000	–	110,000	–	–	400,000

The following table details the transmission group's exposure to interest rate risk as at 31 March 2005:

2005	Weighted average effective interest rate %	Variable interest rate $'000	Maturity dates Less than 1 year $'000	1-5 years $'000	More than 5 years $'000	Non-interest bearing $'000	Total $'000
Financial assets:							
Cash and cash equivalents	5.53	10,589	–	–	–	–	10,589
Derivative assets							
Domestic interest rate swaps	5.78	1,227,300	–	150,000	–	–	1,377,300
Forward start interest rate swaps	N/A	755,000	–	140,000	150,000	–	1,045,000
Financial liabilities:							
Medium term notes	6.24	727,500	–	250,000	150,000	–	1,127,500
Commercial paper	5.65	175,000	–	–	–	–	175,000
Syndicated bank debt	5.86	230,000	–	–	–	–	230,000
Derivative liabilities							
Domestic interest	6.02	150,000	–	1,227,300	–	–	1,377,300
Forward start interest rate swaps	N/A	290,000	–	755,000	–	–	1,045,000

(e) Fair value of financial instruments

Except as detailed in the following table, the Directors consider that the carrying amount of financial assets and financial liabilities recorded in the financial statements approximates their fair values (2005: net fair value).

The fair values and net fair values of financial assets and financial liabilities are determined as follows:

– the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;

– the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis; and

– the fair value of derivative instruments, included in hedging assets and liabilities, are calculated using quoted prices. Where such prices are not available use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments.

Transaction costs are included in the determination of net fair value.

The following tables detail the fair value of financial assets and financial liabilities:

2006	Carrying amount $'000	Fair value $'000
Financial assets		
Financial liabilities		
Current		
Domestic medium term notes:		
$40 million, floating rate notes due 22/5/2006	40,000	40,080
$110 million, 5.75% due 15/11/2006	110,000	112,200
$100 million, floating rate notes due 15/11/2006	100,000	100,767
Loans from related parties	1,109,986	1,109,986
Total current	**1,359,986**	**1,363,033**
Non-current		
At amortised cost:		
Commercial paper	173,831	173,831
Syndicate bank debt due 20/3/2011 (i)	204,590	207,241
Domestic medium term notes:		
$102.5 million, floating rate notes due 7/9/2007	100,931	102,926
$185 million, floating rate notes due 7/9/2007	185,000	185,768
$30 million, floating rate notes due 14/11/2008	30,000	30,229
$140 million, 6.25% due 14/11/2008	140,000	144,264
$185 million, floating rate notes due 7/9/2010	186,555	185,768
$85 million, floating rate notes due 30/11/2011	85,000	85,454
$150 million, 6.25% due 30/11/2011	150,000	153,991
Total Non-current	**1,255,907**	**1,269,472**

(i) Debt instruments are measured including transactional cost, fees received or paid at inception and all other premiums or discounts.

Note 27 Key management personnel disclosures

SPI Management Services Pty Ltd ("SPI Management Services"), a wholly-owned subsidiary of related party Singapore Power International Pte Ltd, entered into a management services agreement with the transmission group effective on 1 October 2005. SPI Management Services provides the services of key senior management, including the Managing Director and the executive management team of SP AusNet.

Most of the key senior management transferred their employment to SPI Management Services from other entities within the SP AusNet group on 1 October 2005, prior to the float of SP AusNet. Although not employed by SP AusNet, by virtue of the operation of the management services agreement, these individuals are deemed to qualify as key management personnel of SP AusNet.

The Directors and key management personnel of SP AusNet are engaged to provide services to the SP AusNet group and are not exclusive to any particular entity within SP AusNet. Accordingly, the details of remuneration disclosed in this Remuneration Report are for services provided to SP AusNet.

Directors

Name	Position
Ng Kee Choe	Non-executive Chairman
Nino **Ficca**	Managing Director (executive)
Jeremy **Davis**	Non-executive Director
Eric **Gwee**	Non-executive Director
George **Lefroy**	Non-executive Director
Martyn **Myer**	Non-executive Director
Quek Poh Huat	Non-executive Director
Ian **Renard**	Non-executive Director

The following persons were Directors from the commencement of the financial year until their resignations on 31 October 2005:

Name	Position
Terrence **Fowler**	Executive Director
Yap Chee Keong	Non-executive Director

Key management personnel

Name	Position	Employer
Nino **Ficca**	Executive Managing Director	SPI Management Services
Paul **Adams**	General Manager, Network Services	SPI Management Services
Peter **Buck**	General Manager, Distribution Network Development	SPI Management Services
Norman **Drew**	General Manager, Transmission Network Development	SPI Management Services
Terrence **Fowler**	General Manager, Finance	SPI Management Services
Peter **Merritt**	General Manager, Business Systems and Services	SPI Management Services
Charles **Popple**	General Manager, Regulatory and Business Strategy	SPI Management Services

Policy and principles used to determine the nature and amount of remuneration

SP AusNet has a remuneration strategy which is designed to attract, retain and motivate appropriately qualified and experienced Directors and senior executives. The Nomination and Remuneration Committee reviews SP AusNet's reward philosophy and principles to ensure they remain contemporary and consistent with generally acceptable market practice. Details of SP AusNet's remuneration strategy for the 2005/06 financial year is set out in the Remuneration Report.

Remuneration of Directors and executives is disclosed in accordance with the definition of compensation in AASB 124.

Non-Executive Directors Remuneration

Fees paid to non-executive Directors are set at levels that reflect both the responsibilities of, and the time commitments required from, each non-executive Director to discharge their duties. Fee levels are set having regard to independent professional advice and fees paid by comparable companies. To maintain objectivity and independence, the fees paid to non-executive Directors are not linked to the performance of SP AusNet.

The non-executive Directors of SP AusNet during the period were:

- **Ng** Kee Choe (Chairman)
- Jeremy Guy Ashcroft **Davis**
- Eric **Gwee** Teck Hai

– George Allister **Lefroy**
– Martyn Kenneth **Myer**
– **Quek** Poh Huat
– Ian Andrew **Renard**

Former non-executive Directors
– **Yap** Chee Keong, resigned as a Director of SP AusNet Distribution and the Responsible Entity on 31 May 2005 and SP AusNet Transmission on 31 October 2005

The constitutions of SP AusNet Transmission and SP AusNet Distribution and the Responsible Entity provide that Directors are entitled to such remuneration from the Companies for their services as Directors as the Board decides, but the total amount provided to all Directors must not exceed in aggregate in any financial year the amount fixed by the Companies in general meeting. This excludes remuneration paid to executive Directors.

Accordingly the Board set the total remuneration pool for non-executive Directors and the Chairman's remuneration (inclusive of superannuation) at $1,000,000 per year in September 2005 and has submitted this amount for the securityholders' approval at the inaugural Annual General Meeting to be held on 18 July 2006.

In general, Directors are paid a fixed fee for their services to the Stapled Group. The Chairman, taking into account the greater time commitment required, receives a higher amount. Directors who serve on committees of the Board receive additional yearly fees and the chairs of those committees are also paid an additional amount. Fees payable to non-executive Directors of SP AusNet as at the date of this report are set out in the table below:

Non-executive Directors' base fees

	Board		Audit and Risk Management Committee		Nomination and Remuneration Committee		Compliance Committee	
	Chair	Member	Chair	Member	Chair	Member	Chair	Member
Fee	$100,000	$70,000	$10,000	$7,000	$10,000	$7,000	$10,000	$7,000

In accordance with rule 11.3 of SP AusNet Transmission and SP AusNet Distribution constitutions and rule 6.3 of the Responsible Entity's constitution, Directors may also be paid additional fees for special duties or exertions. Such fees are not included in the aggregate remuneration cap approved by securityholders. No such fees were paid during the year.

Directors are also entitled to be reimbursed for all business related expenses, including travel on company business, as may be incurred in the discharge of their duties.

Superannuation contributions are made on behalf of the Non-executive Directors in accordance with SP AusNet's statutory superannuation obligations.

The Board will continue to review its approach to Non-executive Director remuneration to ensure it remains in line with general industry practice and best practice principles of corporate governance.

Executive Director and Senior Executive Remuneration

Reward philosophy
The objective of SP AusNet's overall reward philosophy is to manage a total reward framework (described below) designed to:

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

The remuneration and incentive package for the Managing Director and other executives is determined and paid by SPI Management Services. SP AusNet's Nomination and Remuneration Committee may make recommendations to SPI Management Services in relation to remuneration, incentive payments and programs, and key performance measures in respect of senior management at any time to promote alignment of "owner-management" interests.

Note 27 Key management personnel disclosures (continued)

The disclosures in this section relate to those executives listed below, being the Managing Director and the senior executives with authority and responsibility for planning, directing and controlling the activities of the Companies and the Stapled Group during the financial year.

Managing Director

Nino **Ficca**	Managing Director

Senior executives

Paul **Adams**[1]	General Manager – Network Services
Peter **Buck**	General Manager – Distribution Network Development
Norman **Drew**	General Manager – Transmission Network Development
Terrence **Fowler**[2]	General Manager – Finance
Peter **Merritt**	General Manager – Business Systems and Services
Charles **Popple**	General Manager – Regulatory and Business Strategy

Reward principles for the Managing Director and senior executives

SP AusNet's reward philosophy is based on a performance management framework. Central to this is the principle that the highest performers and those showing greatest potential and future capability should receive the greatest rewards. The framework sets out the manner in which performance should be assessed and recognised, and how performance should then impact on the components of total reward.

The "Performance Development Planning" framework that is used throughout SP AusNet, including for key management personnel and the company secretary, comprises various key performance development areas and indicators (KPIs). These include management and development of talent and behaviour. The framework is underpinned with a formal performance management review process conducted twice a year, which provides a forward-looking view of an individual's potential capability.

Structure of total reward

The reward principles set out the relevant elements of remuneration to make up the "total reward". For the majority of SP AusNet employees, total reward consists of fixed remuneration and "at risk" remuneration through short-term incentive plans. SP AusNet is considering the introduction of long-term incentive plans (see Section E below). An appropriate mix of these components is determined for each level of management and employees.

Fixed remuneration

Fixed remuneration is comprised of salary, company superannuation contributions and benefits, salary-sacrificed items such as motor vehicles and fringe benefits tax. Fixed remuneration reviews are undertaken annually in an effort to maintain competitive remuneration levels in the relevant markets in which SP AusNet competes for talent.

Fixed remuneration reflects the scope of the role and the level of skill and experience of the individual. Fixed remuneration is generally set at the median level (50th percentile) of the applicable remuneration market. SP AusNet typically applies a range of 80% to 120% around the selected fixed market remuneration percentile.

At-risk remuneration – short-term incentive scheme (cash bonuses)

The variable component of the total reward is based on an annual short-term incentive (STI) scheme, which consists entirely of cash bonuses and does not involve securities. The payments under the STI scheme, known as annual incentive payments (AIPs), are determined using a set of corporate financial and non-financial measures as well as stretch individual performance hurdles.

The corporate measures set for 2005/06 included:

- net profit;
- health, safety and environment targets;
- network performance and reliability targets; and
- program delivery (capital and maintenance) targets.

1 Mr Adams was an executive Director of the Responsible Entity from 31 May 2005 to 9 September 2005, prior to SP AusNet's listing. He did not receive any remuneration for these services.
2 Mr Fowler was an executive Director of the Responsible Entity from 31 May 2005 to 9 September 2005 and of SP AusNet Transmission from 7 September 2005 to 31 October 2005, prior to SP AusNet's listing. He did not receive any remuneration for these services.

During 2005, SP AusNet implemented a Performance Development Planning framework for key management personnel and employees under incentive based employment agreements (approximately 500 employees). The key elements of the framework are as follows:

- setting corporate KPIs for SP AusNet at the commencement of the performance period, which roll down into individual KPIs for each employee via an individual performance development plan. Each individual's performance plan defines what is required to achieve stretch individual performance hurdles;
- a review process where managers review, compare and calibrate the performance of their direct reports. The review process allows for performance to be differentiated, and confirms individual performance ratings and the related reward outcomes (fixed remuneration percentile and STI multiple). The review also identifies those employees who require development and those who are performing poorly;
- a mid-year review is conducted to track progress of the achievement of performance plan objectives and personal development plans with the aim of enabling succession planning and career development for individuals; and
- an annual 360 degree peer review is undertaken that assesses employees' contribution to SP AusNet's performance capability, through strong leadership behaviour that supports and underpins SP AusNet's corporate values and culture.

By linking individual rewards to the achievement of overall corporate targets, this framework aligns the interests of employees and managers with those of SP AusNet.

Commencement and retention awards

SP AusNet has not entered into commencement awards. Limited retention awards have been provided to key individuals in roles where retention is critical over the medium term (two to three years). In the current absence of an established LTI plan, these have taken the form of staggered cash payments and subject to individual performance hurdles being met.

When TXU Australia Group Pty Ltd ("TXU") was acquired in 2004, there was a recognised need to retain certain key TXU executives or attract them to new positions over a transitional period. Under an arrangement with TXU's parent company, key executives were entitled to redundancy benefits in certain circumstances following a "change in control". More particularly, redundancy benefits were payable if the employment was terminated by the employer or the employee terminated their employment due to a significant change in their role during the two years following the change in control. This arrangement was intended to operate as a form of guaranteed payment in the event that the executive's employment was subsequently terminated or altered by the new owner.

In order to retain Paul Adams (General Manager, Networks Services Group), who was identified as a key TXU executive, following the acquisition, he was offered a form of retention payment based on his entitlement under the arrangement with TXU. However, instead of a lump sum payment, the amount was made payable over four years (ending on 1 April 2008) as part of his remuneration structure. In addition, his entitlement is subject to a fixed and variable formula with the later being linked to his achievement of individual performance targets.

Similarly, Peter Buck (General Manager, Distribution Network Development) was offered two payments across two years with the second and final amount payable in August 2006. This amount comprises a fixed and a variable component which is linked to Mr Buck's achievement of individual performance targets.

Loans to Directors and executives

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

Details of remuneration

Details of the remuneration of each Director of SP AusNet and each of the key management personnel of SP AusNet for the year ended 31 March 2006 are set out in the following tables. The STI cash bonuses are dependent on the satisfaction of performance conditions as set out in the section headed At-risk remuneration above. No other elements of remuneration are directly related to performance.

Note 27 Key management personnel disclosures (continued)

Director remuneration

Details of non-executive and executive Directors' remuneration for the reporting period are set out in the following tables.

Non-executive Director remuneration

2006	Cash salary and fees	Superannuation Contributions[1]	Insurance	Total
Ng Kee Choe (Chairman)	70,422	6,338	5,555	82,315
Jeremy Guy Ashcroft **Davis**	66,819	6,014	5,555	78,388
Eric **Gwee** Teck Hai	70,322	–	5,555	75,877
George Allister **Lefroy**[2]	93,199	8,376	5,555	107,130
Martyn Kenneth **Myer**	43,177	3,886	5,555	52,618
Quek Poh Huat[3]	77,000	–	5,555	82,555
Ian Andrew **Renard**[2]	89,188	8,027	5,555	102,770
Yap Chee Keong[4]	–	–	–	–

1 Superannuation contributions made on behalf of Non-executive Directors to satisfy SP AusNet's obligations under applicable Superannuation Guarantee legislation.
2 Dr Lefroy and Mr Renard received Directors' fees during the financial year for services provided during the prior financial year. Dr Lefroy received $23,383 and Mr Renard $16,395 including superannuation contribution. These amounts are included in the table above
3 As Mr Quek is an executive of Singapore Power Ltd and a nominee Director of Singapore Power Ltd on the Board of SP AusNet, Singapore Power receives the fees for Mr Quek's services as a Director of SP AusNet. Fees for Mr Quek's services as a Director during the period ending 31 March 2006 have not yet been paid.
4 Mr Yap resigned on 31 May 2005. Mr Yap is an employee of Singapore Power Ltd and no fees are payable for his services as a Director during the period ending 31 March 2006.

SP AusNet does not make retirement payments to Directors.

2005	Cash salary and fees	Superannuation contributions[1]	Insurance	Total
Yap Chee Keong[1]	–	–	–	–

1 Mr Yap resigned on 31 May 2005. Mr Yap is an employee of Singapore Power Ltd and no fees are payable for his services as Director during the period ending 31 March 2005.

Executive Director remuneration

	Primary				Post-employment		Equity	
Name	Cash salary and fees	Retention payment	Cash bonus	Insurance	Super-annuation	Retirement benefits	Options	Total
Nino **Ficca**	398,658	–	86,212	5,555	39,990	–	–	530,415
Paul **Adams**[1]	230,443	104,892	17,865	5,000	23,716	–	–	381,916
Terrence **Fowler**[2]	204,922	–	77,031	5,000	18,385	–	–	305,338

1 Mr Adams was a Director of the Responsible Entity from 31 May 2005 to 9 September 2005.
2 Mr Fowler was a Director of the Responsible Entity from 31 May 2005 to 9 September 2005 and a Director of SP AusNet Transmission from 7 September 2005 to 31 October 2005.

The above payments were made to Mr Ficca, Mr Adams and Mr Fowler for the provision of services as executives of SP AusNet and not for their services as Directors.

Executive remuneration

Details of the remuneration of SP AusNet executives for the reporting period are set out in the following table.

2006	Primary				Post-employment		Equity	
Name	Cash salary and fees	Retention payment	Cash bonus	Insurance	Super-annuation	Retirement benefits	Options	Total
Nino **Ficca**	398,658	–	86,212	5,555	39,990	–	–	530,415
Paul **Adams**	230,443	104,892[1]	17,865[2]	5,000	23,716	–	–	381,916
Peter **Buck**	185,331	67,657[1]	11,415[2]	5,000	16,811	–	–	286,214
Norman **Drew**	200,268	–	63,757[3]	5,000	20,036	–	–	289,061
Terrence **Fowler**	204,922	–	77,031[4]	5,000	18,385	–	–	305,338
Peter **Merritt**	169,892	–	32,935	5,000	17,130	–	–	224,957
Charles **Popple**	205,333	–	53,430[5]	5,000	20,899	–	–	284,622

1 Further details in relation to the retention payments to Mr Adams and Mr Buck are set out under heading Commencement and retention awards above.
2 Bonuses paid to Mr Adams and Mr Buck during the financial year represent a "stub" payment for the period 1 January 2005 to 31 March 2005 to bring their remuneration periods into line with the remaining executives following after the acquisition of TXU Australia Group Pty Ltd. They did not receive additional bonuses under the SP AusNet STI plan.
3 Mr Drew's cash bonus paid during the reporting period consisted of a payment of $36,757 pursuant to the SP AusNet STI plan and a special discretionary bonus of $27,000 awarded prior to the listing of the SP AusNet Group by Singapore Power Ltd in recognition of exceptional performance.
4 Mr Fowler's cash bonus paid during the reporting period consisted of a payment of $47,031 pursuant to the SP AusNet STI plan and a special discretionary bonus of $30,000 awarded prior to the listing of the SP AusNet Group by Singapore Power Ltd in recognition of exceptional performance.
5 Mr Popple's cash bonus paid during the reporting period consisted of a payment of $38,430 pursuant to the SP AusNet STI plan and a special discretionary bonus of $15,000 awarded prior to the listing of the SP AusNet Group by Singapore Power Ltd in recognition of exceptional performance.

2005	Primary				Post-employment		Equity	
Name	Cash salary and fees	Retention payment	Cash bonus	Non-monetary benefits	Super-annuation	Retirement benefits	Options	Total
Nino **Ficca**	293,488	–	93,093	–	23,618	–	–	410,199
Norman **Drew**	162,437	–	35,351	–	23,618	–	–	221,406
Terrence **Fowler**	179,314	–	38,940	–	17,258	–	–	235,512
Peter **Merritt**	137,329	–	30,009	–	13,241	–	–	180,579
Charles **Popple**	182,303	–	40,334	–	15,127	–	–	237,764

Service agreements

Duration of contracts

Remuneration and other terms of employment for the Managing Director and specified senior management are formalised in individual employment agreements. Each of these agreements provides for performance-related cash bonuses, fringe benefits plus other benefits. Under the terms of these agreements, the Managing Director and other members of the senior executive team continue to be employed until their employment is terminated.

Notice periods and payments on termination

The employment agreements provide for termination payments to be made in certain circumstances. In particular, the company may terminate the employment of the Managing Director and other executives (except Mr Paul Adams) on giving one month's notice. Mr Adams' agreement provides for a notice period of three months. The company may make a payment in lieu of notice. In general, the Managing Director and other executives must give SP AusNet at least one month's notice of resignation.

Termination benefits are generally calculated as three weeks' pay for every year of service paid at the executive's Fixed Annual Remuneration (FAR) rate and capped at a specified period. This specified termination payment cap period is set at six months for the Managing Director and other executives except Mr Adams. Mr Adams' termination payment cap is set at nine months.

In addition, in the event that SP AusNet or Mr Adams terminates his employment in prescribed circumstances, he is entitled to be paid the remainder of the fixed and variable amounts of retention payment outstanding as at the date of his termination.

Note 27 Key management personnel disclosures (continued)

Other transactions with key management personnel

A Director, Mr N Ficca is the Deputy Chairman of the Electricity Supply Association of Australia (ESAA). ESAA supplies services to SP AusNet Transmission on normal terms and conditions.

A Director, Prof J Davis, is a Director of Transurban Holdings Ltd and a number of its controlled entities. Transurban Holdings Ltd and its controlled entities supplies services to SP AusNet Transmission on normal terms and conditions

A Director, Mr E Gwee, is a Director of Melbourne Business School Ltd and WorleyParsons Ltd. Melbourne Business School Ltd and WorleyParsons Ltd both supply services to SP AusNet Transmission on normal terms and conditions.

From time to time, Directors of the transmission group, or their Director related entities, may purchase goods from the transmission group. The purchases are on the same terms and conditions as those entered into by other transmission group employees or customers and are trivial or domestic in nature.

Aggregate amounts of each of the above types of other transactions with key management personnel are as follows:

	2006 $	2005 $
Training expenses	**8,798**	1,650
Motor vehicle expenses	**49,976**	37,443
General expenses	**10,545**	16,650
Technical engineering advice	**94,160**	146,691
	163,479	202,434

Note 28 Remuneration of auditors

	Consolidated	
	2006 $	2005 $
(a) Assurance services		
Audit services		
Total remuneration for audit services	**150,000**	107,000
Other assurance services		
Total remuneration for other assurance services	**64,000**	67,000
Total remuneration for assurance services	**214,000**	174,000

The auditor of SP Australia Networks (Transmission) Ltd is KPMG.

Note 29 Contingencies

(a) Contingent liabilities

Details of contingent liabilities which may arise and for which no provisions are included in the financial statements are as follows:

Management Services Agreement

SPI Management Services, a wholly-owned subsidiary of Singapore Power International Pte Ltd, provides management services to SP AusNet Transmission under the Management Services Agreement.

The term of the Management Services Agreement is for an initial period of 10 years, commencing on 1 October 2005. SP AusNet Transmission has options to renew the Management Services Agreement for two further 10 year periods. Non-renewal by SP AusNet Transmission (in the absence of a terminable breach by SPI Management Services) will result in a termination fee equal to the previous financial year's Management Services Charge to SPI Management Services.

Environmental

Hazardous materials are used in certain operational areas of SP AusNet Transmission. 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.

The Directors are not aware of any breaches of legislation which are material in nature. The Directors are not aware of any other remedial action required, and based on the results received to date, have no reason to believe that any possible legal or remedial action would result in a material cost or loss to SP AusNet Transmission, other than as provided for in these financial statements and as noted above.

Areva T&D Australia Ltd litigation
Areva T&D Australia Limited has made claims on SPI PowerNet totalling $12.3 million in respect of works carried out for Cranbourne Terminal Station. SPI PowerNet has made counter-claims on Areva T&D Australia Pty Ltd of $4.1 million. Negotiations to reach a settlement are proceeding and no legal action has been initiated to date.

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

Bank guarantees
Certain entities are required to provide bank guarantees in the form of tender bid bonds or performance bonds for contractual obligations.

The transmission group has guarantee facilities with a number of financial institutions totalling $10 million of which $5.6 was lodged with third parties at 31 March 2006.

Other than listed above, the Directors are not aware of any contingent liabilities as at 31 March 2006.

Note 30 Commitments

(a) Capital commitments
Capital expenditure contracted for at the reporting date but not recognised as liabilities is as follows:

	Consolidated		Parent entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Property, plant and equipment				
Payable:				
Within one year	**95,030**	35,344	**–**	
Later than one year but not later than five years	**7,855**	–	**–**	
	102,885	35,344	**–**	

(b) Lease commitments

	Consolidated		Parent entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Commitments in relation to leases contracted for the reporting date but not recognised as liabilities, payable:				
Within one year	**3,699**	1,475	**–**	
Later than one year but not later than five years	**15,872**	4,490	**–**	
Later than five years	**14,045**	7,329	**–**	
	33,616	13,294	**–**	
Representing:				
Cancellable operating leases	**–**	–	**–**	
Non-cancellable operating leases	**33,616**	13,294	**–**	
	33,616	13,294	**–**	

Operating leases
The Group leases relate to premises, vehicles, network lands and access sites under non-cancellable operating leases. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

Note 31 Related party transactions

(a) Parent entities

By virtue of the Stapling Deed effective on 21 October 2005, SP AusNet Distribution is deemed to the parent entity in the Stapled Group. The immediate parent of the Stapled Group is Singapore Power International Pte Ltd, a company incorporated in Singapore, a wholly-owned subsidiary of Singapore Power Ltd. Singapore Power International Pte Ltd owns 51% of the issued shares in SP AusNet Transmission as part of its ownership of 51% of the securities issued in the Stapled Group.

The ultimate parent entity is Temasek Holdings (Private) Limited (a company incorporated in Singapore)[1].

(b) Related entities

SPI Management Services, a wholly-owned subsidiary of Singapore Power International Pte Ltd, provides management services to the SP AusNet Transmission under the Management Services Agreement.

Under the Management Services Agreement, SP AusNet Transmission has engaged SPI Management Services to perform management services and to manage the electricity transmission network on behalf of SP AusNet Transmission in accordance with all applicable laws, regulations and guidelines. SPI Management Services will consult with, advise, and seek advice from, Singapore Power Ltd and its subsidiaries from time to time in the performance of its work. Any variation to the material terms or the Management Services Agreement will be subject to securityholder approval.

The term of the Management Services Agreement is for an initial period of 10 years commencing on 1 October 2005. SP AusNet Transmission has options to renew the Management Services Agreement for two further 10 year periods. Non-renewal by SP AusNet Transmission (in the absence of a terminable breach by SPI Management Services) will result in a termination fee equal to the previous financial year's Management Services Charge to SPI Management Services.

SP AusNet Transmission has agreed to pay SPI Management Services a management fee comprising a management services charge and a performance fee for each financial year during the term of the Management Services Agreement. The management service charge is to compensate SPI Management Services for expenses relating to all remuneration and other employment entitlements and benefits of the employees of SPI Management Services required under any applicable statutory requirements. The performance fee is to incentivise SPI Management Services to meet or better the non-financial and financial performance of the business and to align the interest of SPI Management Services with those of SP AusNet Transmission, investors and the regulators. The maximum performance fee payable by SP AusNet Transmission each financial year is capped at 0.75% of the market capitalisation of the securities.

SP AusNet Transmission indemnifies SPI Management Services from all claims, liabilities, fines and penalties suffered or incurred by SPI Management Services to the extent it is caused by or arises from negligence, fraud or dishonesty of SP AusNet Transmission and its controlled entities in the performance of its obligations.

SPI Management Services is not liable to SP AusNet Transmission and its subsidiaries by way of indemnity for any indirect, incidental or consequential loss including loss of opportunity or economic loss.

The total liability of SPI Management Services to SP AusNet Transmission and its subsidiaries in relation to the performance of or breaches of the Management Services Agreement is limited to $5 million in any financial year.

(c) Subsidiaries

Interests in subsidiaries are set out in note 33.

(d) Key management personnel

Disclosures relating to Directors and specified executives are set out in note 27.

1 Temasek Holdings (Private) Limited's sole shareholder is the Minister for Finance (Incorporated), a body corporate under the Minister for Finance (Incorporation) Act, Chapter 183 of Singapore.

(e) Transactions with related parties

The following transactions occurred with related parties:

	Consolidated		Parent entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Sales of goods and services				
Regulated Revenue	**9,511**	9,225	**–**	
Rental Income	**798**	696	**–**	
Sundry Revenue	**4,388**	493	**–**	
Purchases of goods and services				
Purchase of assets	**13,635**	1,913	**–**	
Rental and maintenance expenses	**90**	648	**–**	
Management fee	**5,003**	1,504	**200**	
Sundry costs	**553**	686	**–**	
Directors Fees[1]	**77**	–	**–**	
Loans from related parties				
Entities under common control	**1,109,986**	–	**1,109,986**	
Interest expense	**9,986**	–	**12,731**	

1 Mr Quek is an executive of Singapore Power Ltd and a nominee Director of Singapore Power Ltd on the Board of SP AusNet. Singapore Power Ltd receives fees for Mr Quek's services as a Director of SP AusNet.

(f) Outstanding balances

The following balances are outstanding at the reporting date in relation to transactions with related parties:

	Consolidated		Parent entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Current receivables (sales of goods and services)	**7,859**	812	**6,117**	
Current payables (purchases of goods)	**2,399**	1,500	**400**	
Current payables (loans)	**1,109,986**	–	**1,109,986**	

(g) Terms and conditions

SP AusNet Transmission has two loan agreements in place with SP AusNet Finance Trust. The amount loaned is $1.1 billion. $650 million of this had an interest rate of 0% per annum and $450 million had an interest rate of 7.5% per annum for the period 14 December 2005 to 31 March 2006.

The loan agreements are for a term of 10 years, which mature in October 2015. The loan agreements have similar terms and conditions which can be summarised as follows:

- The interest period and interest rate to apply to the loans are agreed by the Borrower and the Lender.
- Interest accrues from day to day and is payable on the last day of the interest period.
- Interest which is payable may be capitalised by the Lender at intervals which the Lender determines, or if no determination is made, on the first day of each quarter.
- The Borrower must repay the principal outstanding and any accrued but unpaid interest on or before the end of the term of the agreement.
- The Lender may demand repayment of the outstanding principal and any unpaid accrued interest on demand by giving at least 28 days notice (or a shorter period agreed between the parties).
- The Borrower can prepay outstanding principal and any unpaid accrued interest by giving at least 28 days notice (or a shorter period agreed between the parties).
- The Lender may terminate its obligations if an Event of Default occurs.

The loans from SP AusNet Finance Trust are unsecured and are not guaranteed by any of SP AusNet Transmission's subsidiaries.

Note 32 Business combination

Details of the fair value of the assets and liabilities acquired are as follows:

(a)

On 19 October 2005, SP AusNet Transmission acquired SPI Australia Holdings Pty Ltd from Singapore Power International Pte Ltd for $1.1 billion.

On 20 October 2005, SPI Australia Holdings Pty Ltd made a payment to return its contributed capital to $271.231 million to SP AusNet Transmission. Further SPI Australia Holdings Pty Ltd paid a dividend of $828.769 million to SP AusNet Transmission. Also on 20 October 2005, SP AusNet Transmission acquired SPI PowerNet Pty Ltd for $1,095.067 million and SPI Australia Finance Pty Ltd for $1.873 million. For accounting purposes SPI PowerNet Pty Ltd was identified as the acquirer in the reverse acquisition.

On 21 October 2005, SP AusNet Transmission sold SPI Australia Holdings Pty Ltd for $1, being its fair value, to a related party Laverton North Power Pty Ltd.

(b) Assets and liabilities deemed to be acquired

The assets and liabilities arising from the acquisition are as follows:

SP AusNet Transmission and SPI Finance

	SP AusNet Transmission carrying amount $'000	Fair value $'000
Cash	–	–
Trade receivables	21,122	21,122
Related party loans	1,520,533	1,520,533
Investment	1,095,067	1,095,067
Deferred tax asset	693	693
Other assets	4,413	4,413
Other liabilities	(19,903)	(19,903)
Related party loans	(1,100,000)	(1,100,000)
Trade payables	(591)	(591)
Interest bearing liabilities	(1,520,533)	(1,520,533)
Deferred tax liability	(801)	(801)
Net assets	–	–

The fair value of the net assets of the company on acquisition was $2.

Note 33 Subsidiaries

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

			Equity holding	
Name of entity	Country of incorporation	Class of shares	2006 %	2005 %
SP Australia Networks (Transmission) Ltd	Australia	Ordinary	–	–
Subsidiaries				
SPI PowerNet	Australia	Ordinary	100	100
SPI Finance	Australia	Ordinary	100	100

Note 34 Economic dependency

The transmission group is dependent to a significant extent upon various consortia for the administration and operation of the wholesale national electricity market, and the control and operation of the state electricity transmission systems.

Note 35 Events occurring after the balance sheet date

Since the end of the financial year the Directors have declared the payment of a fully franked dividend of $3,139,020 (0.15 cents per fully paid security) to be paid on 26 June 2006.

Note 36 Reconciliation of profit after income tax to net cash inflow from operating activities

	Consolidated		Parent entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Profit/(loss) from ordinary activities after related income tax	**(91,385)**	65,779	**(7,130)**	
Depreciation and amortisation of non-current assets	**62,539**	65,338	**–**	
Net (gain)/loss on sale of non-current assets	**241**	(9,952)	**–**	
Capitalised finance charges	**(4,786)**	(5,854)	**–**	
Increase/(decrease) in current tax liability	**9,125**	32,751	**–**	
Increase/(decrease) in deferred tax balances	**167,755**	–	**–**	
Changes in operating assets and liabilities, net of effects from acquisition of businesses:				
(Increase)/decrease in receivables	**(5,181)**	(7,991)	**(3,061)**	
(Increase)/decrease in inventories	**(1,653)**	(652)	**–**	
(Increase)/decrease in other financial assets	**(22,991)**	135	**–**	
(Increase)/decrease in other assets	**(1,846)**	–	**10,186**	
Increase/(decrease) in trade payables	**8,887**	4,101	**–**	
Increase/(decrease) in other financial liabilities	**21,542**	6,827	**–**	
Increase/(decrease) in other liabilities	**769**	–	**–**	
Increase/(decrease) in provisions	**(929)**	(2,844)	**(3,056)**	
Net cash inflow/(outflow) from operating activities	**142,087**	147,638	**(3,061)**	

Note 37 Explanation of transition to Australian equivalents to IFRSs

The transmission group changed its accounting policies on 1 April 2005 to comply with Australian equivalents to International Financial Reporting Standards (AIFRSs). The transition to AIFRSs is accounted for in accordance with Accounting Standard AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*, with 1 April 2004 as the date of transition, except for financial instruments, including derivatives, where the date of transition is 1 April 2005 (refer note 1).

An explanation of how the transition from superseded policies to AIFRSs has affected the company and the transmission group's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

(1) Reconciliation of equity reported under previous Australian Generally Accepted Accounting Principles (AGAAP) to equity under Australian equivalents to IFRSs (AIFRSs)

(i) At the date of transition to AIFRSs: 1 April 2004

		Consolidated		
	Notes	Previous AGAAP $'000	Effect of transition to AIFRSs $'000	AIFRSs $'000
ASSETS				
Current assets				
Cash and cash equivalents		21,069	–	21,069
Receivables		26,776	–	26,776
Inventories		1,449	–	1,449
Other current assets		1,767	–	1,767
Total current assets		**51,061**	**–**	**51,061**
Non-current assets				
Inventories – non-current		11,764	–	11,764
Property, plant and equipment	4(a)	1,869,958	881,514	2,751,472
Deferred tax assets	4(b)	8,336	(8,336)	–
Intangible assets	4(c)	346,210	(346,210)	–
Total non-current assets		**2,236,268**	**526,968**	**2,763,236**
Total assets		**2,287,329**	**526,968**	**2,814,297**
LIABILITIES				
Current liabilities				
Payables		56,123	–	56,123
Interest bearing liabilities		264,973	–	264,973
Provisions		6,993	–	6,993
Total current liabilities		**328,089**	**–**	**328,089**
Non-current liabilities				
Interest bearing liabilities		1,110,681	–	1,110,681
Deferred tax liabilities	4(b)	152,040	(6,660)	145,380
Provisions		11,515	–	11,515
Retirement benefit obligations	4(d)	–	3,195	3,195
Other non-current liabilities		206,769	–	206,769
Total non-current liabilities		**1,481,005**	**(3,465)**	**1,477,540**
Total liabilities		**1,809,094**	**(3,465)**	**1,805,629**
		478,235	**530,433**	**1,008,668**
EQUITY				
Contributed equity		649,787	–	649,787
Retained earnings		(171,552)	530,433	358,881
Total equity		**478,235**	**530,433**	**1,008,668**

Parent entity disclosures are not applicable as the parent entity was incorporated after the date of transition to AIFRSs.

(ii) At the end of the last reporting period under previous AGAAP: 31 March 2005

	Notes	Consolidated Previous AGAAP $'000	Effect of transition to AIFRSs $'000	AIFRSs $'000
ASSETS				
Current assets				
Cash and cash equivalents		10,589	–	10,589
Receivables		34,234	–	34,234
Inventories		2,069	–	2,069
Other current assets		1,663	–	1,663
Total current assets		**48,555**	**–**	**48,555**
Non-current assets				
Inventories – non-current		11,797	–	11,797
Property, plant and equipment	4(a)	1,928,858	876,339	2,805,197
Deferred tax assets	4(b)	7,580	(7,580)	–
Intangible assets	4(c)	339,393	(339,393)	–
Other non-current assets	4(d)	–	3,825	3,825
Total non-current assets		**2,287,628**	**533,191**	**2,820,819**
Total assets		**2,336,183**	**533,191**	**2,869,374**
LIABILITIES				
Current liabilities				
Payables		67,342	–	67,342
Interest bearing liabilities		231,500	–	231,500
Provisions		4,936	–	4,936
Total current liabilities		**303,778**	**–**	**303,778**
Non-current liabilities				
Interest bearing liabilities		1,299,147	–	1,299,147
Deferred tax liabilities	4(b)	185,281	(5,538)	179,743
Provisions		8,496	–	8,496
Total non-current liabilities		**1,492,924**	**(5,538)**	**1,487,386**
Total liabilities		**1,796,702**	**(5,538)**	**1,791,164**
Net assets		**539,481**	**538,729**	**1,078,210**
EQUITY				
Contributed equity		649,787	–	649,787
Reserves		–	3,763	3,763
Retained earnings		(110,306)	534,966	424,660
Total equity		**539,481**	**538,729**	**1,078,210**

Parent entity disclosures are not applicable as the parent entity was incorporated after the date of transition to AIFRSs.

Note 37 Explanation of transition to Australian equivalents to IFRSs (continued)

(2) Reconciliation of profit for the year ended 31 March 2005

		Consolidated		
	Notes	Previous AGAAP $'000	Effect of transition to AIFRSs $'000	AIFRSs $'000
Revenue from continuing operations		336,066	–	336,066
Other income		9,952	–	9,952
Expenses excluding finance costs		(155,618)	3,285	(152,333)
Finance costs – net		(95,155)	–	(95,155)
Profit before income tax		**95,245**	**3,285**	**98,530**
Income tax expense	4(b)	(33,996)	1,245	(32,751)
Profit attributable to members of the company		**61,249**	**4,530**	**65,779**

Parent entity disclosures are not applicable as the parent entity was incorporated after the date of transition to AIFRSs.

(3) Reconciliation of cash flow statement for the year ended 31 March 2005

The adoption of AIFRSs has not resulted in any material adjustments to the cash flow statement.

(4) Notes to the reconciliations

(a) Property, plant and equipment

The transmission group elected to measure property, plant and equipment on transition to AIFRSs at fair value and has used the fair value as the item's deemed cost at that date. The effect of the revaluation to fair value for property, plant and equipment previously held is as follows:

- An increase in the carrying amount of easements of $564.8 million at 1 April 2004.
- An increase in the carrying amount of land of $168.4 million at 1 April 2004.
- An increase in the carrying amount of transmission system assets of $149.8 million at 1 April 2004.
- A decrease in the carrying amount of buildings of $1.4 million at 1 April 2004.

The effects on property, plant and equipment of the adoption of AIFRSs are as follows:

(i) As at 1 April 2004

	Consolidated		
	AGAAP Balance as at 31 March 2004 $'000	Effect of transition to AIFRSs $'000	AIFRSs at 1 April 2004 $'000
Freehold land	65,298	168,389	233,687
Easements	579,534	564,755	1,144,289
Buildings	54,139	(1,435)	52,704
Transmission system	1,047,175	149,805	1,196,980
Other plant and equipment	28,726	–	28,726
Construction work-in-progress	95,086	–	95,086
	1,869,958	**881,514**	**2,751,472**

(ii) As at 31 March 2005

	Consolidated		
	AGAAP Balance as at 31 March 2005 $'000	Effect of transition to AIFRSs $'000	AIFRSs at 1 April 2005 $'000
Freehold land	62,527	168,389	230,916
Easements	579,534	564,755	1,144,289
Buildings	57,340	(1,977)	55,363
Transmission system	1,086,732	145,172	1,231,904
Other plant and equipment	34,985	–	34,985
Construction work-in-progress	107,740	–	107,740
	1,928,858	876,339	2,805,197

(b) Income tax

Under superseded policies, the transmission group adopted the tax-effect accounting principles whereby income tax expense was calculated on pre-tax accounting profits after adjustment for permanent differences. The tax-effect of timing differences, which occur when items were included or allowed for income tax purposes in a period different to that for accounting, were recognised at current taxation rates as deferred tax assets and deferred tax liabilities, as applicable.

Under AIFRSs, deferred tax is determined using the 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 their corresponding tax bases.

(i) As at 1 April 2004 and 31 March 2005

The effects on the deferred tax balances on the adoption of AIFRSs are as follows (tax rate of 30%)

	Consolidated	
	1 April 2004 $'000	31 March 2005 $'000
Defined benefit obligation	959	(1,148)
Transmission licence	243,480	243,480
Other deferred tax assets	(59)	(2,997)
Fair value as deemed cost	(246,056)	(241,377)
Net decrease in deferred tax balances	**(1,676)**	**(2,042)**

(ii) For the year ended 31 March 2005

Income tax expense decreased by $1.245 million under AIFRSs and the difference was transferred directly to equity.

(c) Transmission licence

(i) As at 1 April 2004 and 31 March 2005

As stated at (a) above the transmission group elected to measure property, plant and equipment at transition to AIFRSs at fair value and use that fair value as deemed cost. Because property, plant and equipment together with the transmission licence constitute one cash generating unit, the revaluation caused an impairment of the cash generating unit which the transmission group considered should most appropriately be allocated to the transmission licence. Accordingly, on transition to AIFRSs the transmission licence has been written down by $346.210 million to nil at 1 April 2004 directly to retained earnings.

(ii) For the year ended 31 March 2005

Amortisation expense of $6.817 million was written back under AIFRSs.

Note 37 Explanation of transition to Australian equivalents to IFRSs (continued)

(d) Defined benefit superannuation plans

Under superseded policies, contributions to defined benefit superannuation plans were expensed when due and payable and no asset or liability was recognised in relation to the plans, while a part of the pension obligation remained unfunded.

(i) As at 1 April 2004

The recognition of the Equipsuper scheme resulted in a defined benefit obligation of $3.195 million at transition date. This gave rise to a deferred tax asset of $0.958 million being recognised on transition.

(ii) As at 31 March 2005

The defined benefit obligation decreased by $7.020 million to a surplus of $3.825 million and the deferred tax asset decreased by $2.106 million to a deferred tax liability of $1.148 million as at 31 March 2005. Adjustments were made to recognise actuarial gains directly to reserves (net of tax) of $3.763 million.

(iii) For the year ended 31 March 2005

Employee benefits expense decreased by $1.644 million under AIFRSs.

(e) Revenue

Under superseded policies, the Transmission group recognised the gain or loss on disposal of property, plant and equipment on a "gross" basis by recognising the proceeds from sale as revenue, and the carrying amount of the property, plant and equipment disposed as an expense.

Under AIFRSs, the gain or loss on disposal is recognised on a "net" basis, and is classified as income, rather than revenue. Accordingly, the "gross" amounts have been reclassified within the income statement for AIFRSs reporting purposes.

(f) Retained earnings

The effect on retained earnings of the changes set out above are as follows:

		Consolidated	
	Notes	1 April 2004 $'000	31 March 2005 $'000
Fair value deemed as cost	(a)	881,514	876,339
Adjustment to tax balances	(b)	(1,676)	(3,315)
Fair value of intangibles	(c)	(346,210)	(339,393)
Defined benefit obligation	(d)	(3,195)	(3,195)
Transmission licence no longer amortised	(c)	–	6,817
Additional depreciation expense	(a)	–	(5,175)
Decrease in tax expense	(b)	–	1,245
Decrease in employee expenses	(d)	–	1,643
Total adjustment		530,433	534,966

(g) Adjustments on transition to AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement:* 1 April 2005

	Consolidated		
	31 March 2005 $'000	Adjustment $'000	1 April 2005 $'000
ASSETS			
Current assets			
Cash and cash equivalents	10,589	–	10,589
Receivables	34,234	–	34,234
Inventories	2,069	–	2,069
Other current assets	1,663	–	1,663
Total current assets	**48,555**	**–**	**48,555**
Non-current assets			
Inventories	11,797	–	11,797
Property, plant and equipment	2,805,197	–	2,805,197
Deferred tax assets	–	–	–
Other non-current assets	3,825	–	3,825
Total non-current assets	**2,820,819**	**–**	**2,820,819**
Total assets	**2,869,374**	**–**	**2,869,374**
LIABILITIES			
Current liabilities			
Payables	67,342	–	67,342
Interest bearing liabilities	231,500	–	231,500
Derivative financial instruments	–	272	272
Provisions	4,936	–	4,936
Total current liabilities	**303,778**	**272**	**304,050**
Non-current liabilities			
Interest bearing liabilities	1,299,147	–	1,299,147
Deferred tax liabilities	179,743	(82)	179,661
Provisions	8,496	–	8,496
Total non-current liabilities	**1,487,386**	**(82)**	**1,487,304**
Total liabilities	**1,791,164**	**190**	**1,791,354**
Net assets	**1,078,210**	**(190)**	**1,078,020**
EQUITY			
Contributed equity	649,787	–	649,787
Reserves	3,763	(190)	3,573
Retained earnings	424,660	–	424,660
Total equity	**1,078,210**	**(190)**	**1,078,020**

Refer to notes 1(p) and 1(q) for further information on the transition to AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* on 1 April 2005.

Parent entity disclosures are not applicable as the parent entity was incorporated after the date of transition to AIFRSs.

DIRECTORS' DECLARATION

In the Directors' opinion:

(a) the financial statements and notes set out on pages 141 to 189 are in accordance with the *Corporations Act 2001*, including:

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

(ii) giving a true and fair view of the company's and consolidated entity's financial position as at 31 March 2006 and of their performance, as represented by the results of their operations and their cash flows, for the financial year ended on that date; and

(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and

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

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

Nino Ficca

Melbourne
5 June 2006

INDEPENDENT AUDITORS' REPORT to the members of SP Australia Networks (Transmission) Ltd

Scope

We have audited the financial report of SP Australia Networks (Transmission) Ltd ("the Company") for the financial year ended 31 March 2006, consisting of the income statements, statements of recognised income and expense, balance sheets, statements of cash flows, accompanying notes 1 to 7, and the directors' declaration set out on pages 141 to 190. The financial report includes the consolidated financial statements of the consolidated entity, comprising the Company and the entities it controls. The Company's directors are responsible for the financial report. The directors are also responsible for preparing the relevant reconciling information regarding the adjustments required under the Australian Accounting Standard AASB 1 *First-time Adoption of Australian equivalents to International Financial Reporting Standards*. We have conducted an independent audit of this financial report in order to express an opinion on it to the members of the Company.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Australian equivalents to International Financial Reporting Standards and other mandatory professional reporting requirements in Australia and statutory requirements so as to present a view which is consistent with our understanding of the Company's and the consolidated entity's financial position, and performance as represented by the results of their operations and their cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Audit opinion

In our opinion, the financial report of SP Australia Networks (Transmission) Ltd is in accordance with:

(a) the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Company's and the consolidated entity's financial position as at 31 March 2006 and of their performance for the financial year ended on that date; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) other mandatory professional reporting requirements in Australia.

KPMG

KPMG

Alison Kitchen

Alison Kitchen
Partner

Place: Melbourne
Date: 5 June 2006

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SP AUSTRALIA NETWORKS (FINANCE) TRUST

(ARSN 116 783 914)

General Purpose Financial Report

For the financial period ended 31 March 2006

CONTENTS

The financial report is presented in Australian currency.

SP Australia Networks (Finance) Trust is a trust established under the laws of the State of Victoria and domiciled in Australia. Its registered office and principal place of business is:

Level 31, 2 Southbank Boulevard
Southbank, Victoria 3006
Australia

A description of the nature of the SP Australia Networks (Finance) Trust's operations and its principal activities is included in the review of operations and activities on pages 194 and 195 in the Directors' Report.

The financial report was authorised for issue by the Directors on 5 June 2006.

DIRECTORS' REPORT

The Directors of the trustee of SP Australia Networks (Finance) Trust ("SP AusNet Finance Trust"), SP Australia Networks (RE) Ltd ("Responsible Entity") (ACN 109 977 371) (formerly SP Finance Pty Ltd) submit herewith the general purpose financial report of SP AusNet Finance Trust for the financial year ended 31 March 2006.

The primary function of SP AusNet Finance Trust is to provide financing to both SP Australia Networks (Transmission) Ltd ("SP AusNet Transmission") and SP Australia Networks (Distribution) Ltd ("SP AusNet Distribution") as well as to facilitate distributions to unitholders in the nature of interest income and returns of capital as applicable for Australian taxation purposes.

SP AusNet Finance Trust was settled on 19 July 2004 and exists in perpetuity. SP AusNet Finance Trust received cash in exchange for 1,988,680,010 units that were issued. These funds were lent to SP Australia Networks (Distribution) Ltd for the acquisition of SPI Australia Group Pty Ltd (formerly TXU Australia Group Pty Ltd).

SP AusNet Finance Trust entered into a Stapling Deed on 21 October 2005 with the following entities;

– SP AusNet Distribution; and
– SP AusNet Transmission.

The Stapled Group of companies is referred to as SP AusNet. Under the terms of the Stapling Deed effective on 21 October 2005 there is no cross ownership by one entity of the others, rather each is owned equally by all securityholders.

The SP AusNet group, comprising SP AusNet Distribution, SP AusNet Transmission and SP AusNet Finance Trust, were listed on the Australian Stock Exchange and Singapore Exchange Securities Trading Limited on 14 December 2005 as a triple stapled security.

For statutory reporting purposes and in accordance with the Australian International Financial Reporting Standards (AIFRSs), the financial results of SP AusNet will be reported on a consolidated basis with SP AusNet Distribution as the parent entity. Consequently, the results of SP AusNet Transmission and the Trust have been incorporated into the SP AusNet group results to 31 March 2006 only for the period since stapling on 21 October 2005.

Directors

The following persons were Directors of the Responsible Entity during or since the end of the financial year and up to the date of this report:

Ng Kee Choe, appointed 9 September 2005 (Chairman)
Nino **Ficca**, appointed 31 May 2005 (Managing Director)
Paul John **Adams** appointed 31 May 2005, resigned 9 September 2005
Jeremy Guy Ashcroft **Davis**, appointed 9 September 2005
Terrence Richard **Fowler**, appointed 31 May 2005, resigned 9 September 2005
Eric **Gwee** Teck Hai, appointed 9 September 2005
George Allister **Lefroy**, appointed 9 September 2005
Martyn Kenneth **Myer**, appointed 9 September 2005
Quek Poh Huat, appointed 9 September 2005
Ian Andrew **Renard**, appointed 9 September 2005
Wong Toon Suan, resigned 31 May 2005
Yap Chee Keong, resigned 31 May 2005

Principal activities

The principal continuing activity of SP AusNet Finance Trust is to lend money to the other entities of the Stapled Group, that is, SP AusNet Distribution and SP AusNet Transmission and their controlled entities, for the purpose of financing the previous acquisition of the transmission and distribution businesses. SP AusNet Finance Trust may also lend funds to any further entities whose securities become stapled to those of SP AusNet group in the future.

Distributions

No distributions were paid to unitholders during the financial year.

Since the end of the financial year the Directors of the Responsible Entity have declared the payment of a distribution of $64,873,080 (3.10 cents per fully paid security) to be paid on 26 June 2006 comprised as follows:

	Cents per security	Total distribution $
Interest income	0.89	18,624,852
Capital distribution	2.21	46,248,228
Total distribution	3.10	64,873,080

Review of operations

A summary of revenue and results is set out below:

	2006 $'000	2005 $'000
Interest income	**18,641**	–
Net profit attributable to members of SP AusNet Finance Trust	**18,641**	–

Discussion and analysis for the year ended 31 March 2006

This discussion and analysis is provided to assist readers in understanding the annual financial statements.

Income Statements

SP AusNet Finance Trust achieved a net profit after tax of $18.641 million for the 12 months ending 31 March 2006, which comprised interest earned from other entities in the Stapled Group.

Balance Sheets

SP AusNet Finance Trust's total assets as at 31 March 2006 were $2,111.3 million comprised of amounts due from other entities in the Stapled Group.

SP AusNet Finance Trust had no liabilities at 31 March 2006.

Unitholders' funds were $2,111.3 million as at 31 March 2006.

Cash flow statements

Cash flows during the year relate to the issue and redemption of units as detailed below. SP AusNet Finance Trust had no cash at bank.

Earnings per unit	2006 Cents	2005 Cents
Basic earnings per unit	**0.01**	–
Diluted earnings per unit	**0.01**	–

Significant changes in the state of affairs

Significant changes in the state of affairs of SP AusNet Finance Trust during the financial year were as follows:

	2006 $'000
(a) An increase in units on issue of 104,000,000 (from 1,988,680,010 to $2,092,680,010) as a result of:	
The redemption of 500,000,000 units at $1 each on 1 June 2005	**(500,000)**
The redemption of 346,000,000 units at $1 each on 29 August 2005	**(346,000)**
The redemption of 150,000,000 units at $1 each on 18 October 2005	**(150,000)**
The issue of 1,100,000,000 units at $1 each on 19 October 2005	**1,100,000**
Net increase in units on issue	**104,000**
Units on issue at 1 April 2005	**1,988,680**
Units on issue at 31 March 2006	**2,092,680**

(b) SP AusNet Finance Trust entered into a stapling deed on 21 October 2005 with the following entities;

- SP AusNet Distribution; and
- SP AusNet Transmission.

The Stapled Group of companies is referred to as SP AusNet.

Under the terms of the Stapling Deed of 21 October 2005, there is no cross ownership by one entity of the others, rather each is owned by all securityholders. SP AusNet Distribution is deemed to be the parent entity in the Stapled Group.

Matters subsequent to the end of the financial year

(a) Distribution

Since 31 March 2006, the Directors of the Responsible Entity have declared a final distribution of 3.10 cents per unit totalling $64.9 million. This distribution is comprised of interest income of 0.89 cents per unit totalling $18.6 million and a capital distribution of 2.21 cents per unit totalling $46.3 million.

Likely developments and expected results of operations

Further information on likely developments in the operations of SP AusNet Finance Trust and the expected results of operations have not been included in this report because the Directors of the Responsible Entity believe it would be likely to result in unreasonable prejudice to SP AusNet Finance Trust.

Information on officeholders

Ng Kee Choe *Chairman – Non-executive.* Age 61
Bachelor of Science (Honours), University of Singapore

Mr Ng became Chairman of SP AusNet Transmission on 26 October 2005, Chairman of SP AusNet Distribution on 31 May 2005 and Chairman of the Responsible Entity on 9 September 2005. He has been Chairman and Director of Singapore Power since 15 September 2000 and Chairman of NTUC Income Insurance Co-operative Ltd since 20 May 2005. He also serves as a Director of Singapore Airport Terminal Services Ltd and Singapore Exchange Ltd. He is also a Commissioner of PT Bank Danamon Tbk, a member of the Temasek Advisory Panel and a member of the International Advisory Council of China Development Bank. Previously, Mr Ng was the Vice-Chairman and Director of DBS Group Holdings Ltd. He retired from his executive position with DBS Group Holdings Ltd in July 2003 after 33 years of service in various executive roles.

Mr Ng is Chairman of the Nomination and Remuneration Committee.

Interests in securities
150,000 securities in SP AusNet held by The Central Depository Pte Ltd. The securities were acquired at the time of the Initial Public Offering on the same terms and conditions as other securityholders.

Nino Ficca *Managing Director and Chief Executive Officer.* Age 46
Bachelor of Engineering (Electrical) (Honours), Deakin University
Graduate Diploma in Management, Deakin University

Managing Director, Mr Ficca has been a Director of SP AusNet Transmission since 7 September 2005, a Director of SP AusNet Distribution since 31 May 2005 and a Director of the Responsible Entity since 31 May 2005. He was appointed as a Director of SPI Management Services Pty Ltd ("SPI Management Services") on 19 August 2005. He has worked in the energy industry since 1983. Since January 2003, Mr Ficca has served as the Managing Director of SPI PowerNet Pty Ltd. Since August 2004 he has served as the Chief Executive Officer of SPI Electricity Pty Ltd. Prior to taking on these roles, Mr Ficca served in a number of senior management roles with SPI/GPU PowerNet.

Mr Ficca is a Director and the Deputy Chairman of the Energy Supply Association of Australia, and is a member of the Australian Institute of Company Directors and of the National Electricity Market Operations Committee.

Interests in securities
100,000 securities in SP AusNet. The securities were acquired at the time of the Initial Public Offering on the same terms and conditions as other securityholders.

Prof. Jeremy Guy Ashcroft Davis
Independent Non-executive Director. Age 63
Bachelor of Economics (Honours), University of Sydney
MBA, Stanford University
AM (Economics), Stanford University

Prof. Davis has been a Director of SP AusNet Transmission since 26 October 2005, a Director of SP AusNet Distribution since 31 May 2005 and a Director of the Responsible Entity since 9 September 2005. Prof. Davis is a Professor Emeritus of the University of New South Wales, after retiring from the Australian Graduate School of Management (AGSM) in January 2006. He is currently a Director of Transurban Group and CHAMP Ventures Pty Ltd, a private equity and venture capital group, and deputy Chairman of AMWIN Management Ltd.

Previously, Prof. Davis spent 10 years as a management consultant with the Boston Consulting Group and has served as a Director of the Australian Stock Exchange Ltd.

Prof. Davis is the Chairman of the Audit and Risk Management Committee and a member of the Compliance Committee.

Interests in securities
50,000 securities in SP AusNet. The securities were acquired at the time of the Initial Public Offering on the same terms and conditions as other securityholders.

Eric Gwee Teck Hai *Non-executive Director.* Age 67
Bachelor of Engineering (Mechanical), University of Melbourne

Mr Gwee became a Director of SP AusNet Transmission on 26 October 2005, a Director of SP AusNet Distribution on 31 May 2005 and a Director of the Responsible Entity on 9 September 2005. Mr Gwee has been a Director of Singapore Power Ltd since 1 January 2001 and is the Chairman of SP Services Ltd.

Mr Gwee is also a non-executive Director of WorleyParsons Ltd and the Melbourne Business School Ltd. He was formerly Chairman of the Public Transport Council, and serves as Chairman of the Board of Governors for the Institute of Technical Education (ITE) and ITE Holding Pte Ltd both in Singapore. Mr Gwee was the Chairman of CPG Corporation Pte Ltd and was formerly a Director of ExxonMobil Singapore Private Ltd.

Mr Gwee is a member of the Audit and Risk Management Committee and the Compliance Committee.

Interests in securities
100,000 securities in SP AusNet held by the Central Depository Pte Ltd. The securities were acquired at the time of the Initial Public Offering on the same terms and conditions as other securityholders.

Dr George Allister Lefroy *Non-executive Director.* Age 66
Bachelor of Engineering (First Class Honours), University of Western Australia
Master of Engineering Science, University of Western Australia
PhD in Chemical Engineering, Cambridge University

Dr Lefroy has been a Director of SP AusNet Transmission since 26 October 2005, a Director of SP AusNet Distribution since 31 May 2005 and a Director of the Responsible Entity since 9 September 2005. He has been a Director of Singapore Power Ltd since 1 June 2000. He has recently been appointed President Commissioner of PT Chandra Asri, Jakarta and a Director of Cobar Consolidated Resources Ltd. Until February 2005, he was a Director of Australian Power and until May 2004 he was a Director of Energy of International Training Australia Pty Ltd.

Dr Lefroy is Chairman of the Cambridge Australian Trust, Victorian Committee and a State Councillor of St. John Ambulance Australia (Victoria) Pty Ltd. Dr Lefroy was formerly an executive Vice President of Shell Chemicals Ltd, London.

Dr Lefroy is a member of the Nomination and Remuneration Committee and the Audit and Risk Management Committee.

Interests in securities
100,000 securities in SP AusNet held by Serp Hills Pty Ltd as trustee for Serp Hills Super Fund. Immediate members of Dr Lefroy's family hold a further 8,700 securities in SP AusNet. All the securities were acquired at the time of the Initial Public Offering on the same terms and conditions as other securityholders.

Martyn Kenneth Myer *Independent Non-executive Director.* Age 48
Bachelor of Engineering (Mechanical), Swinburne College of Technology
Master of Engineering Science, Monash University
Master of Science in Management, Sloan School of Management, Massachusetts Institute of Technology (MIT)

Mr Myer has been a Director of SP AusNet Transmission since 26 October 2005, a Director of SP AusNet Distribution since 9 September 2005 and a Director of the Responsible Entity since 9 September 2005. Mr Myer has extensive experience in financial services, engineering and biotechnology. He is Chairman of Cogstate Ltd, a Director of Coles Myer Ltd, Diversified United Investments Ltd, and was from 1994 until 2002, Managing Director of Merlyn Asset Management Pty Ltd, a boutique funds management company.

Prior to his move to the financial services industry, Mr Myer had extensive experience with some of Australia's leading manufacturers. Mr Myer has involvement in several philanthropic activities, including as President of the Howard Florey Institute at the University of Melbourne and as a member of the board of The Myer foundation. Previous appointments include Director of The Myer Family Company Pty Ltd and The Myer Family Investments Pty Ltd.

Mr Myer is a member of the Audit and Risk Management Committee and the Compliance Committee.

Interests in securities
650,000 securities in SP AusNet held by MF Custodians Ltd as custodian for Mpyer Investments Pty Ltd. The securities were acquired at the time of the Initial Public Offering on the same terms and conditions as other securityholders.

Quek Poh Huat *Non-executive Director.* Age 59
Bachelor of Science (Chemical Engineering), First Class Honours, University of Leeds
Master of Science (Management) with Distinction, Naval Postgraduate School, Monterey
Advanced Management Programme, Harvard Business School

Mr Quek has served as a Director of SP AusNet Transmission since 26 October 2005, a Director of SP AusNet Distribution since 31 May 2005 and a Director of the Responsible Entity since 9 September 2005. Mr Quek is also Group Chief Executive Officer and a Director of Singapore Power Ltd. Within the Singapore Power Ltd Group, Mr Quek serves as Director on the boards of SP PowerAssets Ltd, SP PowerGrid Ltd and SP Services Ltd. He is currently Chairman and Director of PowerGas Ltd, ST Kinetics Ltd and a Director of Singapore Technologies Engineering Ltd. Mr Quek was appointed Chairman and Director of SP Management Services on 30 September 2005.

Mr Quek was formerly the President of Temasek Holdings (Private) Ltd.

Mr Quek is a member of the Nomination and Remuneration Committee.

Interests in securities
200,000 securities held by The Central Depository Pte Ltd. Immediate members of Mr Quek's family hold a further 6,000 securities in SP AusNet. The securities were acquired at the time of the Initial Public Offering on the same terms and conditions as other securityholders.

Ian Andrew Renard *Independent Non-executive Director.* Age 59
Bachelor of Arts, University of Melbourne
Bachelor of Laws, University of Melbourne
Master of Laws, University of Melbourne

Mr Renard has been a Director of SP AusNet Transmission since 26 October 2005, a Director of SP AusNet Distribution since 31 May 2005 and a Director of the Responsible Entity since 9 September 2005. Mr Renard is currently a Director of CSL Ltd, Newcrest Mining Ltd and Hillview Quarries Pty Ltd. He also serves as Chancellor of the University of Melbourne and as a trustee of the R E Ross Trust.

Mr Renard was a partner of the law firm Arthur Robinson and Hedderwicks from 1979 to 2001, including his service during 1989 to 1991 as the firm's full-time Managing Partner.

Mr Renard is Chairman of the Compliance Committee and a member of the Audit and Risk Management Committee.

Interests in securities
30,000 securities in SP AusNet. The securities were acquired at the time of the Initial Public Offering on the same terms and conditions as other securityholders.

Company secretary

The company secretary of each of SP AusNet Transmission, SP AusNet Distribution and the Responsible Entity is Elizabeth Marie **Mildwater**.

Ms Mildwater holds a Bachelor of Economics and a Bachelor of Laws (Honours) from Sydney University, and a Master of Contemporary Asian Analysis from the University of Melbourne. She has over 15 years of legal, company secretarial and other relevant experience, including significant in-house legal and company secretarial experience in the electricity transmission and project development areas with SPI PowerNet Pty Ltd and PowerGen UK Plc. Prior to her in-house work, she was a solicitor with the Australian law firms Blake Dawson Waldron and Freehills.

Meetings of Directors

The numbers of meetings of the Responsible Entity's Board of Directors and of each Board committee held during the year ended 31 March 2006, and the numbers of meetings attended by each Director were:

	Full meetings of Directors		Audit and Risk Management		Compliance	
	A	B	A	B	A	B
Ng Kee Choe (Chairman)	4	4	**	**	**	**
Nino **Ficca** (Managing Director)	7	7	**	**	**	**
Paul John **Adams**	2	3	**	**	**	**
Jeremy Guy Ashcroft **Davis**	4	4	5	5	3	3
Terrence Richard **Fowler**	3	3	**	**	**	**
Eric **Gwee** Teck Hai	4	4	4	5	3	3
George Allister **Lefroy**	4	4	3	3	**	**
Martyn Kenneth **Myer**	4	4	5	5	3	3
Quek Poh Huat	4	4	**	**	**	**
Ian Andrew **Renard**	4	4	4	5	3	3
Wong Toon Suan	–	–	**	**	**	**
Yap Chee Keong	–	–	**	**	**	**

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

Remuneration Report

The Directors of SP AusNet present the Remuneration Report prepared in accordance with section 300A of the *Corporations Act* for SP AusNet for the financial year ending 31 March 2006. This Remuneration Report forms part of the Directors' Report.

This Remuneration Report includes information which is common to SP AusNet Distribution, SP AusNet Transmission (together "the Companies") and the Responsible Entity. Accordingly, this Remuneration Report will be reproduced in the Directors' Reports accompanying the general purpose financial reports of SP AusNet Distribution, SP AusNet Transmission and SP AusNet Finance Trust.

SPI Management Services Pty Ltd ("SPI Management Services"), a wholly-owned subsidiary of a related party Singapore Power

International Pte Ltd, entered into management services agreements with the Companies and Responsible Entity effective 1 October 2005. SPI Management Services provides the services of key senior management, including the Managing Director and the executive management team of SP AusNet.

Most of the key senior management transferred their employment to SPI Management Services from other entities within the SP AusNet group on 1 October 2005, prior to the float of SP AusNet. Although not employed by SP AusNet, by virtue of the operation of the management services agreement, these individuals are deemed to qualify as key management personnel of SP AusNet.

The Directors and key management personnel of SP AusNet are engaged to provide services to the SP AusNet group and are not exclusive to any particular entity within SP AusNet. Accordingly, the details of remuneration disclosed in this Remuneration Report are for services provided to SP AusNet.

An overview of the elements of remuneration are set out in the table below. A more detailed discussion of each element is contained in this Remuneration Report.

		Directors		
	Elements of remuneration	Non-executive	Executive	Senior Executives
Fixed remuneration	Fees	✓	✗	✗
	Salary	✗	✓	✓
	Superannuation	✓	✓	✓
	Other benefits	✗	✓	✓
At-risk remuneration	Short-term incentive	✗	✓	✓
	Long-term incentive	✗	✗ (To be developed for future financial years)	
Post employment	Notice periods and termination payments	✗	✓	✓

The Remuneration Report is set out under the following main headings:

A Nomination and Remuneration Committee

B Policy and principles used to determine the nature and amount of remuneration

C Details of remuneration

D Service agreements

E Introduction of long-term incentive plan

A Nomination and Remuneration Committee

SP AusNet Transmission and SP AusNet Distribution have a Nomination and Remuneration Committee. The membership, responsibilities, authority and activities of the Nomination and Remuneration Committee are set out in the Nomination and Remuneration Committee Charter, which has been approved by the Board. The responsibilities of the Nomination and Remuneration Committee are to:

- advise the Board on matters relating to the remuneration of Directors and the senior management of SP AusNet;
- review the entity's obligations on matters such as superannuation and other employment benefits and entitlements;
- review and make recommendations to the Board regarding the appointment of new Directors, including the development of criteria for Board membership;
- review Board membership, including reviewing the performance of individual Directors and the Board as a whole and assessing the skills required on the Board; and
- make recommendations regarding succession plans for the Board.

During the financial year, membership of the Nomination and Remuneration Committee comprised:

- **Ng** Kee Choe (Chairman);
- **Quek** Poh Huat; and
- George Allister **Lefroy**.

The Nomination and Remuneration Committee has had one meeting since listing date held on 28 March 2006. The Managing Director and General Manager Human Resources & Communications (Committee Secretary) attend the Nomination and Remuneration Committee meetings by invitation and assisted the Nomination and Remuneration Committee in its deliberations, except on matters associated with their own remuneration.

From time to time, external specialist remuneration advice is sought in respect of general remuneration arrangements and in particular, advice on remuneration market movements is sought on an annual basis. Principal advisers are Mercer Human Resource Consulting and the Hay Group.

B Policy and principles used to determine the nature and amount of remuneration

SP AusNet has a remuneration strategy which is designed to attract, retain and motivate appropriately qualified and experienced Directors and senior executives. The Nomination and Remuneration Committee reviews SP AusNet's reward philosophy and principles to ensure they remain contemporary and consistent with generally acceptable market practice. Details of SP AusNet's remuneration strategy for the 2005/06 financial year are set out in this Remuneration Report.

Remuneration of Directors and executives is disclosed in accordance with the definition of compensation in AASB 124.

B.1 Non-executive Directors' Remuneration

Fees paid to Non-executive Directors are set at levels that reflect both the responsibilities of, and the time commitments required from, each non-executive director to discharge their duties. Fee levels are set having regard to independent professional advice and fees paid by comparable companies. To maintain objectivity and independence, the fees paid to Non-executive Directors are not linked to the performance of SP AusNet.

The Non-executive Directors of SP AusNet during the period were:

- **Ng** Kee Choe (Chairman)
- Jeremy Guy Ashcroft **Davis**
- Eric **Gwee** Teck Hai
- George Allister **Lefroy**
- Martyn Kenneth **Myer**
- **Quek** Poh Huat
- Ian Andrew **Renard**

Former Non-executive Directors

- **Wong** Toon Suan, resigned as a Director of SP AusNet Distribution and the Responsible Entity on 31 May 2005.
- **Yap** Chee Keong, resigned as a Director of SP AusNet Distribution and the Responsible Entity on 31 May 2005 and SP AusNet Transmission on 31 October 2005.

The constitutions of the Companies and the Responsible Entity provide that Directors are entitled to such remuneration from the Companies for their services as Directors as the Board decides, but the total amount provided to all Directors must not exceed in aggregate in any financial year the amount fixed by the Companies in general meeting. This excludes remuneration paid to executive Directors.

Accordingly the Board wishes to set the total remuneration pool for non-executive Directors and the Chairman's remuneration (inclusive of superannuation) at $1,000,000 per year with effect from 1 April 2006 and has submitted this amount for the securityholders' approval at the inaugural Annual General Meeting to be held on 18 July 2006.

In general, Directors are paid a fixed fee for their services to the Stapled Group. The Chairman, taking into account the greater time commitment required, receives a higher amount. Directors who serve on committees of the Board receive additional yearly fees and the chairs of those committees are also paid an additional amount. Fees payable to Non-executive Directors of SP AusNet as at the date of this report are set out in the table below:

Non-executive Directors' base fees

	Board		Audit and Risk Management Committee		Nomination and Remuneration Committee		Compliance Committee	
	Chair	Member	Chair	Member	Chair	Member	Chair	Member
Fee	$100,000	$70,000	$10,000	$7,000	$10,000	$7,000	$10,000	$7,000

In accordance with rules 11.3 of the Companies' constitutions and rule 6.3 of the Responsible Entity's constitution, Directors may also be paid additional fees for special duties or exertions. Such fees are not included in the aggregate remuneration cap approved by securityholders. No such fees were paid during the year.

Directors are also entitled to be reimbursed for all business-related expenses, including travel on company business, as may be incurred in the discharge of their duties.

Superannuation contributions are made on behalf of the Non-executive Directors in accordance with the Stapled Group's statutory superannuation obligations.

The Board will continue to review its approach to Non-executive Director remuneration to ensure it remains in line with general industry practice and best practice principles of corporate governance.

B.2 Executive Director and Senior Executive Remuneration

Reward philosophy

The objective of SP AusNet's overall reward philosophy is to manage a total reward framework (described below) designed to:

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

The remuneration and incentive package for the Managing Director and other executives is determined and paid by SPI Management Services. SP AusNet's Nomination and Remuneration Committee makes recommendations to SPI Management Services in relation to remuneration, incentive payments and programs, and key performance measures in respect of senior management at any time to promote alignment of "owner-management" interests.

The disclosures in this section relate to those executives listed below, being the Managing Director and the senior executives with authority and responsibility for planning, directing and controlling the activities of the Companies and the Stapled Group during the financial year.

Managing Director	
Nino **Ficca**	Managing Director
Senior executives	
Paul **Adams**[1]	General Manager – Network Services
Peter **Buck**	General Manager – Distribution Network Development
Norman **Drew**	General Manager – Transmission Network Development
Terrence **Fowler**[2]	General Manager – Finance
Peter **Merritt**	General Manager – Business Systems and Services
Charles **Popple**	General Manager – Regulatory and Business Strategy

Reward principles for the Managing Director and senior executives

SP AusNet's reward philosophy is based on a performance management framework. Central to this is the principle that the highest performers and those showing greatest potential and future capability should receive the greatest rewards. The framework sets out the manner in which performance should be assessed and recognised, and how performance should then impact on the components of total reward.

The "Performance Development Planning" framework that is used throughout SP AusNet, including for key management personnel and the company secretary, comprises various key performance development areas and indicators (KPIs). These include management and development of talent and behaviour. The framework is underpinned with a formal performance management review process conducted twice a year, which provides a forward-looking view of an individual's potential capability.

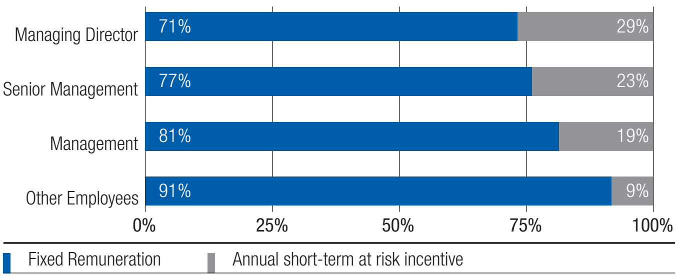
1 Mr Adams was an executive director of the Responsible Entity from 31 May 2005 to 9 September 2005, prior to SP AusNet's listing. He did not receive any remuneration for these services.
2 Mr Fowler was an executive director of the Responsible Entity from 31 May 2005 to 9 September 2005 and of SP AusNet Transmission from 7 September 2005 to 31 October 2005, prior to SP AusNet's listing. He did not receive any remuneration for these services.

Structure of total reward

The reward principles set out the relevant elements of remuneration to make up the "total reward". For the majority of SP AusNet employees, total reward consists of fixed remuneration and "at risk" remuneration through short-term incentive plans. SP AusNet wishes to introduce long-term incentive plans (see Section E below). An appropriate mix of these components is determined for each level of management and employees.

The total reward mix for various levels of seniority in SP AusNet for the reporting period, expressed as a percentage of total reward, is shown in the table below.

TOTAL REWARD MIX



Fixed remuneration

Fixed remuneration is comprised of salary, company superannuation contributions and benefits, salary-sacrificed items such as motor vehicles and fringe benefits tax. Fixed remuneration reviews are undertaken annually in an effort to maintain competitive remuneration levels in the relevant markets in which SP AusNet competes for talent.

Fixed remuneration reflects the scope of the role and the level of skill and experience of the individual. Fixed remuneration is generally set at the median level (50th percentile) of the applicable remuneration market. SP AusNet typically applies a range of 80% to 120% around the selected fixed market remuneration percentile.

At-risk remuneration – short-term incentive scheme (cash bonuses)

The variable component of the total reward is based on an annual short-term incentive (STI) scheme, which consists entirely of cash bonuses and does not involve securities. Payments under the STI scheme are determined using a set of corporate financial and non-financial measures as well as stretch individual performance hurdles.

The corporate measures set for 2005/06 include:

– net profit;
– health, safety and environment targets;
– network performance and reliability targets; and
– program delivery (capital and maintenance) targets.

During 2005, SP AusNet implemented a performance development planning framework for key management personnel and employees under incentive based employment agreements (approximately 500 employees). The key elements of the framework are as follows:

– setting corporate KPIs for SP AusNet at the commencement of the performance period, which roll down into individual KPIs for each employee via an individual performance development plan. Each individual's performance plan defines what is required to achieve stretch individual performance hurdles;
– a review process where managers review, compare and calibrate the performance of their direct reports. The review process allows for performance to be differentiated, and confirms individual performance ratings and the related reward outcomes. The review also identifies those employees who require development and those who are performing poorly;
– a mid-year review is conducted to track progress of the achievement of performance plan objectives and personal development plans with the aim of enabling succession planning and career development for individuals; and
– an annual 360 degree peer review is undertaken that assesses employees' contribution to SP AusNet's performance capability, through strong leadership behaviour that supports and underpins SP AusNet's corporate values and culture.

By linking individual rewards to the achievement of overall corporate targets, this framework aligns the interests of employees and managers with those of SP AusNet.

Commencement and retention awards

SP AusNet has not entered into commencement awards. Limited retention awards have been provided to key individuals in roles where retention is critical over the medium term (two to three years). In the current absence of an established LTI plan, these have taken the form of staggered cash payments and are subject to individual performance hurdles being met.

When TXU Australia Group Pty Ltd ("TXU") was acquired in 2004, there was a recognised need to retain certain key TXU executives or attract them to new positions over a transitional period. Under an arrangement with TXU's parent company, key executives were entitled to redundancy benefits in certain circumstances following a "change in control". More particularly, redundancy benefits were payable if the employment was terminated by the employer or the employee terminated their employment due to a significant change in their role during the two years following the change in control. This arrangement was intended to operate as a form of guaranteed payment in the event that the executive's employment was subsequently terminated or altered by the new owner.

In order to retain Paul Adams (General Manager, Networks Services Group), who was identified as a key TXU executive, following the acquisition, he was offered a form of retention payment based on his entitlement under the arrangement with TXU. However, instead of a lump sum payment, the amount was made payable over four years (ending on 1 April 2008) as part of his remuneration structure. In addition, his entitlement is subject to a fixed and variable formula with the latter being linked to his achievement of individual performance targets.

Similarly, Peter Buck (General Manager, Distribution Network Development) was offered two payments across two years with the second and final amount payable in August 2006. This amount comprises a fixed and a variable component which is linked to Mr Buck's achievement of individual performance targets.

Loans to Directors and executives

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

C Details of remuneration

Details of the remuneration of each director of SP AusNet and each of the key management personnel of SP AusNet for the year ended 31 March 2006 are set out in the following tables. The STI cash bonuses are dependent on the satisfaction of performance conditions as set out in the section headed *At-risk remuneration* above. No other elements of remuneration are directly related to performance.

Director Remuneration

Details of non-executive and executive Directors' remuneration for the reporting period are set out in the following tables.

Non-executive Director remuneration

	Cash salary and fees	Super-annuation contributions[1]	Insurance	Total
Ng Kee Choe (Chairman)	70,422	6,338	5,555	82,315
Jeremy Guy Ashcroft **Davis**	66,819	6,014	5,555	78,388
Eric **Gwee** Teck Hai	70,322	–	5,555	75,877
George Allister **Lefroy**[2]	93,199	8,376	5,555	107,130
Martyn Kenneth **Myer**	43,177	3,886	5,555	52,618
Quek Poh Huat[3]	77,000	–	5,555	82,555
Ian Andrew **Renard**[2]	89,188	8,027	5,555	102,770
Wong Toon Suan[4]	–	–	–	–
Yap Chee Keong[4]	–	–	–	–

1 Superannuation contributions made on behalf of Non-executive Directors to satisfy SP AusNet's obligations under applicable Superannuation Guarantee legislation.
2 Dr Lefroy and Mr Renard received Directors' fees during the financial year for services provided during the prior financial year. Dr Lefroy received $23,383 and Mr Renard $16,395, including superannuation contributions. These amounts are included in the above table.
3 As Mr Quek is an executive of Singapore Power and a nominee Director of Singapore Power on the Board of SP AusNet, Singapore Power receives the fees for Mr Quek's services as a Director of SP AusNet. Fees for Mr Quek's services as a Director during the period ended 31 March 2006 have not yet been paid.
4 Mr Wong and Mr Yap both resigned on 31 May 2005. Mr Wong and Mr Yap are both employees of Singapore Power and no fees are payable for their services as Directors during the period ended 31 March 2006.

SP AusNet does not make retirement payments to Directors.

Executive Director Remuneration

	Primary				Post-employment		Equity	
Name	**Cash salary and fees**	**Retention payment**	**Cash bonus**	**Insurance**	**Super-annuation**	**Retirement benefits**	**Options**	**Total**
Nino **Ficca**	398,658	–	86,212	5,555	39,990	–	–	530,415
Paul **Adams**[1]	230,443	104,892	17,865	5,000	23,716	–	–	381,916
Terrence **Fowler**[2]	204,922	–	77,031	5,000	18,385	–	–	305,338

1 Mr Adams was a Director of the Responsible Entity from 31 May 2005 to 9 September 2005.
2 Mr Fowler was a Director of the Responsible Entity from 31 May 2005 to 9 September 2005 and a Director of SP AusNet Transmission from 7 September 2005 to 31 October 2005.

The above payments were made to Mr Ficca, Mr Adams and Mr Fowler for the provision of services as executives of SP AusNet and not for their services as Directors.

Executive Remuneration

Details of the remuneration of SP AusNet executives for the reporting period are set out in the following table.

	Primary				Post-employment		Equity	
Name	**Cash salary and fees**	**Retention payment**	**Cash bonus**	**Insurance**	**Super-annuation**	**Retirement benefits**	**Options**	**Total**
Nino **Ficca**	398,658	–	86,212	5,555	39,990	–	–	530,415
Paul **Adams**	230,443	104,892[1]	17,865[2]	5,000	23,716	–	–	381,916
Peter **Buck**	185,331	67,657[1]	11,415[2]	5,000	16,811	–	–	286,214
Norman **Drew**	200,268	–	63,757[3]	5,000	20,036	–	–	289,061
Terrence **Fowler**	204,922	–	77,031[4]	5,000	18,385	–	–	305,338
Peter **Merritt**	169,892	–	32,935	5,000	17,130	–	–	224,957
Charles **Popple**	205,333	–	53,430[5]	5,000	20,899	–	–	284,622

1 Further details in relation to the retention payments to Mr Adams and Mr Buck are set out under heading *Commencement and retention awards* above.
2 Bonuses paid to Mr Adams and Mr Buck during the financial year represent a "stub" payment for the period 1 January 2005 to 31 March 2005 to bring their remuneration periods into line with the remaining executives following after the acquisition of TXU Australia Group Pty Ltd. They did not receive additional bonuses under the SP AusNet STI plan.
3 Mr Drew's cash bonus paid during the reporting period consisted of a payment of $36,757 pursuant to the SP AusNet STI plan and a special discretionary bonus of $27,000 awarded prior to the listing of SP AusNet by Singapore Power Ltd in recognition of exceptional performance.
4 Mr Fowler's cash bonus paid during the reporting period consisted of a payment of $47,031 pursuant to the SP AusNet STI plan and a special discretionary bonus of $30,000 awarded prior to the listing of SP AusNet by Singapore Power Ltd in recognition of exceptional performance.
5 Mr Popple's cash bonus paid during the reporting period consisted of a payment of $38,430 pursuant to the SP AusNet STI plan and a special discretionary bonus of $15,000 awarded prior to the listing of SP AusNet by Singapore Power Ltd in recognition of exceptional performance.

STI – Cash bonuses

For each cash bonus included in the above tables, the percentage of the available bonus that was paid, or that vested, in the financial year, and the percentage that was forfeited because the person did not meet the service and performance criteria is set out below. No part of the bonuses are payable in future years.

Name	**Paid %**	**Forfeited %**
Nino **Ficca**	100.0	–
Paul **Adams**	N/A	N/A
Peter **Buck**	N/A	N/A
Norman **Drew**[1]	87.0	13.0
Terrence **Fowler**[1]	100.0	–
Peter **Merritt**	90.9	9.1
Charles **Popple**[1]	80.9	19.1

1 This percentage relates to the cash bonus paid to Mr Drew, Mr Fowler and Mr Popple pursuant to the SP AusNet STI plan.

The above bonuses were based on the executive's performance during the year ended 31 March 2005 but were not approved or paid until the financial year ended 31 March 2006. Bonuses for executive performance for the year ended 31 March 2006 have not yet been approved or paid.

D Service agreements

Duration of contracts

Remuneration and other terms of employment for the Managing Director and specified senior management are formalised in individual employment agreements. Each of these agreements provides for performance-related cash bonuses, fringe benefits plus other benefits. Under the terms of these agreements, the Managing Director and other members of the senior executive team continue to be employed until their employment is terminated.

Notice periods and payments on termination

The employment agreements provide for termination payments to be made in certain circumstances. In particular, the company may terminate the employment of the Managing Director and other executives (except Mr Paul Adams) on giving one month's notice. Mr Adams' agreement provides for a notice period of three months. The company may make a payment in lieu of notice. In general, the Managing Director and other executives must give SP AusNet at least one month's notice of resignation.

Termination benefits are generally calculated as three weeks' pay for every year of service paid at the executive's Fixed Annual Remuneration (FAR) rate and capped at a specified period. This specified termination payment cap period is set at six months for the Managing Director and other executives except Paul Adams. Mr Adams' termination payment cap is set at nine months.

In addition, in the event that SP AusNet or Mr Adams terminates his employment in prescribed circumstances, he is entitled to be paid the remainder of the fixed and variable amounts of retention payment outstanding as at the date of his termination.

E Introduction of long-term incentive plan

SP AusNet proposes to introduce a long-term incentive (LTI) plan into the remuneration structure for the Managing Director, direct reports to the Managing Director and selected key individuals who can influence long-term security value. This plan will be presented to the Nomination and Remuneration Committee for deliberation and a recommendation made to the Board for approval.

Indemnification and Insurance of Directors and Officers

No insurance premiums are paid out of the assets of SP AusNet in regard to insurance cover provided to the auditor of SP AusNet, KPMG. The auditor is not indemnified out of the assets of SP AusNet.

During the financial year, the Stapled Group paid a premium of $444,359 to insure the Directors and officers of the Stapled Group.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the Stapled Group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings, other than where such liabilities arise out of conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to SP AusNet. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

Proceedings on behalf of SP AusNet Finance Trust

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Stapled Group, or to intervene in any proceedings to which SP AusNet Finance Trust is a party, for the purpose of taking responsibility on behalf of the company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of SP AusNet Finance Trust with leave of the Court under section 237 of the *Corporations Act 2001*.

Management Services Agreement

The Responsible Entity of SP AusNet Finance Trust entered into a Management Services Agreement ("RE Management Services Agreement") with SPI Management Services Pty Ltd ("SPI Management Services") which commenced on 1 October 2005. The agreement was negotiated by the independent Directors on an arm's-length commercial basis.

The services to be provided by SPI Management Services include investment, management, consultation and advisory services and other services to assist the Responsible Entity in performing its role. SPI Management Services will consult with, and seek advice from Singapore Power Ltd and its subsidiaries from time to time in the performance of its work. The provision of services will extend to SPI Management Services identifying, evaluating and making recommendations on investment opportunities for the Responsible Entity, as well as exploring opportunities for the Responsible Entity to exit its investments.

SPI Management Services is required to comply with the policies and investment strategy for SP AusNet Finance Trust and any directions from the Responsible Entity in relation to investment decisions. SPI Management Services must report regularly to the Responsible Entity. As the RE Management Service Agreement is a related party transaction with Singapore Power Ltd, it is subject to review and oversight by the Compliance Committee for the Responsible Entity.

Under the RE Management Services Agreement, SPI Management Services is appointed for 10 years, with the Responsible Entity having options to renew for two further 10 year periods.

There are rights of termination under the RE Management Services Agreement which may be exercised by the Responsible Entity or SPI Management Services in certain circumstances.

Under the RE Management Services Agreement, SPI Management Services is entitled to a management fee of $100,000 per annum and any additional costs incurred in connection with the provision of services when the scale and scope of the services exceeds the capacity of the core management team of SPI Management Services and costs incurred in procuring such assistance from professional advisors, specialists and other experts necessary for SPI Management Services to discharge its obligations under the RE Management Services Agreement, as well as the reimbursement of any costs and expenses incurred in connection with the provision of services.

Auditor

KPMG continues in office in accordance with section 327 of the *Corporations Act 2001*.

A copy of the auditors' independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 204.

Non-audit services

The Responsible Entity may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Stapled Group are important.

Amounts paid to KPMG in relation to audit and non-audit services in relation to SP AusNet Finance Trust have been paid by related parties.

Rounding of amounts

SP AusNet Finance Trust is of a kind referred to in Class Order 98/0100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the Directors' Report. Amounts in the Directors' Report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

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

Nino Ficca

Melbourne
5 June 2006

LEAD AUDITORS' INDEPENDENCE DECLARATION under section 307C of the *Corporations Act 2001*

To the Directors of SP Australia Networks (RE) Ltd, the responsible entity of the SP Australia Networks (Finance) Trust.

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 31 March 2006 there have been:

(i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

Alison Kitchen
Partner

Melbourne
5 June 2006

INCOME STATEMENTS For the year ended 31 March 2006

	Notes	2006 $'000	2005 $'000
Other revenue	2	**18,641**	–
Profit before income tax		**18,641**	–
Income tax expense	1(d)	**–**	–
Profit attributable to unitholders of SP AusNet Finance Trust		**18,641**	–

		Cents	Cents
Earnings per unit for profit from continuing operations attributable to the ordinary unitholders of SP AusNet Finance Trust			
Basic earnings per unit	3	**0.01**	–
Diluted earnings per unit	3	**0.01**	–

The above Income Statements should be read in conjunction with the accompanying notes.

STATEMENTS OF RECOGNISED INCOME AND EXPENSE For the year ended 31 March 2006

	Notes	2006 $'000	2005 $'000
Profit for the year		18,641	–
Total recognised income and expense for the period		**18,641**	–

The above Statements of Recognised Income and Expense should be read in conjunction with the accompanying notes.

BALANCE SHEETS As at 31 March 2006

	Notes	2006 $'000	2005 $'000
ASSETS			
Current assets			
Receivables	4	**2,111,321**	1,988,680
Total current assets		**2,111,321**	1,988,680
Total assets		**2,111,321**	1,988,680
LIABILITIES			
Total liabilities		**–**	–
Net assets		**2,111,321**	1,988,680
Unitholders' funds			
Unitholders' funds			
Units on issue	5	**2,092,680**	1,988,680
Retained profits	6	**18,641**	–
Total equity		**2,111,321**	1,988,680

The above Balance Sheets should be read in conjunction with the accompanying notes.

CASH FLOW STATEMENTS For the year ended 31 March 2006

	Notes	2006 $'000	2005 $'000
Net cash inflow/(outflow) from operating activities	9	**–**	–
Net cash inflow/(outflow) from investing activities		**–**	–
Cash flows from financing activities			
Loans made to Related Parties		**(1,100,000)**	(2,205,680)
Repayment of loans by Related Parties		**996,000**	217,000
Proceeds from issues of units		**1,100,000**	1,988,680
Redemption of issued units		**(996,000)**	–
Net cash inflow/(outflow) from financing activities		**–**	–
Net increase/(decrease) in cash and cash equivalents		**–**	–
Cash and cash equivalents at the beginning of the financial period		**–**	–
Cash and cash equivalents at end of year		**–**	–

The above Cash Flow Statements should be read in conjunction with the accompanying notes.

Certain related companies provide transactional banking facilities for other entities within the Stapled Group and receipts and payments are recorded through intra-group loans. Such transactions, which took place during the financial year, have been treated as cash flows as the transactions would have resulted in a cash flow to other entities within the Stapled Group as if they maintained their own banking facility.

NOTES TO THE FINANCIAL STATEMENTS 31 March 2006

Contents

NOTES TO THE FINANCIAL STATEMENTS 31 March 2006

Note 1 Summary of significant accounting policies

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

(a) Basis of Preparation

This general purpose financial report has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRSs), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

This general purpose financial report is presented in Australian dollars.

Compliance with IFRSs

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards. Compliance with AIFRSs ensures that the financial statements and notes of SP AusNet Finance Trust comply with International Financial Reporting Standards (IFRSs).

Application of AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*

These financial statements are the first annual financial statements of SP AusNet Finance Trust to be prepared by the Responsible Entity in accordance with AIFRSs. AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* has been applied in preparing the financial statements.

Financial statements of SP AusNet Finance Trust until 1 April 2005 had been prepared in accordance with previous Australian Generally Accepted Accounting Principles (AGAAP). AGAAP differs in certain respects from AIFRSs. In the application of AIFRSs the Directors are required to amend certain accounting, valuation and consolidation methods applied in the AGAAP financial statements to comply with AIFRSs.

The adoption of AIFRSs required no restatement of opening balances or restatement of comparative information.

Early adoption of standard

SP AusNet Finance Trust has elected to apply the following accounting standards to the annual reporting period beginning 1 April 2005:

- AASB 119 *Employee Benefits* (issued December 2004)
- AASB 2004-3 *Amendments to Australian Accounting Standards* (AASB 1, AASB 101, AASB 124 issued December 2004)
- AASB 2005-1 *Amendments to Australian Accounting Standards* (AASB 139 issued May 2005)
- AASB 2005-3 *Amendments to Australian Accounting Standards* (AASB 119 issued June 2005)
- AASB 2005-4 *Amendments to Australian Accounting Standards* (AASB 139, AASB 132, AASB 1 issued June 2005)
- AASB 2005-5 *Amendments to Australian Accounting Standards* (AASB 1, AASB 139 issued June 2005)
- AASB 2005-6 *Amendments to Australian Accounting Standards* (AASB 3 issued June 2005)
- AASB 2005-7 *Amendments to Australian Accounting Standards* (AASB 134 issued June 2005)
- AASB 2005-10 *Amendments to Australian Accounting Standards* (AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1 issued September 2005)
- AASB 2006-1 *Amendments to Australian Accounting Standards* (AASB 121 issued January 2006)
- AASB 2006-2 *Amendments to Australian Accounting Standards* (AASB 1 issued March 2006)

AASB 7 *Financial Instruments: Disclosures* is applicable to annual reporting periods beginning on or after 1 January 2007. SP AusNet Finance Trust has not adopted this standard early. Application of the standard will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to SP AusNet Finance Trust's financial instruments.

Historical cost convention

These financial statements have been prepared under the historical cost convention.

(b) Segment information

SP AusNet Finance Trust provides loans to related parties and operates predominantly in the State of Victoria.

Note 1 Summary of significant accounting policies (continued)

(c) Revenue recognition

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

(i) Interest Income

Interest revenue is recognised as it accrues, taking into account the effective yield on the financial asset.

(d) Income tax

The primary function of SP AusNet Finance Trust is to provide financing to both SP AusNet Transmission and SP AusNet Distribution as well as to facilitate distributions to unitholders in the nature of interest income and returns of capital as applicable for Australian taxation purposes.

SP AusNet Finance Trust is not regarded as a public trading trust under Division 6C of Part III of the *Income Tax Assessment Act 1936* ("ITAA36") and is therefore not treated as a company for taxation purposes.

The Responsible Entity of the SP AusNet Finance Trust will not be liable for income tax under Division 6 of ITAA36, on the basis that unitholders will become presently entitled to net income of SP AusNet Finance Trust prior to 30 June 2006. Accordingly, the SP AusNet Finance Trust is a "flow through" entity in respect of net interest income derived and subsequently distributed to unitholders.

As a flow through entity for Australian taxation purposes, no current or deferred tax impacts are booked in respect of net trust income recognised to 31 March 2006.

(e) Employee benefits

SP AusNet Finance Trust has no employees.

(f) Unitholders' Funds

Ordinary units are classified as unitholders' funds.

Distributions

Provision is made for the amount of any distribution approved on or before the end of the financial year but not distributed at balance date.

(g) Earnings per unit

(i) Basic earnings per unit

Basic earnings per unit is calculated by dividing the profit attributable to unitholders of SP AusNet Finance Trust, excluding any minority interest and costs of servicing equity other than distributions, by the weighted average number of units outstanding during the financial year, adjusted for bonus elements in units issued during the year.

(ii) Diluted earnings per unit

Diluted earnings per unit adjusts the figures used in the determination of basic earnings per unit to take into account the after income tax effect of interest and other financing costs associated with dilutive potential units and the weighted average number of units assumed to have been issued for no consideration in relation to dilutive potential unit.

(h) Rounding of amounts

SP AusNet Finance Trust is of a kind referred to in Class Order 98/0100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

Note 2 Other revenue

	2006 $'000	2005 $'000
Interest income – related parties	**18,641**	–
	18,641	–

Note 3 Earnings per unit

	2006 Cents	2005 Cents
(a) Basic earnings per unit		
From continuing operations	**0.01**	–
(b) Diluted earnings per unit		
From continuing operations	**0.01**	–

	2006 Units '000	2005 Units '000
(c) Weighted average number of units on issue used as the denominator		
Weighted average number of units used as the denominator in calculating basic earnings per unit	**1,794,872**	1,988,680

There is no difference between basic and diluted earnings or units on issue.

(d) Information concerning the classification of units
Units carry the right to participate in distributions in proportion to the amount paid relative to the total issue price.

(e) Distributions
No distributions were paid to members during the financial year.

Since 31 March 2006, the Directors of the Responsible Entity have approved a distribution of 3.10 cents per unit totalling $64.9 million. This distribution is comprised of interest income of 0.89 cents per unit totalling $18.6 million and a capital distribution of 2.21 cents per unit totalling $46.3 million.

Note 4 Receivables

	2006 $'000	2005 $'000
Current receivables		
Receivables – related parties	**2,111,321**	1,988,680
Total current receivables	**2,111,321**	1,988,680

Note 5 Units on issue

(a) Units

Ordinary units entitle the unitholder to participate in distributions and the proceeds on winding up of SP AusNet Finance Trust in proportion to the number of and amounts paid on the units issued. Holders of ordinary units are entitled to one vote per unit.

(b) Movements in Units:

Date	Details	Number of units	Issue price $	$'000
1 April 2005	Opening balance	1,988,680,010		1,988,680
1 June 2005	Redemption	(500,000,000)	–	(500,000)
29 August 2005	Redemption	(346,000,000)	–	(346,000)
18 October 2005	Redemption	(150,000,000)	–	(150,000)
19 October 2005	Units issued	1,100,000,000	1.00	1,100,000
31 March 2006	Closing balance	2,092,680,010		2,092,680

Note 6 Retained profits

Retained profits	2006 $'000	2005 $'000
Balance at the start of financial year	**–**	–
Net profit for year	**18,641**	–
Balance at end of financial year	**18,641**	–

Note 7 Key management personnel

SPI Management Services Pty Ltd ("SPI Management Services"), a wholly-owned subsidiary of related party Singapore Power International Pte Ltd, entered into a management services agreement with the Companies and the Responsible Entity effective 1 October 2005. SPI Management Services provides the services of key senior management, including the Managing Director and the executive management team of SP AusNet.

Most of the key senior management transferred their employment to SPI Management Services from other entities within the SP AusNet group on 1 October 2005, prior to the float of SP AusNet. Although not employed by SP AusNet, by virtue of the operation of the management services agreement, these individuals are deemed to qualify as key management personnel of SP AusNet.

The Directors and key management personnel of SP AusNet are engaged to provide services to the SP AusNet group and are not exclusive to any particular entity within SP AusNet. Accordingly, the details of remuneration disclosed in this Remuneration Report are for services provided to SP AusNet.

Directors

Name	Position
Ng Kee Choe	Non-executive Chairman
Nino **Ficca**	Managing Director (executive)
Jeremy **Davis**	Non-executive Director
Eric **Gwee**	Non-executive Director
George **Lefroy**	Non-executive Director
Martyn **Myer**	Non-executive Director
Quek Poh Huat	Non-executive Director
Ian **Renard**	Non-executive Director

The following persons were Directors from the commencement of the financial year until their resignations.

Name	Position
Paul **Adams**	Executive Director
Terrence **Fowler**	Executive Director
Wong Toon Suan	Non-executive director
Yap Chee Keong	Non-executive director

Key management personnel

Name	Position	Employer
Nino **Ficca**	Executive Managing Director	SPI Management Services
Paul **Adams**	General Manager, Network Services	SPI Management Services
Peter **Buck**	General Manager, Distribution Network Development	SPI Management Services
Norman **Drew**	General Manager, Transmission Network Development	SPI Management Services
Terrence **Fowler**	General Manager, Finance	SPI Management Services
Peter **Merritt**	General Manager, Business Systems and Services	SPI Management Services
Charles **Popple**	General Manager, Regulatory and Business Strategy	SPI Management Services

Policy and principles used to determine the nature and amount of remuneration

SP AusNet has a remuneration strategy which is designed to attract, retain and motivate appropriately qualified and experienced Directors and senior executives. The Nomination and Remuneration Committee reviews SP AusNet's reward philosophy and principles to ensure they remain contemporary and consistent with generally acceptable market practice. Details of SP AusNet's remuneration strategy for the 2005/06 financial year is set out in this Remuneration Report.

Remuneration of Directors and executives is disclosed in accordance with the definition of compensation in AASB 124.

Non-executive Directors' Remuneration

Fees paid to non-executive Directors are set at levels that reflect both the responsibilities of, and the time commitments required from, each Non-executive Director to discharge their duties. Fee levels are set having regard to independent professional advice and fees paid by comparable companies. To maintain objectivity and independence, the fees paid to Non-executive Directors are not linked to the performance of SP AusNet.

The non-executive Directors of SP AusNet during the period were:

– **Ng** Kee Choe (Chairman)
– Jeremy Guy Ashcroft **Davis**
– Eric **Gwee** Teck Hai
– George Allister **Lefroy**
– Martyn Kenneth **Myer**
– **Quek** Poh Huat
– Ian Andrew **Renard**

Note 7 Key management personnel (continued)

Former Non-executive Directors

– **Wong** Toon Suan, resigned as a Director of SP AusNet Distribution and the Responsible Entity on 31 May 2005.
– **Yap** Chee Keong, resigned as a Director of SP AusNet Distribution and the Responsible Entity on 31 May 2005 and SP AusNet Transmission on 31 October 2005.

The constitutions of the Companies and the Responsible Entity provide that Directors are entitled to such remuneration from the Companies for their services as Directors as the Board decides, but the total amount provided to all Directors must not exceed in aggregate in any financial year the amount fixed by the Companies in general meeting. This excludes remuneration paid to executive Directors.

Accordingly the Board set the total remuneration pool for non-executive Directors and the Chairman's remuneration (inclusive of superannuation) at $1,000,000 per year in September 2005 and has submitted this amount for the securityholders' approval at the inaugural Annual General Meeting to be held on 18 July 2006.

In general, Directors are paid a fixed fee for their services to the Stapled Group. The Chairman, taking into account the greater time commitment required, receives a higher amount. Directors who serve on committees of the Board receive additional yearly fees and the chairs of those committees are also paid an additional amount. Fees payable to non-executive Directors of SP AusNet as at the date of this report are set out in the table below:

Non-executive Directors' base fees

	Board		Audit and Risk Management Committee		Nomination and Remuneration Committee		Compliance Committee	
	Chair	Member	Chair	Member	Chair	Member	Chair	Member
Fee	$100,000	$70,000	$10,000	$7,000	$10,000	$7,000	$10,000	$7,000

In accordance with rules 11.3 of the Companies' constitutions and rule 6.3 of the Responsible Entity's constitution, Directors may also be paid additional fees for special duties or exertions. Such fees are not included in the aggregate remuneration cap approved by securityholders. No such fees were paid during the year.

Directors are also entitled to be reimbursed for all business related expenses, including travel on company business, as may be incurred in the discharge of their duties.

Superannuation contributions are made on behalf of the non-executive Directors in accordance with SP AusNet's statutory superannuation obligations.

The Board will continue to review its approach to non-executive director remuneration to ensure it remains in line with general industry practice and best practice principles of corporate governance.

Executive Director and Senior Executive Remuneration

Reward philosophy

The objective of SP AusNet's overall reward philosophy is to manage a total reward framework (described below) designed to:

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

The remuneration and incentive package for the Managing Director and other executives is determined and paid by SPI Management Services. SP AusNet's Nomination and Remuneration Committee may make recommendations to SPI Management Services in relation to remuneration, incentive payments and programs, and key performance measures in respect of senior management at any time to promote alignment of "owner-management" interests.

The disclosures in this section relate to those executives listed below, being the Managing Director and the senior executives with authority and responsibility for planning, directing and controlling the activities of the Companies and the Stapled Group during the financial year.

Managing Director

Nino **Ficca**	Managing Director

Senior executives

Paul **Adams**[1]	General Manager – Network Services
Peter **Buck**	General Manager – Distribution Network Development
Norman **Drew**	General Manager – Transmission Network Development
Terrence **Fowler**[2]	General Manager – Finance
Peter **Merritt**	General Manager – Business Systems and Services
Charles **Popple**	General Manager – Regulatory and Business Strategy

Reward principles for the Managing Director and senior executives

SP AusNet's reward philosophy is based on a performance management framework. Central to this is the principle that the highest performers and those showing greatest potential and future capability should receive the greatest rewards. The framework sets out the manner in which performance should be assessed and recognised, and how performance should then impact on the components of total reward.

The "Performance Development Planning" framework that is used throughout SP AusNet, including for key management personnel and the company secretary, comprises various key performance development areas and indicators (KPIs). These include management and development of talent and behaviour. The framework is underpinned with a formal performance management review process conducted twice a year, which provides a forward-looking view of an individual's potential capability.

Structure of total reward

The reward principles set out the relevant elements of remuneration to make up the "total reward". For the majority of SP AusNet employees, total reward consists of fixed remuneration and "at risk" remuneration through short-term incentive plans. SP AusNet is considering the introduction of long-term incentive plans (see Section E below). An appropriate mix of these components will be determined for each level of management and employees.

Fixed remuneration

Fixed remuneration is comprised of salary, company superannuation contributions and benefits, salary-sacrificed items such as motor vehicles and fringe benefits tax. Fixed remuneration reviews are undertaken annually in an effort to maintain competitive remuneration levels in the relevant markets in which SP AusNet competes for talent.

Fixed remuneration reflects the scope of the role and the level of skill and experience of the individual. Fixed remuneration is generally set at the median level (50th percentile) of the applicable remuneration market. SP AusNet typically applies a range of 80% to 120% around the selected fixed market remuneration percentile.

At-risk remuneration – short-term incentive scheme (cash bonuses)

The variable component of the total reward is based on an annual short-term incentive (STI) scheme, which consists entirely of cash bonuses and does not involve securities. The payments under the STI scheme, known as annual incentive payments (AIPs), are determined using a set of corporate financial and non-financial measures as well as stretch individual performance hurdles.

The corporate measures set for 2005/06 include:

– net profit;
– health, safety and environment targets;
– network performance and reliability targets; and
– program delivery (capital and maintenance) targets.

1 Mr Adams was an executive director of the Responsible Entity from 31 May 2005 to 9 September 2005, prior to SP AusNet's listing. He did not receive any remuneration for these services.
2 Mr Fowler was an executive director of the Responsible Entity from 31 May 2005 to 9 September 2005 and of SP AusNet Transmission from 7 September 2005 to 31 October 2005, prior to SP AusNet's listing. He did not receive any remuneration for these services.

Note 7 Key management personnel (continued)

During 2005, SP AusNet implemented a performance development planning framework for key management personnel and employees under incentive based employment agreements (approximately 500 employees). The key elements of the framework are as follows:

– setting corporate KPIs for SP AusNet at the commencement of the performance period, which roll down into individual KPIs for each employee via an individual performance development plan. Each individual's performance plan defines what is required to achieve stretch individual performance hurdles;
– a review process where managers review, compare and calibrate the performance of their direct reports. The review process allows for performance to be differentiated, and confirms individual performance ratings and the related reward outcomes (fixed remuneration percentile and STI multiple). The review also identifies those employees who require development and those who are performing poorly;
– a mid-year review is conducted to track progress of the achievement of performance plan objectives and personal development plans with the aim of enabling succession planning and career development for individuals; and
– an annual 360 degree peer review is undertaken that assesses employees' contribution to SP AusNet's performance capability, through strong leadership behaviour that supports and underpins SP AusNet's corporate values and culture.

By linking individual rewards to the achievement of overall corporate targets, this framework aligns the interests of employees and managers with those of SP AusNet.

Commencement and retention awards

SP AusNet has not entered into commencement awards. Limited retention awards have been provided to key individuals in roles where retention is critical over the medium term (two to three years). In the current absence of an established LTI plan, these have taken the form of staggered cash payments and subject to individual performance hurdles being met.

When TXU Australia Group Pty Ltd ("TXU") was acquired in 2004, there was a recognised need to retain certain key TXU executives or attract them to new positions over a transitional period. Under an arrangement with TXU's parent company, key executives were entitled to redundancy benefits in certain circumstances following a "change in control". More particularly, redundancy benefits were payable if the employment was terminated by the employer or the employee terminated their employment due to a significant change in their role during the two years following the change in control. This arrangement was intended to operate as a form of guaranteed payment in the event that the executive's employment was subsequently terminated or altered by the new owner.

In order to retain Paul Adams (General Manager, Networks Services Group), who was identified as a key TXU executive, following the acquisition, he was offered a form of retention payment based on his entitlement under the arrangement with TXU. However, instead of a lump sum payment, the amount was made payable over four years (ending on 1 April 2008) as part of his remuneration structure. In addition, his entitlement is subject to a fixed and variable formula with the later being linked to his achievement of individual performance targets.

Similarly, Peter Buck (General Manager, Distribution Network Development) was offered two payments across two years with the second and final amount payable in August 2006. This amount comprises a fixed and a variable component which is linked to Mr Buck's achievement of individual performance targets.

NOTES TO THE FINANCIAL STATEMENTS 31 March 2006 (continued)

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

Details of remuneration
Details of the remuneration of each director of SP AusNet and each of the key management personnel of SP AusNet who received the highest remuneration for the year ended 31 March 2006 are set out in the following tables. The STI cash bonuses are dependent on the satisfaction of performance conditions as set out in the section headed *At-risk remuneration* above. No other elements of remuneration are directly related to performance.

Director remuneration
Details of non-executive and executive Directors' remuneration for the reporting period are set out in the following tables.

Non-executive Director remuneration

2006	Cash salary and fees	Superannuation Contributions[1]	Insurance	Total
Ng Kee Choe (Chairman)	70,422	6,338	5,555	82,315
Jeremy Guy Ashcroft **Davis**	66,819	6,014	5,555	78,388
Eric **Gwee** Teck Hai	70,322	–	5,555	75,877
George Allister **Lefroy**[2]	93,199	8,376	5,555	107,130
Martyn Kenneth **Myer**	43,177	3,886	5,555	52,618
Quek Poh Huat[3]	77,000	–	5,555	82,555
Ian Andrew **Renard**[2]	89,188	8,027	5,555	102,770
Wong Toon Suan[4]	–	–	–	–
Yap Chee Keong[4]	–	–	–	–

1 Superannuation contributions made on behalf of Non-executive Directors to satisfy SP AusNet's obligations under applicable Superannuation Guarantee legislation.
2 Dr Lefroy and Mr Renard received Directors' fees during the financial year for services provided during the prior financial year. Dr Lefroy received $23,383 and Mr Renard $16,395, including superannuation contributions. These amounts have been included in the above table.
3 As Mr Quek is an executive of Singapore Power and a nominee Director of Singapore Power on the Board of SP AusNet, Singapore Power receives the fees for Mr Quek's services as a director of SP AusNet. Fees for Mr Quek's services as a Director during the period ended 31 March 2006 have not yet been paid.
4 Mr Wong and Mr Yap both resigned on 31 May 2005. Mr Wong and Mr Yap are both employees of Singapore Power and no fees are payable for their services as Directors during the period ended 31 March 2006.

SP AusNet does not make retirement payments to Directors.

2005	Cash salary and fees	Superannuation Contributions[1]	Total
Wong Toon Suan[1]	–	–	–
Yap Chee Keong[1]	–	–	–

1 Mr Wong and Mr Yap both resigned on 31 May 2005. Mr Wong and Mr Yap are both employees of Singapore Power and no fees are payable for their services as Directors during the period ended 31 March 2005.

Executive Director remuneration

	Primary				Post-employment		Equity	
Name	Cash salary and fees	Retention payment	Cash bonus	Insurance	Super-annuation	Retirement benefits	Options	Total
Nino **Ficca**	398,658	–	86,212	5,555	39,990	–	–	530,415
Paul **Adams**[1]	230,443	104,892	17,865	5,000	23,716	–	–	381,916
Terrence **Fowler**[2]	204,922	–	77,031	5,000	18,385	–	–	305,338

1 Mr Adams was a Director of the Responsible Entity from 31 May 2005 to 9 September 2005.
2 Mr Fowler was a Director of the Responsible entity from 31 May 2005 to 9 September 2005 and a director of SP AusNet Transmission from 7 September 2005 to 31 October 2005.

The above payments were made to Mr Ficca, Mr Adams and Mr Fowler for the provision of services as executives of SP AusNet and not for their services as Directors.

Note 7 Key management personnel (continued)

Executive Remuneration

Details of the remuneration of SP AusNet executives for the reporting period are set out in the following table.

2006	Primary				Post-employment		Equity	
Name	Cash salary and fees	Retention payment	Cash bonus	Insurance	Super-annuation	Retirement benefits	Options	Total
Nino **Ficca**	398,658	–	86,212	5,555	39,990	–	–	530,415
Paul **Adams**	230,443	104,892[1]	17,865[2]	5,000	23,716	–	–	381,916
Peter **Buck**	185,331	67,657[1]	11,415[2]	5,000	16,811	–	–	286,214
Norman **Drew**	200,268	–	63,757[3]	5,000	20,036	–	–	289,061
Terrence **Fowler**	204,922	–	77,031[4]	5,000	18,385	–	–	305,338
Peter **Merritt**	169,892	–	32,935	5,000	17,130	–	–	224,957
Charles **Popple**	205,333	–	53,430[5]	5,000	20,899	–	–	284,622

1 Further details in relation to the retention payments to Mr Adams and Mr Buck are set out under heading *Commencement and retention awards* above.
2 Bonuses paid to Mr Adams and Mr Buck during the financial year represent a "stub" payment for the period 1 January 2005 to 31 March 2005 to bring their remuneration periods into line with the remaining executives following after the acquisition of TXU Australia Group Pty Ltd. They did not receive additional bonuses under the SP AusNet STI plan.
3 Mr Drew's cash bonus paid during the reporting period consisted of a payment of $36,757 pursuant to the SP AusNet STI plan and a special discretionary bonus of $27,000 awarded prior to the listing by Singapore Power in recognition of exceptional performance.
4 Mr Fowler's cash bonus paid during the reporting period consisted of a payment of $47,031 pursuant to the SP AusNet STI plan and a special discretionary bonus of $30,000 awarded prior to the listing by Singapore Power in recognition of exceptional performance.
5 Mr Popple's cash bonus paid during the reporting period consisted of a payment of $38,430 pursuant to the SP AusNet STI plan and a special discretionary bonus of $15,000 awarded prior to the listing by Singapore Power in recognition of exceptional performance.

There were no executives remunerated for their services to the SP AusNet Finance Trust or the Responsible Entity during the period ended 31 March 2005.

Service agreements

Duration of contracts

Remuneration and other terms of employment for the Managing Director and specified senior management are formalised in individual employment agreements. Each of these agreements provides for performance-related cash bonuses, fringe benefits plus other benefits. Under the terms of these agreements, the Managing Director and other members of the senior executive team continue to be employed until their employment is terminated.

Notice periods and payments on termination

The employment agreements provide for termination payments to be made in certain circumstances. In particular, the company may terminate the employment of the Managing Director and other executives (except Mr Paul Adams) on giving one month's notice. Mr Adams' agreement provides for a notice period of three months. The company may make a payment in lieu of notice. In general, the Managing Director and other executives must give SP AusNet at least one month's notice of resignation.

Termination benefits are generally calculated as three weeks' pay for every year of service paid at the executive's Fixed Annual Remuneration (FAR) rate and capped at a specified period. This specified termination payment cap period is set at six months for the Managing Director and other executives except Paul Adams. Mr Adams' termination payment cap is set at nine months.

In addition, in the event that SP AusNet or Mr Adams terminates his employment in prescribed circumstances, he is entitled to be paid the remainder of the fixed and variable amounts of retention payment outstanding as at the date of his termination.

Note 8 Related party transactions

(a) Parent entities

By virtue of the stapling deed effective on 21 October 2005, SP AusNet Distribution is deemed to be the parent entity in the Stapled Group.

The immediate parent entity of the Stapled Group is Singapore Power International Pte Ltd, a company incorporated in Singapore, a wholly-owned subsidiary of Singapore Power Ltd. Singapore Power International Pte Ltd owns 51% of the issued units in SP AusNet Finance Trust as part of its ownership of 51% of the securities in the Stapled Group.

The ultimate parent entity is Temasek Holdings (Private) Ltd, a company incorporated in Singapore.[1]

(b) Related entities

SPI Management Services, a wholly-owned subsidiary of Singapore Power International Pte Ltd, provides management services to the Responsible Entity under the RE Management Services Agreement.

Under the RE Management Services Agreement, the Responsible Entity has engaged SPI Management Services to perform management services on behalf of the Responsible Entity, in accordance with all applicable laws, regulations and guidelines. SPI Management Services will consult with, advise, and seek advice from, Singapore Power Ltd and its subsidiaries from time to time in the performance of its work. Any variation to the material terms or the Management Services Agreement will be subject to securityholder approval.

The term of the RE Management Services Agreement is for an initial period of 10 years commencing on 1 October 2005. The Responsible Entity has options to renew the RE Management Services Agreement for two further 10 year periods.

The Responsible Entity has agreed to pay SPI Management Services a management fee of $100,000 per annum.

The Responsible Entity indemnifies SPI Management Services from all claims, liabilities, fines and penalties suffered or incurred by SPI Management Services to the extent it is caused by or arises from negligence, fraud or dishonesty of the Responsible Entity in the performance of its obligations.

SPI Management Services is not liable to the Responsible Entity and their subsidiaries by way of indemnity for any indirect, incidental or consequential loss including loss of opportunity or economic loss.

The total liability of SPI Management Services to the Responsible Entity and their subsidiaries in relation to the performance of or breaches of the Management Services Agreement is limited to $5 million in any financial year.

(c) Transactions with related parties

The following transactions occurred with related parties:

	2006 $'000	2005 $'000
Loans made to related parties	**104,000**	2,205,680
Loan repayments from related parties	**(846,000)**	(217,000)
Interest revenue	**18,641**	–

1 Temasek Holdings (Private) Limited's sole shareholder is the Minister for Finance (Incorporated), a body corporate under the Minister for Finance (Incorporation) Act, Chapter 183 of Singapore.

Note 8 Related party transactions (continued)

(d) Outstanding balances

The following balances are outstanding at the reporting date in relation to transactions with related parties:

	2006 $'000	2005 $'000
Current receivables	**2,111,321**	1,988,680

(e) Terms and conditions

SP AusNet Finance Trust has four loan agreements in place. Two loan agreements are with SP AusNet Distribution and two loan agreements are with SP AusNet Transmission. The amounts that SP AusNet Finance Trust has loaned to SP AusNet Distribution and to SP AusNet Transmission are $992.680 million and $1,100.000 million respectively. Of the $992.680 million loaned to SP AusNet Distribution, $602.680 million had an interest rate of 0% per annum and $390.000 million had an interest rate of 7.5% per annum for the period 14 December 2005 to 31 March 2006. Of the $1,100.000 million loaned to SP AusNet Transmission, $650.000 million had an interest rate of 0% per annum and $450.000 million had an interest rate of 7.5% per annum for the period 14 December 2005 to 31 March 2006.

The loan agreements are for a term of 10 years. The loan agreements to SP AusNet Distribution and SP AusNet Transmission mature in July 2014 and October 2015 respectively. All the loan agreements have similar terms and conditions which can be summarised as follows:

– The interest period and interest rate to apply to the loans are agreed by the Borrower and the Lender.
– Interest accrues from day to day and is payable on the last day of the interest period.
– Interest which is payable may be capitalised by the Lender at intervals which the Lender determines or if no determination is made on the first day of each quarter.
– The Borrower must repay the principal outstanding and any accrued but unpaid interest on or before the end of the term of the agreement.
– The Lender may demand repayment of the outstanding principal and any unpaid accrued interest on demand by giving at least 28 days' notice (or a shorter period agreed between the parties).
– The Borrower can prepay outstanding principal and any unpaid accrued interest by giving at least 28 days' notice (or a shorter period agreed between parties).
– The Lender may terminate its obligations if an Event of Default occurs.

The loans from SP AusNet Finance Trust to SP AusNet Distribution and SP AusNet Transmission are unsecured and are not guaranteed by any of SP AusNet Distribution or SP AusNet Transmission subsidiaries.

Note 9 Reconciliation of profit after income tax to net cash inflow from operating activities

	2006 $'000	2005 $'000
Profit from ordinary activities after related income tax	**18,641**	–
Changes in operating assets and liabilities:		
Increase in receivables	**(18,641)**	–
Net cash inflow/(outflow) from operating activities	**–**	–

Note 10 Contingent liabilities

SPI Management Services, a wholly-owned subsidiary of Singapore Power International Pte Ltd, provides management services to Responsible Entity under the Management Services Agreement.

The term of the Management Services Agreement is for an initial period of 10 years commencing on 1 October 2005. The Responsible Entity has options to renew the Management Services Agreement for two further 10 year periods.

DIRECTORS' DECLARATION

In the Directors' opinion:

(a) the financial statements and notes set out on pages 205 to 221 are in accordance with the *Corporations Act 2001*, including:

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

(ii) giving a true and fair view of the Trust's financial position as at 31 March 2006 and of their performance, as represented by the results of their operations and their cash flows, for the financial year ended on that date; and

(b) there are reasonable grounds to believe that the Trust will be able to pay its debts as and when they become due and payable.

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

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

Nino Ficca

Melbourne
5 June 2006

INDEPENDENT AUDIT REPORT to unitholders of SP Australia Networks (Finance) Trust

Scope

We have audited the financial report of SP Australia Networks (Finance) Trust ("the Trust") for the financial year ended 31 March 2006, consisting of the income statements, statements of changes in recognised income and expense, balance sheets, statements of cash flows, accompanying notes 1 to 10, and the directors' declaration set out on pages 205 to 222. The directors of SP Australia Networks RE Ltd, the responsible entity of the Trust, are responsible for the financial report. The directors of the responsible entity are also responsible for preparing the relevant reconciling information regarding the adjustments required under the Australian Accounting Standard AASB 1 *First-time Adoption of Australian equivalents to International Financial Reporting Standards*. We have conducted an independent audit of this financial report in order to express an opinion on it to the unitholders of the Trust.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Australian equivalents to International Financial Reporting Standards and other mandatory professional reporting requirements in Australia and statutory requirements so as to present a view which is consistent with our understanding of the Trust's financial position, and performance as represented by the results of its operations and its cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Audit opinion

In our opinion, the financial report of SP Australia Networks (Finance) Trust is in accordance with:

(a) the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Trust's financial position as at 31 March 2006 and of its performance for the financial year ended on that date; and

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

(b) the provisions of the trust deed dated 20 October 2005.

KPMG

KPMG

Alison Kitchen

Alison Kitchen
Partner

Place: Melbourne
Date: 5 June 2006

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SECURITYHOLDER INFORMATION

The securityholder information set out below was compiled from SP AusNet's register of securityholders as at 31 May 2006.

A. Stapled Securities and Voting Rights

Each of SP AusNet's stapled securities consists of:

- one ordinary share of SP AusNet Transmission;
- one ordinary share of SP AusNet Distribution; and
- one unit in SP AusNet Finance Trust.

All stapled securities carry one vote per stapled security.

For the avoidance of doubt, any person named in the Central Depository (Pte) Limited of Singapore ('CDP') as a person on whose behalf CDP holds one or more securities ('CDP Account Holder') does not have any right to vote by virtue of their status as a CDP Account Holder.

B. Distribution of Stapled Securities

Distribution schedule of the number of holders of stapled securities

	Number of holders	Number of securities
1-1,000	74	59,732
1,001-5,000	2,519	7,492,594
5,001-10,000	1,399	11,446,362
10,001-100,000	2,118	58,069,006
100,001 and over	185	2,015,612,316
Total	**6,295**	**2,092,680,010**

There were 10 holders of less than a marketable parcel of stapled securities.

There was no current on-market buy back.

C. Stapled Securityholders

The names of the twenty largest holders of quoted stapled securities are listed below:

Name	Number held	Percentage of issued securities
Singapore Power International Pte Ltd	1,067,266,805	51.00
The Central Depository (Pte) Limited	216,024,273	10.32
JP Morgan Nominees Australia Limited	154,019,364	7.36
Westpac Custodian Nominees Limited	130,243,996	6.22
National Nominees Limited	109,962,305	5.25
Citicorp Nominees Pty Limited	77,451,138	3.70
ANZ Nominees Limited	68,584,707	3.28
RBC Dexia Investor Services Australia Nominees Pty Limited	30,410,020	1.45
RBC Dexia Investor Services Australia Nominees Pty Limited	27,102,314	1.30
HSBC Custody Nominees (Australia) Limited – GSI ECSA	20,228,922	0.97
UBS Wealth Management Australia Nominees Pty Ltd	15,619,023	0.75
HSBC Custody Nominees (Australia) Limited	11,937,091	0.57
Cogent Nominees Pty Limited	7,857,829	0.38
Cogent Nominees Pty Limited	5,139,952	0.25
Armada Investments Pty Ltd	4,050,000	0.19
Sandhurst Trustees Ltd	4,007,000	0.19
Invia Custodian Pty Limited	3,954,014	0.19
HSBC Custody Nominees (Australia) Limited – GSCO ECA	2,264,686	0.11
CIMB-GK Securities Pte Ltd	2,151,471	0.10
M F Custodians Ltd	2,099,000	0.10
Total	**1,960,373,910**	**93.68**

SECURITYHOLDER INFORMATION (continued)

D. Substantial holders

Substantial holders in SP AusNet are set out below:

	Number held	Percentage
Singapore Power International Pte Limited	1,067,266,805	51.00%
Capital Group Companies, Inc.	105,181,894	5.03%

GLOSSARY

AEMC	Australian Energy Market Commission
AER	Australian Energy Regulator
ASX	Australian Stock Exchange
ESC	Essential Services Committee
km	Kilometres
kV	Kilovolts, the amount of electric force carried through a high-voltage transmission line is measured in kilovolts.
NEMMCO	National Electricity Market Management Company
MCE	Ministerial Council on Energy
MVA	Mega Volt Amperes, is equal to one million volt amperes
MW	Megawatt, unit of electrical power equal to one million watts.
PJ	Petajoules, a joule is a unit of energy. A petajoule is 10^{15}
SGX-ST	Singapore Exchange Securities Trading Limited
USAIDI	Unplanned Supply Average Interruption Duration Index
VENCorp	Victorian Energy Networks Corporation

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FINANCIAL CALENDAR

2006 Annual General Meeting	18 July 2006
2006/07 Financial Half Year end	30 September 2006
2006/07 Half Year Results announced	23 November 2006*
Payment of 2006/07 Half Year Distribution	December 2006*
2006/07 Financial Year end	31 March 2007

* subject to confirmation

ANNUAL GENERAL MEETING

The Annual General Meeting of SP AusNet will be held on Tuesday, 18 July 2006 at 10.00 am. The location of the Annual General Meeting is:

The Auditorium
Melbourne Exhibition Centre
2 Clarendon Street
Southbank, Vic.
Australia

ENQUIRIES AND INFORMATION

Enquiries about stapled securities

SP AusNet's register of stapled securities is maintained by Computershare Investor Services Pty Limited ('Computershare'). For enquiries about SP AusNet stapled securities, a transfer of securities or distributions, contact:

Computershare Investor Services Pty Limited
Yarra Falls, 452 Johnston Street
Abbotsford, Vic. 3067
GPO Box 2975
Melbourne, Vic. 3001
Australia

Telephone: 1300 85 05 05 (within Australia)
+61 3 9415 4000 (outside Australia)

Facsimile: +61 3 9473 2500

Enquiries about SP AusNet

Contact SP AusNet:
Investor Relations
Telephone: +61 3 9695 6000
Facsimile: +61 3 9695 6666
Email: investor.enquiries@sp-ausnet.com.au

Or write to:
Investor Relations
SP AusNet
Level 31, 2 Southbank Boulevard
Southbank, Vic. 3006
Australia

Stock Exchange Listing

The stapled securities are listed under the name 'SP AusNet' and code 'SPN' on the Australian Stock Exchange, and on the Singapore Exchange Limited under the code 'SP AUSNET'.

The securities participate in the Clearing House Electronic Subregister System ('CHESS').

Removal from Annual Report mailing list

Securityholders can nominate not to receive an Annual Report by written notice to Computershare. Securityholders will continue to receive all other securityholder information, including Notice of Annual General Meeting and proxy form.

Tax File Number ('TFN') information

While it is not compulsory for securityholders to provide a TFN, SP AusNet is obliged to deduct tax from distributions to holders resident in Australia who have not supplied such information. If you have not already supplied your TFN, you may do so by writing to Computershare.

Change of address or name

A securityholder should notify Computershare immediately, in writing, if there is any change in his or her registered address or name.

SP AusNet

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

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

SP Australia Networks (Finance) Trust
ARSN 116 783 914

SP Australia Networks (RE) Limited
ABN 46 109 977 371 (as responsible entity of SP Australia Networks (Finance) Trust)

Registered office
Level 31, 2 Southbank Boulevard
Southbank, Vic. 3006

Telephone: +61 3 9695 6000
Facsimile: +61 3 9695 6666

Directors

Mr **Ng** Kee Choe (Chair)
Mr Nino **Ficca** (MD)
Prof. Jeremy **Davis**
Mr Eric **Gwee** Teck Hai
Dr George **Lefroy**
Mr Martyn **Myer**
Mr **Quek** Poh Huat
Mr Ian **Renard**

Company Secretary

Ms Elizabeth **Mildwater**

Auditors

KPMG
147 Collins Street
Melbourne, Vic. 3000

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A member of Singapore Power Group

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