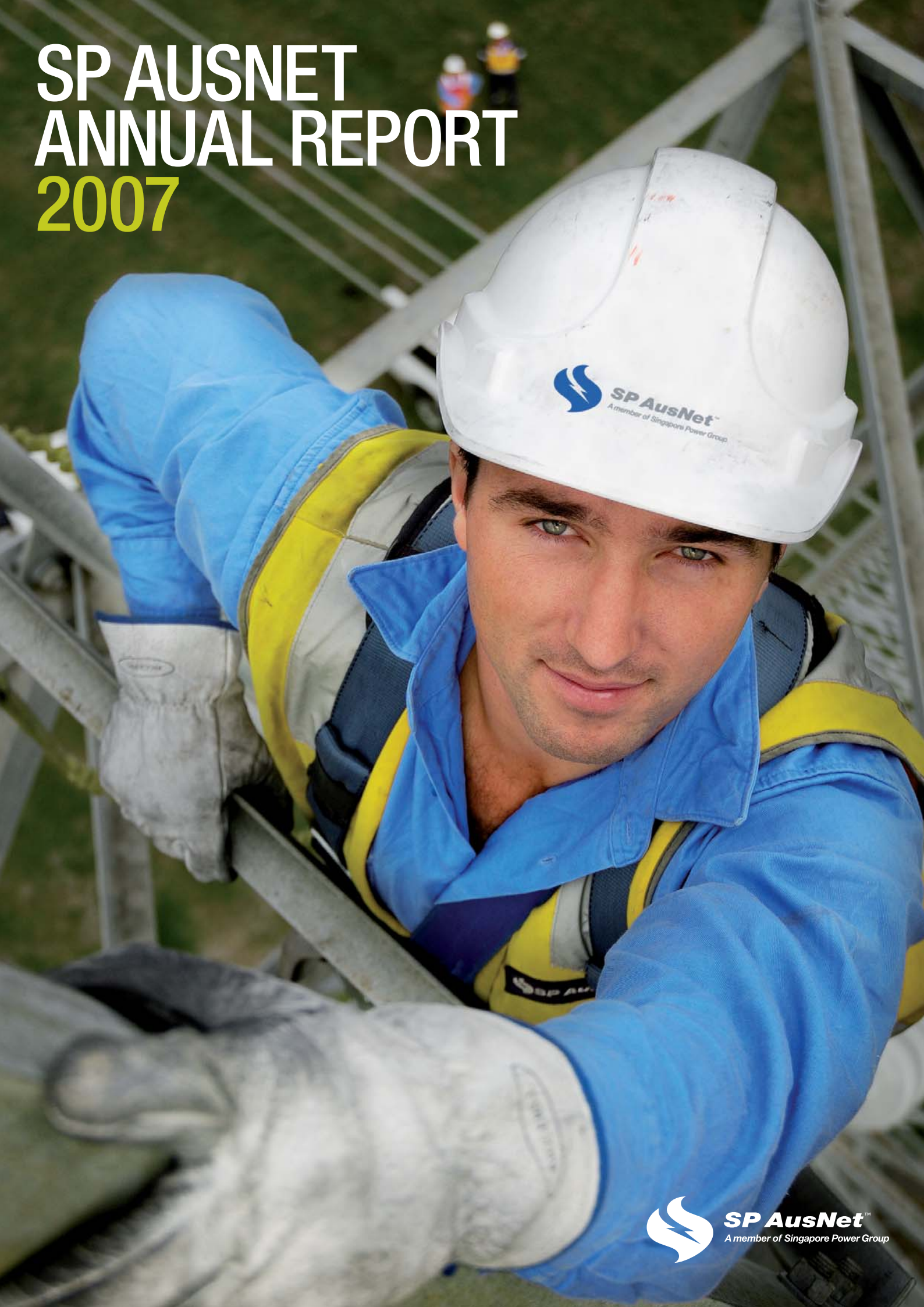


# SP AUSNET ANNUAL REPORT 2007



**SP AusNet™**  
A member of Singapore Power Group



SP AusNet employs aerial techniques using demineralised water to wash dust and soot from insulators on the transmission network in south-west Victoria.  
Cover Image: Ben Marsh, Apprentice Power Technician, perfecting his safe climbing skills on a transmission training tower at South Morang training centre.

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**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.**

SP AUSNET COMPRISES REGULATED ENERGY NETWORK COMPANIES – SP AUSNET TRANSMISSION AND SP AUSNET DISTRIBUTION – AND THE SP AUSNET FINANCE TRUST WHICH FINANCES THOSE COMPANIES.

INVESTMENT IN SP AUSNET COMPRISES A STAPLED SECURITY CONSISTING OF ONE SHARE IN EACH OF SP AUSNET TRANSMISSION AND SP AUSNET DISTRIBUTION, AND ONE UNIT IN SP AUSNET FINANCE TRUST.

SP AUSNET PRIDES ITSELF ON MAINTAINING HIGH QUALITY ENERGY NETWORKS AND IS WELL POSITIONED TO TAKE ADVANTAGE OF GROWTH WITHIN ITS REGIONS AND PARTICIPATE IN FUTURE ACQUISITION OPPORTUNITIES.



# 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 PRACTISE 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.

# OUR FOCUS

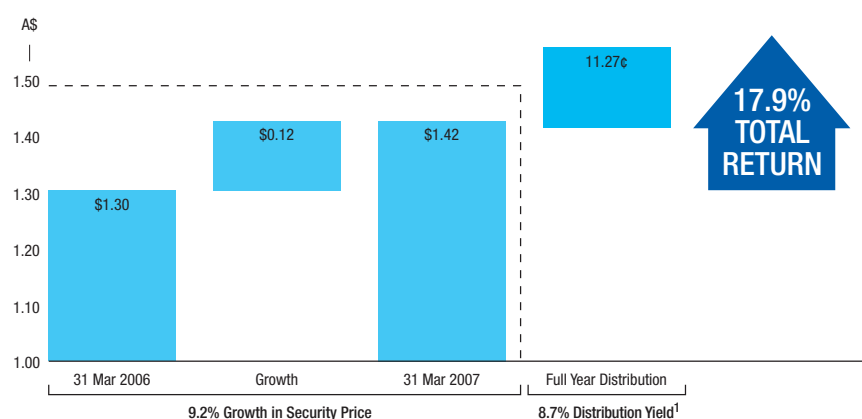
WE PRIDE OURSELVES ON MAINTAINING HIGH QUALITY NETWORKS BY TAKING AN ACTIVE APPROACH TO MANAGING OUR ASSET PORTFOLIO. IN OUR DAY-TO-DAY OPERATIONS, OUR AIM IS ALWAYS TO IMPROVE THE **RELIABILITY** AND **QUALITY** OF ENERGY DELIVERY TO OUR CUSTOMERS.

STRATEGICALLY LOCATED IN VICTORIA'S POPULATION GROWTH CORRIDORS, SP AUSNET IS IDEALLY PLACED TO TAKE ADVANTAGE OF **ORGANIC GROWTH**.

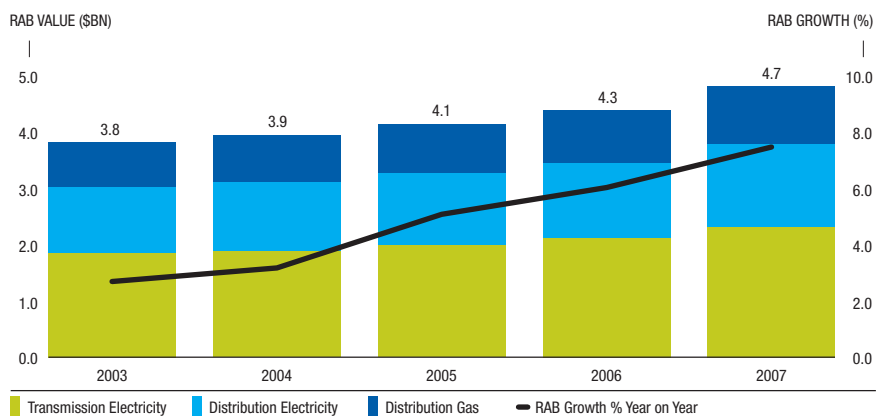
WITH CONTINUED FOCUS, WE AIM TO DELIVER ENERGY TO OUR CUSTOMERS AND RETURNS TO OUR INVESTORS ON A **SUSTAINABLE** BASIS WELL INTO THE FUTURE.

# SP AUSNET HAS DELIVERED...

## ✓ VALUE TO SECURITYHOLDERS



## ✓ GROWTH IN REGULATED ASSET BASE



- ✓ **TOTAL REVENUE OF \$1019.5 MILLION  
DRIVEN BY OUR REGULATED ASSET BASE  
AND GROWTH IN CUSTOMER CONNECTIONS  
AND VOLUMES OF ENERGY DELIVERED**
- ✓ **NET PROFIT AFTER TAX FROM CONTINUING  
OPERATIONS OF \$161.2 MILLION, 3.2% UP  
ON PROSPECTUS FORECASTS**
- ✓ **EARNINGS BEFORE INTEREST AND TAX  
(EBIT) OF \$424.7 MILLION, IN LINE WITH  
PROSPECTUS FORECASTS**
- ✓ **FULL YEAR DISTRIBUTION TOTALLING  
11.27 CENTS PER SECURITY IN LINE WITH  
PROSPECTUS FORECAST, COMPRISING:**
  - 64% RETURN OF CAPITAL
  - 9% FULLY FRANKED DIVIDEND
- ✓ **TOTAL CAPITAL INVESTMENT OF  
\$406.0 MILLION ON THE NETWORKS  
TO SECURE FUTURE REVENUE GROWTH**

# CHAIRMAN'S REPORT

Dear Securityholders,

I am pleased to present SP AusNet's report for the financial year ended 31 March 2007.

The year has been successful. The momentum of the robust financial performance we experienced in 2005/06 continued into the current year. SP AusNet recorded earnings before interest and tax, depreciation and amortisation (EBITDA) of \$624.7 million for the year ended 31 March 2007. This is in line with prospectus forecasts.

Net profit after tax for the year, excluding discontinued operations, was \$161.2 million, which exceeds prospectus forecasts by 3.2%.

In light of SP AusNet's performance, the Directors have declared a full year distribution of 11.27 cents per security as set out in the prospectus. This represents a yield of 7.7% based on the closing security price of \$1.465 as at 11 May 2007. The dividend is also 64% tax deferred for Australian investors for the financial year 2006/07.

We continue to grow our regulated asset base which increased by around 7% during the year. Investments amounting to A\$406.0 million were made to meet higher than forecast customer demand growth, and to enhance reliability across our networks.

2006/07 was also a year of delivering on SP AusNet's growth strategy, with 2.6% new connections in our gas business and 1.6% in our electricity business. This strong performance was driven by the organic expansion of our asset base, supported by the strong growth in Victorian energy demand in key growth areas. At the same time, we further integrated our transmission and distribution businesses to achieve greater synergies and to deliver enhanced benefits to customers. Looking ahead, SP AusNet will continue to expand its business activities into Victoria's growth corridors, and beyond.

Our performance demonstrates our position as a very stable, reliable business that continues to provide securityholders with predictable, tax effective distributions through regulated revenue streams and organic growth. At the same time, we continue to stringently evaluate strategic acquisitions that are directly aligned with our core competency of owning and operating regulated energy transmission and distribution businesses.

All acquisition opportunities will be weighed carefully to ensure we continue to deliver long-term value for securityholders. On 11 May 2007, Singapore Power International Pte Ltd ("Singapore Power") advised that it had, in conjunction with Babcock and Brown International Pty Ltd, signed a revised Scheme Implementation Agreement ("Scheme") to acquire Alinta Ltd. Singapore Power has stated that it currently intends to invest through SP AusNet in electricity and gas transmission and distribution businesses in Australia and New Zealand and will offer SP AusNet the chance to consider this opportunity. SP AusNet has established an independent process for the assessment of this investment opportunity. Until the Scheme is voted on by Alinta shareholders and the assessment process is finalised, the outcome for SP AusNet is uncertain.

During the year, our management company, SPI Management Services Pty Ltd (SPI Management Services), offered staff of SP AusNet and SPI Management Services a gift of A\$1,000 worth of SP AusNet securities. This gift demonstrates our deep appreciation of our staff for their loyalty and hard work prior to and during SP AusNet's listing on the Australian and Singapore stock exchanges.

I would like to thank all staff for their tireless work and contributions, and our business partners for their continued support and patronage, all of which have enabled us to achieve our strategic, operational, and financial targets. And I would like to thank my fellow Directors for their invaluable counsel, advice and contributions. Finally, I must thank you for your continued support of SP AusNet.

Sincerely,



Ng Kee Choe  
Chairman

# MANAGING DIRECTOR'S REPORT

It has been another eventful and rewarding year for SP AusNet – our first full year of operation as a listed entity. This has largely been due to the efforts of our employees whom I thank for assisting SP AusNet grow its networks, reassess its service delivery model and fight another bushfire campaign in Victoria.

Our focus over the past 12 months has been bedding down the new systems and processes we adopted after listing in late 2005 and continuing our strategy of providing a solid, reliable investment for our securityholders and a sustainable and reliable energy network for our customers.

## **DELIVERING LONG-TERM INVESTMENT RETURNS TO SECURITYHOLDERS**

SP AusNet has now demonstrated it can deliver strong profits and predictable cash flows, supported by a high degree of revenue certainty. Our focus is on running a sustainable operation that delivers long-term value to our investors.

We are also committed to achieving positive regulatory outcomes, having put in a substantial amount of work on our gas distribution and electricity transmission regulatory submissions during the year. Over the course of the coming year, we look forward to providing you with our feedback as we work with the regulators to develop their final outcomes.

## **IMPROVING SERVICE DELIVERY**

In 2006 we also conducted a detailed review of our model for delivering electricity and gas distribution operational maintenance and construction. As a result of this review, we developed a long-term service delivery model that provides both the in-house field operations and maintenance services and reintegrates a highly skilled workforce of over 400, supported by outsourced service providers.

## **GROWING THE BUSINESS**

In the past year, we have committed \$406.0 million to capital works programs to not only grow our regulated asset base, but also deliver high quality services for our customers. We are always looking for opportunities to increase network reliability and capacity to meet growing population and usage demands and see this as a strong and sound way to increase revenues.

Over the past year, SP AusNet has also commenced upgrade and maintenance projects across the regions in both gas and electricity. We are expanding our assets into new growth corridors and continuing to reach new customers through the Victorian Government-sponsored Natural Gas Extension Program.

SP AusNet has a dedicated team which researched and evaluated a number of acquisition opportunities during the year. While many of these offered a strategic fit for SP AusNet, they were not considered to deliver sufficient securityholder value and were therefore not pursued.

Our commitment to building a sustainable, long-term business will always shape our decisions and all acquisition opportunities will be weighed carefully to ensure we deliver long-term value for our securityholders.

I am pleased to share with you that one of our subsidiaries, Data and Measurement Solutions (DMS), recently won a competitive tender contract to supply metering solutions and data management services to Victoria's third largest water retailer, City West Water, which is owned by the Victorian Government. The contract involves DMS providing meter reading services over an initial five-year period and will increase DMS's market share in the Victorian water industry to approximately 20%.

## **FOCUSING ON OUR PEOPLE**

The positive results that SP AusNet has been able to achieve this year would not have been possible without the commitment of our people.

I am very proud of our people and their continued effort to deliver for our customers and our securityholders. I am also proud that SP AusNet has been awarded the status of an Employer of Choice for Women by the Equal Opportunity for Women in the Workplace Agency.

In securing our future workforce sustainability, particularly in trades, we are doing our utmost as a responsible employer to support the development of young people through training and learning programs.

And finally, I must pay tribute to our field-based crews and network operators, and indeed our entire workforce, for the way they responded to the Victorian bushfire crisis. Their sustained efforts to protect and restore the electricity networks over the 60 days of the crisis were outstanding.

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 2007/08 we will continue our focus on organic growth with the objective of further building a sustainable energy network, a sustainable business and a sustainable investment.



Nino Ficca  
Managing Director

# BOARD OF DIRECTORS

NG KEE CHOE  
CHAIRMAN,  
NON-EXECUTIVE DIRECTOR

NINO FICCA  
MANAGING DIRECTOR

JEREMY GUY  
ASHCROFT DAVIS  
NON-EXECUTIVE DIRECTOR

ERIC GWEE TECK HAI  
NON-EXECUTIVE DIRECTOR



ANTONINO MARIO  
(TONY) IANNELLO  
NON-EXECUTIVE DIRECTOR

GEORGE ALLISTER LEFROY  
NON-EXECUTIVE DIRECTOR

MARTYN KENNETH MYER  
NON-EXECUTIVE DIRECTOR

QUEK POH HUAT  
NON-EXECUTIVE DIRECTOR

IAN ANDREW RENARD  
NON-EXECUTIVE DIRECTOR



# EXECUTIVE MANAGEMENT

JOHN AZARIS  
GENERAL MANAGER,  
HUMAN RESOURCES AND  
COMMUNICATIONS

NINO FICCA  
MANAGING DIRECTOR

PAUL ADAMS  
GENERAL MANAGER,  
NETWORK SERVICES

PETER MERRITT  
GENERAL MANAGER,  
BUSINESS SYSTEMS  
AND SERVICES



At Altona Terminal Station



In the Network Operations Centre

# TEAM

**CHARLES POPPLE**  
GENERAL MANAGER,  
REGULATORY AND  
BUSINESS STRATEGY

**NORM DREW**  
GENERAL MANAGER,  
NETWORK DEVELOPMENT

**GEOFF NICHOLSON**  
CHIEF FINANCIAL OFFICER

**ELIZABETH MILDWATER**  
GENERAL COUNSEL AND  
COMPANY SECRETARY

**ADRIAN HILL**  
GENERAL MANAGER,  
CORPORATE DEVELOPMENT  
AND INVESTOR RELATIONS



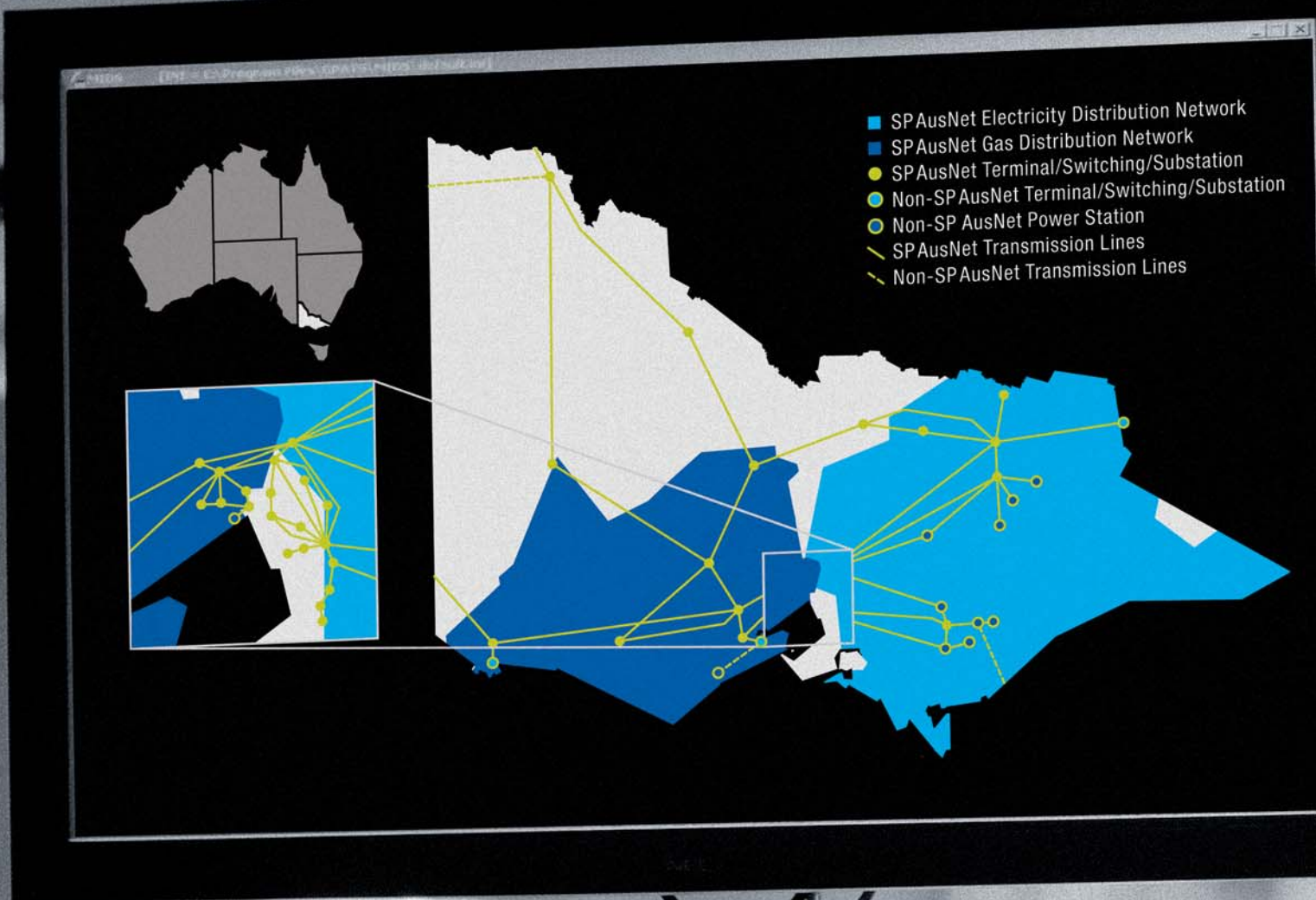
Inspecting gas equipment at Laverton



At the Southbank corporate headquarters

# ENERGY NETWORKS

AS A DIVERSIFIED ENERGY NETWORKS BUSINESS, SP AUSNET PLAYS A VITAL ROLE IN UNDERPINNING THE ECONOMIC AND SOCIAL STRENGTH OF VICTORIAN COMMUNITIES, WHILE CONTRIBUTING TO THE WIDER AUSTRALIAN ENERGY MARKET. THE SUSTAINABILITY OF THE NETWORKS IS A KEY BUSINESS OBJECTIVE AND THE GROUP IS COMMITTED TO CONTINUALLY IMPROVING SERVICE TO CUSTOMERS.



# ELECTRICITY AND GAS

SP AUSNET'S ASSETS INCLUDE VICTORIA'S HIGH VOLTAGE **ELECTRICITY TRANSMISSION** NETWORK, AN **ELECTRICITY DISTRIBUTION** NETWORK LOCATED IN EASTERN VICTORIA AND A **GAS DISTRIBUTION** NETWORK IN WESTERN VICTORIA.

## **ELECTRICITY TRANSMISSION NETWORK**

SP AusNet's electricity transmission network consists of over 6,500 km of transmission lines operating at extra high voltages ranging from 66,000 volts to 500,000 volts that carry electricity from power stations to electricity distributors and large customers around Victoria. 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.

## **ELECTRICITY DISTRIBUTION NETWORK**

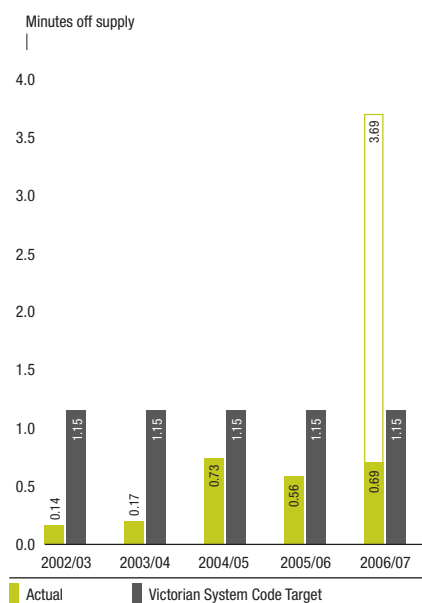
The electricity distribution network carries electricity from the extra high voltage transmission network to substations for distribution to connected electricity customers in eastern metropolitan Melbourne and the eastern part of the State. The network is 43,384 km in length, spans an area of approximately 80,000 square kilometres and services 589,392 customers.

## **GAS DISTRIBUTION NETWORK**

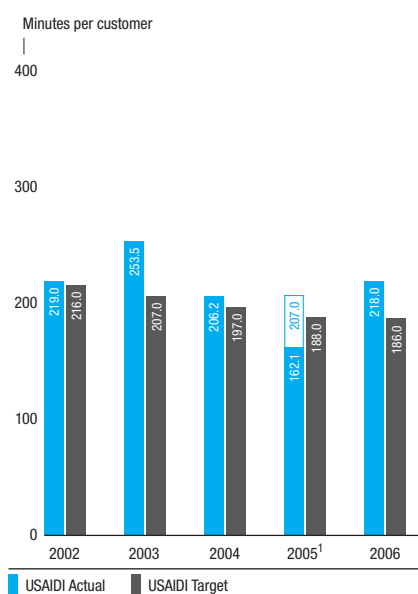
The gas distribution network carries natural gas from the transmission network to connected customers. Some 523,458 customers across 60,000 square kilometres of central and western Victoria are delivered natural gas through SP AusNet's 9,076 km distribution network. SP AusNet also owns 183 km of gas transmission pipelines.

OVER **1.1 MILLION**  
CONNECTED CUSTOMERS

# NETWORK PERFORMANCE



TRANSMISSION SYSTEM MINUTES OFF SUPPLY



UNPLANNED SUPPLY AVERAGE INTERRUPTION DURATION INDEX (USAIDI)

## ELECTRICITY TRANSMISSION PERFORMANCE

During the 2006/07 reporting year there were two significant and abnormal system incidents that affected customers in the vicinity of Terang and Red Cliffs. These resulted in the system minutes lost for the year being 3.69 compared with SP AusNet's service level target of 1.15 minutes.

The underlying performance of the transmission network is at world class levels and SP AusNet's asset management strategies and plans have been reviewed to mitigate against significant local incidents that impact customers.

The actual transmission network overall availability for the 2006 calendar year was 99.251% compared with the Australian Energy Regulator target service level of 99.200%.

This is consistent with the performance of the network against the same target over recent years.

OVERALL TRANSMISSION NETWORK AVAILABILITY

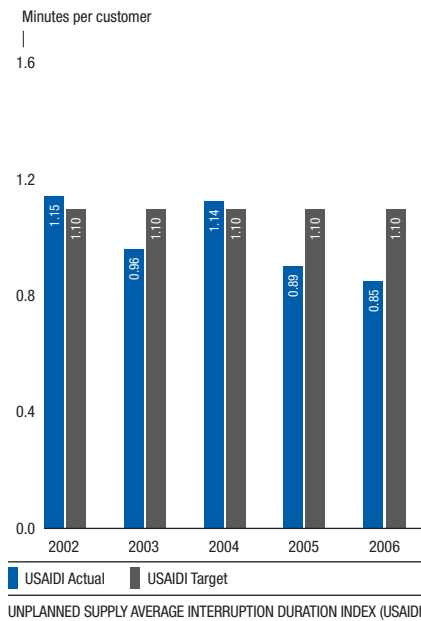
Year	2002	2003	2004	2005	2006
%	99.191	99.323	99.269	99.341	99.251

## ELECTRICITY DISTRIBUTION PERFORMANCE

The electricity distribution network's reliability is measured as USAIDI (the total number of minutes, on average, that a customer could expect in unplanned interruptions to the electricity supply over the calendar year). For the calendar year 2006, this was measured at 218.0 minutes which exceeded the target of 186.0 minutes. This overrun was partly due to the bushfires that impacted the electricity distribution area during January 2006 and then again in December 2006, as well as a longer and hotter summer period during which the network experienced a rate of faults higher than normal.

SP AusNet is committed to improving the reliability of its distribution network, and the measures it takes to achieve this are further supported by service incentives offered by the regulator. In 2006/07, SP AusNet adopted its own internal reliability improvement program encompassing revised work practices and targeted investment to improve distribution network reliability. This will provide future benefits to communities and securityholders alike.

1. 2005 outcome adjusted to reflect new Essential Services Commission reliability regime.



## GAS DISTRIBUTION PERFORMANCE

The gas distribution network continued to deliver improved performance, again recording a best ever reliability result over a five-year period. Over the 2006 calendar year, an average 0.85 minutes of unplanned interruptions was experienced by customers. This is below the internal target of 1.1 minutes, reflecting better gas network performance.

In the coming year, SP AusNet will invest in the gas network through asset replacement programs of equipment and reticulation to continue to maintain safe and reliable delivery of natural gas to homes and businesses.



# NETWORK INVESTMENT

Two key factors drive SP AusNet's investment in its electricity and gas networks: the growing population and physical expansion of communities; and the strengthening of the network to support these greater demands for energy into the long-term.

SP AusNet applies very strong discipline to the development of its capital works program to ensure investment in the networks enhances both the sustainability and reliability of the assets for the benefit of customers, communities and securityholders. Each project is evaluated against rigorous financial, economic and technical criteria to ensure it meets commercial benchmarks and provides benefits to customers. The inclusion of these assets into SP AusNet's regulated asset base translates into additional revenue in future periods, providing long-term benefits to securityholders.

In 2006/07, SP AusNet invested \$406.0 million in capital expenditure in its networks, up from \$375.0 million in 2005/06, driven by continuing strong customer-initiated demand growth.

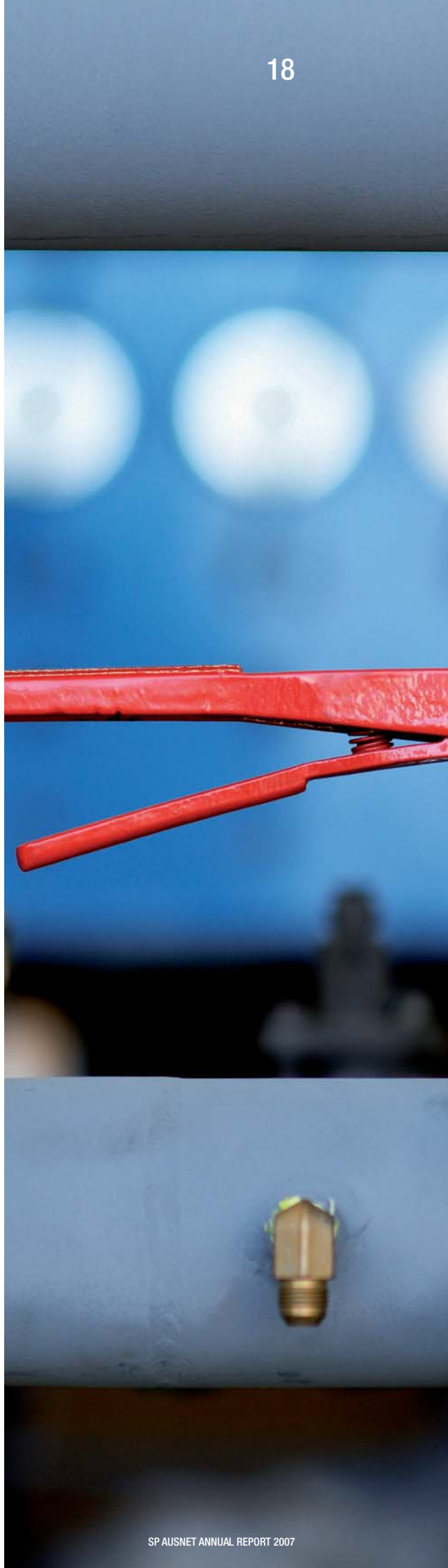
SP AusNet connected over 22,500 new customers to its electricity and gas distribution networks during the year and delivered on transmission network connections for VENCORP and the distribution companies. This growth led to \$199.0 million in capital expenditure being attributed to customer-initiated works.

SP AusNet-initiated projects include those that are identified as offering major improvements in the reliability of the networks. Total investment in SP AusNet-initiated projects was \$139.9 million.

## ELECTRICITY TRANSMISSION NETWORK

Transmission projects undertaken in response to Victoria's growing energy needs included the installation of new transformers (which boosts network capacity) and network connections at Rowville and Moorabool terminal stations for VENCORP, as well as connection works at Ringwood and Altona for Alinta and Powercor respectively.

Works are well under way on the rebuilding of terminal stations throughout Victoria, accounting for the bulk of the SP AusNet-initiated transmission capital expenditure. Rebuilding of the Ballarat, Horsham, Red Cliffs, Shepparton and Terang terminal stations in northern and western Victoria reinforces the 'western loop' of the SP AusNet transmission network to ensure that regional and rural communities' supplies are secure for years to come. Within metropolitan Melbourne, rebuilding of Brunswick Terminal Station is complete, while rebuilding works are well under way at Malvern Terminal Station.





# \$406M INVESTED

## ELECTRICITY DISTRIBUTION NETWORK

SP AusNet successfully delivered electricity distribution customers' projects and large business supply projects. As well as a greater than expected number of large residential subdivisions in the northern and south-eastern growth corridors, construction of new housing in the Bairnsdale, Benalla and Leongatha areas contributed to the increased investment in SP AusNet's distribution network.

Projects designed to reinforce the network and improve the reliability of powerlines constituted the bulk of the expenditure on projects initiated by SP AusNet. Ferntree Gully Zone Substation underwent an upgrade, and Clyde North Stage 2 and Doreen zone substations were commissioned during the year to improve supply to communities in those immediate areas.

Asset replacement during the year focused on optimal replacement of ageing assets and strengthening and securing the network, including projects to reinforce and replace power poles and public lighting.

## GAS DISTRIBUTION NETWORK

Extension of the natural gas network to service 12 towns in western Victoria continued throughout the year, with SP AusNet connecting another five towns in 2006/07 as part of the Victorian Government-sponsored natural gas extension program. Following on from connection of Creswick in 2005, new gas regulating facilities were installed in the communities of Gisborne, New Gisborne, Macedon, Port Fairy and Woodend, enabling SP AusNet to extend the network in these towns as these communities further expand. The remaining six towns are on schedule for connection by the end of the 2007 calendar year.

In addition, the gas distribution network continued to experience strong growth in western metropolitan Melbourne.

To further strengthen the existing network, 70 km of cast iron gas mains were renewed. This program involves the insertion of new high capacity polyethylene pipes inside the old cast iron and unprotected steel pipes. This helps to both enhance the gas supply and reduce the risk of leaks or water damage to gas mains.

# ENHANCED ABILITY TO DELIVER

## KEY PARTNERSHIPS

SP AusNet engages in several partnerships with key external service providers who assist in delivering its field operations, maintenance and capital works programs.

Late in the financial year, SP AusNet awarded a \$30 million, four-year contract to provide field operations and maintenance for SP AusNet's transmission assets throughout northern and western Victoria.

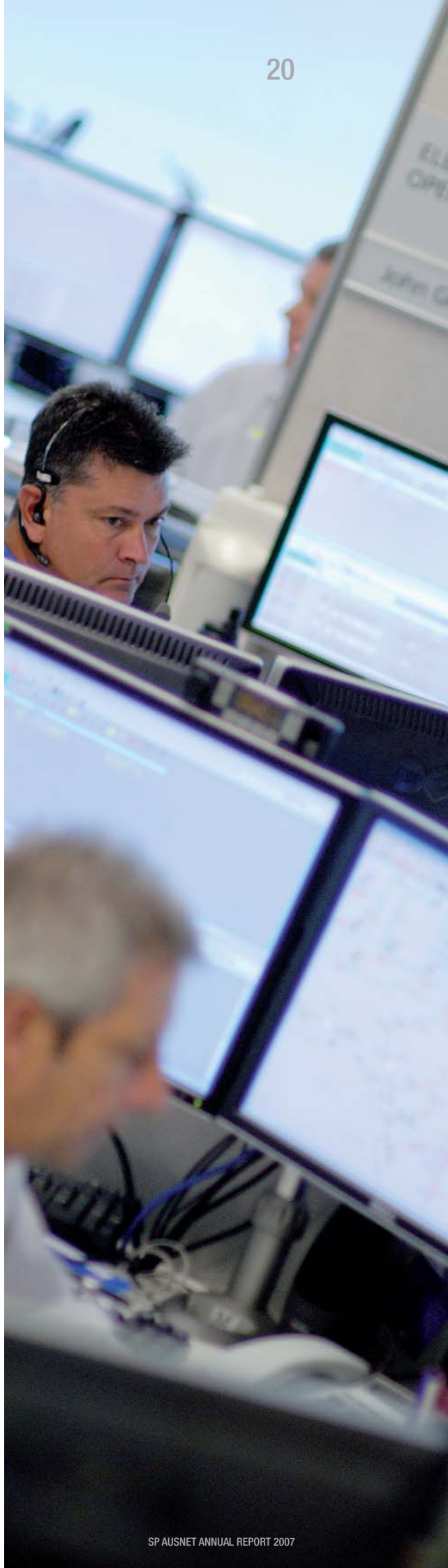
After a review of its field operations, SP AusNet developed a long-term service delivery model for delivery of construction and maintenance services for the electricity and gas distribution networks. From October 2006, this saw the return of field operations, maintenance and capital works services for the electricity distribution network in-house. This process has reinforced SP AusNet's asset management capability through the return of a highly-skilled field workforce of over 400 employees.

## IMPROVED OUTAGE MONITORING

SP AusNet's response to unplanned outages on the electricity distribution network has been improved with the introduction of an upgraded outage information system. The system was implemented to assist in extreme events, such as during intense storm or bushfire activity, by providing call centre operators, incident response teams and SP AusNet's media unit with fast, responsive information on locations without power, proximity of fires and the scheduling of restorations.

## A SMART PLATFORM FOR ASSET MANAGEMENT

The first phase of a three-phase Enterprise Asset Management platform is being developed to streamline the various processes that previously drove the asset and work management programs in the distribution and transmission arms of the business. The new platform will also assist the reintegration of electricity distribution field functions previously delivered under an outsourced arrangement. It will be the foundation for continuous improvement in asset management and increase SP AusNet's flexibility, allowing the business to smoothly integrate newly acquired or merged functions.





# REGULATORY SUBMISSIONS

SP AusNet is focused on achieving satisfactory outcomes from the regulatory determinations for revenue to be made for electricity transmission and gas distribution later in 2007.

SP AusNet submitted the *Electricity Transmission Revenue Proposal 2008–2014* to the Australian Energy Regulator (AER) on 27 February 2007, while the *Gas Access Arrangement Revision Information 2008–2012* was submitted to the Victorian Essential Services Commission (ESC) on 30 March 2007.

Both proposals have been carefully developed to ensure continuing high levels of asset performance and reliability, whilst providing services in the most efficient manner and ensuring SP AusNet maintains its current levels of investor return.

The key elements provided by the transmission proposal will continue to deliver high network reliability to meet customers' expectations at competitive prices.

SP AusNet provides the lowest cost electricity transmission services in the National Electricity Market, and has the highest level of reliability. Continued attention is required to asset maintenance and replacement to ensure that this level of service is continued on a sustained basis. Accordingly SP AusNet proposes capital investment to enable the replacement of transmission assets that are nearing the end of their expected service lives.

It is expected that the AER will release a draft decision by the end of August 2007, with the final decision expected by the end of January 2008 to allow the new pricing to be implemented from 1 April 2008.

The objectives of the proposal for gas distribution are similar to those of electricity transmission with the intention to deliver:

- real price reductions for customers;
- high reliability of supply, and customer satisfaction;
- enhanced safety and environmental performance; and
- sustainable network operations.

The capital expenditure program is planned to achieve these outcomes with increasing focus on the replacement of the cast iron low pressure mains network, while continuing customer demand will drive growth in new customer connections. Further investment in information technology projects is also planned in order to replace outdated systems and achieve further productivity improvements.

It is expected that the ESC will release a draft report on the outcomes of its regulatory determination in June 2007, with the final decision expected in September 2007 for the commencement of the new price control period on 1 January 2008.

SP AusNet will continue to work with the regulators as these determinations proceed and will provide further advice on the outcomes as decisions are made by the regulators.

From front to back:  
Neil Hayhurst (Senior Controller),  
Worrel Baptist and  
Garry Hoffard (Electricity Controllers)

# BUSINESS GROWTH

WITH SP AUSNET'S OPERATING AREA ENCOMPASSING FOUR OUT OF MELBOURNE'S FIVE MAJOR GROWTH CORRIDORS, IT IS WELL POSITIONED AND TAKING ADVANTAGE OF ORGANIC GROWTH OPPORTUNITIES. ANOTHER ELEMENT OF SP AUSNET'S GROWTH STRATEGY RELATES TO BUSINESS EXTENSION GROWTH THROUGH UNREGULATED SERVICES. BOTH HAVE DELIVERED SP AUSNET POSITIVE RETURNS IN 2006/07 AND ASSISTED IN FORGING POSITIVE RELATIONSHIPS WITH CUSTOMERS AND OTHER STAKEHOLDERS.

At Horsham Terminal Station, Phil Cecchini, Condition Monitoring Technician and SP AusNet's 2007 Trainee of the Year, conducts performance testing on the new transformer that will boost electricity capacity to surrounding towns.



OVER **22,500**  
NEW CUSTOMERS  
CONNECTED

### MORE CUSTOMER CONNECTIONS

SP AusNet has experienced strong organic growth from new customers connecting to the electricity and gas distribution networks. Based on VENCop's demand forecasts, SP AusNet is anticipating between 2% and 3% of continuing growth per annum due to population growth and increased energy usage.

In 2006/07, SP AusNet connected 9,329 new customers to the electricity distribution network, bringing the total connected customers at 31 March 2007 to 589,392, up from 580,063 at the end of 2005/06 (up 1.6%).

New gas connections in 2006/07 totalled 13,206, bringing the total number of connected gas customers to 523,458, an increase of 2.6% on the 31 March 2006 total of 510,252.

### ENERGY VOLUMES UP

The volumes of electricity and gas transported by the SP AusNet networks also increased during the year.

The electricity transmission network transmitted 51,815 GWh of electricity in 2006/07 (up 3.2% on 2005/06), with the highest instantaneous demand on the transmission network reaching 9,062 MW on 16 January 2007 – an all-time record.

A total of 7,436 GWh of electricity was delivered through the electricity distribution network, an increase of 3.6% on 2005/06.

The gas distribution network delivered a total of 71.7 PJ of gas energy in 2006/07, up 5.4 PJ or 8.1% on the previous year.

# BUSINESS EXTENSION

SP AusNet has considerable commercial expertise and practical skills in metering, technical services and telecommunications that enables it to add value from these unregulated business opportunities.

## DATA AND MEASUREMENT SOLUTIONS PTY LTD (DMS)

DMS won a significant contract during the year to become the meter reading service provider for City West Water, Victoria's third largest water retailer, from 1 April 2007 for an initial 5-year period. The contract brings DMS's market share in meter reading provision to the Victorian water industry to some 20%.

DMS's metering expertise is also driving SP AusNet's leadership in the Victorian Government's mandated trial of advanced interval metering or "smart electricity meters". These meters allow consumers to better manage their electricity use, allow electricity distributors to better detect supply faults and manage their response, and allow energy retailers to make innovative time-of-use price offers to suit consumers' needs. The 6-month field trial, which started with bench tests in December 2006, now involves 120 SP AusNet connected customers. After these trials, the Victorian Government is targeting the rollout of smart meters to all Victorian electricity consumers from late 2008 to the end of 2012.

## TECHNICAL SERVICES

The Technical Services group markets its condition monitoring, chemical testing, protection, measurement and meter testing services to customers throughout Australia and abroad. In 2006/07, the facility bid for and was awarded Singapore Power's 3-year transformer oil contract against other Australian service providers.

## TELECOMMUNICATIONS

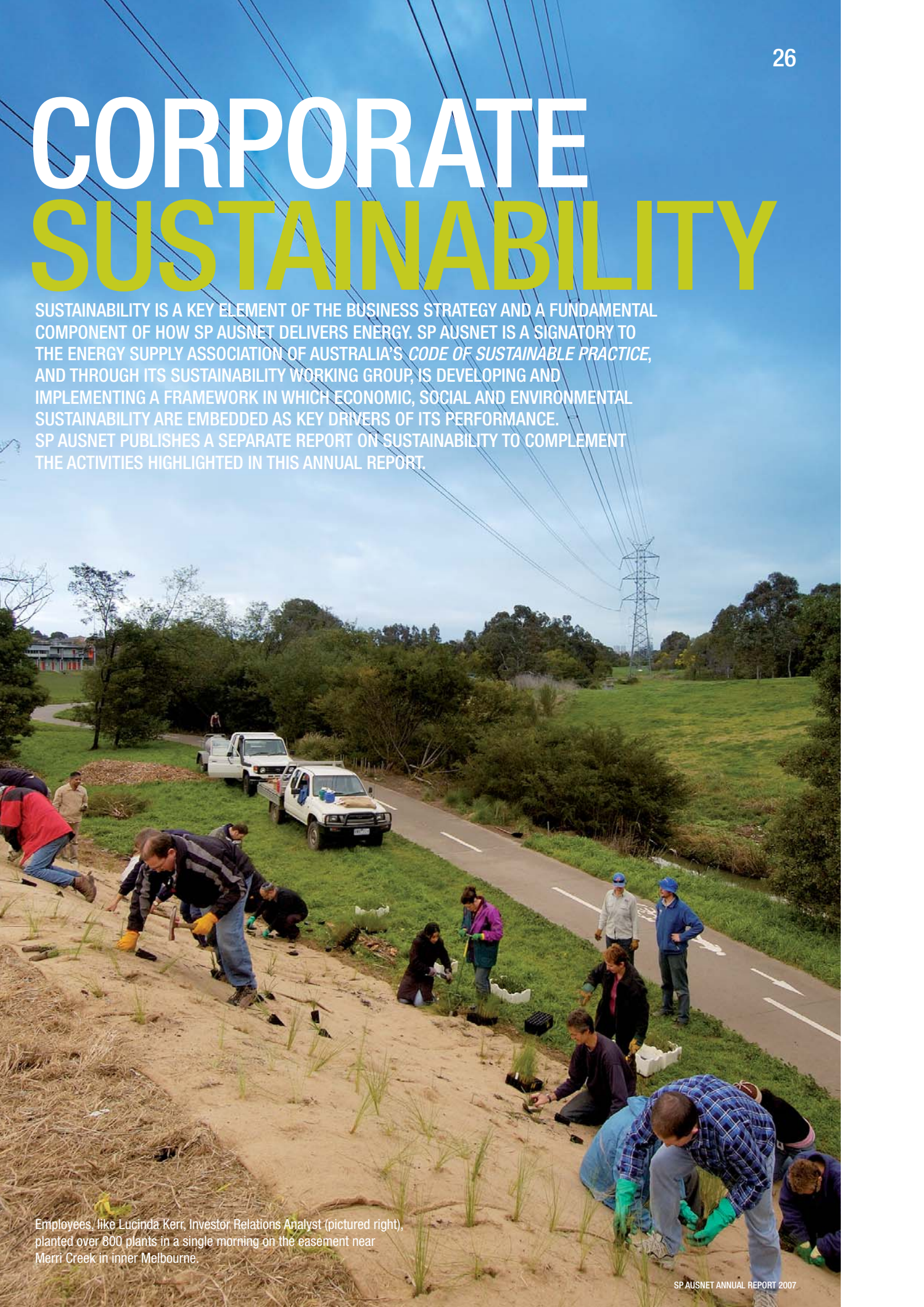
SP AusNet leases space on its transmission towers and terminal station structures for telecommunications companies to install antenna equipment to boost their network coverage. During 2006/07, SP AusNet extended this arrangement to leasing space on its electricity distribution network for similar purposes. SP AusNet also undertook a trial of Broadband Over Powerlines in the alpine community of Mt Beauty in an effort to assess the technical and commercial feasibility of this technology.



BEYOND DELIVERING  
ELECTRICITY AND  
GAS, SP AUSNET  
HAS CONSIDERABLE  
METERING, TECHNICAL  
SERVICES AND  
TELECOMMUNICATIONS  
EXPERTISE.

# CORPORATE SUSTAINABILITY

SUSTAINABILITY IS A KEY ELEMENT OF THE BUSINESS STRATEGY AND A FUNDAMENTAL COMPONENT OF HOW SP AUSNET DELIVERS ENERGY. SP AUSNET IS A SIGNATORY TO THE ENERGY SUPPLY ASSOCIATION OF AUSTRALIA'S *CODE OF SUSTAINABLE PRACTICE*, AND THROUGH ITS SUSTAINABILITY WORKING GROUP, IS DEVELOPING AND IMPLEMENTING A FRAMEWORK IN WHICH ECONOMIC, SOCIAL AND ENVIRONMENTAL SUSTAINABILITY ARE EMBEDDED AS KEY DRIVERS OF ITS PERFORMANCE. SP AUSNET PUBLISHES A SEPARATE REPORT ON SUSTAINABILITY TO COMPLEMENT THE ACTIVITIES HIGHLIGHTED IN THIS ANNUAL REPORT.



Employees, like Lucinda Kerr, Investor Relations Analyst (pictured right), planted over 800 plants in a single morning on the easement near Merri Creek in inner Melbourne.

# ENVIRONMENTAL

## LANDCARE PARTNERSHIP

During the year, SP AusNet was elevated to the status of Silver Level sponsor of long-term partner, Landcare. The breadth of SP AusNet's support for Landcare is indicative of its reach across Victorian communities. Among the 15 diverse projects supported by SP AusNet are: lake shore revegetation at Lake Connewarre near Geelong; bushland improvement at the Cranbourne Botanic Gardens; direct seeding revegetation with the Mid-Loddon Catchment Management Authority near Bendigo; and species protection with the Friends of the Regent Honeyeater Landcare group near Benalla.

## FOUNDATION PARTNERSHIP WITH GREENING CIRCLE

As one of the first 100 partners of the Greening Circle, SP AusNet has been awarded Life Member status of Greening Australia. Through its Greening Circle partnership, it will complement its other environmental programs by supporting vegetation management and environmental education services across regional and urban areas.

## GAS SITE REHABILITATION

Rehabilitation of former 'manufactured town gas' sites in western Victoria continued throughout 2006/07. Soil cleanup works at Stawell and Horsham were completed, with SP AusNet now awaiting the outcome of the independent environmental audit. In the town of Castlemaine, works are under way to complete the clean up, while at Ararat SP AusNet is working with the local community and Environment Protection Authority to develop a plan for treatment of soil contaminants.

## GREEN TEAM

SP AusNet is encouraged by its employees' personal commitments to environmental sustainability, as demonstrated by the formation of the employee-initiated Green Team. The Green Team has set itself the task of driving reduction and recycling strategies in the office environment and beyond, while mentoring and educating employees on global environmental issues. Not only has the Green Team engaged office employees, its work has also motivated field-based employees to develop ingenious water and energy saving ideas applicable to their depots and vehicles.

THE SUSTAINABILITY WORKING GROUP DRIVES DEVELOPMENT OF SP AUSNET'S SUSTAINABILITY STRATEGIES, MONITORING AND REPORTING.



# PEOPLE

## WORKPLACE SAFETY

A lost-time injury frequency rate of 1.64 was recorded for 2006/07 (equating to seven injuries per million hours worked), which includes all SP AusNet employees and the contractors and sub-contractors it has engaged. This result is better than the current national industry average. Safety committees and consultative groups operate through all levels of SP AusNet, along with trained health and safety representatives at all locations, ensuring that the workforce has a structured forum for escalating safety issues to senior management.

An initiative introduced during the year and programmed to continue annually is an employee Health and Safety Day where employees attended a series of information sessions on subjects including the SP AusNet health and safety processes and activities, healthy living and stress management.

## EMPLOYER OF CHOICE FOR WOMEN

In February, SP AusNet was awarded a citation as an *Employer of Choice for Women* by the Equal Opportunity for Women in the Workforce Agency. Females represent some 21% of SP AusNet's workforce – a percentage not reached in the male-dominated energy industry for over a decade, with 25% of the senior management positions occupied by women. SP AusNet's flexible parental and carer's leave provisions, working from home opportunities, as well as productive and altruistic culture programs assisted SP AusNet to achieve this coveted status.

## RECRUITMENT

In January 2007, 14 apprentices and trainees joined SP AusNet in various trades ranging from lineworkers to fitters to communications technicians. This brings to 96 the number of employees undertaking apprenticeships and traineeships with SP AusNet, and helps counter the industry-wide issue of an ageing technical workforce.

Also rejoining SP AusNet were some previously-outsourced 400 employees who bring back to SP AusNet in-house expertise in electricity distribution field operations and maintenance, and will further support its specialist electrical expertise into the future.

## LEARNING AND PERFORMANCE MANAGEMENT

SP AusNet's new intranet, launched in October 2006, provides the platform for an online learning and performance management system. It tracks employees annual performance reviews and further encourages employees to manage their own development through desktop web-based training and access to external training activities and results. Formal training for employees with management potential is offered through Graduate Certificate and Graduate Diploma of Management courses.

SP AusNet's new online system also supports community-based learning through the Diploma/Advanced Diploma of Electrical Power Systems being offered through Northern Melbourne Institute of TAFE, the energy industry-based 'Skilling for the Future' marketing group, and the Scienceworks High Voltage Theatre. Sponsorship of education-based events in 2006/07 extended to the RMIT ENGenius Awards, the Victorian Energy Education Training Program and the Electricity 2006 industry showcase event.

## INCIDENT MANAGEMENT

SP AusNet undertakes cyclical bushfire mitigation programs to prepare its electricity distribution and transmission networks ahead of the annual summer fire season.

With no end to the drought in sight, SP AusNet used lessons learned from the 2003 bushfires to implement some additional measures to protect the distribution network. This led to crews spraying poles with fire retardant and concreting the base of reinforced poles in an effort to minimise the impact of bushfire in the vicinity. The value of these preparations was proven when, over 60 days from 1 December 2006, more than 1,000 fires raged in mostly eastern Victoria, incinerating 1.2 million hectares of the State. The fire crossed SP AusNet's asset easements frequently with the potential to damage close to 1,000 poles and associated distribution equipment.

Over the period, SP AusNet emergency teams remained on 24-hour-a-day, 7-days-a-week rotation assisting fire authorities and protecting SP AusNet assets. In all, only 42 wooden poles were lost – each rebuilt within four days after crews were allowed access by fire authorities. More significantly, however, late on 16 January 2007 fire crossed the easement of SP AusNet's 330 kV transmission interconnector with New South Wales, tripping the transmission network. The line was re-energised within 8 hours, after SP AusNet crews were given clearance by fire authorities to access the easement and inspect the line.

Throughout the crisis employees demonstrated outstanding professionalism in dealing with the impacts, particularly at the field operations level where employees, under the guidance of emergency services, patrolled and made lines affected by fires safe, and in the network operations centre where outages were managed and crews dispatched.



Geraldine Jones, Senior Project Manager, Distribution Projects oversees engineering works to build zone substations like this one at Clyde North, in Melbourne's south-east growth corridor.

## SOCIAL

### CUSTOMER CHARTER

In February 2007 SP AusNet issued to approximately 600,000 connected electricity distribution customers an updated version of the *SP AusNet Electricity Distribution Customer Charter*. The charter summarises customers' rights and obligations in relation to their connection, and is based primarily on the *Electricity Distribution Code 2006*, issued by the Victorian Essential Services Commission after consultation with customer groups and the Victorian Electricity Supply Industry.

### STAKEHOLDER FORUMS

The SP AusNet Stakeholder Consultative Committee (SCC) met four times during the year to canvass opinions on subjects ranging from corporate sustainability and corporate reputation to environmental works. The SCC includes both SP AusNet executive management and a diverse group of prominent members drawn from business, academic, environmental, infrastructure and future planning circles.

To assist SP AusNet engage with its regional customers, it hosted four Regional Forums at Melton, Wangaratta and Traralgon (twice) giving local residential and commercial customers a mechanism to provide feedback to SP AusNet on all aspects of its business activities that impact consumers.

### COMMUNITY SUPPORT

Apart from providing energy to communities, SP AusNet sponsors a wide array of causes and events that offer broad social benefits such as the Seeing Eye Dogs Association, the Berry Street children's charity and the Salvation Army. Some 20 others are supported as well, each with more targeted environmental or community aims such as programs to protect Phillip Island Shearwater Birds, rehabilitate birds of prey at the Beechworth Prison and award local businesses in the Cardinia Shire.

# CORPORATE GOVERNANCE

## 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* 2003 ("ASX Recommendations"). SP AusNet continues to manage the introduction of business and governance initiatives in a practical and balanced manner, to achieve this 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](http://www.sp-ausnet.com.au).

SP AusNet's corporate governance practices for 2006/07 are set out below. The Group substantially complies with the ASX Recommendations except for Recommendations 2.1, 2.2, 2.4, 8.1 and 9.2 as detailed below.

## ROLE AND COMPOSITION OF THE BOARD

### 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. It 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 SP AusNet'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 reviews the *Board Charter* at least annually.

### 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 reviews its composition at least annually.

The constitutions provide for a minimum of four and a maximum of 14 Directors. At the end of the 2006/07 year the SP AusNet Board comprised eight Non-executive Directors (after Tony Iannello's appointment in June 2006) and the Managing Director.

The Board has adopted the definition of independence set out in the ASX 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 assesses the materiality of any given relationship that may affect independence on a case-by-case basis.

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

The Board considers that Tony Iannello, Ian Renard and Martyn Myer were independent Non-executive Directors as at the date of this report. Four of the Non-executive Directors not considered independent by the Board are nominee Directors of the majority securityholder of SP AusNet, Singapore Power International Pte Limited. These are Ng Kee Choe, Quek Poh Huat, Eric Gwee and Jeremy Davis. George Lefroy, previously a nominee Director of Singapore Power International Pte Limited, will be regarded as independent after the period of three years has elapsed since his retirement from Singapore Power Limited.

SP AusNet acknowledges ASX Recommendation 2.1 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 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.

**SP AUSNET'S BOARD MEMBERS RECOGNISE THE RESPONSIBILITY THEY EACH HAVE TO PROVIDE ETHICAL AND PROGRESSIVE STEWARDSHIP FOR SP AUSNET. SECURITYHOLDERS AND OTHER STAKEHOLDERS RELY ON THE BOARD TO SERVE THEIR BEST INTERESTS BY ACTING HONESTLY AND DILIGENTLY TO GIVE SP AUSNET A STRONG COMMERCIAL ADVANTAGE AND FULFIL SERVICE OBLIGATIONS. CORPORATE GOVERNANCE RECEIVES CLOSE SCRUTINY IN SP AUSNET. EXTERNAL DEVELOPMENTS ARE MONITORED WITH A VIEW TO ALIGNING SP AUSNET WITH BEST PRACTICE STANDARDS.**

### **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 of, and the Non-executive Chairman of, Singapore Power Limited and is therefore not independent as recommended by ASX Recommendation 2.2, 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.

### **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 are 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.

### **PERFORMANCE EVALUATION**

During the year the Board undertook its first evaluation of its performance and effectiveness. The results of this assessment were reviewed by the Chairman and considered by the Board at its meeting in May 2007.

### **BOARD COMMITTEES**

The Board has established a number of Board committees to assist with the effective discharge of its duties. Each committee provides to the Board a copy of the minutes of committee meetings together with recommendations at the next Board meeting. The Chairman of the Board and all Directors may request additional information from the committees. Each Committee reviews its membership and Charter annually and makes recommendations for amendment (if any) to the Board.

### **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 systems of internal controls, the process for monitoring compliance with applicable laws, regulations and codes of conduct (including in relation to "interested" party transactions) and the Group's assessment of significant risks.

Tony Iannello assumed the role of independent Chairman of the ARMC on 18 July 2006 in place of Jeremy Davis who joined the Board of Singapore Power Limited on 1 August 2006. Jeremy Davis remains a member of the ARMC together with Eric Gwee, Ian Renard and Martyn Myer. All members of the ARMC are Non-executive Directors and a majority of members are independent Directors. Members of management attend meetings of the ARMC 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 Chief Financial Officer 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.

### **AUDITOR INDEPENDENCE POLICY**

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

During 2006/07 the ARMC approved an *Auditor Independence Policy*. This Policy is intended to maintain the independence of the Group's external auditors by regulating the provision of non-audit services by the external auditors. It provides guidance to both management and the ARMC by defining:

- Audit Services – services considered to be within the scope of audit services;
- Prohibited Services – services which may not be provided by the external auditors other than in exceptional circumstances, with the prior approval of the ARMC; and
- Permissible Non-audit Services – services which may be provided by the external auditors, with the prior approval of the Chief Financial Officer or the Managing Director (up to a limit of \$100,000 in aggregate at any time) or the ARMC Chairman.

The Chief Financial Officer provides a report to the ARMC at each meeting which describes any non-audit services provided by the external auditors since the last meeting.

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 ARMC reviews the Auditor Independence Policy and compliance with that Policy, seeking to balance the maintenance of independence and objectivity of the external auditors and value for money.

The reappointment of KPMG as external auditors was approved by securityholders at the 2006 AGM as required by the *Corporations Act 2001*. 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.

## **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, George Lefroy and Martyn Myer (who joined the Committee on 22 November 2006).

SP AusNet recognises that ASX Recommendation 9.2 recommends that a remuneration committee should consist of a majority of independent Directors and be chaired by an independent Director and that ASX Recommendation 2.4 recommends the same in relation to a nomination committee. However, for the time being, Committee responsibility is being shared amongst Directors in the manner most appropriate to their individual expertise and workload. The members of the Nomination and Remuneration Committee were selected on this basis, even though a majority are not independent. Committee membership was expanded to include Martyn Myer, an independent Director, in November 2006.

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);
- assisting the Board with evaluation of Board performance; 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 twice in the period and again in May 2007. Details of the qualifications of members of the Committee and their attendance at meetings of the Committee are set out in the Directors' Report.

## **COMPLIANCE COMMITTEE**

The Compliance Committee of SP Australia Networks (RE) Ltd ("the Responsible Entity") for SP AusNet Finance Trust comprises a majority of external and independent Directors and the Chairman is external and independent. During the year the Compliance Committee comprised Ian Renard (Chairman), Jeremy Davis, Martyn Myer, Eric Gwee and Tony Iannello who joined the Committee on 6 June 2006.

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 2001* and any breaches of the Australian Financial Services Licence;
- reviewing related party transactions;
- recommending to the Board the appointment or re-appointment of the compliance plan auditors and determining the terms of their appointment; and
- regularly assessing the compliance plan and recommending to the Board any changes required.

The Compliance Committee, as required by the Australian Financial Services Licence, has also established a complaints handling process and 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.

## 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 below.

The remuneration and incentive package for the Managing Director and other executives is paid by SPI Management Services. However, SP AusNet's Board (on advice from the 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' interest. The Committee reviews any subsequent reports provided by SPI Management Services relating to the remuneration, incentive payments and programs and key performance measures for senior executives and makes recommendations to the SP AusNet Board. 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;
- short-term performance-based cash bonuses; and
- long-term performance-based incentives pursuant to a long-term incentive plan.

The SP AusNet long-term incentive plan has recently been implemented for executives, as is common in the marketplace, to attract and retain staff that are important to the creation of long-term value for securityholders. Details of the long-term incentive plan are included in the Directors' Report.

### 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 Directors' Report.

## CERTIFICATION OF FINANCIAL REPORT AND RISK MANAGEMENT SYSTEMS

The Managing Director and Chief Financial Officer 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 2007:

- the financial reports are complete and 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.

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

## 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 reviewing the Group's assessment of significant risks. 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 Chief Financial Officer also make annual written certifications to the Board as set out above.

### 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.

During the year, extensive face-to-face training was conducted on this policy and this, together with online training, will continue during the coming year.

### WHISTLEBLOWER POLICY

In keeping with the spirit of SP AusNet's Code of Business Conduct, SP AusNet has a *Whistleblower Policy* to encourage anyone engaged in the provision of services to SP AusNet who has witnessed, or knows about, any wrongdoing to report it without fear of reprisal. The *Whistleblower Policy* sets out, at a high level, the way in which SP AusNet will respond to reports of wrongdoing.

As part of our continuous drive to achieve high standards of corporate governance, SP AusNet has recently engaged STOPline – an external, confidential provider of whistleblower disclosure services. The engagement of STOPline provides an additional avenue to report suspected wrongdoings in accordance with the *Whistleblower Policy*.

### 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.

## 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, executives and employees must receive clearance from the Company Secretary, Managing Director or Chairman prior to any proposed dealings in the Group's securities by either themselves or their associates. Similarly, Directors must receive clearance from the Chairman of the Board, and the Chairman of the Board must receive clearance from the ARMC Chairman. Persons 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.

## CONFLICTS OF INTEREST

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

## INVESTOR RELATIONS

SP AusNet has developed an integrated securityholder communications approach to assist with communicating information to the market in a timely and efficient manner. A copy of this approach is published on SP AusNet's website which 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 are published on the website immediately after they have been released to the ASX and SGX-ST. The full-year and half-year financial results are also 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 2007 AGM of SP AusNet will be web-cast in order to improve access for securityholders unable to be physically present at the meeting. The full text of notices of meeting and explanatory material will be published on SP AusNet's website.

SP AusNet's auditor, KPMG, is required to attend the AGM. 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 auditors' report.

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

## RELATIONSHIP WITH SPI MANAGEMENT SERVICES

SP AusNet Transmission and SP AusNet Distribution have engaged SPI Management Services, pursuant to a management services agreement ("MSA"), to provide management and administration services and to manage the electricity transmission and electricity and gas distribution networks on SP AusNet's behalf.

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

SPI Management Services will consult with and seek advice from Singapore Power Limited and its subsidiaries from time to time in the performance of its work under both the MSA and RE MSA. The MSA and the RE MSA are for an initial period of ten years commencing on 1 October 2005 and continue for two further ten-year periods unless terminated by either party giving no less than one year's notice prior to the expiry of the applicable ten-year period.

Pursuant to the MSA, SP AusNet has agreed to pay SPI Management Services a Management Fee comprising a Management Services Charge and a Performance Fee for each financial year during the term of the MSA. The Management Services Charge is to compensate SPI Management Services for expenses relating

to all remuneration and other employment entitlements and benefits of the employees of SPI Management Services who provide services to SP AusNet. The Performance Fee is to incentivise SPI Management Services to meet or better the non-financial and financial performance of SP AusNet and to align the interests of SPI Management Services with those of SP AusNet.

SPI Management Services also receives a fixed management fee from the Responsible Entity for the provision of its services pursuant to the RE MSA.

SPI Management Services has in place a *Conflicts of Interest and Related Party Protocol* which sets out the proposed practice for dealing with conflicts between the duties of officers of SP AusNet to SP AusNet and their employment duties to SPI Management Services, SP AusNet's interests in operating the business and the interests of SPI Management Services as a wholly owned subsidiary of Singapore Power and issues arising from any actual or proposed provision of a financial benefit, by SP AusNet, to a related party.

The ARMC and the Compliance Committee annually review the performance of SPI Management Services and the fee structure under the MSA and RE MSA respectively.

# FINANCIAL REPORTS

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# SP AUSTRALIA NETWORKS (DISTRIBUTION) LTD ACN 108 788 245 GENERAL PURPOSE FINANCIAL REPORT FOR THE FINANCIAL YEAR ENDED 31 MARCH 2007

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

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

Level 31, 2 Southbank Boulevard  
Southbank, Victoria 3006  
Australia

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

The financial report was authorised for issue by the Directors on 23 May 2007.

The Directors of SP Australia Networks (Distribution) Ltd ("SP AusNet Distribution") present their report on the general purpose financial report of the company and combined entity for the financial year ended 31 March 2007.

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

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

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

## DIRECTORS

With the exception of Tony Iannello, the persons listed below were Directors of SP AusNet Distribution during the whole of the financial year and up to the date of this report. Mr Iannello was appointed a Non-executive Director of SP AusNet Distribution on 6 June 2006 and continues in office at the date of this report.

## NON-EXECUTIVE DIRECTORS

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

## EXECUTIVE DIRECTORS

**Nino Ficca** (Managing Director)

## PRINCIPAL ACTIVITIES

During the year the principal continuing activities of SP AusNet were:

- **ELECTRICITY DISTRIBUTION**  
Delivery of electricity to approximately 589,000 consumer supply points over 80,000 square kilometres in eastern Victoria including Melbourne's outer eastern suburbs;
- **GAS DISTRIBUTION**  
Delivery of natural gas to approximately 523,000 consumer connection points over 60,000 square kilometres in central and western Victoria including some of Melbourne's western suburbs; and
- **ELECTRICITY TRANSMISSION**  
The transmission of electricity within the state of Victoria.

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

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

## DISTRIBUTIONS

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

	Final 2006 distribution paid 26 June 2006		Interim 2007 distribution paid 14 December 2006	
	Cents per security	Total distribution \$'000	Cents per security	Total distribution \$'000
Fully franked dividend paid by SP AusNet Transmission	0.150	3,139	0.507	10,610
Assessable interest income paid by SP AusNet Finance Trust	0.890	18,625	1.509	31,579
Capital distribution paid by SP AusNet Finance Trust	2.210	46,248	3.619	75,734
	3.250	68,012	5.635	117,923

Since the end of the financial year the Directors have approved a final distribution for 2007 of \$117,922,519 (5.635 cents per fully paid Stapled Security) to be paid on 28 June 2007 comprised as follows:

	Final 2007 distribution to be paid on 28 June 2007	
	Cents per security	Total distribution \$'000
Fully franked dividend payable by SP AusNet Transmission	0.507	10,610
Assessable interest income payable by SP AusNet Finance Trust	1.584	33,148
Capital distribution payable by SP AusNet Finance Trust	3.544	74,165
	5.635	117,923

## REVIEW OF OPERATIONS

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

	Electricity distribution \$'000	Gas distribution \$'000	Transmission \$'000	Discontinued operations \$'000	Inter-segment eliminations \$'000	Combined \$'000
Regulated revenue	367,414	146,425	380,834	–	(9,068)	885,605
Excluded services	31,178	13,979	30,501	–	(1,002)	74,656
Customer contributions	25,619	13,815	–	–	–	39,434
Other revenue	9,264	772	9,428	–	300	19,764
<b>Total segment revenue</b>	<b>433,475</b>	<b>174,991</b>	<b>420,763</b>	<b>–</b>	<b>(9,770)</b>	<b>1,019,459</b>
<b>Segment result before interest expense</b>	<b>157,407</b>	<b>77,859</b>	<b>189,395</b>	<b>9,607</b>	<b>–</b>	<b>434,268</b>
Segment interest expense	(86,873)	(48,866)	(93,848)	–	–	(229,587)
Unallocated finance income less unallocated finance expenses						10,136
<b>Profit before income tax</b>						<b>214,817</b>
Income tax expense						(36,520)
<b>Net profit for the year</b>						<b>178,297</b>

## DISCUSSION AND ANALYSIS FOR THE YEAR ENDED 31 MARCH 2007

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

SP AusNet achieved a net profit after tax ("NPAT") of \$178.3 million for the 12 months ended 31 March 2007, comprising NPAT of \$161.2 million from continuing operations and NPAT of \$17.1 million from discontinued operations. The parent entity incurred a loss of \$80.8 million but this was attributable to interest expense incurred on loans from subsidiaries and from SP AusNet Finance Trust totalling \$114.8 million. The intercompany interest eliminates in the combined entity and so does not impact on the combined financial results of SP AusNet.

The NPAT result was driven by revenues of \$1,019.5 million resulting from favourable weather conditions and strong customer growth in Victoria. In addition, operating costs were contained at \$594.8 million despite settlement of a legal claim of \$10.7 million with AGL Victoria Pty Ltd regarding unaccounted for gas.

SP AusNet derives most of its continuing earnings from three regulated energy network businesses, which include Victoria's high voltage electricity transmission network, an electricity distribution network located in eastern Victoria and a gas distribution network in western Victoria.

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

## PRIOR YEAR COMPARATIVES

Comparison to prior year financial performance is affected by two significant factors:

- Firstly, the Stapled Group was established on 21 October 2005. As SP AusNet Distribution was the identified acquirer, the financial results for the year ended 31 March 2006 comprise the full year results for SP AusNet Distribution but only the results of SP AusNet Transmission and SP AusNet Finance Trust from the date of stapling of 21 October 2005 (refer to Note 1(b) in the notes to the financial statements for further information).

- Secondly, SP AusNet Distribution completed the disposal of the merchant energy business on 31 May 2005. The merchant energy business contributed \$230.7 million in profit after tax to the financial results of SP AusNet Distribution in the 2006 comparative year (refer to Note 11 in the notes to the financial statements for further information).

## ELECTRICITY DISTRIBUTION BUSINESS

SP AusNet's electricity distribution business contributed \$433.5 million in total revenues (excluding interest income) for the year ended 31 March 2007. Revenues were favourably impacted by increased volumes due to weather conditions in Victoria.

In the year to 31 March 2007 over 9,300 additional customers were connected to the network. Growth in revenues for the electricity distribution business continues to be driven by increased load growth from the penetration of air-conditioning into the residential market and new customer growth. During the financial year 7,436 GWh was distributed through the distribution network, representing an increase of 3.6% over the previous financial year. Total capital expenditure for the year was \$171.7 million, of which \$82.8 million was customer-initiated.

From early December 2006 until late January 2007, Victoria was forced to combat aggressive bushfires in the north east of the State. SP AusNet was pleased with the way its crews managed the crisis with only minor damage suffered to its distribution lines. The smoke and debris from the fires also affected transmission lines in this region, causing a safety response that ultimately affected power supply. SP AusNet teams worked tirelessly to restore power to ensure the majority of customers experienced minimal supply interruptions during this time.

## GAS DISTRIBUTION BUSINESS

SP AusNet's gas distribution business contributed \$175.0 million in total revenues (excluding interest income) for the year ended 31 March 2007. Revenues were favourably impacted by increased volumes due to favourable weather conditions in Victoria.

In the year to 31 March 2007 approximately 13,200 additional customers were connected to the network. The rollout of gas to regional towns is progressing well with the townships of Gisborne, New Gisborne, Macedon, Port Fairy and Woodend connected during the period.

Strong demand in Victoria's growth corridors is continuing to generate high customer connections to the network. Capital expenditure for the year was \$80.1 million of which \$55.4 million was customer-initiated, including \$25.4 million for new town connections. Total gas delivered through the network was 71.7 PJ, an increase of 8.1% over the previous financial year.

## ELECTRICITY TRANSMISSION BUSINESS

SP AusNet's electricity transmission business contributed \$420.8 million in total revenues (excluding interest income) for the year ended 31 March 2007. Total electricity transmitted through the network was 51,815 GWh which is an increase of 3.2% over the previous financial year.

Capital expenditure on the transmission network is progressing well, with the Rowville and Moorabool contestable projects both ahead of schedule and on track to meet target completion dates. The Rowville interface works are also on track with practical completion of a critical milestone achieved in March giving rise to a \$0.5 million incentive payment payable by VENCORP. Total capital expenditure was \$154.2 million for the year, including \$60.8 million customer-initiated and \$86.7 million company-initiated projects, of which \$70.3 million was attributed to terminal station redevelopments. The additional capital investment will result in future increased revenues.

## BALANCE SHEETS

SP AusNet's total assets as at 31 March 2007 were \$6,932.4 million comprising principally property, plant and equipment of \$6,312.2 million. Cash was \$9.1 million, current receivables were \$140.9 million, current derivative financial instruments were \$26.9 million and intangible assets were \$354.5 million.

Current liabilities as at 31 March 2007 were \$880.9 million due mostly to borrowings of \$619.9 million, payables of \$165.7 million and derivative financial instruments of \$31.8 million.

Non-current liabilities as at 31 March 2007 were \$3,398.8 million comprising mostly borrowings of \$2,940.3 million.

Securityholders' equity was \$2,652.6 million as at 31 March 2007. 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 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 the reporting date. The Directors are considering a range of re-financing options for the maturing debt. Given SP AusNet's investment grade credit rating and the strong interest shown by a number of banks, Directors are confident of being able to refinance the maturing debt. In addition, the Stapled Group has the ability to draw down on existing loan facilities to re-finance the maturing debt.

## CASH FLOW STATEMENTS

Net operating cash flows for the year ended 31 March 2007 were \$393.3 million, an increase of \$218.7 million on the comparative period.

Net outflows from investing activities of \$400.7 million resulted primarily from payments for property, plant and equipment.

The net inflow from financing activities of \$7.9 million resulted primarily from the proceeds from borrowings offset by distributions paid during the year of \$185.9 million.

## SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

## MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

### UNACCOUNTED FOR GAS SETTLEMENT

In August 2006, the Supreme Court of Appeal upheld AGL's appeal in the matter of AGL Victoria Pty Ltd v SPI Networks (Gas) Pty Ltd and Victorian Energy Networks Corporation. SP AusNet sought leave to appeal the decision, however, in February 2007 the application was dismissed by the High Court of Australia. Subsequent to the end of the financial year, full and final settlement was made with AGL in relation to all claims arising from this case. The financial statements include the impact of this final settlement. A provision was made at the half-year for \$15.9 million with final settlement being \$13.8 million (including legal fees and interest).

## DISTRIBUTIONS

Since the end of the financial year, the Directors have approved a final distribution for 2007 of \$117,922,519 (5.635 cents per Stapled Security) to be paid on 28 June 2007.

Other than referred to above, the Directors are not aware of any circumstances that have arisen since 31 March 2007 that have significantly affected or may significantly affect the operations, and results of those operations or the state of affairs, of the Stapled Group in financial years subsequent to 31 March 2007.

## LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

On 11 May 2007, Singapore Power International Pte Ltd ("Singapore Power") advised that it had, in conjunction with Babcock and Brown International Pty Ltd, signed a revised Scheme Implementation Agreement ("Scheme") to acquire Alinta Ltd. Singapore Power has stated that it currently intends to invest through SP AusNet in electricity

and gas transmission and distribution businesses in Australia and New Zealand and will offer SP AusNet the chance to consider this opportunity. SP AusNet has established an independent process for the assessment of this investment opportunity. Until the Scheme is voted on by Alinta shareholders and the assessment process is finalised, the outcome for SP AusNet is uncertain.

## OTHER MATTERS

Further information on likely developments in the operations of SP AusNet 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 SP AusNet.

## ENVIRONMENTAL REGULATION

SP AusNet was subject to both Federal and State Government environmental legislation during the year. The most significant areas of environmental legislation affecting the Stapled Group in Victoria are those which regulate noise emissions, greenhouse gas emissions, the discharge of emissions to land, air and water, the management of oils, chemicals and dangerous goods, the disposal of wastes, and those 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 DIRECTORS

### NG KEE CHOE

#### CHAIRMAN – NON-EXECUTIVE

Bachelor of Science (Honours),  
University of Singapore

### EXPERIENCE AND EXPERTISE

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

### OTHER CURRENT LISTED COMPANY DIRECTORSHIPS

None

### FORMER LISTED COMPANY DIRECTORSHIPS IN LAST 3 YEARS

None

### DATE OF INITIAL APPOINTMENT

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

### SPECIAL RESPONSIBILITIES

Chairman of the SP AusNet Board and Chairman of the Nomination and Remuneration Committee

### NINO FICCA

#### MANAGING DIRECTOR

Bachelor of Engineering (Electrical) (Honours),  
Deakin University  
Graduate Diploma in Management,  
Deakin University

### EXPERIENCE AND EXPERTISE

Mr Ficca has over 25 years' experience in the energy industry including numerous senior management roles with SPI PowerNet Pty Ltd including as Managing Director since 2003. He is a Director and the Deputy Chairman of the Energy Supply Association of Australia and a member of the National Electricity Market Operations Committee. Mr Ficca also serves as Director of SPI Management Services Pty Ltd.

### OTHER CURRENT LISTED COMPANY DIRECTORSHIPS

None

### FORMER LISTED COMPANY DIRECTORSHIPS IN LAST 3 YEARS

None

### DATE OF INITIAL APPOINTMENT

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

### SPECIAL RESPONSIBILITIES

Managing Director and a member of the Advanced Metering Infrastructure Due Diligence Committee

### JEREMY GUY ASHCROFT DAVIS

#### NON-EXECUTIVE DIRECTOR

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

### EXPERIENCE AND EXPERTISE

Professor Davis is a Professor Emeritus of the University of New South Wales, after retiring from the Australian Graduate School of Management (AGSM) in January 2006. He is a Director of Singapore Power Limited, Transurban Group and CHAMP Ventures Pty Ltd and Deputy Chairman of AMWIN Management Pty Ltd. Previously, Professor 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.

### OTHER CURRENT LISTED COMPANY DIRECTORSHIPS

Transurban Group (1997 to date)

### FORMER LISTED COMPANY DIRECTORSHIPS IN LAST 3 YEARS

None

### DATE OF INITIAL APPOINTMENT

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

### SPECIAL RESPONSIBILITIES

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

### ERIC GWEE TECK HAI

#### NON-EXECUTIVE DIRECTOR

Bachelor of Engineering (Mechanical),  
University of Melbourne

### EXPERIENCE AND EXPERTISE

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

Corporation Pte Ltd and the Public Transport Council and was formerly a Director of ExxonMobil Singapore Private Ltd.

#### OTHER CURRENT LISTED COMPANY DIRECTORSHIPS

WorleyParsons Ltd (2005 to date)

#### FORMER LISTED COMPANY DIRECTORSHIPS IN LAST 3 YEARS

None

#### DATE OF INITIAL APPOINTMENT

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

#### SPECIAL RESPONSIBILITIES

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

#### ANTONINO (TONY) MARIO IANNELLO INDEPENDENT NON-EXECUTIVE DIRECTOR

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

#### EXPERIENCE AND EXPERTISE

Mr Iannello is a Director of HBF Health Fund Inc and HBF Insurance Pty Ltd, Chairman of MG Kailis Group of Companies and Harrier Resourcing People Pty Ltd and a member of the Murdoch University Senate and Unisys Australia Advisory Council. Mr Iannello was formerly Managing Director of Western Power Corporation. Previously he held a number of senior executive roles at the Bank of Western Australia including General Manager Finance and Corporate Services, General Manager Corporate and Interstate Banking, Head of Consumer Marketing and Head of Strategic Planning.

#### OTHER CURRENT LISTED COMPANY DIRECTORSHIPS

None

#### FORMER LISTED COMPANY DIRECTORSHIPS IN LAST 3 YEARS

None

#### DATE OF INITIAL APPOINTMENT

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

#### SPECIAL RESPONSIBILITIES

Chairman of the Audit and Risk Management Committee and member of the Compliance Committee

#### GEORGE ALLISTER LEFROY NON-EXECUTIVE DIRECTOR

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

#### EXPERIENCE AND EXPERTISE

Dr Lefroy is President Commissioner of PT Chandra Asri, Jakarta and Chairman of the Cambridge Australian Trust, Victorian Committee. He was formerly executive Vice President of Shell Chemicals Ltd and a Director of Singapore Power Ltd and Australian Power and Energy Limited (now Monash Energy Holdings Limited).

#### OTHER CURRENT LISTED COMPANY DIRECTORSHIPS

Cobar Consolidated Resources Ltd  
(2006 to date)

#### FORMER LISTED COMPANY DIRECTORSHIPS IN LAST 3 YEARS

None

#### DATE OF INITIAL APPOINTMENT

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

#### SPECIAL RESPONSIBILITIES

Member of the Nomination and Remuneration Committee and Chairman of the Advanced Metering Infrastructure Due Diligence Committee

#### MARTYN KENNETH MYER INDEPENDENT NON-EXECUTIVE DIRECTOR

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

#### EXPERIENCE AND EXPERTISE

Mr Myer has extensive experience in financial services, engineering and biotechnology. He was formerly Managing Director of Merlyn Asset Management Pty Ltd, a boutique funds management company. Prior to that he had extensive experience with some of Australia's leading manufacturers. Mr Myer is involved in several philanthropic activities, including as President of the Howard Florey Institute at the University of Melbourne and a member of the board of the Myer Foundation.

#### OTHER CURRENT LISTED COMPANY DIRECTORSHIPS

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

#### FORMER LISTED COMPANY DIRECTORSHIPS IN LAST 3 YEARS

Coles Myer Limited (now Coles Group Limited)  
(1996 to 2006)

#### DATE OF INITIAL APPOINTMENT

SP AusNet Transmission – 26 October 2005  
SP AusNet Distribution – 9 September 2005  
Responsible Entity – 9 September 2005

#### SPECIAL RESPONSIBILITIES

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

#### QUEK POH HUAT NON-EXECUTIVE DIRECTOR

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

#### EXPERIENCE AND EXPERTISE

Mr Quek is the Group Chief Executive Officer and a Director of Singapore Power Limited. Within Singapore Power Limited he serves as a Director on the board of SP Services Ltd. Mr Quek is also Chairman and a Director of SPI Management

Services Pty Ltd, PowerGas Ltd and SP PowerGrid Ltd and a Director of Singapore Technologies Engineering Ltd and SP PowerAssets Ltd. Mr Quek was formerly the President of Temasek Holdings (Private) Ltd.

#### OTHER CURRENT LISTED COMPANY DIRECTORSHIPS

None

#### FORMER LISTED COMPANY DIRECTORSHIPS IN LAST 3 YEARS

None

#### DATE OF INITIAL APPOINTMENT

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

#### SPECIAL RESPONSIBILITIES

Member of the Nomination and Remuneration Committee

#### IAN ANDREW RENARD INDEPENDENT NON-EXECUTIVE DIRECTOR

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

#### EXPERIENCE AND EXPERTISE

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

#### OTHER CURRENT LISTED COMPANY DIRECTORSHIPS

CSL Ltd (1998 to date)

#### FORMER LISTED COMPANY DIRECTORSHIPS IN LAST 3 YEARS

Newcrest Mining Ltd (1998 to 2006)

#### DATE OF INITIAL APPOINTMENT

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

#### SPECIAL RESPONSIBILITIES

Chairman of the Compliance Committee and a member of the Audit and Risk Management Committee and Advanced Metering Infrastructure Due Diligence Committee

#### ELIZABETH MARIE MILDWATER COMPANY SECRETARY

Bachelor of Economics, Sydney University  
Bachelor of Laws (Honours), Sydney University  
Master of Contemporary Asian Analysis,  
University of Melbourne

Ms Mildwater has been Company Secretary of SP AusNet Distribution since 12 July 2005, SP AusNet Transmission since 7 September 2005 and the Responsible Entity since 5 August 2005. She has over 15 years of legal, company secretarial and other relevant experience, including significant in-house legal company 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 number of meetings of the Board of Directors of SP AusNet Transmission, SP AusNet Distribution and the Responsible Entity held during the year ended 31 March 2007, and the numbers of meetings attended by each Director are set out in the following table. All meetings were held jointly.

Name	Board of SP AusNet Transmission		Board of SP AusNet Distribution		Board of Responsible Entity	
	A	B	A	B	A	B
<b>Ng Kee Choe</b>	8	8	8	8	8	8
<b>Nino Ficca</b>	8	8	8	8	8	8
<b>Jeremy Davis</b>	8	8	8	8	8	8
<b>Eric Gwee</b>	8	8	8	8	8	8
<b>Tony Iannello</b>	6	6	6	6	6	6
<b>George Lefroy</b>	8	8	8	8	8	8
<b>Martyn Myer</b>	8	8	8	8	8	8
<b>Quek Poh Huat</b>	8	8	8	8	8	8
<b>Ian Renard</b>	7	8	7	8	7	8

A = Number of meetings attended

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

The number of meetings of each permanent Board committee of SP AusNet Transmission, SP AusNet Distribution and the Responsible Entity held during the year ended 31 March 2007, and the numbers of meetings attended by each Director are set out in the following table.

Name	Audit & Risk Management Committee		Compliance Committee		Nomination & Remuneration Committee	
	A	B	A	B	A	B
<b>Ng Kee Choe</b>	**	**	**	**	2	2
<b>Nino Ficca</b>	**	**	**	**	**	**
<b>Jeremy Davis</b>	7	7	4	4	**	**
<b>Eric Gwee</b>	7	7	4	4	**	**
<b>Tony Iannello</b>	5	5	3	3	**	**
<b>George Lefroy</b>	3	3	**	**	2	2
<b>Martyn Myer</b>	7	7	4	4	1	1
<b>Quek Poh Huat</b>	**	**	**	**	2	2
<b>Ian Renard</b>	7	7	4	4	**	**

A = Number of meetings attended

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

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

The number of meetings of the special-purpose Advanced Metering Infrastructure Due Diligence Committee held during the year ended 31 March 2007 and the number of meetings attended by each Director are set out in the following table.

Name	Advanced Metering Infrastructure Due Diligence Committee	
	A	B
<b>Ng Kee Choe</b>	**	**
<b>Nino Ficca</b>	3	4
<b>Jeremy Davis</b>	**	**
<b>Eric Gwee</b>	**	**
<b>Tony Iannello</b>	**	**
<b>George Lefroy</b>	4	4
<b>Martyn Myer</b>	**	**
<b>Quek Poh Huat</b>	**	**
<b>Ian Renard</b>	3	4

A = Number of meetings attended

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

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

## RETIREMENT, ELECTION AND CONTINUATION IN OFFICE OF DIRECTORS

Ng Kee Choe, Martyn Myer and George Lefroy each retire by rotation in accordance with the constitutions of SP AusNet Transmission and SP AusNet Distribution and, being eligible, offer themselves for re-election.

## REMUNERATION REPORT (AUDITED)

### KEY MANAGEMENT PERSONNEL

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

With the exception of Tony Iannello, the persons listed below were Directors of SP AusNet for the whole of the financial year and up to the date of this report. Mr Iannello was appointed a Non-executive Director on 6 June 2006 and continues in office at the date of this report.

Name	Position
<b>Ng Kee Choe</b>	Non-executive Chairman
<b>Nino Ficca</b>	Managing Director
<b>Jeremy Davis</b>	Non-executive Director
<b>Eric Gwee</b>	Non-executive Director
<b>Tony Iannello</b>	Non-executive Director
<b>George Lefroy</b>	Non-executive Director
<b>Martyn Myer</b>	Non-executive Director
<b>Quek Poh Huat</b>	Non-executive Director
<b>Ian Renard</b>	Non-executive Director

SPI Management Services Pty Ltd (“SPI Management Services”), a wholly-owned subsidiary of related party Singapore Power

International Pte Ltd, entered into management services agreements with the Companies and the Responsible Entity to provide the services of key senior management, including the Managing Director and the executive management team, to SP AusNet. Although not employed by SP AusNet, the individuals set out below are deemed to qualify as key management personnel of SP AusNet on the basis that they had the authority and the responsibility for planning, directing and controlling the activities of SP AusNet during the financial year. This group includes the five most highly remunerated executives during the financial year.

Name	Position
<b>Nino Ficca</b>	Managing Director
<b>Paul Adams</b>	General Manager, Network Services
<b>Peter Buck<sup>1</sup></b>	General Manager, Distribution Network Development
<b>Norman Drew</b>	General Manager, Network Development
<b>Terrence Fowler<sup>2</sup></b>	General Manager, Finance
<b>Adrian Hill<sup>3</sup></b>	General Manager, Corporate Development and Investor Relations
<b>Geoffrey Nicholson<sup>4</sup></b>	Chief Financial Officer
<b>Charles Poppo</b>	General Manager, Regulatory and Business Strategy

1 Mr Buck ceased as a member of the key management personnel on 24 July 2006.

2 Mr Fowler ceased as a member of the key management personnel on 22 December 2006.

3 Mr Hill commenced as a member of the key management personnel on 1 August 2006.

4 Mr Nicholson commenced as a member of the key management personnel on 2 January 2007.

### NOMINATION AND REMUNERATION COMMITTEE

The SP AusNet Nomination and Remuneration Committee makes recommendations to the

Board regarding the remuneration framework for Directors and senior executives. It also reviews and approves the general remuneration framework for SP AusNet employees and reviews SP AusNet's obligations on matters such as superannuation and other employment benefits and entitlements.

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.

Further information in relation to the Nomination and Remuneration Committee is set out in SP AusNet's Annual Report 2007 in the section entitled Corporate Governance.

### STAPLED GROUP PERFORMANCE

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

The table below shows SP AusNet's consolidated operating revenue and net profit after tax for the current reporting period and previous years and the effect of SP AusNet's performance on securityholder value. As the Stapled Group was formed on 21 October 2005 and listed on 14 December 2005, no figures are available for 2003 and 2004 and comparatives for 2005 are not provided as they do not relate to the performance of the listed group. The 2006 results do not represent full year results and are also impacted by the disposal of the merchant energy business (refer to Note 11 in the Notes to the Financial Statements).

	2003	2004	2005	2006	2007
Revenue	—	—	—	\$737.5m	<b>\$1,019.5m</b>
NPAT from continuing operations	—	—	—	\$136.9m	<b>\$161.2m</b>
Closing security price as at 31 March	—	—	—	\$1.30	<b>\$1.42</b>
Distributions in respect of financial year (cents per Stapled Security)	—	—	—	3.25	<b>11.27</b>

### PRINCIPLES USED TO DETERMINE THE NATURE AND AMOUNT OF REMUNERATION

#### NON-EXECUTIVE DIRECTORS

The remuneration of Non-executive Directors consists of Directors' fees and committee fees. Non-executive Directors are not provided with any form of retirement benefit or equity-based compensation. The remuneration information provided below is for SP AusNet. It is not possible to allocate remuneration to individual entities within the SP AusNet Group.

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. The fees paid to Non-executive Directors are not linked to the performance of SP AusNet in order to maintain objectivity and independence.

The constitutions of SP AusNet Transmission, SP AusNet Distribution and the Responsible Entity provide that Non-executive Directors are entitled to such remuneration for their services as the Board decides, but the total amount provided to all Non-executive Directors must not exceed in aggregate in any financial year the amount approved by securityholders in general meeting.

The securityholders of SP AusNet Transmission and SP AusNet Distribution approved a total remuneration pool for Non-executive Directors

of \$1,000,000 per year at the inaugural Annual General Meeting of SP AusNet held on 18 July 2006. Each year, the Nomination and Remuneration Committee reviews the fees payable to Non-executive Directors taking into account market rates and the time commitment and responsibilities involved in carrying out their duties.

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 these committees are also paid an additional amount. The annual fees payable to Non-executive Directors of SP AusNet as at the date of this report are set out in the table below:

## REMUNERATION REPORT (AUDITED) CONTINUED

### NON-EXECUTIVE DIRECTOR BASE FEES:

	Board		Audit and Risk Management Committee		Nomination and Remuneration Committee		Compliance Committee	
	Chair	Member	Chair	Member	Chair	Member	Chair	Member
Fee	\$120,000	\$80,000	\$15,000	\$10,000	\$12,000	\$8,000	\$12,000	\$8,000

In accordance with the constitutions of SP AusNet Transmission, SP AusNet Distribution and the Responsible Entity, 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. The above fees are inclusive of superannuation contributions 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 principles of good corporate governance.

### EXECUTIVE DIRECTORS AND SENIOR EXECUTIVES

The key objectives of SP AusNet's policy for

senior executive remuneration are to manage a total reward framework designed to:

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

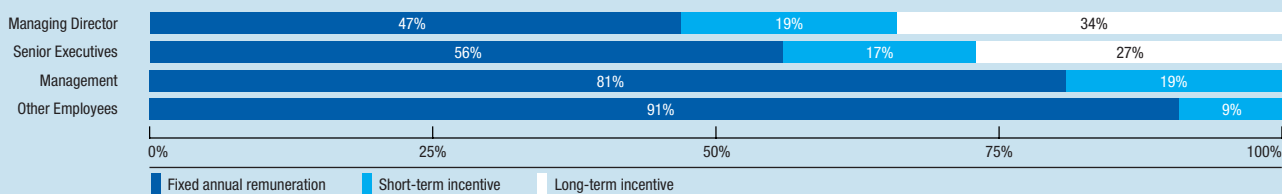
The remuneration and incentive package for the Managing Director and other senior executives (including the Company Secretary) is determined and paid by SPI Management Services. However,

SPI Management Services must consider any recommendations made by SP AusNet in relation to remuneration, incentive payments and programs, and key performance measures in respect of senior executives which promote alignment of "owner-management" interests.

### STRUCTURE OF TOTAL REWARD

The reward principles set out the relevant elements of remuneration to make up "total reward". For the majority of SP AusNet employees, total reward consists of fixed remuneration and "at risk" remuneration through a STI plan. During the reporting period, a LTI plan was introduced into the pay structure for the Managing Director and senior executives. An appropriate mix of these components is determined for each level of management and employees.

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



### FIXED ANNUAL REMUNERATION

Fixed annual remuneration ("FAR") represents the fixed component of executive remuneration and consists of a mix of cash, superannuation, prescribed benefits and salary-sacrificed items such as motor vehicles and fringe benefits tax. FAR is reviewed annually against market rates for comparable roles. There are no guaranteed FAR increases fixed in any senior executive's contract of employment.

### BENEFITS

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

### SHORT-TERM INCENTIVES

SP AusNet makes available STI payments to senior executives for the achievement of key performance indicators ("KPIs") based on corporate financial and non-financial measures as well as stretch individual performance hurdles. The payments under the STI plan consist entirely of cash bonuses and do not involve Stapled Securities. Generally, senior executives must complete the

business year to qualify for any short-term bonus payments. In some circumstances, the Board may in its discretion determine that a pro-rata bonus payment be awarded to a departing executive.

A target STI amount, expressed as a percentage of the senior executive's FAR, is specified for each senior executive. However, the amount of STI payable is dependent on:

- the extent to which SP AusNet has achieved the corporate KPIs; and
- the extent to which the senior executive has achieved his or her individual KPIs.

The corporate KPIs set for the year ended 31 March 2007 included:

- net profit;
- controllable operating costs;
- health, safety and environmental targets;
- network performance and reliability targets;
- program delivery (capital and maintenance) targets; and
- completion of business integration programs.

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.

### SHARE-BASED PAYMENT

During the year SPI Management Services offered a one-off gift of \$1,000 worth of SP AusNet Stapled Securities to all SP AusNet employees and managers (excluding the Managing Director).

### LONG-TERM INCENTIVES

The SP AusNet Board has approved a LTI plan for the Managing Director and senior executives which came into effect on 1 April 2006. The Board may in its discretion invite additional employees to participate in the LTI plan who are in a position to influence long-term securityholder value.

The LTI plan is a cash plan that rewards participants for increasing securityholder value. The Board issues annual invitations to participate in the plan which set out the maximum percentage of FAR that the participant is eligible to receive as a cash bonus at the end of a three year performance period ("the Award"). For the 1 April 2006 grant,

the performance measures used to determine the amount of Award payable are Relative Total Securityholder Returns ("TSR") (for 50% of the Award) and growth in Earnings Per Security ("EPS") (for the other 50% of the Award). The Award is calculated as a percentage of the participant's FAR prevailing at the test date. For the performance period commencing 1 April 2006, the quantum of Awards available to participants expressed as a percentage of the prevailing FAR at the performance test date, are:

- Managing Director – 75%
- Reporting executives – 50%
- Other participants – 25%

The comparator group used for the 1 April 2006 grant performance testing consists of the companies included in the S&P/ASX 200 index. In assessing whether the performance hurdles have been met, SP AusNet receives independent data which provides both SP AusNet's TSR growth from the commencement of each grant and that of the companies in the comparator group. The level of TSR growth achieved by SP AusNet will be given a percentile ranking having regard to its performance compared with the performance of other companies in the comparator group. The LTI plan does not allow for retesting of performance measures in subsequent years.

The EPS growth measure is based on SP AusNet achieving a nominal compound annual growth ("CAGR") of 5% per annum over the three year period. A sliding scale applies as follows:

- below 2.5% per annum CAGR, no EPS component of the reward is achieved;
- between 2.5% and 7.5% per annum CAGR, a linear scale from 50% to 150% EPS reward is achieved; and
- the maximum achievable EPS component is 150%.

Where Awards successfully vest after meeting performance hurdles, participants are required under the plan rules to purchase on-market, during an approved trading window, SP AusNet Stapled Securities to the value of the after tax cash payment received by the participant. The participants are then required to hold the Stapled Securities purchased for a period not less than 12 months. Reasonable brokerage costs incurred by the participants are reimbursed.

#### RETENTION AWARDS

SPI Management Services has offered retention awards to key individuals who joined from TXU Australia Group Pty Ltd ("TXU") whose ongoing involvement with the SP AusNet Group is considered to be critical over the medium term. Details of these awards are set out below.

In order to retain Paul Adams (General Manager, Network Services), who was identified as a key executive following the acquisition of TXU in 2004, he was offered a form of retention payment based on his entitlement under the arrangement in place with TXU. However, instead of a lump sum payment, the amount was made payable over

four years (ending 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 (former General Manager, Distribution Network Development) and Adrian Hill (General Manager, Corporate Development and Investor Relations) were offered two payments across two years comprising fixed and variable components linked to their achievement of individual performance targets. The final amounts were paid in August 2006.

#### LOANS TO DIRECTORS AND SENIOR EXECUTIVES

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

#### DETAILS OF REMUNERATION

Details of the nature and amount of each element of the emoluments of each Director and key management personnel of SP AusNet are set out in the following tables (unless otherwise noted, positions were held for the full financial year). The key management personnel are not employees of SP AusNet but are employed by SPI Management Services. Under management services agreements between SPI Management Services and SP AusNet, the services of these key management personnel, including the Managing Director, are provided to SP AusNet.

### FOR THE YEAR ENDED 31 MARCH 2007

#### DIRECTOR REMUNERATION

	Short-term				Post-employment	Termination benefits	Equity based payments	
	Cash salary and fees	Retention payments	Cash bonus <sup>1</sup>	Other short-term benefits <sup>2</sup>	Super-annuation <sup>3</sup>			Total
<b>Non-executive Directors</b>								
<b>Ng Kee Choe</b> (Chairman)	109,327	–	–	3,800	9,839	–	–	122,966
<b>Jeremy Davis</b>	83,227	–	–	3,800	7,495	–	–	94,522
<b>Eric Gwee</b>	89,833	–	–	3,800	–	–	–	93,633
<b>Tony Iannello</b> <sup>4</sup>	71,483	–	–	3,800	6,433	–	–	81,716
<b>George Lefroy</b>	76,731	–	–	3,800	6,906	–	–	87,437
<b>Martyn Myer</b>	84,941	–	–	3,800	7,645	–	–	96,386
<b>Quek Poh Huat</b> <sup>5</sup>	81,579	–	–	3,800	–	–	–	85,379
<b>Ian Renard</b>	85,550	–	–	3,800	7,700	–	–	97,050
<b>Executive Director</b>								
<b>Nino Ficca</b>	444,154	–	180,000	8,970 <sup>6</sup>	46,544	–	–	679,668

1 This bonus is in respect of performance for the year ended 31 March 2007. This amount has been approved but not yet paid.

2 These amounts represent an allocation of the premium for Directors' and Officers' insurance.

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

4 Mr Iannello commenced on 6 June 2006.

5 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.

6 This amount represents car parking and an allocation of the premium for Directors' and Officers' insurance.

## REMUNERATION REPORT (AUDITED) CONTINUED

### SENIOR EXECUTIVE REMUNERATION

	Short-term				Post-employment	Termination benefits	Equity based payments <sup>1</sup>	
	Cash salary and fees	Retention payments <sup>2</sup>	Cash bonus <sup>3</sup>	Other short-term benefits <sup>4</sup>	Super-annuation			Total
Nino Ficca	444,154	—	180,000	8,970	46,544	—	—	679,668
Paul Adams	272,027	243,700	80,000	8,970	25,805	—	1,000	631,502
Peter Buck <sup>5</sup>	62,252	68,402	—	2,990	8,093	—	1,000	142,737
Norman Drew	234,494	—	68,000	8,970	28,212	—	1,000	340,676
Terrence Fowler <sup>6</sup>	284,158	—	—	6,728	34,078	609,929 <sup>7</sup>	1,000	935,893
Adrian Hill <sup>8</sup>	119,914	62,032	47,000	5,980	10,987	—	1,000	246,913
Geoffrey Nicholson <sup>9</sup>	72,129	—	20,000	2,243	6,492	—	—	100,864
Charles Popple	220,344	—	61,000	8,970	22,085	—	1,000	313,399
<b>Total</b>	<b>1,709,472</b>	<b>374,134</b>	<b>456,000</b>	<b>53,821</b>	<b>182,296</b>	<b>609,929</b>	<b>6,000</b>	<b>3,391,652</b>

1 These amounts represent the one-off gift from SPI Management Services described above under the heading share-based payment. The Stapled Group has determined, based on its best estimate, that in relation to the year ended 31 March 2007 no amount will be payable under the LTI plan. This estimate is based on historical performance over the last twelve months. Historic performance is not necessarily an indicator of the amount that will actually vest in year 3 but does form the best estimate at present. Refer to the table below under the heading of cash bonuses – long-term incentive for the maximum amounts payable at the end of three years.

2 Further details in relation to the retention payments to Mr Adams, Mr Buck and Mr Hill are set out under the heading retention awards above.

3 These bonuses are in respect of performance for the year ended 31 March 2007. These amounts have been approved but not yet paid.

4 These amounts represent car parking and an allocation of the premium for Directors' and Officers' insurance. The amount is on a pro-rata basis when the senior executive has been a member of the key management personnel for less than 12 months.

5 Mr Buck ceased as a member of the key management personnel on 24 July 2006. Remuneration is only for the period Mr Buck was a member of the key management personnel.

6 Mr Fowler ceased as a member of the key management personnel on 22 December 2006. Remuneration represents all entitlements during the period Mr Fowler was a member of the key management personnel.

7 Mr Fowler's termination payment includes a termination amount payable under his employment agreement and an additional payment from SPI Management Services in recognition of his long-standing service.

8 Mr Hill commenced as a member of the key management personnel on 1 August 2006. Remuneration is only for the period Mr Hill was a member of the key management personnel.

9 Mr Nicholson commenced as a member of the key management personnel on 2 January 2007. Remuneration is for the period from when Mr Nicholson was appointed.

### CASH BONUSES – SHORT-TERM INCENTIVE

The percentage of the available bonus that was paid, or that vested, in the financial years ended 31 March 2006 and 31 March 2007, and the percentage that was forfeited because the person did not meet the service and performance criteria are set out below.

	Cash Bonus (2006) <sup>1</sup>			Cash Bonus (2007) <sup>2</sup>		
	Paid (\$)	Percentage of available bonus		Payable (\$)	Percentage of available bonus	
		Paid	Not Paid		Payable	Not Payable
Nino Ficca	220,000	95.7%	4.3%	180,000	83.3%	16.7%
Paul Adams	79,000	88.3%	11.7%	80,000	83.3%	16.7%
Peter Buck	54,000	82.8%	17.2%	—	—	—
Norman Drew	73,000	94.8%	5.2%	68,000	78.2%	21.8%
Terrence Fowler	79,000	90.8%	9.2%	—	—	—
Adrian Hill	—	—	—	47,000	72.9%	27.1%
Geoffrey Nicholson	—	—	—	20,000	72.8%	27.2%
Charles Popple	70,000	87.0%	13.0%	61,000	75.3%	24.7%

1 These bonuses consist of payments pursuant to the STI plan based on performance during the year ended 31 March 2006 and where applicable, special discretionary bonuses awarded in recognition of exceptional performance. These bonuses were not approved or paid until the financial year ended 31 March 2007.

2 Bonuses for performance for the year ended 31 March 2007 have been approved but not yet paid.

### CASH BONUSES – LONG-TERM INCENTIVE (EQUITY BASED PAYMENTS)

The SP AusNet Board approved a LTI plan for the Managing Director and senior executives that came into effect from 1 April 2006. For accounting purposes, amounts paid under the LTI plan are required to be disclosed as equity based payments. The following table shows the value of cash grants subject to future performance testing, percentage paid or forfeited and future financial years that grants may vest and be paid. As the grants made in 2006 will not be tested until 2009, no grants have been paid or forfeited at the date of this Report.

	Date of grant	Percentage of grant paid (%)	Percentage of grant forfeited (%)	Date grant may vest	Minimum total value of grant (\$)	Maximum total value of grant (\$) <sup>1</sup>
Nino Ficca	1 April 2006	—	—	31 March 2009	0	558,141
Paul Adams	1 April 2006	—	—	31 March 2009	0	220,500
Norman Drew	1 April 2006	—	—	31 March 2009	0	199,828
Adrian Hill	1 April 2006	—	—	31 March 2009	0	148,148
Geoffrey Nicholson	1 April 2006	—	—	31 March 2009	0	261,844
Charles Popple	1 April 2006	—	—	31 March 2009	0	186,047
<b>Total</b>						<b>1,574,508</b>

1 These amounts are estimates based on SP AusNet achieving the maximum possible performance conditions at the end of the three year performance period described above. The assumed prevailing FARs used to calculate the estimates are based on a 5% annual increase in each senior executive's FAR to the test date.

FOR THE YEAR ENDED 31 MARCH 2006:  
DIRECTOR REMUNERATION

	Short-term				Post-employment	Termination benefits	Equity based payments	
	Cash salary and fees	Retention payments	Cash bonus <sup>1</sup>	Other short-term benefits	Super-annuation <sup>2</sup>			Total
<b>Non-executive Directors</b>								
<b>Ng Kee Choe</b> (Chairman) <sup>3</sup>	70,422	—	—	5,555	6,338	—	—	82,315
<b>Jeremy Davis</b> <sup>3</sup>	66,819	—	—	5,555	6,014	—	—	78,388
<b>Eric Gwee</b> <sup>3</sup>	70,322	—	—	5,555	—	—	—	75,877
<b>George Lefroy</b> <sup>3,4</sup>	93,199	—	—	5,555	8,376	—	—	107,130
<b>Martyn Myer</b> <sup>5</sup>	43,177	—	—	5,555	3,886	—	—	52,618
<b>Quek Poh Huat</b> <sup>3,6</sup>	77,000	—	—	5,555	—	—	—	82,555
<b>Ian Renard</b> <sup>3,4</sup>	89,188	—	—	5,555	8,027	—	—	102,770
<b>Wong Toon Suan</b> <sup>7</sup>	—	—	—	—	—	—	—	—
<b>Yap Chee Keong</b> <sup>7</sup>	—	—	—	—	—	—	—	—
<b>Executive Directors</b>								
<b>Nino Ficca</b> <sup>8</sup>	398,658	—	86,212	5,555	39,990	—	—	530,415
<b>Paul Adams</b> <sup>9</sup>	230,443	104,892	17,865	5,000	23,716	—	—	381,916
<b>Terrence Fowler</b> <sup>10</sup>	204,922	—	77,031	5,000	18,385	—	—	305,338

1 These bonuses are in respect of performance for the year ended 31 March 2005.

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

3 Messrs Ng, Davis, Gwee, Quek and Renard and Dr Lefroy were appointed as Directors of SP AusNet Distribution on 31 May 2005, SP AusNet Transmission on 26 October 2005 and of the Responsible Entity on 9 September 2005.

4 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.

5 Mr Myer was appointed as Director of SP AusNet Distribution on 9 September 2005, SP AusNet Transmission on 26 October 2005 and of the Responsible Entity on 9 September 2005.

6 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 were paid after the end of the year.

7 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 were payable for their services as Directors during the period ending 31 March 2006.

8 Mr Ficca was appointed as Director of SP AusNet Distribution on 31 May 2005, SP AusNet Transmission on 7 September 2005 and of the Responsible Entity on 31 May 2005.

9 Mr Adams was a Director of the Responsible Entity from 31 May 2005 to 9 September 2005.

10 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.

SENIOR EXECUTIVE REMUNERATION

	Short-term				Post-employment	Termination benefits	Equity based payments	
	Cash salary and fees	Retention payments	Cash bonus <sup>1</sup>	Other short-term benefits	Super-annuation			Total
<b>Nino Ficca</b>	398,658	—	86,212	5,555	39,990	—	—	530,415
<b>Paul Adams</b>	230,443	104,892 <sup>2</sup>	17,865 <sup>3</sup>	5,000	23,716	—	—	381,916
<b>Peter Buck</b>	185,331	67,657 <sup>2</sup>	11,415 <sup>3</sup>	5,000	16,811	—	—	286,214
<b>Norman Drew</b>	200,268	—	63,757 <sup>4</sup>	5,000	20,036	—	—	289,061
<b>Terrence Fowler</b>	204,922	—	77,031 <sup>5</sup>	5,000	18,385	—	—	305,338
<b>Peter Merritt</b> <sup>6</sup>	169,892	—	32,935	5,000	17,130	—	—	224,957
<b>Charles Popple</b>	205,333	—	53,430 <sup>7</sup>	5,000	20,899	—	—	284,662
<b>Total</b>	1,594,847	172,549	342,645	35,555	156,967	—	—	2,302,563

1 These bonuses are in respect of performance for the year ended 31 March 2005.

2 Further details in relation to the retention payments to Mr Adams and Mr Buck are set out under the heading Retention Awards above.

3 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 the remuneration periods into line with the remaining executives following the acquisition of TXU. They did not receive additional bonuses under the SP AusNet STI plan.

4 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.

5 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 discretionary bonus of \$30,000, awarded prior to the listing of SP AusNet by Singapore Power Ltd in recognition of exceptional performance.

6 Mr Merritt ceased as a member of the key management personnel on 31 March 2006.

7 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 discretionary bonus of \$15,000, awarded prior to the listing of SP AusNet by Singapore Power Ltd in recognition of exceptional performance.

## REMUNERATION REPORT (AUDITED) CONTINUED

### DIRECTORS' INTERESTS

The Directors of SP AusNet have disclosed relevant interests in Stapled Securities as follows:

Name	Number of Stapled Securities
<b>Ng Kee Choe</b>	150,000 <sup>1</sup>
<b>Nino Ficca</b>	125,000 <sup>2</sup>
<b>Jeremy Davis</b>	50,000
<b>Eric Gwee</b>	100,000 <sup>1</sup>
<b>Tony Iannello</b>	30,000 <sup>3</sup>
<b>George Lefroy</b>	100,000 <sup>4</sup>
<b>Martyn Myer</b>	650,000 <sup>5</sup>
<b>Quek Poh Huat</b>	206,000 <sup>6</sup>
<b>Ian Renard</b>	30,000

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

2 25,000 securities held by immediate family members of Mr Ficca.

3 Securities held by Summit Custodial Services.

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

5 Securities held by MF Custodian Ltd as custodian for Mpyer Investments Pty Ltd.

6 Securities held by The Central Depository (Pte) Limited. 6,000 securities held by immediate family members of Mr Quek.

The Directors of SP AusNet have disclosed relevant interests in related bodies corporate as follows:

Name	Singapore Telecommunications Limited	Singapore Airport Terminal Services Limited	PT Bank Danamon Indonesia Tbk	Singapore Technologies Engineering Ltd	Singapore Computer Systems Limited	SMRT Corporation Ltd
<b>Ng Kee Choe</b>	3,080 <sup>1</sup>	11,000	50,000	—	—	—
<b>Nino Ficca</b>	720 <sup>2</sup>	—	—	—	—	—
<b>Jeremy Davis</b>	—	—	—	—	—	—
<b>Eric Gwee</b>	1,980 <sup>3</sup>	—	—	—	—	—
<b>Tony Iannello</b>	—	—	—	—	—	—
<b>George Lefroy</b>	158,792 <sup>4</sup>	—	—	—	—	—
<b>Martyn Myer</b>	—	—	—	—	—	—
<b>Quek Poh Huat</b>	5,210 <sup>5</sup>	—	—	291,500 <sup>6</sup> 813,728 <sup>7</sup>	15,000	8,000
<b>Ian Renard</b>	—	—	—	—	—	—

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

2 Securities held by immediate family members of Mr Ficca.

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

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

5 1,540 held by immediate family members of Mr Quek.

6 Options over ordinary securities.

7 Ordinary securities.

### SERVICE AGREEMENTS

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 short-term performance-related cash bonuses, fringe benefits plus other benefits. Participation in the long-term incentive plan is not a term of the agreements. Other major provisions of the agreements, relating to remuneration, are set out below.

### MANAGING DIRECTOR

The main provisions of the Managing Director's service agreement are set out below:

- term of agreement — permanent, subject to one month's notice of termination by either party;
- fixed remuneration including base salary and superannuation, for the year ended 31 March 2007 of \$540,000 to be reviewed

annually by the Nomination and Remuneration Committee and the Board;

- annual short-term incentive of up to 40% of FAR; and
- termination benefits calculated at three weeks' pay for every year of service paid at the Managing Director's FAR rate and capped at six months.

### SENIOR EXECUTIVES

The major provisions contained in the services agreements of the key management personnel listed are substantially the same except as noted below:

- term of agreement — permanent, subject to termination on one month's notice by either party (except Paul Adams whose agreement provides for a notice period of three months);
- SP AusNet may make a payment in lieu of notice; and

- termination benefits calculated at three weeks' pay for every year of service paid at the executive's FAR rate and capped at six months (except Paul Adams whose termination payment cap is set at nine months and 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).

## 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 SP AusNet 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*.

## INDEMNIFICATION AND INSURANCE

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

During the financial year, the Stapled Group paid a premium of \$568,577 (for 14 months and including prospectus cover) to insure the Directors and secretaries of the Australian-based combined 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 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.

## NON-AUDIT SERVICES

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

Details of the amounts paid or payable to the auditor (KPMG) for audit and non-audit services provided during the year are set out in note 32 of the financial report.

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, 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 *APES 110 Code of Ethics for Professional Accountants*.

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 50.

## ROUNDING OFF

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

## AUDITOR

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

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



**Ng Kee Choe**  
Chairman



**Nino Ficca**  
Managing Director

Melbourne  
23 May 2007

# LEAD AUDITORS' INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

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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 2007 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.

The KPMG logo, consisting of the letters 'KPMG' in a stylized, handwritten font.

KPMG

A handwritten signature in black ink, appearing to read 'Alison Kitchen'.

**Alison Kitchen**

*Partner*

Melbourne  
23 May 2007

# INCOME STATEMENTS FOR THE YEAR ENDED 31 MARCH 2007

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		Combined		Parent entity	
	Notes	2007 \$'000	2006 \$'000 Restated*	2007 \$'000	2006 \$'000
<b>Revenue from continuing operations</b>	5	<b>1,019,459</b>	737,463	<b>553</b>	—
Expenses, excluding finance costs	6	<b>(594,798)</b>	(394,636)	<b>(1,260)</b>	(1,714)
<b>Profit/(loss) from operating activities</b>		<b>424,661</b>	342,827	<b>(707)</b>	(1,714)
Finance income	7	<b>17,089</b>	27,640	<b>8</b>	2,761
Finance expenses	7	<b>(236,540)</b>	(192,943)	<b>(114,767)</b>	(8,655)
<b>Net finance costs</b>		<b>(219,451)</b>	(165,303)	<b>(114,759)</b>	(5,894)
<b>Profit/(loss) before income tax</b>		<b>205,210</b>	177,524	<b>(115,466)</b>	(7,608)
Income tax benefit/(expense)	8	<b>(43,964)</b>	(40,620)	<b>34,640</b>	1,795
Profit/(loss) from continuing operations		<b>161,246</b>	136,904	<b>(80,826)</b>	(5,813)
Profit from discontinued operations (after tax)	11	<b>17,051</b>	230,651	—	—
<b>Profit/(loss) for the year</b>		<b>178,297</b>	367,555	<b>(80,826)</b>	(5,813)
<b>Profit attributable to SP AusNet Transmission and SP AusNet Finance Trust (minority interest)</b>		<b>107,563</b>	39,882	—	—
<b>Profit attributable to SP AusNet Distribution</b>		<b>70,734</b>	327,673	<b>(80,826)</b>	(5,813)
<b>Total profit/(loss) for the year</b>		<b>178,297</b>	367,555 <sup>①</sup>	<b>(80,826)</b>	(5,813)
		<b>Cents</b>	<b>Cents Restated*</b>		
<b>Earnings per share for profit attributable to the ordinary equityholders of the Company:</b>					
Basic and diluted earnings per share	10	<b>3.38</b>	15.66		
<b>Earnings per share for profit from continuing operations attributable to the ordinary equityholders of the Company:</b>					
Basic and diluted earnings per share	10	<b>2.57</b>	4.64		

\* Refer to note 41.

<sup>①</sup> The financial results for 31 March 2006 include the financial results of the merchant energy business, which was disposed of during that year. Refer to note 11 for further details.

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 2007

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		Combined		Parent entity	
	Notes	2007 \$'000	2006 \$'000 Restated*	2007 \$'000	2006 \$'000
Adjustment on adoption of AASB 132 and AASB 139 to:					
– Retained profits	29(b)	–	65,299	–	–
– Reserves	29(a)	–	(22,800)	–	–
Actuarial gains	29(a)	11,165	3,403	–	–
Cash flow hedges	29(a)	34,828	5,244	–	–
Net income recognised directly in equity		45,993	51,146	–	–
Profit/(loss) for the year (previously stated)		178,297	335,232	(80,826)	(5,813)
Correction of error in previous financial period	41	–	32,323	–	–
Profit/(loss) for the year		178,297	367,555	(80,826)	(5,813)
Total recognised income and expense for the year		224,290	418,701	(80,826)	(5,813)
Total recognised income and expense for the year is attributable to:					
SP AusNet Transmission and SP AusNet Finance Trust (minority interest)		107,303	40,029	–	–
SP AusNet Distribution		116,987	378,672	(80,826)	(5,813)
Total recognised income and expense for the year		224,290	418,701	(80,826)	(5,813)

\* Refer to note 41.

Other movements in equity arising from transactions with owners as owners are set out in note 28. The amounts recognised directly in equity are disclosed net of tax.  
The above statements of recognised income and expense should be read in conjunction with the accompanying notes.

		Combined		Parent entity	
	Notes	2007 \$'000	2006 \$'000 Restated*	2007 \$'000	2006 \$'000 Restated*
<b>ASSETS</b>					
<b>Current assets</b>					
Cash and cash equivalents	12	9,098	8,708	48	31
Receivables	13	140,885	132,378	–	–
Inventories	14	5,886	6,472	–	–
Derivative financial instruments	15	26,878	188,829	–	–
Other current assets	16	7,361	5,753	300	300
<b>Total current assets</b>		<b>190,108</b>	<b>342,140</b>	<b>348</b>	<b>331</b>
<b>Non-current assets</b>					
Receivables	13	–	–	1,694	1,694
Inventories	14	12,773	11,797	–	–
Property, plant and equipment	18	6,312,214	6,110,131	–	–
Deferred tax assets	19	–	–	53,581	128,454
Intangible assets	20	354,505	354,505	–	–
Derivative financial instruments	15	32,382	–	–	–
Other non-current assets	16	30,372	11,498	–	–
Other financial assets	17	–	–	2,227,018	2,226,471
<b>Total non-current assets</b>		<b>6,742,246</b>	<b>6,487,931</b>	<b>2,282,293</b>	<b>2,356,619</b>
<b>Total assets</b>		<b>6,932,354</b>	<b>6,830,071</b>	<b>2,282,641</b>	<b>2,356,950</b>
<b>LIABILITIES</b>					
<b>Current liabilities</b>					
Payables and other liabilities	21	165,673	158,716	17,856	142,531
Borrowings	22	619,933	644,444	937,695	1,001,335
Derivative financial instruments	15	31,759	173,657	–	–
Current tax payable		18,911	9,125	–	–
Provisions	23	44,669	33,026	–	–
<b>Total current liabilities</b>		<b>880,945</b>	<b>1,018,968</b>	<b>955,551</b>	<b>1,143,866</b>
<b>Non-current liabilities</b>					
Borrowings	22	2,940,265	2,851,962	1,412,989	1,218,704
Derivative financial instruments	15	87,913	–	–	–
Other financial liabilities	24	6,109	4,098	–	–
Deferred tax liabilities	25	348,313	326,138	–	–
Provisions	26	16,200	15,462	–	–
<b>Total non-current liabilities</b>		<b>3,398,800</b>	<b>3,197,660</b>	<b>1,412,989</b>	<b>1,218,704</b>
<b>Total liabilities</b>		<b>4,279,745</b>	<b>4,216,628</b>	<b>2,368,540</b>	<b>2,362,570</b>
<b>Net assets</b>		<b>2,652,609</b>	<b>2,613,443</b>	<b>(85,899)</b>	<b>(5,620)</b>
<b>EQUITY</b>					
Equityholders of SP AusNet Distribution					
Contributed equity	28	547	–	547	–
Reserves	29(a)	26,649	(10,707)	–	–
Retained profits	29(b)	557,422	486,688	(86,446)	(5,620)
		<b>584,618</b>	<b>475,981</b>	<b>(85,899)</b>	<b>(5,620)</b>
Equityholders of SP AusNet Transmission and SP AusNet Finance Trust (minority interest)	28(c)	2,067,991	2,137,462	–	–
<b>Total equity</b>		<b>2,652,609</b>	<b>2,613,443</b>	<b>(85,899)</b>	<b>(5,620)</b>

\* Refer to note 41.

The above balance sheets should be read in conjunction with the accompanying notes.

# CASH FLOW STATEMENTS FOR THE YEAR ENDED 31 MARCH 2007

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		Combined		Parent entity	
	Notes	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>Cash flows from operating activities</b>					
Receipts from customers (inclusive of goods and services tax)		1,131,749	915,347	–	16
Payments to suppliers and employees (inclusive of goods and services tax)		(492,119)	(577,640)	(1,217)	(2,636)
Income tax paid		(14,665)	(1,168)	–	–
Interest received		5,420	6,052	7	2,745
Dividends received		–	5,972	–	–
Interest and other costs of finance paid		(237,109)	(174,017)	(23,319)	(8,655)
<b>Net cash inflow/(outflow) from operating activities</b>	40	<b>393,276</b>	<b>174,546</b>	<b>(24,529)</b>	<b>(8,530)</b>
<b>Cash flows from investing activities</b>					
Payment for purchase of controlled entity, net of cash acquired		–	–	–	(5,500)
Payments for property, plant and equipment		(401,302)	(291,506)	–	–
Payment of customer deposits		–	(567)	–	–
Proceeds from sale of property, plant and equipment		553	3,813	–	–
Proceeds from sale of business	11	–	2,042,297	–	–
<b>Net cash inflow/(outflow) from investing activities</b>		<b>(400,749)</b>	<b>1,754,037</b>	<b>–</b>	<b>(5,500)</b>
<b>Cash flows from financing activities</b>					
Proceeds of loans with related parties		–	–	95,366	–
Repayment of loans with related parties		–	(996,000)	(70,820)	(996,000)
Proceeds of cash balance on stapling		–	8,059	–	–
Distributions paid		(185,934)	–	–	–
Proceeds from borrowings		1,281,234	76,500	–	1,010,060
Repayment of borrowings		(1,087,437)	(1,055,327)	–	–
<b>Net cash inflow/(outflow) from financing activities</b>		<b>7,863</b>	<b>(1,966,768)</b>	<b>24,546</b>	<b>14,060</b>
<b>Net increase/(decrease) in cash held</b>		<b>390</b>	<b>(38,185)</b>	<b>17</b>	<b>30</b>
<b>Cash and cash equivalents at the beginning of the financial year</b>		<b>8,708</b>	<b>46,893</b>	<b>31</b>	<b>1</b>
<b>Cash and cash equivalents at the end of the financial year</b>	12	<b>9,098</b>	<b>8,708</b>	<b>48</b>	<b>31</b>

The above cash flow statements should be read in conjunction with the accompanying notes.

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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 combined financial report includes separate financial statements for SP AusNet Distribution as an individual entity and for the Stapled Group (refer note 1(b)(i)), consisting of SP AusNet Distribution and its subsidiaries, SP AusNet Transmission and its subsidiaries and SP AusNet Finance Trust. The Stapled Group is also referred to as SP AusNet.

### (A) BASIS OF PREPARATION

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ("AASBs") and interpretations adopted by the Australian Accounting Standards Board and the *Corporations Act* 2001. The combined financial statements and notes also comply with International Financial Reporting Standards ("IFRSs") and interpretations adopted by the International Accounting Standards Board. Certain comparative amounts have been reclassified to conform with the current year's presentation. The parent entity financial statements and notes do not comply with IFRSs as the parent entity has elected to apply the relief provided to parent entities by AASB 132 *Financial Instruments: Presentation and Disclosure* in respect of certain disclosure requirements.

This general purpose financial report is presented in Australian dollars.

The financial statements were approved by the Board of Directors on 23 May 2007.

In the prior financial year the Stapled Group adopted AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* in accordance with the transitional rules of AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*. This change has been accounted for by adjusting the opening balance of retained earnings and reserves at 1 April 2005, as disclosed in the reconciliation of movements in equity (refer note 29).

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.

#### (i) New standards adopted

The Stapled Group has elected, in accordance with Section 334(5) of the *Corporations Act* 2001, to early adopt the following standards for the annual reporting period beginning 1 April 2006:

- revised AASB 101 *Presentation of Financial Statements* (October 2006). The revised AASB 101 is mandatory for annual reporting periods beginning on or after 1 January 2007 however early adoption is permitted. The revised AASB 101 has deleted the Australian specific illustrative financial statement structure. In addition, certain Australian specific disclosures have been removed in line with the Australian Accounting Standards Board's preference to continue to eliminate differences between AASBs and IFRSs;

- AASB 8 *Operating Segments*. AASB 8 replaces AASB 114 *Segment Reporting* and is mandatory for annual reporting periods beginning on or after 1 January 2009 however early adoption is permitted. AASB 8 requires segments to be identified based on internal reporting to the chief operating decision maker, otherwise known as the "management approach". AASB 8 also requires segment information to be based on the information reported to the chief operating decision maker. In accordance with AASB 8 the segment disclosures for the comparative period have been restated to conform with the requirements of AASB 8; and
- AASB 2007-3 *Amendments to Australian Accounting Standards arising from AASB 8*. The issuance of AASB 8 necessitates consequential amendments to existing Australian Accounting Standards, primarily to replace references to AASB 114 with references to AASB 8. These amendments are contained in AASB 2007-3.

#### (ii) New standards not yet adopted

The following standard is available for early adoption at 31 March 2007, but has not been applied in preparing the financial statements:

- AASB 7 *Financial Instruments: Disclosures* (August 2005) is applicable to annual reporting periods beginning on or after 1 January 2007. Application of the standard will not affect any amounts recognised in the financial statements but will impact the type and detail of information disclosed in relation to the Stapled Group's financial instruments. AASB 7 replaces the presentation requirements of financial instruments in AASB 132 *Financial Instruments: Presentation and Disclosure*.

Other Australian Accounting Standards issued but not yet effective are not expected to result in significant accounting policy or disclosure changes.

#### (iii) Historical cost convention

The 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.

#### (iv) Critical accounting estimates

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

## (B) PRINCIPLES OF CONSOLIDATION

### (i) Stapling

Pursuant to the Stapling Deed 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 ASX and the SGX-ST. The Stapled Group was listed on 14 December 2005.

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

For statutory reporting purposes the purchase method of accounting has been applied to the stapling arrangement (refer note 1(h) for further details). 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 combined financial report on the Stapled Group.

In applying the purchase method of accounting in the preparation of the combined financial statements of SP AusNet, 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 stapling. Refer to note 36 for details of the fair value of assets and liabilities acquired at the date of stapling.

The comparative figures in the combined income statements, combined statements of recognised income and expense and combined cash flow statements comprise the results, recognised income and expense 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 (21 October 2005) to 31 March 2006. The current period figures in the combined income statements, combined statements of recognised income and expense and combined cash flow statements reflect the combined results, recognised income and expense and cash flows of SP AusNet Distribution, SP AusNet Transmission and SP AusNet Finance Trust for the full financial year ended 31 March 2007.

The current and prior period figures in the combined balance sheets reflect the combined positions of SP AusNet Distribution, SP AusNet Transmission and SP AusNet Finance Trust.

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

The components of minority interest, being share capital, reserves and retained earnings in the case of SP AusNet Transmission and unitholders' 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 unitholders' funds of SP AusNet Finance Trust are available for distribution directly to securityholders.

### (ii) Subsidiaries

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

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

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

Minority interest in the results and equity of subsidiaries are shown separately in the combined income statements, combined statements of recognised income and expense and combined balance sheets respectively and reflect the interest of securityholders in SP AusNet Transmission and SP AusNet Finance Trust (refer note 1(b)(i)).

### (C) SEGMENT REPORTING

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

### (D) FOREIGN CURRENCY TRANSLATION

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

**(ii) Transactions and balances**  
All foreign currency transactions are accounted for using the exchange rate at the date of the transaction. At balance date, monetary items are translated at the exchange rate existing at that date. Resultant exchange differences are recognised in the income statement for the year, except for exchange differences which relate to assets under construction for future productive use, which are included in the cost of those assets.

### (E) REVENUE RECOGNITION

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

**(i) Sales of goods and rendering of services**  
**Transmission regulated revenue**  
Transmission regulated revenue is revenue earned from the transmission of electricity and related services and is recognised as the services are rendered.

#### **Distribution regulated revenue**

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

### **(ii) Other excluded services revenue**

Other excluded services revenue is recognised as the services are rendered.

### **(iii) Energy trading**

In prior financial years the Stapled Group entered into financial transactions and other contractual commitments for energy trading purposes. Contracts entered into for trading purposes were recorded on a mark-to-market basis with gains and losses recognised in earnings in the period in which such valuation changes occurred. The portfolio of electricity trading contracts is subject to back-to-back electricity contracts with a counterparty since the sale of the merchant energy business. 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 any new electricity trading contracts. During the current financial year ownership of the electricity contracts has been 100% novated to a third party.

### **(iv) Contributions from customers for capital works**

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

### **(v) Interest income**

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

### **(vi) 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 entities, being the date that the parent establishes the right to receive payment.

## **(F) INCOME TAX**

### **(i) Current tax**

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

### **(ii) Deferred tax**

Deferred tax is accounted for using a 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 the tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Stapled Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

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

### **(iii) Tax expense**

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

### **(iv) Tax consolidation**

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

The current and deferred tax amounts for each tax consolidated group are allocated among the entities in each group using the 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 deferred tax asset relating to tax losses assumed by the head entity. The members of each tax consolidated group have also entered into valid tax sharing agreements under the tax consolidation legislation which set out the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations and the treatment of entities leaving the tax consolidated group.

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

### (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.

#### (i) Finance leases

Assets held under finance leases are initially recognised at their fair value or, if lower, at amounts equal to the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the 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 property, plant and equipment.

#### (ii) Operating leases

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

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 AND LIABILITIES

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

The purchase method of accounting was applied to the establishment of the Stapled Group. Refer note 1(b) for further details.

### (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 ("CGU") to which the asset belongs.

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

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

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a 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 CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognised in the income statement immediately.

### (J) CASH AND CASH EQUIVALENTS

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

### (K) RECEIVABLES

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

Collectibility 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 the 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 as security on capital projects.

### (M) INVENTORIES

Inventories 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.

### (N) INVESTMENTS

Investments in subsidiaries are measured at cost in the parent entity's financial statements.

### (O) 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, interest rate swaps and cross-currency swaps. In accordance with its 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.

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

To ensure derivative financial instruments qualify for hedge accounting the Stapled Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. The Stapled Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions

have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of derivative financial instruments used for hedging purposes are disclosed in note 15 and note 30. Movements in the hedging reserve in securityholders' equity are shown in note 29.

#### (i) Fair value hedge

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

#### (ii) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised directly in equity in the 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 purchase 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 recognised in the income statement.

#### (iii) 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.

### (P) 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 is determined using recognised 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 the fair value for the remaining financial instruments. The fair value of interest-rate swaps is calculated as the present value of estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at balance date.

#### (i) Electricity contracts

The Stapled Group maintained a portfolio of electricity trading contracts 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.

During the current financial year ownership of the electricity contracts has been 100% novated to a third party.

### (Q) 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 item. 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 for on property, plant and equipment, including freehold buildings but excluding land and easements. Depreciation is calculated on a straight-line basis so as to write off the net cost of each asset over its estimated useful life to its estimated residual value. The estimated useful lives, residual values and depreciation methods are reviewed annually.

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
Computer equipment and software	3–5

#### (i) Capital works at cost

Construction work in progress is stated at cost. Cost includes all expenditure that is directly attributable to the specific project.

### (R) INTANGIBLE ASSETS

#### (i) 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 any accumulated impairment losses.

### (S) TRADE AND OTHER PAYABLES

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

### (T) BORROWINGS

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

Borrowings which are part of a fair value hedging relationship are recognised at fair value. Changes in the fair value of the borrowings are recorded in the income statement together with any changes in the fair value of derivatives that are designated and qualify as fair value hedges (refer note 1(o)).

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

### (U) NET FINANCING COSTS

Finance income comprises interest income on funds invested, dividend income, foreign exchange gains, gains on hedging instruments that are recognised in the income statement and the expected return on defined benefit plan assets.

Finance expenses comprise interest expense on borrowings, foreign exchange losses, losses on hedging instruments that are recognised in the income statement, unwinding of the discount on provisions and the interest cost in respect of defined benefit obligations. All borrowing costs are recognised in the income statement using the effective interest rate method.

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 6.6% (2006: 6.5%) applicable to the Stapled Group's outstanding borrowings during the period.

### (V) 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.

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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) 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.

### (ii) 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.

## (W) EMPLOYEE BENEFITS

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

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

### (ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and is measured 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 government guaranteed bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

### (iii) Defined contribution superannuation funds

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

### (iv) Defined benefit superannuation funds

The Stapled Group's net obligation in respect of the defined benefit superannuation funds is calculated by estimating the amount of future benefits that employees have earned in return for their service in the current and prior periods. That benefit is

discounted to determine its present value and recognised after deducting the fair value of any plan assets.

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

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 past service cost is positive, 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.

When the past service cost is negative, the resulting reduction in the defined benefit liability is recognised as negative past service cost over the average period until the reduced portion of the benefits become vested.

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 expense.

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

## (X) 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.

### (i) Distributions

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

## (Y) SHARE-BASED PAYMENTS

The fair value of share-based payment compensation provided to employees, including existing shares purchased at arm's length and given to employees as a gift, have been recognised as an expense in the period. Where the shares form part of the existing shares on issue, the fair value of the gift is determined by the cost of the shares at the date of purchase.

Where the gift is funded by a related party without recharge, the cost of acquisition has been treated as an additional contribution of capital to the Stapled Group.

## (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 any minority interest and costs of servicing equity other than distributions, by the weighted average number of shares of SP AusNet Distribution outstanding during the financial year.

Because 100% of the profits of SP AusNet Transmission and SP AusNet Finance Trust are included in minority interest, 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 interest.

### (ii) Diluted earnings per share

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

## (AA) ROUNDING OF AMOUNTS

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

## NOTE 2 FINANCIAL RISK MANAGEMENT

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. The internal audit department reviews compliance with financial risk management policies and exposure limits.

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 contracts;
- interest rate swap contracts; and
- cross-currency swap contracts.

Risk management is carried out by a central treasury department under policies approved by the Board. The treasury department evaluates and hedges financial risks in close co-operation 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.

The Stapled Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

## (A) CURRENCY RISK

The Stapled Group undertakes certain transactions denominated in foreign currencies and has entered into loans denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts and cross-currency swap contracts.

The Stapled Group enters into forward foreign exchange contracts to hedge the exchange rate risk in relation to specific purchase orders. It is the policy of the Stapled Group to cover 100% of the material exposure generated by these transactions.

As at reporting date the aggregate amount of unrealised losses under forward foreign exchange contracts relating to anticipated future transactions is \$0.9 million (2006: \$0.8 million gain). In the current year, these unrealised losses have been deferred in the hedging reserve to the extent the hedge is effective.

The Stapled Group also enters into cross-currency swap contracts to manage exposures from foreign currency loans primarily denominated in US dollars.

Under cross-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 2007, the Stapled Group had cross-currency swap contracts for its US dollar denominated borrowings. The notional amount outstanding on cross-currency swaps was \$1,292.0 million (2006: \$1,291.0 million). The maturity of these swaps coincides with the maturity of the US dollar denominated borrowings.

#### (B) INTEREST RATE RISK MANAGEMENT

The Stapled Group is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. In addition, the Stapled Group'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 cost of capital and consequently the regulated revenue.

The objective of hedging activities carried out by the Stapled Group in relation to these businesses is to minimise the exposure to changes in interest rates by matching the actual cost of debt with the cost of debt assumed by the regulator when setting the rate of return for the relevant business. The exposure is managed by maintaining an appropriate mix between fixed and floating rate borrowings and by the use of 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.

#### (C) 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's 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.

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 sales process in relation to the merchant energy business (as detailed in note 11) the Stapled Group retained credit risk relating to the back-to-back electricity and gas contracts. 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. During the current financial year ownership of the electricity contracts has been 100% novated to a third party and therefore the Stapled Group's exposure to credit risk in respect of these contracts is \$nil (2006: \$111.9 million).

Other than in relation to the residual exposure arising from the sale of the merchant energy business the Stapled 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 Stapled Group's maximum exposure to credit risk without taking account of the value of any collateral obtained:

	Maximum credit risk 2007 \$'000	Maximum credit risk 2006 \$'000
<b>Financial assets and other credit exposures</b>		
Cross-currency swaps	19	33,333
US interest rate swaps	14,055	19,492
Energy trading contracts	–	111,964
AUD interest rate swaps	53,704	16,969

#### (D) LIQUIDITY RISK

The Stapled Group manages liquidity risk by maintaining adequate cash reserves, banking facilities and reserve borrowing facilities and by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

### 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. Accounting estimates and assumptions where changes in those estimates and assumptions could result in a significant change are detailed below:

#### (A) ESTIMATED RECOVERABLE AMOUNT OF INTANGIBLE ASSETS WITH AN INDEFINITE LIFE AND ASSOCIATED TANGIBLE ASSETS

For the purpose of impairment testing, assets have been allocated to CGUs. Each CGU represents a group of assets that generate cash inflows independent from other groups of assets. Management has determined that each segment, details of which are disclosed in Note 4, represents a CGU.

The following CGU's have significant amounts of intangible assets with an indefinite life.

	<b>Intangible assets with indefinite lives</b>	
	2007 \$'000	2006 \$'000
<b>CGU</b>		
Electricity distribution	117,200	117,200
Gas distribution	237,305	237,305
	<b>354,505</b>	<b>354,505</b>

Recoverable amount is the higher of fair value less costs to sell and value in use. Management has based its assessment of fair value on discounted cash flow projections over a period of 20 years together with an appropriate terminal value. Regulated cash flow forecasts are based on allowable returns on electricity and gas distribution assets as set out in the Victorian Electricity Supply Industry Tariff Order and the Victorian Gas Industries Tariff Order respectively, together with other information included in SP AusNet's 5-year forecast. Cash flows after that period are based on an extrapolation of the forecast, taking into account inflation and expected customer connection growth rates. It is considered appropriate to use cash flows after the Stapled Group's 5-year forecast period considering the long-term nature of the Stapled Group's activities. Cash flows are discounted using a 6.73% post-tax discount rate.

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

#### (B) INCOME TAXES

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

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

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

In addition, deferred tax assets are recognised for deductible temporary differences only if it is probable that future taxable profits are available to utilise those temporary differences.

## NOTE 3 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS CONTINUED

Assumptions are also made about the application of income tax legislation. These assumptions are subject to risk and uncertainty and there is a possibility that changes in circumstances will alter expectations which may impact the amount of deferred tax assets and deferred tax liabilities in the balance sheet. In these circumstances, the carrying amount of deferred tax assets and liabilities may change resulting in an impact on the earnings of the Stapled Group.

### (C) 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 instruments held by the Stapled Group is the current mid price.

The fair value of financial instruments that are not traded in active markets is determined using recognised 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 foreign exchange contracts is determined using forward foreign exchange market rates at the balance date.

### (D) ACCRUED REVENUE

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

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

## NOTE 4 SEGMENT INFORMATION

### (A) DESCRIPTION OF REPORTABLE SEGMENTS

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

#### (i) Electricity distribution

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

The Stapled Group charges retailers and some large customers regulated rates for the use of the distribution network. The electricity distribution segment does not purchase or sell electricity.

#### (ii) Gas distribution

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

#### (iv) Merchant energy business/discontinued operations

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 merchant energy business was sold during the year ended 31 March 2006.

## (B) REPORTABLE SEGMENT FINANCIAL INFORMATION

2007	Electricity distribution \$'000	Gas distribution \$'000	Transmission \$'000	Discontinued operations \$'000	Inter-segment eliminations \$'000	Combined \$'000
Regulated revenue	367,414	146,425	380,834	—	(9,068)	885,605
Excluded services	31,178	13,979	30,501	—	(1,002)	74,656
Customer contributions	25,619	13,815	—	—	—	39,434
Other revenue	9,264	772	9,428	—	300	19,764
<b>Total segment revenue</b>	<b>433,475</b>	<b>174,991</b>	<b>420,763</b>	<b>—</b>	<b>(9,770)</b>	<b>1,019,459</b>
<b>Segment result before interest expense</b>	<b>157,407</b>	<b>77,859</b>	<b>189,395</b>	<b>9,607</b>	<b>—</b>	<b>434,268</b>
Segment interest expense	(86,873)	(48,866)	(93,848)	—	—	(229,587)
Unallocated finance income less unallocated finance expenses						10,136
<b>Profit before income tax</b>						<b>214,817</b>
Income tax expense						(36,520)
<b>Net profit for the year</b>						<b>178,297</b>
Segment assets	2,333,297	1,440,612	3,094,024	—	—	6,867,933
Unallocated assets						64,421
<b>Total assets</b>						<b>6,932,354</b>
<b>Segment liabilities</b>	<b>1,357,362</b>	<b>738,357</b>	<b>1,658,370</b>	<b>—</b>	<b>—</b>	<b>3,754,089</b>
Unallocated liabilities						525,656
<b>Total liabilities</b>						<b>4,279,745</b>
<b>Other segment information</b>						
Capital expenditure	171,706	80,129	154,200	—	—	406,035
Depreciation and amortisation expense	93,528	35,258	71,204	—	—	199,990
<b>2006 Restated*</b>	<b>Electricity distribution \$'000</b>	<b>Gas distribution \$'000</b>	<b>Transmission \$'000</b>	<b>Discontinued operations \$'000</b>	<b>Inter-segment eliminations \$'000</b>	<b>Combined \$'000</b>
Regulated revenue	376,705	131,720	135,714	—	(3,700)	640,439
Excluded services	22,489	10,731	10,461	—	—	43,681
Customer contributions	26,702	13,544	—	—	—	40,246
Other revenue	8,098	1,211	3,788	278,545	—	291,642
<b>Total segment revenue</b>	<b>433,994</b>	<b>157,206</b>	<b>149,963</b>	<b>278,545</b>	<b>(3,700)</b>	<b>1,016,008</b>
<b>Segment result before interest expense</b>	<b>179,984</b>	<b>88,897</b>	<b>73,946</b>	<b>349,130</b>	<b>—</b>	<b>691,957</b>
Segment interest expense	(89,947)	(50,595)	(38,256)	—	—	(178,798)
Unallocated finance income less unallocated finance expenses						13,495
<b>Profit before income tax</b>						<b>526,654</b>
Income tax expense						(159,099)
<b>Net profit for the year</b>						<b>367,555</b>
<b>Segment assets</b>	<b>2,486,997</b>	<b>1,329,823</b>	<b>2,942,470</b>	<b>—</b>	<b>—</b>	<b>6,759,290</b>
Unallocated assets						70,781
<b>Total assets</b>						<b>6,830,071</b>
<b>Segment liabilities</b>	<b>1,555,186</b>	<b>759,675</b>	<b>1,580,999</b>	<b>—</b>	<b>—</b>	<b>3,895,860</b>
Unallocated liabilities						320,768
<b>Total liabilities</b>						<b>4,216,628</b>
<b>Other segment information</b>						
Capital expenditure	165,526	78,892	76,002	—	—	320,420
Depreciation and amortisation expense	91,533	31,213	25,834	5,895	—	154,475

\* Refer to note 41.

## NOTE 4 SEGMENT INFORMATION CONTINUED

### (C) NOTES TO AND FORMING PART OF THE SEGMENT INFORMATION

#### (i) Accounting policies

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

The Stapled Group has elected to early adopt AASB 8 as outlined in note 1(a)(i). In accordance with AASB 8, the segment disclosures for the comparative period have been restated to conform with the requirements of AASB 8.

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 receivables, inventories, property, plant and equipment 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 debt attributable to each segment, 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

	Combined		Parent entity	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>Revenue from continuing operations</b>				
Regulated revenue	885,605	640,439	—	—
Excluded services	74,656	43,681	—	—
	960,261	684,120	—	—
<b>Other revenue</b>				
Customer contributions	39,434	40,246	—	—
Other revenue	19,764	13,097	553	—
	59,198	53,343	553	—
<b>Total revenue from continuing operations</b>	<b>1,019,459</b>	<b>737,463</b>	<b>553</b>	<b>—</b>
<b>Revenue from discontinued operations</b>				
Energy revenues	—	278,545	—	—

## NOTE 6 EXPENSES

	Combined		Parent entity	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>Profit before income tax includes the following specific expenses:</b>				
Expenses, excluding finance costs, included in the income statement:				
Use of system and associated charges	55,287	50,524	–	–
Employee benefits				
Defined benefit superannuation expenses (i)	3,815	3,099	–	–
Defined contribution superannuation expenses	4,133	1,665	–	–
Share-based payment expense	811	–	–	–
Other employee expenses	63,440	56,997	–	–
Materials	2,540	801	–	–
External maintenance and contractors' services	72,181	53,353	–	11
Information technology and communication costs	12,798	7,282	20	–
Taxes and licences	2,863	1,610	–	–
External consulting, legal and accounting costs	11,381	9,835	368	1,665
Insurance expenses	4,786	1,535	–	–
Property taxes	83,117	22,104	–	–
Other administrative expenses	12,986	6,708	1	–
Professional service fees	–	4,789	–	–
Management services charges	21,420	8,937	–	–
Performance fees	12,934	2,987	–	–
Flame logo fees	1,000	433	600	–
Availability rebates	2,856	1,664	–	–
Office, travel and consumable expenses	2,498	1,448	–	–
Unaccounted for gas legal settlement	10,700	–	–	–
Other costs	2,862	2,362	271	38
	<b>384,408</b>	<b>238,133</b>	<b>1,260</b>	<b>1,714</b>
Depreciation	199,990	148,580	–	–
Impairment of non-current assets	–	(1,931)	–	–
Net loss on disposal of property, plant and equipment	3,409	754	–	–
Operating lease rental expense	5,924	8,809	–	–
Bad and doubtful debts expense including movement in provision for doubtful debts	1,067	291	–	–
<b>Total expenses, excluding finance costs</b>	<b>594,798</b>	<b>394,636</b>	<b>1,260</b>	<b>1,714</b>

(i) Defined benefit superannuation expenses represent current service costs. Interest costs relating to defined benefit superannuation funds are included in finance expenses (refer note 7). The prior year comparative has been restated in line with the current year's treatment.

## NOTE 7 NET FINANCE COSTS

	Combined		Parent entity	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>Finance income</b>				
Interest income	5,416	17,327	8	2,761
Interest income – related parties	–	2,745	–	–
Expected return on defined benefit fund plan assets (i)	11,673	7,568	–	–
<b>Total finance income</b>	<b>17,089</b>	<b>27,640</b>	<b>8</b>	<b>2,761</b>
<b>Finance expenses</b>				
Interest expense	229,587	178,798	–	–
Interest expense – related parties	–	–	114,767	8,655
Other finance charges (i)	15,415	18,470	–	–
Capitalised finance charges	(8,462)	(4,325)	–	–
<b>Total finance expenses</b>	<b>236,540</b>	<b>192,943</b>	<b>114,767</b>	<b>8,655</b>
<b>Net finance costs</b>	<b>219,451</b>	<b>165,303</b>	<b>114,759</b>	<b>5,894</b>

(i) Interest costs and expected return on plan assets in respect of the defined benefit superannuation funds have been included in net finance costs. The prior year comparative has been restated in line with the current year's treatment.

## NOTE 8 INCOME TAX EXPENSE

	Combined		Parent entity	
	2007 \$'000	2006 \$'000 Restated*	2007 \$'000	2006 \$'000
<b>(A) INCOME TAX EXPENSE</b>				
Current tax	99,614	78,442	(34,559)	(1,795)
Prior year under provision – current tax	102	–	–	–
Deferred tax	(58,770)	80,657	(81)	–
Prior year over provision – deferred tax	(4,426)	–	–	–
	36,520	159,099	(34,640)	(1,795)
Income tax expense is attributable to:				
Profit from continuing operations	43,964	40,620	(34,640)	(1,795)
Profit from discontinued operations	(7,444)	118,479	–	–
Aggregate income tax expense	36,520	159,099	(34,640)	(1,795)
Deferred income tax expense/(benefit) included in income tax expense/(benefit) comprises:				
Decrease/(increase) in deferred tax assets (note 19)	58,321	(28,493)	(81)	–
(Decrease)/increase in deferred tax liabilities (note 25)	(117,091)	109,150	–	–
	(58,770)	80,657	(81)	–
<b>(B) NUMERICAL RECONCILIATION OF INCOME TAX EXPENSE TO PRIMA FACIE TAX PAYABLE</b>				
<b>(i) Continuing operations</b>				
Profit from continuing operations before income tax expense	205,210	177,524	(115,466)	(7,608)
Tax at the Australian tax rate of 30% (2006: 30%)	61,563	53,257	(34,640)	(2,282)
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:				
Non-assessable income	(19,423)	(5,592)	–	–
Prior year under provision in respect of entry into tax consolidation	339	–	–	–
Other prior year under provisions	2,781	–	–	–
Write-back deferred tax liability (s.163AA impost and intellectual property deductions)	(1,833)	–	–	–
Sundry items	537	(7,045)	–	487
Income tax expense/(benefit)	43,964	40,620	(34,640)	(1,795)
<b>(ii) Discontinued operations</b>				
Profit from discontinued operations before income tax expense	9,607	349,130	–	–
Tax at the Australian tax rate of 30% (2006: 30%)	2,882	104,739	–	–
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:				
Difference between tax and accounting gain on sale of the merchant energy business	(2,882)	19,590	–	–
Prior year over provision	(7,444)	–	–	–
Sundry items	–	(5,850)	–	–
Income tax expense/(benefit)	(7,444)	118,479	–	–
<b>(C) AMOUNTS RECOGNISED DIRECTLY IN EQUITY</b>				
Aggregate current and deferred tax arising in the reporting period and not recognised in the income statement but directly debited/(credited) to equity:				
Hedge reserve – cash flow hedges (note 29)	14,927	(7,033)	–	–
Defined benefit reserve (note 29)	4,784	1,458	–	–
Net deferred tax debited/(credited) directly to equity	19,711	(5,575)	–	–

\* Refer to note 41.

## NOTE 9 DISTRIBUTIONS

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

	Payable by	Date paid	Cents per security	Total distribution \$
<b>Distributions from earnings</b>				
Fully franked dividend	SP AusNet Transmission	26 June 2006	0.150	3,139,020
Fully franked dividend	SP AusNet Transmission	14 December 2006	0.507	10,609,888
Assessable interest income	SP AusNet Finance Trust	26 June 2006	0.890	18,624,852
Assessable interest income	SP AusNet Finance Trust	14 December 2006	1.509	31,578,541
<b>Total distributions from earnings</b>				<b>63,952,301</b>
<b>Distributions from capital</b>				
Capital distribution	SP AusNet Finance Trust	26 June 2006	2.210	46,248,228
Capital distribution	SP AusNet Finance Trust	14 December 2006	3.619	75,734,090
<b>Total distributions from capital</b>				<b>121,982,318</b>
<b>Total distributions</b>				<b>185,934,619</b>

No distributions were approved and/or paid to members during the previous financial year.

### (A) FRANKING ACCOUNT

	Combined		Parent entity	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
30 per cent franking credits available to securityholders for subsequent financial years	28,640	10,383	90	90

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

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends. The impact on the dividend franking account of dividends proposed after the balance date but not recognised as a liability is to reduce it by \$4,547,095 (2006: \$1,345,000). In accordance with the tax consolidation legislation, SP AusNet Distribution and SP AusNet Transmission as the respective head entities in the tax consolidated groups have assumed the benefit of \$90,000 and \$28,550,000 (2006: \$90,000 and \$10,293,000) franking credits respectively.

## NOTE 10 EARNINGS PER SHARE

### (A) BASIC EARNINGS PER SHARE FOR SP AUSNET DISTRIBUTION

	Combined	
	2007 \$'000	2006 \$'000 Restated*
Profit from continuing operations attributable to the ordinary equityholders of the Company	53,683	97,022
Profit from discontinued operations attributable to the ordinary equityholders of the Company	17,051	230,651
<b>Profit attributable to the ordinary equityholders of the Company</b>	<b>70,734</b>	<b>327,673</b>
<b>Weighted average number of shares ('000)</b>	<b>2,092,680</b>	<b>2,092,680</b>
	<b>Cents</b>	<b>Cents</b>
<b>Earnings per share from profit</b>	<b>3.38</b>	<b>15.66</b>
<b>Earnings per share from profit from continuing operations</b>	<b>2.57</b>	<b>4.64</b>

\* Refer to note 41.

### (B) DILUTED EARNINGS PER SHARE

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

### (C) EARNINGS PER STAPLED SECURITY

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

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

**(D) BASIC EARNINGS PER STAPLED SECURITY**

	Combined	
	2007 \$'000	2006 \$'000 Restated*
Profit from continuing operations attributable to the ordinary securityholders of the Stapled Group	161,246	136,904
Profit from discontinued operations attributable to the ordinary securityholders of the Stapled Group	17,051	230,651
<b>Profit attributable to the ordinary securityholders of the Stapled Group</b>	<b>178,297</b>	<b>367,555</b>
<b>Weighted average number of securities ('000)</b>	<b>2,092,680</b>	<b>2,092,680</b>
	<b>Cents</b>	<b>Cents</b>
<b>Earnings per security from profit (stapled)</b>	<b>8.52</b>	<b>17.56</b>
<b>Earnings per security from profit from continuing operations (stapled)</b>	<b>7.71</b>	<b>6.54</b>

\* Refer to note 41.

**(E) DILUTED EARNINGS PER STAPLED SECURITY**

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

**NOTE 11 DISCONTINUED OPERATIONS****(A) 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 merchant energy business division of SP AusNet Distribution. The activities of the merchant energy business 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 merchant energy business was completed on 31 May 2005.

The 33.3% interest in both the SEAGas Partnership and SEA Gas Pty Ltd was also sold 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.

The comparative results presented in the income statement include the financial results of the merchant energy business and the SEAGas Partnership up to the date of sale. The results presented include both the result from the underlying operations of the merchant energy business for the two months up to the date of sale (loss of \$7.7 million) and the SEAGas Partnership (profit of \$1.6 million) and the profit on divestment of the merchant energy business (gain of \$236.7 million) as detailed below. These amounts are non recurring.

The results of the discontinued operations which have been included in the income statement are as follows:

	Combined	
	2007 \$'000	2006 \$'000 Restated*
<b>(i) Profit from discontinued operations</b>		
Revenue from ordinary activities	–	291,040
Profit on divestment of business	9,607	366,143
Other income	–	1,645
	<b>9,607</b>	<b>658,828</b>
Expenses	–	(309,698)
Profit before income tax expense	<b>9,607</b>	<b>349,130</b>
Attributable income tax benefit on underlying operations	–	10,955
Attributable income tax benefit/(expense) on divestment	<b>7,444</b>	<b>(129,434)</b>
Income tax benefit/(expense)	<b>7,444</b>	<b>(118,479)</b>
<b>Profit from discontinued operations</b>	<b>17,051</b>	<b>230,651</b>
Cash flows from discontinued operations:		
Net cash flows from operating activities	–	(407,167)
Net cash flows from investing activities	–	646,199
Net cash flows from financing activities	–	(141,946)
<b>Net cash flows</b>	<b>–</b>	<b>97,086</b>

The profit on divestment of business in the current year relates to the updating of certain estimates relating to the sale of the merchant energy business in the prior year.

\* Refer to note 41.

## NOTE 11 DISCONTINUED OPERATIONS CONTINUED

(ii) Carrying amounts of assets and liabilities

The carrying amounts of assets and liabilities at the date of sale were:

	Combined	
	2007 \$'000	2006 \$'000 Restated*
Property, plant and equipment	–	752,768
Trade receivables	–	259,377
Inventories	–	35,722
Investment – Pipelines	–	144,576
Deferred tax asset	–	99,954
Intangibles	–	624,859
Other assets	–	418,677
<b>Total assets</b>	–	2,335,933
Trade creditors	–	116,704
Provision for employee benefits	–	101,486
Deferred tax liability	–	240,366
Other liabilities	–	201,223
<b>Total liabilities</b>	–	659,779
<b>Net assets</b>	–	1,676,154

(iii) Divestment of business

	Combined	
	2007 \$'000	2006 \$'000 Restated*
Consideration received or receivable	–	2,149,795
Cash	–	(107,498)
<b>Total disposal consideration</b>	–	2,042,297
Carrying amount of net assets sold	–	(1,676,154)
<b>Gain on sale before income tax</b>	–	366,143
Income tax expense	–	(129,434)
<b>Gain on sale after income tax</b>	–	236,709

\* Refer to note 41.

## NOTE 12 CASH AND CASH EQUIVALENTS

	Combined		Parent entity	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Cash at bank and on hand	9,098	8,708	48	31
<b>Total cash and cash equivalents</b>	9,098	8,708	48	31

### (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 cash flow statements as follows:

Balances per cash flow statements	9,098	8,708	48	31
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## NOTE 13 RECEIVABLES

	Combined		Parent entity	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>Current receivables</b>				
Accounts receivable*	83,818	77,574	–	–
Provision for doubtful receivables	(758)	(309)	–	–
Related party receivable	771	865	–	–
	83,831	78,130	–	–
Accrued revenue	56,907	53,800	–	–
Employee advances and loans	147	448	–	–
<b>Total current receivables</b>	<b>140,885</b>	<b>132,378</b>	<b>–</b>	<b>–</b>
<b>Non-current receivables</b>				
Related party receivable	–	–	1,694	1,694
<b>Total non-current receivables</b>	<b>–</b>	<b>–</b>	<b>1,694</b>	<b>1,694</b>
<b>Total receivables</b>	<b>140,885</b>	<b>132,378</b>	<b>1,694</b>	<b>1,694</b>

\* The average credit period on sales of transmission and distribution services is 10 business days. An allowance has been made for estimated irrecoverable amounts, determined by reference to past default experience.

## BAD AND DOUBTFUL TRADE RECEIVABLES

The Stapled Group recognised a loss of \$1.07 million (2006: \$0.29 million) in respect of bad and doubtful trade receivables during the year ended 31 March 2007.

## NOTE 14 INVENTORIES

	Combined		Parent entity	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>Current inventories</b>				
Construction, maintenance stocks and general purpose materials	5,886	6,472	–	–
<b>Total current inventories</b>	<b>5,886</b>	<b>6,472</b>	<b>–</b>	<b>–</b>
<b>Non-current inventories</b>				
Construction, maintenance stocks and general purpose materials	12,773	11,797	–	–
<b>Total non-current inventories</b>	<b>12,773</b>	<b>11,797</b>	<b>–</b>	<b>–</b>
<b>Total inventories</b>	<b>18,659</b>	<b>18,269</b>	<b>–</b>	<b>–</b>

## NOTE 15 DERIVATIVE FINANCIAL INSTRUMENTS

	Combined		Parent entity	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>Current derivative financial instrument assets</b>				
Interest rate swap contracts	26,877	5,794	–	–
Cross-currency swaps	–	70,195	–	–
Energy derivatives*	–	111,964	–	–
Forward foreign exchange contracts	1	876	–	–
<b>Total current derivative financial instrument assets</b>	<b>26,878</b>	<b>188,829</b>	<b>–</b>	<b>–</b>
<b>Non-current derivative financial instrument assets</b>				
Interest rate swap contracts	8,459	–	–	–
Cross-currency swaps	23,923	–	–	–
<b>Total non-current derivative financial instrument assets</b>	<b>32,382</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Total derivative financial instrument assets</b>	<b>59,260</b>	<b>188,829</b>	<b>–</b>	<b>–</b>
<b>Current derivative financial instrument liabilities</b>				
Interest rate swap contracts	1,811	3,753	–	–
Cross-currency swaps	29,005	57,874	–	–
Energy derivatives*	–	111,964	–	–
Forward foreign exchange contracts	943	66	–	–
<b>Total current derivative financial instrument liabilities</b>	<b>31,759</b>	<b>173,657</b>	<b>–</b>	<b>–</b>
<b>Non-current derivative financial instrument liabilities</b>				
Interest rate swap contracts	7,108	–	–	–
Cross-currency swaps	80,805	–	–	–
<b>Total non-current derivative financial instrument liabilities</b>	<b>87,913</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Total derivative financial instrument liabilities</b>	<b>119,672</b>	<b>173,657</b>	<b>–</b>	<b>–</b>

\* The movement in the back-to-back energy derivatives is a non-cash transaction. Ownership of energy derivatives was 100% novated to a third party during the current financial year.

## NOTE 16 OTHER ASSETS

	Combined		Parent entity	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>Current other assets</b>				
Prepayments	7,319	5,707	300	300
Interest receivable	42	46	–	–
<b>Total current other assets</b>	<b>7,361</b>	<b>5,753</b>	<b>300</b>	<b>300</b>
<b>Non-current other assets</b>				
Defined benefit fund surplus	29,325	10,655	–	–
Prepayments	1,047	843	–	–
<b>Total non-current other assets</b>	<b>30,372</b>	<b>11,498</b>	<b>–</b>	<b>–</b>
<b>Total other assets</b>	<b>37,733</b>	<b>17,251</b>	<b>300</b>	<b>300</b>

## NOTE 17 NON-CURRENT ASSETS – OTHER FINANCIAL ASSETS

	Combined		Parent entity	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Investment in subsidiary	–	–	2,227,018	2,226,471
<b>Total non-current other financial assets</b>	<b>–</b>	<b>–</b>	<b>2,227,018</b>	<b>2,226,471</b>

## NOTE 18 NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT

2007	Freehold land at cost \$'000	Buildings at cost \$'000	Easements at cost \$'000	Transmission network at cost \$'000	Electricity distribution network at cost \$'000	Gas distribution network at cost \$'000	Other plant and equipment at cost \$'000	Capital works at cost \$'000	Total \$'000
<b>Combined</b>									
<b>Carrying amount at 1 April 2006</b>	253,417	101,591	1,217,897	1,290,962	1,763,491	1,118,378	251,605	112,790	6,110,131
Additions	–	–	–	–	–	–	–	406,035	406,035
Transfers	879	22,853	767	97,997	124,229	76,608	33,114	(356,447)	–
Disposals	–	(136)	–	(356)	(338)	(382)	(2,750)	–	(3,962)
Depreciation charge	–	(5,467)	–	(55,404)	(68,812)	(27,238)	(43,069)	–	(199,990)
<b>Carrying amount at 31 March 2007</b>	<b>254,296</b>	<b>118,841</b>	<b>1,218,664</b>	<b>1,333,199</b>	<b>1,818,570</b>	<b>1,167,366</b>	<b>238,900</b>	<b>162,378</b>	<b>6,312,214</b>
<b>Net book value at 31 March 2007</b>									
Cost	254,296	126,452	1,218,664	1,408,242	1,994,884	1,240,590	388,171	162,378	6,793,677
Accumulated depreciation	–	(7,611)	–	(75,043)	(176,314)	(73,224)	(149,271)	–	(481,463)
<b>Carrying amount at 31 March 2007</b>	<b>254,296</b>	<b>118,841</b>	<b>1,218,664</b>	<b>1,333,199</b>	<b>1,818,570</b>	<b>1,167,366</b>	<b>238,900</b>	<b>162,378</b>	<b>6,312,214</b>

The parent entity holds no property, plant and equipment.

2006	Freehold land at cost \$'000	Buildings at cost \$'000	Easements at cost \$'000	Transmission network at cost \$'000	Electricity distribution network at cost \$'000	Gas distribution network at cost \$'000	Other plant and equipment at cost \$'000	Capital works at cost \$'000	Total \$'000
<b>Combined</b>									
<b>Carrying amount at 1 April 2005</b>	2,507	135,782	–	–	1,643,303	1,096,962	846,120	74,478	3,799,152
Additions	–	–	–	–	–	–	–	320,420	320,420
Assets acquired on stapling*	230,915	72,985	1,217,723	1,264,976	–	–	34,735	77,399	2,898,733
Transfers	27,290	(28,118)	174	46,156	187,753	50,419	47,341	(331,015)	–
Disposals	–	–	–	–	(63)	(475)	(393)	–	(931)
Depreciation charge	–	(1,731)	–	(20,170)	(67,502)	(28,528)	(36,544)	–	(154,475)
Divestment of the merchant energy business	(7,295)	(77,327)	–	–	–	–	(639,654)	(28,492)	(752,768)
<b>Carrying amount at 31 March 2006</b>	<b>253,417</b>	<b>101,591</b>	<b>1,217,897</b>	<b>1,290,962</b>	<b>1,763,491</b>	<b>1,118,378</b>	<b>251,605</b>	<b>112,790</b>	<b>6,110,131</b>
<b>Net book value at 31 March 2006</b>									
Cost	253,417	103,402	1,217,897	1,311,132	1,870,994	1,164,364	358,024	112,790	6,392,020
Accumulated depreciation	–	(1,811)	–	(20,170)	(107,503)	(45,986)	(106,419)	–	(281,889)
<b>Carrying amount at 31 March 2006</b>	<b>253,417</b>	<b>101,591</b>	<b>1,217,897</b>	<b>1,290,962</b>	<b>1,763,491</b>	<b>1,118,378</b>	<b>251,605</b>	<b>112,790</b>	<b>6,110,131</b>

\* The fair value of assets acquired on stapling has been revised. Refer to note 36.

## NOTE 19 NON-CURRENT ASSETS – DEFERRED TAX ASSETS

	Combined		Parent entity	
	2007 \$'000	2006 \$'000 Restated*	2007 \$'000	2006 \$'000 Restated*
<b>The balance comprises temporary differences attributable to:</b>				
<i>Amounts recognised in the income statements</i>				
Doubtful debts	228	93	–	–
Employee benefits	9,620	8,558	–	–
Other accruals and provisions	14,749	8,855	81	–
Intellectual property – copyright	45,984	–	–	–
Derivatives	7,497	62,552	–	–
Tax prepayments	21,428	30,449	–	–
Tax losses	53,873	129,140	53,500	128,454
	153,379	239,647	53,581	128,454
<i>Amounts recognised directly in equity</i>				
Cash flow hedges	171	–	–	–
	171	–	–	–
Set-off of deferred tax liabilities of parent entity pursuant to set-off provisions (note 25)	(153,550)	(239,647)	–	–
Net deferred tax assets	–	–	53,581	128,454
<b>Movements</b>				
Opening balance at 1 April	239,647	372,141	128,454	194,459
Asset acquired on stapling (note 36)	–	4,972	–	–
(Charged)/credited to the income statement (note 8)	(58,321)	28,493	81	–
Reallocation between deferred tax asset and liability (note 25)	47,320	–	–	–
Credit on divestment (note 11)	–	(99,954)	–	–
Credited to equity	171	–	–	–
Tax losses utilised	(75,267)	(66,005)	(74,954)	(66,005)
	153,550	239,647	53,581	128,454
Set-off of deferred tax liabilities of parent entity pursuant to set-off provisions (note 25)	(153,550)	(239,647)	–	–
Closing balance at 31 March	–	–	53,581	128,454

\* Refer to note 41.

## NOTE 20 NON-CURRENT ASSETS – INTANGIBLE ASSETS

	Goodwill \$'000	Lease of gas storage licence \$'000	Distribution licences \$'000	Total \$'000
<b>Combined</b>				
<b>Year ended 31 March 2007</b>				
Opening net book amount	–	–	354,505	354,505
Closing net book amount	–	–	354,505	354,505
<b>Year ended 31 March 2006</b>				
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

The parent entity holds no intangible assets.

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

- the licences have 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 21 CURRENT LIABILITIES – PAYABLES AND OTHER LIABILITIES

	Combined		Parent entity	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000 Restated*
Trade payables	95,003	83,986	–	–
Accrued interest	29,333	37,045	–	–
GST payable	4,872	3,987	9	–
Customer deposits	11,929	10,744	–	–
Deferred revenue	3,962	512	–	–
Related party payables	20,574	18,402	17,847	142,531
Other	–	4,040	–	–
<b>Total current payables and other liabilities</b>	<b>165,673</b>	<b>158,716</b>	<b>17,856</b>	<b>142,531</b>

\* Refer to note 41.

## NOTE 22 BORROWINGS

	Combined		Parent entity	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>Current borrowings</b>				
Working capital	58,200	45,500	–	–
Domestic medium term notes	561,733	250,000	–	–
US senior notes	–	348,944	–	–
Amounts owed to related parties:				
Amounts owed to SP AusNet Finance Trust	–	–	937,695	1,001,335
<b>Total current borrowings</b>	<b>619,933</b>	<b>644,444</b>	<b>937,695</b>	<b>1,001,335</b>
<b>Non-current borrowings</b>				
Commercial paper	287,744	173,831	–	–
Syndicated bank debt	519,661	204,590	–	–
US senior notes	1,202,394	969,812	–	–
Domestic medium term notes	930,466	1,500,299	–	–
Amounts owed to related parties:				
Amounts owed to entities under common control	–	3,430	–	–
Amounts owed to subsidiaries	–	–	1,412,989	1,218,704
<b>Total non-current borrowings</b>	<b>2,940,265</b>	<b>2,851,962</b>	<b>1,412,989</b>	<b>1,218,704</b>
<b>Total borrowings</b>	<b>3,560,198</b>	<b>3,496,406</b>	<b>2,350,684</b>	<b>2,220,039</b>

## Significant terms and conditions

Working capital is a committed and unsecured facility which is repayable upon maturity.

Domestic medium term notes are unsecured and are repayable on maturity in September 2007, November 2008, September 2010 and November 2011.

US senior notes are unsecured and are repayable on maturity in November 2013, November 2014, September 2016 and December 2016. The US Senior Notes have been hedged into Australian dollars using cross-currency swaps.

The terms and conditions of the amount due to SP AusNet Finance Trust are disclosed in note 35(g).

Commercial paper is measured including transactional costs, fees paid at inception and all other premiums or discounts as per AASB 139 requirements. The facility is unsecured and rollovers occur within a 90 day period.

The syndicated bank debt is a committed unsecured facility comprising of a \$350 million tranche due to mature on 20 March 2011 and a \$250 million tranche due to mature on 20 March 2013 respectively. As at 31 March 2007 \$520 million was drawn (2006: \$205 million).

Amounts owed to subsidiaries represent intercompany loans.

## 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 \$24.9 million of which \$5.6 million was lodged with third parties at 31 March 2007 (2006: \$5.6 million).

## NOTE 22 BORROWINGS CONTINUED

	Combined		Parent entity	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>Financing facilities (face value)</b>				
Unsecured bank overdraft facility, reviewed annually and payable at call:				
– Amount used	–	–	–	–
– Amount unused	3,000	2,500	–	–
	3,000	2,500	–	–
Unsecured working capital facility, reviewed annually:				
– Amount used	58,200	45,500	–	–
– Amount unused	121,800	104,500	–	–
	180,000	150,000	–	–
Unsecured bank loan facilities with various maturity dates and which may be extended by mutual agreement:				
– Amount used	520,000	205,000	–	–
– Amount unused	80,000	295,000	–	–
	600,000	500,000	–	–
Unsecured commercial paper standby facilities:				
– Amount used	–	–	–	–
– Amount unused	120,000	120,000	–	–
	120,000	120,000	–	–

## NOTE 23 CURRENT LIABILITIES – PROVISIONS

	Combined		Parent entity	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Employee benefits	29,660	27,176	–	–
Uninsured losses (note 26)	7,837	1,660	–	–
Land remediation (note 26)	7,172	3,400	–	–
Sundry provision (note 26)	–	790	–	–
<b>Total current provisions</b>	<b>44,669</b>	<b>33,026</b>	<b>–</b>	<b>–</b>

## NOTE 24 NON-CURRENT LIABILITIES – OTHER FINANCIAL LIABILITIES

	Combined		Parent entity	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Deferred revenue	6,109	4,098	–	–
<b>Total non-current other financial liabilities</b>	<b>6,109</b>	<b>4,098</b>	<b>–</b>	<b>–</b>

## NOTE 25 NON-CURRENT LIABILITIES – DEFERRED TAX LIABILITIES

	Combined		Parent entity	
	2007 \$'000	2006 \$'000 Restated*	2007 \$'000	2006 \$'000
<b>The balance comprises temporary differences attributable to:</b>				
<i>Amounts recognised in the income statement</i>				
Accrued revenue	13	20,240	–	–
Derivatives	8,749	43,625	–	–
General interest charge	–	1,591	–	–
Defined benefit funds	(1,208)	(2,024)	–	–
Deferred charges (non-current)	502	684	–	–
Deferred capital gains	–	53,700	–	–
Intangibles	870	–	–	–
Property, plant and equipment	453,325	428,240	–	–
	<b>462,251</b>	<b>546,056</b>	<b>–</b>	<b>–</b>
<i>Amounts recognised directly in equity</i>				
Defined benefit funds	10,006	5,220	–	–
Cash flow hedges	7,573	(7,524)	–	–
Fair value adjustment to easements	22,033	22,033	–	–
	<b>39,612</b>	<b>19,729</b>	<b>–</b>	<b>–</b>
	<b>501,863</b>	<b>565,785</b>	<b>–</b>	<b>–</b>
Set-off of deferred tax assets of parent entity pursuant to set-off provisions (note 19)	(153,550)	(239,647)	–	–
Net deferred tax liabilities	<b>348,313</b>	<b>326,138</b>	<b>–</b>	<b>–</b>
<b>Movements</b>				
Opening balance at 1 April	565,785	393,118	–	–
Change on adoption of AASB 132 and AASB 139	–	18,214	–	–
Liability acquired on stapling (note 36)	–	291,244	–	–
Credited/(debited) to the income statement (note 8)	(117,091)	109,150	–	–
Credit on divestment (note 11)	(9,607)	(240,366)	–	–
Reallocation between deferred tax liability and asset (note 19)	47,320	–	–	–
Net prior year over provision (note 8)	(4,426)	–	–	–
Credited/(debited) to equity	19,882	(5,575)	–	–
	<b>501,863</b>	<b>565,785</b>	<b>–</b>	<b>–</b>
Set-off of deferred tax assets of parent entity pursuant to set-off provisions (note 19)	(153,550)	(239,647)	–	–
Closing balance at 31 March	<b>348,313</b>	<b>326,138</b>	<b>–</b>	<b>–</b>

\* Refer to note 41.

## NOTE 26 NON-CURRENT LIABILITIES – PROVISIONS

	Combined		Parent entity	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Employee benefits	2,494	1,449	–	–
Provision for land remediation (iii)	13,706	14,013	–	–
<b>Total non-current provisions</b>	<b>16,200</b>	<b>15,462</b>	<b>–</b>	<b>–</b>

## (A) MOVEMENT IN PROVISIONS

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

	Combined		
	Uninsured losses (i) 2007 \$'000	Land remediation (ii) 2007 \$'000	Sundry provisions (iii) 2007 \$'000
Balance at 1 April 2006	1,660	17,413	790
Additional provisions recognised in the period	17,420	2,697	–
Unused amounts reversed during the period	–	–	(790)
Amounts utilised	(11,243)	–	–
Reductions arising from payments	–	(925)	–
Unwinding of discount	–	1,693	–
<b>Balance at 31 March 2007</b>	<b>7,837</b>	<b>20,878</b>	<b>–</b>
Current (note 23)	7,837	7,172	–
Non-current (note 26)	–	13,706	–
<b>Total</b>	<b>7,837</b>	<b>20,878</b>	<b>–</b>

- (i) Provision for uninsured losses recognises an assessment of probable or actual claims made against SP AusNet for litigation claims, 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 SP AusNet's insurance policies. Expected timing of cash flows in respect of such claims is uncertain as each claim may be subject to insurance and/or legal proceedings.
- (ii) Provision for land remediation represents an estimate of the costs of rehabilitating sites, including the estimated costs of reclamation, plant dismantling and closures and waste site closures. It is expected that approximately 35% of the provision will be utilised during the financial year ending 31 March 2008, with the balance to be utilised over the 31 March 2009 to 2011 financial years.
- (iii) Sundry provisions represented the estimated cost of disposing of assets. The provision was reversed during the current financial year as it is no longer considered probable that an outflow of resources will be required.

## NOTE 27 DEFINED BENEFIT OBLIGATIONS

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

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

Mercer Investment Nominees Limited performed actuarial valuations of the funds as at 31 March 2007 and 31 March 2006.

The Stapled Group has recognised an asset in the balance sheet in respect of its defined benefit superannuation arrangements. As a surplus currently exists in both plans, the Stapled Group is able to benefit from it in the form of a reduction in the required contribution rate, based on advice from the Plans' actuary.

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

	Combined	
	2007 %	2006 %
Key assumptions used (expressed as weighted averages):		
Discount rate (active members)	4.80	4.60
Discount rate (pensioners)	5.60	5.40
Expected rate of return on plan assets (active members)	7.00	7.00
Expected rate of return on plan assets (pensioners)	7.50	7.50
Expected salary increase rate	4.00	4.00
Expected pension increase rate	3.00	3.00

	Combined	
	2007 \$'000	2006 \$'000
<b>Amounts recognised in the income statements in respect of these defined benefit plans are as follows:</b>		
Current service cost	3,815	2,687
Interest cost	7,204	5,539
Expected return on plan assets	(11,673)	(7,568)
Effect of curtailments/settlements	–	412
<b>Total</b>	<b>(654)</b>	<b>1,070</b>
Actuarial gains recognised during the year in the statements of recognised income and expense	15,949	4,861
Cumulative actuarial gains and losses recognised in the statements of recognised income and expense	25,943	9,994
<b>Total amount included in the balance sheets arising from SP AusNet's obligations in respect of its defined benefit plans are as follows:</b>		
Present value of funded defined benefit obligations	(166,778)	(160,547)
Fair value of plan assets	196,103	171,202
<b>Net asset arising from defined benefit obligations recognised on the balance sheets</b>	<b>29,325</b>	<b>10,655</b>
<b>Movements in the present value of the defined benefit obligations in the current period were as follows:</b>		
Opening defined benefit obligation	160,547	97,665
Current service cost	3,815	2,687
Interest cost	7,204	5,539
Contributions by plan participants	2,039	1,492
Actuarial losses	2,563	6,292
Acquired in business combinations	–	68,238
Curtailments	–	412
Settlements	–	(17,863)
Benefits, taxes and premiums paid	(9,390)	(3,915)
<b>Closing defined benefit obligation</b>	<b>166,778</b>	<b>160,547</b>
<b>Movements in the present value of the plan assets in the current period were as follows:</b>		
Opening fair value of plan assets	171,202	98,219
Expected return on plan assets net of investment and administration expenses	11,673	7,568
Actuarial gains	18,512	11,153
Acquired in business combinations	–	74,480
Contributions from the employer	2,067	2,470
Contributions by plan participants	2,039	1,492
Settlements*	–	(20,265)
Benefits, taxes and premiums paid	(9,390)	(3,915)
<b>Closing fair value of plan assets</b>	<b>196,103</b>	<b>171,202</b>

\* 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 \$30,185,000 (2006: \$18,721,000).

SP AusNet does not expect to make any contributions 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 plans' assets are expected to equal 105% of the plans' liabilities within five years. The plans' assets are currently 118% of the plans' liabilities.

## NOTE 27 DEFINED BENEFIT OBLIGATIONS CONTINUED

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

	Fair value of plan assets	
	2007* %	2006 %
Australian equities	41	39
International equities	23	24
Fixed interest securities	16	20
Property	14	10
Cash	6	7
	100	100

\* Asset allocation as at 31 March 2007 is currently unavailable. Asset allocation as at 31 December 2006 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	2007 \$'000	2006 \$'000	2005 \$'000
Defined benefit plans' obligations	(166,778)	(160,547)	(97,665)
Plans' assets	196,103	171,202	98,219
Surplus	29,325	10,655	554
Experience adjustments (gain)/loss arising on plans' liabilities	5,471	4,052	772
Experience adjustments (gain)/loss arising on plans' assets	(18,512)	(11,153)	(8,968)

Comparative information has been provided for only two years in accordance with the transition rules in AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*.

## NOTE 28 CONTRIBUTED EQUITY

Share Capital	Notes	Parent entity	
		2007 Shares	2006 Shares
Ordinary shares – fully paid	(a), (b)	2,092,680,010	2,092,680,010

### (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.

### (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	(i)	2,092,680,008	–	2
31 March 2006	Closing balance		2,092,680,010	–	2
1 April 2006	Opening balance		2,092,680,010	–	2
31 July 2006	Employee share gift	(ii)	–	–	547,139
31 March 2007	Closing balance		2,092,680,010	–	547,141

(i) 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 AusNet Distribution affected a share split with the result that it has 2,092,680,010 of shares on issue which have no par value.

(ii) A one-off gift of \$1,000 worth of securities was offered by SPI Management Services, a related party not part of the Stapled Group, to all SP AusNet employees. This gift totalling \$0.811 million was funded by SPI Management Services without charge to the Stapled Group. The value of the gift to employees of SP AusNet Distribution and its legal subsidiaries was \$0.547 million. The value of the gift to employees of SP AusNet Transmission and its legal subsidiaries was \$0.264 million.

The securities were purchased on the stockmarket. SP AusNet has accounted for this gift in accordance with Accounting Standard AASB 2 *Share-based Payment*. The fair value of the gift has been recognised as an expense during the current period. As the gift was at no charge to SP AusNet the fair value of the gift was accounted for as an additional contribution of capital.

The share-based payment is a non-cash transaction as it was paid for by a related party not part of the Stapled Group.

		Combined		Parent entity	
	Notes	2007 \$'000	2006 \$'000 Restated*	2007 \$'000	2006 \$'000
<b>(C) CHANGES IN EQUITY DURING THE YEAR</b>					
<b>Capital and reserves attributable to stapled securityholders as:</b>					
<i>Equityholders of SP AusNet Distribution</i>					
Contributed equity		547	–	547	–
Reserves	29(a)	26,649	(10,707)	–	–
Retained profits	29(b)	557,422	486,688	(86,446)	(5,620)
<b>Parent interest</b>		<b>584,618</b>	<b>475,981</b>	<b>(85,899)</b>	<b>(5,620)</b>
<i>Equityholders of other stapled entities – SP AusNet Transmission and SP AusNet Finance Trust</i>					
Contributed equity		650,051	649,787	–	–
Units		1,970,698	2,092,680	–	–
Reserves	29(a)	13,967	5,330	–	–
Retained profits	29(b)	476,931	433,321	–	–
Fair value adjustment on stapling		51,411	51,411	–	–
SP AusNet Transmission other equity component (i)		(1,095,067)	(1,095,067)	–	–
<b>Minority interest</b>		<b>2,067,991</b>	<b>2,137,462</b>	<b>–</b>	<b>–</b>
<b>Total equity</b>		<b>2,652,609</b>	<b>2,613,443</b>	<b>(85,899)</b>	<b>(5,620)</b>
Total equity at the beginning of the financial year		2,613,443	97,309	(5,620)	193
Contributions of equity, net of transaction costs		–	2,742,467	–	–
Share-based payment		811	–	547	–
Pre-acquisition retained profits and reserves of SP AusNet Transmission and SP AusNet Finance Trust at the date of stapling		–	398,622	–	–
Distributions paid		(185,935)	–	–	–
Fair value adjustment on stapling		–	51,411	–	–
SP AusNet Transmission other equity component (i)		–	(1,095,067)	–	–
Total recognised income and expense for the year		224,290	418,701	(80,826)	(5,813)
<b>Total equity at the end of the financial year</b>		<b>2,652,609</b>	<b>2,613,443</b>	<b>(85,899)</b>	<b>(5,620)</b>

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

As the stapling is a business combination by contract alone, the total ownership interest in SP AusNet Transmission and total unitholders' funds of SP AusNet Finance Trust is presented as minority interest in the combined financial statements of SP AusNet Distribution, notwithstanding that by virtue of the stapling arrangement, SP AusNet Distribution, SP AusNet Transmission and SP AusNet Finance Trust have common equityholders (the securityholders) with the effect that total equity belongs to the securityholders.

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

\* Refer to note 41.

## NOTE 29 RESERVES AND RETAINED PROFITS

	Combined		Parent entity	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>(A) RESERVES</b>				
<i>Hedge reserve (i)</i>				
Hedge reserve – cash flow hedges – SP AusNet Distribution	12,230	(16,688)	–	–
Hedge reserve – cash flow hedges – SP AusNet Transmission and SP AusNet Finance Trust (minority interest)	5,042	(868)	–	–
Total hedge reserve	17,272	(17,556)	–	–
<i>Defined benefit reserve (ii)</i>				
Defined benefit reserve – SP AusNet Distribution	14,419	5,981	–	–
Defined benefit reserve – SP AusNet Transmission and SP AusNet Finance Trust (minority interest)	8,925	6,198	–	–
Total defined benefit reserve	23,344	12,179	–	–
<b>Total reserves</b>	<b>40,616</b>	<b>(5,377)</b>	<b>–</b>	<b>–</b>
<b>Attributable to:</b>				
SP AusNet Distribution	26,649	(10,707)	–	–
SP AusNet Transmission and SP AusNet Finance Trust (minority interest)	13,967	5,330	–	–
	40,616	(5,377)	–	–
<b>Movements in reserves were as follows:</b>				
<i>Hedge reserve – cash flow hedges</i>				
Balance at beginning of financial year:	(17,556)	–	–	–
Adjustment on adoption of AASB 132 and AASB 139, net of tax	–	(22,800)	–	–
	(17,556)	(22,800)	–	–
Revaluation – gross	56,261	(30,582)	–	–
Transfer to net profit – gross	(6,506)	28,793	–	–
Deferred tax (note 8)	(14,927)	7,033	–	–
Net movement during the financial year	34,828	5,244	–	–
Balance at end of financial year	17,272	(17,556)	–	–
<i>Defined benefit reserve</i>				
Balance at beginning of financial year:	12,179	3,592	–	–
Actuarial gains	15,949	10,045	–	–
Deferred tax (note 8)	(4,784)	(1,458)	–	–
Net movement during the financial year	11,165	8,587	–	–
Balance at end of financial year	23,344	12,179	–	–

## (i) Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to highly probable forecast transactions.

## (ii) Defined benefit reserve

The defined benefit reserve is used to record actuarial gains and losses on the defined benefit obligation and the pension plan assets that are recognised directly in equity, as described in note 1(w).

	Combined		Parent entity	
	2007 \$'000	2006 \$'000 Restated*	2007 \$'000	2006 \$'000
<b>(B) RETAINED PROFITS</b>				
Equityholders of the parent				
Retained profits	557,422	486,688	(86,446)	(5,620)
Other stapled entities				
SP AusNet Transmission – retained profits	443,750	414,679	–	–
SP AusNet Finance Trust – retained profits	33,181	18,641	–	–
	476,931	433,320	–	–
Total stapled securityholders' retained profits	1,034,353	920,008	(86,446)	(5,620)
<b>Movements in retained profits were as follows:</b>				
Balance at beginning of financial year:	920,008	93,717	(5,620)	193
Pre-acquisition adjustment – SP AusNet Transmission and SP AusNet Finance Trust	–	393,437	–	–
Adjustment on adoption of AASB 132 and AASB 139, net of tax	–	65,299	–	–
Distributions paid	(63,952)	–	–	–
Net profit/(loss) for the year attributable to stapled securityholders	178,297	367,555	(80,826)	(5,813)
Balance at end of financial year	1,034,353	920,008	(86,446)	(5,620)

\* Refer to note 41.

## NOTE 30 FINANCIAL INSTRUMENTS

### (A) FINANCIAL RISK MANAGEMENT OBJECTIVES

Details of the Stapled Group's financial risk management objectives and policies are disclosed in note 2 to the financial statements.

### (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 cross-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 Stapled Group to mitigate the risk of adverse movements in foreign exchange rates. A controlled entity enters into cross-currency swaps on behalf of the Stapled Group to manage foreign exchange exposures, primarily in US dollars.

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 and receipts. The Stapled Group has entered into contracts to hedge the exchange rate risk in relation to specific purchase orders.

The settlement dates, amounts to be received/paid and contractual exchange rates of the Stapled Group's outstanding hedging contracts are detailed in the following table:

#### FORWARD FOREIGN EXCHANGE CONTRACTS

Outstanding contracts	Weighted average exchange rate \$	Foreign currency contract value FC'000	Fair value (including AUD notional contract value) \$'000	Less than 1 year \$'000	1–5 years \$'000	More than 5 years \$'000
<b>2007</b>						
<i>Forward foreign currency contracts</i>						
Buy EUR (European Euro)	0.591	789	1,354	1,354	–	–
Buy SEK (Swedish Krone)	5.400	1,042	196	196	–	–
Buy SGD (Singapore Dollar)	–	–	–	–	–	–
Buy USD (United States Dollar)	0.769	690	936	936	–	–
Buy GBP (British Pound)	–	–	–	–	–	–
Buy JPY (Japanese Yen)	80.230	560,116	7,860	7,860	–	–
Buy CHF (Swiss Franc)	0.968	282	292	292	–	–
<i>Cross-currency swaps</i>						
USD	0.755	975,000	1,206,194	–	–	1,206,194

## NOTE 30 FINANCIAL INSTRUMENTS CONTINUED

Outstanding contracts	Weighted average exchange rate \$	Foreign currency contract value FC'000	Fair value (including AUD notional contract value) \$'000	Less than 1 year \$'000	1–5 years \$'000	More than 5 years \$'000
<b>2006</b>						
<i>Forward foreign currency contracts</i>						
Buy EUR (European Euro)	0.606	2,886	4,938	4,938	–	–
Buy SEK (Swedish Krone)	5.650	2,584	470	470	–	–
Buy SGD (Singapore Dollar)	1.160	418	339	339	–	–
Buy USD (United States Dollar)	0.732	4,604	6,549	6,549	–	–
Buy GBP (British Pound)	0.410	36	89	89	–	–
Buy JPY (Japanese Yen)	80.600	643,143	8,292	800	7,492	–
<i>Cross-currency swaps</i>						
USD	0.736	950,000	1,297,161	353,239	–	943,922

The following table summarises the designations of the hedging instruments used to manage foreign currency borrowing risk:

	Cash flow hedges \$'000	Fair values hedges \$'000	Derivatives not in a hedge relationship \$'000	Total \$'000
<b>2007</b>				
Forward foreign currency contracts	(942)	–	–	(942)
Cross-currency swaps	(6,771)	(79,116)	–	(85,887)
<b>2006</b>				
Forward foreign currency contracts	810	–	–	810
Cross-currency swaps	(36,129)	48,450	–	12,321

## (D) INTEREST RATE RISK MANAGEMENT

## Interest rate swap contracts

The following table summarises the designations of interest rate swaps used to manage interest rate exposure:

	Cash flow hedges \$'000	Fair values hedges \$'000	Derivatives not in a hedge relationship \$'000	Total \$'000
<b>2007</b>				
Interest rate swaps	33,700	(7,573)	290	26,417
<b>2006</b>				
Interest rate swaps	969	587	485	2,041

At 31 March 2007, unrealised gains after tax in respect of interest rate swap contracts of \$23.6 million (2006: \$0.8 million) have been deferred in the hedging reserve and will be released when the anticipated transaction occurs.

### Maturity profile of financial assets and financial liabilities

The following table summarises the interest rate sensitivity (repricing profile) of the Stapled Group's financial assets and financial liabilities based on the earlier of contractual maturity or repricing:

Fixed interest rate maturities										
	Weighted average effective interest rate %	Variable interest rate \$'000	Less than 1 year \$'000	1–2 years \$'000	2–3 years \$'000	3–4 years \$'000	4–5 years \$'000	More than 5 years \$'000	Non- interest bearing \$'000	Total \$'000
<b>2007</b>										
<b>Financial assets:</b>										
Cash and cash equivalents	6.15	9,098	–	–	–	–	–	–	–	9,098
Trade and other receivables	–	–	–	–	–	–	–	–	140,885	140,885
<b>Financial liabilities:</b>										
Trade and other payables	–	–	–	–	–	–	–	–	165,673	165,673
Medium term notes (ii)	6.70	1,012,500	–	140,000	–	–	350,000	–	–	1,502,500
Senior notes (iii)	5.85	–	–	–	–	–	–	1,207,131	–	1,207,131
Commercial paper (ii)	6.46	290,000	–	–	–	–	–	–	–	290,000
Syndicated bank debt (ii)	6.84	520,000	–	–	–	–	–	–	–	520,000
Working capital facility	6.38	58,200	–	–	–	–	–	–	–	58,200
Interest rate swaps – fixed for floating (i)	5.67	(3,023,013)	1,857,500	–	–	1,165,513	–	–	–	–
Interest rate swaps – floating for fixed (i)	6.96	150,000	(150,000)	–	–	–	–	–	–	–

(i) Notional principal amounts

(ii) Face value of debt

(iii) Face value of USD senior notes has been translated at an exchange rate of 0.807AUD/USD as at 31 March 2007.

(iv) The outstanding floating for fixed contracts do not include those that are forward starting whose notional amounts total \$490 million.  
At 31 March 2007 the change in the fair value of these swaps has been recognised in the income statement.

Fixed interest rate maturities										
	Weighted average effective interest rate %	Variable interest rate \$'000	Less than 1 year \$'000	1–2 years \$'000	2–3 years \$'000	3–4 years \$'000	4–5 years \$'000	More than 5 years \$'000	Non- interest bearing \$'000	Total \$'000
<b>2006</b>										
<b>Financial assets:</b>										
Cash and cash equivalents	5.10	8,708	–	–	–	–	–	–	–	8,708
Trade and other receivables	–	–	–	–	–	–	–	–	132,378	132,378
<b>Financial liabilities:</b>										
Trade and other payables	–	–	–	–	–	–	–	–	158,716	158,716
Medium term notes (ii)	6.24	1,152,500	110,000	–	140,000	–	–	350,000	–	1,752,500
Senior notes (iii)	6.08	–	349,357	–	–	–	–	978,200	–	1,327,557
Commercial paper (ii)	5.66	175,000	–	–	–	–	–	–	–	175,000
Syndicated bank debt (ii)	6.03	205,000	–	–	–	–	–	–	–	205,000
Working capital facility	5.73	45,500	–	–	–	–	–	–	–	45,500
Interest rate swaps – fixed for floating (i)	5.69	(2,832,950)	359,937	1,667,500	–	–	805,513	–	–	–
Interest rate swaps – floating for fixed (i)	6.23	150,000	–	(150,000)	–	–	–	–	–	–

(i) Notional principal amounts

(ii) Face value of debt

(iii) Face value of USD senior notes has been translated at an exchange rate of 0.716AUD/USD as at 31 March 2006.

(iv) The outstanding floating for fixed contracts do not include those that are forward starting whose notional amounts total \$490 million.  
At 31 March 2006 the change in the fair value of these swaps have been recognised in the income statement.

(v) The outstanding fixed for floating contracts do not include those that are forward starting whose notional amounts total \$470 million.  
At 31 March 2006 the change in the fair value of these swaps have been recognised in the income statement.

## NOTE 30 FINANCIAL INSTRUMENTS CONTINUED

## (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 approximate their fair values.

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 table details the fair value of financial assets and financial liabilities:

	Carrying amount		Fair value	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>Financial assets</b>				
Interest rate swap contracts	35,336	5,794	35,336	5,794
Cross-currency swaps	23,923	70,195	23,923	70,195
Energy derivatives	–	111,964	–	111,964
Forward foreign exchange contracts	1	876	1	876
<b>Financial liabilities</b>				
Borrowings	3,560,198	3,496,406	3,663,150	3,597,613
Interest rate swap contracts	8,919	3,753	8,919	3,753
Cross-currency swaps	109,810	57,874	109,810	57,874
Energy derivatives	–	111,964	–	111,964
Forward foreign exchange contracts	943	66	943	66

For all other classes of financial assets and financial liabilities, fair value approximates carrying amount.

## NOTE 31 KEY MANAGEMENT PERSONNEL DISCLOSURES

SP AusNet has applied the exemption under the Corporations Amendments Regulation 2M.6.04 issued on 6 June 2006, which exempts disclosing entities from providing remuneration disclosures in relation to their key management personnel in their annual financial report as required by paragraphs Aus25.4 to Aus 25.7.2 of AASB 124 *Related Party Disclosures*. These remuneration disclosures are provided in the *Remuneration report* in the *Directors' report* and have been audited.

## KEY MANAGEMENT PERSONNEL

SPI Management Services, a wholly-owned subsidiary of related party Singapore Power International Pte Ltd, entered into a Management Services Agreement ("MSA") with SP AusNet Distribution and SP AusNet Transmission on 10 October 2005. In addition, SPI Management Services also entered into a Management Services Agreement ("RE MSA") with the Responsible Entity on 4 November 2005. Both agreements commenced on 1 October 2005.

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

## DIRECTORS

Name	Position
Ng Kee Choe	Non-executive Chairman
Nino Ficca	Managing Director
Jeremy Davis	Non-executive Director
Eric Gwee	Non-executive Director
Tony Iannello	Non-executive Director (appointed 6 June 2006)
George Lefroy	Non-executive Director
Martyn Myer	Non-executive Director
Quek Poh Huat	Non-executive Director
Ian Renard	Non-executive Director

## EXECUTIVES

Name	Position	Employer
Nino Ficca	Managing Director	SPI Management Services
Paul Adams	General Manager, Network Services	SPI Management Services
Peter Buck <sup>1</sup>	General Manager, Distribution Network Development	SPI Management Services
Norman Drew	General Manager, Network Development	SPI Management Services
Terrence Fowler <sup>2</sup>	General Manager, Finance	SPI Management Services
Adrian Hill <sup>3</sup>	General Manager, Corporate Development and Investor Relations	SPI Management Services
Geoffrey Nicholson <sup>4</sup>	Chief Financial Officer	SPI Management Services
Charles Popple	General Manager, Regulatory and Business Strategy	SPI Management Services

1 Mr Buck ceased as a member of the key management personnel on 24 July 2006.

2 Mr Fowler ceased as a member of the key management personnel on 22 December 2006.

3 Mr Hill commenced as a member of the key management personnel on 1 August 2006.

4 Mr Nicholson commenced as a member of the key management personnel on 2 January 2007.

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

	2007 \$	2006 \$
<b>Remuneration by category</b>		
Short-term employee benefits	3,306,498	2,694,608
Post-employment benefits	228,314	189,608
Other long-term benefits	—	—
Termination benefits	609,929	—
Share-based payment	6,000	—
	<b>4,150,741</b>	<b>2,884,216</b>

The parent entity does not have any employees.

## OTHER TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

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

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

## SHAREHOLDINGS OF KEY MANAGEMENT PERSONNEL

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

Balance at beginning of year (1 April 2005)	Net change other	Balance at end of year (31 March 2006)	Key management personnel	Balance at beginning of year (1 April 2006)	Granted during the year as compensation	Net change other	Balance at end of year (31 March 2007)
<b>Directors</b>							
—	150,000	150,000	Ng Kee Choe	150,000	—	—	150,000
—	100,000	100,000	Nino Ficca	100,000	—	25,000	125,000
—	50,000	50,000	Jeremy Davis	50,000	—	—	50,000
—	100,000	100,000	Eric Gwee	100,000	—	—	100,000
—	—	—	Tony Iannello	—	—	30,000	30,000
—	100,000	100,000	George Lefroy	100,000	—	—	100,000
—	650,000	650,000	Martyn Myer	650,000	—	—	650,000
—	206,000	206,000	Quek Poh Huat	206,000	—	—	206,000
—	30,000	30,000	Ian Renard	30,000	—	—	30,000
<b>Executives</b>							
—	100,000	100,000	Nino Ficca	100,000	—	25,000	125,000
—	20,000	20,000	Paul Adams	20,000	782	—	20,782
—	5,000	5,000	Peter Buck	5,000	782	—	5,782
—	20,000	20,000	Norman Drew	20,000	782	—	20,782
—	50,000	50,000	Terrence Fowler	50,000	782	—	50,782
—	30,000	30,000	Adrian Hill	30,000	782	—	30,782
—	—	—	Geoff Nicholson	—	—	—	—
—	7,000	7,000	Charles Popple	7,000	782	—	7,782

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

## 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:

	Combined		Parent entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
<b>(A) ASSURANCE SERVICES</b>				
<i>Audit services</i>				
Audit and review of financial reports and other audit work under the <i>Corporations Act 2001</i>	1,608,920	756,000	—	—
Additional audit fees for the year ended 31 March 2006	320,483	—	—	—
Total remuneration for audit services	1,929,403	756,000	—	—
<i>Other assurance services</i>				
Audit of regulatory returns	223,500	315,000	—	—
Additional audit fees for regulatory returns for the year ended 31 March 2006	147,000	—	—	—
Due diligence services	—	247,469	—	—
Offering circular	50,000	—	—	—
Other assurance services	34,500	—	—	—
Total remuneration for other assurance services	455,000	562,459	—	—
Total remuneration for assurance services	2,384,403	1,318,469	—	—

The auditor of SP AusNet is KPMG. Audit fees for the parent entity are paid by another entity in the Stapled Group.

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

**(B) TAXATION SERVICES**

Tax compliance services, including review of company income tax returns	132,530	362,895	—	—
Total remuneration for taxation services	132,530	362,895	—	—

**(C) ADVISORY SERVICES**

Information technology assistance to Internal Audit Department	—	24,484	—	—
Contract advice	20,000	—	—	—
Recruitment and related advice	94,747	—	—	—
Other	15,000	—	—	—
Total remuneration for advisory services	129,747	24,484	—	—
Total fees	2,646,680	1,705,848	—	—

## NOTE 33 CONTINGENT LIABILITIES

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

**MANAGEMENT SERVICES AGREEMENTS ("MSAs")**

SPI Management Services, a wholly-owned subsidiary of Singapore Power International Pte Ltd, provides management services to SP AusNet under two MSAs as detailed in note 31.

The terms of the MSAs are for an initial period of 10 years but continue for two further 10-year periods unless terminated by either party giving no less than one year's notice prior to the expiry of the applicable 10-year period. In the event that the MSA is terminated by SP AusNet by the giving of such notice, SPI Management Services will be entitled to a termination fee equal to the previous financial year's services charge paid or payable to SPI Management Services.

In addition, details of contingent liabilities of the Stapled Group for which no provisions are included in the financial statements are as follows:

**(A) 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 has the power to order the Stapled Group to incur such costs to remedy the containment.

Hazardous materials are used in certain operational areas of the Stapled Group. 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 Stapled Group, other than as provided for in these financial statements and as noted above.

**(B) t<sup>2</sup>/TENIX**

SP AusNet and Tenix Alliance are party to a Network Services Alliance Agreement ("NSAA") which created the "t<sup>2</sup> alliance" to provide services to SP AusNet. On 18 September 2006, SP AusNet and Tenix Alliance agreed a binding term sheet underpinning changes to the NSAA and t<sup>2</sup>. Tenix Alliance was issued a notice of termination pursuant to clause 2.2 and 2.3 (a)(i) of the NSAA. This results in the NSAA terminating on 1 April 2008. The changes will result in t<sup>2</sup> being wound down by 31 March 2008 and the future engagement of Tenix Alliance through other contractual arrangements between the parties. As part of the changes the termination fee payable by SP AusNet to Tenix Alliance pursuant to the NSAA has been waived by Tenix Alliance and replaced by other commercial terms, including a potential payment of up to \$2 million to Tenix Alliance.

**(C) 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 combined 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.

**(D) BANK GUARANTEES**

Certain entities are required to provide bank guarantees in the form of tender bid bonds or performance bonds for contractual obligations.

SP AusNet has guarantee facilities with a number of financial institutions totalling \$24.9 million of which \$5.6 million was lodged with third parties at 31 March 2007 (2006: \$5.6 million).

Other than listed above, the Directors are not aware of any contingent liabilities as at 31 March 2007.

**NOTE 34 COMMITMENTS**

	Combined		Parent entity	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000

**(A) CAPITAL COMMITMENTS**

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

*Property, plant and equipment*

**Payable:**

Within one year	127,624	111,490	—	—
Later than one year, but no later than five years	—	7,855	—	—
	127,624	119,345	—	—

**(B) OTHER EXPENDITURE COMMITMENTS****Payable:**

Within one year	74,618	17,704	—	—
Later than one year, but no later than five years	56,910	38,430	—	—
Later than five years	80,631	91,731	—	—
	212,159	147,865	—	—

**(C) LEASE COMMITMENTS**

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

**Payable:**

Within one year	6,523	5,897	—	—
Later than one year, but no later than five years	17,189	17,840	—	—
Later than five years	10,733	14,992	—	—
	34,445	38,729	—	—

**Representing:**

Non-cancellable operating leases	34,445	38,729	—	—
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**Operating leases**

The Stapled 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.

## 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 SP AusNet Distribution 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 Distribution as part of its ownership of 51% of the securities issued in SP AusNet.

The ultimate parent is Temasek Holdings (Private) Limited (a company incorporated in Singapore).<sup>1</sup>

### (B) RELATED ENTITIES

#### (i) Management Services Agreements (“MSAs”)

SPI Management Services, a wholly-owned subsidiary of related party Singapore Power International Pte Ltd, has entered into two MSAs with SP AusNet as detailed in note 31.

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

The MSA commenced on 1 October 2005 for an initial period of 10 years but continues for two further 10 year periods unless terminated by either party giving no less than one year's notice prior to the expiry of the applicable 10-year period. In the event that the MSA is terminated by SP AusNet by the giving of such notice, SPI Management Services will be entitled to a termination fee equal to the previous financial year's services charge paid or payable to SPI Management Services.

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

Pursuant to the MSA, SP AusNet has agreed to pay SPI Management Services a management fee comprising a management services charge and a performance fee for each financial year during the term of the MSA. The management services charge is to compensate SPI Management Services for expenses relating to all remuneration and other employment entitlements and benefits of the employees of SPI Management Services who provide services to SP AusNet. The performance fee is to incentivise SPI Management Services to meet or better the non-financial and financial performance of SP AusNet and to align the interests of SPI Management Services with those of SP AusNet. The maximum performance fee payable by SP AusNet in respect of a financial year is capped at 0.75% of the market capitalisation amount of SP AusNet's securities.

The MSA contains mutual indemnities for all damages, costs, claims, suits, liabilities, expenses, actions or injuries suffered or incurred as a consequence of any claims against a party to the extent to which any such claim is caused by the negligence, fraud or dishonesty of the other party (or its officers or employees) or a breach of the MSA. The total liability of either party is limited to \$5,000,000 in any financial year.

Under the RE MSA, the Responsible Entity has engaged SPI Management Services to provide management and administration services in respect of SP AusNet Finance Trust. SPI Management Services is entitled to an annual fee of \$100,000 per year in respect of the RE MSA. SPI Management Services may consult with Singapore Power Limited and its subsidiaries from time to time in the performance of its role.

The RE MSA also commenced on 1 October 2005 for an initial period of 10 years and continues for two further 10 year periods unless terminated by either party giving no less than one year's notice prior to the expiry of the applicable 10-year period. The RE MSA also contains mutual indemnities and limits the total liability of either party to \$5,000,000 in any financial year.

#### (ii) Logo

Singapore Power Ltd has granted SP AusNet a licence for consideration of \$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 executives are set out in note 31.

### (E) TRANSACTIONS WITH RELATED PARTIES

For the purpose of the financial statements, parties are considered to be related to SP AusNet if SP AusNet has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operational decisions, or vice versa. The related party disclosures are for transactions with entities within the Singapore Power Group.

The ultimate parent of SP AusNet is Temasek Holdings (Private) Limited (“Temasek”). Temasek is the holding company for various commercial interests of the government of Singapore. SP AusNet engages in a wide variety of transactions with entities in the Temasek Group in the normal course of business on terms similar to those available to other customers. Such transactions include but are not limited to telecommunication services and leasing of properties. These related party transactions are carried out on terms negotiated between parties which are intended to reflect competitive terms.

<sup>1</sup> 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.

The following transactions occurred with related parties within the Singapore Power Group:

	Combined		Parent entity	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b><i>Sales of goods and services</i></b>				
Rental income	–	162	–	–
Other revenue	493	226	–	–
<b><i>Purchases of goods and services</i></b>				
Regulated electricity expenses	–	5,033	–	–
Rental and maintenance expenses	–	391	–	–
Management services charge	21,420	8,937	–	–
Performance fee	12,934	2,987	–	–
Flame logo	1,000	433	600	–
Director's fees*	82	77	–	–
Other costs	1,093	5	–	–
<b><i>Loans from related parties</i></b>				
Loans advanced to:				
Commonly controlled entities	–	250,000	–	–
Loans received from:				
Subsidiaries	–	–	95,366	–
Loan repayments from:				
Commonly controlled entities	–	250,000	–	–
Loan repayments to:				
Commonly controlled entities	–	996,000	70,736	996,000
Subsidiaries	–	–	84	–
<b><i>Interest income</i></b>				
Commonly controlled entities	–	2,745	–	–
<b><i>Interest expense</i></b>				
Commonly controlled entities	–	–	30,417	8,655
Subsidiaries	–	–	84,350	–
<b><i>Distributions paid</i></b>				
Fully franked dividend	7,012	–	–	–
Assessable interest income	25,604	–	–	–
Capital distribution	62,211	–	–	–

\* 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 within the Singapore Power Group:

	Combined		Parent entity	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000 Restated*
<b><i>Current receivables (sales of goods and services)</i></b>				
Commonly controlled entities	771	865	–	–
<b><i>Other current assets (prepayments)</i></b>				
Parent entity	500	–	300	300
<b><i>Non-current receivables (loans)</i></b>				
Subsidiaries	–	–	1,694	1,694
<b><i>Current payables and other liabilities (purchase of goods)</i></b>				
Commonly controlled entities	4,747	–	–	–
Parent entity	15,827	18,402	15,808	16,949
Subsidiaries	–	–	2,039	125,582
<b><i>Current payables (loans)</i></b>				
Commonly controlled entities	–	–	937,695	1,001,335
<b><i>Non-current payables (loans)</i></b>				
Commonly controlled entities	–	3,430	–	–
Subsidiaries	–	–	1,412,989	1,218,704

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.

\* Refer to note 41.

## NOTE 35 RELATED PARTY TRANSACTIONS CONTINUED

### (G) 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. As at 31 March 2007 the amounts loaned to SP AusNet Distribution and SP AusNet Transmission are \$937.7 million and \$1,066.2 million respectively.

Of the \$937.7 million loaned to SP AusNet Distribution, \$531.9 million had an interest rate of 0.0% per annum and \$405.8 million had an interest rate of 7.5% per annum for the period 1 April 2006 to 29 September 2006 and 8.1% per annum for the period 30 September 2006 to 31 March 2007. Of the \$1,066.2 million loaned to SP AusNet Transmission, \$630.6 million had an interest rate of 0.0% per annum and \$435.6 million had an interest rate of 7.5% per annum for the period 1 April 2006 to 29 September 2006 and 8.1% for the period 30 September 2006 to 31 March 2007.

The loan agreements are for a term of 10 years. The loan agreements with SP AusNet Distribution and SP AusNet Transmission mature in July 2014 and October 2015 respectively. All the loan agreements have similar terms and conditions which can be summarised as follows:

- the interest period and interest rate to apply to the loans are agreed by the Borrower and the Lender at six monthly intervals;
- 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); and
- 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 COMBINATIONS

### (A) SUMMARY OF ACQUISITION

Pursuant to the Stapling Deed 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 ASX and the SGX-ST.

For statutory reporting purposes the purchase method of accounting was applied to the stapling arrangement.

In applying the purchase method of accounting in the combined 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 were 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.

At the date of the acquisition, SP AusNet Transmission and SP AusNet Finance Trust were involved in the transmission of electricity within the state of Victoria and the provision of finance respectively.

The initial accounting for the business combination was provisionally determined in line with AASB 3 *Business Combinations*. In the period to 31 March 2007, SP AusNet has reviewed the fair values of SP AusNet Transmission and SP AusNet Finance Trust and revised them as detailed below. These revisions resulted from the de-recognition of certain deferred tax liabilities acquired by SP AusNet Distribution.

### (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	Provisional fair value \$'000	Revised fair value \$'000	Revision \$'000
Cash	8,059	8,059	8,059	–
Trade receivables	33,775	33,775	33,775	–
Inventories	15,871	15,871	15,871	–
Plant and equipment	2,825,269	3,015,689	2,898,733	(116,956)
Deferred tax asset	4,972	4,972	4,972	–
Other assets	15,322	15,322	15,322	–
Trade payables	(34,839)	(34,839)	(34,839)	–
Provision for employee benefits	(12,500)	(12,500)	(12,500)	–
Deferred tax liability	(351,080)	(408,200)	(291,244)	116,956
Defined benefit obligations	6,242	6,242	6,242	–
Loan related party	(1,100,000)	(1,100,000)	(1,100,000)	–
Other liabilities	(1,544,391)	(1,544,391)	(1,544,391)	–
Net liabilities	(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 plant and equipment.

To retain the value of the acquired business at \$1.1 billion, the reduction of the deferred tax liabilities at acquisition date, has been offset by a reduction in the fair value of property, plant and equipment. The adjustment results in a decrease of property, plant and equipment and deferred tax liabilities.

	SP AusNet Finance Trust carrying amount \$'000	Fair value \$'000
<b>SP Australia Networks (Finance) Trust</b>		
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 Trust 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.

## NOTE 37 SUBSIDIARIES

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

			Equity holding	
	Country of incorporation	Class of shares	2007 %	2006 %
<b>SP Australia Networks (Distribution) Ltd</b>	<b>Australia</b>	<b>Ordinary</b>		
Subsidiaries:				
SPI Australia Networks (RE) Ltd	Australia	Ordinary	100	100
SPI Australia Group Pty Ltd	Australia	Ordinary	100	100
SPI Australia (LP) No. 1 Limited	UK		100	100
SPI Australia (LP) No. 2 Limited	UK		100	100
SPI Australia Holdings (AGP) Pty Ltd	Australia	Ordinary	100	100
SPI Australia Holdings (Partnership) Limited Partnership	Australia		100	100
SPI Electricity & Gas Australia Holdings Pty Ltd	Australia	Ordinary	100	100
SPI Electricity Pty Ltd	Australia	Ordinary	100	100
SPI Networks Pty Ltd	Australia	Ordinary	100	100
SPI (No. 8) Pty Ltd	Australia	Ordinary	100	100
SPI (No. 9) Pty Ltd (i)	Australia	Ordinary	100	100
SPI Networks (Gas) Pty Ltd	Australia	Ordinary	100	100
SPI (No.12) Pty Ltd (i), (ii)	Australia	Ordinary	100	100
Data and Measurement Solutions Pty Ltd (i), (ii)	Australia	Ordinary	100	100
SPI Victoria Networks Pty Ltd (i), (ii)	Australia	Ordinary	100	100
<b>SP Australia Networks (Transmission) Ltd</b>	<b>Australia</b>	<b>Ordinary</b>	—*	—*
Subsidiaries:				
SPI PowerNet Pty Ltd	Australia	Ordinary	100	100
SPI Australia Finance Pty Ltd	Australia	Ordinary	100	100
<b>SP Australia Networks (Finance) Trust</b>	<b>Australia</b>		—*	—*

(i) Dormant during 2007

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

## NOTE 38 INTERESTS IN JOINT VENTURES

## JOINT VENTURE PARTNERSHIP

SP AusNet Distribution had a 33.3% interest in both the SEAGas Partnership and SEA Gas Pty Ltd until they were disposed of on 29 August 2005 as detailed in note 11.

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.

	Combined	
	2007 \$'000	2006 \$'000
Share of partnership's revenue, expenses and results		
Revenues	–	9,019
Expenses	–	(6,543)
Profit before income tax	–	2,476

## NOTE 39 EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

## (A) DISTRIBUTION

Since the end of the financial year the Directors have approved the payment of a final distribution for 2007 of \$117,922,519 (5.635 cents per security) to be paid on 28 June 2007 comprised as follows:

	Cents per security	Total distribution \$
Fully franked dividend payable by SP AusNet Transmission	0.507	10,609,888
Assessable interest income payable by SP AusNet Finance Trust	1.584	33,148,051
Capital distribution payable by SP AusNet Finance Trust	3.544	74,164,580
	<b>5.635</b>	<b>117,922,519</b>

## (B) UNACCOUNTED FOR GAS SETTLEMENT

In August 2006, the Supreme Court of Appeal upheld AGL's appeal in the matter of AGL Victoria Pty Ltd v SPI Networks (Gas) Pty Ltd and Victorian Energy Networks Corporation. SP AusNet sought leave to appeal the decision, however, in February 2007 the application was dismissed by the High Court of Australia. Subsequent to the end of the financial year, full and final settlement was made with AGL in relation to all claims arising from this case. The financial statements include the impact of this final settlement. A provision was made at the half-year for \$15.9 million with final settlement being \$13.8 million (including legal fees and interest).

## (C) LIKELY DEVELOPMENTS

On 11 May 2007, Singapore Power International Pte Ltd ("Singapore Power") advised that it had, in conjunction with Babcock and Brown International Pty Ltd, signed a revised Scheme Implementation Agreement ("Scheme") to acquire Alinta Ltd. Singapore Power has stated that it currently intends to invest through SP AusNet in electricity and gas transmission and distribution businesses in Australia and New Zealand and will offer SP AusNet the chance to consider this opportunity. SP AusNet has established an independent process for the assessment of this investment opportunity. Until the Scheme is voted on by Alinta shareholders and the assessment process is finalised, the outcome for SP AusNet is uncertain.

## (D) OTHER MATTERS

Other than outlined above, there has been no matter or circumstance that has arisen since 31 March 2007 up to the date of issue of this financial report that has significantly affected or may significantly affect:

- (a) the operations in financial years subsequent to 31 March 2007 of the Company, or
- (b) the results of those operations, or
- (c) the state of affairs, in financial years subsequent to 31 March 2007, of the Company.

## NOTE 40 RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH FLOWS FROM OPERATING ACTIVITIES

	Combined		Parent entity	
	2007 \$'000	2006 \$'000 Restated*	2007 \$'000	2006 \$'000
Profit/(loss) from ordinary activities after related income tax	178,297	367,555	(80,826)	(5,813)
Depreciation and amortisation of non-current assets	199,990	154,475	–	–
Net loss on sale of non-current assets	3,409	754	–	–
Contributed assets	(10,163)	(3,329)	–	–
Share of equity accounted investments' net profit	–	4,327	–	–
Gain on divestment of business	–	(366,143)	–	–
Share-based payment	811	–	–	–
Changes in operating assets and liabilities, net of effects from acquisition of businesses:				
(Increase)/decrease in receivables	(8,507)	(50,996)	–	–
(Increase)/decrease in inventories	(390)	(3,186)	–	–
(Increase)/decrease in other financial assets	183,353	(56,803)	–	–
(Increase)/decrease in other assets	(609)	1,842	–	(300)
Increase/(decrease) in payables and other liabilities	10,192	(23,071)	6,587	(29,560)
Increase/(decrease) in other financial liabilities	(184,769)	37,748	–	–
Increase/(decrease) in other liabilities	(1,848)	(48,486)	84,349	–
Increase/(decrease) in provisions	12,381	1,928	–	–
Movement in tax balances	11,129	157,931	(34,639)	27,143
Net cash inflow/(outflow) from operating activities	393,276	174,546	(24,529)	(8,530)

\* Refer to note 41.

## NOTE 41 CORRECTION OF ERROR IN THE PREVIOUS FINANCIAL PERIOD

During the current reporting period, SP AusNet Distribution has continued to refine its calculations of the impact upon entry into the tax consolidation regime on 2 August 2004, and the subsequent disposal of the merchant energy business and resulting departure of those entities from the tax consolidated group.

As part of this process, two errors were identified in the financial statements for the year ended 31 March 2006, in relation to the calculation of deferred tax liabilities relating to property, plant and equipment.

First, certain deferred tax liabilities relating to assets disposed of were incorrectly retained in the books of SP AusNet Distribution. Second, there has been an error in the recording of the step-up in respect of the tax cost base of depreciable assets.

The affected financial statement line items for the prior period have been restated, as described below. The total error had the impact of understating profit after tax of the combined entity by \$32.3 million for the year ended 31 March 2006 as follows:

	Combined profit after tax \$'000	\$'000
Continuing operations		(38,765)
Discontinued operations:		
Correction to deferred tax liability disposed	110,522	
Consequential additional capital gains tax resulting from changes to the calculation of profit on sale	(39,434)	71,088
		32,323

In the combined balance sheet as at 31 March 2006, the impact was to overstate the deferred tax liability by \$71.7 million, overstate the deferred tax asset by \$39.4 million and consequently understate retained earnings by \$32.3 million.

## NOTE 41 CORRECTION OF ERROR IN THE PREVIOUS FINANCIAL PERIOD CONTINUED

### CONDENSED INCOME STATEMENT

For the year ended 31 March 2006

	Combined		
	Restated \$'000	Variance \$'000	Previously reported \$'000
<b>Profit before income tax</b>	<b>177,524</b>	<b>–</b>	<b>177,524</b>
Income tax expense	(40,620)	(38,765)	(1,855)
Profit from continuing operations	136,904	(38,765)	175,669
Profit from discontinued operations (after tax)	230,651	71,088	159,563
<b>Profit for the year</b>	<b>367,555</b>	<b>32,323</b>	<b>335,232</b>
Profit attributable to SP AusNet Transmission and SP AusNet Finance Trust (minority interest)	39,882	–	39,882
Profit attributable to SP AusNet Distribution	327,673	32,323	295,350
<b>Total profit for the year</b>	<b>367,555</b>	<b>32,323</b>	<b>335,232</b>

	Combined		
	Restated Cents	Variance Cents	Previously reported Cents
<b>Earnings per share for profit attributable to the ordinary equityholders of the Company:</b>			
Basic and diluted earnings per share	15.66	1.55	14.11
<b>Earnings per share for profit from continuing operations attributable to the ordinary equityholders of the Company:</b>			
Basic and diluted earnings per share	4.64	(1.85)	6.49

### CONDENSED BALANCE SHEET

As at 31 March 2006

	Combined		
	Restated \$'000	Variance \$'000	Previously reported \$'000
<b>Assets</b>			
Deferred tax asset	239,647	(39,434)	279,081
<b>Liabilities</b>			
Deferred tax liability	682,521	(71,757)	754,278
<b>Equity</b>			
Retained earnings	486,688	32,323	454,365

\* Other balance sheet line items have also been restated however, the effect of the restatements, individually and in aggregate, are immaterial and therefore have not been separately disclosed.

In the parent entity balance sheet as at 31 March 2006, the impact was to overstate deferred tax assets in respect of tax losses by \$39.4 million and to overstate related party payables by \$39.4 million, representing amounts payable under the tax funding agreement.

### CONDENSED BALANCE SHEET

As at 31 March 2006

	Parent entity		
	Restated \$'000	Variance \$'000	Previously reported \$'000
<b>Assets</b>			
Deferred tax asset	128,454	(39,434)	167,888
<b>Liabilities</b>			
Payables	125,582	(39,434)	165,016

In the Directors' opinion:

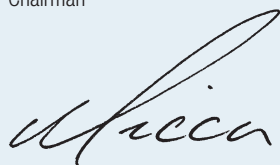
- (a) the financial statements and notes set out on pages 51 to 96 and the remuneration disclosures that are contained in the *Remuneration report* in the *Directors' report*, are in accordance with the *Corporations Act 2001*, including:
  - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and the other mandatory professional reporting requirements; and
  - (ii) giving a true and fair view of the company's and combined entity's financial position as at 31 March 2007 and 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.



**Ng Kee Choe**  
Chairman



**Nino Ficca**  
Managing Director

Melbourne  
23 May 2007

# 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

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## SCOPE

We have audited the combined financial report of SP Australia Networks (Distribution) Ltd for the financial year ended 31 March 2007, consisting of the income statements, statements of recognised income and expense, balance sheets, statements of cash flows, accompanying notes 1 to 41 and the directors' declaration as set out on pages 51 to 97. 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.

As permitted by the *Corporations Regulations* 2001, SP Australia Networks (Distribution) Ltd has disclosed information about the remuneration of directors and executives (remuneration disclosures), required by Australian Accounting Standard AASB 124 *Related Party Disclosures*, under the heading "remuneration report" of the directors' report and not in the financial report. We have audited these remuneration disclosures.

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) Ltd are responsible for the financial report and the remuneration disclosures. We have conducted an independent audit of this combined financial report and the remuneration disclosures in order to express an opinion on them 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 and that the remuneration disclosures comply with AASB 124. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the combined financial report and the remuneration disclosures, 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 Accounting 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 and whether the remuneration disclosures comply with Australian Accounting Standard AASB 124.

The audit opinion expressed in this report has been formed on the above basis.

## AUDIT OPINION

- 1 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 2007 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.
- 2 The remuneration disclosures that are contained in the directors' report comply with Australian Accounting Standard AASB 124 *Related Party Disclosures*.



KPMG



**Alison Kitchen**  
Partner

Place: Melbourne  
Date: 23 May 2007

# SP AUSTRALIA NETWORKS (TRANSMISSION) LTD ACN 116 124 362 GENERAL PURPOSE FINANCIAL REPORT FOR THE FINANCIAL YEAR ENDED 31 MARCH 2007

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

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

Level 31, 2 Southbank Boulevard  
Southbank, Victoria 3006  
Australia

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

The financial report was authorised for issue by the Directors on 23 May 2007.

The Directors of SP Australia Networks (Transmission) Ltd ("SP AusNet Transmission") present their report on the general purpose financial report of the company and consolidated transmission entity ("SP AusNet Transmission Group") for the financial year ended 31 March 2007.

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

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

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

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

SP AusNet Transmission, the legal parent entity, was incorporated on 7 September 2005. Accordingly, the comparative results of the parent entity are for the period 7 September 2005 to 31 March 2006.

## DIRECTORS

With the exception of Tony Iannello, the persons listed below were Directors of SP AusNet Transmission during the whole of the financial year and up to the date of this report. Mr Iannello was appointed a Non-executive Director of SP AusNet Transmission on 6 June 2006 and continues in office at the date of this report.

## NON-EXECUTIVE DIRECTORS

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

## EXECUTIVE DIRECTORS

Nino **Ficca** (Managing Director)

## PRINCIPAL ACTIVITIES

During the year the principal activities of the SP AusNet Transmission Group consisted of the transmission of electricity within the state of Victoria.

The principal operations of SP AusNet Transmission Group are conducted through SPI PowerNet Pty Ltd.

## DIVIDENDS

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

	Final 2006 dividend paid 26 June 2006		Interim 2007 dividend paid 14 December 2006	
	Cents per share	Total distribution \$'000	Cents per share	Total distribution \$'000
Fully franked dividend	0.150	3,139	0.507	10,610

Since the end of the financial year the Directors have approved a final fully franked dividend for 2007 of \$10,609,888 (0.507 cents per share) to be paid on 28 June 2007.

## REVIEW OF OPERATIONS

A summary of the SP AusNet Transmission Group's revenues and results is set out below:

	2007 \$'000	2006 \$'000
Revenue	420,763	398,067
Profit/(loss) before income tax	67,136	86,663
Income tax benefit/(expense)	57,088	(178,048)
Profit/(loss) for the year	124,224	(91,385)

The SP AusNet Transmission Group de-recognised \$81.4 million of deferred tax liabilities previously recognised in relation to section 163AA imposts, intellectual property and related general interest charges and \$1.83 million of general interest charges post-stapling. Based on further review and expert advice received, continued recognition of the deferred tax liabilities was no longer considered necessary.

The de-recognition of the deferred tax liabilities has been recorded as a benefit to income tax expense.

## DISCUSSION AND ANALYSIS FOR THE YEAR ENDED 31 MARCH 2007

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

The SP AusNet Transmission Group reported a net profit after tax ("NPAT") of \$124.2 million and \$420.8 million in total revenues for the year ended 31 March 2007. Total electricity transmitted through the network was 51,815 GWh which is an increase of 3.2% from last year.

Capital expenditure on the transmission network is progressing well, with the Rowville and Moorabool contestable projects both ahead of schedule and on track to meet target completion dates. The Rowville interface works are also on track with practical completion of a critical milestone achieved in March giving rise to a \$0.5 million incentive payment payable by VENCORP. Total capital expenditure was \$154.2 million for the year, including \$60.8 million customer-initiated and \$86.7 million company-initiated projects, of which \$70.3 million was attributed to terminal station redevelopment. The additional capital investment will result in future increased revenues.

## BALANCE SHEETS

SP AusNet Transmission Group's total assets as at 31 March 2007 were \$3,042.1 million comprising principally property, plant and equipment of \$2,955.4 million. Cash was \$2.7 million, current receivables were \$41.7 million and current derivative financial instruments were \$11.1 million.

Current liabilities as at 31 March 2007 were \$1,458.1 million due mostly to external borrowings of \$298.2 million and payables to related parties of \$1,066.2 million.

Non-current liabilities as at 31 March 2007 were \$1,571.3 million comprising mostly external borrowings of \$1,293.6 million.

## CASH FLOW STATEMENTS

Net operating cash inflows for the year ended 31 March 2007 were \$124.2 million, a decrease of \$17.9 million on the comparative period. This decrease was due primarily to increases in taxes paid and increased finance costs.

Net outflows from investing activities of \$150.2 million resulted primarily from payments for property, plant and equipment.

The net inflow from financing activities of \$26.0 million resulted primarily from proceeds from borrowings offset by dividends paid during the year of \$13.7 million.

## SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

## MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

### DIVIDENDS

Since the end of the financial year, the Directors have approved a final fully franked dividend for 2007 of \$10,609,888 (0.507 cents per share) to be paid on 28 June 2007.

With exception of the dividend, the Directors are not aware of any circumstances that have arisen since 31 March 2007 that have significantly affected or may significantly affect the operations, and results of those operations or the state of affairs, of the SP AusNet Transmission Group in financial years subsequent to 31 March 2007.

## LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

On 11 May 2007, Singapore Power International Pte Ltd ("Singapore Power") advised that it had, in conjunction with Babcock and Brown International Pty Ltd, signed a revised Scheme Implementation Agreement ("Scheme") to acquire Alinta Ltd. Singapore Power has stated that it currently intends to invest through SP AusNet in electricity and gas transmission and distribution businesses in Australia and New Zealand and will offer SP AusNet the chance to consider this opportunity. SP AusNet has established an independent process for the assessment of this investment opportunity. Until the Scheme is voted on by Alinta shareholders and the assessment process is finalised, the outcome for SP AusNet is uncertain.

## OTHER MATTERS

Further information on likely developments in the operations of the SP AusNet 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 SP AusNet Transmission Group.

## ENVIRONMENTAL REGULATION

The SP AusNet Transmission Group was subject to both Federal and State Government environmental legislation during the year. The most significant areas of environmental legislation affecting the SP AusNet Transmission Group in Victoria are those which regulate noise emissions, greenhouse gas emissions, the discharge of emissions to land, air and water, the management of oils, chemicals and dangerous goods, the disposal of wastes, and those 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 DIRECTORS

### NG KEE CHOE CHAIRMAN – NON-EXECUTIVE

Bachelor of Science (Honours),  
University of Singapore

### EXPERIENCE AND EXPERTISE

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

**OTHER CURRENT LISTED  
COMPANY DIRECTORSHIPS**  
None

### FORMER LISTED COMPANY DIRECTORSHIPS IN LAST 3 YEARS

None

### DATE OF INITIAL APPOINTMENT

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

### SPECIAL RESPONSIBILITIES

Chairman of the SP AusNet Board and Chairman of the Nomination and Remuneration Committee

### NINO FICCA MANAGING DIRECTOR

Bachelor of Engineering (Electrical) (Honours),  
Deakin University  
Graduate Diploma in Management,  
Deakin University

### EXPERIENCE AND EXPERTISE

Mr Ficca has over 25 years' experience in the energy industry including numerous senior management roles with SPI PowerNet Pty Ltd including as Managing Director since 2003. He is a Director and the Deputy Chairman of the Energy Supply Association of Australia and a member of the National Electricity Market Operations Committee. Mr Ficca also serves as Director of SPI Management Services Pty Ltd.

### OTHER CURRENT LISTED COMPANY DIRECTORSHIPS

None

### FORMER LISTED COMPANY DIRECTORSHIPS IN LAST 3 YEARS

None

### DATE OF INITIAL APPOINTMENT

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

### SPECIAL RESPONSIBILITIES

Managing Director and a member of the Advanced Metering Infrastructure Due Diligence Committee

### JEREMY GUY ASHCROFT DAVIS NON-EXECUTIVE DIRECTOR

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

### EXPERIENCE AND EXPERTISE

Professor Davis is a Professor Emeritus of the University of New South Wales, after retiring from the Australian Graduate School of Management (AGSM) in January 2006. He is a Director of Singapore Power Limited, Transurban Group and CHAMP Ventures Pty Ltd and Deputy Chairman of AMWIN Management Pty Ltd. Previously, Professor 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.

**OTHER CURRENT LISTED  
COMPANY DIRECTORSHIPS**  
Transurban Group (1997 to date)

### FORMER LISTED COMPANY DIRECTORSHIPS IN LAST 3 YEARS

None

## DATE OF INITIAL APPOINTMENT

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

## SPECIAL RESPONSIBILITIES

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

## ERIC GWEЕ TECK HAI NON-EXECUTIVE DIRECTOR

Bachelor of Engineering (Mechanical),  
University of Melbourne

## EXPERIENCE AND EXPERTISE

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

## OTHER CURRENT LISTED COMPANY DIRECTORSHIPS

WorleyParsons Ltd (2005 to date)

## FORMER LISTED COMPANY DIRECTORSHIPS IN LAST 3 YEARS

None

## DATE OF INITIAL APPOINTMENT

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

## SPECIAL RESPONSIBILITIES

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

## ANTONINO (TONY) MARIO IANNELLO INDEPENDENT NON-EXECUTIVE DIRECTOR

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

## EXPERIENCE AND EXPERTISE

Mr Iannello is a Director of HBF Health Fund Inc and HBF Insurance Pty Ltd, Chairman of MG Kailis Group of Companies and Harrier Resourcing People Pty Ltd and a member of the Murdoch University Senate and Unisys Australia Advisory Council. Mr Iannello was formerly Managing Director of Western Power Corporation. Previously he held a number of senior executive roles at the Bank of Western Australia including General Manager Finance and Corporate Services, General Manager Corporate and Interstate Banking, Head of Consumer Marketing and Head of Strategic Planning.

## OTHER CURRENT LISTED COMPANY DIRECTORSHIPS

None

## FORMER LISTED COMPANY DIRECTORSHIPS IN LAST 3 YEARS

None

## DATE OF INITIAL APPOINTMENT

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

## SPECIAL RESPONSIBILITIES

Chairman of the Audit and Risk Management Committee and member of the Compliance Committee

## GEORGE ALLISTER LEFROY NON-EXECUTIVE DIRECTOR

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

## EXPERIENCE AND EXPERTISE

Dr Lefroy is President Commissioner of PT Chandra Asri, Jakarta and Chairman of the Cambridge Australian Trust, Victorian Committee. He was formerly executive Vice President of Shell Chemicals Ltd and a Director of Singapore Power Ltd and Australian Power and Energy Limited (now Monash Energy Holdings Limited).

## OTHER CURRENT LISTED COMPANY DIRECTORSHIPS

Cobar Consolidated Resources Ltd (2006 to date)

## FORMER LISTED COMPANY DIRECTORSHIPS IN LAST 3 YEARS

None

## DATE OF INITIAL APPOINTMENT

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

## SPECIAL RESPONSIBILITIES

Member of the Nomination and Remuneration Committee and Chairman of the Advanced Metering Infrastructure Due Diligence Committee

## MARTYN KENNETH MYER INDEPENDENT NON-EXECUTIVE DIRECTOR

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

## EXPERIENCE AND EXPERTISE

Mr Myer has extensive experience in financial services, engineering and biotechnology. He was formerly Managing Director of Merlyn Asset Management Pty Ltd, a boutique funds management company. Prior to that he had extensive experience with some of Australia's leading manufacturers. Mr Myer is involved in several philanthropic activities, including as President of the Howard Florey Institute at the University of Melbourne and a member of the board of the Myer Foundation.

## OTHER CURRENT LISTED COMPANY DIRECTORSHIPS

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

## FORMER LISTED COMPANY DIRECTORSHIPS IN LAST 3 YEARS

Coles Myer Limited (now Coles Group Limited) (1996 to 2006)

## DATE OF INITIAL APPOINTMENT

SP AusNet Transmission – 26 October 2005  
SP AusNet Distribution – 9 September 2005  
Responsible Entity – 9 September 2005

## SPECIAL RESPONSIBILITIES

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

## QUEK POH HUAT NON-EXECUTIVE DIRECTOR

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

## EXPERIENCE AND EXPERTISE

Mr Quek is the Group Chief Executive Officer and a Director of Singapore Power Limited. Within Singapore Power Limited he serves as a Director on the board of SP Services Ltd. Mr Quek is also Chairman and a Director of SPI Management Services Pty Ltd, PowerGas Ltd and SP PowerGrid Ltd and a Director of Singapore Technologies Engineering Ltd and SP PowerAssets Ltd. Mr Quek was formerly the President of Temasek Holdings (Private) Ltd.

## OTHER CURRENT LISTED COMPANY DIRECTORSHIPS

None

## FORMER LISTED COMPANY DIRECTORSHIPS IN LAST 3 YEARS

None

## DATE OF INITIAL APPOINTMENT

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

## SPECIAL RESPONSIBILITIES

Member of the Nomination and Remuneration Committee

## IAN ANDREW RENARD INDEPENDENT NON-EXECUTIVE DIRECTOR

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

## EXPERIENCE AND EXPERTISE

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

## OTHER CURRENT LISTED COMPANY DIRECTORSHIPS

CSL Ltd (1998 to date)

**FORMER LISTED COMPANY DIRECTORSHIPS  
IN LAST 3 YEARS**

Newcrest Mining Ltd (1998 to 2006)

**DATE OF INITIAL APPOINTMENT**

SP AusNet Transmission – 26 October 2005

SP AusNet Distribution – 31 May 2005

Responsible Entity – 9 September 2005

**SPECIAL RESPONSIBILITIES**

Chairman of the Compliance Committee and a member of the Audit and Risk Management Committee and Advanced Metering Infrastructure Due Diligence Committee

**ELIZABETH MARIE MILDWATER  
COMPANY SECRETARY**

Bachelor of Economics, Sydney University  
Bachelor of Laws (Honours), Sydney University  
Master of Contemporary Asian Analysis,  
University of Melbourne

Ms Mildwater has been Company Secretary of SP AusNet Distribution since 12 July 2005, SP AusNet Transmission since 7 September 2005 and the Responsible Entity since 5 August 2005. She has over 15 years of legal, company secretarial and other relevant experience, including significant in-house legal company

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 number of meetings of the Board of Directors and each permanent Board committee of SP AusNet Transmission held during the year ended 31 March 2007, and the numbers of meetings attended by each Director are set out in the following table.

Name	Full meetings of Directors		Audit & Risk Committee Management		Nomination & Remuneration Committee	
	A	B	A	B	A	B
<b>Ng Kee Choe</b>	8	8	**	**	2	2
<b>Nino Ficca</b>	8	8	**	**	**	**
<b>Jeremy Davis</b>	8	8	7	7	**	**
<b>Eric Gwee</b>	8	8	7	7	**	**
<b>Tony Iannello</b>	6	6	5	5	**	**
<b>George Lefroy</b>	8	8	3	3	2	2
<b>Martyn Myer</b>	8	8	7	7	1	1
<b>Quek Poh Huat</b>	8	8	**	**	2	2
<b>Ian Renard</b>	7	8	7	7	**	**

**A = Number of meetings attended**

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

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

The number of meetings of the special-purpose Advanced Metering Infrastructure Due Diligence Committee held during the year ended 31 March 2007 and the number of meetings attended by each Director are set out in the following table.

Name	Advanced Metering Infrastructure Due Diligence Committee	
	A	B
<b>Ng Kee Choe</b>	**	**
<b>Nino Ficca</b>	3	4
<b>Jeremy Davis</b>	**	**
<b>Eric Gwee</b>	**	**
<b>Tony Iannello</b>	**	**
<b>George Lefroy</b>	4	4
<b>Martyn Myer</b>	**	**
<b>Quek Poh Huat</b>	**	**
<b>Ian Renard</b>	3	4

**A = Number of meetings attended**

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

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

**RETIREMENT, ELECTION AND CONTINUATION IN OFFICE OF DIRECTORS**

Ng Kee Choe, Martyn Myer and George Lefroy each retire by rotation in accordance with the constitution of SP AusNet Transmission and, being eligible, offer themselves for re-election.

## REMUNERATION REPORT (AUDITED)

### KEY MANAGEMENT PERSONNEL

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

With the exception of Tony Iannello, the persons listed below were Directors of SP AusNet for the whole of the financial year and up to the date of this report. Mr Iannello was appointed a Non-executive Director on 6 June 2006 and continues in office at the date of this report.

Name	Position
<b>Ng Kee Choe</b>	Non-executive Chairman
<b>Nino Ficca</b>	Managing Director
<b>Jeremy Davis</b>	Non-executive Director
<b>Eric Gwee</b>	Non-executive Director
<b>Tony Iannello</b>	Non-executive Director
<b>George Lefroy</b>	Non-executive Director
<b>Martyn Myer</b>	Non-executive Director
<b>Quek Poh Huat</b>	Non-executive Director
<b>Ian Renard</b>	Non-executive Director

SPI Management Services Pty Ltd ("SPI Management Services"), a wholly-owned subsidiary of related party Singapore Power International Pte Ltd, entered into management

services agreements with the Companies and the Responsible Entity to provide the services of key senior management, including the Managing Director and the executive management team, to SP AusNet. Although not employed by SP AusNet, the individuals set out below are deemed to qualify as key management personnel of SP AusNet on the basis that they had the authority and the responsibility for planning, directing and controlling the activities of SP AusNet during the financial year. This group includes the five most highly remunerated executives during the financial year.

Name	Position
<b>Nino Ficca</b>	Managing Director
<b>Paul Adams</b>	General Manager, Network Services
<b>Peter Buck<sup>1</sup></b>	General Manager, Distribution Network Development
<b>Norman Drew</b>	General Manager, Network Development
<b>Terrence Fowler<sup>2</sup></b>	General Manager, Finance
<b>Adrian Hill<sup>3</sup></b>	General Manager, Corporate Development and Investor Relations
<b>Geoffrey Nicholson<sup>4</sup></b>	Chief Financial Officer
<b>Charles Poppo</b>	General Manager, Regulatory and Business Strategy

1 Mr Buck ceased as a member of the key management personnel on 24 July 2006.

2 Mr Fowler ceased as a member of the key management personnel on 22 December 2006.

3 Mr Hill commenced as a member of the key management personnel on 1 August 2006.

4 Mr Nicholson commenced as a member of the key management personnel on 2 January 2007.

### NOMINATION AND REMUNERATION COMMITTEE

The SP AusNet Nomination and Remuneration Committee makes recommendations to the Board regarding the remuneration framework for

Directors and senior executives. It also reviews and approves the general remuneration framework for SP AusNet employees and reviews SP AusNet's obligations on matters such as superannuation and other employment benefits and entitlements.

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.

Further information in relation to the Nomination and Remuneration Committee is set out in SP AusNet's Annual Report 2007 in the section entitled *Corporate Governance*.

### STAPLED GROUP PERFORMANCE

SP AusNet's executive remuneration is directly linked to the performance of the Stapled Group across a range of measures. The Short Term Incentive ("STI") is focused on achieving operational targets and short-term profitability and the Long Term Incentive ("LTI") is focused on achieving long-term growth and retaining talented executives. As executive remuneration is linked to the performance of the Stapled Group and not just to the performance of SP AusNet Transmission, the following information is provided for the Stapled Group.

The table below shows SP AusNet's consolidated operating revenue and net profit after tax for the current reporting period and previous years and the effect of SP AusNet's performance on securityholder value. As the Stapled Group was formed on 21 October 2005 and listed on 14 December 2005, no figures are available for 2003 and 2004 and comparatives for 2005 are not provided as they do not relate to the performance of the listed group. The 2006 results do not represent full year results and are also impacted by the disposal of the merchant energy business.

	2003	2004	2005	2006	2007
Revenue	—	—	—	\$737.5m	<b>\$1,019.5m</b>
NPAT from continuing operations	—	—	—	\$136.9m	<b>\$161.2m</b>
Closing security price as at 31 March	—	—	—	\$1.30	<b>\$1.42</b>
Distributions in respect of financial year (cents per Stapled Security)	—	—	—	3.25	<b>11.27</b>

### PRINCIPLES USED TO DETERMINE THE NATURE AND AMOUNT OF REMUNERATION

#### NON-EXECUTIVE DIRECTORS

The remuneration of Non-executive Directors consists of Directors' fees and committee fees. Non-executive Directors are not provided with any form of retirement benefit or equity-based compensation. The remuneration information provided below is for SP AusNet. It is not possible to allocate remuneration to individual entities within the SP AusNet Group.

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.

Fees levels are set having regard to independent professional advice and fees paid by comparable companies. The fees paid to Non-executive Directors are not linked to the performance of SP AusNet in order to maintain objectivity and independence.

The constitutions of SP AusNet Transmission, SP AusNet Distribution and the Responsible Entity provide that Non-executive Directors are entitled to such remuneration for their services as the Board decides, but the total amount provided to all Non-executive Directors must not exceed in aggregate in any financial year the amount approved by securityholders in general meeting.

The securityholders of SP AusNet Transmission and SP AusNet Distribution approved a total remuneration pool for Non-executive Directors

of \$1,000,000 per year at the inaugural Annual General Meeting of SP AusNet held on 18 July 2006. Each year, the Nomination and Remuneration Committee reviews the fees payable to Non-executive Directors taking into account market rates and the time commitment and responsibilities involved in carrying out their duties.

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 these committees are also paid an additional amount. The annual 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 DIRECTOR BASE FEES:

	Board		Audit and Risk Management Committee		Nomination and Remuneration Committee		Compliance Committee	
	Chair	Member	Chair	Member	Chair	Member	Chair	Member
Fee	\$120,000	\$80,000	\$15,000	\$10,000	\$12,000	\$8,000	\$12,000	\$8,000

In accordance with the constitutions of SP AusNet Transmission, SP AusNet Distribution and the Responsible Entity, 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. The above fees are inclusive of superannuation contributions 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 principles of good corporate governance.

## EXECUTIVE DIRECTORS AND SENIOR EXECUTIVES

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

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

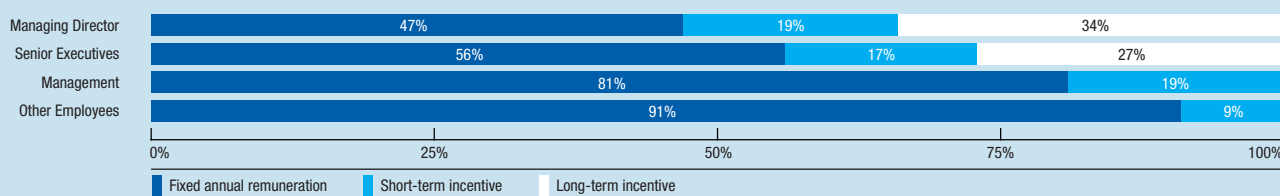
The remuneration and incentive package for the Managing Director and other senior executives

(including the Company Secretary) are determined and paid by SPI Management Services. However, SPI Management Services must consider any recommendations made by SP AusNet in relation to remuneration, incentive payments and programs, and key performance measures in respect of senior executives which promote alignment of "owner-management" interests.

## STRUCTURE OF TOTAL REWARD

The reward principles set out the relevant elements of remuneration to make up "total reward". For the majority of SP AusNet employees, total reward consists of fixed remuneration and "at risk" remuneration through a STI plan. During the reporting period, a LTI plan was introduced into the pay structure for the Managing Director and senior executives. An appropriate mix of these components is determined for each level of management and employees.

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



## FIXED ANNUAL REMUNERATION

Fixed annual remuneration ("FAR") represents the fixed component of executive remuneration and consists of a mix of cash, superannuation, prescribed benefits and salary-sacrificed items such as motor vehicles and fringe benefits tax. FAR is reviewed annually against market rates for comparable roles. There are no guaranteed FAR increases fixed in any senior executive's contract of employment.

## BENEFITS

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

## SHORT-TERM INCENTIVES

SP AusNet makes available STI payments to senior executives for the achievement of key performance indicators ("KPIs") based on corporate financial and non-financial measures as well as stretch individual performance hurdles. The payments under the STI plan consist entirely of cash bonuses and do not involve Stapled Securities. Generally, senior executives must complete the business year to qualify for any STI payments. In some circumstances, the Board may in its discretion determine that a pro rata bonus payment be awarded to a departing executive.

A target STI amount, expressed as a percentage of the senior executive's FAR, is specified for each senior executive. However, the amount of STI payable is dependent on:

- the extent to which SP AusNet has achieved the corporate KPIs; and
- the extent to which the senior executive has achieved his or her individual KPIs.

The corporate KPIs set for the year ended 31 March 2007 included:

- net profit;
- controllable operating costs;
- health, safety and environmental targets;
- network performance and reliability targets;
- program delivery (capital and maintenance) targets; and
- completion of business integration programs.

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.

## SHARE-BASED PAYMENT

During the year SPI Management Services offered a one-off gift of \$1,000 worth of SP AusNet Stapled Securities to all SP AusNet employees and managers (excluding the Managing Director).

## LONG-TERM INCENTIVES

The SP AusNet Board has approved a LTI plan for the Managing Director and senior executives which came into effect on 1 April 2006. The Board may in its discretion invite additional employees to participate in the LTI plan who are in a position to influence long-term securityholder value.

The LTI plan is a cash plan that rewards participants for increasing securityholder value. The Board issues annual invitations to participate in the plan which set out the maximum percentage of FAR that the participant is eligible to receive as a cash bonus at the end of a three year performance period ("the Award"). For the 1 April 2006 grant, the performance measures used to determine the amount of Award payable are Relative Total Securityholder Returns ("TSR") (for 50% of the

Award) and growth in Earnings Per Security ("EPS") (for the other 50% of the Award). The Award is calculated as a percentage of the participant's FAR prevailing at the test date. For the performance period commencing 1 April 2006, the quantum of Awards available to participants expressed as a percentage of the prevailing FAR at the performance test date, are:

- Managing Director – 75%
- Reporting executives – 50%
- Other participants – 25%

The comparator group used for the 1 April 2006 grant performance testing consists of the companies included in the S&P/ASX 200 index. In assessing whether the performance hurdles have been met, SP AusNet receives independent data which provides both SP AusNet's TSR growth from the commencement of each grant and that of the companies in the comparator group. The level of TSR growth achieved by SP AusNet will be given a percentile ranking having regard to its performance compared with the performance of other companies in the comparator group. The LTI plan does not allow for retesting of performance measures in subsequent years.

The EPS growth measure is based on SP AusNet achieving a nominal compound annual growth ("CAGR") of 5% per annum over the three year period. A sliding scale applies as follows:

- below 2.5% per annum CAGR, no EPS component of the reward is achieved;
- between 2.5% and 7.5% per annum CAGR, a linear scale from 50% to 150% EPS reward is achieved; and
- the maximum achievable EPS component is 150%.

## REMUNERATION REPORT (AUDITED) CONTINUED

Where Awards successfully vest after meeting performance hurdles, participants are required under the plan rules to purchase on-market, during an approved trading window, SP AusNet Stapled Securities to the value of the after tax cash payment received by the participant. The participants are then required to hold the Stapled Securities purchased for a period not less than 12 months. Reasonable brokerage costs incurred by the participants are reimbursed.

### RETENTION AWARDS

SPI Management Services has offered retention awards to key individuals who joined from TXU Australia Group Pty Ltd ("TXU") whose ongoing involvement with the SP AusNet Group is considered to be critical over the medium term. Details of these awards are set out below.

In order to retain Paul Adams (General Manager, Network Services), who was identified as a key executive following the acquisition of TXU in 2004, he was offered a form of retention payment based on his entitlement under the arrangement in place with TXU. However, instead of a lump sum payment, the amount was made payable over four years (ending 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 (former General Manager, Distribution Network Development) and Adrian Hill (General Manager, Corporate Development and Investor Relations) were offered two payments across two years comprising fixed and variable components linked to their achievement of individual performance targets. The final amounts were paid in August 2006.

### LOANS TO DIRECTORS AND SENIOR EXECUTIVES

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

### DETAILS OF REMUNERATION

Details of the nature and amount of each element of the emoluments of each Director and key management personnel of SP AusNet are set out in the following tables (unless otherwise noted, positions were held for the full financial year). The key management personnel are not employees of SP AusNet but are employed by SPI Management Services. Under management services agreements between SPI Management Services and SP AusNet, the services of these key management personnel, including the Managing Director, are provided to SP AusNet.

### FOR THE YEAR ENDED 31 MARCH 2007:

#### DIRECTOR REMUNERATION

	Short-term				Post-employment	Termination benefits	Equity based payments	
	Cash salary and fees	Retention payments	Cash bonus <sup>1</sup>	Other short-term benefits <sup>2</sup>	Super-annuation <sup>3</sup>			Total
Non-executive Directors								
Ng Kee Choe (Chairman)	109,327	–	–	3,800	9,839	–	–	122,966
Jeremy Davis	83,227	–	–	3,800	7,495	–	–	94,522
Eric Gwee	89,833	–	–	3,800	–	–	–	93,633
Tony Iannello <sup>4</sup>	71,483	–	–	3,800	6,433	–	–	81,716
George Lefroy	76,731	–	–	3,800	6,906	–	–	87,437
Martyn Myer	84,941	–	–	3,800	7,645	–	–	96,386
Quek Poh Huat <sup>5</sup>	81,579	–	–	3,800	–	–	–	85,379
Ian Renard	85,550	–	–	3,800	7,700	–	–	97,050
Executive Director								
Nino Ficca	444,154	–	180,000	8,970 <sup>6</sup>	46,544	–	–	679,668

1 This bonus is in respect of performance for the year ended 31 March 2007. This amount has been approved but not yet paid.

2 These amounts represent an allocation of the premium for Directors' and Officers' insurance.

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

4 Mr Iannello commenced on 6 June 2006.

5 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.

6 This amount represents car parking and an allocation of the premium for Directors' and Officers' insurance.

## SENIOR EXECUTIVE REMUNERATION

	Short-term				Post-employment	Termination benefits	Equity based payments <sup>1</sup>	
	Cash salary and fees	Retention payments <sup>2</sup>	Cash bonus <sup>3</sup>	Other short-term benefits <sup>4</sup>	Super-annuation			Total
Nino Ficca	444,154	—	180,000	8,970	46,544	—	—	679,668
Paul Adams	272,027	243,700	80,000	8,970	25,805	—	1,000	631,502
Peter Buck <sup>5</sup>	62,252	68,402	—	2,990	8,093	—	1,000	142,737
Norman Drew	234,494	—	68,000	8,970	28,212	—	1,000	340,676
Terrence Fowler <sup>6</sup>	284,158	—	—	6,728	34,078	609,929 <sup>7</sup>	1,000	935,893
Adrian Hill <sup>8</sup>	119,914	62,032	47,000	5,980	10,987	—	1,000	246,913
Geoffrey Nicholson <sup>9</sup>	72,129	—	20,000	2,243	6,492	—	—	100,864
Charles Popple	220,344	—	61,000	8,970	22,085	—	1,000	313,399
Total	1,709,472	374,134	456,000	53,821	182,296	609,929	6,000	3,391,652

1 These amounts represent the one-off gift from SPI Management Services described above under the heading share-based payments. The Stapled Group has determined, based on its best estimate, that in relation to the year ended 31 March 2007 no amount will be payable under the LTI plan. This estimate is based on historical performance over the last twelve months. Historic performance is not necessarily an indicator of the amount that will actually vest in year 3 but does form the best estimate at present. Refer to the table below under the heading of cash bonuses – long-term incentive for the maximum amounts payable at the end of three years.

2 Further details in relation to the retention payments to Mr Adams, Mr Buck and Mr Hill are set out under the heading retention awards above.

3 These bonuses are in respect of performance for the year ended 31 March 2007. These amounts have been approved but not yet paid.

4 These amounts represent car parking and an allocation of the premium for Directors' and Officers' insurance. The amount is on a pro rata basis when the senior executive has been a member of the key management personnel for less than 12 months.

5 Mr Buck ceased as a member of the key management personnel on 24 July 2006. Remuneration is only for the period Mr Buck was a member of the key management personnel.

6 Mr Fowler ceased as a member of the key management personnel on 22 December 2006. Remuneration represents all entitlements during the period Mr Fowler was a member of the key management personnel.

7 Mr Fowler's termination payment includes a termination amount payable under his employment agreement and an additional payment from SPI Management Services in recognition of his long-standing service.

8 Mr Hill commenced as a member of the key management personnel on 1 August 2006. Remuneration is only for the period Mr Hill was a member of the key management personnel.

9 Mr Nicholson commenced as a member of the key management personnel on 2 January 2007. Remuneration is for the period from when Mr Nicholson was appointed.

## CASH BONUSES – SHORT-TERM INCENTIVE

The percentage of the available bonus that was paid, or that vested, in the financial years ended 31 March 2006 and 31 March 2007, and the percentage that was forfeited because the person did not meet the service and performance criteria are set out below.

	Cash Bonus (2006) <sup>1</sup>			Cash Bonus (2007) <sup>2</sup>		
	Paid (\$)	Percentage of available bonus		Payable (\$)	Percentage of available bonus	
		Paid	Not Paid		Payable	Not Payable
Nino Ficca	220,000	95.7%	4.3%	180,000	83.3%	16.7%
Paul Adams	79,000	88.3%	11.7%	80,000	83.3%	16.7%
Peter Buck	54,000	82.8%	17.2%	—	—	—
Norman Drew	73,000	94.8%	5.2%	68,000	78.2%	21.8%
Terrence Fowler	79,000	90.8%	9.2%	—	—	—
Adrian Hill	—	—	—	47,000	72.9%	27.1%
Geoffrey Nicholson	—	—	—	20,000	72.8%	27.2%
Charles Popple	70,000	87.0%	13.0%	61,000	75.3%	24.7%

1 These bonuses consist of payments pursuant to the STI plan based on performance during the year ended 31 March 2006 and where applicable, special discretionary bonuses awarded in recognition of exceptional performance. These bonuses were not approved or paid until the financial year ended 31 March 2007.

2 Bonuses for performance for the year ended 31 March 2007 have been approved but not yet paid.

## REMUNERATION REPORT (AUDITED) CONTINUED

### CASH BONUSES – LONG-TERM INCENTIVE (EQUITY BASED PAYMENTS)

The SP AusNet Board approved a LTI plan for the Managing Director and senior executives that came into effect from 1 April 2006. For accounting purposes, amounts paid under the LTI plan are required to be disclosed as equity based payments. The following table shows the value of cash grants subject to future performance testing, percentage paid or forfeited and future financial years that grants may vest and be paid. As the grants made in 2006 will not be tested until 2009, no grants have been paid or forfeited at the date of this Report.

	Date of grant	Percentage of grant paid (%)	Percentage of grant forfeited (%)	Date grant may vest	Minimum total value of grant (\$)	Maximum total value of grant (\$) <sup>1</sup>
Nino Ficca	1 April 2006	–	–	31 March 2009	0	558,141
Paul Adams	1 April 2006	–	–	31 March 2009	0	220,500
Norman Drew	1 April 2006	–	–	31 March 2009	0	199,828
Adrian Hill	1 April 2006	–	–	31 March 2009	0	148,148
Geoffrey Nicholson	1 April 2006	–	–	31 March 2009	0	261,844
Charles Pople	1 April 2006	–	–	31 March 2009	0	186,047
Total						1,574,508

<sup>1</sup> These amounts are estimates based on SP AusNet achieving the maximum possible performance conditions at the end of the three year performance period described above. The assumed prevailing FARs used to calculate the estimates are based on a 5% annual increase in each senior executive's FAR to the test date.

### FOR THE YEAR ENDED 31 MARCH 2006:

#### DIRECTOR REMUNERATION

	Short-term			Post-employment	Termination benefits	Equity based payments	
	Cash salary and fees	Retention payments	Cash bonus <sup>1</sup>	Other short-term benefits	Super-annuation <sup>2</sup>		Total
<b>Non-executive Directors</b>							
Ng Kee Choe (Chairman) <sup>3</sup>	70,422	–	–	5,555	6,338	–	82,315
Jeremy Davis <sup>3</sup>	66,819	–	–	5,555	6,014	–	78,388
Eric Gwee <sup>3</sup>	70,322	–	–	5,555	–	–	75,877
George Lefroy <sup>3,4</sup>	93,199	–	–	5,555	8,376	–	107,130
Martyn Myer <sup>5</sup>	43,177	–	–	5,555	3,886	–	52,618
Quek Poh Huat <sup>3,6</sup>	77,000	–	–	5,555	–	–	82,555
Ian Renard <sup>3,4</sup>	89,188	–	–	5,555	8,027	–	102,770
Wong Toon Suan <sup>7</sup>	–	–	–	–	–	–	–
Yap Chee Keong <sup>7</sup>	–	–	–	–	–	–	–
<b>Executive Directors</b>							
Nino Ficca <sup>8</sup>	398,658	–	86,212	5,555	39,990	–	530,415
Paul Adams <sup>9</sup>	230,443	104,892	17,865	5,000	23,716	–	381,916
Terrence Fowler <sup>10</sup>	204,922	–	77,031	5,000	18,385	–	305,338

<sup>1</sup> These bonuses are in respect of performance for the year ended 31 March 2005.

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

<sup>3</sup> Messrs Ng, Davis, Gwee, Quek and Renard and Dr Lefroy were appointed as Directors of SP AusNet Distribution on 31 May 2005, SP AusNet Transmission on 26 October 2005 and of the Responsible Entity on 9 September 2005.

<sup>4</sup> 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.

<sup>5</sup> Mr Myer was appointed as Director of SP AusNet Distribution on 9 September 2005, SP AusNet Transmission on 26 October 2005 and of the Responsible Entity on 9 September 2005.

<sup>6</sup> 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 were paid after the end of the year.

<sup>7</sup> 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 were payable for their services as Directors during the period ending 31 March 2006.

<sup>8</sup> Mr Ficca was appointed as Director of SP AusNet Distribution on 31 May 2005, SP AusNet Transmission on 7 September 2005 and of the Responsible Entity on 31 May 2005.

<sup>9</sup> Mr Adams was a Director of the Responsible Entity from 31 May 2005 to 9 September 2005.

<sup>10</sup> 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.

## SENIOR EXECUTIVE REMUNERATION

	Short-term				Post-employment	Termination benefits	Equity based payments	
	Cash salary and fees	Retention payments	Cash bonus <sup>1</sup>	Other short-term benefits	Super-annuation			Total
Nino <b>Ficca</b>	398,658	–	86,212	5,555	39,990	–	–	530,415
Paul <b>Adams</b>	230,443	104,892 <sup>2</sup>	17,865 <sup>3</sup>	5,000	23,716	–	–	381,916
Peter <b>Buck</b>	185,331	67,657 <sup>2</sup>	11,415 <sup>3</sup>	5,000	16,811	–	–	286,214
Norman <b>Drew</b>	200,268	–	63,757 <sup>4</sup>	5,000	20,036	–	–	289,061
Terrence <b>Fowler</b>	204,922	–	77,031 <sup>5</sup>	5,000	18,385	–	–	305,338
Peter <b>Merritt</b> <sup>6</sup>	169,892	–	32,935	5,000	17,130	–	–	224,957
Charles <b>Popple</b>	205,333	–	53,430 <sup>7</sup>	5,000	20,899	–	–	284,662
Total	1,594,847	172,549	342,645	35,555	156,967	–	–	2,302,563

1 These bonuses are in respect of performance for the year ended 31 March 2005.

2 Further details in relation to the retention payments to Mr Adams and Mr Buck are set out under the heading Retention Awards above.

3 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 the remuneration periods into line with the remaining executives following the acquisition of TXU Australia Group. They did not receive additional bonuses under the SP AusNet STI plan.

4 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.

5 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 discretionary bonus of \$30,000, awarded prior to the listing of SP AusNet by Singapore Power Ltd in recognition of exceptional performance.

6 Mr Merritt ceased as a member of the key management personnel on 31 March 2006.

7 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 discretionary bonus of \$15,000, awarded prior to the listing of SP AusNet by Singapore Power Ltd in recognition of exceptional performance.

## DIRECTORS' INTERESTS

The Directors of SP AusNet have disclosed relevant interests in Stapled Securities as follows:

Name	Number of Stapled Securities
Ng Kee Choe	150,000 <sup>1</sup>
Nino <b>Ficca</b>	125,000 <sup>2</sup>
Jeremy <b>Davis</b>	50,000
Eric <b>Gwee</b>	100,000 <sup>1</sup>
Tony <b>Iannello</b>	30,000 <sup>3</sup>
George <b>Lefroy</b>	100,000 <sup>4</sup>
Martyn <b>Myer</b>	650,000 <sup>5</sup>
Quek Poh Huat	206,000 <sup>6</sup>
Ian <b>Renard</b>	30,000

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

2 25,000 securities held by immediate family members of Mr Ficca.

3 Securities held by Summit Custodial Services.

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

5 Securities held by MF Custodian Ltd as custodian for Mpyer Investments Pty Ltd.

6 Securities held by The Central Depository (Pte) Limited. 6,000 securities held by immediate family members of Mr Quek.

## REMUNERATION REPORT (AUDITED) CONTINUED

The Directors of SP AusNet have disclosed relevant interests in related bodies corporate as follows:

Name	Singapore Telecommunications Limited	Singapore Airport Terminal Services Limited	PT Bank Danamon Indonesia Tbk	Singapore Technologies Engineering Ltd	Singapore Computer Systems Limited	SMRT Corporation Ltd
<b>Ng Kee Choe</b>	3,080 <sup>1</sup>	11,000	50,000	—	—	—
<b>Nino Ficca</b>	720 <sup>2</sup>	—	—	—	—	—
<b>Jeremy Davis</b>	—	—	—	—	—	—
<b>Eric Gwee</b>	1,980 <sup>3</sup>	—	—	—	—	—
<b>Tony Iannello</b>	—	—	—	—	—	—
<b>George Lefroy</b>	158,792 <sup>4</sup>	—	—	—	—	—
<b>Martyn Myer</b>	—	—	—	—	—	—
<b>Quek Poh Huat</b>	5,210 <sup>5</sup>	—	—	291,500 <sup>6</sup> 813,728 <sup>7</sup>	15,000	8,000
<b>Ian Renard</b>	—	—	—	—	—	—

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

2 Securities held by immediate family members of Mr Ficca.

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

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

5 1,540 held by immediate family members of Mr Quek.

6 Options over ordinary securities.

7 Ordinary securities.

### SERVICE AGREEMENTS

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 short-term performance-related cash bonuses, fringe benefits plus other benefits. Participation in the long-term incentive plan is not a term of the agreements. Other major provisions of the agreements, relating to remuneration, are set out below.

### MANAGING DIRECTOR

The main provisions of the Managing Director's service agreement are set out below:

- term of agreement — permanent, subject to one month's notice of termination by either party;
- fixed remuneration including base salary and superannuation, for the year ended 31 March 2007 of \$540,000 to be reviewed annually by the Nomination and Remuneration Committee and the Board;
- annual short-term incentive of up to 40% of FAR; and
- termination benefits calculated at three weeks pay for every year of service paid at the Managing Director's FAR rate and capped at six months.

### SENIOR EXECUTIVES

The major provisions contained in the services agreements of the key management personnel listed are substantially the same, except as noted below:

- term of agreement — permanent, subject to termination on one month's notice by either party (except Paul Adams whose agreement provides for a notice period of three months);
- SP AusNet may make a payment in lieu of notice; and
- termination benefits calculated at three weeks' pay for every year of service paid at the executive's FAR rate and capped at six months (except Paul Adams whose termination payment cap is set at nine months and 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).

## 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 SP AusNet Transmission 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*.

## INDEMNIFICATION AND INSURANCE

No insurance premiums are paid in regard to insurance cover provided to the auditor of the SP AusNet Transmission Group, KPMG. The auditor is not indemnified.

During the financial year, the Stapled Group paid a premium of \$568,577 (for 14 months and including prospectus cover) to insure the Directors and secretaries of the Australian-based combined 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 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.

## 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 in Note 29 of the financial report.

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, 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 *APES 110 Code of Ethics for Professional Accountants*.

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 112.

## ROUNDING OFF

The company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the 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.

## AUDITOR

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

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



**Ng Kee Choe**  
Chairman



**Nino Ficca**  
Managing Director

Melbourne  
23 May 2007

# LEAD AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

112

To: the directors of SP Australia Networks (Transmission) Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 31 March 2007 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.

The KPMG logo, consisting of the letters 'KPMG' in a stylized, handwritten font.

KPMG

A handwritten signature in black ink, appearing to read 'Alison Kitchen'.

**Alison Kitchen**  
*Partner*

Melbourne  
23 May 2007

# INCOME STATEMENTS FOR THE YEAR ENDED 31 MARCH 2007

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		Consolidated		Parent entity	
	Notes	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Revenue	4	420,763	398,067	–	–
Expenses, excluding finance costs	5	(231,416)	(213,645)	(400)	(200)
Profit/(loss) from operating activities		189,347	184,422	(400)	(200)
Finance income	6	5,211	5,738	41,052	–
Finance expenses	6	(127,422)	(103,497)	(36,161)	(9,986)
Net finance (costs)/income		(122,211)	(97,759)	4,891	(9,986)
Profit/(loss) before income tax		67,136	86,663	4,491	(10,186)
Income tax benefit/(expense)	7	57,088	(178,048)	10,968	3,056
Profit/(loss) for the year	26(b)	124,224	(91,385)	15,459	(7,130)
		Cents	Cents		
Earnings per share for profit attributable to the ordinary equity holders of the Company:					
Basic and diluted earnings/(loss) per share	9	5.94	(4.37)		

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 comparative results are for the period 7 September 2005 to 31 March 2006.

# STATEMENTS OF RECOGNISED INCOME AND EXPENSE FOR THE YEAR ENDED 31 MARCH 2007

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	Notes	Consolidated		Parent entity	
		2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Adjustment on adoption of AASB 132 and AASB 139 to reserves	26(a)	—	(190)	—	—
Actuarial gains	26(a)	2,727	2,435	—	—
Cash flow hedges	26(a)	5,910	(678)	—	—
<b>Net income recognised directly in equity</b>		<b>8,637</b>	<b>1,567</b>	<b>—</b>	<b>—</b>
<b>Profit/(loss) for the year</b>		<b>124,224</b>	<b>(91,385)</b>	<b>15,459</b>	<b>(7,130)</b>
<b>Total recognised income and expense for the year</b>		<b>132,861</b>	<b>(89,818)</b>	<b>15,459</b>	<b>(7,130)</b>

Other movements in equity arising from transactions with owners as owners are set out in Note 25. The amounts recognised directly in equity are disclosed net of tax.

The above statements of 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 comparative results are for the period 7 September 2005 to 31 March 2006.

		Consolidated		Parent entity	
	Notes	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
ASSETS					
Current assets					
Cash and cash equivalents	10	2,679	2,634	–	–
Receivables	11	41,662	42,600	34,863	14,556
Inventories	12	2,616	3,722	–	–
Derivative financial instruments	13	11,093	4,525	–	–
Other current assets	14	3,179	2,807	200	200
Total current assets		61,229	56,288	35,063	14,756
Non-current assets					
Receivables	11	–	–	40	–
Inventories	12	12,773	11,797	–	–
Property, plant and equipment	16	2,955,400	2,873,023	–	–
Deferred tax assets	17	–	–	373	686
Other non-current assets	14	12,669	10,249	–	–
Other financial assets	15	–	–	1,096,939	1,096,939
Total non-current assets		2,980,842	2,895,069	1,097,352	1,097,625
Total assets		3,042,071	2,951,357	1,132,415	1,112,381
LIABILITIES					
Current liabilities					
Payables and other liabilities	18	59,840	69,513	40	–
Borrowings	19	1,364,381	1,359,986	1,066,176	1,110,386
Derivative financial instruments	13	2,349	2,538	–	–
Current tax payable		18,911	9,125	18,911	9,125
Provisions	20	12,615	10,428	–	–
Total current liabilities		1,458,096	1,451,590	1,085,127	1,119,511
Non-current liabilities					
Borrowings	19	1,293,577	1,255,907	52,708	–
Derivative financial instruments	13	2,629	–	–	–
Other financial liabilities	21	3,544	1,490	–	–
Deferred tax liabilities	22	271,133	348,669	–	–
Provisions	23	391	376	–	–
Total non-current liabilities		1,571,274	1,606,442	52,708	–
Total liabilities		3,029,370	3,058,032	1,137,835	1,119,511
Net assets		12,701	(106,675)	(5,420)	(7,130)
EQUITY					
Equityholders of SP AusNet Transmission					
Contributed equity	25(b)	650,051	649,787	–	–
Reserves	26(a)	13,967	5,330	–	–
Retained profits	26(b)	443,750	333,275	(5,420)	(7,130)
		1,107,768	988,392	(5,420)	(7,130)
Other equity component arising from reverse acquisition	25(c)	(1,095,067)	(1,095,067)	–	–
Total equity		12,701	(106,675)	(5,420)	(7,130)

The above balance sheets should be read in conjunction with the accompanying notes.

# CASH FLOW STATEMENTS FOR THE YEAR ENDED 31 MARCH 2007

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		Consolidated		Parent entity	
	Notes	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Cash flows from operating activities					
Receipts from customers (inclusive of goods and services tax)		470,429	417,361	–	–
Payments to suppliers and employees (inclusive of goods and services tax)		(213,859)	(172,054)	(310)	–
Income tax paid		(14,363)	(1,168)	–	–
Interest received		323	978	–	–
Dividends received		–	–	41,052	–
Interest and other costs of finance paid		(118,306)	(103,030)	(27,303)	(3,061)
Net cash inflow/(outflow) from operating activities	36	124,224	142,087	13,439	(3,061)
Cash flows from investing activities					
Payment for purchase of controlled entity, net of cash acquired	33	–	–	–	(2,196,939)
Payments for property, plant and equipment		(150,317)	(126,968)	–	–
Proceeds from sale of property, plant and equipment		117	3,492	–	–
Net cash outflow from investing activities		(150,200)	(123,476)	–	(2,196,939)
Cash flows from financing activities					
Proceeds of loans from related parties		–	–	51,540	–
Repayment of loans with related parties		(51,230)	–	(51,230)	–
Return of share capital	33	–	–	–	271,231
Dividends paid	8	(13,749)	–	(13,749)	–
Proceeds from borrowings		818,500	563,434	–	1,100,000
Repayment of borrowings		(727,500)	(590,000)	–	–
Return on investment	33	–	–	–	828,769
Net cash inflow/(outflow) from financing activities		26,021	(26,566)	(13,439)	2,200,000
Net increase/(decrease) in cash held		45	(7,955)	–	–
Cash and cash equivalents at the beginning of the financial year		2,634	10,589	–	–
Cash and cash equivalents at the end of the financial year	10	2,679	2,634	–	–

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 comparative results are for the period 7 September 2005 to 31 March 2006.

### NOTES

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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 Transmission as an individual entity and for the consolidated entity, consisting of SP AusNet Transmission and its subsidiaries. The consolidated entity is referred to as the SP AusNet Transmission Group.

### (A) BASIS OF PREPARATION

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ("AASBs") and interpretations adopted by the Australian Accounting Standards Board and the *Corporations Act 2001*. The consolidated financial statements and notes also comply with International Financial Reporting Standards ("IFRSs") and interpretations adopted by the International Accounting Standards Board. Certain comparative amounts have been reclassified to conform with the current year's presentation. The parent entity financial statements and notes do not comply with IFRSs as the parent entity has elected to apply the relief provided to parent entities by AASB 132 *Financial Instruments: Presentation and Disclosure* in respect of certain disclosure requirements.

This general purpose financial report is presented in Australian dollars.

The financial statements were approved by the Board of Directors on 23 May 2007.

In the prior financial year the SP AusNet Transmission Group adopted AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* in accordance with the transitional rules of AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*. This change has been accounted for by adjusting the opening balance of retained earnings and reserves at 1 April 2005 of the consolidated results (as the parent entity was incorporated after this date), as disclosed in the reconciliation of movements in equity (refer note 26).

The SP AusNet Transmission Group's current liabilities exceed its current assets due primarily to \$1.1 billion of short-term debt which is payable to another entity in the Stapled Group, SP AusNet Finance Trust (refer note 1(b)(ii)). The financial report has been prepared on a going concern basis, which contemplates the continuity of normal trading operations, as the SP AusNet Transmission Group is trading profitably and has the capacity to refinance short-term debts.

#### (i) New standards adopted

The SP AusNet Transmission Group has elected in accordance with Section 334(5) of the *Corporations Act 2001* to early adopt the following standards for the annual reporting period beginning 1 April 2006:

- revised AASB 101 *Presentation of Financial Statements* (October 2006). The revised AASB 101 is mandatory for annual reporting periods beginning on or after 1 January 2007 however early adoption is permitted. The revised AASB 101 has deleted the Australian specific illustrative financial statement structure. In addition, certain Australian specific disclosures have been removed in line with the Australian Accounting Standards Board's preference to continue to eliminate differences between AASBs and IFRSs;

- AASB 8 *Operating Segments*. AASB 8 replaces AASB 114 *Segment Reporting* and is mandatory for annual reporting periods beginning on or after 1 January 2009 however early adoption is permitted. AASB 8 requires segments to be identified based on internal reporting to the chief operating decision maker, otherwise known as the "management approach". AASB 8 also requires segment information to be based on the information reported to the chief operating decision maker; and
- AASB 2007-3 *Amendments to Australian Accounting Standards* arising from AASB 8. The issuance of AASB 8 necessitates consequential amendments to existing Australian Accounting Standards, primarily to replace references to AASB 114 with references to AASB 8. These amendments are contained in AASB 2007-3.

#### (ii) New standards not yet adopted

The following standard is available for early adoption at 31 March 2007, but has not been applied in preparing the financial statements:

- AASB 7 *Financial Instruments: Disclosures* (August 2005) is applicable to annual reporting periods beginning on or after 1 January 2007. Application of the standard will not affect any amounts recognised in the financial statements but will impact the type and detail of information disclosed in relation to the SP AusNet Transmission Group's financial instruments. AASB 7 replaces the presentation requirements of financial instruments in AASB 132 *Financial Instruments: Presentation and Disclosure*.

Other Australian Accounting Standards issued but not yet effective are not expected to result in significant accounting policy or disclosure changes.

#### (iii) Historical cost convention

The 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.

#### (iv) Critical accounting estimates

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

## (B) PRINCIPLES OF CONSOLIDATION

#### (i) Reverse acquisition

On 19 October 2005, SP AusNet Transmission acquired 100% of the issued shares of the former parent entity of the SP AusNet Transmission Group. Subsequent to this acquisition, SP AusNet Transmission acquired 100% of the issued shares in the underlying operating subsidiaries (SPI PowerNet Pty Ltd ("SPI PowerNet") and SPI Australia Finance Pty Ltd ("SPI Australia Finance")).

Although for legal purposes SP AusNet Transmission is the acquirer in the transaction, the transaction was deemed to be a reverse acquisition for accounting purposes, whereby SPI PowerNet was the acquirer. As such, SPI PowerNet is deemed to be the parent company in the SP AusNet Transmission Group and has prepared

the consolidated accounts. In accordance with the requirements of reverse acquisition accounting under AASB 3 *Business Combinations* the parent entity results disclosed are that of the legal parent, SP AusNet Transmission.

SP AusNet Transmission was incorporated on 7 September 2005 accordingly the parent entity comparative results are for the period 7 September 2005 to 31 March 2006.

The consolidated results for the comparative period include the results of SPI PowerNet for the full year and the consolidated results of the SP AusNet Transmission Group from the date of the reverse acquisition to 31 March 2006.

#### (ii) Stapling

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

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

For statutory reporting purposes the purchase method of accounting has been applied to the stapling arrangement (refer note 1(h) for further details). 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 combined financial report of the Stapled Group.

By virtue of the stapling arrangement, SP AusNet Transmission, SP AusNet Distribution and SP AusNet Finance Trust have common equityholders (securityholders) with the effect that total equity of the Stapled Group belongs to the securityholders.

The Stapled Group is also referred to as SP AusNet.

#### (iii) Subsidiaries

Subsidiaries are entities, including special purpose entities, controlled by the SP AusNet Transmission Group. Control exists when the SP AusNet Transmission 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 SP AusNet Transmission Group and are deconsolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the SP AusNet Transmission Group (refer note 1(h) for further details).

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

### (C) SEGMENT REPORTING

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

The SP AusNet Transmission Group owns and manages the majority of the electricity transmission network in Victoria. The SP AusNet Transmission Group's network consists of the transmission lines and towers which carry electricity at high voltages from power stations to electricity distributors around Victoria, forming the backbone of the Victorian electricity network. 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 the SP AusNet Transmission Group only operates in one segment.

### (D) FOREIGN CURRENCY TRANSLATION

#### (i) Functional and presentation currency

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

#### (ii) Transactions and balances

All foreign currency transactions are accounted for using the exchange rate at the date of the transaction. At balance date, monetary items are translated at the exchange rate existing at that date. Resultant exchange differences are recognised in the income statement for the year, except for exchange differences which relate to assets under construction for future productive use, which are included in the cost of those assets.

### (E) REVENUE RECOGNITION

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

#### (i) Sales of goods and rendering of services

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

#### (ii) Other excluded services revenue

Other excluded services revenue is recognised as the services are rendered.

#### (iii) Interest income

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

#### (iv) 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 entities, being the date that the parent establishes the right to receive payment.

### (F) INCOME TAX

#### (i) Current tax

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

#### (ii) Deferred tax

Deferred tax is accounted for using a 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 the tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the SP AusNet Transmission Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

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

#### (iii) Tax expense

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

#### (iv) Tax consolidation

SP AusNet Transmission is the head entity of a tax consolidated group comprising SP AusNet Transmission and its Australian wholly-owned subsidiaries.

The current and deferred tax amounts for the tax consolidated group are allocated among the entities in the 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 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 deferred tax asset relating to tax losses assumed by the head entity. The members of the tax consolidated group have also entered into a valid tax sharing agreement under the tax consolidation legislation which sets out the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations, and the treatment of entities leaving the tax consolidated group.

### (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.

#### (i) Finance leases

Assets held under finance leases are initially recognised at their fair value or, if lower, at amounts equal to the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the 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 SP AusNet 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 property, plant and equipment.

#### (ii) Operating leases

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

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.

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

### (H) ACQUISITION OF ASSETS AND LIABILITIES

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

### (I) IMPAIRMENT OF ASSETS

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

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

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

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a 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 CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognised in the income statement immediately.

### (J) CASH AND CASH EQUIVALENTS

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

### (K) RECEIVABLES

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

Collectibility 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 SP AusNet Transmission Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the 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

Inventories are stated at the lower of cost and net realisable value. Cost is based on weighted average costs and includes expenditure incurred in acquiring 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

Investments in subsidiaries are measured at cost in the parent entity's financial statements.

### (N) DERIVATIVES

The SP AusNet 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 and interest rate swaps. In accordance with its treasury policy, the SP AusNet 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.

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 SP AusNet 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).

To ensure derivative financial instruments qualify for hedge accounting, the SP AusNet Transmission Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. The SP AusNet Transmission Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the 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 derivative financial instruments used for hedging purposes are disclosed in note 13. Movements in the hedging reserve in shareholders' equity are shown in note 26.

#### (i) Fair value hedge

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

#### (ii) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised directly in equity in the 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 purchase 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 recognised in the income statement.

#### (iii) 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.

**(O) 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 is determined using recognised valuation techniques. The SP AusNet 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 the fair value for the remaining financial instruments. The fair value of interest-rate swaps is calculated as the present value of estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at balance 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 item. 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 SP AusNet Transmission 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 for on property, plant and equipment, including freehold buildings but excluding land and easements. Depreciation is calculated on a straight-line basis so as to write off the net cost of each asset over its estimated useful life to its estimated residual value. The estimated useful lives, residual values and depreciation methods are reviewed annually.

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

	Years
Buildings	40–100
Transmission network	35–70
Other general assets	3–10
Motor vehicles and heavy machinery	3–10
Computers equipment and software	3–5

**(i) Capital works at cost**

Construction work in progress is stated at cost. Cost includes all expenditure that is directly attributable to the specific project.

**(Q) TRADE AND OTHER PAYABLES**

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

**(R) BORROWINGS**

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost, except

as detailed below. Any difference between the proceeds (net of transaction costs) and redemption amount is recognised in the income statement over the period of the borrowings using the effective interest rate method.

Borrowings which are part of a fair value hedging relationship are recognised at fair value. Changes in the fair value of the borrowings are recorded in the income statement together with any changes in the fair value of derivatives that are designated and qualify as fair value hedges (refer note 1(n)).

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

**(S) NET FINANCING COSTS**

Finance income comprises interest income on funds invested, dividend income, foreign exchange gains, gains on hedging instruments that are recognised in the income statement and the expected return on defined benefit plan assets.

Finance expenses comprise interest expense on borrowings, foreign exchange losses, losses on hedging instruments that are recognised in the income statement, unwinding of the discount on provisions and the interest cost in respect of defined benefit obligations. All borrowing costs are recognised in the income statement using the effective interest rate method.

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 6.4% (2006: 6.5%) applicable to the SP AusNet Transmission Group's outstanding borrowings during the period.

**(T) PROVISIONS**

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

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

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

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 SP AusNet Transmission 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.

**(U) EMPLOYEE BENEFITS****(i) Wages and salaries, annual leave and sick leave**

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

**(ii) Long service leave**

The liability for long service leave is recognised in the provision for employee benefits and is measured 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 government guaranteed bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

**(iii) Defined contribution superannuation funds**

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

**(iv) Defined benefit superannuation fund**

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

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

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

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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 past service cost is positive, 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.

When the past service cost is negative, the resulting reduction in the defined benefit liability is recognised as negative past service cost over the average period until the reduced portion of the benefits become vested.

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 expense.

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

### (V) 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.

#### (i) Dividends

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

### (W) SHARE-BASED PAYMENTS

The fair value of share-based payment compensation provided to employees, including existing shares purchased at arm's length and given to employees as a gift, have been recognised as an expense in the period. Where the shares form part of the existing shares on issue, the fair value of the gift is determined by the cost of the shares at the date of purchase.

Where the gift is funded by a related party without recharge, the cost of acquisition has been treated as an additional contribution of capital to the SP AusNet Transmission Group.

### (X) EARNINGS PER SHARE

#### (i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to members of the SP AusNet 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.

#### (ii) Diluted earnings per share

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

### (Y) ROUNDING OF AMOUNTS

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

## NOTE 2 FINANCIAL RISK MANAGEMENT

The use of financial derivatives is governed by the SP AusNet Transmission Group's policies approved by the Board of Directors, which provide written principles on the use of financial derivatives. The internal audit department reviews compliance with financial risk management policies and exposure limits.

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

- forward foreign exchange contracts; and
- interest rate swap contracts.

Risk management is carried out by a central treasury department under policies approved by the Board. The treasury department identifies, evaluates and hedges financial risks in close co-operation with the SP AusNet 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.

The SP AusNet Transmission Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

### (A) CURRENCY RISK

The SP AusNet 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.

The SP AusNet Transmission Group enters into forward foreign exchange contracts to hedge the exchange rate risk in relation to specific purchase orders. It is the policy of the SP AusNet Transmission Group to cover 100% of the material exposure generated by these transactions.

As at reporting date the aggregate amount of unrealised losses under forward foreign exchange contracts relating to anticipated future transactions is \$0.9 million (2006: \$0.8 million gain). In the current year, these unrealised losses have been deferred in the hedging reserve to the extent the hedge is effective.

### (B) INTEREST RATE RISK MANAGEMENT

The SP AusNet Transmission Group is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. In addition, the SP AusNet Transmission Group's electricity transmission 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 cost of capital and consequently the regulated revenue.

The objective of hedging activities carried out by the SP AusNet Transmission Group in relation to this business is to minimise the exposure to changes in interest rates by matching the actual cost of debt with the cost of debt assumed by the regulator when setting the rate of return for the business. The exposure is managed by maintaining an appropriate mix between fixed and floating rate borrowings and by the use of interest rate swap contracts.

Under interest rate swap contracts, the SP AusNet Transmission Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the SP AusNet Transmission Group to mitigate the risk of changing interest rates on debt held.

### (C) CREDIT RISK

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

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 SP AusNet 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 SP AusNet Transmission Group's maximum exposure to credit risk without taking account of the value of any collateral obtained:

	Maximum credit risk 2007 \$'000	Maximum credit risk 2006 \$'000
<b>Financial assets and other credit exposures</b>		
AUD interest rate swaps	12,766	5,914

**(D) LIQUIDITY RISK**

The SP AusNet Transmission Group manages liquidity risk by maintaining adequate cash reserves, banking facilities and reserve borrowing facilities and by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

**NOTE 3 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS**

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

**(A) ESTIMATED RECOVERABLE AMOUNT OF ASSETS**

Recoverable amount is the higher of fair value less costs to sell and value in use. Management has based its assessment of fair value on discounted cash flow projections over a period of 20 years together with an appropriate terminal value. Regulated cash flow forecasts are based on allowable returns subject to a cap set by the Australian Energy Regulator, together with other information included in the SP AusNet Transmission Group's 5-year forecast. Cash flows after that period are based on an extrapolation of the forecast taking into account inflation. It is considered appropriate to use cash flows after the SP AusNet Transmission Group's 5-year forecast period considering the long-term nature of the SP AusNet Transmission Group's activities. Cash flows are discounted using an 6.73% post-tax discount rate.

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

**(B) INCOME TAXES**

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

The SP AusNet Transmission Group has taken positions in relation to the income tax and capital gains tax consequences of the acquisition by SP AusNet Transmission of the Australian assets held by SPI Australia Holdings Pty Ltd and subsequent restructuring.

In addition, deferred tax assets are recognised for deductible temporary differences only if it is probable that future taxable profits are available to utilise those temporary differences.

Assumptions are also made about the application of income tax legislation. These assumptions are subject to risk and uncertainty and there is a possibility that changes in circumstances will alter expectations which may impact the amount of deferred tax assets and deferred tax liabilities in the balance sheet. In these circumstances, the carrying amount of deferred tax assets and liabilities may change resulting in an impact on the earnings of the SP AusNet Transmission Group.

**(C) 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 instruments held by the SP AusNet Transmission Group is the current mid price.

The fair value of financial instruments that are not traded in active markets is determined using recognised valuation techniques. The SP AusNet 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 foreign exchange contracts is determined using forward foreign exchange market rates at the balance date.

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

**NOTE 4 REVENUE**

	Consolidated		Parent entity	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>Revenue</b>				
Regulated revenue	380,834	369,153	—	—
Excluded services	30,501	20,209	—	—
	411,335	389,362	—	—
<b>Other revenue</b>				
Other revenue	9,428	8,705	—	—
	9,428	8,705	—	—
<b>Total revenue</b>	420,763	398,067	—	—

## NOTE 5 EXPENSES

	Consolidated		Parent entity	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>Profit before income tax includes the following specific expenses:</b>				
Expenses, excluding finance costs, included in the income statement:				
Employee benefits				
Defined benefit superannuation expenses (i)	1,230	1,148	–	–
Defined contribution superannuation expenses	2,645	1,696	–	–
Share-based payment expense	264	–	–	–
Other employee expenses	18,756	21,506	–	–
Materials	2,355	1,252	–	–
External maintenance and contractors' services	19,505	17,103	–	–
Information technology and communication costs	2,275	2,173	–	–
Taxes and licences	252	516	–	–
External consulting, legal and accounting costs	5,112	7,496	–	–
Insurance expenses	2,685	2,917	–	–
Property taxes	82,150	82,921	–	–
Other administrative expenses	4,905	2,257	–	–
Management services charges	7,544	3,167	–	–
Performance fees	4,514	1,330	–	–
Flame logo fees	400	200	400	200
Availability rebates	2,856	1,664	–	–
Office, travel and consumable expenses	755	1,886	–	–
Other costs	232	–	–	–
	158,435	149,232	400	200
Depreciation	71,205	62,539	–	–
Net loss on disposal of property, plant and equipment	432	241	–	–
Operating lease rental expense	1,058	1,630	–	–
Bad and doubtful debts expense including movement in provision for doubtful debts	286	3	–	–
<b>Total expenses, excluding finance costs</b>	<b>231,416</b>	<b>213,645</b>	<b>400</b>	<b>200</b>

(i) Defined benefit superannuation expenses represent current service costs. Interest costs relating to the defined benefit superannuation fund is included in finance expenses (refer note 6). The prior year comparative has been restated in line with the current year's treatment.

## NOTE 6 NET FINANCE COSTS

	Consolidated		Parent entity	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>Finance income</b>				
Dividend income	–	–	41,052	–
Interest income	278	989	–	–
Expected return on defined benefit fund plan assets (i)	4,933	4,749	–	–
<b>Total finance income</b>	<b>5,211</b>	<b>5,738</b>	<b>41,052</b>	<b>–</b>
<b>Finance expenses</b>				
Interest expense	93,843	94,347	–	–
Interest expense – related parties	34,327	12,731	36,161	9,986
Other finance charges (i)	4,970	1,206	–	–
Capitalised finance charges	(5,718)	(4,787)	–	–
<b>Total finance expenses</b>	<b>127,422</b>	<b>103,497</b>	<b>36,161</b>	<b>9,986</b>
<b>Net finance costs/(income)</b>	<b>122,211</b>	<b>97,759</b>	<b>(4,891)</b>	<b>9,986</b>

(i) Interest costs and expected return on plan assets in respect of the defined benefit superannuation fund have been included in net finance costs. The prior year comparative has been restated in line with the current year's treatment.

## NOTE 7 INCOME TAX EXPENSE

	Consolidated		Parent entity	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>(A) INCOME TAX EXPENSE</b>				
Current tax	24,360	15,138	(10,968)	(3,056)
Prior year under provision – current tax	102	–	–	–
Deferred tax	(87,356)	162,910	–	–
Prior year under provision – deferred tax	5,806	–	–	–
	(57,088)	178,048	(10,968)	(3,056)
<b>Deferred income tax expense/(benefit) included in income tax expense/(benefit) comprises:</b>				
Decrease in deferred tax assets (note 17)	604	244,275	–	–
Decrease in deferred tax liabilities (note 22)	(87,960)	(81,365)	–	–
	(87,356)	162,910	–	–
<b>(B) NUMERICAL RECONCILIATION OF INCOME TAX EXPENSE TO PRIMA FACIE TAX PAYABLE</b>				
Profit from operations before income tax expense	67,136	86,663	4,491	(10,186)
Tax at the Australian tax rate of 30% (2006: 30%)	20,141	25,999	1,347	(3,056)
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:				
Non-assessable income	–	–	(12,315)	–
Impact of entry into tax consolidation	–	149,106	–	–
Prior year under provision in respect of entry into tax consolidation	7,174	–	–	–
Prior year over provision	(1,266)	(1,553)	–	–
Write-back deferred tax liability (s.163AA impost and intellectual property deduction) – pre stapling (refer note 1(b)(ii))	(81,404)	–	–	–
Write-back deferred tax liability (s.163AA impost and intellectual property deduction) – post stapling	(1,833)	–	–	–
Sundry items	100	4,496	–	–
Income tax (benefit)/expense	(57,088)	178,048	(10,968)	(3,056)
<b>(C) AMOUNTS RECOGNISED DIRECTLY IN EQUITY</b>				
Aggregate current and deferred tax arising in the reporting period and not recognised in the income statement but directly debited/(credited) to equity:				
Hedge reserve – cash flow hedges (note 26)	2,533	(373)	–	–
Defined benefit reserve (note 26)	1,168	1,044	–	–
Net deferred tax debited directly to equity	3,701	671	–	–

## NOTE 8 DIVIDENDS

The following dividends were approved and paid by SP AusNet Transmission to shareholders during the current financial year:

	Date paid	Cents per share	Total dividend \$
Fully franked dividend	26 June 2006	0.150	3,139,020
Fully franked dividend	14 December 2006	0.507	10,609,888
Total dividends			13,748,908

No dividends were approved and/or paid to members during the previous financial year.

**(A) FRANKING ACCOUNT**

	2007 \$'000	2006 \$'000
30 per cent franking credits available to shareholders for subsequent financial years	28,550	10,293

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

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends. The impact on the dividend franking account of dividends proposed after the balance date, but not recognised as a liability, is to reduce it by \$4,547,095 (2006: \$1,345,000). In accordance with the tax consolidation legislation, the Company as the head entity in the tax consolidated group has also assumed the benefit of \$28,550,000 (2006: \$10,293,000) franking credits.

**NOTE 9 EARNINGS PER SHARE**

On 19 October 2005, SP AusNet Transmission executed a reverse acquisition deeming SPI PowerNet to be the parent entity of the SP AusNet Transmission Group. The following earnings per share have been calculated recognising the substance of the reverse acquisition, which means that the calculation is based on the earnings of the consolidated group and the share capital of the legal parent (SP AusNet Transmission).

**(A) BASIC EARNINGS PER SHARE**

	Consolidated	
	2007 \$'000	2006 \$'000
Profit/(loss) from operations attributable to the ordinary equityholders of the Company	124,224	(91,385)
<b>Profit attributable to the ordinary equityholders of the Company</b>	<b>124,224</b>	<b>(91,385)</b>
<b>Weighted average number of shares ('000)</b>	<b>2,092,680</b>	<b>2,092,680</b>
	<b>Cents</b>	<b>Cents</b>
<b>Earnings/(loss) per share from profit/(loss)</b>	<b>5.94</b>	<b>(4.37)</b>

**(B) DILUTED EARNINGS PER SHARE**

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

**NOTE 10 CASH AND CASH EQUIVALENTS**

	Consolidated		Parent entity	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Cash at bank and on hand	2,679	2,634	—	—
<b>Total cash and cash equivalents</b>	<b>2,679</b>	<b>2,634</b>	<b>—</b>	<b>—</b>

**(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 cash flow statements as follows:

Balances per cash flow statements	2,679	2,634	—	—
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**NOTE 11 RECEIVABLES**

	Consolidated		Parent entity	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>Current receivables</b>				
Accounts receivable*	32,070	34,025	—	—
Provision for doubtful receivables	(319)	(33)	—	—
Related party receivable	9,858	7,859	34,863	14,556
	<b>41,609</b>	<b>41,851</b>	<b>34,863</b>	<b>14,556</b>
Accrued revenue	—	685	—	—
Employee advances and loans	53	64	—	—
<b>Total current receivables</b>	<b>41,662</b>	<b>42,600</b>	<b>34,863</b>	<b>14,556</b>
<b>Non-current receivables</b>				
Related party receivable	—	—	40	—
<b>Total non-current receivables</b>	<b>—</b>	<b>—</b>	<b>40</b>	<b>—</b>
<b>Total receivables</b>	<b>41,662</b>	<b>42,600</b>	<b>34,903</b>	<b>14,556</b>

\* The average credit period on sales of transmission services is 10 business days. An allowance has been made for estimated irrecoverable amounts, determined by reference to past default experience.

**Bad and doubtful trade receivables**

The SP AusNet Transmission Group recognised a loss of \$0.29 million (2006: \$nil) in respect of bad and doubtful trade receivables during the year ended 31 March 2007.

## NOTE 12 INVENTORIES

	Consolidated		Parent entity	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>Current inventories</b>				
Construction, maintenance stocks and general purpose materials	2,616	3,722	–	–
<b>Total current inventories</b>	2,616	3,722	–	–
<b>Non-current inventories</b>				
Construction, maintenance stocks and general purpose materials	12,773	11,797	–	–
<b>Total non-current inventories</b>	12,773	11,797	–	–
<b>Total inventories</b>	15,389	15,519	–	–

## NOTE 13 DERIVATIVE FINANCIAL INSTRUMENTS

	Consolidated		Parent entity	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>Current derivative financial instrument assets</b>				
Interest rate swap contracts	11,092	3,649	–	–
Forward foreign exchange contracts	1	876	–	–
<b>Total current derivative financial instrument assets</b>	11,093	4,525	–	–
<b>Total derivative financial instrument assets</b>	11,093	4,525	–	–
<b>Current derivative financial instrument liabilities</b>				
Interest rate swap contracts	1,406	2,472	–	–
Forward foreign currency contracts	943	66	–	–
<b>Total current derivative financial instrument liabilities</b>	2,349	2,538	–	–
<b>Non-current derivative financial instrument liabilities</b>				
Interest rate swap contracts	2,629	–	–	–
<b>Total non-current derivative financial instrument liabilities</b>	2,629	–	–	–
<b>Total derivative financial instrument liabilities</b>	4,978	2,538	–	–

## NOTE 14 OTHER ASSETS

	Consolidated		Parent entity	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>Current other assets</b>				
Prepayments	3,179	2,761	200	200
Interest receivable	–	46	–	–
<b>Total current other assets</b>	3,179	2,807	200	200
<b>Non-current other assets</b>				
Deferred expenses	–	2,282	–	–
Defined benefit fund surplus	12,669	7,967	–	–
<b>Total non-current other assets</b>	12,669	10,249	–	–
<b>Total other assets</b>	15,848	13,056	200	200

## NOTE 15 NON-CURRENT ASSETS – OTHER FINANCIAL ASSETS

	Consolidated		Parent entity	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Investment in subsidiary (note 34)	–	–	1,096,939	1,096,939
<b>Total non-current other financial assets</b>	<b>–</b>	<b>–</b>	<b>1,096,939</b>	<b>1,096,939</b>

## NOTE 16 NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT

	Freehold land at cost \$'000	Buildings at cost \$'000	Easements at cost \$'000	Transmission network at cost \$'000	Other plant and equipment at cost \$'000	Capital works at cost \$'000	Total \$'000
<b>2007</b>							
<b>Consolidated</b>							
Carrying amount at 1 April 2006	230,916	82,144	1,144,279	1,292,737	44,655	78,292	2,873,023
Additions	–	–	–	–	–	154,131	154,131
Transfers	–	22,626	–	96,222	12,465	(131,313)	–
Disposals	–	–	–	(356)	(193)	–	(549)
Depreciation charge	–	(4,973)	–	(55,405)	(10,827)	–	(71,205)
<b>Carrying amount at 31 March 2007</b>	<b>230,916</b>	<b>99,797</b>	<b>1,144,279</b>	<b>1,333,198</b>	<b>46,100</b>	<b>101,110</b>	<b>2,955,400</b>
<b>Net book value at 31 March 2007</b>							
Cost	230,916	113,018	1,144,279	1,501,165	100,539	101,110	3,191,027
Accumulated depreciation	–	(13,221)	–	(167,967)	(54,439)	–	(235,627)
<b>Carrying amount at 31 March 2007</b>	<b>230,916</b>	<b>99,797</b>	<b>1,144,279</b>	<b>1,333,198</b>	<b>46,100</b>	<b>101,110</b>	<b>2,955,400</b>

The parent entity holds no property, plant and equipment.

	Freehold land at cost \$'000	Buildings at cost \$'000	Easements at cost \$'000	Transmission network at cost \$'000	Other plant and equipment at cost \$'000	Capital works at cost \$'000	Total \$'000
<b>2006</b>							
<b>Consolidated</b>							
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 charge	–	(3,780)	–	(48,327)	(10,432)	–	(62,539)
<b>Carrying amount at 31 March 2006</b>	<b>230,916</b>	<b>82,144</b>	<b>1,144,279</b>	<b>1,292,737</b>	<b>44,655</b>	<b>78,292</b>	<b>2,873,023</b>
<b>Net book value at 31 March 2006</b>							
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)
<b>Carrying amount at 31 March 2006</b>	<b>230,916</b>	<b>82,144</b>	<b>1,144,279</b>	<b>1,292,737</b>	<b>44,655</b>	<b>78,292</b>	<b>2,873,023</b>

## NOTE 17 NON-CURRENT ASSETS – DEFERRED TAX ASSETS

	Consolidated		Parent entity	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>The balance comprises temporary differences attributable to:</b>				
<i>Amounts recognised in the income statements</i>				
Doubtful debts	96	10	–	–
Employee benefits	3,133	3,004	–	–
Other accruals and provisions	1,411	780	–	–
Intellectual property – copyright	45,984	–	–	–
Tax losses	373	686	373	686
	50,997	4,480	373	686
<i>Amounts recognised directly in equity</i>				
Cash flow hedges	171	–	–	–
	171	–	–	–
Set-off of deferred tax liabilities of parent entity pursuant to set-off provisions (note 22)	(51,168)	(4,480)	–	–
Net deferred tax assets	–	–	373	686
<b>Movements</b>				
Opening balance at 1 April	4,480	248,527	686	–
Asset acquired on business combination	–	693	–	693
Charged to the income statement (note 7)	(604)	(244,275)	–	–
Reallocation between deferred tax asset and liability (note 22)	47,434	(465)	–	–
Credited to equity	171	–	–	–
Tax losses utilised	(313)	–	(313)	(7)
	51,168	4,480	373	686
Set-off of deferred tax liabilities of parent entity pursuant to set-off provisions (note 22)	(51,168)	(4,480)	–	–
Closing balance at 31 March	–	–	373	686

## NOTE 18 CURRENT LIABILITIES – PAYABLES AND OTHER LIABILITIES

	Consolidated		Parent entity	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Trade payables	43,399	49,935	–	–
Accrued interest	10,506	12,262	–	–
GST payable	3,837	3,940	40	–
Customer deposits	123	–	–	–
Deferred revenue	600	–	–	–
Related party payables	1,375	2,399	–	–
Other	–	977	–	–
<b>Total current payables and other liabilities</b>	<b>59,840</b>	<b>69,513</b>	<b>40</b>	<b>–</b>

## NOTE 19 BORROWINGS

	Consolidated		Parent entity	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>Current borrowings</b>				
Working capital	11,000	–	–	–
Domestic medium term notes	287,205	250,000	–	–
Amounts owed to related parties:				
Amount owed to SP AusNet Finance Trust	1,066,176	1,109,986	1,066,176	1,109,986
Amount owed to SPI Management Services	–	–	–	400
<b>Total current borrowings</b>	<b>1,364,381</b>	<b>1,359,986</b>	<b>1,066,176</b>	<b>1,110,386</b>
<b>Non-current borrowings</b>				
Commercial paper	188,526	173,831	–	–
Syndicated bank debt	519,662	204,590	–	–
Domestic medium term notes	585,389	877,486	–	–
Amounts owed to related parties:				
Amount owed to SPI PowerNet	–	–	52,708	–
<b>Total non-current borrowings</b>	<b>1,293,577</b>	<b>1,255,907</b>	<b>52,708</b>	<b>–</b>
<b>Total borrowings</b>	<b>2,657,958</b>	<b>2,615,893</b>	<b>1,118,884</b>	<b>1,110,386</b>

## Significant terms and conditions

Working capital is a committed and unsecured facility which is repayable upon maturity.

Domestic medium term notes are unsecured and are repayable on maturity in September 2007, November 2008, September 2010 and November 2011.

The terms and conditions of the amount due to SP AusNet Finance Trust are disclosed in note 32(g).

Commercial paper is measured including transactional costs, fees paid at inception and all other premiums or discounts as per AASB 139 requirements.

The facility is unsecured and rollovers occur within a 90 day period.

The syndicated bank debt is a committed unsecured facility comprising a \$350 million tranche due to mature on 20 March 2011 and a \$250 million tranche due to mature on 20 March 2013 respectively. As at 31 March 2007 \$520 million was drawn (2006: \$205 million).

## 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 \$20 million of which \$5.5 million was lodged with third parties at 31 March 2007 (2006: \$5.6 million).

	Consolidated		Parent entity	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>Financing facilities (face value)</b>				
Unsecured bank overdraft facility, reviewed annually and payable at call:				
– Amount used	–	–	–	–
– Amount unused	1,000	500	–	–
	1,000	500	–	–
Unsecured working capital facility, reviewed annually:				
– Amount used	11,000	–	–	–
– Amount unused	19,000	–	–	–
	30,000	–	–	–
Unsecured bank loan facilities with various maturity dates and which may be extended by mutual agreement:				
– Amount used	520,000	205,000	–	–
– Amount unused	80,000	295,000	–	–
	600,000	500,000	–	–
Unsecured commercial paper standby facilities:				
– Amount used	–	–	–	–
– Amount unused	120,000	120,000	–	–
	120,000	120,000	–	–

## NOTE 20 CURRENT LIABILITIES – PROVISIONS

	Consolidated		Parent entity	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Employee benefits	10,053	9,638	–	–
Uninsured losses (i)	362	–	–	–
Land remediation (ii)	2,200	–	–	–
Sundry provision (iii)	–	790	–	–
<b>Total current provisions</b>	<b>12,615</b>	<b>10,428</b>	<b>–</b>	<b>–</b>

### (A) MOVEMENT IN PROVISIONS

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

	Uninsured losses (i) \$'000	Land remediation (ii) \$'000	Sundry provisions (iii) \$'000
Balance at 1 April 2006	–	–	790
Additional provisions recognised in the period	362	2,200	–
Unused amounts reversed during the period	–	–	(790)
Balance at 31 March 2007	362	2,200	–

(i) Provision for uninsured losses recognises an assessment of probable or actual claims made against the SP AusNet Transmission Group for litigation claims, 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 SP AusNet Transmission Group's insurance policies. Expected timing of cash flows in respect of such claims is uncertain as each claim may be subject to insurance and/or legal proceedings.

(ii) Provision for land remediation represents an estimate of the costs of rehabilitating sites, including the estimated costs of reclamation, plant dismantling and closures and waste site closures.

(iii) Sundry provisions represented the estimated cost of disposing of assets. The provision was reversed during the current financial year as it is no longer considered probable that an outflow of resources will be required.

## NOTE 21 NON-CURRENT LIABILITIES – OTHER FINANCIAL LIABILITIES

	Consolidated		Parent entity	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Deferred revenue	3,544	1,081	–	–
Other	–	409	–	–
<b>Total non-current other financial liabilities</b>	<b>3,544</b>	<b>1,490</b>	<b>–</b>	<b>–</b>

## NOTE 22 NON-CURRENT LIABILITIES – DEFERRED TAX LIABILITIES

	Consolidated		Parent entity	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>The balance comprises temporary differences attributable to:</b>				
<i>Amounts recognised in the income statement</i>				
Accrued revenue	–	14	–	–
Derivatives	538	501	–	–
Section 163AA impost and intellectual property deductions	–	71,521	–	–
General interest charge	–	11,717	–	–
Defined benefit fund	(25)	(265)	–	–
Deferred charges (non-current)	502	684	–	–
Property, plant and equipment	315,128	266,694	–	–
	<b>316,143</b>	<b>350,866</b>	<b>–</b>	<b>–</b>
<i>Amounts recognised directly in equity</i>				
Defined benefit fund	3,826	2,656	–	–
Cash flow hedges	2,332	(373)	–	–
	<b>6,158</b>	<b>2,283</b>	<b>–</b>	<b>–</b>
	<b>322,301</b>	<b>353,149</b>	<b>–</b>	<b>–</b>
Set-off of deferred tax assets of parent entity pursuant to set-off provisions (note 17)	(51,168)	(4,480)	–	–
<b>Net deferred tax liabilities</b>	<b>271,133</b>	<b>348,669</b>	<b>–</b>	<b>–</b>
<b>Movements</b>				
Opening balance at 1 April	353,149	428,270	–	–
Change on adoption of AASB 132 and AASB 139	–	(82)	–	–
Liability acquired on business combination	–	801	–	–
Transfer of section 163AA impost from current to deferred liability	–	5,319	–	–
Credited to the income statement (note 7)	(87,960)	(81,365)	–	–
Net prior year under provision (note 7)	5,806	–	–	–
Credited to equity	3,872	671	–	–
Reallocation between deferred tax liability and asset (note 17)	47,434	(465)	–	–
	<b>322,301</b>	<b>353,149</b>	<b>–</b>	<b>–</b>
Set-off deferred tax assets of parent entity pursuant to set-off provisions (note 17)	(51,168)	(4,480)	–	–
<b>Closing balance at 31 March</b>	<b>271,133</b>	<b>348,669</b>	<b>–</b>	<b>–</b>

## SECTION 163AA IMPOST, INTELLECTUAL PROPERTY DEDUCTIONS AND GENERAL INTEREST CHARGES

The SP AusNet Transmission Group de-recognised \$81.4 million of deferred tax liabilities previously recognised in relation to section 163AA imposts, intellectual property and related general interest charges and \$1.83 million of general interest charges post-stapling. Based on further review and expert advice received, continued recognition of the deferred tax liabilities was no longer considered necessary.

The de-recognition of the deferred tax liabilities has been recorded as a benefit to income tax expense.

## NOTE 23 NON-CURRENT LIABILITIES – PROVISIONS

	Consolidated		Parent entity	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Employee benefits	391	376	–	–
<b>Total non-current provisions</b>	<b>391</b>	<b>376</b>	<b>–</b>	<b>–</b>

## NOTE 24 DEFINED BENEFIT OBLIGATION

The SP AusNet Transmission Group makes contributions to an Equisuper defined benefit superannuation plan that provides defined benefit amounts to employees or their dependants upon retirement, death, disablement and withdrawal. Benefits are mostly in the form of a lump sum based on the employee's final average salary although some defined benefit members are also eligible for pension benefits in some cases.

The defined benefit section of the Equisuper plan is closed to new members. All new members receive defined contribution, accumulation style benefits.

Mercer Investment Nominees Limited performed actuarial valuations of the funds as at 31 March 2007 and 31 March 2006.

The SP AusNet Transmission Group has recognised an asset in the balance sheet in respect of its defined benefit superannuation arrangements. As a surplus currently exists in the Plan, the SP AusNet Transmission Group is able to benefit from it in the form of a reduction in the required contribution rate, based on advice from the Plan's actuary.

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

	Consolidated	
	2007 %	2006 %
Key assumptions used (expressed as weighted averages):		
Discount rate (active members)	4.80	4.60
Discount rate (pensioners)	5.60	5.40
Expected rate of return on plan assets (active members)	7.00	7.00
Expected rate of return on plan assets (pensioners)	7.50	7.50
Expected salary increase rate	4.00	4.00
Expected pension increase rate	3.00	3.00

	Consolidated	
	2007 \$'000	2006 \$'000
<b>Amounts recognised in the income statements in respect of the defined benefit plan is as follows:</b>		
Current service cost	1,230	1,018
Interest cost	2,945	3,102
Expected return on plan assets	(4,933)	(4,749)
Effect of curtailments/settlements	–	130
<b>Total</b>	<b>(758)</b>	<b>(499)</b>
Actuarial gains recognised during the year in the statements of recognised income and expense	3,895	3,479
Cumulative actuarial gains and losses recognised in the statements of recognised income and expense	12,750	8,855

<b>Total amount included in the balance sheets arising from the SP AusNet Transmission Group's obligations in respect of its defined benefit plan are as follows:</b>		
Present value of funded defined benefit obligations	(67,838)	(65,063)
Fair value of plan assets	80,507	73,030
<b>Net asset arising from defined benefit obligation recognised on the balance sheets</b>	<b>12,669</b>	<b>7,967</b>

<b>Movements in the present value of the defined benefit obligation in the current period were as follows:</b>		
Opening defined benefit obligation	65,063	72,684
Current service cost	1,230	1,018
Interest cost	2,945	3,102
Contributions by plan participants	654	812
Actuarial losses	2,385	1,055
Curtailments	–	130
Settlements	–	(12,682)
Benefits, taxes and premiums paid	(4,439)	(1,056)
<b>Closing defined benefit obligation</b>	<b>67,838</b>	<b>65,063</b>

## NOTE 24 DEFINED BENEFIT OBLIGATION CONTINUED

	Consolidated	
	2007 \$'000	2006 \$'000
<b>Movements in the fair value of the plan assets in the current period were as follows:</b>		
Opening fair value of plan assets	73,030	76,509
Expected return on plan assets net of investment and administration expenses	4,933	4,749
Actuarial gains	6,280	4,534
Contributions from the employer	49	164
Contributions by plan participants	654	812
Settlements*	–	(12,682)
Benefits, taxes and premiums paid	(4,439)	(1,056)
<b>Closing fair value of plan assets</b>	<b>80,507</b>	<b>73,030</b>

\* 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 \$11,213,000 (2006: \$9,283,000).

The SP AusNet Transmission Group does not expect to make any contributions to the defined benefit plan during the next financial year. The Target Funding method is used to determine the contribution rates. Under the Target Funding method, the employer contribution rate is set at a level such that the plan's assets are expected to equal 105% of the plan's liabilities within five years. The plan's assets are currently 119% of the plan's liabilities.

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

	Fair value of plan assets	
	2007* %	2006 %
Australian equities	41	39
International equities	23	24
Fixed interest securities	16	20
Property	14	10
Cash	6	7
	<b>100</b>	<b>100</b>

\* Asset allocation as at 31 March 2007 is currently unavailable. Asset allocation as at 31 December 2006 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

	2007 \$'000	2006 \$'000	2005 \$'000
Defined benefit plan obligation	(67,838)	(65,063)	(72,684)
Plan assets	80,507	73,030	76,509
Surplus	12,669	7,967	3,825
Experience adjustments (gain)/loss arising on plan liabilities	3,392	12	1,596
Experience adjustments (gain)/loss arising on plan assets	(6,280)	(4,534)	(5,776)

Comparative information has been provided for only two years in accordance with the transition rules in AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*.

## NOTE 25 CONTRIBUTED EQUITY

		Parent entity	
	Notes	2007 Shares	2006 Shares
<b>Share capital</b>			
Ordinary shares – fully paid	(a), (b)	<b>2,092,680,010</b>	2,092,680,010

In accordance with the requirements of reverse acquisition accounting under AASB 3 *Business Combinations* the number of shares disclosed is that of the legal parent, SP AusNet Transmission. The carrying value of these shares is \$100 which is rounded to \$nil in the balance sheet.

**(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.

**(B) MOVEMENTS IN ORDINARY SHARE CAPITAL**

Date	Details	Notes	Number of shares	Issue price	\$'000
1 April 2005	Opening balance		100	–	649,787
19 October 2005	Shares arising on share split		2,092,679,910	–	–
31 March 2006	Closing balance		2,092,680,010	–	649,787
1 April 2006	Opening balance		2,092,680,010	–	649,787
31 July 2006	Employee share gift	(i)	–	–	264
31 March 2007	Closing balance		2,092,680,010	–	650,051

(i) A one-off gift of \$1,000 worth of securities was offered by SPI Management Services, a related party not part of the Stapled Group, to all SP AusNet employees. This gift totalling \$0.811 million was funded by SPI Management Services without charge to the Stapled Group. The value of the gift to employees of the SP AusNet Transmission Group was \$0.264 million.

The securities were purchased on the stockmarket. The SP AusNet Transmission Group has accounted for this gift in accordance with Accounting Standard AASB 2 Share-based Payment. The fair value of the gift has been recognised as an expense during the current period. As the gift was at no charge to the SP AusNet Transmission Group the fair value of the gift was accounted for as an additional contribution of capital.

The share-based payment is a non-cash transaction as it was paid for by a related party not part of the SP AusNet Transmission Group.

**(C) CHANGES IN EQUITY DURING THE YEAR**

		Consolidated		Parent entity	
	Notes	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>Capital and reserves attributable to shareholders as:</b>					
Contributed equity		<b>650,051</b>	649,787	–	–
Reserves	26(a)	<b>13,967</b>	5,330	–	–
Retained profits	26(b)	<b>443,750</b>	333,275	<b>(5,420)</b>	(7,130)
<b>Parent interest</b>		<b>1,107,768</b>	998,392	<b>(5,420)</b>	(7,130)
Other equity component arising from reverse acquisition*		<b>(1,095,067)</b>	(1,095,067)	–	–
<b>Total equity</b>		<b>12,701</b>	(106,675)	<b>(5,420)</b>	(7,130)
Total equity at the beginning of the financial year		<b>(106,675)</b>	1,078,210	<b>(7,130)</b>	–
Contributions of equity, net of transactions costs		–	–	–	–
Share-based payment		<b>264</b>	–	–	–
Dividends paid		<b>(13,749)</b>	–	<b>(13,749)</b>	–
Other equity component		–	(1,095,067)	–	–
Total recognised income and expense for the year		<b>132,861</b>	(89,818)	<b>15,459</b>	(7,130)
<b>Total equity at the end of the financial year</b>		<b>12,701</b>	(106,675)	<b>(5,420)</b>	(7,130)

\* 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 Australia Finance and the purchase price paid by the legal acquirer, SP AusNet Transmission.

## NOTE 26 RESERVES AND RETAINED PROFITS

	Consolidated		Parent entity	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>(A) RESERVES</b>				
Hedge reserve – cash flow hedges (i)	5,042	(868)	–	–
Defined benefit reserve (ii)	8,925	6,198	–	–
<b>Total reserves</b>	<b>13,967</b>	<b>5,330</b>	<b>–</b>	<b>–</b>
<b>Movements in reserves were as follows:</b>				
<i>Hedge reserve – cash flow hedges</i>				
Balance at beginning of financial year:	(868)	–	–	–
Adjustment on adoption of AASB 132 and AASB 139, net of tax	–	(190)	–	–
	(868)	(190)	–	–
Revaluation – gross	8,976	(1,051)	–	–
Transfer to net profit – gross	(533)	–	–	–
Deferred tax (note 7)	(2,533)	373	–	–
Net movement during the financial year	5,910	(678)	–	–
Balance at end of financial year	5,042	(868)	–	–
<i>Defined benefit reserve</i>				
Balance at beginning of financial year:	6,198	3,763	–	–
Actuarial gains	3,895	3,479	–	–
Deferred tax (note 7)	(1,168)	(1,044)	–	–
Net movement during the financial year	2,727	2,435	–	–
Balance at end of financial year	8,925	6,198	–	–

*(i) Hedging reserve*

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to highly probable forecast transactions.

*(ii) Defined benefit reserve*

The defined benefit reserve is used to record actuarial gains and losses on the defined benefit obligation and the pension plan assets that are recognised directly in equity, as described in note 1(u).

**(B) RETAINED PROFITS**

	Consolidated		Parent entity	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>Movements in retained profits were as follows:</b>				
Balance at beginning of financial year	333,275	424,660	(7,130)	–
Net profit/(loss) for the year	124,224	(91,385)	15,459	(7,130)
Dividends paid	(13,749)	–	(13,749)	–
Balance at end of financial year	443,750	333,275	(5,420)	(7,130)

## NOTE 27 FINANCIAL INSTRUMENTS

### (A) FINANCIAL RISK MANAGEMENT OBJECTIVES

Details of the SP AusNet Transmission Group's financial risk management objectives and policies are disclosed in note 2 to the financial statements.

### (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

It is the policy of the SP AusNet Transmission Group to enter into forward foreign exchange contracts to cover 100% of material exposure generated by specific foreign currency payments and receipts. The SP AusNet Transmission Group has entered into contracts to hedge the exchange rate risk in relation to specific purchase orders.

The settlement dates, amounts to be received/paid and contractual exchange rates of the SP AusNet Transmission Group's outstanding hedging contracts are detailed in the following table:

Outstanding contracts	Weighted average exchange rate \$	Foreign currency contract value FC'000	Fair value (including AUD notional contract value) S'000	Less than 1 year S'000	1–5 years S'000	More than 5 years S'000
<b>2007</b>						
<i>Forward foreign currency contracts</i>						
Buy EUR (European Euro)	0.591	789	1,354	1,354	–	–
Buy SEK (Swedish Krone)	5.400	1,042	196	196	–	–
Buy SGD (Singapore Dollar)	–	–	–	–	–	–
Buy USD (United States Dollar)	0.769	690	936	936	–	–
Buy GBP (British Pound)	–	–	–	–	–	–
Buy JPY (Japanese Yen)	80.230	560,116	7,860	7,860	–	–
Buy CHF (Swiss Franc)	0.968	282	292	292	–	–
<b>2006</b>						
<i>Forward foreign currency contracts</i>						
Buy EUR (European Euro)	0.606	2,886	4,938	4,938	–	–
Buy SEK (Swedish Krone)	5.650	2,584	470	470	–	–
Buy SGD (Singapore Dollar)	1.160	418	339	339	–	–
Buy USD (United States Dollar)	0.732	4,604	6,549	6,549	–	–
Buy GBP (British Pound)	0.410	36	89	89	–	–
Buy JPY (Japanese Yen)	80.600	643,143	8,292	800	7,492	–

The following table summarises the designations of the hedging instruments used to manage foreign currency borrowing risk:

	Cash flow hedges S'000	Fair values hedges S'000	Derivatives not in a hedge relationship S'000	Total S'000
<b>2007</b>				
Forward foreign currency contracts	(942)	–	–	(942)
<b>2006</b>				
Forward foreign currency contracts	810	–	–	810

### (D) INTEREST RATE RISK MANAGEMENT

#### Interest rate swap contracts

The following table summarises the designations of interest rate swaps used to manage interest rate exposure:

	Cash flow hedges S'000	Fair values hedges S'000	Derivatives not in a hedge relationship S'000	Total S'000
<b>2007</b>				
Interest rate swaps	9,457	(2,690)	290	7,057
<b>2006</b>				
Interest rate swaps	(740)	1,432	485	1,177

At 31 March 2007, unrealised gains/(losses) after tax of \$6.62 million (2006: \$0.52 million loss) have been deferred in the hedging reserve and will be released when the anticipated transaction occurs.

## NOTE 27 FINANCIAL INSTRUMENTS CONTINUED

## Maturity profile of financial assets and liabilities

The following table summarises the interest rate sensitivity (repricing profile) of the SP AusNet Transmission Group's financial assets and financial liabilities based on the earlier of contractual maturity or repricing:

Fixed interest rate maturities										
	Weighted average effective interest rate %	Variable interest rate \$'000	Less than 1 year \$'000	1–2 years \$'000	2–3 years \$'000	3–4 years \$'000	4–5 years \$'000	More than 5 years \$'000	Non- interest bearing \$'000	Total \$'000
<b>2007</b>										
<b>Financial assets:</b>										
Cash and cash equivalents	5.75	2,679	–	–	–	–	–	–	–	2,679
Trade and other receivables	–	–	–	–	–	–	–	–	41,662	41,662
<b>Financial liabilities:</b>										
Trade and other payables	–	–	–	–	–	–	–	–	59,840	59,840
Medium term notes (ii)	6.67	587,500	–	140,000	–	–	150,000	–	–	877,500
Commercial paper (ii)	6.43	190,000	–	–	–	–	–	–	–	190,000
Syndicated bank debt (ii)	6.84	520,000	–	–	–	–	–	–	–	520,000
Working capital facility	6.40	11,000	–	–	–	–	–	–	–	11,000
Interest rate swaps – fixed for floating (i)	5.65	(1,327,500)	1,327,500	–	–	–	–	–	–	–
Interest rate swaps – floating for fixed (i)	6.97	150,000	(150,000)	–	–	–	–	–	–	–

(i) Notional principal amounts

(ii) Face value of debt

(iii) The outstanding floating for fixed contracts do not include those that are forward starting whose notional amounts total \$290 million. At 31 March 2007 the change in the fair value of these swaps has been recognised in the income statement.

Fixed interest rate maturities										
	Weighted average effective interest rate %	Variable interest rate \$'000	Less than 1 year \$'000	1–2 years \$'000	2–3 years \$'000	3–4 years \$'000	4–5 years \$'000	More than 5 years \$'000	Non- interest bearing \$'000	Total \$'000
<b>2006</b>										
<b>Financial assets:</b>										
Cash and cash equivalents	4.53	2,634	–	–	–	–	–	–	–	2,634
Trade and other receivables	–	–	–	–	–	–	–	–	42,600	42,600
<b>Financial liabilities:</b>										
Trade and other payables	–	–	–	–	–	–	–	–	69,513	69,513
Medium term notes (ii)	6.17	727,500	110,000	–	140,000	–	–	150,000	–	1,127,500
Commercial paper (ii)	5.66	175,000	–	–	–	–	–	–	–	175,000
Syndicated bank debt (ii)	6.03	205,000	–	–	–	–	–	–	–	205,000
Working capital facility	–	–	–	–	–	–	–	–	–	–
Interest rate swaps – fixed for floating (i)	5.63	(1,217,500)	–	1,217,500	–	–	–	–	–	–
Interest rate swaps – floating for fixed (i)	6.97	150,000	–	(150,000)	–	–	–	–	–	–

(i) Notional principal amounts

(ii) Face value of debt

(iii) The outstanding floating for fixed contracts do not include those that are forward starting whose notional amounts total \$290 million. At 31 March 2006 the change in the fair value of these swaps has been recognised in the income statement.

(iv) The outstanding fixed for floating contracts do not include those that are forward starting whose notional amounts total \$110 million. At 31 March 2006 the change in the fair value of these swaps has been recognised in the income statement.

**(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 approximate their fair values.

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 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. When 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 table details the fair value of financial assets and financial liabilities:

	Carrying amount		Fair value	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>Financial assets</b>				
Interest rate swap contracts	11,092	3,649	11,092	3,649
Forward foreign exchange contracts	1	876	1	876
<b>Financial liabilities</b>				
Borrowings	2,657,958	2,615,893	2,671,351	2,632,505
Interest rate swap contracts	4,035	2,472	4,035	2,472
Forward foreign exchange contracts	943	66	943	66

For all other classes of financial assets and financial liabilities, fair value approximates carrying amount.

**NOTE 28 KEY MANAGEMENT PERSONNEL DISCLOSURES**

SP AusNet has applied the exemption under the Corporations Amendments Regulation 2M.6.04 issued on 6 June 2006, which exempts disclosing entities from providing remuneration disclosures in relation to their key management personnel in their annual financial report as required by paragraphs Aus25.4 to Aus 25.7.2 of AASB 124 *Related Party Disclosures*. These remuneration disclosures are provided in the *Remuneration report* in the *Directors' report* and have been audited.

**KEY MANAGEMENT PERSONNEL**

SPI Management Services, a wholly-owned subsidiary of related party Singapore Power International Pte Ltd, entered into a Management Services Agreement ("MSA") with SP AusNet Distribution and SP AusNet Transmission on 10 October 2005. In addition, SPI Management Services also entered into a Management Services Agreement ("RE MSA") with the Responsible Entity on 4 November 2005. Both agreements commenced on 1 October 2005.

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

**DIRECTORS**

Name	Position
<b>Ng Kee Choe</b>	Non-executive Chairman
<b>Nino Ficca</b>	Managing Director
<b>Jeremy Davis</b>	Non-executive Director
<b>Eric Gwee</b>	Non-executive Director
<b>Tony Iannello</b>	Non-executive Director (appointed 6 June 2006)
<b>George Lefroy</b>	Non-executive Director
<b>Martyn Myer</b>	Non-executive Director
<b>Quek Poh Huat</b>	Non-executive Director
<b>Ian Renard</b>	Non-executive Director

## NOTE 28 KEY MANAGEMENT PERSONNEL DISCLOSURES CONTINUED

## EXECUTIVES

Name	Position	Employer
Nino <b>Ficca</b>	Managing Director	SPI Management Services
Paul <b>Adams</b>	General Manager, Network Services	SPI Management Services
Peter <b>Buck</b> <sup>1</sup>	General Manager, Distribution Network Development	SPI Management Services
Norman <b>Drew</b>	General Manager, Network Development	SPI Management Services
Terrence <b>Fowler</b> <sup>2</sup>	General Manager, Finance	SPI Management Services
Adrian <b>Hill</b> <sup>3</sup>	General Manager, Corporate Development and Investor Relations	SPI Management Services
Geoff <b>Nicholson</b> <sup>4</sup>	Chief Financial Officer	SPI Management Services
Charles <b>Popple</b>	General Manager, Regulatory and Business Strategy	SPI Management Services

<sup>1</sup> Mr Buck ceased as a member of the key management personnel on 24 July 2006.

<sup>2</sup> Mr Fowler ceased as a member of the key management personnel on 22 December 2006.

<sup>3</sup> Mr Hill commenced as a member of the key management personnel on 1 August 2006.

<sup>4</sup> Mr Nicholson commenced as a member of the key management personnel on 2 January 2007.

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

	2007 \$	2006 \$
<b>Remuneration by category</b>		
Short-term employee benefits	3,306,498	2,694,608
Post-employment benefits	228,314	189,608
Other long-term benefits	—	—
Termination benefits	609,929	—
Share-based payments	6,000	—
	4,150,741	2,884,216

The parent entity does not have any employees.

## OTHER TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

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

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

## SHAREHOLDINGS OF KEY MANAGEMENT PERSONNEL

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

Balance at beginning of year (1 April 2005)	Net change other	Balance at end of year (31 March 2006)	Key management personnel	Balance at beginning of year (1 April 2006)	Granted during the year as compensation	Net change other	Balance at end of year (31 March 2007)
<b>Directors</b>							
–	150,000	150,000	<b>Ng Kee Choe</b>	150,000	–	–	150,000
–	100,000	100,000	Nino <b>Ficca</b>	100,000	–	25,000	125,000
–	50,000	50,000	Jeremy <b>Davis</b>	50,000	–	–	50,000
–	100,000	100,000	Eric <b>Gwee</b>	100,000	–	–	100,000
–	–	–	Tony <b>Iannello</b>	–	–	30,000	30,000
–	100,000	100,000	George <b>Lefroy</b>	100,000	–	–	100,000
–	650,000	650,000	Martyn <b>Myer</b>	650,000	–	–	650,000
–	206,000	206,000	<b>Quek</b> Poh Huat	206,000	–	–	206,000
–	30,000	30,000	Ian <b>Renard</b>	30,000	–	–	30,000
<b>Executives</b>							
–	100,000	100,000	Nino Ficca	100,000	–	25,000	125,000
–	20,000	20,000	Paul Adams	20,000	782	–	20,782
–	5,000	5,000	Peter Buck	5,000	782	–	5,782
–	20,000	20,000	Norman Drew	20,000	782	–	20,782
–	50,000	50,000	Terrence Fowler	50,000	782	–	50,782
–	30,000	30,000	Adrian Hill	30,000	782	–	30,782
–	–	–	Geoff Nicholson	–	–	–	–
–	7,000	7,000	Charles Popple	7,000	782	–	7,782

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

## NOTE 29 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	
	2007 \$	2006 \$	2007 \$	2006 \$
<b>(A) ASSURANCE SERVICES</b>				
<i>Audit services</i>				
Audit and review of financial reports and other audit work under the <i>Corporations Act 2001</i>	564,922	150,000	—	—
Additional audit fees for the year ended 31 March 2006	63,350	—	—	—
Total remuneration for audit services	628,272	150,000	—	—
<i>Other assurance services</i>				
Audit of regulatory returns	57,700	64,000	—	—
Other assurance services	10,000	—	—	—
Total remuneration for other assurance services	67,700	64,000	—	—
Total remuneration for assurance services	695,972	214,000	—	—
The auditor of the SP AusNet Transmission Group is KPMG. Audit fees for the parent entity are paid by another entity in the SP AusNet Transmission Group.				
It is the SP AusNet Transmission Group's policy to employ KPMG to perform the audit of regulatory returns as these returns represent an extension of statutory audit services and need to be performed by the same audit firm to gain efficiencies and effectiveness in performing these audits.				
<b>(B) TAXATION SERVICES</b>				
Tax compliance services, including review of company income tax returns	65,220	—	—	—
Total remuneration for taxation services	65,220	—	—	—
<b>(C) ADVISORY SERVICES</b>				
Recruitment and related advice	33,162	—	—	—
Other	5,250	—	—	—
Total remuneration for advisory services	38,412	—	—	—
Total fees	799,604	214,000	—	—

## NOTE 30 CONTINGENT LIABILITIES

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

### MANAGEMENT SERVICES AGREEMENTS (“MSAs”)

SPI Management Services, a wholly-owned subsidiary of Singapore Power International Pte Ltd, provides management services to SP AusNet Transmission under two MSAs as detailed in note 28.

The terms of the MSAs are for an initial period of 10 years but continue for two further 10-year periods unless terminated by either party giving no less than one year's notice prior to the expiry of the applicable 10-year period. In the event that the MSA is terminated by SP AusNet by the giving of such notice, SPI Management Services will be entitled to a termination fee equal to the previous financial year's services charge paid or payable to SPI Management Services.

In addition, details of contingent liabilities of the SP AusNet Transmission Group for which no provisions are included in the financial statements are as follows:

#### (A) 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 has the power to order the consolidated entity to incur such costs to remedy the containment.

Hazardous materials are used in certain operational areas of the SP AusNet Transmission Group. 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 the SP AusNet Transmission Group, other than as provided for in these financial statements and as noted above.

#### (B) OTHER

The SP AusNet Transmission Group is involved in various other legal and administrative proceedings, the ultimate resolution of which, in the opinion of the SP AusNet Transmission Group, should not have a material effect on SP AusNet Transmission'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.

#### (C) BANK GUARANTEES

Certain entities are required to provide bank guarantees in the form of tender bid bonds or performance bonds for contractual obligations.

The SP AusNet Transmission Group has guarantee facilities with a number of financial institutions totalling \$20.0 million of which \$5.5 million was lodged with third party as 31 March 2007 (2006: \$5.6 million).

Other than listed above, the Directors are not aware of any contingent liabilities as at 31 March 2007.

## NOTE 31 COMMITMENTS

	Consolidated		Parent entity	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000

**(A) CAPITAL COMMITMENTS**

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

*Property, plant and equipment*

<b>Payable:</b>				
Within one year	69,629	95,030	—	—
Later than one year, but no later than five years	—	7,855	—	—
	69,629	102,885	—	—

**(B) OTHER EXPENDITURE COMMITMENTS**

<b>Payable:</b>				
Within one year	12,566	—	—	—
	12,566	—	—	—

**(C) LEASE COMMITMENTS**

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

<b>Payable:</b>				
Within one year	4,623	3,699	—	—
Later than one year, but no later than five years	16,369	15,872	—	—
Later than five years	9,508	14,045	—	—
	30,500	33,616	—	—
<b>Representing:</b>				
Non-cancellable operating leases	30,500	33,616	—	—

**Operating leases**

The SP AusNet Transmission Group leases relate to premises, 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.

## NOTE 32 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 SP AusNet Distribution 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 Distribution as part of its ownership of 51% of the securities issued in SP AusNet.

The ultimate parent is Temasek Holdings (Private) Limited (a company incorporated in Singapore)<sup>1</sup>.

### (B) RELATED ENTITIES

#### (i) Management Services Agreements (“MSAs”)

SPI Management Services, a wholly-owned subsidiary of related party Singapore Power International Pte Ltd, has entered into two MSAs with SP AusNet as detailed in note 28.

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

The MSA commenced on 1 October 2005 for an initial period of 10 years but continues for two further 10 year periods unless terminated by either party giving no less than one year's notice prior to the expiry of the applicable 10-year period. In the event that the MSA is terminated by SP AusNet by the giving of such notice, SPI Management Services will be entitled to a termination fee equal to the previous financial year's services charge paid or payable to SPI Management Services.

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

Pursuant to the MSA, SP AusNet has agreed to pay SPI Management Services a management fee comprising a management services charge and a performance fee for each financial year during the term of the MSA. The management services charge is to compensate SPI Management Services for expenses relating to all remuneration and other employment entitlements and benefits of the employees of SPI Management Services who provide services to SP AusNet. The performance fee is to incentivise SPI Management Services to meet or better the non-financial and financial performance of SP AusNet and to align the interests of SPI Management Services with those of SP AusNet. The maximum performance fee payable by SP AusNet in respect of a financial year is capped at 0.75% of the market capitalisation amount of SP AusNet's securities.

The MSA contains mutual indemnities for all damages, costs, claims, suits, liabilities, expenses, actions or injuries suffered or incurred as a consequence of any claims against a party to the extent to which any such claim is caused by the negligence, fraud or dishonesty of the other party (or its officers or employees) or a breach of the MSA. The total liability of either party is limited to \$5,000,000 in any financial year.

#### (ii) Logo

Singapore Power Ltd has granted SP AusNet a licence for consideration of \$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 34.

### (D) KEY MANAGEMENT PERSONNEL

Disclosures relating to Directors and executives are set out in note 28.

### (E) TRANSACTIONS WITH RELATED PARTIES

For the purpose of the financial statements, parties are considered to be related to the SP AusNet Transmission Group if the SP AusNet Transmission Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operational decisions, or vice versa. The related party disclosures are for transactions with entities within the Singapore Power Group.

The ultimate parent of the SP AusNet Transmission Group is Temasek Holdings (Private) Limited (“Temasek”). Temasek is the holding company for various commercial interests of the government of Singapore. The Company engages in a wide variety of transactions with entities in the Temasek Group in the normal course of business on terms similar to those available to other customers. Such transactions include but are not limited to telecommunication services and leasing of properties. These related party transactions are carried out on terms negotiated between parties which are intended to reflect competitive terms.

<sup>1</sup> 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.

## NOTE 32 RELATED PARTY TRANSACTIONS CONTINUED

The following transactions occurred with related parties within the Singapore Power Group.

	Consolidated		Parent entity	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>Sales of goods and services</b>				
Regulated revenue	8,986	9,511	–	–
Rental income	–	798	–	–
Other revenue	1,513	4,388	–	–
<b>Purchases of goods and services</b>				
Purchase of assets	–	13,635	–	–
Rental and maintenance expenses	–	90	–	–
Management services charge	7,544	3,167	–	–
Performance fee	4,514	1,330	–	–
Flame logo fee	400	200	400	200
Other costs	383	553	–	–
<b>Loans from related parties</b>				
Loans received from:				
Commonly controlled entities	–	1,109,986	–	1,109,986
Subsidiaries	–	–	51,540	–
Loans repaid to:				
Commonly controlled entities	51,230	–	51,230	–
<b>Interest expense</b>				
Commonly controlled entities	34,327	12,731	34,327	9,986
Subsidiaries	–	–	1,834	–
<b>Dividend income</b>				
Subsidiaries	–	–	41,052	–
<b>Dividends paid</b>				
Fully franked dividend	7,012	–	–	–

## (F) OUTSTANDING BALANCES

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

	Consolidated		Parent entity	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>Current receivables (sales of goods and services)</b>				
Commonly controlled entities	9,858	7,859	–	–
Subsidiaries	–	–	34,863	14,556
<b>Other current assets (prepayments)</b>				
Parent entity	–	–	200	200
<b>Non-current receivables (sales of goods and services)</b>				
Subsidiaries	–	–	40	–
<b>Current payables (purchase of goods)</b>				
Commonly controlled entities	1,375	2,399	–	400
<b>Current payables (loans)</b>				
Commonly controlled entities	1,066,176	1,109,986	1,066,176	1,109,986
<b>Non-current payables (loans)</b>				
Subsidiaries	–	–	52,708	–

**(G) TERMS AND CONDITIONS**

SP AusNet Finance Trust has two loan agreements in place with SP AusNet Transmission at 31 March 2007. The amount loaned to SP AusNet Transmission is \$1,066.2 million.

Of the \$1,066.2 million loaned to SP AusNet Transmission, \$630.6 million had an interest rate of 0.0% per annum and \$435.6 million had an interest rate of 7.5% per annum for the period 1 April 2006 to 29 September 2006 and 8.1% for the period 30 September 2006 to 31 March 2007.

The loan agreements are for a term of 10 years. The loan agreements mature in October 2015. 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 at six monthly intervals;
- 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); and
- 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 33 BUSINESS COMBINATIONS**

Details of the fair value of the assets and liabilities acquired are as follows:

**(A) SUMMARY OF ACQUISITION**

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 of \$271.2 million to SP AusNet Transmission. Further, SPI Australia Holdings Pty Ltd paid a dividend of \$828.8 million to SP AusNet Transmission. Also on 20 October 2005, SP AusNet Transmission acquired SPI PowerNet Pty Ltd for \$1,095.7 million and SPI Australia Finance Pty Ltd for \$1.9 million. For accounting purposes SPI PowerNet Pty Ltd was identified as the acquirer in a reverse acquisition.

On 21 October 2005, SP AusNet Transmission sold SPI Australia Holdings Pty Ltd for \$1.00, 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 Australia Finance	SP AusNet Transmission carrying amount \$'000	Provisional 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
Trade payables	(591)	(591)
Deferred tax liability	(801)	(801)
Borrowings	(1,520,533)	(1,520,533)
Loan related party	(1,100,000)	(1,100,000)
Other liabilities	(19,903)	(19,903)
Net liabilities	–	–
Net identifiable assets acquired	–	–

**NOTE 34 SUBSIDIARIES**

The SP AusNet Transmission Group's financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policies described in note 1(b):

	Country of incorporation	Class of shares	Equity holding	
			2007 %	2006 %
<b>SP Australia Networks (Transmission) Ltd*</b>	<b>Australia</b>	<b>Ordinary</b>		
Subsidiaries:				
SPI PowerNet Pty Ltd	Australia	Ordinary	100	100
SPI Australia Finance Pty Ltd	Australia	Ordinary	100	100

\* SP AusNet Transmission is the legal parent entity of the SP AusNet Transmission Group however, SPI PowerNet is the accounting parent entity of the SP AusNet Transmission Group (refer note 1(b)(i)).

**NOTE 35 EVENTS OCCURRING AFTER THE BALANCE SHEET DATE**

Since the end of the financial year the Directors have approved the payment of a final dividend for 2007 of \$10,609,888 (0.507 cents per share) to be paid on 28 June 2007 comprised as follows:

**(A) DIVIDEND**

	Cents per share	Total distribution \$
Fully franked dividend	0.507	10,609,888
	<b>0.507</b>	<b>10,609,888</b>

**(B) LIKELY DEVELOPMENTS**

On 11 May 2007, Singapore Power International Pte Ltd ("Singapore Power") advised that it had, in conjunction with Babcock and Brown International Pty Ltd, signed a revised Scheme Implementation Agreement ("Scheme") to acquire Alinta Ltd. Singapore Power has stated that it currently intends to invest through SP AusNet in electricity and gas transmission and distribution businesses in Australia and New Zealand and will offer SP AusNet the chance to consider this opportunity. SP AusNet has established an independent process for the assessment of this investment opportunity. Until the Scheme is voted on by Alinta shareholders and the assessment process is finalised, the outcome for SP AusNet is uncertain.

**(C) OTHER MATTERS**

Other than outlined above, there has been no matter or circumstance that has arisen since 31 March 2007 up to the date of issue of this financial report that has significantly affected or may significantly affect:

- (a) the operations in financial years subsequent to 31 March 2007 of the Company, or
- (b) the results of those operations, or
- (c) the state of affairs, in financial years subsequent to 31 March 2007, of the Company.

**NOTE 36 RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH FLOWS FROM OPERATING ACTIVITIES**

	Consolidated		Parent entity	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Profit/(loss) from ordinary activities after related income tax	124,224	(91,385)	15,459	(7,130)
Depreciation and amortisation of non-current assets	71,205	62,539	—	—
Net loss on sale of non-current assets	432	241	—	—
Share-based payment	264	—	—	—
Changes in operating assets and liabilities, net of effects from acquisition of businesses:				
(Increase)/decrease in receivables	938	(5,181)	449	(3,061)
(Increase)/decrease in inventories	128	(1,653)	—	—
(Increase)/decrease in derivative financial assets	4,157	(22,991)	—	—
(Increase)/decrease in other assets	(1,179)	(6,632)	—	10,186
Increase/(decrease) in payables and other liabilities	(5,085)	8,887	7,060	—
Increase/(decrease) in derivative financial liabilities	(1,627)	21,542	—	—
Increase/(decrease) in other liabilities	17	769	1,439	—
Increase/(decrease) in provisions	2,201	(929)	—	—
Movement in tax balances	(71,451)	176,880	(10,968)	(3,056)
Net cash inflow/(outflow) from operating activities	124,224	142,087	13,439	(3,061)

In the Directors' opinion:

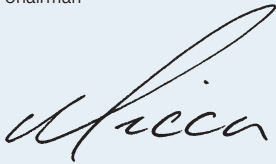
- (a) the financial statements and notes set out on pages 113 to 148 and the remuneration disclosures that are contained in the *Remuneration report* in the *Directors' report*, are in accordance with the *Corporations Act 2001*, including:
  - (i) complying with *Accounting Standards*, the *Corporations Regulations 2001* and the other mandatory professional reporting requirements; and
  - (ii) giving a true and fair view of the company's and consolidated entity's financial position as at 31 March 2007 and 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.



**Ng Kee Choe**  
Chairman



**Nino Ficca**  
Managing Director

Melbourne  
23 May 2007

## SCOPE

We have audited the financial report of SP Australia Networks (Transmission) Ltd ("the Company") for the financial year ended 31 March 2007, consisting of the income statements, statements of recognised income and expense, balance sheets, statements of cash flows, accompanying notes 1 to 36, and the directors' declaration set out on pages 113 to 149. The financial report includes the consolidated financial statements of the group, comprising the Company and the subsidiaries it controlled at the end of the year or from time to time during the financial year.

As permitted by the *Corporations Regulations 2001*, the Company has disclosed information about the remuneration of directors and executives (remuneration disclosures), required by Australian Accounting Standard AASB 124 *Related Party Disclosures*, under the heading "remuneration report" of the directors' report and not in the financial report. We have audited these remuneration disclosures.

The Company's directors are responsible for the financial report and the remuneration disclosures. We have conducted an independent audit of this financial report and the remuneration disclosures 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 and that the remuneration disclosures comply with AASB 124. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report and the remuneration disclosures, 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 Accounting 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 group's financial position, and performance as represented by the results of their operations, changes in equity and their cash flows and whether the remuneration disclosures comply with Australian Accounting Standard AASB 124.

The audit opinion expressed in this report has been formed on the above basis.

## AUDIT OPINION

- 1 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 2007 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.
- 2 The remuneration disclosures that are contained in the directors' report comply with Australian Accounting Standard AASB 124 *Related Party Disclosures*.



KPMG



**Alison Kitchen**  
Partner

Place: Melbourne

Date: 23 May 2007

# SP AUSTRALIA NETWORKS (FINANCE) TRUST ARSN 116 783 914 GENERAL PURPOSE FINANCIAL REPORT FOR THE FINANCIAL YEAR ENDED 31 MARCH 2007

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The financial report is presented in the Australian currency.

SP Australia Networks (Finance) Trust is a trust established under the laws of the State of Victoria and is domiciled in Victoria, Australia. Its registered office and principal place of business is:

Level 31, 2 Southbank Boulevard  
Southbank, Victoria 3006  
Australia

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

The financial report was authorised for issue by the Directors on 23 May 2007.

The Directors of the trustee of SP Australia Networks (Finance) Trust ("SP AusNet Finance Trust"), SP Australia Networks (RE) Limited (ACN 109 977 371) ("the Responsible Entity"), present their report on the general purpose financial report of SP AusNet Finance Trust for the financial year ended 31 March 2007.

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

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

## DISTRIBUTIONS

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

	Final 2006 distribution paid 26 June 2006		Interim 2007 distribution paid 14 December 2006	
	Cents per unit	Total distribution \$'000	Cents per unit	Total distribution \$'000
Assessable interest income	0.890	18,625	1.509	31,579
Capital distribution	2.210	46,248	3.619	75,734
	3.100	64,873	5.128	107,313

Since the end of the financial year the Directors of the Responsible Entity have approved a final distribution for 2007 of \$107,312,631 (5.128 cents per unit) to be paid on 28 June 2007 comprised as follows:

	Final 2007 distribution to be paid on 28 June 2007	
	Cents per security	Total distribution \$'000
Assessable interest income	1.584	33,148
Capital distribution	3.544	74,165
	5.128	107,313

## REVIEW OF OPERATIONS

A summary of revenue and results is set out below:

	2007 \$'000	2006 \$'000
Interest income	64,744	18,641
Net profit attributable to ordinary unitholders of SP AusNet Finance Trust	64,744	18,641

## DIRECTORS

SP AusNet Finance Trust is registered, as a managed investment scheme, under Chapter 5C of the *Corporations Act 2001* and, as a result, requires a responsible entity. The Responsible Entity is responsible for performing all functions that are required under the *Corporations Act 2001* of a responsible entity.

With the exception of Tony Iannello, the persons listed below were Directors of the Responsible Entity during the whole of the financial year and up to the date of this report. Mr Iannello was appointed a Non-executive Director of the Responsible Entity on 6 June 2006 and continues in office at the date of this report.

## NON-EXECUTIVE DIRECTORS

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

## EXECUTIVE DIRECTORS

**Nino Ficca** (Managing Director)

## PRINCIPAL ACTIVITIES

The principal activity of SP AusNet Finance Trust is to provide financing to both SP AusNet Distribution and SP AusNet Transmission as well as to facilitate distributions to unitholders in the nature of interest income and returns of capital as applicable for Australian taxation purposes.

## DISCUSSION AND ANALYSIS FOR THE YEAR ENDED 31 MARCH 2007

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

The SP AusNet Finance Trust reported a net profit of \$64.7 million for the year ended 31 March 2007, which comprised interest earned from other entities in the Stapled Group. SP AusNet Finance Trust does not have any trading operations and does not incur any expenses. Its purpose is to provide financing to both SP AusNet Distribution and SP AusNet Transmission as well as to facilitate distributions to unitholders.

### BALANCE SHEETS

SP AusNet Finance Trust's total assets as at 31 March 2007 were \$2,003.9 million comprised of amounts due from other entities in the Stapled Group.

SP AusNet Finance Trust had no liabilities as at 31 March 2007.

Unitholders' funds were \$2,003.9 million as at 31 March 2007.

### CASH FLOW STATEMENTS

Cash flows during the year relate to the receipt of interest income and loan repayments from related parties offset by capital and income distributions. SP AusNet Finance Trust had no cash at bank.

## SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

## MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

### DISTRIBUTIONS

Since the end of the financial year, the Directors of the Responsible Entity have approved a final distribution for 2007 of \$107,312,631 (5.128 cents per unit) to be paid on 28 June 2007. This distribution is comprised of assessable interest income of \$33,148,051 (1.584 cents per unit) and a capital distribution of \$74,164,580 (3.544 cents per unit).

With exception of the distribution, the Directors are not aware of any circumstances that have arisen since 31 March 2007 that have significantly affected or may significantly affect the operations, and results of those operations or the state of affairs, of SP AusNet Finance Trust in financial years subsequent to 31 March 2007.

## LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

On 11 May 2007, Singapore Power International Pte Ltd ("Singapore Power") advised that it had, in conjunction with Babcock and Brown International

Pty Ltd, signed a revised Scheme Implementation Agreement ("Scheme") to acquire Alinta Ltd. Singapore Power has stated that it currently intends to invest through SP AusNet in electricity and gas transmission and distribution businesses in Australia and New Zealand and will offer SP AusNet the chance to consider this opportunity. SP AusNet has established an independent process for the assessment of this investment opportunity. Until the Scheme is voted on by Alinta shareholders and the assessment process is finalised, the outcome for SP AusNet is uncertain.

### OTHER MATTERS

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 believe it would be likely to result in unreasonable prejudice to SP AusNet Finance Trust.

## ENVIRONMENTAL REGULATION

SP AusNet Finance Trust does not conduct any operations that are subject to any particular and significant environmental regulation.

## FEES PAID TO AND INTEREST HELD IN SP AUSNET FINANCE TRUST BY THE RESPONSIBLE ENTITY OR ITS ASSOCIATES

No fees have been paid to the Responsible Entity or to the Directors of the Responsible Entity during the year out of the property of SP AusNet Finance Trust.

## INTERESTS IN SP AUSNET FINANCE TRUST ISSUED DURING THE FINANCIAL YEAR

	2007	2006
Units on issue at the start of the year	2,092,680,010	1,988,680,010
Units issued during the year	–	1,100,000,00
Units redeemed during the year	–	(996,000,000)
Units on issue at the end of the year	2,092,680,010	2,092,680,010

## REMUNERATION REPORT (AUDITED)

### KEY MANAGEMENT PERSONNEL

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

With the exception of Tony Iannello, the persons listed below were Directors of SP AusNet for the whole of the financial year and up to the date of this report. Mr Iannello was appointed a Non-executive Director on 6 June 2006 and continues in office at the date of this report.

Name	Position
Ng Kee Choe	Non-executive Chairman
Nino Ficca	Managing Director
Jeremy Davis	Non-executive Director
Eric Gwee	Non-executive Director
Tony Iannello	Non-executive Director
George Lefroy	Non-executive Director
Martyn Myer	Non-executive Director
Quek Poh Huat	Non-executive Director
Ian Renard	Non-executive Director

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

year. This group includes the five most highly remunerated executives during the financial year.

Name	Position
Nino Ficca	Managing Director
Paul Adams	General Manager, Network Services
Peter Buck <sup>1</sup>	General Manager, Distribution Network Development
Norman Drew	General Manager, Network Development
Terrence Fowler <sup>2</sup>	General Manager, Finance
Adrian Hill <sup>3</sup>	General Manager, Corporate Development and Investor Relations
Geoffrey Nicholson <sup>4</sup>	Chief Financial Officer
Charles Poppo	General Manager, Regulatory and Business Strategy

<sup>1</sup> Mr Buck ceased as a member of the key management personnel on 24 July 2006.

<sup>2</sup> Mr Fowler ceased as a member of the key management personnel on 22 December 2006.

<sup>3</sup> Mr Hill commenced as a member of the key management personnel on 1 August 2006.

<sup>4</sup> Mr Nicholson commenced as a member of the key management personnel on 2 January 2007.

## REMUNERATION REPORT (AUDITED) CONTINUED

### NOMINATION AND REMUNERATION COMMITTEE

The SP AusNet Nomination and Remuneration Committee makes recommendations to the Board regarding the remuneration framework for Directors and senior executives. It also reviews and approves the general remuneration framework for SP AusNet employees and reviews SP AusNet's obligations on matters such as superannuation and other employment benefits and entitlements.

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.

Further information in relation to the Nomination and Remuneration Committee is set out in SP AusNet's Annual Report 2007 in the section entitled *Corporate Governance*.

### STAPLED GROUP PERFORMANCE

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

Stapled Group and not just to the performance of SP AusNet Finance Trust, the following information is provided for the Stapled Group.

The table below shows SP AusNet's consolidated operating revenue and net profit after tax for the current reporting period and previous years and the effect of SP AusNet's performance on securityholder value. As the Stapled Group was formed on 21 October 2005 and listed on 14 December 2005, no figures are available for 2003 and 2004 and comparatives for 2005 are not provided as they do not relate to the performance of the listed group. The 2006 results do not represent full year results and are also impacted by the disposal of the merchant energy business.

	2003	2004	2005	2006	2007
Revenue	—	—	—	\$737.5m	<b>\$1,019.5m</b>
NPAT from continuing operations	—	—	—	\$136.9m	<b>\$161.2m</b>
Closing security price as at 31 March	—	—	—	\$1.30	<b>\$1.42</b>
Distributions in respect of financial year (cents per Stapled Security)	—	—	—	3.25	<b>11.27</b>

### PRINCIPLES USED TO DETERMINE THE NATURE AND AMOUNT OF REMUNERATION

#### NON-EXECUTIVE DIRECTORS

The remuneration of Non-executive Directors consists of Directors' fees and committee fees. Non-executive Directors are not provided with any form of retirement benefit or equity-based compensation. The remuneration information provided below is for SP AusNet. It is not possible to allocate remuneration to individual entities within the SP AusNet Group.

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. The fees paid to Non-executive Directors are not linked to the performance of SP AusNet in order to maintain objectivity and independence.

The constitutions of SP AusNet Transmission, SP AusNet Distribution and the Responsible Entity provide that Non-executive Directors are entitled to such remuneration for their services as the Board decides, but the total amount provided to all Non-executive Directors must not exceed in aggregate in any financial year the amount approved by securityholders in general meeting.

The securityholders of SP AusNet Transmission and SP AusNet Distribution approved a total remuneration pool for Non-executive Directors of \$1,000,000 per year at the inaugural

Annual General Meeting of SP AusNet held on 18 July 2006. Each year, the Nomination and Remuneration Committee reviews the fees payable to Non-executive Directors taking into account market rates and the time commitment and responsibilities involved in carrying out their duties.

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 these committees are also paid an additional amount. The annual 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 DIRECTOR BASE FEES:

	Board		Audit and Risk Management Committee		Nomination and Remuneration Committee		Compliance Committee	
	Chair	Member	Chair	Member	Chair	Member	Chair	Member
Fee	\$120,000	\$80,000	\$15,000	\$10,000	\$12,000	\$8,000	\$12,000	\$8,000

In accordance with the constitutions of SP AusNet Transmission, SP AusNet Distribution and the Responsible Entity, 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. The above fees are inclusive of superannuation contributions 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 principles of good corporate governance.

### EXECUTIVE DIRECTORS AND SENIOR EXECUTIVES

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

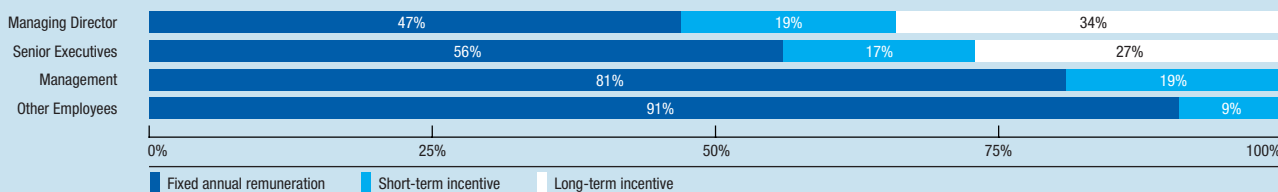
- focus on creating value for securityholders by rewarding executives based on enhancement of sustainable securityholder value;
- create an environment that will attract appropriate talent and where people can be motivated with energy and passion to deliver superior performance;
- recognise capabilities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

- provide fair and consistent rewards across SP AusNet that support corporate values and principles.

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

## STRUCTURE OF TOTAL REWARD

The reward principles set out the relevant elements of remuneration to make up “total reward”. For the majority of SP AusNet employees, total reward consists of fixed remuneration and “at risk” remuneration through a STI plan.



During the reporting period, a LTI plan was introduced into the pay structure for the Managing Director and senior executives. An appropriate mix of these components is determined for each level of management and employees.

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

## FIXED ANNUAL REMUNERATION

Fixed annual remuneration (“FAR”) represents the fixed component of executive remuneration and consists of a mix of cash, superannuation, prescribed benefits and salary-sacrificed items such as motor vehicles and fringe benefits tax. FAR is reviewed annually against market rates for comparable roles. There are no guaranteed FAR increases fixed in any senior executive’s contract of employment.

## BENEFITS

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

## SHORT-TERM INCENTIVES

SP AusNet makes available STI payments to senior executives for the achievement of key performance indicators (“KPIs”) based on corporate financial and non-financial measures as well as stretch individual performance hurdles. The payments under the STI plan consist entirely of cash bonuses and do not involve Stapled Securities. Generally, senior executives must complete the business year to qualify for any STI payments. In some circumstances, the Board may in its discretion determine that a pro-rata bonus payment be awarded to a departing executive.

A target STI amount, expressed as a percentage of the senior executive’s FAR, is specified for each senior executive. However, the amount of STI payable is dependent on:

- the extent to which SP AusNet has achieved the corporate KPIs; and
- the extent to which the senior executive has achieved his or her individual KPIs.

The corporate KPIs set for the year ended 31 March 2007 included:

- net profit;
- controllable operating costs;
- health, safety and environmental targets;
- network performance and reliability targets;
- program delivery (capital and maintenance) targets; and
- completion of business integration programs.

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.

## SHARE-BASED PAYMENT

During the year SPI Management Services offered a one-off gift of \$1,000 worth of SP AusNet Stapled Securities to all SP AusNet employees and managers (excluding the Managing Director).

## LONG-TERM INCENTIVES

The SP AusNet Board has approved a LTI plan for the Managing Director and senior executives which came into effect on 1 April 2006. The Board may in its discretion invite additional employees to participate in the LTI plan who are in a position to influence long-term securityholder value.

The LTI plan is a cash plan that rewards participants for increasing securityholder value. The Board issues annual invitations to participate in the plan which set out the maximum percentage of FAR that the participant is eligible to receive as a cash bonus at the end of a three year performance period (“the Award”). For the 1 April 2006 grant, the performance measures used to determine the amount of Award payable are Relative Total Securityholder Returns (“TSR”) (for 50% of the Award) and growth in Earnings Per Security (“EPS”) (for the other 50% of the Award). The Award is calculated as a percentage of the participant’s FAR prevailing at the test date. For the performance period commencing 1 April 2006, the quantum of Awards available to participants expressed as a percentage of the prevailing FAR at the performance test date, are:

- Managing Director – 75%
- Reporting executives – 50%
- Other participants – 25%

The comparator group used for the 1 April 2006 grant performance testing consists of the companies included in the S&P/ASX 200 index. In assessing whether the performance hurdles have been met, SP AusNet receives independent data which provides both SP AusNet’s TSR growth from the commencement of each grant and that of the companies in the comparator group. The level of TSR growth achieved by SP AusNet will be given a percentile ranking having regard to its performance compared with the performance of other companies in the comparator group. The LTI plan does not allow for retesting of performance measures in subsequent years.

The EPS growth measure is based on SP AusNet achieving a nominal compound annual growth (“CAGR”) of 5% per annum over the three year period. A sliding scale applies as follows:

- below 2.5% per annum CAGR, no EPS component of the reward is achieved;
- between 2.5% and 7.5% per annum CAGR, a linear scale from 50% to 150% EPS reward is achieved; and
- the maximum achievable EPS component is 150%.

Where Awards successfully vest after meeting performance hurdles, participants are required under the plan rules to purchase on-market, during an approved trading window, SP AusNet Stapled Securities to the value of the after tax cash payment received by the participant. The participants are then required to hold the Stapled Securities purchased for a period not less than 12 months. Reasonable brokerage costs incurred by the participants are reimbursed.

## RETENTION AWARDS

SPI Management Services has offered retention awards to key individuals who joined from TXU Australia Group Pty Ltd (“TXU”) whose ongoing involvement with the SP AusNet Group is considered to be critical over the medium term. Details of these awards are set out below.

In order to retain Paul Adams (General Manager, Network Services), who was identified as a key executive following the acquisition of TXU in 2004, he was offered a form of retention payment based on his entitlement under the arrangement in place with TXU. However, instead of a lump sum payment, the amount was made payable over four years (ending 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 (former General Manager, Distribution Network Development) and Adrian Hill (General Manager, Corporate Development and Investor Relations) were offered two payments across two years comprising fixed and variable components linked to their achievement of individual performance targets. The final amounts were paid in August 2006.

## LOANS TO DIRECTORS AND SENIOR EXECUTIVES

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

## DETAILS OF REMUNERATION

Details of the nature and amount of each element of the emoluments of each Director and key management personnel of SP AusNet are set out in the following tables (unless otherwise noted, positions were held for the full financial year). The key management personnel are not employees of SP AusNet but are employed by SPI Management Services. Under management services agreements between SPI Management Services and SP AusNet, the services of these key management personnel, including the Managing Director, are provided to SP AusNet.

## REMUNERATION REPORT (AUDITED) CONTINUED

FOR THE YEAR ENDED 31 MARCH 2007

### DIRECTOR REMUNERATION

	Short-term				Post-employment	Termination benefits	Equity based payments	
	Cash salary and fees	Retention payments	Cash bonus <sup>1</sup>	Other short-term benefits <sup>2</sup>	Super-annuation <sup>3</sup>			Total
<b>Non-executive Directors</b>								
<b>Ng Kee Choe</b> (Chairman)	109,327	—	—	3,800	9,839	—	—	122,966
<b>Jeremy Davis</b>	83,227	—	—	3,800	7,495	—	—	94,522
<b>Eric Gwee</b>	89,833	—	—	3,800	—	—	—	93,633
<b>Tony Iannello</b> <sup>4</sup>	71,483	—	—	3,800	6,433	—	—	81,716
<b>George Lefroy</b>	76,731	—	—	3,800	6,906	—	—	87,437
<b>Martyn Myer</b>	84,941	—	—	3,800	7,645	—	—	96,386
<b>Quek Poh Huat</b> <sup>5</sup>	81,579	—	—	3,800	—	—	—	85,379
<b>Ian Renard</b>	85,550	—	—	3,800	7,700	—	—	97,050
<b>Executive Director</b>								
<b>Nino Ficca</b>	444,154	—	180,000	8,970 <sup>6</sup>	46,544	—	—	679,668

1 This bonus is in respect of performance for the year ended 31 March 2007. This amount has been approved but not yet paid.

2 These amounts represent an allocation of the premium for Directors' and Officers' insurance.

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

4 Mr Iannello commenced on 6 June 2006.

5 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.

6 This amount represents car parking and an allocation of the premium for Directors' and Officers' insurance.

### SENIOR EXECUTIVE REMUNERATION

	Short-term				Post-employment	Termination benefits	Equity based payments <sup>1</sup>	
	Cash salary and fees	Retention payments <sup>2</sup>	Cash bonus <sup>3</sup>	Other short-term benefits <sup>4</sup>	Super-annuation			Total
<b>Nino Ficca</b>	444,154	—	180,000	8,970	46,544	—	—	679,668
<b>Paul Adams</b>	272,027	243,700	80,000	8,970	25,805	—	1,000	631,502
<b>Peter Buck</b> <sup>5</sup>	62,252	68,402	—	2,990	8,093	—	1,000	142,737
<b>Norman Drew</b>	234,494	—	68,000	8,970	28,212	—	1,000	340,676
<b>Terrence Fowler</b> <sup>6</sup>	284,158	—	—	6,728	34,078	609,929 <sup>7</sup>	1,000	935,893
<b>Adrian Hill</b> <sup>8</sup>	119,914	62,032	47,000	5,980	10,987	—	1,000	246,913
<b>Geoffrey Nicholson</b> <sup>9</sup>	72,129	—	20,000	2,243	6,492	—	—	100,864
<b>Charles Popple</b>	220,344	—	61,000	8,970	22,085	—	1,000	313,399
<b>Total</b>	1,709,472	374,134	456,000	53,821	182,296	609,929	6,000	3,391,652

1 These amounts represent the one-off gift from SPI Management Services described above under the heading share-based payment. The Stapled Group has determined, based on its best estimate, that in relation to the year ended 31 March 2007 no amount will be payable under the LTI plan. This estimate is based on historical performance over the last twelve months. Historic performance is not necessarily an indicator of the amount that will actually vest in year 3 but does form the best estimate at present. Refer to the table below under the heading of cash bonuses – long-term incentive for the maximum amounts payable at the end of three years.

2 Further details in relation to the retention payments to Mr Adams, Mr Buck and Mr Hill are set out under the heading retention awards above.

3 These bonuses are in respect of performance for the year ended 31 March 2007. These amounts have been approved but not yet paid.

4 These amounts represent car parking and an allocation of the premium for Directors' and Officers' insurance. The amount is on a pro-rata basis when the senior executive has been a member of the key management personnel for less than 12 months.

5 Mr Buck ceased as a member of the key management personnel on 24 July 2006. Remuneration is only for the period Mr Buck was a member of the key management personnel.

6 Mr Fowler ceased as a member of the key management personnel on 22 December 2006. Remuneration represents all entitlements during the period Mr Fowler was a member of the key management personnel.

7 Mr Fowler's termination payment includes a termination amount payable under his employment agreement and an additional payment from SPI Management Services in recognition of his long-standing service.

8 Mr Hill commenced as a member of the key management personnel on 1 August 2006. Remuneration is only for the period Mr Hill was a member of the key management personnel.

9 Mr Nicholson commenced as a member of the key management personnel on 2 January 2007. Remuneration is for the period from when Mr Nicholson was appointed.

**CASH BONUSES – SHORT-TERM INCENTIVE**

The percentage of the available bonus that was paid, or that vested, in the financial years ended 31 March 2006 and 31 March 2007, and the percentage that was forfeited because the person did not meet the service and performance criteria are set out below.

	Cash Bonus (2006) <sup>1</sup>			Cash Bonus (2007) <sup>2</sup>		
	Paid (\$)	Percentage of available bonus		Payable (\$)	Percentage of available bonus	
		Paid	Not Paid		Payable	Not Payable
Nino Ficca	220,000	95.7%	4.3%	180,000	83.3%	16.7%
Paul Adams	79,000	88.3%	11.7%	80,000	83.3%	16.7%
Peter Buck	54,000	82.8%	17.2%	–	–	–
Norman Drew	73,000	94.8%	5.2%	68,000	78.2%	21.8%
Terrence Fowler	79,000	90.8%	9.2%	–	–	–
Adrian Hill	–	–	–	47,000	72.9%	27.1%
Geoffrey Nicholson	–	–	–	20,000	72.8%	27.2%
Charles Pople	70,000	87.0%	13.0%	61,000	75.3%	24.7%

1 These bonuses consist of payments pursuant to the STI plan based on performance during the year ended 31 March 2006 and where applicable, special discretionary bonuses awarded in recognition of exceptional performance. These bonuses were not approved or paid until the financial year ended 31 March 2007.

2 Bonuses for performance for the year ended 31 March 2007 have been approved but not yet paid.

**CASH BONUSES – LONG-TERM INCENTIVE (EQUITY BASED PAYMENTS)**

The SP AusNet Board approved a LTI plan for the Managing Director and senior executives that came into effect from 1 April 2006. For accounting purposes, amounts paid under the LTI plan are required to be disclosed as equity based payments. The following table shows the value of cash grants subject to future performance testing, percentage paid or forfeited and future financial years that grants may vest and be paid. As the grants made in 2006 will not be tested until 2009, no grants have been paid or forfeited at the date this Report.

	Date of Grant	Percentage of grant paid (%)	Percentage of grant forfeited (%)	Date grant may vest	Minimum total value of grant (\$)	Maximum total value of grant (\$) <sup>1</sup>
Nino Ficca	1 April 2006	–	–	31 March 2009	0	558,141
Paul Adams	1 April 2006	–	–	31 March 2009	0	220,500
Norman Drew	1 April 2006	–	–	31 March 2009	0	199,828
Adrian Hill	1 April 2006	–	–	31 March 2009	0	148,148
Geoffrey Nicholson	1 April 2006	–	–	31 March 2009	0	261,844
Charles Pople	1 April 2006	–	–	31 March 2009	0	186,047
<b>Total</b>						<b>1,574,508</b>

1 These amounts are estimates based on SP AusNet achieving the maximum possible performance conditions at the end of the three year performance period described above. The assumed prevailing FARs used to calculate the estimates are based on a 5% annual increase in each senior executive's FAR to the test date.

## REMUNERATION REPORT (AUDITED) CONTINUED

FOR THE YEAR ENDED 31 MARCH 2006:

### DIRECTOR REMUNERATION

	Short-term				Post-employment	Termination benefits	Equity based payments	
	Cash salary and fees	Retention payments	Cash bonus <sup>1</sup>	Other short-term benefits	Super-annuation <sup>2</sup>			Total
<b>Non-executive Directors</b>								
<b>Ng Kee Choe</b> (Chairman) <sup>3</sup>	70,422	—	—	5,555	6,338	—	—	82,315
<b>Jeremy Davis</b> <sup>3</sup>	66,819	—	—	5,555	6,014	—	—	78,388
<b>Eric Gwee</b> <sup>3</sup>	70,322	—	—	5,555	—	—	—	75,877
<b>George Lefroy</b> <sup>3,4</sup>	93,199	—	—	5,555	8,376	—	—	107,130
<b>Martyn Myer</b> <sup>5</sup>	43,177	—	—	5,555	3,886	—	—	52,618
<b>Quek Poh Huat</b> <sup>3,6</sup>	77,000	—	—	5,555	—	—	—	82,555
<b>Ian Renard</b> <sup>3,4</sup>	89,188	—	—	5,555	8,027	—	—	102,770
<b>Wong Toon Suan</b> <sup>7</sup>	—	—	—	—	—	—	—	—
<b>Yap Chee Keong</b> <sup>7</sup>	—	—	—	—	—	—	—	—
<b>Executive Directors</b>								
<b>Nino Ficca</b> <sup>8</sup>	398,658	—	86,212	5,555	39,990	—	—	530,415
<b>Paul Adams</b> <sup>9</sup>	230,443	104,892	17,865	5,000	23,716	—	—	381,916
<b>Terrence Fowler</b> <sup>10</sup>	204,922	—	77,031	5,000	18,385	—	—	305,338

1 These bonuses are in respect of performance for the year ended 31 March 2005.

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

3 Messrs Ng, Davis, Gwee, Quek and Renard and Dr Lefroy were appointed as Directors of SP AusNet Distribution on 31 May 2005, SP AusNet Transmission on 26 October 2005 and of the Responsible Entity on 9 September 2005.

4 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.

5 Mr Myer was appointed as Director of SP AusNet Distribution on 9 September 2005, SP AusNet Transmission on 26 October 2005 and of the Responsible Entity on 9 September 2005.

6 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 were paid after the end of the year.

7 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 were payable for their services as Directors during the period ending 31 March 2006.

8 Mr Ficca was appointed as Director of SP AusNet Distribution on 31 May 2005, SP AusNet Transmission on 7 September 2005 and of the Responsible Entity on 31 May 2005.

9 Mr Adams was a Director of the Responsible Entity from 31 May 2005 to 9 September 2005.

10 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.

### SENIOR EXECUTIVE REMUNERATION

	Short-term				Post-employment	Termination benefits	Equity based payments	
	Cash salary and fees	Retention payments	Cash bonus <sup>1</sup>	Other short-term benefits	Super-annuation			Total
<b>Nino Ficca</b>	398,658	—	86,212	5,555	39,990	—	—	530,415
<b>Paul Adams</b>	230,443	104,892 <sup>2</sup>	17,865 <sup>3</sup>	5,000	23,716	—	—	381,916
<b>Peter Buck</b>	185,331	67,657 <sup>2</sup>	11,415 <sup>3</sup>	5,000	16,811	—	—	286,214
<b>Norman Drew</b>	200,268	—	63,757 <sup>4</sup>	5,000	20,036	—	—	289,061
<b>Terrence Fowler</b>	204,922	—	77,031 <sup>5</sup>	5,000	18,385	—	—	305,338
<b>Peter Merritt</b> <sup>6</sup>	169,892	—	32,935	5,000	17,130	—	—	224,957
<b>Charles Popple</b>	205,333	—	53,430 <sup>7</sup>	5,000	20,899	—	—	284,662
<b>Total</b>	1,594,847	172,549	342,645	35,555	156,967	—	—	2,302,563

1 These bonuses are in respect of performance for the year ended 31 March 2005.

2 Further details in relation to the retention payments to Mr Adams and Mr Buck are set out under the heading Retention Awards above.

3 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 the remuneration periods into line with the remaining executives following the acquisition of TXU Australia Group. They did not receive additional bonuses under the SP AusNet STI plan.

4 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.

5 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 discretionary bonus of \$30,000, awarded prior to the listing of SP AusNet by Singapore Power Ltd in recognition of exceptional performance.

6 Mr Merritt ceased as a member of the key management personnel on 31 March 2006.

7 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 discretionary bonus of \$15,000, awarded prior to the listing of SP AusNet by Singapore Power Ltd in recognition of exceptional performance.

## DIRECTORS' INTERESTS

The Directors of SP AusNet have disclosed relevant interests in Stapled Securities as follows:

Name	Number of Stapled Securities
<b>Ng Kee Choe</b>	150,000 <sup>1</sup>
<b>Nino Ficca</b>	125,000 <sup>2</sup>
<b>Jeremy Davis</b>	50,000
<b>Eric Gwee</b>	100,000 <sup>1</sup>
<b>Tony Iannello</b>	30,000 <sup>3</sup>
<b>George Lefroy</b>	100,000 <sup>4</sup>
<b>Martyn Myer</b>	650,000 <sup>5</sup>
<b>Quek Poh Huat</b>	206,000 <sup>6</sup>
<b>Ian Renard</b>	30,000

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

2 25,000 securities held by immediate family members of Mr Ficca.

3 Securities held by Summit Custodial Services.

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

5 Securities held by MF Custodian Ltd as custodian for Mpyer Investments Pty Ltd.

6 Securities held by The Central Depository (Pte) Limited. 6,000 securities held by immediate family members of Mr Quek.

No options over interests in SP AusNet Finance Trust have been issued.

The Directors of SP AusNet have disclosed relevant interests in related bodies corporate as follows:

Name	Singapore Telecommunications Limited	Singapore Airport Terminal Services Limited	PT Bank Indonesia Indonesia Tbk	Singapore Technologies Engineering Ltd	Singapore Computer Systems Limited	SMRT Corporation Ltd
<b>Ng Kee Choe</b>	3,080 <sup>1</sup>	11,000	50,000	—	—	—
<b>Nino Ficca</b>	720 <sup>2</sup>	—	—	—	—	—
<b>Jeremy Davis</b>	—	—	—	—	—	—
<b>Eric Gwee</b>	1,980 <sup>3</sup>	—	—	—	—	—
<b>Tony Iannello</b>	—	—	—	—	—	—
<b>George Lefroy</b>	158,792 <sup>4</sup>	—	—	—	—	—
<b>Martyn Myer</b>	—	—	—	—	—	—
<b>Quek Poh Huat</b>	5,210 <sup>5</sup>	—	—	291,500 <sup>6</sup> 813,728 <sup>7</sup>	15,000	8,000
<b>Ian Renard</b>	—	—	—	—	—	—

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

2 Securities held by immediate family members of Mr Ficca.

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

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

5 1,540 held by immediate family members of Mr Quek.

6 Options over ordinary securities.

7 Ordinary securities.

## SERVICE AGREEMENTS

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 short-term performance-related cash bonuses, fringe benefits plus other benefits. Participation in the LTI plan is not a term of the agreements. Other major provisions of the agreements, relating to remuneration, are set out below.

## MANAGING DIRECTOR

The main provisions of the Managing Director's service agreement are set out below:

- term of agreement — permanent, subject to one month's notice of termination by either party;
- fixed remuneration including base salary and superannuation, for the year ended 31 March 2007 of \$540,000 to be reviewed annually by the Nomination and Remuneration Committee and the Board;
- annual short-term incentive of up to 40% of FAR; and
- termination benefits calculated at three weeks' pay for every year of service paid at the Managing Director's FAR rate and capped at six months.

## SENIOR EXECUTIVES

The major provisions contained in the services agreements of the key management personnel listed are substantially the same, except as noted below:

- term of agreement — permanent, subject to termination on one month's notice by either party (except Paul Adams whose agreement provides for a notice period of three months);
- SP AusNet may make a payment in lieu of notice; and
- termination benefits calculated at three weeks' pay for every year of service paid at the executive's FAR rate and capped at six months (except Paul Adams whose termination payment cap is set at nine months and 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).

## ROUNDING OFF

SP AusNet Finance Trust is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the 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.

## AUDITOR

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

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



**Ng Kee Choe**  
Chairman



**Nino Ficca**  
Managing Director

Melbourne  
23 May 2007

# LEAD AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

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To: the directors of SP Australia Networks (RE) Limited, 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 2007 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.

The KPMG logo, consisting of the letters 'KPMG' in a stylized, handwritten font.

KPMG

A handwritten signature in black ink that reads 'Alison Kitchen'.

**Alison Kitchen**  
*Partner*

Melbourne  
23 May 2007

# INCOME STATEMENTS FOR THE YEAR ENDED 31 MARCH 2007

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	Notes	2007 \$'000	2006 \$'000
<b>Revenue</b>		–	–
<b>Profit from operating activities</b>		–	–
Finance income	2	64,744	18,641
<b>Net finance income</b>		64,744	18,641
<b>Profit before income tax</b>		64,744	18,641
Income tax expense	1(e)	–	–
<b>Profit for the year</b>		64,744	18,641
		<b>Cents</b>	<b>Cents</b>
<b>Earnings per unit for profit attributable to the ordinary unitholders of SP AusNet Finance Trust:</b>			
Basic and diluted earnings per unit	4	3.09	1.04

*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 2007

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	2007 \$'000	2006 \$'000
Profit for the year	64,744	18,641
<b>Total recognised income and expense for the year</b>	<b>64,744</b>	<b>18,641</b>

*Other movements in unitholders' funds arising from transactions with owners as owners are set out in note 6.*

*The above statements of recognised income and expense should be read in conjunction with the accompanying notes.*

	Notes	2007 \$'000	2006 \$'000
<b>ASSETS</b>			
<b>Current assets</b>			
Receivables	5	2,003,879	2,111,321
<b>Total current assets</b>		<b>2,003,879</b>	<b>2,111,321</b>
<b>Total assets</b>		<b>2,003,879</b>	<b>2,111,321</b>
<b>LIABILITIES</b>			
<b>Total liabilities</b>		<b>–</b>	<b>–</b>
<b>Net assets</b>		<b>2,003,879</b>	<b>2,111,321</b>
<b>UNITHOLDERS' FUNDS</b>			
Unitholders' of SP AusNet Finance Trust			
Units on issue	6	1,970,698	2,092,680
Retained profits	7	33,181	18,641
<b>Total unitholders' funds</b>		<b>2,003,879</b>	<b>2,111,321</b>

The above balance sheets should be read in conjunction with the accompanying notes.

# CASH FLOW STATEMENTS FOR THE YEAR ENDED 31 MARCH 2007

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	Notes	2007 \$'000	2006 \$'000
<b>Cash flows from operating activities</b>			
Interest received		64,744	—
<b>Net cash inflow from operating activities</b>	13	64,744	—
<b>Net cash inflow/(outflow) from investing activities</b>		—	—
<b>Cash flows from financing activities</b>			
Loans made to related parties		—	(1,100,000)
Repayment of loans by related parties		107,442	996,000
Proceeds from issue of units		—	1,100,000
Redemption of issued units		—	(996,000)
Income distribution		(50,204)	—
Capital distribution		(121,982)	—
<b>Net cash outflow from financing activities</b>		(64,744)	—
<b>Net decrease in cash held</b>		—	—
<b>Cash and cash equivalents at the beginning of the financial year</b>		—	—
<b>Cash and cash equivalents at the end of the financial year</b>		—	—

*The above cash flow statements should be read in conjunction with the accompanying notes.*

### NOTES

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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.

### (A) BASIS OF PREPARATION

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ("AASBs") and interpretations adopted by the Australian Accounting Standards Board and the *Corporations Act* 2001. The financial statements and notes also comply with International Financial Reporting Standards ("IFRSs") and interpretations adopted by the International Accounting Standards Board. Certain comparative amounts have been reclassified to conform with the current year's presentation.

This general purpose financial report is presented in Australian dollars.

The financial statements were approved by the Board of Directors on 23 May 2007.

### (i) New standards adopted

SP AusNet Finance Trust has elected, in accordance with section 334(5) of the *Corporations Act* 2001, to early adopt the following standards for the annual reporting period beginning 1 April 2006:

- revised AASB 101 *Presentation of Financial Statements* (October 2006). The revised AASB 101 is mandatory for annual reporting periods beginning on or after 1 January 2007 however early adoption is permitted. The revised AASB 101 has deleted the Australian specific illustrative financial statement structure. In addition, certain Australian specific disclosures have been removed in line with the Australian Accounting Standards Board's preference to continue to eliminate differences between AASBs and IFRSs;
- AASB 8 *Operating Segments*. AASB 8 replaces AASB 114 *Segment Reporting* and is mandatory for annual reporting periods beginning on or after 1 January 2009 however early adoption is permitted. AASB 8 requires segments to be identified based on internal reporting to the chief operating decision maker, otherwise known as the "management approach". AASB 8 also requires segment information to be based on the information reported to the chief operating decision maker; and
- AASB 2007-3 *Amendments to Australian Accounting Standards arising from AASB 8*. The issuance of AASB 8 necessitates consequential amendments to existing Australian Accounting Standards, primarily to replace references to AASB 114 with references to AASB 8. These amendments are contained in AASB 2007-3.

Other Australian Accounting Standards issued but not yet effective are not expected to result in significant accounting policy or disclosure changes.

### (ii) Historical cost convention

The financial statements have been prepared under the historical cost convention.

## (B) PRINCIPLES OF CONSOLIDATION

### (i) Stapling

Pursuant to the Stapling Deed 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 and the Singapore Exchange Securities Trading Limited ("SGX-ST"). The Stapled Group was listed on 14 December 2005.

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

By virtue of the stapling arrangement, SP AusNet Distribution, SP AusNet Transmission and SP AusNet Finance Trust have common equityholders (securityholders) with the effect that total equity of the Stapled Group belongs to the securityholders.

The Stapled Group is also referred to as SP AusNet.

### (C) SEGMENT REPORTING

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

SP AusNet Finance Trust provides loans to related parties within the Stapled Group and operates predominantly in the State of Victoria. As a result SP AusNet Finance Trust only operates in one segment.

### (D) REVENUE RECOGNITION

Revenue is measured at the 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 income is recognised as it accrues, taking into account the effective yield on the financial asset.

### (E) INCOME TAX

The primary function of SP AusNet Finance Trust is to provide financing to both SP AusNet Distribution and SP AusNet Transmission as well as to facilitate distributions to unitholders in the nature of interest income and returns of capital as applicable for Australian taxation purposes.

SP AusNet Finance Trust is not regarded as a public trading trust under Division 6C of Part III of the *Income Tax Assessment Act* 1936 ("ITAA36") and is therefore not treated as a company for taxation purposes.

The Responsible Entity will not be liable for income tax under Division 6 of ITAA36, on the basis that unitholders will become presently entitled to net income of SP AusNet Finance Trust prior to 30 June 2007. 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 2007.

### (F) RECEIVABLES

Receivables are initially recognised at the fair value of the amounts to be received and are subsequently measured at amortised cost.

### (G) UNITHOLDERS' FUNDS

Ordinary units are classified as unitholders' funds.

### (i) Distributions

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

### (H) EARNINGS PER UNIT

#### (i) Basic earnings per unit

Basic earnings per unit is calculated by dividing the profit attributable to unitholders of SP AusNet Finance Trust by the weighted average number of units outstanding during the financial year.

#### (ii) Diluted earnings per unit

Diluted earnings per unit adjusts the figures used in the determination of basic earnings per unit to take into account the effect of interest or other financing costs associated with dilutive potential units and include these dilutive potential units in the weighted average number of units outstanding used in the calculation.

### (I) ROUNDING OF AMOUNTS

SP AusNet Finance Trust is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

## NOTE 2 NET FINANCE INCOME

	2007 \$'000	2006 \$'000
<b>Finance income</b>		
Interest income – related parties	64,744	18,641
<b>Total finance income</b>	<b>64,744</b>	<b>18,641</b>
<b>Net finance income</b>	<b>64,744</b>	<b>18,641</b>

## NOTE 3 DISTRIBUTIONS

The following distributions were approved and paid by SP AusNet Finance Trust to unitholders during the current financial year:

	Date paid	Cents per unit	Total distribution \$
<b>Distributions from earnings</b>			
Assessable interest income	26 June 2006	0.890	18,624,852
Assessable interest income	14 December 2006	1.509	31,578,541
<b>Total distributions from earnings</b>			<b>50,203,393</b>
<b>Distributions from capital</b>			
Capital distribution	26 June 2006	2.210	46,248,228
Capital distribution	14 December 2006	3.619	75,734,090
<b>Total distributions from capital</b>			<b>121,982,318</b>
<b>Total distributions</b>			<b>172,185,711</b>

No distributions were approved and/or paid to unitholders during the previous financial year.

## NOTE 4 EARNINGS PER UNIT

## (A) BASIC EARNINGS PER UNIT

	2007 \$'000	2006 \$'000
Profit from operations attributable to the ordinary unitholders of SP AusNet Finance Trust	64,744	18,641
<b>Profit attributable to the ordinary unitholders of SP AusNet Finance Trust</b>	<b>64,744</b>	<b>18,641</b>
<b>Weighted average number of units ('000)</b>	<b>2,092,680</b>	<b>1,794,872</b>
	<b>Cents</b>	<b>Cents</b>
<b>Earnings per unit from profit</b>	<b>3.09</b>	<b>1.04</b>

## (B) DILUTED EARNINGS PER UNIT

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

## NOTE 5 RECEIVABLES

	2007 \$'000	2006 \$'000
<b>Current receivables</b>		
Related party receivables	2,003,879	2,111,321
<b>Total current receivables</b>	<b>2,003,879</b>	<b>2,111,321</b>

## NOTE 6 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 on a show of hands or one vote for each unit held on a poll at unitholders' meetings.

### (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	1,100,000
31 March 2006	Closing balance	2,092,680,010	–	2,092,680
1 April 2006	Opening balance	2,092,680,010	–	2,092,680
26 June 2006	Capital distribution	–	–	(46,248)
14 December 2006	Capital distribution	–	–	(75,734)
31 March 2007	Closing balance	2,092,680,010	–	1,970,698

## NOTE 7 RETAINED PROFITS

	2007 \$'000	2006 \$'000
<b>Movements in retained profits were as follows:</b>		
Balance at beginning of financial year	18,641	–
Net profit for the year	64,744	18,641
Income distributions	(50,204)	–
Balance at end of financial year	33,181	18,641

## NOTE 8 KEY MANAGEMENT PERSONNEL DISCLOSURES

SP AusNet has applied the exemption under the Corporations Amendments Regulation 2M.6.04 issued on 6 June 2006, which exempts disclosing entities from providing remuneration disclosures in relation to their key management personnel in their annual financial report as required by paragraphs Aus25.4 to Aus 25.7.2 of AASB 124 *Related Party Disclosures*. These remuneration disclosures are provided in the *Remuneration report* in the *Directors' report* and have been audited.

### KEY MANAGEMENT PERSONNEL

SPI Management Services, a wholly-owned subsidiary of related party Singapore Power International Pte Ltd, entered into a Management Services Agreement ("MSA") with SP AusNet Distribution and SP AusNet Transmission on 10 October 2005. In addition, SPI Management Services also entered into an MSA with the Responsible Entity on 4 November 2005 ("RE MSA"). Both agreements commenced on 1 October 2005.

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

### DIRECTORS

Name	Position
<b>Ng Kee Choe</b>	Non-executive Chairman
<b>Nino Ficca</b>	Managing Director
<b>Jeremy Davis</b>	Non-executive Director
<b>Eric Gwee</b>	Non-executive Director
<b>Tony Iannello</b>	Non-executive Director (appointed 6 June 2006)
<b>George Lefroy</b>	Non-executive Director
<b>Martyn Myer</b>	Non-executive Director
<b>Quek Poh Huat</b>	Non-executive Director
<b>Ian Renard</b>	Non-executive Director

## NOTE 8 KEY MANAGEMENT PERSONNEL DISCLOSURES CONTINUED

## EXECUTIVES

Name	Position	Employer
Nino <b>Ficca</b>	Managing Director	SPI Management Services
Paul <b>Adams</b>	General Manager, Network Services	SPI Management Services
Peter <b>Buck</b> <sup>1</sup>	General Manager, Distribution Network Development	SPI Management Services
Norman <b>Drew</b>	General Manager, Network Development	SPI Management Services
Terrence <b>Fowler</b> <sup>2</sup>	General Manager, Finance	SPI Management Services
Adrian <b>Hill</b> <sup>3</sup>	General Manager, Corporate Development and Investor Relations	SPI Management Services
Geoffrey <b>Nicholson</b> <sup>4</sup>	Chief Financial Officer	SPI Management Services
Charles <b>Popple</b>	General Manager, Regulatory and Business Strategy	SPI Management Services

1 Mr Buck ceased as a member of the key management personnel on 24 July 2006.

2 Mr Fowler ceased as a member of the key management personnel on 22 December 2006.

3 Mr Hill commenced as a member of the key management personnel on 1 August 2006.

4 Mr Nicholson commenced as a member of the key management personnel on 2 January 2007.

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

	2007 \$	2006 \$
<b>Remuneration by category</b>		
Short-term employee benefits	3,306,498	2,694,608
Post-employment benefits	228,314	189,608
Other long-term benefits	—	—
Termination benefits	609,929	—
Share-based payments	6,000	—
	4,150,741	2,884,216

## OTHER TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

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

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

## SHAREHOLDINGS OF KEY MANAGEMENT PERSONNEL

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

Balance at beginning of year (1 April 2005)	Net change other	Balance at end of year (31 March 2006)	Key management personnel	Balance at beginning of year (1 April 2006)	Granted during the year as compensation	Net change other	Balance at end of year (31 March 2007)
<b>Directors</b>							
–	150,000	150,000	<b>Ng Kee Choe</b>	150,000	–	–	150,000
–	100,000	100,000	Nino <b>Ficca</b>	100,000	–	25,000	125,000
–	50,000	50,000	Jeremy <b>Davis</b>	50,000	–	–	50,000
–	100,000	100,000	Eric <b>Gwee</b>	100,000	–	–	100,000
–	–	–	Tony <b>Iannello</b>	–	–	30,000	30,000
–	100,000	100,000	George <b>Lefroy</b>	100,000	–	–	100,000
–	650,000	650,000	Martyn <b>Myer</b>	650,000	–	–	650,000
–	206,000	206,000	<b>Quek</b> Poh Huat	206,000	–	–	206,000
–	30,000	30,000	Ian <b>Renard</b>	30,000	–	–	30,000
<b>Executives</b>							
–	100,000	100,000	Nino <b>Ficca</b>	100,000	–	25,000	125,000
–	20,000	20,000	Paul <b>Adams</b>	20,000	782	–	20,782
–	5,000	5,000	Peter <b>Buck</b>	5,000	782	–	5,782
–	20,000	20,000	Norman <b>Drew</b>	20,000	782	–	20,782
–	50,000	50,000	Terrence <b>Fowler</b>	50,000	782	–	50,782
–	30,000	30,000	Adrian <b>Hill</b>	30,000	782	–	30,782
–	–	–	Geoff <b>Nicholson</b>	–	–	–	–
–	7,000	7,000	Charles <b>Popple</b>	7,000	782	–	7,782

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

## NOTE 9 REMUNERATION OF AUDITORS

The auditor of SP AusNet is KPMG. Audit fees for the SP AusNet Finance Trust are paid by another entity in the Stapled Group. It is not possible to allocate these audit fees to SP AusNet Finance Trust.

## NOTE 10 CONTINGENT LIABILITIES

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

### (A) MANAGEMENT SERVICES AGREEMENTS ("MSAs")

SPI Management Services, a wholly-owned subsidiary of Singapore Power International Pte Ltd, provides management services to SP AusNet under two MSAs as detailed in note 8.

The term of the RE MSA is for an initial period of 10 years and continues for two further 10 year periods unless terminated by either party giving no less than one year's notice prior to the expiry of the applicable 10 year period.

Other than listed above, the Directors are not aware of any contingent liabilities as at 31 March 2007.

## NOTE 11 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 SP AusNet Distribution 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 Distribution as part of its ownership of 51% of the securities issued in SP AusNet.

The ultimate parent is Temasek Holdings (Private) Limited (a company incorporated in Singapore).<sup>1</sup>

<sup>1</sup> 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.

## NOTE 11 RELATED PARTY TRANSACTIONS CONTINUED

## (B) RELATED ENTITIES

## (i) Management Services Agreements (“MSAs”)

SPI Management Services, a wholly-owned subsidiary of related party Singapore Power International Pte Ltd, has entered into two MSAs with SP AusNet as detailed in note 8.

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

The MSA commenced on 1 October 2005 for an initial period of 10 years but continues for two further 10 year periods unless terminated by either party giving no less than one year's notice prior to the expiry of the applicable 10-year period. In the event that the MSA is terminated by SP AusNet by the giving of such notice, SPI Management Services will be entitled to a termination fee equal to the previous financial year's services charge paid or payable to SPI Management Services.

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

Pursuant to the MSA, SP AusNet has agreed to pay SPI Management Services a management fee comprising a management services charge and a performance fee for each financial year during the term of the MSA. The management services charge is to compensate SPI Management Services for expenses relating to all remuneration and other employment entitlements and benefits of the employees of SPI Management Services who provide services to SP AusNet. The performance fee is to incentivise SPI Management Services to meet or better the non-financial and financial performance of SP AusNet and to align the interests of SPI Management Services with those of SP AusNet. The maximum performance fee payable by SP AusNet in respect of a financial year is capped at 0.75% of the market capitalisation amount of SP AusNet's securities.

The MSA contains mutual indemnities for all damages, costs, claims, suits, liabilities, expenses, actions or injuries suffered or incurred as a consequence of any claims against a party to the extent to which any such claim is caused by the negligence, fraud or dishonesty of the other party (or its officers or employees) or a breach of the MSA. The total liability of either party is limited to \$5,000,000 in any financial year.

Under the RE MSA, the Responsible Entity has engaged SPI Management Services to provide management and administration services in respect of SP AusNet Finance Trust. SPI Management Services is entitled to an annual fee of \$100,000 per year in respect of the RE MSA. SPI Management Services may consult with Singapore Power Limited and its subsidiaries from time to time in the performance of its role.

The RE MSA also commenced on 1 October 2005 for an initial period of 10 years and continues for two further 10 year periods unless terminated by either party giving no less than one year's notice prior to the expiry of the applicable 10-year period. The RE MSA also contains mutual indemnities and limits the total liability of either party to \$5,000,000 in any financial year.

## (ii) Logo

Singapore Power Ltd has granted SP AusNet a licence for consideration of \$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) KEY MANAGEMENT PERSONNEL

Disclosures relating to Directors and specified executives are set out in note 8.

## (D) TRANSACTIONS WITH RELATED PARTIES

For the purpose of the financial statements, parties are considered to be related to SP AusNet Finance Trust if SP AusNet Finance Trust has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operational decisions, or vice versa. The related party disclosures are for transactions with entities within the Singapore Power Group.

SP AusNet Finance Trust's ultimate parent is Temasek Holdings (Private) Limited (“Temasek”). Temasek is the holding company for various commercial interests of the government of Singapore. SP AusNet Finance Trust engages in a wide variety of transactions with entities in the Temasek Group in the normal course of business on terms similar to those available to other customers. Such transactions include but are not limited to telecommunication services and leasing of properties. These related party transactions are carried out on terms negotiated between parties which are intended to reflect competitive terms.

The following transactions occurred with related parties within the Singapore Power Group:

	2007 \$'000	2006 \$'000
<b>Loans to related parties</b>		
Loans advanced to:		
Commonly controlled entities	–	1,100,000
Loan repayments from:		
Commonly controlled entities	107,442	996,000
<b>Interest income</b>		
Commonly controlled entities	64,744	18,641
<b>Distributions paid</b>		
Assessable interest income	25,604	–
Capital distribution	62,211	–

**(E) OUTSTANDING BALANCES**

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

**Current receivables**

Commonly controlled entities	2,003,879	2,111,321
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**(F) 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. At 31 March 2007 the amounts loaned to SP AusNet Distribution and SP AusNet Transmission are \$937.7 million and \$1,066.2 million respectively.

Of the \$937.7 million loaned to SP AusNet Distribution, \$531.9 million had an interest rate of 0.0% per annum and \$405.8 million had an interest rate of 7.5% per annum for the period 1 April 2006 to 29 September 2006 and 8.1% per annum for the period 30 September 2006 to 31 March 2007. Of the \$1,066.2 million loaned to SP AusNet Transmission, \$630.6 million had an interest rate of 0.0% per annum and \$435.6 million had an interest rate of 7.5% per annum for the period 1 April 2006 to 29 September 2006 and 8.1% for the period 30 September 2006 to 31 March 2007.

The loan agreements are for a term of 10 years. The loan agreements with SP AusNet Distribution and SP AusNet Transmission mature in July 2014 and October 2015 respectively. All the loan agreements have similar terms and conditions which can be summarised as follows:

- the interest period and interest rate to apply to the loans are agreed by the Borrower and the Lender at six monthly intervals;
- 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); and
- 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 12 EVENTS OCCURRING AFTER THE BALANCE SHEET DATE**

Since the end of the financial year the Directors of the Responsible Entity have approved the payment of a final distribution for 2007 of \$107,312,631 (5.128 cents per unit) to be paid on 28 June 2007 comprised as follows:

**(A) DISTRIBUTION**

	Cents per unit	Total distribution \$
Assessable interest income	1.584	33,148,051
Capital distribution	3.544	74,164,580
	<b>5.128</b>	<b>107,312,631</b>

**(B) LIKELY DEVELOPMENTS**

On 11 May 2007, Singapore Power International Pte Ltd ("Singapore Power") advised that it had, in conjunction with Babcock and Brown International Pty Ltd, signed a revised Scheme Implementation Agreement ("Scheme") to acquire Alinta Ltd. Singapore Power has stated that it currently intends to invest through SP AusNet in electricity and gas transmission and distribution businesses in Australia and New Zealand and will offer SP AusNet the chance to consider this opportunity. SP AusNet has established an independent process for the assessment of this investment opportunity. Until the Scheme is voted on by Alinta shareholders and the assessment process is finalised, the outcome for SP AusNet is uncertain.

**(C) OTHER MATTERS**

Other than outlined above, there has been no matter or circumstance that has arisen since 31 March 2007 up to the date of issue of this financial report that has significantly affected or may significantly affect:

- the operations in financial years subsequent to 31 March 2007 of the SP AusNet Finance Trust, or
- the results of those operations, or
- the state of affairs, in financial years subsequent to 31 March 2007, of the SP AusNet Finance Trust.

**NOTE 13 RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH FLOWS FROM OPERATING ACTIVITIES**

	2007 \$'000	2006 \$'000
Profit from ordinary activities after related income tax	64,744	18,641
Changes in operating assets and liabilities:		
Increase in receivables	–	(18,641)
Net cash inflow from operating activities	64,744	–

In the Directors' opinion:


- (a) the financial statements and notes set out on pages 162 to 173 and the remuneration disclosures that are contained in the Remuneration report in the Directors' report, are in accordance with the *Corporations Act 2001*, including:
  - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and the other mandatory professional reporting requirements; and
  - (ii) giving a true and fair view of the SP AusNet Finance Trust's financial position as at 31 March 2007 and of its 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 SP AusNet Finance Trust will be able to pay its debts as and when they become due and payable.

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

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



**Ng Kee Choe**  
Chairman



**Nino Ficca**  
Managing Director

Melbourne  
23 May 2007

## SCOPE

We have audited the financial report of SP Australia Networks (Finance) Trust ("the Trust") for the financial year ended 31 March 2007, consisting of the income statements, statements of changes in recognised income and expense, balance sheets, statements of cash flows, accompanying notes 1 to 13, and the directors' declaration set out on pages 162 to 174.

The Trust has disclosed information about the remuneration of directors and executives (remuneration disclosures), required by Australian Accounting Standard AASB 124 *Related Party Disclosures*, under the heading "remuneration report" of the directors' report and not in the financial report. We have audited these remuneration disclosures.

The directors of SP Australia Networks (RE) Ltd, the responsible entity of the Trust are responsible for the financial report and the remuneration disclosures. We have conducted an independent audit of this financial report and the remuneration disclosures in order to express an opinion on them 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 and that the remuneration disclosures comply with AASB 124. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report and the remuneration disclosures, 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 and whether the remuneration disclosures comply with Australian Accounting Standard AASB 124.

The audit opinion expressed in this report has been formed on the above basis.

## AUDIT OPINION

- 1 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 2007 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.
- 2 The remuneration disclosures that are contained in the directors' report comply with Australian Accounting Standard AASB 124 *Related Party Disclosures*.



KPMG



**Alison Kitchen**  
Partner

Place: Melbourne  
Date: 23 May 2007

# SECURITYHOLDER INFORMATION

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The securityholder information set out below was compiled from SP AusNet's register of securityholders as at 17 May 2007.

## 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	977	766,015
1,001–5,000	2,520	7,645,500
5,001–10,000	1,708	13,796,012
10,001–100,000	2,874	76,720,862
100,001 and over	187	1,993,751,621
<b>Total</b>	<b>8,266</b>	<b>2,092,680,010</b>

There were 5 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 20 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
JP Morgan Nominees Australia	139,813,670	6.68
HSBC Custody Nominees (Australia) Limited	132,151,842	6.31
The Central Depository (Pte) Limited	130,170,000	6.22
Citicorp Nominees Pty Ltd	115,423,529	5.52
National Nominees Limited	78,524,781	3.75
RBC Dexia Investor Services Australian Nominees Pty Ltd	71,555,587	3.42
HSBC Custody Nominees (Australia) Limited	27,448,892	1.31
RBC Dexia Investor Services Australia Nominees Pty Limited	22,881,781	1.09
Cogent Nominees Pty Limited	20,173,726	0.96
UBS Wealth Management Australia Nominees Pty Ltd	18,960,478	0.91
ANZ Nominees Limited	18,097,737	0.86
Tasman Asset Management Ltd	16,886,280	0.81
CIMB-GK Securities Pte Ltd	8,968,687	0.43
Questor Financial Services Limited	7,589,021	0.36
Cogent Nominees Pty Limited	7,532,900	0.36
HSBC Custody Nominees (Australia) Limited	6,189,399	0.30
Citicorp Nominees Pty Limited	6,000,000	0.29
HSBC Custody Nominees (Australia) Limited	5,925,433	0.28
Bond Street Custodians Limited	4,694,396	0.24
<b>Total</b>	<b>1,906,533,944</b>	<b>91.10</b>

## D. SUBSTANTIAL HOLDERS

Substantial holders in SP AusNet are set out below:

	Number Held	Percentage
Singapore Power International	1,067,266,805	51.00%
Maple-Brown Abbott Limited	116,161,821	5.55%
Macquarie Bank Limited	115,114,146	5.50%
Capital Group Companies, Inc	105,181,894	5.03%

2007 Annual General Meeting:  
17 July 2007

2007/08 Financial Half Year end:  
30 September 2007

2007/08 Half Year Results announced:  
21 November 2007\*

Payment of 2007/08 Half Year Distribution:  
December 2007\*

2007/08 Financial Year end  
31 March 2008

\*subject to confirmation

## ANNUAL GENERAL MEETING

The Annual General Meeting of SP AusNet will be held on Tuesday, 17 July 2007 at 11.00 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 2957  
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 9695 6666  
Email: investor.enquiries@sp-ausnet.com.au

Or write to:  
Investor Relations  
SP AusNet  
Level 31, 2 Southbank Boulevard  
Southbank, Vic. 3006  
Australia

## STOCK EXCHANGE LISTING

The stapled securities are listed under the number 'SP AusNet' and code 'SPN' on the Australian Stock Exchange, and on the Singapore Exchange Limited under the code 'SP AUSNET'.

The securities participate in the Clearing House Electronic Subregister System ('CHESS').

## 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 wish to do so by writing to Computershare.

## CHANGE OF ADDRESS OR NAME

A securityholder should notify Computershare immediately, in writing, if there is any change in his or her registered address or name.

## SP AUSNET

SP Australia Networks (Distribution) Limited  
ACN 108 788 245

SP Australia Networks (Transmission) Limited  
ACN 116 124 362

SP Australia Networks (Finance) Trust  
ARSN 116 783 914

SP Australia Networks (RE) Limited  
ACN 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  
Mr Tony **Iannello**  
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

Telephone: +61 3 9288 5555  
Facsimile: +61 3 9288 6666

<b>AEMC</b>	Australian Energy Market Commission
<b>AER</b>	Australian Energy Regulator
<b>ASX</b>	Australian Stock Exchange
<b>ESC</b>	Essential Services Commission
<b>GWh</b>	A measure of electricity consumption equivalent to using 1,000 megawatts of power over a period of one hour
<b>km</b>	kilometres
<b>kV</b>	kilovolts – a measure of the amount of electric force carried through a powerline or transmission line
<b>MVA</b>	Mega Volt Amperes, is equal to one million volt amperes
<b>MW</b>	megawatt, unit of electrical power equal to one million watts
<b>PJ</b>	petajoule, a joule is a unit of energy. A petajoule is 10 <sup>15</sup> joules
<b>SGX-ST</b>	Singapore Exchange Securities Trading Limited
<b>SP AusNet Distribution</b>	SP Australia Networks (Distribution) Ltd (Australian Business Number 37 108 788 245)
<b>SP AusNet Finance Trust</b>	SP Australia Networks (Finance) Trust (Australian Registered Scheme Number 116 783 914)
<b>SP AusNet Transmission</b>	SP Australia Networks (Transmission) Ltd (Australian Business Number 48 116 124 362)
<b>Transmission customer minutes off supply</b>	Calculated by multiplying the amount of load interrupted during a year by the duration (in minutes) of the interruption. This is then divided by the maximum load supplied on the whole network during that year.
<b>USAIDI</b>	Unplanned Supply Average Interruption Duration Index or the total minutes, on average, that a customer could expect unplanned interruption to electricity supply over a specified period of time.
<b>VENCorp</b>	Victorian Energy Networks Corporation



The Forest Stewardship Council (FSC) is an independent, not for profit, non-government organisation promoting responsible forest management, which may be used for certifying the management of forest holdings, and a system of tracing, verifying and labelling timber and wood products, which originate from FSC certified forests. Founded in 1993, FSC's mission is to promote environmentally responsible, socially beneficial and economically viable management of the world's forests.



[WWW.SP-AUSNET.COM.AU](http://WWW.SP-AUSNET.COM.AU)

