SPI Electricity & Gas Australia Holdings Pty Ltd
ACN 086 006 859

Interim Financial Report

For the financial period ended 30 September 2013

Contents

This interim financial report covers the consolidated entity consisting of SPI Electricity & Gas Australia Holdings Pty Ltd and its subsidiaries. The interim financial report is presented in Australian dollars.

SPI Electricity & Gas Australia Holdings Pty 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

SPI Electricity & Gas Australia Holdings Pty Ltd was admitted to the Official List of ASX Limited as a debt issuer on 25 July 2013. This is the first interim financial reported prepared by the Company and does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the special purpose financial report for the year ended 31 March 2013, and any public announcements made by SPI Electricity & Gas Australia Holdings Pty Ltd during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001 (Cth).

The interim financial report was authorised for issue by the Directors on 12 November 2013.

Directors' report

The Directors of SPI Electricity & Gas Australia Holdings Pty Ltd (the Company) present their report on the general purpose interim financial report of the consolidated entity (the SPI E&G Group) for the financial period ended 30 September 2013.

The immediate parent of the Company is a limited partnership called SPI Australia Holdings (Partnership) Limited Partnership.

The ultimate Australian parent of the Company is SP Australia Networks (Distribution) Ltd (SP AusNet Distribution), a company incorporated in Australia, which is part of a listed stapled group trading as SP AusNet. SP AusNet comprises the Stapled Group of SP AusNet Distribution and its subsidiaries, SP Australia Networks (Transmission) Ltd (SP AusNet Transmission) and its subsidiaries, and SP Australia Networks (Finance) Trust (SP AusNet Finance Trust).

Directors

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

Nino Ficca (Managing Director)

Norman Drew

Adam Newman

Charles Popple

Dividends

No dividends were paid and/or approved to shareholders during the financial period.

Discussion and analysis for the period ended 30 September 2013

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

Income Statement

The SPI E&G Group achieved an EBITDA for the period ended 30 September 2013 of $357.6 million, an increase of $43.1 million or 13.7 per cent over the previous corresponding period. This has been achieved as a result of higher revenues, with overall revenue increasing by 11.0 per cent to $625.8 million.

For the period ended 30 September 2013 the SPI E&G Group achieved a net profit after tax (NPAT) of $87.1 million, a decrease of $79.5 million or 47.7 per cent. This decrease is largely due to the decrease in non-current interest bearing receivables in the prior year, leading to a $117.8 million decline in finance income in the current period. In March 2013, the Company effected a capital reduction as part of its capital structure review. Share capital of $3,497.0 million was returned to the immediate parent of the Company, SPI Australia Holdings (Partnership) Limited Partnership, who in turn offset the proceeds from the capital reduction against its outstanding loan amount from the Company. As a result, share capital and non-current receivables of the Company and the SPI E&G Group decreased by $3,497.0 million.

The SPI E&G Group derives most of its earnings from two regulated energy network businesses, which include an electricity distribution network in eastern Victoria and a gas distribution network in western Victoria. A summary of the SPI E&G Group's operating revenues and results by operating segment for the period ended 30 September 2013 is set out below:

Discussion and analysis for the period ended 30 September 2013 (continued)

Electricity distribution business

	30 September 2013	30 September 2012	Movement	%
Segment revenue ($M)	422.2	349.2	73.0	20.9%
Segment result - EBITDA ($M)	236.8	182.1	54.7	30.0%

The electricity distribution business contributed $422.2 million in total revenues for the period ended 30 September 2013. Revenues increased by 73.0 million or 20.9 per cent despite the slight decline in volumes distributed. This growth has been primarily driven by regulated price increases for both electricity distribution as well as AMI revenues. In addition to this, 2013 calendar year price increases have also included increased revenues for the additional recovery of solar rebates paid that were not recovered in calendar year 2012. The electricity distribution business contributed $236.8 million to EBITDA for the period ended 30 September 2013.

During the financial period, 3,853 GWh was distributed through the electricity distribution network, representing a decrease of 3.9 per cent over the previous corresponding period. In addition, changing consumer behaviour and the continued take-up of solar energy have also contributed to the decline. This has been partially offset by a 1.6 per cent increase in the number of connections.

Gas distribution business

	30 September 2013	30 September 2012	Movement	%
Segment revenue ($M)	138.4	150.1	(11.7)	(7.8%)
Segment result - EBITDA ($M)	118.6	126.5	(7.9)	(6.2%)

The gas distribution business contributed $138.4 million in total revenues for the period ended 30 September 2013. A combination of regulated price decreases that applied from 1 July 2013 and lower volumes have resulted in the 7.8 per cent decrease in revenue over the previous corresponding period. Warmer temperatures experienced during the period, in particular during September which recorded the warmest average minimum temperature on record for the month, contributed to volumes declining by 7.4 per cent since the previous period. The gas distribution business contributed $118.6 million to EBITDA for the period ended 30 September 2013, a decrease of $7.9 million over the previous corresponding period.

Select Solutions business

	30 September 2013	30 September 2012	Movement	%
Segment revenue ($M)	65.2	64.5	0.7	1.1%
Segment result - EBITDA ($M)	2.2	5.9	(3.7)	(62.7%)

Select Solutions provides services to SP AusNet and also provides specialist utility related solutions, in particular, metering, monitoring and asset management services, to external parties. Select Solutions' customers are primarily electricity, water and gas utility owners and managers including Jemena Asset Management Pty Ltd (referred to as Jemena).

Select Solutions contributed $65.2 million in total revenues for the period ended 30 September 2013. Revenue increased due to additional activity under existing contracts. Select Solutions contributed $2.2 million to EBITDA for the period ended 30 September 2013, a reduction of $2.7 million on the prior period due to the loss of a service contract with United Energy and a $1.2 million prior period adjustment.

Discussion and analysis for the period ended 30 September 2013 (continued)

Financial position

Securityholders' equity was $1,253.7 million as at 30 September 2013, an increase of $141.4 million compared to 31 March 2013.

Current liabilities exceed current assets by $436.1 million at 30 September 2013. The financial report has been prepared on a going concern basis, which contemplates the continuity of normal trading operations. The SPI E&G Group is, and is expected to continue, trading profitably, generating positive cash flows and successfully refinancing maturing debt. In addition, at 30 September 2013 the SPI E&G Group has available a total of $325 million of undrawn but committed non-current bank debt facilities and $549.3 million of undrawn but committed current bank debt facilities.

Debt raising

The Company is utilised as SP AusNet's common funding vehicle (CFV). Companies within SP AusNet have access to SP AusNet facilities through the CFV.

In July 2013, SP AusNet successfully completed a EUR 500 million seven-year bond issue to raise approximately $707.0 million. The proceeds have been used to refinance existing debt and to fund capital expenditure. The undrawn facilities noted above can be used to repay the A$407 million medium term notes due in November 2013, with the remaining facilities available to fund capital expenditure and for other working capital requirements.

SP AusNet has a BBB+ credit rating from Standard and Poor's and A1 from Moody's Investor Services. The rating from Moody's Investor Services is on review for possible downgrade. If the partial divestment by Singapore Power of 19.9 per cent of its equity interest in SP AusNet to State Grid International Development (SGID) is completed as announced, the rating of SP AusNet is likely to be downgraded to A3.

Victorian February 2009 bushfires

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

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

The Kilmore East Supreme Court hearing is presently underway, and according to the court timetable, it is likely to continue for several months. SP AusNet is a defendant in this proceeding, along with the State of Victoria (Department of Sustainability and Environment, Country Fire Authority and others) and a contracted asset inspector.

In relation to the Kilmore East matter, it is now agreed by experts representing both SP AusNet and the plaintiff that the initial damage to the conductor, which ultimately led to its failure, was likely caused by lightning.

The Murrindindi class action is in very early stages, and it is expected that the trial will formally commence some time in 2014.

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

Discussion and analysis for the period ended 30 September 2013 (continued)

Victorian February 2009 bushfires (continued)

SP AusNet has liability insurance which specifically provides cover for bushfire liability. SP AusNet reviews its insurance cover annually and ensures it is commensurate with the scale and size of its operations, the risks assessed to be associated with its operations and with industry standards and practice.

SP AusNet's safety record, network asset management and network maintenance programs are consistent with industry practice, and its bushfire mitigation and vegetation management programs comply with Electricity Safety (Bushfire Mitigation) Regulations. SP AusNet's bushfire mitigation and vegetation management programs are audited annually by Energy Safe Victoria. SP AusNet had a 'zero' bushfire mitigation index throughout the 2008-09 bushfire season.

Advanced Metering Infrastructure roll-out program (AMI program)

The Victorian Government mandated the roll out of smart electricity meters in Victoria by the end of 2013 (AMI Program). It also established a range of functional and service level specifications for the AMI program, as well as a framework for the regulated recovery of costs associated with the program pursuant to the AMI Cost Recovery Order in Council which allows for the recovery of prudent costs of implementing the AMI program.

The AMI Program's aim is to reduce peak demand and improve existing network asset efficiency, network reliability and performance. In September 2013, the Victorian Government introduced a 'flexible pricing' trial for all customers with a remotely read smart meter.

On 31 October 2011, the AER released its Final Determination for SP AusNet's 2012 to 2015 Budget and Charges Application (Final Determination) for the AMI Program. The determination reduced SP AusNet's proposed expenditure for the period by $106.6 million from $410.7 million to $304.1 million (in 2011 Australian dollars).

SP AusNet lodged an appeal against the AER's Final Determination with the Australian Competition Tribunal (Tribunal). The Tribunal handed down its decision on 26 April 2012 and ordered the AER to reconsider $73.9 million in expenditure by revising its Final Determination in accordance with the Tribunal's reasoning by:

(i) amending the Final Determination as the AER considered appropriate to take into consideration SP AusNet's meter supply expenditure;

(ii) allowing the sum of $15.8 million in relation to foreign exchange costs; and

(iii) allowing the sum of $1.7 million in relation to project management costs.

On 11 February 2013, the AER published its Final Decision and approved the foreign exchange and project management costs totalling $17.5 million of the total amount that the AER was required to reconsider.

SP AusNet further appealed to the Tribunal and to the Federal Court of Australia concerning the AER's Final Decision on the basis that the AER did not follow the Tribunal's April 2012 remittal. SP AusNet was unsuccessful in its further appeal to the Tribunal which was dismissed on 1 August 2013. The Tribunal decision is the subject of a further Federal Court appeal which is still pending and is expected to be heard during May 2014.

Discussion and analysis for the period ended 30 September 2013 (continued)

Environmental Regulation and Climate Change

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

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

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

SP AusNet has estimated the annual cost of the carbon price based on direct emissions and other business impacts. These estimates show that the direct financial impact is unlikely to be material for the SPI E&G Group. SP AusNet is liable to surrender carbon units to cover fugitive emissions associated with the operation of its gas distribution network and must pay an equivalent import levy on SF_6, an insulating gas.

SP AusNet made a successful pass-through application to the AER for the impacts of the Carbon Pricing Legislation on its gas distribution business for the period 1 July to 31 December 2012 and a tariff mechanism to recover the cost of emissions from 1 January 2013 was approved by the AER in its Victorian Gas Access Arrangement Review for 2013-17. The AER also approved recovery of costs for the administrative costs associated with Carbon Pricing compliance.

SP AusNet has submitted expenditure forecasts to the AER, in relation to the Transmission Revenue Reset pricing regime that will apply for three years from 1 April 2014, that include provision for anticipated SF_6 expenses.

Ownership and Management of SP AusNet

On 17 May 2013, Singapore Power International Pte Ltd (SPI) and State Grid International Development Limited (SGID) announced an agreement for SGID to purchase a 19.9 per cent security holding in SP AusNet from SPI. This transaction remains subject to formal clearance by certain regulatory authorities. If these are not received on or before 16 November 2013, then SPI or SGID may elect to terminate the agreement. Upon approval, SPI will continue to be the largest securityholder in SP AusNet, with a stake of 31.1 per cent and the public continuing to own 49 per cent.

At the Annual General Meeting on 18 July 2013, the Directors noted that they were considering a number of implications which arise from this transaction. Amongst these is a possible restructure of the composition of the Board, the efficacy of retaining arrangements under which management of SP AusNet is provided by Singapore Power, and branding consequences. This review is ongoing.

As part of this review, the Directors have considered the Management Services Agreement (MSA) between SP AusNet and SPI Management Services. The MSA commenced on 1 October 2005 for an initial period of ten years but continues for two further ten-year periods unless terminated by either party giving no less than one year's notice prior to expiry of the applicable ten-year period. Given this timescale, it is the current intention of the Directors to terminate the MSA on or before 30 September 2015. As a consequence, discussions on the MSA with Singapore Power are under way.

If the MSA terminates on 30 September 2015, SPI Management Services is entitled to a termination fee equal to the previous financial year's management services charge paid or payable by SP AusNet. By mutual agreement, the MSA may terminate before 30 September 2015, in which case a negotiated termination fee would be payable. SP AusNet's current intention to terminate the MSA is not dependent on the outcome of the proposed transaction between SPI and SGID.

Discussion and analysis for the period ended 30 September 2013 (continued)

Ownership and Management of SP AusNet (continued)

There is also a MSA between SPI Management Services and the Responsible Entity. This would be terminated at the same time as the SP AusNet MSA, with no termination fee payable.

Given this current intention, if no agreement is reached by 31 March 2014 with SPI Management Services on early termination, the SPI Distribution Group would recognise at 31 March 2014 a $16.8 million provision for termination, being the present value of the estimated termination fee payable under the MSA, if the MSA terminates on 30 September 2015.

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 SPI E&G Group that occurred during the period under review.

Matters subsequent to the end of the financial period

With the exception of the matters outlined in this report above, the Directors are not aware of any circumstances that have arisen since 30 September 2013 that have significantly affected or may significantly affect the operations, and the results of those operations, or the state of affairs of the SPI E&G Group in the financial period subsequent to 30 September 2013.

Lead Auditor's Independence Declaration

The Lead Auditor's Independence Declaration is set out on page 9 and forms part of the Directors' report for the period ended 30 September 2013.

Rounding of amounts

The SPI E&G Group 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 to the nearest hundred thousand dollars.

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

Nino Ficca
Managing Director

Melbourne
12 November 2013

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

To: *the directors of SPI Electricity & Gas Australia Holdings Pty Ltd*

I declare that, to the best of my knowledge and belief, in relation to the review for the interim period ended 30 September 2013 there have been:

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

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

KPMG

KPMG

Michael Bray
Partner

Melbourne

12 November 2013

Consolidated interim income statement

For the period ended 30 September 2013

	Notes	30 September 2013 $M	30 September 2012 $M
Revenue	2	625.8	563.8
Expenses, excluding finance costs	2	(400.5)	(359.9)
Profit from operating activities		225.3	203.9
Finance income	4	92.7	210.5
Finance costs	4	(197.6)	(178.4)
Net finance (costs)/income		(104.9)	32.1
Profit before income tax		120.4	236.0
Income tax expense		(33.3)	(69.4)
Profit for the period		87.1	166.6

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

Consolidated interim statement of comprehensive income

For the period ended 30 September 2013

	30 September 2013 $M	30 September 2012 $M
Profit for the period	87.1	166.6
Other comprehensive income		
Items that will not be reclassified to profit or loss in subsequent periods		
Movement in defined benefit fund	15.4	(13.0)
Income tax on movement in defined benefit fund	(4.6)	3.9
	10.8	(9.1)
Items that may be reclassified to profit or loss in subsequent periods		
Movement in hedge reserve	62.1	(14.8)
Income tax on movement in hedge reserve	(18.6)	4.4
	43.5	(10.4)
Other comprehensive income for the period, net of income tax	54.3	(19.5)
Total comprehensive income for the period	141.4	147.1

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

Consolidated interim statement of financial position

As at 30 September 2013

	Notes	30 September 2013 $M	31 March 2013 (restated*) $M
ASSETS			
Current assets			
Cash and cash equivalents		7.0	434.3
Receivables		265.4	229.9
Inventories		52.6	45.2
Derivative financial instruments		-	6.7
Other assets		11.6	11.4
Total current assets		336.6	727.5
Non-current assets			
Receivables		2,314.6	2,279.8
Property, plant and equipment		5,038.8	4,850.7
Intangible assets		368.7	369.1
Derivative financial instruments		194.7	79.5
Other assets		0.7	0.7
Total non-current assets		7,917.5	7,579.8
Total assets		8,254.1	8,307.3
LIABILITIES			
Current liabilities			
Payables and other liabilities		182.6	185.0
Borrowings		412.5	843.0
Provisions		54.9	62.8
Derivative financial instruments		122.7	207.0
Total current liabilities		772.7	1,297.8
Non-current liabilities			
Payables and other liabilities		789.3	779.7
Borrowings		4,846.2	4,367.8
Provisions		30.9	44.9
Derivative financial instruments		263.9	453.9
Deferred tax liabilities		297.4	250.9
Total non-current liabilities		6,227.7	5,897.2
Total liabilities		7,000.4	7,195.0
Net assets		1,253.7	1,112.3
EQUITY			
Equityholders of the SPI E&G Group			
Contributed equity	6	640.0	640.0
Reserves		(72.4)	(115.9)
Retained profits		686.1	588.2
Total equity		1,253.7	1,112.3

**31 March 2013 has been restated in accordance with AASB 119 Employee Benefits. Refer note 1.*

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

Consolidated interim statement of changes in equity

For the period ended 30 September 2013

	Contributed equity	Hedge reserve (i)	Retained profits	Total equity
	$M	$M	$M	$M
30 September 2013				
Balance as at 1 April 2013 (restated*)	640.0	(115.9)	588.2	1,112.3
Total comprehensive income for the period				
Profit for the period	-	-	87.1	87.1
Total other comprehensive income	-	43.5	10.8	54.3
Total comprehensive income for the period	-	43.5	97.9	141.4
Balance as at 30 September 2013	640.0	(72.4)	686.1	1,253.7
30 September 2012				
Balance as at 1 April 2012 (restated*)	4,137.0	(130.3)	341.3	4,348.0
Total comprehensive income for the period				
Profit for the period	-	-	166.6	166.6
Total other comprehensive income	-	(10.4)	(9.1)	(19.5)
Total comprehensive income for the period	-	(10.4)	157.5	147.1
Balance as at 30 September 2012	4,137.0	(140.7)	498.8	4,495.1

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

**Certain balances have been restated in accordance with AASB 119 Employee Benefits. Refer note 1.*

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

Consolidated interim statement of cash flows

For the period ended 30 September 2013

	Notes	30 September 2013 $M	30 September 2012 $M
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		643.8	572.9
Payments to suppliers and employees (inclusive of goods and services tax)		(329.5)	(285.8)
Finance income received		94.7	206.7
Finance costs paid		(187.0)	(181.1)
Net cash inflow from operating activities		222.0	312.7
Cash flows from investing activities			
Payments for property, plant and equipment		(337.4)	(288.1)
Proceeds from sale of property, plant and equipment		0.1	0.3
Net cash outflow from investing activities		(337.3)	(287.8)
Cash flows from financing activities			
(Repayments)/proceeds of loans with related parties		(34.9)	195.6
Proceeds from borrowings		981.9	530.5
Repayment of borrowings		(1,259.0)	(341.5)
Net cash (outflow)/inflow from financing activities		(312.0)	384.6
Net (decrease)/increase in cash held		(427.3)	409.5
Cash and cash equivalents at the beginning of the period		434.3	10.9
Cash and cash equivalents at the end of the period		7.0	420.4

Certain subsidiary companies provide transactional banking facilities for the other entities within the SP AusNet Group and receipts and payments are recorded through intra group loans. Such transactions, which took place during the financial period, have been treated as cash flows because the transactions would have resulted in a cash flow to the other entities within the SP AusNet Group had those entities maintained their own banking facilities.

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

Condensed notes to the consolidated interim financial statements
30 September 2013

Contents

Note 1 Summary of significant accounting policies

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

(a) Basis of preparation

The general purpose interim financial report, prepared by a for-profit entity, for the period ended 30 September 2013 has been prepared in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act* 2001 (Cth).

SPI Electricity & Gas Australia Holdings Pty Ltd was admitted to the Official List of ASX Limited as a debt issuer on 25 July 2013. This is the first interim financial reported prepared by the Company does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the special purpose financial report for the year ended 31 March 2013 and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act.

This general purpose interim financial report is presented in Australian dollars.

The financial statements were approved by the Board of Directors on 12 November 2013.

The SPI E&G Group's current liabilities exceed current assets by $436.1 million at 30 September 2013 primarily due to $412.5 million of borrowings. The financial report has been prepared on a going concern basis, which contemplates the continuity of normal trading operations. The SPI E&G Group is, and is expected to continue trading profitably, generating positive cash flows and successfully refinancing maturing debt. In addition, at 30 September 2013 the SPI E&G Group has available a total of $325.0 million of undrawn but committed non-current bank debt facilities and $549.3 million of undrawn but committed current bank debt facilities.

(b) Significant accounting policies

Except as described below, the accounting policies applied by the SPI E&G Group in this consolidated interim financial report are the same as those applied by the SPI E&G Group in its consolidated financial report as at and for the year ended 31 March 2013. The standards relevant to the SPI E&G Group that have been adopted during the period are:

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

  As a result of these amendments, the comparative financial information in the income statement, statement of comprehensive income and statement of financial position for the year ended 31 March 2013 has been restated. There has been no restatement of the comparative results for 30 September 2012 as this is the first interim financial reported prepared by the Company. There was no restatement impact on the statement of cash flows. The impact from adoption of the revised AASB 119 is shown below:

Note 1 Summary of significant accounting policies (continued)

(b) Significant accounting policies (continued)

	Cumulative impacts - increase/(decrease)	
	1 April 2012	31 March 2013
	$M	$M
Impact on income statement		
Profit after income tax	-	(3.5)
Impact on statement of comprehensive income		
Other comprehensive income for the period, net of income tax	-	2.5
Impact on statement of financial position		
Net liabilities	4.6	(3.6)
Retained earnings (opening balance)	4.6	4.6
Retained earnings	-	(1.0)
Total equity	4.6	3.6

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

(c) Rounding of amounts

The SPI E&G 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 interim financial report have been rounded off to the nearest hundred thousand dollars.

Note 2 Segment information

(a) Description of reportable segments

The SPI E&G Group is organised into the following segments:

(i) Electricity distribution

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

(ii) Gas distribution

The gas distribution network carries natural gas to commercial and residential end users. The SPI E&G Group charges retailers and some large customers regulated rates for the use of the gas distribution network. The gas distribution segment does not purchase or sell gas. The SPI E&G Group's gas distribution network covers central and western Victoria.

(iii) Select Solutions

Select Solutions provides specialist utility-related solutions, in particular metering, monitoring and asset management services, to external parties as well as to other segments of the SPI E&G Group. Select Solutions' customers are primarily electricity, water and gas utility owners and managers, including Jemena, which is a related party.

Note 2 Segment information (continued)

(b) Reportable segment financial information

30 September 2013	Electricity distribution $M	Gas distribution $M	Select Solutions $M	Consolidated $M
Regulated revenue	410.2	133.4	-	543.6
Customer contributions	9.4	4.7	-	14.1
Service revenue	-	-	56.1	56.1
Other revenue	2.6	0.3	9.1	12.0
Total segment revenue	422.2	138.4	65.2	625.8
Segment expense before depreciation and amortisation	(185.4)	(19.8)	(63.0)	(268.2)
Segment result - EBITDA (i)	236.8	118.6	2.2	357.6
Depreciation and amortisation	(103.0)	(27.4)	(1.9)	(132.3)
Net finance costs				(104.9)
Income tax expense				(33.3)
Profit for the period				87.1
30 September 2012				
Regulated revenue	337.0	149.3	-	486.3
Customer contributions	10.3	0.8	-	11.1
Service revenue	-	-	53.7	53.7
Other revenue	1.9	-	10.8	12.7
Total segment revenue	349.2	150.1	64.5	563.8
Segment expense before depreciation and amortisation	(167.1)	(23.6)	(58.6)	(249.3)
Segment result - EBITDA (i)	182.1	126.5	5.9	314.5
Depreciation and amortisation	(82.0)	(27.0)	(1.6)	(110.6)
Net finance income				32.1
Income tax expense				(69.4)
Profit for the period				166.6

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

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

(i) Accounting policies

Segment revenues and expenses are those that are directly attributable to a segment and the relevant position can be allocated to the segment on a reasonable basis. The Cost Allocation Methodology as approved by the Australian Energy Regulator (AER) is used as the basis for allocating expenses to the relevant segment.

Note 3 Seasonality of operations

(a) Electricity distribution

Electricity distribution volumes display some seasonal variation with increased volumes in winter due to higher demand for heating and increased volumes in summer as a result of higher demand for air conditioning. However, the impact of seasonal volume variation on electricity distribution revenue is limited due to the tariff structure, which includes a fixed component and a contract demand capacity component. The high proportion of process-related consumption of commercial and industrial customers also limits seasonal variation in electricity distribution revenue.

(b) Gas distribution

Gas distribution volume is seasonal with a distinct winter peak due to gas demand for heating. A component of the seasonal revenue variation is mitigated due to the tariff structure, which includes a fixed component and a demand capacity-based component.

(c) Select Solutions

Select Solutions revenue is not seasonal. Select Solutions revenue is earned as the services are rendered.

Note 4 Net finance (costs)/income

	30 September 2013 $M	30 September 2012 $M
Finance income		
Interest income	92.7	210.5
Total finance income	92.7	210.5
Finance costs		
Interest expense	192.0	183.6
Defined benefit net interest expense	0.3	0.4
Other finance charges	5.3	(5.6)
Total finance costs	197.6	178.4
Net finance (costs)/income	(104.9)	32.1

The $117.8 million decrease in finance income is largely due to the decrease in non-current interest bearing receivables in the prior year. In March 2013, the Company effected a capital reduction as part of its capital structure review. Share capital of $3,497.0 million was returned to the immediate parent of the Company, SPI Australia Holdings (Partnership) Limited Partnership, who in turn offset the proceeds from the capital reduction against its outstanding loan amount from the Company. As a result, share capital and non-current receivables of the Company and the SPI E&G Group decreased by $3,497.0 million.

Note 5 Borrowings

The Company is utilised as the common or central funding vehicle (CFV) for the SP AusNet Group. Companies within SP AusNet have access to SP AusNet facilities through the CFV.

In July 2013, the Company successfully completed a EUR 500 million seven-year bond issue to raise approximately $707.0 million. The SPI E&G Group has $325.0 million of undrawn but committed non-current bank debt facilities and $549.3 million of undrawn but committed current bank debt facilities as at 30 September 2013. Of the $549.3 million of current bank debt facilities, $350.0 million mature in September 2014.The undrawn facilities can be used to repay the A$407 million medium term notes due in November 2013, with the remaining facilities available to fund capital expenditure and for other working capital requirements.

The SP AusNet Group has a BBB+ credit rating from Standard and Poor's. Standard and Poor’s lowered its long-term rating on SP AusNet in May 2013 following the announcement of the proposed partial divestment by Singapore Power of 19.9 per cent of its equity interest in SP AusNet to State Grid International Development (SGID). The reason for the change in credit rating is that SP AusNet has to date received an up-lift from its stand-alone credit profile due to the positive impact of its current majority owner, Singapore Power. The Standard and Poor’s rating on SP AusNet now reflects the stand-alone credit profile of the business.

The SP AusNet Group has an A1 credit rating from Moody's Investor Services. The A1 rating from Moody’s Investor Services is on review for possible downgrade. If the partial divestment by Singapore Power is completed as announced, the rating of SP AusNet is likely to be downgraded to A3. The review for downgrade of SP AusNet reflects Moody’s Investor Services view that the likelihood of securityholder support for SP AusNet will reduce following the partial divestment by Singapore Power Limited.

The fair value of total borrowings as at 30 September 2013 is $5,650.7 million.

Note 6 Equity

Movements in ordinary share capital

Date	Details	Number of shares	$M
1 April 2013	Opening balance	639,486,731	640.0
30 September 2013	Closing balance	639,486,731	640.0

Note 7 Financial risk management

The Directors and other key management personnel of SP AusNet are engaged to provide services to the SP AusNet Group and are not exclusive to any particular entity within the SP AusNet Group. Accordingly, funding and other policy matters are managed for the whole of the SP AusNet Group and not on an individual entity basis.

The use of financial derivatives is governed by the SP AusNet Group’s policies approved by the Board of Directors, which provide written principles on the use of financial derivatives. The internal audit department periodically reviews compliance with financial risk management policies and exposure limits.

The objective of hedging activities carried out by the SPI E&G Group is to minimise the exposure to changes in interest rates and foreign exchange rates. Changes in interest rates are hedged by matching the actual cost of debt with the cost of debt assumed by the regulator when setting the rate of return for the relevant regulated business.

The SPI E&G Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The SPI E&G Group’s financial risk management objectives and policies are consistent with those disclosed in the consolidated special purpose financial report as at and for the year ended 31 March 2013.

Note 8 Fair value measurement

Derivative financial instruments are recognised at fair value and are measured in accordance with generally accepted pricing models based on discounted cash flow analysis. Appropriate transaction costs are included in the determination of net fair value. These pricing models use significant market observable data as well as market corroboration based on active quotes. As such, fair value measurements are deemed level two within the fair value hierarchy as per AASB 7 *Financial Instruments: Disclosure.* The SPI E&G Group does not have any financial instruments which would be categorised as either level one or three of the fair value hierarchy.

The valuation techniques applied by the SPI E&G Group are consistent with those applied and disclosed in the consolidated financial report as at and for the year ended 31 March 2013.

The SPI E&G Group also has a number of financial assets and liabilities which are not measured at fair value in the consolidated statement of financial position. With the exception of borrowings, the carrying amounts of these items are considered to be a reasonable approximation of their fair value at 30 September 2013.

Note 9 Critical accounting estimates and judgements

The preparation of the financial report requires management to make estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

In preparing this consolidated interim financial report, the key sources of estimation uncertainty were the same as those that applied to the consolidated special purpose financial report as at and for the year ended 31 March 2013. Some of the critical assumptions and estimates used by management in applying the SPI E&G Group's accounting policies for the period ended 30 September 2013 have been updated to reflect the latest available information. These updates have not had a significant impact on the financial performance or financial position of the SPI E&G Group.

Note 10 Contingent liabilities

Details of contingent liabilities of the SPI E&G Group for which no provisions are included in the financial statements are as follows:

(a) Victorian February 2009 bushfires

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

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

The Kilmore East Supreme Court hearing is presently underway, and according to the court timetable, it is likely to continue for several months. SP AusNet is a defendant in this proceeding, along with the State of Victoria (Department of Sustainability and Environment, Country Fire Authority and others) and a contracted asset inspector.

In relation to the Kilmore East matter, it is now agreed by experts representing both SP AusNet and the plaintiff that the initial damage to the conductor, which ultimately led to its failure, was likely caused by lightning.

The Murrindindi class action is in very early stages, and it is expected that the trial will formally commence some time in 2014.

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

Note 10 Contingent liabilities (continued)

(a) Victorian February bushfires 2009 (continued)

SP AusNet has liability insurance which specifically provides cover for bushfire liability. SP AusNet reviews its insurance cover annually and ensures it is commensurate with the scale and size of its operations, the risks assessed to be associated with its operations and with industry standards and practice.

SP AusNet's safety record, network asset management and network maintenance programs are consistent with industry practice, and its bushfire mitigation and vegetation management programs comply with Electricity Safety (Bushfire Mitigation) Regulations. SP AusNet’s bushfire mitigation and vegetation management programs are audited annually by Energy Safe Victoria. SP AusNet had a ‘zero’ bushfire mitigation index throughout the 2008-09 bushfire season.

Note 11 Events occurring after the balance sheet date

(a) Ownership and Management of SP AusNet

The Directors have considered the Management Services Agreement (MSA) between SP AusNet and SPI Management Services. The MSA commenced on 1 October 2005 for an initial period of ten years but continues for two further ten-year periods unless terminated by either party giving no less than one year’s notice prior to expiry of the applicable ten-year period. Given this timescale, it is the current intention of the Directors to terminate the MSA on or before 30 September 2015. As a consequence, discussions on the MSA with Singapore Power are under way.

If the MSA terminates on 30 September 2015, SPI Management Services is entitled to a termination fee equal to the previous financial year’s management services charge paid or payable by SP AusNet. By mutual agreement, the MSA may terminate before 30 September 2015, in which case a negotiated termination fee would be payable. SP AusNet’s current intention to terminate the MSA is not dependent on the outcome of the proposed transaction between SPI and SGID.

There is also a MSA between SPI Management Services and the Responsible Entity. This would be terminated at the same time as the SP AusNet MSA, with no termination fee payable.

Given this current intention, if no agreement is reached by 31 March 2014 with SPI Management Services on early termination, the SPI Distribution Group would recognise at 31 March 2014 a $16.8 million provision for termination, being the present value of the estimated termination fee payable under the MSA, if the MSA terminates on 30 September 2015.

(b) Other matters

Other than outlined above, there has been no matter or circumstance that has arisen since 30 September 2013 up to the date of issue of this financial report that has significantly affected or may significantly affect:

(a) the operations in financial periods subsequent to 30 September 2013 of the SPI E&G Group;

(b) the results of those operations; or

(c) the state of affairs, in financial periods subsequent to 30 September 2013, of the SPI E&G Group.

Directors' declaration

In the opinion of the Directors of SPI Electricity and Gas Australia Holdings Pty Ltd (the Company):

(a) the interim financial statements and notes set out on pages 10 to 23, are in accordance with the *Corporations Act* 2001, including:

  (i) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations* 2001; and

  (ii) giving a true and fair view of the consolidated entity's financial position as at 30 September 2013 and its performance for the six month period 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.

Signed in accordance with a resolution of the Directors.

Nino Ficca
Managing Director

Melbourne
12 November 2013

Independent auditor's review report to the members of SPI Electricity & Gas Australia Holdings Pty Ltd

Report on the financial report

We have reviewed the accompanying interim financial report of SPI Electricity & Gas Australia Holdings Pty Ltd (the Company), which comprises the consolidated interim statement of financial position as at 30 September 2013, consolidated interim income statement and consolidated interim statement of comprehensive income, consolidated interim statement of changes in equity and consolidated interim statement of cash flows for the interim period ended on that date, notes 1 to 11 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the Company and the entities it controlled at the half-year's end or from time to time during the interim period.

Directors' responsibility for the interim financial report

The directors of the Company are responsible for the preparation of the interim financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the interim financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 30 September 2013 and its performance for the interim period ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of SPI Electricity & Gas Australia Holdings Pty Ltd, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

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

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of SPI Electricity & Gas Australia Holdings Pty Ltd is not in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the Group's financial position as at 30 September 2013 and of its performance for the interim period ended on that date; and

b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

KPMG

KPMG

Michael Bray
Partner

Melbourne

12 November 2013