ASX & SGX-ST Release

15 May 2014

TO: ASX Limited
Singapore Exchange Securities Trading Limited

Results for Announcement to the Market
Year Ended 31 March 2014

The following documents are attached:

1. ASX Appendix 4E – Final Report; and

2. Financial Report of SP Australia Networks (Distribution) Ltd for the period ended 31 March 2014.

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SP AusNet

SP Australia Networks (Distribution) Ltd
ABN 37 108 788 245

SP Australia Networks (Transmission) Ltd
ABN 48 116 124 362

SP Australia Networks (Finance) Trust
ARSN 116 783 914

SP Australia Networks (RE) Ltd
ABN 46 109 977 371
AFS Licence No. 294117 as responsible entity for SP Australia Networks (Finance) Trust

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SP Australia Networks (Distribution) Ltd trading as SP AusNet
ACN: 108 788 245

Appendix 4E

Final report
Period Ending 31 March 2014

1. The current reporting period is the year ended 31 March 2014. The previous corresponding period is the year ended 31 March 2013. 31 March 2013 has been restated on adoption of AASB 119 Employee Benefits. Refer note 1 within the attached General Purpose Financial Report for SP Australia Networks (Distribution) Ltd.

2. Results for announcement to the market

	31 March 2014 $M	31 March 2013 (restated) $M	% change	Up / down
2.1 Revenue from continuing operations	1,799.4	1,639.5	9.8	up
2.2 Profit from ordinary activities after tax attributable to stapled securityholders comprises:				
Profit from continuing operations	178.3	273.5	34.8	down
2.3 Net profit for the year attributable to stapled securityholders	178.3	273.5	34.8	down

Profit from ordinary activities after tax includes a net charge of $86.7 million for the amount potentially payable under the Section 163AA impost dispute with the Australian Tax Office and $40.4 million (net of tax) for the termination payment and restructuring provision arising from the Termination Deed entered into with Singapore Power International Pte Ltd (SPI) and SPI Management Services Pty Ltd to terminate the Management Services Agreement, the IT services agreement with Enterprise Business Services, and the IP licence agreement. Excluding the impact of these one-off items, profit after tax from continuing operations for the year ending 31 March 2014 would have been $305.4 million.

2.4 Distributions for the financial year ended 31 March 2014:

	Cents per security
Interim distribution:	
Fully franked dividend	1.393
Interest income	2.396
Return of capital	0.391
Total interim distribution	4.180
Final distribution:	
Fully franked dividend	1.393
Interest income	2.379
Return of capital	0.408
Total final distribution	4.180

2.5 The record dates for determining entitlements to the distributions:

Distribution	Record date	Payment date
Interim	22 November 2013	23 December 2013
Final	28 May 2014	27 June 2014

2.6 Brief explanation of revenues, profits after income tax and distributions:

Refer to the analysis contained in the Directors' report within the attached General Purpose Financial Report for SP Australia Networks (Distribution) Ltd.

3. Statement of comprehensive income

Refer to the statement of comprehensive income contained within the attached General Purpose Financial Report for SP Australia Networks (Distribution) Ltd.

4. Statement of financial position

Refer to the statement of financial position contained within the attached General Purpose Financial Report for SP Australia Networks (Distribution) Ltd.

5. Statement of cash flows

Refer to the statement of cash flows contained within the attached General Purpose Financial Report for SP Australia Networks (Distribution) Ltd.

6. Dividends and Distributions

The following distributions have been paid or are payable to securityholders:

	Cents per security	Total distribution $M	Date paid/payable
2014:			
Final Distribution payable			
Fully franked dividend	1.393	47.2	27 June 2014
Interest income	2.379	80.6	27 June 2014
Return of capital	0.408	13.8	27 June 2014
Total Final Distribution	4.180	141.6	
Interim Distribution paid			
Fully franked dividend	1.393	47.0	23 December 2013
Interest income	2.396	80.9	23 December 2013
Return of capital	0.391	13.2	23 December 2013
Total Interim Distribution	4.180	141.1	
Total 2014 Distribution	8.360	282.7	

In relation to the interim distributions on 23 December 2013 of $141.1 million, $11.8 million was utilised in the allotment of new securities issued under the Distribution Reinvestment Plan.

	Cents per security	Total distribution $M	Date paid
2013:			
Final Distribution payable			
Fully franked dividend	1.367	46.0	28 June 2013
Interest income	2.649	89.2	28 June 2013
Return of capital	0.084	2.8	28 June 2013
Total Final Distribution	4.100	138.0	
Interim Distribution paid			
Fully franked dividend	1.367	45.6	21 December 2012
Interest income	2.467	82.4	21 December 2012
Return of capital	0.266	8.9	21 December 2012
Total Interim Distribution	4.100	136.9	
Total 2013 Distribution	8.200	274.9	

In relation to the interim distributions on 21 December 2012 of $136.9 million, $29.3 million was utilised in the allotment of new securities issued under the Distribution Reinvestment Plan. In relation to the final distributions on 28 June 2013 of $138.0 million, $10.4 million was utilised in the allotment of new securities issued under the Distribution Reinvestment Plan.

7. Distribution Reinvestment Plans

On 7 October 2008, the SP AusNet Board announced the introduction of a Distribution Reinvestment Plan (DRP). The DRP is available for participation by securityholders on both the ASX and SGX-ST.

Securityholders participating in the DRP for the 2013/14 final distribution will be issued SP AusNet stapled securities at a 2% discount to the issue price of SP AusNet stapled securities established under the rules of the DRP. The issue price is calculated as the average of the volume weighted average price (as defined in the DRP rules) (VWAP) of SP AusNet stapled securities sold in ordinary market transactions on the ASX during the 10 trading days immediately after the record date for the distribution. The record date for the 2013/14 final distribution is 28 May 2014.

The deadline for the receipt of Election Notices for participation in the DRP for the 2013/14 final distribution is 5.00pm (Australian Eastern Standard Time) on 28 May 2014.

8. Statement of changes in equity

Refer to statement of changes in equity in the attached General Purpose Financial Report for SP Australia Networks (Distribution) Ltd.

9. Net tangible assets per security

	2014	2013 (restated)
Net tangible assets per stapled security	$0.90	$0.91

10. Gain or loss of control over entities

Refer to note 26 in the attached General Purpose Financial Report for SP Australia Networks (Distribution) Ltd.

11. Details of associates/joint ventures

SP AusNet had no associates or joint ventures in operation at balance date.

12. Other significant information

Refer to the analysis contained in the Directors' Report within the attached General Purpose Financial Report for SP Australia Networks (Distribution) Ltd.

13. Foreign Entities

Not Applicable.

14. Commentary on results for the period

14.1 Earnings per security

Company	31 March 2014	31 March 2013 (restated)
Earnings per share from profit (Company)	0.10 cents	0.18 cents
Earnings per share from profit from continuing operations (Company)	0.10 cents	0.18 cents
Dilution aspects	None	None

Stapled Group	31 March 2014	31 March 2013 (restated)
Earnings per stapled security from profit	5.28 cents	8.37 cents
Earnings per stapled security from profit from continuing operations	5.28 cents	8.37 cents
Earnings per stapled security from profit (adjusted for individually material items)	9.04 cents	8.37 cents
Earnings per stapled security from profit from continuing operations (adjusted for individually material items)	9.04 cents	8.37 cents
Dilution aspects	None	None

14.2 Returns to Securityholders

Returns to Securityholders are detailed in section 6 above.

14.3 Significant features of operating performance

Refer to the analysis contained in the Directors' Report within the attached General Purpose Financial Report for SP Australia Networks (Distribution) Ltd.

14.4 Segment results

Refer to note 2 in the attached General Purpose Financial Report for SP Australia Networks (Distribution) Ltd.

14.5 Trends in performance

Refer to the analysis contained in the Directors' Report within the attached General Purpose Financial Report for SP Australia Networks (Distribution) Ltd.

14.6 Other factors affecting the results

Refer to the analysis contained in the Directors' Report within the attached General Purpose Financial Report for SP Australia Networks (Distribution) Ltd.

15 Status of audit of accounts

The financial report is based on accounts which have been audited.

Date: 14 May 2014

SP Australia Networks (Distribution) Ltd
ACN 108 788 245

Financial Report

For the financial year ended 31 March 2014

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

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

Level 31, 2 Southbank Boulevard
Southbank, Victoria 3006
Australia

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

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

Directors' report

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

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

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

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

Directors

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

Non-executive Directors

Ng Kee Choe (Chairman)

Ralph Craven (commenced effective 24 January 2014)

Jeremy Guy Ashcroft Davis AM

Sally Marie Farrier (commenced effective 24 January 2014)

Eric Gwee Teck Hai

Ho Tian Yee

Antonino (Tony) Mario Iannello

George Allister Lefroy (retired effective 18 July 2013)

Tina Renna McMeckan

Ian Andrew Renard AM

Sun Jianxing (commenced effective 24 January 2014)

Executive Director

Nino Ficca (Managing Director)

Principal activities

The principal activities of SP AusNet are:

- Electricity distribution – delivery of electricity to approximately 669,000 consumer connection points over 80,000 square kilometres in eastern Victoria including Melbourne's outer eastern suburbs;
- Gas distribution – delivery of natural gas to approximately 633,000 consumer connection points over 60,000 square kilometres in central and western Victoria including some of Melbourne's western suburbs;
- Electricity transmission – the transmission of electricity within the state of Victoria; and
- Select Solutions – the provision of specialist utility related metering, data and asset management services.

Directors' report (continued)

Principal activities (continued)

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

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

Strategy

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

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

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

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

Directors' report (continued)

Strategy (continued)

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

Directors' report (continued)

Key achievements

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

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

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

Ownership and management of SP AusNet

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

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

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

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

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

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

Directors' report (continued)

Review of operations for the year ended 31 March 2014

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

$M	31 March 2014	31 March 2013[1]	Movement	%
Revenue	1,799.4	1,639.5	159.9	9.8%
EBITDA	1,017.4	974.0	43.4	4.5%
NPAT	178.3	273.5	(95.2)	(34.8%)
Adjusted EBITDA[2, 4]	1,075.1	974.0	101.1	10.4%
Adjusted NPAT[3, 4]	305.4	273.5	31.9	11.7%

Notes:

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

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

Electricity distribution business

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

*Restated to exclude solar exports.

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

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

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

Directors' report (continued)

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

Electricity distribution business (continued)

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

Advanced Metering Infrastructure (AMI) program

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

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

Gas distribution business

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

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

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

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

Directors' report (continued)

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

Electricity transmission business

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

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

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

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

Select Solutions business

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

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

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

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

Directors' report (continued)

Financial position as at 31 March 2014

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

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

Capital management

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

Debt raising

SP AusNet's common or central funding vehicle (CFV) operates through SPI Electricity & Gas Australia Holdings Pty Ltd, a subsidiary of SP AusNet Distribution. SP AusNet has access to funds through the CFV.

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

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

Distributions

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

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

Directors' report (continued)

Capital management (continued)

Distributions (continued)

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

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

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

Distribution Reinvestment Plan (DRP)

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

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

Material risks and uncertainties

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

(a) Advanced Metering Infrastructure (AMI) program risks

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

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

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

Directors' report (continued)

Material risks and uncertainties (continued)

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

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

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

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

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

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

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

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

(b) Taxation risks

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

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

Directors' report (continued)

Material risks and uncertainties (continued)

(b) Taxation risks (continued)

Section 163AA impost

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

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

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

Intellectual property

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

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

Intra-group financing arrangements

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

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

(c) February 2009 bushfire litigation risks

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

SP AusNet has liability insurance which specifically provides cover for bushfire liability. SP AusNet reviews its insurance cover annually and ensures it is commensurate with the scale and size of its operations, the risks assessed to be associated with its operations and with industry standards and practice. In addition, there are regulatory mechanisms in place that enable SP AusNet to apply for a pass-through of any residual costs that may ultimately be incurred.

Directors' report (continued)

Material risks and uncertainties (continued)

(c) February 2009 bushfire litigation risks (continued)

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

(d) Regulatory risks

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

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

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

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

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

- A new rate of return framework has been established and the AER has greater discretion on the approach for setting the Weighted Average Cost of Capital (WACC). These new guidelines will first apply to SP AusNet under the electricity distribution reset on 1 January 2016.

- A number of other rule changes have been made to provide new tools, such as capital expenditure sharing schemes and ex-post efficiency reviews, so the regulator can incentivise network service providers to invest capital efficiently. The regulator will also have an increased regard to benchmarking in making revenue determinations.

- Legislative amendments to the limited merits appeal regime were passed in November 2013. The threshold for leave to appeal has been raised by requiring the applicant to establish a prima facie case that a materially preferable decision exists.

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

Directors' report (continued)

Material risks and uncertainties (continued)

(e) Funding and market risks

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

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

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

(f) Information and communication technology risks

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

- On 31 March 2014 SP AusNet terminated its agreement with EBS for the provision of information technology services. SP AusNet intends to transition its share of existing EBS activities into the core SP AusNet IT function as soon as practicable.

- As noted in the Strategy section above, SP AusNet has initiated an enterprise-wide program to improve processes, including the replacement of multiple asset management and resource planning platforms with a single fully integrated system.

- As noted in the AMI program risks section above, an additional investment is required to undertake a range of prudent and necessary activities to ensure that the AMI solution consistently meets the functional and service level requirements of the program for all meters.

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

Directors' report (continued)

Environmental regulation and climate change

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

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

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

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

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

Significant changes in the state of affairs

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

Matters subsequent to the end of the financial year

Distribution

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

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

Directors' report (continued)

Information on Directors

Ng Kee Choe – *Chairman – Non-executive*

Bachelor of Science (Honours), University of Singapore

Experience and expertise

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

Other current listed company directorships

Singapore Exchange Ltd (2003 to date) (SGX-ST listed entity)
PT Bank Danamon Indonesia, Tbk (2004 to date) (Jakarta Stock Exchange listed entity)
CapitaLand Limited (2010 to date) (SGX-ST listed entity)
CapitaMalls Asia Limited (2013 to date) (SGX-ST and Hong Kong Stock Exchange Listed entity)

Former listed company directorships in last 3 years

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

Date of initial appointment

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

Special responsibilities

Chairman of the SP AusNet Board, Chairman of the Nomination Committee and Chairman of the Issuing Committee.

Nino Ficca – *Managing Director*

Bachelor of Engineering (Electrical) (Honours), Deakin University
Graduate Diploma Management, Deakin University
Advanced Management Programme, Harvard Business School, USA

Experience and expertise

Mr Ficca has over 30 years' experience in the energy industry, including numerous senior management roles with SPI PowerNet Pty Ltd including as Managing Director since 2003. Mr Ficca is a Director of Energy Networks Association Limited. He also serves as a Director of SPI Management Services Pty Ltd and of Enterprise Business Services (Australia) Pty Ltd. Mr Ficca was formerly Deputy Chairman and Director of the Energy Supply Association of Australia.

Other current listed company directorships

None

Former listed company directorships in last 3 years

None

Date of initial appointment

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

Special responsibilities

Managing Director and member of the Bushfire Litigation Committee and the Issuing Committee.

Directors' report (continued)

Information on Directors (continued)

Ralph Craven – *Non-executive Director*

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

Experience and expertise

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

Other current listed company directorships

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

Former listed company directorships in last 3 years

None

Date of initial appointment

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

Special responsibilities

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

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

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

Experience and expertise

Professor Davis is a Director of Singapore Power Limited and CHAMP Ventures Pty Ltd. He is a former Director of the Transurban Group and a Professor Emeritus of the University of New South Wales, after retiring from the Australian Graduate School of Management (AGSM). Previously, Professor Davis spent ten years as a management consultant with the Boston Consulting Group and has served as a Director of the Australian Stock Exchange Ltd (now ASX Limited) and Australian Institute of Management.

Other current listed company directorships

None

Former listed company directorships in last 3 years

Transurban Group (1997 to 2011)

Date of initial appointment

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

Special responsibilities

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

Directors' report (continued)

Information on Directors (continued)

Sally Marie Farrier – *Independent Non-executive Director*

Bachelor of Chemical and Process Engineering (First Class Honours), University of Canterbury, New Zealand
Masters of Business Administration, Victoria University of Wellington
Post Graduate Diploma in Finance and Investment Analysis, Securities Institute of Australia

Experience and expertise

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

Other current listed company directorships

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

Former listed company directorships in last 3 years

None

Date of initial appointment

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

Special responsibilities

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

Eric Gwee Teck Hai – *Non-executive Director*

Bachelor of Engineering (Mechanical), University of Melbourne

Experience and expertise

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

Other current listed company directorships

None

Former listed company directorships in last 3 years

WorleyParsons Ltd (2005 to 2011)

Date of initial appointment

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

Special responsibilities

Member of the Audit and Risk Management Committee and the Remuneration Committee.

Directors' report (continued)

Information on Directors (continued)

Ho Tian Yee – *Non-executive Director*

Bachelor of Arts (Economics), Portsmouth University, UK

Experience and expertise

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

Other current listed company directorships

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

Former listed company directorships in last 3 years

Singapore Exchange Ltd (1999 to 2013) (SGX-ST listed company)
Fraser & Neave Ltd (1997 to 2011) (SGX-ST listed company)

Date of initial appointment

SP AusNet Transmission – 1 September 2008
SP AusNet Distribution – 1 September 2008
Responsible Entity – 1 September 2008

Special responsibilities

Member of the Nomination Committee, the Remuneration Committee and the Issuing Committee.

Antonino (Tony) Mario Iannello – *Independent Non-executive Director*

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

Experience and expertise

Mr Iannello is Chairman of Empire Oil and Gas NL, Energia Minerals Ltd, HBF Health Ltd, D'Orsogna Ltd and MG Kailis Group of Companies. He is also a director of ERM Power Ltd, Water Corporation of WA and a member of the Murdoch University Senate. Mr Iannello was formerly Managing Director of Western Power Corporation and previously he held a number of senior executive roles at the Bank of Western Australia.

Other current listed company directorships

ERM Power Ltd (2010 to date)
Energia Minerals Ltd (2010 to date)
Empire Oil and Gas NL (2013 to date)

Former listed company directorships in last 3 years

None

Date of initial appointment

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

Special responsibilities

Chairman of the Audit and Risk Management Committee and member of the Nomination Committee, the Bushfire Litigation Committee and the Issuing Committee.

Directors' report (continued)

Information on Directors (continued)

Tina Renna McMeckan – *Independent Non-executive Director*

Bachelor of Liberal Arts &.Science, San Diego State University, California, USA
Master of Business Administration, University of Melbourne

Experience and expertise

Ms McMeckan is a Director of the Global Carbon Capture and Storage Institute. She is also a Director of Circadian Technologies Ltd and the Cooperative Research Centre for Spatial Information. She is a former Chair of the Centre for Eye Research Australia and a former Director of Metlink Victoria Pty Ltd and the National Board of Norton Rose law firm. Ms McMeckan was previously an executive manager with GPU PowerNet and the SECV Energy Traders, and a project manager with the Victorian Department of Treasury and Finance on gas industry reform. Ms McMeckan is a Fellow of the Australian Institute of Company Directors.

Other current listed company directorships

Circadian Technologies Limited (2008 to date)

Former listed company directorships in last 3 years

None

Date of initial appointment

SP AusNet Transmission – 9 August 2010
SP AusNet Distribution – 9 August 2010
Responsible Entity – 9 August 2010

Special responsibilities

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

Ian Andrew Renard AM – *Independent Non-executive Director*

Bachelor of Arts, University of Melbourne
Master of Laws, University of Melbourne
Doctor of Laws (Hon), University of Melbourne

Experience and expertise

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

Other current listed company directorships

None

Former listed company directorships in last 3 years

CSL Ltd (1998 to 2013)

Date of initial appointment

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

Special responsibilities

Chairman of the Remuneration Committee and the Bushfire Litigation Committee and member of the Nomination Committee.

Directors' report (continued)

Information on Directors (continued)

Sun Jianxing - *Non-executive Director*

Bachelor of Engineering, Northeast Dianli University, China

Experience and expertise

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

Other current listed company directorships

None

Former listed company directorships in last 3 years

None

Date of initial appointment

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

Special responsibilities

Member of the Nomination Committee and the Remuneration Committee.

Company Secretary

Susan Elizabeth Taylor

Bachelor of Laws, University of Melbourne
Bachelor of Commerce, University of Melbourne
Graduate Diploma in Corporations and Securities Law, University of Melbourne

Ms Taylor has been Company Secretary of SP AusNet Distribution, SP AusNet Transmission and the Responsible Entity since 6 October 2008. She has over 20 years' experience in energy transactional and regulatory law. She was formerly a partner at the Australian law firm Freehills and Senior Attorney with the U.S. Federal Energy Regulatory Commission, with a mergers and acquisitions, corporations and competition law background.

Directors' report (continued)

Meetings of Directors

The number of meetings of the Board of Directors of SP AusNet Distribution, SP AusNet Transmission and the Responsible Entity held during the year ended 31 March 2014, and the number of meetings attended by each Director, are set out in the following table. All meetings were held jointly.

	Board of SP AusNet Distribution		Board of SP AusNet Transmission		Board of Responsible Entity	
	A	B	A	B	A	B
Ng Kee Choe	8	8	8	8	8	8
Nino Ficca	8	8	8	8	8	8
Jeremy Davis	8	8	8	8	8	8
Eric Gwee	8	8	8	8	8	8
Ho Tian Yee	8	8	8	8	8	8
Tony Iannello	8	8	8	8	8	8
George Lefroy[1]	3	4	3	4	3	4
Tina McMeckan	8	8	8	8	8	8
Ian Renard	8	8	8	8	8	8
Sun Jianxing	2	2	2	2	2	2
Ralph Craven	2	2	2	2	2	2
Sally Farrier	2	2	2	2	2	2

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

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

The number of meetings of each standing Board committee of SP AusNet Distribution, SP AusNet Transmission and the Responsible Entity held during the year ended 31 March 2014, and the number of meetings attended by each Director, are set out in the following table.

	Audit and Risk Management Committee		Compliance Committee		Nomination Committee		Remuneration Committee	
	A	B	A	B	A	B	A	B
Ng Kee Choe	**	**	**	**	4	4	**	**
Nino Ficca	**	**	**	**	**	**	**	**
Jeremy Davis	5	7	**	**	4	4	**	**
Eric Gwee	7	7	**	**	4	4	3	3
Ho Tian Yee	**	**	3	3	**	**	3	3
Tony Iannello	7	7	3	3	**	**	**	**
George Lefroy	**	**	**	**	**	**	1	1
Tina McMeckan	7	7	2	2	**	**	3	3
Ian Renard	5	5	2	2	4	4	2	3
Sun Jianxing	**	**	**	**	**	**	1	1
Ralph Craven	2	2	1	1	**	**	**	**
Sally Farrier	1	2	1	1	**	**	**	**

A = Number of meetings attended
B = Number of meetings held during the time the Director held office
** = Not a member of the relevant committee

Directors' report (continued)

Meetings of Directors (continued)

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

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

A = Number of meetings attended
B = Number of meetings held during the time the Director held office
** = Not a member of the relevant committee

Directors' report (continued)

Remuneration report (audited)

Introduction to remuneration report

The remuneration report for the year ended 31 March 2014 outlines the remuneration arrangements of the company and the SP AusNet Group in accordance with the requirements of the *Corporations Act 2001(Cth*) and its regulations. This information has been audited as required by section 308 (3C) of the Corporations Act.

The remuneration report details the remuneration arrangements for Key Management Personnel (KMP). KMP are those persons who have authority and responsibility for planning, directing and controlling the major activities of the company and the SP AusNet Group directly or indirectly, including any Director of the parent company.

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

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

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

Details of key management personnel

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

The persons listed below were Directors of SP AusNet for the whole of the financial year and up to the date of this report unless otherwise noted. There have been no additional appointments or resignations of Directors throughout the reporting period.

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

Remuneration report (audited) (continued)

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

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

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

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

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

Stapled Group performance

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

The table below shows SP AusNet's consolidated operating revenue and net profit after tax for the current reporting period and previous years and the effect of SP AusNet's performance on securityholder value.

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

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

Directors' report (continued)

Remuneration report (audited) (continued)

Principles used to determine the nature and amount of remuneration

Non-executive Directors (NEDs)

NED fee element	Commentary
Fees	The remuneration of Non-executive Directors consists of Directors' fees and committee fees. Fees paid to Non-executive Directors are set at levels that reflect both the responsibilities of, and the time commitments required from, each Non-executive Director to discharge their duties. Fee levels are set having regard to independent professional advice and fees paid by comparable companies. In accordance with the constitutions of SP AusNet Distribution, SP AusNet Transmission and the Responsible Entity, Non-executive Directors may also be paid additional fees for special duties or exertions.
Total fee pool	The constitutions of SP AusNet Distribution, SP AusNet Transmission and the Responsible Entity provide that Non-executive Directors are entitled to such remuneration for their services as the Board decides, but the total amount provided to all Non-executive Directors (including any additional fees for special duties or exertions) must not exceed in aggregate in any financial year the amount approved by securityholders in a general meeting. The securityholders of SP AusNet Distribution and SP AusNet Transmission approved a total remuneration pool for Non-executive Directors of $2,000,000 per year at the Annual General Meeting of SP AusNet held on 19 July 2012.
Performance based and equity based compensation	The fees paid to Non-executive Directors are not linked to the performance of SP AusNet in order to maintain objectivity and independence. Non-executive Directors are not provided with any form of equity based compensation.
Business related expenses	Non-executive Directors are entitled to be reimbursed for all business related expenses, including travel on company business, as may be incurred in the discharge of their duties.
Retirement benefits	Non-executive Directors are not provided with any form of retirement benefit. Fees paid to Non-executive Directors are inclusive of superannuation contributions made on behalf of the Non-executive Directors in accordance with SP AusNet's statutory superannuation obligations.
Review of fee levels and approach to Non-executive Director fees	Each year, the Remuneration Committee reviews the fees payable to Non-executive Directors taking into account market rates and the time commitment and responsibilities involved in carrying out their duties. The Board will continue to review its approach to Non-executive Director remuneration to ensure it remains in line with general industry practice and principles of good corporate governance.

Directors' report (continued)

Remuneration report (audited) (continued)

Non-executive Directors (NEDs) (continued)

The annual fees payable to Non-executive Directors of SP AusNet and approved by the Board (inclusive of statutory superannuation) for the financial year ended 31 March 2014 are set out in the table below. It is not possible to allocate fees to individual entities within the SP AusNet Group.

Role	Fee
Board Chairman [1, 2]	$330,000
Board Directors	$121,000
Audit and Risk Management Committee Chairman	$30,000
Audit and Risk Management Committee Members	$18,000
Compliance Committee Chairman	$21,600
Compliance Committee Members	$12,000
Remuneration Committee Chairman	$24,000
Remuneration Committee Members	$12,000
Nomination Committee Chairman	$15,000
Nomination Committee Members	$12,000
Issuing Committee Members [2]	$12,000

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

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

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

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

Managing Director and Senior Executives

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

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

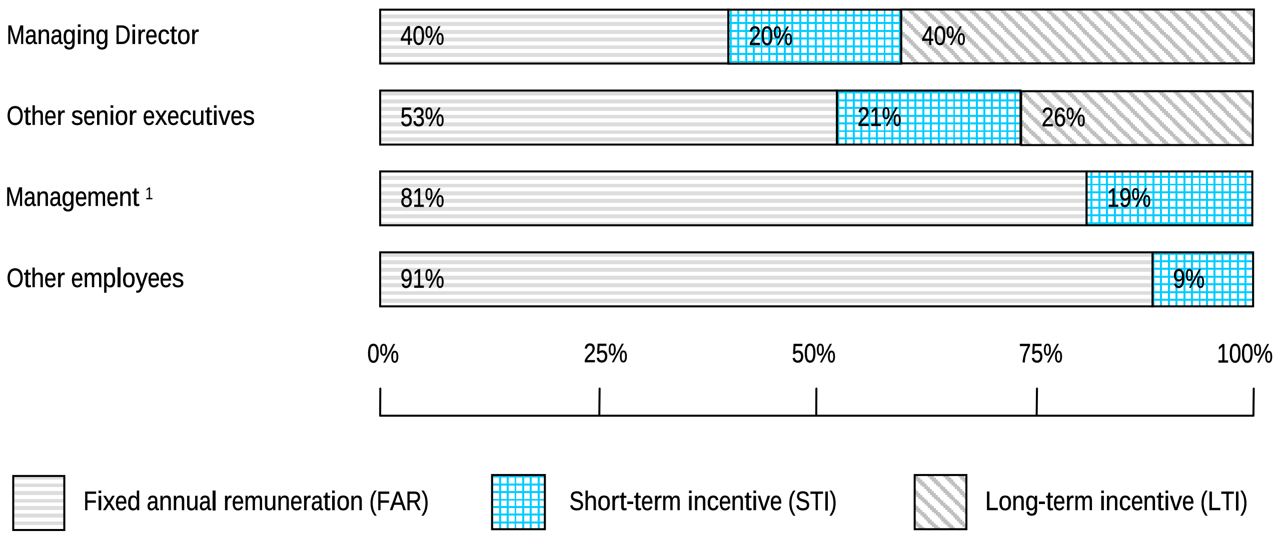
Directors' report (continued)

Remuneration report (audited) (continued)

Structure of total reward

The reward principles set out the relevant elements of remuneration to make up 'total reward'. For the majority of senior executives and SP AusNet employees, total reward consists of fixed remuneration and 'at risk' remuneration through a Short-Term Incentive (STI) plan. A Long-Term Incentive (LTI) plan is included in the remuneration structure for the Managing Director, senior executives and other employees who can influence long-term securityholder value. An appropriate mix of these components is determined for each level of management and employees.

The potential reward mix for various levels of seniority in SP AusNet for the reporting period, expressed as a percentage of total on-target reward, is shown in the following table:



1 The Board at its discretion has invited a small number of 'Management' employees who are in a position to influence long-term securityholder value to participate in the LTI plan. The potential payments of this plan represents between 15% and 25% of the participants' fixed annual remuneration. Key aspects of the plan are detailed under the heading of 'Long-term incentive' below.

Fixed annual remuneration

Fixed annual remuneration (FAR) represents the fixed component of executive remuneration and consists of a mix of cash, superannuation, prescribed benefits and salary-sacrificed items such as motor vehicles and fringe benefits tax. Market data is sourced from external remuneration advisers who provide detailed analysis of market practice for the Remuneration Committee to consider in the Committee's decision making process. FAR is reviewed annually against market rates for comparable roles. There are no guaranteed FAR increases in any senior executive's contract of employment.

Remuneration report (audited) (continued)

Short-term incentive

The key design aspects of the STI plan are outlined below:

Key design aspect	Commentary
Eligibility	Managing Director, other senior executives and permanent employees on individual contracts of employment. Generally, senior executives must complete the business year to qualify for any STI payments. In some circumstances the Board, in its discretion, may determine that a pro-rata STI payment be awarded to an executive.
Target STI amount	A target STI amount, expressed as a percentage of the senior executive's FAR, is specified for each senior executive. However, the amount of STI payable is dependent on the: • extent to which SP AusNet has achieved or outperformed the corporate Key Performance Indicators (KPIs); and • extent to which the senior executive has achieved or outperformed his or her individual KPIs. The target STI for the Managing Director is 50% of FAR. The target STI for other senior executives is 40% of FAR.
Performance criteria	Based on corporate financial and non-financial measures as well as stretch individual performance hurdles. The key corporate KPIs set for the year ended 31 March 2014 included targets relating to: • employee, contractor and network safety; • earnings before interest, taxation, depreciation and amortisation; • return on equity; • capital efficiency; • business efficiency initiatives network performance and reliability; and • employee retention. By linking individual rewards to the achievement of overall corporate targets, these KPIs align the interests of employees and managers with those of SP AusNet. The Managing Director's stretch individual performance scorecard contained a range of measures designed to contribute value to the business and included: • safety leadership and strategy implementation; • financial KPI's including credit rating KPI's • Business Excellence and performance efficiency KPI's; • people management and leadership; and • customer and community. The performance assessment of the Managing Director's stretch individual performance scorecard is conducted by the Chairman and the Remuneration Committee Chairman, and reviewed by the Board prior to finalisation and any award being granted.
Performance period	12 months to 31 March 2014.
Delivery mechanism	100% cash payment. The Board retains the right to vary any STI payment at its discretion.

Remuneration report (audited) (continued)

Long-term incentive

The key design aspects of the LTI plan are outlined below:

Key design aspect	Commentary
Eligibility	Managing Director and other senior executives. The Board may in its discretion invite additional employees who are in a position to influence long-term securityholder value to participate in the LTI plan.
Purpose of the LTI plan	The LTI plan rewards participants for increasing long-term securityholder value.
Target LTI amount	The LTI Award is calculated as a percentage of the participant’s FAR as at the test date. The quantum available to participants expressed as a percentage of FAR as at the performance test date, are: • Managing Director – 75% based on the general senior executive performance measures of Total Securityholder Return (TSR) and Earnings Per Security (EPS), with a further 25% for the achievement of stretch targets related to Return on Invested Capital (ROIC) and Interest Cover Ratio (ICR). • Other senior executives – 50% • Other participants – between 15% and 25%
Performance period	Performance is assessed over a three-year period and the LTI plan does not allow for retesting of performance measures in subsequent years.
Performance measures	Relative TSR (for 50% of the Award) and growth in EPS (for the other 50% of the Award). The Board and Remuneration Committee believe that it is important to assess executive performance against both relative and absolute hurdles linked to securityholder value. With the exception of the Managing Director, where an additional 25% LTI opportunity was introduced from 1 April 2011, accompanied by new performance indicators of ROIC and ICR, the same performance measures have been used for senior executive LTI since 1 April 2006. TSR: The comparator group used for the TSR performance measure consists of the companies included in the S&P/ASX 200 index. In assessing whether the performance hurdles have been met, SP AusNet receives independent data which provides both SP AusNet’s TSR growth from the commencement of each grant and that of the companies in the comparator group. The level of TSR growth achieved by SP AusNet is given a percentile ranking having regard to its performance compared with the performance of other companies in the comparator group. The vesting scale for the TSR performance measure is shown below:

SP AusNet’s TSR Percentile Ranking	Percentage of TSR Award that vests
Below 50.1	0%
50.1	35%
Between 50.1 and 74.9	Progressive vesting on a straight-line basis from greater than 35% to less than 100%
75 or above	100%

Directors' report (continued)

Remuneration report (audited) (continued)

Long-term incentive (continued)

Key design aspect	Commentary
Performance measures (continued)	EPS: The EPS growth measure is based on SP AusNet achieving a nominal compound annual growth (CAGR) of 5% per annum over the three-year period. A sliding scale applies as follows:

Compound annual growth rate	Percentage of EPS Award that vests
< 2.5% per annum	0%
Between 2.5% and 7.5% per annum	Linear scale from 50% to 150%
> 7.5% per annum	150%

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

ROIC is calculated by (NPAT + Finance Cost adjusted for Tax) / (Equity + Debt)

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

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

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

ICR equals Funds Flow from Operations + Finance Expenses / Finance Expenses

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

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

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

Directors' report (continued)

Remuneration report (audited) (continued)

Long-term incentive (continued)

Key design aspect	Commentary
Delivery mechanism	Once the performance criteria have been satisfied, participants receive a cash award. The Board retains the right to vary any LTI payment at its discretion. Participants are then required (under the Plan Rules) to use the after tax cash proceeds of this Award to purchase SP AusNet stapled securities on-market. These purchases must be conducted during an approved trading window and the stapled securities must be held for at least 12 months. Reasonable brokerage costs incurred by the participants are reimbursed. Participants are incentivised to achieve performance targets over a three-year timeframe, and are also required to hold the SP AusNet securities acquired with their Award payment for at least 12 months, thereby extending the long-term nature of the LTI plan.
Clawback arrangements	Where, in the opinion of the Board, the performance measures applicable to an award have been satisfied as a result of the fraud, dishonesty or breach of obligations of the participant and, in the opinion of the Board, the performance measures would not otherwise have been satisfied, the Board may determine that the performance measures are not satisfied and may, subject to applicable laws, determine that any award paid in such circumstances be repaid by the participant to SP AusNet.

Loans to Directors and senior executives

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

Details of remuneration

Remuneration details of each Director and KMP of SP AusNet are set out in the following tables.

Directors' report (continued)

Remuneration report (audited) (continued)

Total remuneration for Non-executive Directors for the year ended 31 March 2013 and 31 March 2014

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

1 The allocation of the premium for Directors' and Officers' insurance is not included as under the terms of the current policy this information cannot be disclosed.

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

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

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

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

Remuneration report (audited) (continued)

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

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

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

2 Other short-term benefits include car parking benefits and the accrual of annual leave entitlements. The allocation of the premium for Directors' and Officers' insurance is not included as under the terms of the current policy this information cannot be disclosed.

3 As the performance period over which the LTI Awards vest is three years, the amount included in equity based payments is one-third of the amount estimated to be payable at the end of the performance period for each Award. This estimated amount is based on certain assumptions regarding the achievement of performance targets which are reviewed and adjusted annually. Any adjustments to previously recognised amounts, both positive and negative, are included in the current year. The actual amounts paid under these Awards will not be known until the end of the performance period. Refer to the table below under the heading of key management personnel – long-term incentive for the maximum amounts payable at the end of three years.

4 Other long-term benefits include the accrual of long service leave entitlements.

5 The above table represents the accounting value of KMP remuneration, calculated in accordance with accounting standards. As a result, annual leave and long service leave entitlements are recognised as remuneration when they accrue rather than when they are taken. This has the impact of reducing the cash salary and fees remuneration disclosed in the table above when these leave entitlements are ultimately taken by the KMP. In addition, any changes to the value of leave entitlements (for example, because of changes in FAR or long service leave entitlements not vesting) are recognised as remuneration, either positive or negative, in the year that the change occurs. These accounting adjustments to remuneration values are reflected in the *Cash Salary and Fees*, *Other Short-term Benefits and Other Long-term Benefits* disclosed in the table above.

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

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

8 Mr Tieppo commenced as KMP on 9 December 2013.

Directors' report (continued)

Remuneration report (audited) (continued)

Remuneration and Other Terms of Employment

Remuneration and other terms of employment for the Managing Director and specified senior executives (including KMP) are set out below.

Managing Director	
Term of agreement	Permanent, subject to one month's notice of termination by either party.
Fixed remuneration	Fixed remuneration includes base salary and superannuation. As at 31 March 2014, fixed annual remuneration was $1,000,000. Fixed remuneration is reviewed annually by the Remuneration Committee and the Board.
Short-term incentive	Annual short-term incentive of 50% of FAR for on-target performance.
Long-term incentive	Long-term incentive of 75% of FAR for on-target performance, based on the general senior executive performance measures of TSR and EPS, and a further 25% for the achievement of stretch targets related to ROIC and ICR. Annual invitation to participate with three-year performance period and no retesting of performance measures in subsequent years.
Termination benefits	Termination benefits calculated at three weeks' pay for every year of service paid at the Managing Director's FAR rate and capped at six months.

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

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

Senior executives

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

Key management personnel cash bonuses – short-term incentive

The percentage of the available bonus that was paid, or that vested, in the financial years ended 31 March 2013 and 31 March 2014, and the percentage that was forfeited because the senior executive did not meet the service or performance criteria, are set out below.

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

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

Remuneration report (audited) (continued)

Key management personnel – long-term incentive (equity based payments)

The SP AusNet Board approved a LTI plan for the Managing Director and senior executives that came into effect from 1 April 2006. The following table shows the value of cash grants subject to future performance testing, percentage payable or forfeited and future financial years that grants may vest and be paid. The grants made in 2012 and 2013 are still in progress and, as such, no percentage of these grants have been paid or forfeited as at the date of this report.

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

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

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

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

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

Remuneration report (audited) (continued)

Directors' interests

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

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

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

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

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

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

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

Directors' report (continued)

Indemnification and insurance of officers and auditors

The constitutions of SP AusNet Distribution, SP AusNet Transmission and the Responsible Entity each provide for the company to indemnify each current and former Director, executive officer (as defined in the constitutions), and such other current and former officers of the company or of a related body corporate as the Directors determine (each an 'Officer'), on a full indemnity basis and to the full extent permitted by law against all liabilities (as defined in the constitutions) incurred by the Officer as an officer of the company or of a related body corporate.

The constitutions also provide for SP AusNet Distribution, SP AusNet Transmission and the Responsible Entity, to the extent permitted by law, to purchase and maintain insurance, or pay or agree to pay a premium for insurance, for each Officer against any liability (as defined in the constitutions) incurred by the Officer as an officer of the company or of a related body corporate.

SP AusNet Distribution, SP AusNet Transmission and the Responsible Entity may enter into a deed with any Officer to give effect to the rights conferred by the constitutions as described above.

The companies have executed protection deeds in favour of each of the Directors, the Company Secretary and certain general managers on substantially the same terms as provided in the constitutions. The deeds also give a right of access to the books of the companies and to Board documents (to the Directors only).

During the financial year, the Stapled Group paid a premium to insure the Directors and Company Secretaries of the Australian-based combined entities and the general managers of each of the divisions of SP AusNet. The Directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the insurance policy, as (in accordance with normal commercial practice) such disclosure is prohibited under the terms of the policy.

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

Non-audit services

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

Details of the amounts paid or payable to the auditor, KPMG, for audit and non-audit services provided during the year are set out in note 22 of the financial report.

In accordance with the advice provided by the Audit and Risk Management Committee, the Directors are satisfied that the provision of non-audit services during the year by the auditor is compatible with the general standard of independence for auditors imposed by the Corporations Act. The Directors are satisfied for the following reasons:

- all non-audit services have been reviewed by the Audit and Risk Management Committee to ensure that they do not impact the impartiality and objectivity of the auditor; and
- none of the non-audit services undermine the general principles relating to auditor independence as set out in APES 110 Code *of Ethics for Professional Accountants*.

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act is set out on page 41.

Directors' report (continued)

Rounding of amounts

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

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

Ng Kee Choe
Chairman

Nino Ficca
Managing Director

Melbourne
14 May 2014

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

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

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

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

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

KPMG

KPMG

Michael Bray
Partner

Melbourne

14 May 2014

Combined income statement

For the year ended 31 March 2014

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

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

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

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

Combined statement of comprehensive income

For the year ended 31 March 2014

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

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

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

Combined statement of financial position

As at 31 March 2014

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

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

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

Combined statement of changes in equity

For the year ended 31 March 2014

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

Combined statement of changes in equity

For the year ended 31 March 2014

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

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

Combined statement of changes in equity

For the year ended 31 March 2014

(i) The hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments. These gains or losses are transferred to the income statement when the hedged item affects income, except for highly probable forecast purchases of an asset where the gains or losses are included in the initial measurement of that asset (refer note 1(l)).

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

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

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

Combined statement of cash flows

For the year ended 31 March 2014

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

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

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

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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 combined financial report, prepared by a for-profit entity for the year ended 31 March 2014, represents financial statements for the Stapled Group, which consists of SP AusNet Distribution and its subsidiaries, SP AusNet Transmission and its subsidiaries and SP AusNet Finance Trust. The Stapled Group is also referred to as SP AusNet.

Pursuant to the Stapling Deed effective 21 October 2005, a Stapled Group was established for the purpose of facilitating a joint quotation of SP AusNet Distribution, SP AusNet Transmission and SP AusNet Finance Trust on the Australian Securities Exchange and the Singapore Exchange Securities Trading Limited. The Stapled Group was listed on 14 December 2005. The consolidated financial statements are presented in accordance with class order 13/1050, issued by the Australian Securities and Investments Commission.

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

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

This general purpose financial report is presented in Australian dollars.

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

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

(i) Historical cost convention

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

(ii) Critical accounting estimates and judgements

The preparation of financial statements in conformity with Australian Accounting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Stapled Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 20.

Note 1 Summary of significant accounting policies (continued)

(b) Principles of consolidation

(i) Stapling

For statutory reporting purposes SP AusNet Distribution was identified as the acquirer in the Stapled Group based on the size of its net assets and its operations. Accordingly, it presents the combined financial report of the Stapled Group. As at the date of the stapling arrangement, the carrying amounts of the assets and liabilities of SP AusNet Distribution were consolidated with the fair values of the identifiable assets, liabilities and contingent liabilities of SP AusNet Transmission and SP AusNet Finance Trust.

As the business combination has been effected by contract alone, the total ownership interest in SP AusNet Transmission and SP AusNet Finance Trust is presented as a separate line item in the combined financial statements of SP AusNet Distribution, notwithstanding that by virtue of the stapling arrangement SP AusNet Distribution, SP AusNet Transmission and SP AusNet Finance Trust have common equityholders (securityholders) with the effect that total equity of the Stapled Group belongs to those securityholders. The retained profits of SP AusNet Transmission and the unitholders' funds of SP AusNet Finance Trust are available for distribution directly to securityholders.

(ii) Subsidiaries

Subsidiaries are entities controlled by the Stapled Group. Control exists when the Stapled Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, potential voting rights that are presently exercisable or convertible are taken into account.

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

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

(c) Segment reporting

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

(d) Foreign currency translation

All foreign currency transactions are accounted for using the exchange rate at the date of the transaction. At balance date, monetary items denominated in foreign currencies are translated at the exchange rate existing at that date. Resultant exchange differences are recognised in the income statement for the year, except for exchange differences for qualifying cash flow hedges which are recognised in other comprehensive income.

Note 1 Summary of significant accounting policies (continued)

(e) Revenue recognition

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

(i) Transmission regulated revenue

Transmission regulated revenue is revenue earned from the transmission of electricity and related services and is recognised as the services are rendered.

(ii) Distribution regulated revenue

Distribution regulated revenue is revenue earned from the distribution of electricity and gas and related services and is recognised as the services are rendered.

(iii) Service revenue

Service revenue is recognised as the services are rendered. This includes revenue earned from specialist utility related solutions, in particular metering, monitoring and asset inspection services as well as the operation and maintenance services provided in connection with the desalination electricity transmission assets.

(iv) Contributions from customers for capital works

Non-refundable contributions received from customers towards the cost of extending or modifying the networks are recognised as revenue and an asset respectively once control is gained of the contribution or asset and the customer is connected to the network. Customer contributions of cash are measured with reference to the cash contribution received and customer contributions of assets are measured at the fair value of the assets contributed at the date SP AusNet gains control of the asset.

(f) Income tax

(i) Current tax

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

(ii) Deferred tax

Deferred tax is accounted for using the balance sheet liability method in respect of differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. Deferred tax assets and liabilities are, however, not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination), which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

Note 1 Summary of significant accounting policies (continued)

(f) Income tax (continued)

(ii) Deferred tax (continued)

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

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

(iii) Tax expense

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

(iv) Tax consolidation

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

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

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

Each head entity recognises deferred tax assets arising from unused tax losses of its tax consolidated group to the extent that it is probable that future taxable profits of the tax consolidated group will be available against which the assets can be utilised. Any subsequent period adjustments to deferred tax assets arising from unused tax losses assumed from subsidiaries are recognised by the head entity only.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses assumed by each head entity from the subsidiaries in its tax consolidated group are recognised in conjunction with any tax funding arrangement amounts.

(g) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. The Stapled Group does not have any finance lease arrangements.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the benefit.

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

Note 1 Summary of significant accounting policies (continued)

(h) Business combinations

The acquisition method of accounting is used for all business combinations, regardless of whether equity instruments or other assets are acquired. Cost is determined as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange as well as the fair value of any contingent consideration. Any subsequent changes in contingent consideration are recognised in the income statement.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at fair value at the acquisition date, irrespective of the extent of any non-controlling interest. All potential intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair value can be measured reliably. Transaction costs in relation to business combinations are expensed as incurred.

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

(i) Cash and cash equivalents

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

(j) Receivables

Current and non-current receivables are initially recognised at the fair value of the amounts to be received and are subsequently measured at amortised cost, less any allowance for impairment.

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

(k) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is based on a weighted average and includes expenditure incurred in acquiring the inventories and bringing them to their existing condition and location.

Note 1 Summary of significant accounting policies (continued)

(l) Derivative financial instruments

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

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

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

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

(i) Fair value hedge

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

(ii) Cash flow hedge

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

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

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

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

(m) Property, plant and equipment

Items of property, plant and equipment are stated at historical cost less depreciation. The cost of contributed assets is their fair value at the date the Stapled Group gains control of the asset.

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

Note 1 Summary of significant accounting policies (continued)

(m) Property, plant and equipment (continued)

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

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

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

Depreciation is recognised on property, plant and equipment, including freehold buildings but excluding land and easements. Depreciation is calculated on a straight-line basis so as to write off the net cost of each asset over its estimated useful life to its estimated residual value. The estimated useful lives, residual values and depreciation methods are reviewed annually, and where changes are made, their effects are accounted for on a prospective basis.

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

	Years
Distribution network (gas)	15-80
Buildings	40-99
Transmission network	15-70
Distribution network (electricity)	5-70
Other general assets	3-10
Motor vehicles and heavy machinery	3-12
Computer equipment and software	3-5
Land and easements	Indefinite

(n) Intangible assets

(i) Distribution licences

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

(ii) Goodwill

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed.

If, after reassessment, the Stapled Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in the income statement as a gain.

Goodwill is not amortised but is reviewed for impairment at least annually (refer note 1(o)).

Note 1 Summary of significant accounting policies (continued)

(n) Intangible assets (continued)

(iii) Other intangible assets

Other intangible assets that are acquired by the Stapled Group and that have a finite useful life are measured at cost less accumulated amortisation and accumulated impairment losses.

(o) Impairment of non-financial assets

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

Intangible assets with indefinite useful lives, including goodwill, are tested for impairment annually regardless of whether there is an indication that the asset or related CGU may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing fair value less costs to sell, the estimated future post-tax cash flows are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. The impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to the other assets of the CGU pro-rata on the basis of the carrying amount of each asset in the CGU. An impairment loss is recognised in the income statement immediately.

(p) Trade and other payables

These amounts represent liabilities for goods and services provided to the Stapled Group prior to the end of financial year which are unpaid. Trade and other payables are stated at cost, are unsecured and are usually payable within 30 days of end of month.

(q) Borrowings

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

Borrowings which are part of a fair value hedge relationship are recognised at amortised cost, adjusted for the gain or loss attributable to the hedged risk. The gain or loss attributable to the hedged risk is recorded in the income statement together with any changes in the fair value of derivative financial instruments that are designated and qualify as fair value hedges (refer note 1(l)).

Borrowings are classified as current liabilities unless the Stapled Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date or has the sole discretion to refinance or roll over the liability for at least 12 months after the reporting date under an existing loan facility.

Note 1 Summary of significant accounting policies (continued)

(r) Net financing costs

Finance income comprises interest income on funds invested and the return on the desalination licence receivable (refer note 9). Interest income is recognised as it accrues, taking into account the effective yield on the financial asset.

Finance costs comprise interest expense on borrowings, foreign exchange gains/losses, gains/losses on hedging instruments that are recognised in the income statement, unwinding of discount on provisions and the net interest cost in respect of defined benefit obligations. All borrowing costs are recognised in the income statement using the effective interest rate method, other than borrowing costs directly attributable to a qualifying asset which are capitalised into the cost of that asset.

The capitalisation rate used to determine the amount of borrowing costs to be included in the cost of qualifying assets is the average interest rate of 7.1 per cent (2013: 7.7 per cent) applicable to the Stapled Group's outstanding borrowings during the period.

(s) Provisions

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

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

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

(t) Employee benefits

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

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

(ii) Long service leave

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

(iii) Defined contribution superannuation funds

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

Note 1 Summary of significant accounting policies (continued)

(t) Employee benefits (continued)

(iv) Defined benefit superannuation funds

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

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

Remeasurements comprise actuarial gains and losses and the return on plan assets (excluding interest). They are recognised in full directly in retained profits in the period in which they occur and are presented in other comprehensive income.

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

(u) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from proceeds.

(v) Earnings per share

(i) Basic earnings per share and basic earnings per stapled security

Basic earnings per share is calculated by dividing the profit attributable to members of the Stapled Group, excluding any non-controlling interest and costs of servicing equity other than distributions, by the weighted average number of shares of SP AusNet Distribution outstanding during the financial year.

Because 100 per cent of the profits of SP AusNet Transmission and SP AusNet Finance Trust are included in non-controlling interest, but are available to the securityholders, an alternative presentation of earnings per stapled security for the Stapled Group is also presented which includes earnings attributable to non-controlling interest.

(ii) Diluted earnings per share

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

(w) New accounting standards and interpretations

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

Note 1 Summary of significant accounting policies (continued)

(w) New accounting standards and interpretations (continued)

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

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

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

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

New accounting standards not yet adopted

The following accounting standards, amendments to accounting standards and interpretations have been identified as those which may impact the Stapled Group in the period of initial adoption. They were available for early adoption for the Stapled Group's annual reporting period beginning 1 April 2013, but have not been applied in preparing this financial report:

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

Note 1 Summary of significant accounting policies (continued)

(w) New accounting standards and interpretations (continued)

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

(x) Rounding of amounts

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

Note 2 Segment information

(a) Description of reportable segments

The Stapled Group is organised into the following segments:

(i) Electricity distribution

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

(ii) Gas distribution

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

(iii) Electricity transmission

The Stapled Group owns and manages the vast majority of the electricity transmission network in Victoria. The Stapled Group's electricity transmission network consists of the transmission lines and towers which carry electricity at high voltages from power stations to electricity distributors around Victoria forming the backbone of the Victorian electricity network. The network is centrally located amongst the five eastern states of Australia that form the National Electricity Market, and provides key links between the electricity transmission networks of Victoria, South Australia, New South Wales and Tasmania. The Stapled Group charges the Australian Energy Market Operator (AEMO), distribution network service providers and electricity generators for connections and use of the electricity transmission network.

The electricity transmission segment includes both regulated and unregulated electricity transmission assets and revenues. The electricity transmission segment does not purchase or sell electricity.

(iv) Select Solutions

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

Note 2 Segment information (continued)

(b) Reportable segment financial information

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

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

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

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

Note 2 Segment information (continued)

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

(i) Accounting policies

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

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

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

(ii) Inter-segment transfers

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

Note 3 Revenue

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

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

Note 4 Expenses

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

Note 5 Net finance costs

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

Note 6 Income tax and deferred tax

(a) Income tax expense

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

Note 6 Income tax and deferred tax (continued)

(b) Numerical reconciliation of income tax expense to prima facie tax payable

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

The Stapled Group's effective tax rate for the year ended 31 March 2014 is approximately 42 per cent (2013: 13 per cent). The divergence in the effective tax rate, from the prima facie tax rate of 30 per cent, is mainly caused by the following:

(i) SP AusNet Finance Trust's interest income not assessable in the Trust on the basis that all beneficiaries are presently entitled to trust income at the end of the reporting period. The corresponding interest expense incurred in SP AusNet Distribution and SP AusNet Transmission is, however, deductible for tax purposes; and

(ii) Recognition during the year of $100.8 million for the amount potentially payable under the Section 163AA impost dispute. This is offset by the deductibility of the general interest component which results in a $14.1 million tax credit. Refer note 23(a).

(c) Amounts recognised directly in other comprehensive income

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

Note 6 Income tax and deferred tax (continued)

(d) Recognised deferred tax assets and liabilities

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

(e) Movement in temporary differences during the year

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

Note 6 Income tax and deferred tax (continued)

(e) Movement in temporary differences during the year (continued)

(i) Deferred tax (income)/expense recognised in the income statement in respect of each type of temporary difference is as follows:

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

Note 7 Distributions

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

	Payable by	Date paid	Cents per security	Total distribution $M
Distributions				
Fully franked dividend	SP AusNet Transmission	28 June 2013	1.367	46.0
Interest income	SP AusNet Finance Trust	28 June 2013	2.649	89.2
Return of capital	SP AusNet Finance Trust	28 June 2013	0.084	2.8
Fully franked dividend	SP AusNet Transmission	23 December 2013	1.393	47.0
Interest income	SP AusNet Finance Trust	23 December 2013	2.396	80.9
Return of capital	SP AusNet Finance Trust	23 December 2013	0.391	13.2
Total distributions			8.280	279.1

Note 7 Distributions (continued)

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

	Payable by	Date paid	Cents per security	Total distribution $M
Distributions				
Fully franked dividend	SP AusNet Transmission	29 June 2012	1.333	38.6
Interest income	SP AusNet Finance Trust	29 June 2012	2.159	62.5
Return of capital	SP AusNet Finance Trust	29 June 2012	0.508	14.7
Fully franked dividend	SP AusNet Transmission	21 December 2012	1.367	45.6
Interest income	SP AusNet Finance Trust	21 December 2012	2.467	82.4
Return of capital	SP AusNet Finance Trust	21 December 2012	0.266	8.9
Total distributions			8.100	252.7

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

(a) Franking account

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

The above available amounts are based on the balance of the dividend franking account at year end adjusted for franking credits that will arise from the payment of current tax liabilities. Included within the franking account is $45.7 million (2013: $43.2 million) arising from the tax payments made to the Australian Taxation Office (ATO) in relation to the Section 163AA impost and intellectual property matters (refer note 23(a)(b)). If the Stapled Group is successful in the legal proceedings against the ATO, this amount will be reversed, resulting in lower franking credits being available.

The ability to utilise the franking credits is dependent upon there being sufficient net assets for the payment of dividends, the dividend payment being fair and reasonable to stapled securityholders, and the dividend payment does not materially prejudice SP AusNet's ability to pay its creditors. In accordance with the tax consolidation legislation, SP AusNet Distribution and SP AusNet Transmission as the respective head entities in the tax consolidated groups have available $0.1 million and $59.8 million (2013: $0.1 million and $57.9 million) of franking credits respectively. For the 2014 final distribution, the additional franking credits from the tax payments under the ATO disputes will not be utilised.

Note 8 Earnings per stapled security

(a) Basic earnings per share for SP AusNet Distribution

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

(b) Diluted earnings per share

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

(c) Earnings per stapled security

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

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

(d) Basic earnings per stapled security

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

Note 9 Receivables

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

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

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

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

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

(a) Terms and conditions of accounts receivable

Accounts receivable are non-interest bearing and the average credit period on sales of transmission, distribution and specialist utility services is ten business days. An allowance has been made for estimated unrecoverable amounts, determined by reference to past default experience of individual debtors.

All debts greater than 90 days are provided for in full, except where past experience of individual debtors provides evidence that another amount, if any, is more appropriate.

Collateral in the form of bank guarantees, letters of credit and deposits are obtained from certain counterparties where appropriate. The amounts called upon during the current and previous financial years were insignificant.

Note 9 Receivables (continued)

(b) Ageing of accounts receivable

The ageing of accounts receivable as at reporting date was:

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

Of those debts that are past due, the majority are receivable from high credit quality counterparties. Receivables relating to regulated revenue streams (which account for approximately 87 per cent of revenues) are owed by retailers and distributors in the industry. There are strict regulatory requirements regarding who can obtain a retail or distribution licence and the Essential Services Commission has minimum prudential requirements which must be met before a participant can be registered as a distributor. The Australian Energy Market Operator (AEMO) also has high prudential requirements for retailers who participate in the market. Retailers must provide guarantees as requested by AEMO to minimise the risk of exposure by other participants to any defaults.

(c) Reconciliation of movement in allowance for impairment loss

The movement in the allowance for impairment loss in respect of accounts receivable was as follows:

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

Note 10 Inventories

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

Note 11 Other assets

	Notes	2014 $M	2013 $M
Current other assets			
Prepayments		25.0	20.3
Total current other assets		25.0	20.3
Non-current other assets			
Other assets		0.5	0.7
Defined benefit fund surplus	18	1.6	-
Total non-current other assets		2.1	0.7
Total other assets		27.1	21.0

Note 12 Property, plant and equipment

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

Note 12 Property, plant and equipment (continued)

	Freehold land	Buildings	Easements	Transmission network	Electricity distribution network	Gas distribution network	Other plant and equipment	Capital work in progress	Total
	$M	$M	$M	$M	$M	$M	$M	$M	$M
2013									
Carrying amount at 1 April 2012	253.6	173.3	1,218.7	1,585.6	2,648.4	1,284.4	234.0	449.0	7,847.0
Additions	-	-	-	-	-	-	-	881.4	881.4
Transfers	1.8	35.2	-	176.5	384.0	79.7	131.9	(809.1)	-
Disposals	(2.4)	(0.2)	-	(1.8)	(2.4)	(0.6)	(1.2)	-	(8.6)
Depreciation expense	-	(7.0)	-	(72.5)	(132.4)	(37.0)	(73.0)	-	(321.9)
Carrying amount at 31 March 2013	253.0	201.3	1,218.7	1,687.8	2,897.6	1,326.5	291.7	521.3	8,397.9
Cost	253.0	245.2	1,218.7	2,123.0	3,750.4	1,596.9	640.0	521.3	10,348.5
Accumulated depreciation	-	(43.9)	-	(435.2)	(852.8)	(270.4)	(348.3)	-	(1,950.6)
Carrying amount at 31 March 2013	253.0	201.3	1,218.7	1,687.8	2,897.6	1,326.5	291.7	521.3	8,397.9

Note 13 Intangible assets

	Notes	2014 $M	2013 $M
Distribution licences (i)			
Opening net book amount - distribution licences		354.5	354.5
Closing net book amount - distribution licences		354.5	354.5
Goodwill			
Opening net book amount - goodwill		12.1	12.1
Acquisition of business	27	24.4	-
Closing net book amount - goodwill		36.5	12.1
Other intangible assets			
Opening net book amount - other intangible assets		2.5	3.4
Amortisation		(0.7)	(0.9)
Closing net book amount - other intangible assets		1.8	2.5
Total intangible assets		392.8	369.1

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

- the licences have been issued in perpetuity provided the licensee complies with certain licence requirements;
- the Stapled Group monitors its performance against those licence requirements and ensures that they are met; and
- the Stapled Group intends to continue to maintain the network for the foreseeable future.

Note 14 Payables and other liabilities

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

Note 15 Borrowings

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

(i) The carrying value of foreign currency borrowings is translated at spot rate as at balance date. The foreign currency risk associated with these borrowings is hedged through the use of cross-currency swaps. Refer note 19.

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

(a) Other bank guarantees

Certain entities are required to provide bank guarantees in the form of tender bid bonds or performance bonds for contractual obligations. The subsidiaries have guarantee facilities with a number of institutions amounting to $15.0 million, of which $2.2 million was provided to third parties at 31 March 2014 (2013: $1.0 million).

Note 16 Provisions

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

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

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

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

Note 16 Provisions (continued)

(ii) Provision for customer rebates represents an assessment of the rebates payable to the customer for costs incurred by the customer in the construction of low voltage and high voltage infrastructure for turnkey projects in the electricity distribution network.

(iii) Sundry provisions include uninsured losses, licence fee, unaccounted for gas and earn-out provision.

(iv) The restructuring provision represents the cost associated with the Termination Deed. Refer note 28.

(v) The SPIMS employee entitlement provision represents the balance of SPIMS employee entitlements as at 31 March 2014. The Stapled Group is responsible for this obligation under the Termination Deed. All SPIMS employees have transferred to the Stapled Group subsequent to 31 March 2014. Refer note 28.

Note 17 Equity

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

(a) Ordinary shares

Ordinary shares authorised and issued have no par value. Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of SP AusNet Distribution in proportion to the number of and amounts paid on the shares issued. Holders of ordinary shares are entitled to one vote on a show of hands or one vote for each ordinary share held on a poll at shareholders' meetings.

(b) Movements in ordinary share capital

Date	Details	Notes	Number of shares	$M (i)
1 April 2013	Opening balance		3,367,543,113	0.5
28 June 2013	Distribution Reinvestment Plan	(ii)	8,782,410	-
23 December 2013	Distribution Reinvestment Plan	(ii)	10,281,557	-
31 March 2014	Closing balance		3,386,607,080	0.5
1 April 2012	Opening balance		2,896,219,682	0.5
1 June 2012	Institutional capital raising	(iii)	347,767,659	-
20 June 2012	Retail capital raising	(iii)	86,662,590	-
29 June 2012	Distribution Reinvestment Plan	(iv)	8,970,234	-
21 December 2012	Distribution Reinvestment Plan	(iv)	27,922,948	-
31 March 2013	Closing balance		3,367,543,113	0.5

(i) With respect to the allocation of the proceeds in the form of shares in SP AusNet Transmission and SP AusNet Distribution and units in SP AusNet Finance Trust, all amounts were allocated to the units in SP AusNet Finance Trust with the shares in SP AusNet Transmission and SP AusNet Distribution being issued at nominal consideration.

Note 17 Equity (continued)

(b) Movements in ordinary share capital (continued)

(ii) On 28 June 2013 and on 23 December 2013, 8.8 million and 10.3 million new stapled securities were issued under the DRP respectively. The new securities were issued at a price of $1.18 per security and $1.15 per security respectively, providing approximately $10.4 million and $11.8 million respectively.

(iii) A total of 434.4 million securities were issued under the non-renounceable entitlement offer completed in June 2012 at an issue price of $1.00 per stapled security for eligible securityholders in Australia and New Zealand and S$1.25 per stapled security for eligible securityholders in Singapore.

(iv) On 29 June 2012 and on 21 December 2012, 9.0 million and 27.9 million new stapled securities were issued under the DRP respectively. The new securities were issued at a price of $1.01 per security and $1.05 per security respectively, providing approximately $9.1 million and $29.3 million respectively.

(c) Capital management

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

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

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

The movement of this metric over time demonstrates how the business is funding its capital expenditure in terms of debt versus income generating assets. SP AusNet targets a net debt to Asset Base ratio of less than 75 per cent.

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

	2014	2013
	%	%
Net debt to Asset Base	68.6	68.1

The terms of certain financing arrangements contain financial covenants that require maintenance of specified interest coverage ratios and gearing ratios. In addition, certain arrangements contain provisions that are specifically affected by changes in credit ratings, change of control and/or ownership and cross default provisions.

SP AusNet monitors and reports compliance with its financial covenants on a monthly basis. There have been no breaches during the year.

The Responsible Entity of SP AusNet Finance Trust is the holder of an Australian Financial Services Licence. In accordance with the licence requirements, the Responsible Entity must maintain a minimum capital balance of $5,050,000. In this regard, capital consists of the ordinary shares and retained profits.

Note 18 Defined benefit obligations

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

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

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

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

The Stapled Group expects to make contributions of $4.5 million to the defined benefit plan during the next financial year. The Target Funding method is used to determine the contribution rates. Under the Target Funding method, the employer contribution rate is set at a level which is expected to result in the plans' assets equalling 105 per cent of the plans' liabilities within five years.

The defined benefit superannuation plans expose the Stapled Group to additional actuarial, interest rate and market risk.

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

Note 18 Defined benefit obligations (continued)

(a) Movement in defined benefit obligations

	2014 $M	2013 (restated) $M
Movement in the present value of the defined benefit obligations were as follows:		
Opening defined benefit obligation	256.0	244.3
Current service cost	7.1	6.9
Interest cost	9.0	9.4
Contributions by plan participants	2.4	2.5
Actuarial (gains)/losses	(15.7)	10.8
Benefits, taxes and premiums paid	(10.8)	(18.6)
Transfers in	-	0.7
Closing defined benefit obligations	248.0	256.0
Movements in the fair value of plan assets were as follows:		
Opening fair value of plan assets	221.3	203.9
Interest income	8.0	8.2
Actual return on fund assets less interest income	22.1	14.1
Contributions from the employer	5.6	10.5
Contributions by plan participants	2.4	2.5
Benefits, taxes and premiums paid	(10.8)	(18.6)
Transfers in	-	0.7
Closing fair value of plan assets	248.6	221.3

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

(b) Analysis of plan assets

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

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

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

Note 18 Defined benefit obligations (continued)

(c) Actuarial assumptions

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

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

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

(d) Sensitivity analysis

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

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

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

Note 19 Financial risk management

The Stapled Group's activities expose it to a number of financial risks, including changes in interest rates and foreign currency exchange rates, liquidity risk and credit risk. The Stapled Group manages its exposure to these risks in accordance with its Treasury Risk Policy which is approved by the Board. The policy is reviewed annually or more regularly if required by a significant change in the Stapled Group's operations. Any material changes are submitted to the Board for approval.

The objective of the Treasury Risk Policy is to document the Stapled Group's approach to treasury risk management and to provide a framework for ongoing evaluation and review of risk management techniques. The policy provides an analysis of each type of risk to which the Stapled Group is exposed and the objective of and techniques for managing the risk, including identifying and reporting risks to management and the Board.

Treasury evaluates and hedges financial risks in close co-operation with the Stapled Group's operating units. The Treasury Risk Policy provides written principles for overall risk management, as well as written policies covering specific areas, such as mitigating risks, use of derivative financial instruments and investing excess liquidity.

The Treasury Risk Policy operates in conjunction with several other SP AusNet policies, including:

- SP AusNet Authority Manual which sets out the approvals required for such things as investment of surplus funds, execution of hedging transactions, borrowings and issue of guarantees and indemnities;
- SP AusNet Treasury Operations Manual which sets out the day to day Treasury front office processes such as cash management and the operations of the Treasury back office, such as settlement processes and bank account operations;
- SP AusNet Refinancing and Hedging Strategy which sets out the refinancing and hedging strategies over the relevant financial period; and
- SP AusNet Credit Metrics Policy which sets out target ranges for the key credit metrics that determine the Stapled Group's credit strength, such as the percentage of debt to the value of the RAB at balance date.

Together these policies provide a financial risk management framework which supports the Stapled Group's objectives of finding the right balance between risk and reward to enhance profitability and business performance while minimising current and future exposures.

The material financial risks associated with SP AusNet's activities are each described below, together with details of SP AusNet's policies for managing the risk.

Note 19 Financial risk management (continued)

(a) Interest rate risk

Interest rate risk is the risk of suffering a financial loss due to an adverse movement in interest rates. SP AusNet is exposed to the risk of movements in interest rates on its borrowings.

In addition, SP AusNet's regulated revenues for the transmission and distribution businesses are directly impacted by changes in interest rates at each of their price review periods. This is a result of the 'building block' approach where interest rates are considered in the determination of the regulatory weighted average cost of capital and consequently regulated revenues. The price review period is five years for gas and electricity distribution and six years for electricity transmission. Starting from 1 April 2014, the price review period for electricity transmission will be three years, followed by a five-year price review period.

The objective of hedging activities carried out by the Stapled Group in relation to interest rate risk is to minimise the exposure to changes in interest rates by matching the actual cost of debt with the cost of debt assumed by the regulator when setting the rate of return for the relevant regulated business. The exposure is managed by maintaining the percentage of fixed rate debt to total debt at a level between 90 per cent and 100 per cent for the relevant business over its regulatory period. SP AusNet therefore considers net interest rate exposure, after hedging activities, to be minimal for the Stapled Group. The percentage of fixed rate debt to total debt (on a net debt basis) as at 31 March 2014 was 94.1 per cent (2013: 94.7 per cent).

The Stapled Group utilises interest rate swaps to manage its exposure to cash flow interest rate risk and achieve the targeted proportion of fixed rates on its debt portfolio. Under interest rate swaps, the Stapled Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Stapled Group to mitigate the risk of changing interest rates on debt held.

As at reporting date, the Stapled Group had the following financial assets and liabilities exposed to interest rate risk. The values disclosed below are the principal amounts, which differ from the carrying values and as such do not agree to the statement of financial position.

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

(i) The financial liabilities above include the impact of derivative financial instruments used to manage the interest rate and foreign currency exposures on those liabilities. Therefore, they represent the post-hedge position. It should be noted that some fixed rate borrowings (post-hedge) as at reporting date are only fixed for a portion of their term. This is because the maturity profile of borrowings differs from the price review periods of the regulated businesses in order to achieve the objective of matching the actual cost of debt with the assumed cost of debt for each regulated price review period.

Note 19 Financial risk management (continued)

(a) Interest rate risk (continued)

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

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

The judgements of reasonably possible movements were determined using statistical analysis of the 95th percentile best and worst expected outcomes having regard to actual historical interest rate data over the previous five years based on the three-month bank bill swap rate. Management considers that past movements are a transparent basis for determining reasonably possible movements in interest rates.

Due to the Stapled Group's interest rate risk management policies, the exposure to cash flow and foreign currency interest rate risk at any point in time is minimal. Therefore, the impact of a reasonably possible movement in interest rates on net profit after tax is minimal. The impact on equity is due to the valuation change of derivative financial instruments in cash flow hedges. This amount in the hedge reserve is transferred to the income statement when the underlying hedged transaction affects income in order to reflect the hedged position.

(b) Currency risk

The Stapled Group is exposed to currency risk due to funding activities in offshore debt markets as a means of providing cost effective and efficient funding alternatives, as well as a result of undertaking certain transactions denominated in foreign currencies. Exchange rate exposures are managed within approved policy parameters. The objective of SP AusNet's currency risk management program is to eliminate material foreign exchange risk by utilising various hedging techniques as approved by the Board. SP AusNet therefore considers its currency risk exposure to be minimal.

The Stapled Group is subject to the following currency exposures:

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

Note 19 Financial risk management (continued)

(b) Currency risk (continued)

The Stapled Group enters into cross-currency swaps to manage exposures from foreign currency loans. It is the policy of the Stapled Group to cover 100 per cent of the cash flow exposure generated by these loans.

The Stapled Group also enters into forward foreign currency contracts to hedge the exchange rate risk in relation to specific purchase orders. It is the policy of the Stapled Group to fully hedge currency exposures above a Board approved threshold once the exposure is confirmed. The derivative financial instrument used to hedge the exposure is entered into when there is a high degree of certainty as to the nature of the exposure, including currency, amount and delivery date so as to ensure a high level of effectiveness in cash flow hedging.

As at reporting date, if the Australian dollar had moved against each of the currencies, with all other variables held constant, post-tax profit and equity would have increased/(decreased) as follows:

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

The judgements of reasonably possible movements were determined using statistical analysis of the 95th percentile best and worst expected outcomes having regard to actual historical spot exchange rate data over the previous five years, with all other variables held constant. Management considers that past movements are a transparent basis for determining reasonably possible movements in exchange rates. As at 31 March 2014, the movements in foreign exchange rates used in the table above are as follows:

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

The impact on the hedge reserve is due to the valuation change of derivative financial instruments in cash flow hedges. This amount in the hedge reserve is transferred to the income statement when the underlying hedged transaction affects income in order to reflect the hedged position.

Exchange rate risk arising from foreign currency denominated borrowings is managed using cross-currency swaps at 100 per cent of borrowed funds at inception date. The residual exposure to exchange rate movements disclosed in the sensitivity table above for post-tax profit only arises from trade payables and cash denominated in foreign currency, which are immaterial to the Stapled Group.

Note 19 Financial risk management (continued)

(c) Derivative financial instruments used to hedge interest rate and currency risk

The Stapled Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign currency risk, as detailed below:

	Interest rate swaps	Forward foreign currency contracts	Cross-currency swaps	Total net derivative financial instruments
2014	$M	$M	$M	$M
Current assets	-	0.1	-	0.1
Non-current assets	78.5	-	185.7	264.2
Current liabilities	(1.5)	(0.1)	(69.1)	(70.7)
Non-current liabilities	(132.2)	-	(103.2)	(235.4)
Total derivative financial instruments	(55.2)	-	13.4	(41.8)
Consists of:				
- fair value hedges	9.8	-	(107.8)	(98.0)
- cash flow hedges	(65.0)	-	121.2	56.2
Total derivative financial instruments	(55.2)	-	13.4	(41.8)
2013				
Current assets	-	6.7	-	6.7
Non-current assets	92.0	-	-	92.0
Current liabilities	(81.1)	(13.4)	(112.6)	(207.1)
Non-current liabilities	(124.9)	-	(349.7)	(474.6)
Total derivative financial instruments	(114.0)	(6.7)	(462.3)	(583.0)
Consists of:				
- fair value hedges	39.7	-	(419.2)	(379.5)
- cash flow hedges	(151.9)	(6.7)	(43.1)	(201.7)
- not in a hedge relationship	(1.8)	-	-	(1.8)
Total derivative financial instruments	(114.0)	(6.7)	(462.3)	(583.0)

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

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

Note 19 Financial risk management (continued)

(c) Derivative financial instruments used to hedge interest rate and currency risk (continued)

(i) Derivative financial instruments in a fair value hedge

Derivative financial instruments are designated in a fair value hedge in order to mitigate the exposure to changes in fair value of certain borrowings of SP AusNet. Fair value hedges are generally designated for the terms of borrowings that fall outside of the price review periods for the regulated businesses.

(ii) Derivative financial instruments in a cash flow hedge

Derivative financial instruments are designated in a cash flow hedge in order to mitigate the variability in cash flows attributable to interest rate and/or foreign currency movements on borrowings or highly probable forecast transactions.

The following movements have occurred in the cash flow hedge reserve during the year, net of income tax:

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

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

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

These amounts will impact the income statement in the same period as cash flows are expected to occur, with the exception of hedges of highly probable forecast transactions which will impact the income statement as the underlying asset is utilised.

Note 19 Financial risk management (continued)

(c) Derivative financial instruments used to hedge interest rate and currency risk (continued)

(iii) (Gain)/loss on accounting for hedge relationships

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

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

(i) The remeasurement of SP AusNet's borrowings in fair value hedges resulted in a loss before tax of $293.1 million (2013: gain before tax of $95.9 million). The change in fair value of the associated derivative financial instruments resulted in a gain before tax of $292.1 million (2013: loss before tax of $95.4 million), leaving a net $1.0 million loss (2013: $0.5 million gain) recognised in finance costs.

(ii) In previous years a number of cash flow hedges no longer satisfied the requirements for hedge accounting and as such were de-designated. This was primarily due to the replacement of maturing Australian dollar debt with foreign currency debt. Notwithstanding that these borrowings and the related derivative financial instruments no longer satisfy the requirements for hedge accounting, they are in economic relationships that are effective in managing interest rate and currency risks, based on contractual face values and cash flows over the life of the transactions.

(iii) Includes a gain of $10.9 million (2013: $16.6 million) due to the partial unwinding of previous de-designation losses recognised.

(d) Liquidity risk

Liquidity risk is defined as the risk of an unforseen event which will result in SP AusNet not being able to meet its payment obligations in an orderly manner.

The Stapled Group manages liquidity risk by maintaining adequate cash reserves, committed banking facilities and reserve borrowing facilities and by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. These practices are governed by the Stapled Group's liquidity management policies, which include Board approved guidelines covering the maximum volume of long-term debt maturing in any one year, the minimum number of years over which debt maturities are to be spread and the timing of refinancing. In addition, short-term bank debt and commercial paper must not represent more than an agreed percentage of the total debt portfolio of SP AusNet.

The liquidity management policies ensure that the Stapled Group has a well diversified portfolio of debt, in terms of maturity and source, which significantly reduces reliance on any one source of debt in any one particular year. In addition, the investment grade credit rating of the Stapled Group ensures ready access to both domestic and offshore capital markets.

(i) Contractual cash flows

Liquidity risk is managed by SP AusNet based on net inflows and outflows from financial assets and financial liabilities. The following table summarises the contractual cash flows of the Stapled Group's non-derivative and derivative financial assets and liabilities based on the remaining earliest contractual maturities. The contractual cash flows are based on undiscounted principal and interest commitments.

Note 19 Financial risk management (continued)

(d) Liquidity risk (continued)

(i) Contractual cash flows (continued)

2014	Notes	Principal at face value $M	Carrying amount $M	Total contractual cash flows $M	Less than 1 year $M	1 - 2 years $M	2 - 5 years $M	Greater than 5 years $M
Financial assets								
Non-derivative financial assets								
Cash and cash equivalents		409.8	409.8	409.8	409.8	-	-	-
Accounts and other receivables	9	497.0	497.0	675.7	294.1	22.1	62.9	296.6
Derivative financial assets								
Interest rate swaps			78.5	105.2	13.5	15.5	33.6	42.6
Cross-currency swaps		-	185.7	(76.1)	(40.5)	23.2	(102.4)	43.6
Forward foreign currency contracts		-	0.1	-	-	-	-	-
- Inflow				4.3	2.8	1.5	-	-
- Outflow				(4.2)	(2.7)	(1.5)	-	-
			1,171.1	1,114.7	677.0	60.8	(5.9)	382.8
Financial liabilities								
Non-derivative financial liabilities								
Trade and other payables	14	283.7	283.7	283.7	272.3	11.4	-	-
Commercial paper	15	90.0	89.5	90.0	90.0	-	-	-
Bank debt facilities *	15	553.0	548.9	547.9	547.9	-	-	-
Domestic medium term notes	15	1,285.0	1,310.8	1,795.6	80.6	81.0	512.5	1,121.5
USD senior notes	15	885.0	764.5	811.0	364.9	24.9	421.2	-
GBP senior notes	15	537.5	520.6	609.8	32.0	32.0	545.8	-
CHF senior notes	15	1,075.0	1,233.6	1,283.5	22.1	601.4	320.8	339.2
HKD senior notes	15	287.7	289.1	412.6	10.7	10.8	32.2	358.9
JPY senior notes	15	62.6	54.4	59.9	0.7	0.7	2.2	56.3
EUR senior notes	15	1,253.0	1,257.8	1,543.3	33.3	33.3	99.8	1,376.9
Derivative financial liabilities								
Interest rate swaps			133.7	144.1	72.4	46.3	9.8	15.6
Cross-currency swaps			172.3	499.1	73.3	10.2	217.4	198.2
Forward foreign currency contracts			0.1					
- Inflow				(2.6)	(2.0)	(0.2)	(0.4)	-
- Outflow				2.7	2.1	0.2	0.4	-
			6,659.0	8,080.6	1,600.3	852.0	2,161.7	3,466.6
Net cash outflow				(6,965.9)	(923.3)	(791.2)	(2,167.6)	(3,083.8)

Note 19 Financial risk management (continued)

(d) Liquidity risk (continued)

(i) Contractual cash flows (continued)

2013	Notes	Principal at face value $M	Carrying amount $M	Total contractual cash flows $M	Less than 1 year $M	1 - 2 years $M	2 - 5 years $M	Greater than 5 years $M
Financial assets								
Non-derivative financial assets								
Cash and cash equivalents		541.0	541.0	541.0	541.0	-	-	-
Accounts and other receivables	9	515.8	515.8	717.6	304.8	22.8	65.2	324.8
Derivative financial assets								
Interest rate swaps			92.0	102.8	22.0	21.0	51.7	8.1
Forward foreign currency contracts			6.7					
- Inflow				29.9	29.9	-	-	-
- Outflow				(23.2)	(23.2)	-	-	-
			1,155.5	1,368.1	874.5	43.8	116.9	332.9
Financial liabilities								
Non-derivative financial liabilities								
Trade and other payables	14	244.5	244.5	244.5	242.4	2.1	-	-
Commercial paper	15	172.0	171.8	172.0	172.0	-	-	-
Bank debt facilities *	15	980.5	977.2	989.5	989.5	-	-	-
Domestic medium term notes	15	1,285.0	1,324.3	1,875.4	89.0	81.0	533.9	1,171.5
USD senior notes	15	1,292.1	1,001.6	1,064.0	342.4	324.7	396.9	-
GBP senior notes	15	537.5	445.3	520.8	26.0	26.0	78.0	390.8
CHF senior notes	15	1,075.0	1,020.7	1,080.5	16.2	18.3	761.6	284.4
HKD senior notes	15	287.7	282.9	376.2	9.5	9.5	28.6	328.6
JPY senior notes	15	62.6	53.4	59.1	0.7	0.7	2.1	55.6
Derivative financial liabilities								
Interest rate swaps			206.0	225.3	127.5	50.0	41.7	6.1
Cross-currency swaps			462.3	896.8	159.0	152.9	299.4	285.5
Forward foreign currency contracts			13.4					
- Inflow				(46.6)	(46.6)	-	-	-
- Outflow				60.0	60.0	-	-	-
			6,203.4	7,517.5	2,187.6	665.2	2,142.2	2,522.5
Net cash outflow				(6,149.4)	(1,313.1)	(621.4)	(2,025.3)	(2,189.6)

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

Note 19 Financial risk management (continued)

(d) Liquidity risk (continued)

(ii) Financing facilities

The Stapled Group targets a minimum net liquidity, defined as available short-term funds and committed financing facilities. As at reporting date, SP AusNet had the following committed financing facilities available:

	2014 $M	2013 $M
Financing facilities (face value)		
Unsecured bank overdraft facility, reviewed annually and payable at call:		
- Amount used	-	-
- Amount unused	2.5	2.5
	2.5	2.5
Unsecured working capital facility, reviewed annually:		
- Amount used	53.0	30.5
- Amount unused	47.0	69.5
	100.0	100.0
Unsecured bank loan facility with various maturity dates and which may be extended by mutual agreement:		
- Amount used	500.0	950.0
- Amount unused	700.0	250.0
	1,200.0	1,200.0

Note 19 Financial risk management (continued)

(e) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Stapled Group and arises from the Stapled Group's financial assets, comprising cash and cash equivalents, trade and other receivables and derivative financial instruments.

The Stapled Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults (refer note 9). The Stapled Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate values of transactions concluded are spread amongst approved counterparties. Revenues from a single customer, AEMO, in the Stapled Group's electricity transmission segment represents 27 per cent (2013: 30 per cent) of the Stapled Group's total revenues. SP AusNet is licensed to transmit electricity in Victoria whereas AEMO is the provider of shared network services and the planner, authoriser, contractor and director of augmentation of the declared shared network in Victoria. A network agreement is in place between both parties whereby SP AusNet receives network charges from AEMO for the use of SP AusNet's transmission network to transmit electricity to participants in the market. Due to the nature of this network agreement, SP AusNet does not believe that there is any significant credit risk exposure on this customer. SP AusNet therefore considers its credit risk exposure to be minimal.

In accordance with the Treasury Risk Policy, treasury counterparties each have an approved limit based on the lower of Standard & Poor's or Moody's credit rating. Counterparty limits are reviewed and approved annually by the Audit and Risk Management Committee and any changes to counterparties or their credit limits must be approved by the Chief Financial Officer and the Managing Director and must be within the parameters set by the Board as outlined in the Treasury Risk Policy.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies. At balance date, SP AusNet had $409.8 million on term deposit and $275.6 million of cross currency and interest rate swaps with 'A' rated or higher Australian and international banks.

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

Except as detailed in the following table, the carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the Stapled Group's maximum exposure to credit risk. The values disclosed below represent the market values in the event of a closeout (in-the-money market values), which differ from the carrying values and as such do not agree to the statement of financial position. The values below exclude any offsetting financial liabilities with the particular counterparty.

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

Note 19 Financial risk management (continued)

(f) Fair value of financial assets and liabilities

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

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

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

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

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

Note 20 Critical accounting estimates and judgements

The Stapled Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Accounting estimates and judgements where changes in those estimates and judgements could result in a significant change to the carrying amounts of assets and liabilities within the next financial year are detailed below:

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

For the purpose of impairment testing, assets have been allocated to CGUs. Each CGU represents a group of assets that generates cash inflows independent from other groups of assets.

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

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

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

In terms of the distribution licences, management has based its assessment of fair value less costs to sell on discounted cash flow projections over a period of 20 years together with an appropriate terminal value incorporating growth rates based on the long-term Consumer Price Index assumption of 2.6 per cent. Regulated cash flow forecasts are based on allowable returns on electricity and gas distribution assets as set out in the Victorian Electricity Supply Industry Tariff Order and the Victorian Gas Industries Tariff Order respectively, together with other information included in the Stapled Group's five-year forecast. Cash flows after that period are based on an extrapolation of the forecast, taking into account inflation and expected customer connection growth rates. It is considered appropriate to use cash flows after SP AusNet's five-year forecast period considering the long-term nature of the Stapled Group's activities. Cash flows are discounted using post-tax discount rates of 6.3 per cent to 6.5 per cent.

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

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

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

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

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

Note 20 Critical accounting estimates and judgements (continued)

(b) Income taxes

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

The tax expense assumes that SP AusNet Distribution can carry forward income tax losses under relevant tax legislation and is more likely than not to utilise them in the future. If either of these assumptions is proven to be incorrect, then the deferred tax asset recognised for carry forward tax losses may need to be derecognised.

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

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

(c) Derivative financial instruments

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

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

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

The fair value of derivative financial instruments is determined in accordance with generally accepted pricing models based on discounted cash flow analysis. This involves the valuation of derivative financial instruments based on prices sourced from significant observable data as well as market corroboration based on active quotes. Appropriate transaction costs are included in the determination of net fair value.

(d) Accrued revenue

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

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

Note 20 Critical accounting estimates and judgements (continued)

(e) Useful lives of property, plant and equipment

Depreciation is recognised on property, plant and equipment, including freehold buildings but excluding land and easements. Depreciation is calculated on a straight-line basis so as to write off the net cost of each asset over its estimated useful life to its estimated residual value. The estimated useful lives, residual values and depreciation methods are reviewed annually. Assumptions are made regarding the useful lives and residual values based on the regulatory environment and technological developments. These assumptions are subject to risk and there is the possibility that changes in circumstances will alter expectations.

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

(f) Provisions

(i) *Defined benefit plans*

A number of estimates and assumptions are used in determining defined benefit assets, obligations and expenses. These estimates include salary increases, future earnings and rates of return. Any difference in estimates will be recognised in other comprehensive income and not through the income statement.

The net (liability)/asset from defined benefit obligations recognised in the combined statement of financial position will be affected by any significant movement in investment returns and/or interest rates.

Each year SP AusNet engages Mercer Investment Nominees Limited to perform actuarial reviews of the SPI PowerNet Pty Ltd and SPI Electricity Pty Ltd defined benefit funds.

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

(ii) *Environmental provision*

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

(g) Contingent liabilities

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

Note 21 Key management personnel

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

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

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

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

Note 21 Key management personnel (continued)

Securityholdings of key management personnel

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

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

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

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

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

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

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

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

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

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

Note 21 Key management personnel (continued)

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

Note 22 Remuneration of auditors

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

(a) Audit and review services

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

(b) Other services

	2014	2013
Other assurance, taxation and advisory services	170	165
Total remuneration for other services	170	165
Total remuneration of auditors	2,534	2,275

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

Note 23 Contingent liabilities and contingent assets

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

(a) Section 163AA impost

(i) Background

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

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

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

Note 23 Contingent liabilities and contingent assets (continued)

(a) Section 163AA impost (continued)

(ii) Current status

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

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

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

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

(b) Intellectual Property

(i) Background

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

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

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

(ii) Current status

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

Note 23 Contingent liabilities and contingent assets (continued)

(c) February 2009 bushfire litigation

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

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

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

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

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

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

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

(d) Other

SP AusNet is involved in various other legal and administrative proceedings and various claims on foot, the ultimate resolution of which, in the opinion of SP AusNet, should not have a material effect on the combined financial position, results of operations or cash flows.

Other than listed above, the Directors are not aware of any other contingent liabilities as at 31 March 2014.

Note 24 Commitments

(a) Capital commitments

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

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

(b) Lease commitments

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

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

Operating leases

The Stapled Group leases relate to premises, vehicles, network land and access sites under non-cancellable operating leases expiring within one to seven years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

Note 25 Related party transactions

(a) Parent entities

By virtue of the Stapling Deed effective 21 October 2005, SP AusNet Distribution is deemed to be the parent entity of the Stapled Group.

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

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

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

(i) Logo

Singapore Power Limited has granted SP AusNet a licence for consideration of $1.0 million per year to use the 'flame logo' and image in connection with its business and the use of the terms 'SP', 'SP Australia Networks' and 'SP AusNet'. The fee payable is on normal commercial terms. This arrangement is expected to cease no later than 17 August 2014.

(b) Other related parties

(i) Management Services Agreements (MSAs)

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

Management Services Agreement with SP AusNet Distribution and SP AusNet Transmission

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

The MSA commenced on 1 October 2005 and was terminated on 31 March 2014.

Note 25 Related party transactions (continued)

(b) Other related parties (continued)

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

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

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

Note 25 Related party transactions (continued)

(b) Other related parties (continued)

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

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

The MSA contained mutual indemnities for all damages, costs, claims, suits, liabilities, expenses, actions or injuries suffered or incurred as a consequence of any claims against a party to the extent to which any such claim is caused by the negligence, fraud or dishonesty of the other party (or its officers or employees) or a breach of the MSA. The total liability of either party was limited to $5.0 million in any financial year.

Management Services Agreement with the Responsible Entity

Under the RE MSA, the Responsible Entity engaged SPIMS to provide management and administration services in respect of SP AusNet Finance Trust. SPIMS was entitled to an annual fee of $0.1 million per year in respect of the RE MSA. SPIMS was able to consult with Singapore Power Limited and its subsidiaries from time to time in the performance of its work.

The RE MSA also commenced on 1 October 2005 and was terminated on 31 March 2014. The RE MSA contained mutual indemnities and limits the total liability of either party to $5.0 million in any financial year.

(ii) Long-term operational agreement

On 29 September 2008, SP AusNet entered into an agreement with the Singapore Power Group on a number of operational arrangements. SP AusNet through Select Solutions provides end-to-end metering services, technical services and vegetation management services to the electricity and gas networks owned and managed by Jemena Asset Management Pty Ltd (referred to as Jemena). As part of the agreement, Jemena's contestable metering customer contracts were novated to SP AusNet who took over the responsibility for delivering contestable metering services to those customers.

To ensure continued capital investment and deliver network growth, Jemena has been appointed to SP AusNet's preferred supplier panel, securing resources for the delivery of SP AusNet's capital portfolio.

Each of the above arrangements was for an initial five year term and were renewed in August 2013 for an additional three year term. The agreements will then continue for further five year terms unless terminated by either party by giving notice to terminate at the end of the current term. The arrangements may also be terminated early by either party in certain circumstances.

(iii) IT services agreement

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

Note 25 Related party transactions (continued)

(c) Key management personnel

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

(d) Transactions with related parties

Prior to 3 January 2014 the ultimate parent of SP AusNet was Temasek. SP AusNet engages in a wide variety of transactions with entities in the Temasek Group in the normal course of business on terms similar to those available to other customers. Such transactions include but are not limited to telecommunication services and leasing of properties. These related party transactions are carried out on terms negotiated between the parties which reflect an arm's-length basis. As a result, transactions with Temasek interests other than the Singapore Power Group and Jemena have been excluded from the disclosures below.

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

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

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

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

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

Note 25 Related party transactions (continued)

(e) Outstanding balances

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

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

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

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

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

Note 26 Subsidiaries

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

Name of entity	Country of incorporation	Class of shares	Equity holding 2014 %	Equity holding 2013 %
SP Australia Networks (Distribution) Ltd	Australia	Ordinary		
Subsidiaries:				
SPI Australia Networks (RE) Ltd	Australia	Ordinary	100	100
SPI Australia Group Pty Ltd	Australia	Ordinary	100	100
SPI Australia (LP) No. 1 Limited	UK	n/a	100	100
SPI Australia (LP) No. 2 Limited	UK	n/a	100	100
SPI Australia Holdings (AGP) Pty Ltd	Australia	Ordinary	100	100
SPI Australia Holdings (Partnership) Limited Partnership	Australia	Ordinary	100	100
SPI Electricity & Gas Australia Holdings Pty Ltd	Australia	Ordinary	100	100
SPI Electricity Pty Ltd	Australia	Ordinary	100	100
SPI Networks Pty Ltd	Australia	Ordinary	100	100
SPI (No. 8) Pty Ltd	Australia	Ordinary	100	100
SPI (No. 9) Pty Ltd	Australia	Ordinary	100	100
SPI Networks (Gas) Pty Ltd	Australia	Ordinary	100	100
Select Solutions Group Pty Ltd	Australia	Ordinary	100	100
SP Australia Networks (Transmission) Ltd *	Australia	Ordinary		
Subsidiaries:				
SPI PowerNet Pty Ltd	Australia	Ordinary	100	100
SPI Australia Finance Pty Ltd	Australia	Ordinary	100	100
Geomatic Holdings Pty Ltd (i)	Australia	Ordinary	100	-
Geomatic Technologies Pty Ltd (i)	Australia	Ordinary	100	-
SP Australia Networks (Finance) Trust *	Australia	Ordinary		

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

* In accordance with AASB 3 *Business Combinations* SP AusNet Distribution is deemed to acquire SP AusNet Transmission and SP AusNet Finance Trust at the date of stapling. This acquisition is by contract alone and SP AusNet Distribution therefore does not have an equity holding in either entity.

Note 27 Business combinations

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

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

(a) Consideration transferred

The following summarises the major classes of consideration transferred:

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

(i) Under the terms of the acquisition agreement, SP AusNet must make additional cash payments based upon various performance metrics including business integration and EBITDA targets in the 2015 financial year. The potential undiscounted amount of all future payments that could be required is up to $3.0 million. SP AusNet has forecast several scenarios, and probability weighted each to determine a fair value for this contingent payment arrangement, which has been included in the determination of the consideration transferred. As at 31 March 2014, SP AusNet had paid $0.3 million of this contingent consideration due to the satisfaction of certain business integration targets.

(b) Assets and liabilities acquired

The following summarises the recognised amounts of assets acquired and liabilities assumed at the acquisition date:

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

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

Note 28 MSA termination

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

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

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

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

Note 29 Parent entity information

(a) Statement of financial position

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

The parent entity has a net current asset deficiency of $1,204.2 million as at 31 March 2014. The parent entity is considered to be a going concern as the deficiency arises from related party loans with SP AusNet Finance Trust. Whilst repayable on demand, the loan agreements are for terms of ten years, and mature in July 2014 and December 2018. The Directors are confident that SP AusNet Finance Trust will not demand repayment of the outstanding principal and unpaid accrued interest prior to the expiration of the term.

The parent entity has access to funds through SPI Electricity & Gas Australia Holdings Pty Ltd, which is the common or central funding vehicle for SP AusNet.

Note 29 Parent entity information (continued)

(b) Statement of comprehensive income

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

(c) Contingent liabilities

Other than the contingent liabilities disclosed in note 23, the Directors are not aware of any other contingent liabilities of the parent entity as at 31 March 2014.

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

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

Note 31 Events occurring after the balance sheet date

(a) Distribution

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

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

(b) Other matters

Other than outlined above, there has been no matter or circumstance that has arisen since 31 March 2014 up to the date of issue of this financial report that has significantly affected or may significantly affect:

(a) the operations in financial years subsequent to 31 March 2014 of the Stapled Group;

(b) the results of those operations; or

(c) the state of affairs, in financial years subsequent to 31 March 2014, of the Stapled Group.

Directors' declaration

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

(a) the financial statements and notes set out on pages 42 to 115, and the remuneration disclosures that are contained in the *Remuneration report* set out on pages 25 to 38 in the *Directors' report*, are in accordance with the *Corporations Act 2001*, including:

  (i) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

  (ii) giving a true and fair view of the combined entity's financial position as at 31 March 2014 and of its performance for the financial year ended on that date;

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

(c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The Directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001*.

Signed in accordance with a resolution of the Directors.

Ng Kee Choe
Chairman

Nino Ficca
Managing Director

Melbourne
14 May 2014

Independent auditor's report to the members of SP Australia Networks (Distribution) Ltd, SP Australia Networks (Transmission) Ltd and SP Australia Networks (Finance) Trust

Report on the financial report

We have audited the accompanying financial report of SP Australia Networks (Distribution) (the Company), which comprises the combined statement of financial position as at 31 March 2014, and combined income statement and combined statement of comprehensive income, combined statement of changes in equity and combined statement of cash flows for the year ended on that date, notes 1 to 31 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration. The financial report includes the financial statements of the combined entity, being SP Australia Networks (Distribution) Ltd and the entities it controlled at the year's end or from time to time during the financial year, SP Australia Networks (Transmission) Ltd and the entities it controlled at the year's end or from time to time during the financial year, and SP Australia Networks (Finance) Trust ("the Combined Entity").

Directors' responsibility for the financial report

The directors of the Company, SP Australia Networks (Transmission) Ltd and the directors of the responsible entity of SP Australia Networks (Finance) Trust, SP Australia Networks (RE) Ltd, are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In note 1(a), the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Combined Entity comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Combined Entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Combined Entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Combined Entity's financial position and of its performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

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

Auditor's opinion

In our opinion:

(a) the financial report of the Combined Entity is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Combined Entity's financial position as at 31 March 2014 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

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

Report on the remuneration report

We have audited the Remuneration Report included in pages 25 to 38 of the directors' report for the year ended 31 March 2014. The directors of the Company and of SP Australia Networks (Transmission) Ltd, and the directors of the responsible entity of SP Australia Networks (Finance) Trust, SP Australia Networks (RE) Ltd, are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the remuneration report of SP Australia Networks (Distribution) Ltd for the year ended 31 March 2014, complies with Section 300A of the *Corporations Act 2001*.

KPMG

KPMG

Michael Bray
Partner

Melbourne

14 May 2014