

10 November 2010

TO: ASX Limited
Singapore Exchange Securities Trading Limited

SP AusNet 2010/11 Half-Year Results

Please find attached the following:

1. Appendix 4D – Half-Year Report for Period Ended 30 September 2010; and
2. SP Australia Networks (Distribution) Limited General Purpose Interim Financial Report for the financial period ended 30 September 2010.

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Company Secretary

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

Appendix 4D

Half year report
Half Year Ending 30 September 2010

1. The current reporting period is the half year ended 30 September 2010. The previous corresponding period is the half year ended 30 September 2009.
2. Results for announcement to the market

	30 September 2010 \$M	30 September 2009 \$M	% change	Up / down
2.1 Revenue from ordinary activities	785.8	713.7	10.1	up
2.2 Profit from ordinary activities after tax attributable to stapled securityholders	166.0	135.4	22.6	up
2.3 Net profit for the half year attributable to stapled securityholders	166.0	135.4	22.6	up

The following items are included in the 22.6% increase in net profit after tax:

- income tax expense has decreased by \$28.1 million compared to the previous corresponding period primarily due to changes in tax consolidation legislation as well as additional deductions available for research and development and the federal government's investment allowance incentive. This is partially offset by;
- higher net finance charges, mainly due to \$11.8 million of hedge accounting de-designation losses recognised for the half year ended 30 September 2010 (2009: \$nil). There is no economic loss as these de-designation losses will be recovered over the term of the hedge.

2.4 Distributions for the half year ended 30 September 2010:

	Cents per security
Interim 2011 distribution:	
Fully franked dividend	1.591
Assessable interest income	2.228
Return of capital	<u>0.181</u>
Total interim distribution	<u>4.000</u>
Previous corresponding period interim 2010 distribution:	
Fully franked dividend	1.289
Assessable interest income	1.887
Return of capital	<u>0.824</u>
Total interim distribution	<u>4.000</u>

2.5 The record dates for determining entitlements to the distributions:

Record date	Payment date
26 November 2010	22 December 2010

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

Refer to the Directors' report within the attached Interim Financial Report.

3. Net tangible assets per security

	30 September 2010	30 September 2009
Net tangible assets per stapled security	\$0.91	\$0.91

4. Gain or loss of control over entities

SP AusNet did not gain or lose control over any entities during the period.

5. Dividends and Distributions

Distributions paid during the interim period are:

	Cents per security	Total distribution \$M	Date paid
Fully franked dividend	1.591	43.0	29 June 2010
Assessable interest income	2.261	61.2	29 June 2010
Return of capital	0.148	4.0	29 June 2010
	<hr/>	<hr/>	
	4.000	108.2	

6. 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 2010/11 interim distribution will be issued SP AusNet stapled securities at a 2.5% 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 sales of SP AusNet stapled securities on the ASX during the 10 trading days immediately after the record date for the distribution. The record date for the 2010/11 interim distribution is 26 November 2010.

The deadline for the receipt of Election Notices for participation in the DRP for the 2010/11 interim distribution is 5.00pm (Australian Eastern Daylight Time) on 26 November 2010.

7. Details of associates/joint ventures

SP AusNet had no associates or joint ventures in operation as at or for the half year ended 30 September 2010.

SP AusNet has a number of agreements in place and transactions with related parties. Refer to the 31 March 2010 annual report for details regarding these related party arrangements.

8. Foreign Entities

Not Applicable

9 Status of review of accounts

The half year report is based on accounts which have been subject to an independent review. The SP AusNet accounts are not subject to dispute or qualification.

Date: 09 November 2010

SP Australia Networks (Distribution) Ltd
ACN 108 788 245

General Purpose Interim Financial Report

For the financial period ended 30 September 2010

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This interim 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 interim 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

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 March 2010, and any public announcements made by SP Australia Networks (Distribution) Ltd during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The interim financial report was authorised for issue by the Directors on 9 November 2010.

Directors' report

The Directors of SP Australia Networks (Distribution) Ltd ("SP AusNet Distribution") present their report on the general purpose interim financial report of the combined entity for the financial period ended 30 September 2010.

This interim financial report has been prepared as an aggregation of the financial statements of SP AusNet Distribution and its subsidiaries, SP Australia Networks (Transmission) Ltd ("SP AusNet Transmission") and its subsidiaries and SP Australia Networks (Finance) Trust ("SP AusNet Finance Trust") 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)

Jeremy Guy Ashcroft **Davis** AM

Eric **Gwee** Teck Hai

Ho Tian Yee

Antonino (Tony) Mario **Iannello**

George Allister **Lefroy**

Tina Renna **McMeckan** (appointed effective 9 August 2010)

Martyn Kenneth **Myer** AO (retired effective 14 July 2010)

Ian Andrew **Renard**

Executive Director

Nino **Ficca** (Managing Director)

Directors' report

Distributions

The final 2010 distributions paid to securityholders on 29 June 2010 were as follows:

	Cents per security	Total distribution \$M
Fully franked dividend paid by SP AusNet Transmission	1.591	43.0
Assessable interest income paid by SP AusNet Finance Trust	2.261	61.2
Return of capital paid by SP AusNet Finance Trust	0.148	4.0
	4.000	108.2

In relation to the final distributions paid on 29 June 2010 of \$108.2 million, \$34.6 million was utilised in the allotment of new securities issued under the Distribution Reinvestment Plan ("DRP").

Since the end of the current financial period, the Directors have approved an interim distribution for 2011 of \$109.9 million (4.000 cents per stapled security) to be paid on 22 December 2010 comprised as follows:

	Cents per security	Total distribution \$M
Fully franked dividend payable by SP AusNet Transmission	1.591	43.7
Assessable interest income payable by SP AusNet Finance Trust	2.228	61.2
Return of capital payable by SP AusNet Finance Trust	0.181	5.0
	4.000	109.9

Directors' report

Review of operations

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

	Electricity distribution	Gas distribution	Electricity transmission	Inter- segment eliminations	Combined
	\$M	\$M	\$M	\$M	\$M
Regulated revenue	279.9	135.6	267.4	(4.7)	678.2
Excluded revenue	8.9	1.6	10.7	(1.7)	19.5
Customer contributions	15.3	1.2	-	-	16.5
Service revenue	50.7	0.6	4.3	-	55.6
Other revenue	6.8	0.5	9.1	(0.4)	16.0
Total segment revenue	361.6	139.5	291.5	(6.8)	785.8
Segment result before interest expense	106.7	91.7	139.3	-	337.7
Segment interest expense	(63.1)	(36.2)	(75.7)	-	(175.0)
Unallocated finance income less unallocated finance expenses					9.2
Profit before income tax					171.9
Income tax expense					(5.9)
Net profit for the period ended 30 September 2010					166.0

Discussion and analysis for the period ended 30 September 2010

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

SP AusNet achieved a net profit after tax ("NPAT") of \$166.0 million for the period ended 30 September 2010, an increase of \$30.6 million or 22.6 per cent over the previous corresponding period. This includes a \$28.1 million decrease in income tax expense primarily due to changes in tax consolidation legislation as well as additional deductions available for research and development and the Federal Government's investment allowance incentive. This has been partially offset by \$11.8 million of hedge accounting de-designation losses.

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 located in eastern Victoria and a gas distribution network in western Victoria. Overall revenue increased by 10.1 per cent to \$785.8 million. The increase in revenue arose from incentive scheme payments due to improvements in network reliability, additional revenues from the Advanced Metering Infrastructure ("AMI") program, the strong growth in customer numbers, favourable weather conditions and the increase in service revenue from Select Solutions. Revenue for each segment is discussed below.

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

Directors' report

Discussion and analysis for the period ended 30 September 2010 (continued)

Electricity distribution business

SP AusNet's electricity distribution business contributed \$361.6 million in total revenues prior to intercompany eliminations (excluding interest income) for the period ended 30 September 2010. Revenues were impacted by increases in incentive scheme payments due to improvements in network reliability, additional revenues from the Advanced Metering Infrastructure ("AMI") program, the strong growth in customer numbers, favourable weather conditions and the increase in service revenue from Select Solutions (discussed below). The electricity distribution business contributed \$106.7 million to profits from operating activities for the period ended 30 September 2010. As at 30 September 2010, SP AusNet had 626,110 customers connected to its electricity distribution network representing an increase of 6,382 customers or 1.0 per cent since 31 March 2010. During the financial period 4,163 GWh was distributed through the distribution network, representing an increase of 2.7 per cent over the previous corresponding period. Total capital expenditure for the period, excluding AMI, was \$129.6 million, of which \$49.9 million was customer-initiated.

Gas distribution business

SP AusNet's gas distribution business contributed \$139.5 million in total revenues prior to intercompany eliminations (excluding interest income) for the period ended 30 September 2010. Revenues were favourably impacted by strong growth in customer numbers and favourable weather conditions. The gas distribution business contributed \$91.7 million to profits from operating activities for the period ended 30 September 2010. As at 30 September 2010, SP AusNet had 581,155 customers connected to its gas distribution network representing an increase of 9,477 or 1.7 per cent since 31 March 2010. Total gas delivered through the network was 46.1 PJ, an increase of 1.8 per cent over the previous corresponding period. Total capital expenditure for the period, excluding AMI, was \$30.9 million, of which \$22.1 million was customer-initiated.

Electricity transmission business

SP AusNet's electricity transmission business contributed \$291.5 million in total revenues prior to intercompany eliminations (excluding interest income) for the period ended 30 September 2010. Revenues were favourably impacted as a result of the increase in the regulated revenue path. The electricity transmission business contributed \$139.3 million to profits from operating activities for the period ended 30 September 2010. Total electricity transmitted through the network was 26,367 GWh which is an increase of 3.0 per cent over the previous corresponding period due to higher demand in the second quarter combined with a more consistent winter demand. Transmission regulated revenue is not subject to volume risk. Total capital expenditure for the period, excluding AMI, was \$68.6 million, of which \$20.1 million was customer-initiated.

Select Solutions business

Select Solutions provides services to SP AusNet and also provides competitive niche asset services, in particular metering and vegetation management, asset inspection and technical services to external parties including Jemena Asset Management Pty Ltd (referred to as "Jemena"). The agreements with Jemena commenced 1 April 2009 and are for an initial five year term. The agreements will continue for further five year terms unless terminated by either party by giving notice to terminate at the end of the current term. These agreements have resulted in SP AusNet extending its footprint to introduce these niche services into New South Wales.

Select Solutions contributed \$57.6 million in revenue to SP AusNet (comprising \$55.6 million in service revenue and \$2.0 million in other revenue), an increase of \$7.4 million in external revenue over the previous period for the equivalent services now provided by Select Solutions. Select Solution's contribution to EBITDA from external works for the period was \$6.3 million (excluding corporate overhead allocation), a decrease of \$0.5 million compared to the previous corresponding period mainly due to additional product development costs. The results for Select Solutions are predominantly included in the electricity distribution results.

Directors' report

Discussion and analysis for the period ended 30 September 2010 (continued)

Financial position

Securityholders' equity was \$2,843.8 million as at 30 September 2010. Total securityholders' equity includes 100 per cent of the ownership interests in SP AusNet Transmission and SP AusNet Finance Trust, which have been disclosed as non-controlling interests, as they are owned by securityholders directly.

Reserves are negative due to the valuation of derivatives held under cash flow hedging arrangements. SP AusNet does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

SP AusNet recognises actuarial gains and losses on defined benefit superannuation funds directly in retained profits. Actuarial losses for the period ended 30 September 2010 for SP AusNet were \$15.3 million (before tax). These losses were predominantly due to a decrease in the discount rate since 31 March 2010 leading to an increase in the valuation of the liabilities, along with lower than expected investment returns during the period. Defined benefit funds are long-term in nature and the defined benefit superannuation expense is based on long-term expectations. Any short-term fluctuations from the long-term average will result in movements in the net surplus/deficit position of the funds.

Included in borrowings are USD \$975.0 million, GBP £250.0 million, CHF 475.0 million and HK \$700.0 million. As these borrowings are accounted for as being in a hedge relationship, the movements in the borrowings arising from exchange rate movements are offset by the movement in the fair value of the derivatives that are hedging the exchange rate movement.

At balance date, SP AusNet's current assets exceed its current liabilities by \$18.6 million. In total, SP AusNet had access to undrawn but committed bank debt facilities of \$325.0 million at 30 September 2010.

Cash flow statements

Net operating cash inflows for the period ended 30 September 2010 were \$233.9 million, an increase of \$8.4 million on the comparative period predominantly due to the increase in interest received.

Net outflows from investing activities of \$299.0 million resulted primarily from payments for property, plant and equipment.

The net outflows from financing activities of \$33.7 million resulted primarily from the proceeds from borrowings offset by repayment of borrowings, and the net cash component of the distributions paid during the period of \$73.6 million.

Debt facilities

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 the funds through the CFV.

There were no new debt facilities created in the period to 30 September 2010. A \$185.0 million medium term floating rate note matured in September 2010 and was repaid by drawdown on existing debt facilities.

SP AusNet had \$325.0 million of undrawn but committed non-current debt available under its bilateral bank facilities as at 30 September 2010.

SP AusNet has been active in securing debt facilities well in advance of the maturity of existing facilities. In March 2011, \$685.0 million will mature. As a result of earlier debt raisings in February and March 2010, the Stapled Group had \$446.3 million of cash and cash equivalents as at 30 September 2010. In October and November 2010, SP AusNet established a \$100.0 million working capital facility, a \$200.0 million three year bank debt facility and a \$100.0 million four year bank debt facility. These facilities were undrawn as at the date of this report. Together with the cash on hand, these facilities will be used to retire the maturing debt and fund growth capital expenditure.

SP AusNet has an A- credit rating from Standard and Poor's and A1 from Moody's.

Directors' report

Discussion and analysis for the period ended 30 September 2010 (continued)

Victorian February bushfires

On 7 February 2009, the state of Victoria was impacted by significant bushfires. The Victorian Government subsequently established a Royal Commission of Inquiry into the Victorian bushfire crisis. The Royal Commission made a number of recommendations that are intended to reduce the occurrence and impact of future bushfires. SP AusNet will continue to work with the Victorian Government, its Powerlines Bushfire Safety Taskforce ("the Taskforce") and electricity regulators to scope the recommendations, with a view to making constructive improvements designed to make the electricity network even safer.

Until the full extent and nature of the recommendations are worked through, it is not possible to estimate the costs that will result from implementation of the recommendations. The Taskforce is expected to provide its final report by 30 June 2011. It is required to recommend a 10 year plan to reduce bushfire risk accompanied with options for fairly and efficiently recovering the costs of that plan.

SP AusNet is a defendant in litigation that has been brought in connection with the 7 February 2009 bushfires located at Kilmore East and Beechworth, respectively. SP AusNet denies 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. SP AusNet will vigorously defend these claims.

It is too early for SP AusNet to speculate on the outcome of any claims which may be instituted by third parties. If these claims are pursued, 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 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.

Australian Taxation Office audits

The Australian Taxation Office ("ATO") is undertaking large business audits of the SP AusNet group. The focus of the audits is as follows:

- deductions claimed in respect of fees imposed under Section 163AA of the *Electricity Industry Act 1993* in the 1999 to 2001 tax years;
- deductions claimed in respect of intellectual property referable to the 1998 tax year and each subsequent year; and
- the entry allocable cost amount ("ACA") step 1 amount (relating to the cost of membership interests) when the SPI Australia Group Pty Ltd ("SPIAG") consolidated group joined the SP AusNet Distribution consolidated group on 2 August 2004.

On 31 March 2010, the ATO advised SP AusNet Transmission that it intends to disallow deductions claimed in respect of Section 163AA imposts, although it has not yet issued an amended assessment to confirm its position. On 7 September 2010, the ATO informed SP AusNet that it will not be liable for any administrative penalties under the *Taxation Administration Act 1953* in relation to Section 163AA imposts. The ATO also informed SP AusNet of its decision to remit part of the interest charges that would otherwise apply to any subsequent amended assessment.

SP AusNet has not changed its view in regard to the availability of the Section 163AA or intellectual property deductions, or its entry ACA step 1 amount for the SPIAG consolidated group. The ultimate timeframe or likely outcomes of the ATO audits are not known.

Directors' report

Discussion and analysis for the period ended 30 September 2010 (continued)

Advanced Metering Infrastructure roll-out program

The Victorian Government has mandated completion of the roll-out of smart electricity meters by the end of 2013. SP AusNet is on target to meet this schedule. Installation of the new electricity meters commenced in November 2009 and is progressing steadily. The program's aims are to enhance customer relationships, reduce peak demand and improve existing network asset efficiency, network reliability and performance.

Total capital expenditure for the period in relation to AMI was \$56.8 million.

One key aspect of the program was the introduction of Time of Use ("TOU") tariffs through which customers are charged different rates at different times of the day for their electricity consumption. The pricing structure is designed to help Victorians control their energy costs via consumption patterns. On 22 March 2010 the Victorian Government announced a temporary moratorium on the introduction of TOU tariffs as a result of concerns raised by a number of Victorian community groups. The moratorium is in place to ensure appropriate consideration is given to the impact of TOU tariffs on the economically disadvantaged through a consultation process and report to government currently scheduled for January 2011. There is no impact on the roll-out of smart electricity meters.

Weather events

A number of severe weather events have affected SP AusNet's electricity distribution network during the financial period. Storms particularly during June and September and floods in September interrupted power supply to customers and resulted in an increase in the Unplanned Supply Average Interruption Duration Index ("USAIDI") with approximately 30 minutes lost. The financial impact on Guaranteed Service Levels ("GSL") was approximately \$1.9 million. SP AusNet closely monitors extreme weather forecasts and puts emergency plans in place to enable the fastest and most efficient response.

Climate Change

SP AusNet continues to report its emissions under the *National Greenhouse and Energy Reporting ("NGER") Act 2007*. Corporations meeting or exceeding the thresholds are required to lodge by 31 October each year. SP AusNet meets the current thresholds under the NGER framework and lodged its first full report with the Department of Climate Change prior to the 31 October 2009 deadline, with the current year report being lodged prior to the 31 October 2010 deadline.

SP AusNet continues to monitor developments around the possibility of a carbon impost and its effect on business operations.

Distribution Reinvestment Plan

The take up rate for the DRP in June 2010 was approximately 33 per cent. The DRP will continue to be in operation for distributions in the current year.

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 SP AusNet that occurred during the period under review.

Directors' report

Matters subsequent to the end of the financial period

Distributions

Since the end of the financial period, the Directors have approved an interim distribution for 2011 of \$109.9 million (4.000 cents per stapled security) to be paid on 22 December 2010.

The Directors expect that distributions for the year ended 31 March 2011 will be at least 8.0 Australian cents per security. Beyond the year ended 31 March 2011, distributions will be determined based on operating cash flows after funding 100 per cent of maintenance capital expenditure and a portion of growth capital expenditure. SP AusNet's long-term aim is to continue to deliver sustainable growth in securityholder value.

Select solutions acquisition

On 21 October 2010, Data and Measurement Solutions Pty Ltd (a subsidiary of SP AusNet Distribution) completed the acquisition of the commercial and industrial plumbing and specialist water metering business from Schultz Plumbing for a total consideration of up to \$19.0 million.

The accounting for the acquisition and assignment of fair values to identifiable assets, liabilities and contingent liabilities of the acquired business has not been finalised. The total consideration includes an initial cash consideration of \$9.8 million, with the remaining consideration being deferred. The deferred consideration is subject to achieving certain predetermined targets.

EDPR decision

On 29 October 2010, the Australian Energy Regulator ("AER") released its Final Decision regarding the Victorian electricity distribution network price determination for 2011 to 2015. The Final Decision provides for a Weighted Average Cost of Capital ("WACC") for SP AusNet of 9.65 per cent (in nominal, after-tax terms). In addition, the Final Decision allows for the following over the five year period:

- total revenue of \$2,479.9 million (nominal amount);
- total capital expenditure of \$1,416.9 million (real \$2010); and
- total operational expenditure of \$858.1 million (real \$2010).

Debt raising

In October and November 2010, SP AusNet successfully established a \$100.0 million working capital facility, a \$200.0 million three year bank debt facility and a \$100.0 million four year bank debt facility. These facilities will be used to replace existing bank debt and fund growth capital expenditure.

With the exception of the matters outlined above, the Directors are not aware of any circumstances that have arisen since 30 September 2010 that have significantly affected or may significantly affect the operations and results of those operations, or the state of affairs of SP AusNet in financial periods subsequent to 30 September 2010.

Directors' report

Lead Auditor's Independence Declaration

The Lead Auditor's Independence Declaration is set out on page 12 and forms part of the Directors' report for the period ended 30 September 2010.

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.

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



Ng Kee Choe
Chairman



Nino Ficca
Managing Director

Melbourne
9 November 2010



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

To: the directors of SP Australia Networks (Distribution) Ltd

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 30 September 2010 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

KPMG

Michael Bray
Partner

Melbourne

9 November 2010

Combined interim income statements

For the period ended 30 September 2010

		30 September 2010	30 September 2009
	Notes	\$M	\$M
Revenue	2	785.8	713.7
Expenses, excluding finance costs		<u>(448.1)</u>	<u>(398.2)</u>
Profit/(loss) from operating activities		337.7	315.5
Finance income	4	19.4	6.0
Finance expenses	4	<u>(185.2)</u>	<u>(152.1)</u>
Net finance (costs)/income		<u>(165.8)</u>	<u>(146.1)</u>
Profit/(loss) before income tax		171.9	169.4
Income tax (expense)/benefit	5	<u>(5.9)</u>	<u>(34.0)</u>
Profit/(loss) for the period		<u>166.0</u>	<u>135.4</u>
Attributable to:			
SP AusNet Distribution		64.9	46.3
SP AusNet Transmission and SP AusNet Finance Trust (non-controlling interest)		<u>101.1</u>	<u>89.1</u>
Total profit/(loss) for the period		<u>166.0</u>	<u>135.4</u>
Earnings per share for profit/(loss) attributable to the ordinary equityholders of SP AusNet Distribution			
Basic and diluted earnings per share (cents per share)*	7	2.38	1.87

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

* Basic and diluted earnings per stapled security for the period ended 30 September 2010 was 6.09 cents per security (2009: 5.46 cents per security). Refer to note 7.

Combined interim statements of comprehensive income

For the period ended 30 September 2010

	30 September 2010 \$M	30 September 2009 \$M
Profit/(loss) for the period	166.0	135.4
Other comprehensive income		
Movement in defined benefit funds		
SP AusNet Distribution	(8.6)	20.5
SP AusNet Transmission and SP AusNet Finance Trust (non-controlling interest)	(6.7)	13.7
Movement in hedge reserves		
SP AusNet Distribution	(19.4)	121.2
SP AusNet Transmission and SP AusNet Finance Trust (non-controlling interest)	2.3	12.9
Income tax on other comprehensive income	9.7	(50.5)
Other comprehensive income for the period, net of income tax	(22.7)	117.8
Total comprehensive income for the period	143.3	253.2
Attributable to:		
SP AusNet Distribution	45.3	145.5
SP AusNet Transmission and SP AusNet Finance Trust (non-controlling interest)	98.0	107.7
Total comprehensive income for the period	143.3	253.2

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

Combined interim statements of financial position

As at 30 September 2010

	Notes	30 September 2010 \$M	31 March 2010 \$M
ASSETS			
Current assets			
Cash and cash equivalents		446.3	545.1
Receivables		267.7	207.6
Inventories		20.4	16.4
Derivative financial instruments		400.7	349.0
Other assets		18.6	11.2
Total current assets		1,153.7	1,129.3
Non-current assets			
Inventories		16.7	15.8
Intangible assets		356.0	356.2
Property, plant and equipment		7,224.3	7,065.0
Derivative financial instruments		73.3	41.5
Other assets		0.9	0.9
Total non-current assets		7,671.2	7,479.4
Total assets		8,824.9	8,608.7
LIABILITIES			
Current liabilities			
Payables and other liabilities		212.4	215.9
Borrowings		789.8	749.0
Derivative financial instruments		73.0	72.4
Current tax payable		5.6	4.1
Provisions		54.3	57.6
Total current liabilities		1,135.1	1,099.0
Non-current liabilities			
Payables and other liabilities		4.1	4.1
Borrowings		3,782.0	3,731.9
Derivative financial instruments		710.7	649.4
Deferred tax liabilities		292.4	306.5
Provisions		56.8	43.7
Total non-current liabilities		4,846.0	4,735.6
Total liabilities		5,981.1	5,834.6
Net assets/(liabilities)		2,843.8	2,774.1
EQUITY			
Equityholders of SP AusNet Distribution			
Contributed equity	8	0.5	0.5
Reserves		(90.6)	(77.0)
Retained profits/(accumulated losses)		667.0	608.1
		576.9	531.6
Equityholders of SP AusNet Transmission and SP AusNet Finance Trust (non-controlling interest)		2,266.9	2,242.5
Total equity		2,843.8	2,774.1

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

Combined interim statements of changes in equity

For the period ended 30 September 2010

	Contributed equity \$M	Issued units \$M	Hedge reserve (i) \$M	Retained profits (ii) \$M	Fair value adjustment on stapling \$M	Other equity component (iii) \$M	Total equity \$M
30 September 2010							
SP AusNet Distribution							
Balance as at 1 April 2010	0.5	-	(77.0)	608.1	-	-	531.6
Total comprehensive income for the period							
Profit/(loss) for the period	-	-	-	64.9	-	-	64.9
Total other comprehensive income	-	-	(13.6)	(6.0)	-	-	(19.6)
Total comprehensive income for the financial period	-	-	(13.6)	58.9	-	-	45.3
Balance as at 30 September 2010	0.5	-	(90.6)	667.0	-	-	576.9
SP AusNet Transmission and SP AusNet Finance Trust (non-controlling interest)							
Balance as at 1 April 2010	650.1	2,133.6	(1.9)	504.4	51.4	(1,095.1)	2,242.5
Total comprehensive income for the period							
Profit/(loss) for the period	-	-	-	101.1	-	-	101.1
Total other comprehensive income	-	-	1.6	(4.7)	-	-	(3.1)
Total comprehensive income for the financial period	-	-	1.6	96.4	-	-	98.0
Transactions with owners, recorded directly in equity							
Distributions paid 29 June 2010	-	(4.0)	-	(104.2)	-	-	(108.2)
Distribution reinvestment plan (net of transaction costs)	-	34.6	-	-	-	-	34.6
Total transactions with owners	-	30.6	-	(104.2)	-	-	(73.6)
Balance as at 30 September 2010	650.1	2,164.2	(0.3)	496.6	51.4	(1,095.1)	2,266.9
Total stapled securityholders' equity as at 30 September 2010	650.6	2,164.2	(90.9)	1,163.6	51.4	(1,095.1)	2,843.8

Combined interim statements of changes in equity

For the period ended 30 September 2010

	Contributed equity \$M	Issued units \$M	Hedge reserve (i) \$M	Retained profits (ii) \$M	Fair value adjustment on stapling \$M	Other equity component (iii) \$M	Total equity \$M
30 September 2009							
SP AusNet Distribution							
Balance as at 1 April 2009	0.5	-	(159.7)	565.5	-	-	406.3
Total comprehensive income for the period							
Profit/(loss) for the period	-	-	-	46.3	-	-	46.3
Total other comprehensive income	-	-	84.8	14.4	-	-	99.2
Total comprehensive income for the financial period	-	-	84.8	60.7	-	-	145.5
Balance as at 30 September 2009	0.5	-	(74.9)	626.2	-	-	551.8
SP AusNet Transmission and SP AusNet Finance Trust (non-controlling interest)							
Balance as at 1 April 2009	650.1	1,737.6	(14.9)	492.4	51.4	(1,095.1)	1,821.5
Total comprehensive income for the period							
Profit/(loss) for the period	-	-	-	89.1	-	-	89.1
Total other comprehensive income	-	-	9.0	9.6	-	-	18.6
Total comprehensive income for the financial period	-	-	9.0	98.7	-	-	107.7
Transactions with owners, recorded directly in equity							
Distributions paid 25 June 2009	-	(28.1)	-	(97.6)	-	-	(125.7)
New units issued (net of transaction costs)	-	399.3	-	-	-	-	399.3
Distribution reinvestment plan (net of transaction costs)	-	12.3	-	-	-	-	12.3
Total transactions with owners	-	383.5	-	(97.6)	-	-	285.9
Balance as at 30 September 2009	650.1	2,121.1	(5.9)	493.5	51.4	(1,095.1)	2,215.1
Total stapled securityholders' equity as at 30 September 2009	650.6	2,121.1	(80.8)	1,119.7	51.4	(1,095.1)	2,766.9

Combined interim statements of changes in equity

For the period ended 30 September 2010

- (i) The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to highly probable forecast transactions. The future periods in which the cash flows associated with derivatives in the cash flow hedge reserve are expected to impact profit and loss are the same as when the associated cash flows are expected to occur (refer note 9).
- (ii) Actuarial gains and losses on the defined benefit obligation and the pension plan assets are recognised directly in retained profits.
- (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 interim statements of changes in equity should be read in conjunction with the accompanying notes.

Combined interim statements of cash flows

For the period ended 30 September 2010

	30 September 2010 \$M	30 September 2009 \$M
Cash flows from operating activities		
Receipts from customers (inclusive of goods and services tax)	797.0	724.9
Payments to suppliers and employees (inclusive of goods and services tax)	(391.4)	(321.3)
Income tax paid	(8.7)	(10.1)
Interest received	10.4	4.7
Interest and other costs of finance paid	(173.4)	(172.7)
Net cash inflow/(outflow) from operating activities	233.9	225.5
Cash flows from investing activities		
Payments for property, plant and equipment	(299.0)	(285.5)
Proceeds from sale of property, plant and equipment	-	0.4
Net cash inflow/(outflow) from investing activities	(299.0)	(285.1)
Cash flows from financing activities		
Proceeds from issue of securities (i)	-	399.2
Distributions paid (ii)	6 (73.6)	(113.4)
Proceeds from borrowings	239.9	275.5
Repayment of borrowings	(200.0)	(372.0)
Net cash inflow/(outflow) from financing activities	(33.7)	189.3
Net increase/(decrease) in cash held	(98.8)	129.7
Cash and cash equivalents at the beginning of the financial period	545.1	7.2
Cash and cash equivalents at the end of the financial period	446.3	136.9

(i) The amount of proceeds from issue of securities net of transaction costs.

(ii) Amounts shown represent distributions paid of \$108.2 million (2009: \$125.7 million) offset by proceeds from the DRP of \$34.6 million (2009: \$12.3 million).

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

Condensed notes to the combined interim financial statements

30 September 2010

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Condensed notes to the combined interim financial statements

30 September 2010

Note 1 Summary of significant accounting policies

The combined interim financial report includes the financial statements for the Stapled Group, consisting of SP AusNet Distribution and its subsidiaries, SP AusNet Transmission and its subsidiaries and SP AusNet Finance Trust. The Stapled Group is also referred to as SP AusNet.

(a) Basis of preparation

The general purpose interim financial report for the period ended 30 September 2010 has been prepared in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 March 2010 and any public announcements made by SP AusNet during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

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

The financial statements were approved by the Board of Directors on 9 November 2010.

(b) Significant accounting policies

(i) New standards adopted

Except as described below, the accounting policies applied by the Stapled Group in this combined interim financial report are the same as those applied by the Stapled Group in its combined financial report as at and for the year ended 31 March 2010. The standards relevant to the Stapled Group that have been adopted during the period are:

- AASB 3 *Business Combinations (revised 2008)* affects the valuation of non-controlling interest (previously "minority interest") accounting for transactions costs, the initial recognition and subsequent measurement of contingent consideration and business combinations achieved in stages. These changes apply prospectively to acquisitions occurring from 1 April 2010 and will impact the amount of goodwill recognised, the reported results in the period when an acquisition occurs and future reported results.
- AASB 127 *Consolidated and Separate Financial Statements (revised 2008)* requires any change in the ownership interest of a subsidiary (without a change in control) be accounted for as a transaction with owners in their capacity as owners. Such transactions will no longer give rise to goodwill, nor will they give rise to a gain or loss in the statement of comprehensive income. The revised standard also changes the accounting for losses incurred by a partially owned subsidiary and loss of control in a subsidiary.

These changes have had no impact on the financial results or financial position of SP AusNet during the period.

Condensed notes to the combined interim financial statements

30 September 2010

Note 1 Summary of significant accounting policies (continued)

(b) Significant accounting policies (continued)

(ii) *New standards not yet adopted*

The following standards, amendments to standards and interpretations have been identified as those which may impact the Stapled Group in the period of initial adoption. They are available for early adoption for the annual reporting period beginning 1 April 2010, but have not been applied in preparing this financial report:

- AASB 2010-4 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project* impact the financial statements as follows:
 - Amendments to disclosure requirements in *AASB 7 Financial Instruments: Disclosures* around credit risk for financial assets. As the Stapled Group has minimal credit risk on financial assets the impact of these amendments are expected to be immaterial.
 - Enhanced guidance in *AASB 134 Interim Financial Reporting* to illustrate how to apply disclosure principles around significant events and transactions. This amendment is expected to increase the disclosure requirements in future interim reports.

(c) 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.

Condensed notes to the combined interim financial statements

30 September 2010

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 distribution network. The electricity distribution segment does not purchase or sell electricity. The Stapled Group's network covers eastern Victoria including the eastern metropolitan region of Melbourne.

Also included in this segment is revenue and expenses from Select Solutions including metering and vegetation management services.

(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 Stapled Group's network covers central and western Victoria. The gas distribution segment does not purchase or sell gas.

(iii) Electricity transmission

The Stapled Group owns and manages the 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. This network is centrally located amongst the five eastern states of Australia that form the National Electricity Market, and provides key links between the electricity transmission networks of South Australia, New South Wales and Tasmania. The Stapled Group charges AEMO distribution network service providers and electricity generators for connections and use of the electricity transmission network. The electricity transmission segment does not purchase or sell electricity.

Condensed notes to the combined interim financial statements

30 September 2010

Note 2 Segment information (continued)

(b) Reportable segment financial information

	Electricity distribution	Gas distribution	Electricity transmission	Inter-segment eliminations	Combined
30 September 2010	\$M	\$M	\$M	\$M	\$M
Regulated revenue	279.9	135.6	267.4	(4.7)	678.2
Excluded revenue	8.9	1.6	10.7	(1.7)	19.5
Customer contributions	15.3	1.2	-	-	16.5
Service revenue	50.7	0.6	4.3	-	55.6
Other revenue	6.8	0.5	9.1	(0.4)	16.0
Total segment revenue	361.6	139.5	291.5	(6.8)	785.8
Segment result before interest expense	106.7	91.7	139.3	-	337.7
Segment interest expense	(63.1)	(36.2)	(75.7)	-	(175.0)
Unallocated finance income less unallocated finance expenses					9.2
Profit before income tax					171.9
Income tax expense					(5.9)
Net profit for the period					166.0
30 September 2009					
Regulated revenue	230.7	129.0	259.9	(4.8)	614.8
Excluded revenue	8.7	1.5	9.4	(1.6)	18.0
Customer contributions	14.4	2.2	-	-	16.6
Service revenue	43.5	0.5	4.6	-	48.6
Other revenue (i)	5.3	0.9	9.6	(0.1)	15.7
Total segment revenue	302.6	134.1	283.5	(6.5)	713.7
Segment result before interest expense	88.0	88.3	139.2	-	315.5
Segment interest expense	(42.6)	(39.3)	(72.6)	-	(154.5)
Unallocated finance income less unallocated finance expenses					8.4
Profit before income tax					169.4
Income tax expense					(34.0)
Net profit for the period					135.4

(i) For the period ended 30 September 2009, a portion of other revenue has been restated as service revenue.

Condensed notes to the combined interim financial statements

30 September 2010

Note 3 Seasonality of operations**(a) Electricity distribution**

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

(b) Gas distribution

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

(c) Electricity transmission

Electricity transmission revenue is not seasonal. Transmission revenue is earned in accordance with the monthly revenue schedule determined by the Australian Energy Regulator.

Note 4 Net finance costs/(income)

	30 September 2010 \$M	30 September 2009 \$M
Finance income		
Interest income	12.8	0.8
Expected return on defined benefit fund plan assets	6.6	5.2
Total finance income	<u>19.4</u>	<u>6.0</u>
Finance expenses		
Interest expense	175.0	154.4
Loss on transactions de-designated from hedge relationships (i)	11.8	-
Other finance charges	3.3	1.6
Defined benefit interest expense	5.4	4.1
Capitalised finance charges	(10.3)	(8.0)
Total finance expenses	<u>185.2</u>	<u>152.1</u>
Net finance costs/(income)	<u>165.8</u>	<u>146.1</u>

- (i) Notwithstanding that these borrowings and the related derivative instruments no longer satisfy the requirements for hedge accounting, they are in economic relationships that are effective in managing interest rate risk, based on contractual face values and cashflows over the life of the transaction.

Condensed notes to the combined interim financial statements

30 September 2010

Note 5 Income tax expense**(a) Numerical reconciliation of income tax expense/(benefit) to prima facie tax payable**

	30 September 2010	30 September 2009
	\$M	\$M
Profit/(loss) from operations before income tax expense	171.9	169.4
Tax at the Australian tax rate of 30% (2009: 30%)	51.6	50.8
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Non-assessable interest income	(18.4)	(15.2)
Changes to tax consolidation legislation	(10.2)	-
Investment allowance incentive	(5.7)	-
Prior year (over)/under provisions	(10.4)	(1.3)
Sundry items	(1.0)	(0.3)
Income tax expense/(benefit)	5.9	34.0

The Stapled Group's effective tax rate for the period ended 30 September 2010 is approximately 3 per cent (2009: 20 per cent). The divergence in the effective rate, from the prima facie rate of 30 per cent, is mainly caused by the following:

- SP AusNet Finance Trust's interest income not being assessable in the Trust on the basis that all beneficiaries are presently entitled to trust income at the end of the reporting period;
- new tax legislation allowing SP AusNet to adjust the final reset tax values as a consequence of the SP AusNet Distribution group's entry into tax consolidation;
- the Stapled Group being able to utilise the Federal Government 30 per cent investment allowance incentive, both in the current tax year and the prior year (included within the prior year (over)/under provisions amount); and
- incremental research and development expenditures relating to the Advanced Metering Infrastructure project attracting deductions at the 175 per cent rate, which were finalised as part of the 2010 tax return (included within the prior year (over)/under provisions amount).

Condensed notes to the combined interim financial statements

30 September 2010

Note 6 Distributions

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

	Payable by	Date paid	Cents per security	Total distribution \$M
Distributions from earnings				
Fully franked dividend	SP AusNet Transmission	29 June 2010	1.591	43.0
Assessable interest income	SP AusNet Finance Trust	29 June 2010	2.261	61.2
Total distributions from earnings			3.852	104.2
Distributions from capital				
Return of capital	SP AusNet Finance Trust	29 June 2010	0.148	4.0
Total distributions from capital			0.148	4.0
Total distributions			4.000	108.2

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

Distributions from earnings				
Fully franked dividend	SP AusNet Transmission	25 June 2009	1.911	40.5
Assessable interest income	SP AusNet Finance Trust	25 June 2009	2.692	57.1
Total distributions from earnings			4.603	97.6
Distributions from capital				
Return of capital	SP AusNet Finance Trust	25 June 2009	1.324	28.1
Total distributions from capital			1.324	28.1
Total distributions			5.927	125.7

In relation to the distributions paid in the current financial period of \$108.2 million (2009: \$125.7 million), \$34.6 million (2009: \$12.3 million), was utilised in the allotment of new securities issued under the DRP.

Condensed notes to the combined interim financial statements

30 September 2010

Note 7 Earnings per share and earnings per stapled security**(a) Basic earnings per share for SP AusNet Distribution**

	30 September 2010	30 September 2009
	\$M	\$M
Profit/(loss) from operations attributable to the ordinary equityholders of the Company	64.9	46.3
Profit attributable to the ordinary equityholders of the Company	64.9	46.3
Weighted average number of shares (million)	2,727.3	2,480.3
	Cents	Cents
Basic earnings per share	2.38	1.87

(b) Diluted earnings per share

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

(c) Earnings per stapled security

As the stapling is a business combination by contract alone, the total ownership interest in SP AusNet Transmission and SP AusNet Finance Trust is presented as 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 as follows which includes non-controlling interest and hence the earnings of SP AusNet Transmission and SP AusNet Finance Trust.

(d) Basic earnings per stapled security

	30 September 2010	30 September 2009
	\$M	\$M
Profit from operations attributable to the ordinary securityholders of the Stapled Group	166.0	135.4
Profit attributable to the ordinary securityholders of the Stapled Group	166.0	135.4
Weighted average number of securities (million)	2,727.3	2,480.3
	Cents	Cents
Basic earnings per security (Stapled Group)	6.09	5.46

(e) Diluted earnings per stapled security

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

Condensed notes to the combined interim financial statements

30 September 2010

Note 8 Equity

The Distribution Reinvestment Plan ("DRP") was introduced during October 2008 and is available for participation by securityholders on both the ASX and SGX-ST. Approximately 43.2 million new securities were issued under the DRP on 29 June 2010. Since the introduction of the DRP, 129.0 million new securities have been issued. SP AusNet's majority securityholder, Singapore Power International Pte Ltd, elected to participate to the extent required to maintain its 51 per cent stapled security holding.

(a) Movements in ordinary share capital

Date	Details	Notes	Number of shares	\$M
1 April 2010	Opening balance		2,705,140,151	0.5
29 June 2010	Distribution reinvestment plan	(i)	43,213,353	-
30 September 2010	Closing balance		2,748,353,504	0.5

- (i) On 29 June 2010, 43.2 million new stapled securities were issued under the DRP. The new securities were issued at a price of \$0.80 per security providing approximately \$34.6 million. These proceeds were allocated to units in SP AusNet Finance Trust, with the shares in SP AusNet Transmission and SP AusNet Distribution issued at nominal consideration.

Note 9 Financial risk management

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

The objective of hedge activities carried out by SP AusNet is to minimise the exposure to changes in interest rates and foreign exchange rates. Changes in interest rates are hedged by matching the actual cost of debt with the cost of debt assumed by the regulator when setting the rate of return for the relevant business.

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

The Stapled Group's financial risk management objectives and policies are consistent with those disclosed in the combined financial report as at and for the year ended 31 March 2010.

It is the Stapled Group's policy to ensure, whenever possible, that all hedging complies with the hedge accounting requirements of AASB 139 *Financial Instruments: Recognition and Measurement*. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised directly in the hedge reserve. The gain or loss relating to any ineffective portion is recognised immediately in the income statement. Amounts accumulated in equity are recycled to the income statement in the same periods when the hedged item affects the income statement. Derivatives used by the Stapled Group that qualify as cash flow hedges include interest rate swaps entered into for the purpose of fixing interest rate exposures.

For the interim period ended 30 September 2010, the loss recognised in the hedge reserve, net of tax, was \$12.0 million (2009: \$93.8 million gain). This resulted primarily from the increase in short to medium term market interest rate curves used to fair value cashflow hedges from 1 April 2010 to 30 September 2010. In addition, a loss of \$11.8 million was recognised for the interim period ended 30 September 2010 (2009 \$nil) due to the de-designation of derivatives from hedging relationships. Refer note 4 for further details.

Condensed notes to the combined interim financial statements

30 September 2010

Note 10 Critical accounting estimates and assumptions

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

In preparing this combined interim financial report, the key sources of estimation uncertainty were the same as those that applied to the combined financial report as at and for the year ended 31 March 2010. Some of the critical assumptions and estimates used by management in applying the Stapled Group's accounting policies for the period ended 30 September 2010 have been updated to reflect the latest available information. These updates have not had a significant impact on the financial performance or financial position of the Stapled Group.

Note 11 Contingent liabilities

Details of contingent liabilities of the Stapled Group for which no provisions are included, other than noted below, in the financial statements are as follows:

(a) Environmental

Provisions have been made for land remediation for sites in Victoria based on the estimate of the land remediation costs following site reviews and testing. These costs may increase if the extent of contamination is worse than testing indicated at the time of the reviews. Under the current environmental legislation, the Victorian Environment Protection Authority has the power to order the Stapled Group to incur such costs to remedy the contamination.

Hazardous materials are used in certain operational areas of the Stapled Group. A system of control to ensure that all such hazardous materials are identified, managed and disposed of safely, in accordance with current legislation and other obligations, is in place.

The Directors are not aware of any breaches of legislation, which are material in nature. The Directors are not aware of any other remedial action required, and have no reason to believe that any possible legal or remedial action would result in a material cost or loss to the Stapled Group, other than as provided for in these financial statements and as noted above.

(b) Victorian February bushfires

On 7 February 2009, the state of Victoria was impacted by significant bushfires. The Victorian Government subsequently established a Royal Commission of Inquiry into the Victorian bushfire crisis. The Royal Commission made a number of recommendations that are intended to reduce the occurrence and impact of future bushfires. SP AusNet will continue to work with the Victorian Government, its Powerlines Bushfire Safety Taskforce ("the Taskforce") and electricity regulators to scope the recommendations, with a view to making constructive improvements designed to make the electricity network even safer.

Until the full extent and nature of the recommendations are worked through, it is not possible to estimate the costs that will result from implementation of the recommendations. The Taskforce is expected to provide its final report by 30 June 2011. It is required to recommend a 10 year plan to reduce bushfire risk accompanied with options for fairly and efficiently recovering the costs of that plan.

SP AusNet is a defendant in litigation that has been brought in connection with the 7 February 2009 bushfires located at Kilmore East and Beechworth, respectively. SP AusNet denies 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. SP AusNet will vigorously defend these claims.

It is too early for SP AusNet to speculate on the outcome of any claims which may be instituted by third parties. If these claims are pursued, 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 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.

Condensed notes to the combined interim financial statements

30 September 2010

Note 11 Contingent liabilities (continued)

(c) Australian Taxation Office audits

The Australian Taxation Office ("ATO") is undertaking large business audits of the SP AusNet group. The focus of the audits is as follows:

- deductions claimed in respect of fees imposed under Section 163AA of the *Electricity Industry Act* 1993 in the 1999 to 2001 tax years;
- deductions claimed in respect of intellectual property referable to the 1998 tax year and each subsequent year; and
- the entry allocable cost amount ("ACA") step 1 amount (relating to the cost of membership interests) when the SPI Australia Group Pty Ltd ("SPIAG") consolidated group joined the SP AusNet Distribution consolidated group on 2 August 2004.

On 31 March 2010, the ATO advised SP AusNet Transmission that it intends to disallow deductions claimed in respect of Section 163AA imposts, although it has not yet issued an amended assessment to confirm its position. On 7 September 2010, the ATO informed SP AusNet that it will not be liable for any administrative penalties under the *Taxation Administration Act* 1953 in relation to Section 163AA imposts. The ATO also informed SP AusNet of its decision to remit part of the interest charges that would otherwise apply to any subsequent amended assessment.

SP AusNet has not changed its view in regard to the availability of the Section 163AA or intellectual property deductions, or its entry ACA step 1 amount for the SPIAG consolidated group. The ultimate timeframe or likely outcomes of the ATO audits are not known.

Other than listed above, the contingent liabilities are consistent with those disclosed in the combined financial report as at 31 March 2010.

Note 12 Events occurring after the balance sheet date

(a) Distributions

Since the end of the financial period, the Directors have approved an interim distribution for 2011 of \$109.9 million (4.000 cents per stapled security) to be paid on 22 December 2010 comprised as follows:

	Cents per security	Total distribution \$M
Fully franked dividend payable by SP AusNet Transmission	1.591	43.7
Assessable interest income payable by SP AusNet Finance Trust	2.228	61.2
Return of capital payable by SP AusNet Finance Trust	0.181	5.0
	4.000	109.9

Condensed notes to the combined interim financial statements

30 September 2010

Note 12 Events occurring after the balance sheet date (continued)

(b) Select solutions acquisition

On 21 October 2010, Data and Measurement Solutions Pty Ltd (a subsidiary of SP AusNet Distribution) completed the acquisition of the commercial and industrial plumbing and specialist water metering business from Schultz Plumbing for a total consideration of up to \$19.0 million.

The accounting for the acquisition and assignment of fair values to identifiable assets, liabilities and contingent liabilities of the acquired business has not been finalised. The total consideration includes an initial cash consideration of \$9.8 million, with the remaining consideration being deferred. The deferred consideration is subject to achieving certain predetermined targets.

(c) EDPR decision

On 29 October 2010, the Australian Energy Regulator ("AER") released its Final Decision regarding the Victorian electricity distribution network price determination for 2011 to 2015. The Final Decision provides for a Weighted Average Cost of Capital ("WACC") for SP AusNet of 9.65 per cent (in nominal, after-tax terms). In addition, the Final Decision allows for the following over the five year period:

- total revenue of \$2,479.9 million (nominal amount);
- total capital expenditure of \$1,416.9 million (real \$2010); and
- total operational expenditure of \$858.1 million (real \$2010).

(d) Debt raising

In October and November 2010, SP AusNet successfully established a \$100.0 million working capital facility, a \$200.0 million three year bank debt facility and a \$100.0 million four year bank debt facility. These facilities will be used to replace existing bank debt and fund growth capital expenditure.

(e) Other matters

Other than outlined above, there has been no matter or circumstance that has arisen since 30 September 2010 up to the date of issue of this financial report that has significantly affected or may significantly affect:

- (a) the operations in financial periods subsequent to 30 September 2010 of the Stapled Group; or
- (b) the results of those operations; or
- (c) the state of affairs, in financial periods subsequent to 30 September 2010, of the Stapled Group.

In the Directors' opinion:

- (a) the interim financial statements and notes set out on pages 13 to 32, are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and the other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of SP AusNet's financial position as at 30 September 2010 and its performance, as represented by the results of its operations and its cash flows, for the financial period ended on that date; and
- (b) there are reasonable grounds to believe that SP AusNet will be able to pay its debts as and when they become due and payable.

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



Ng Kee Choe
Chairman



Nino Ficca
Managing Director

Melbourne
9 November 2010



Independent review report to the stapled security holders of SP Australia Networks (Distribution) Ltd, SP Australia Networks (Transmission) Ltd and SP Australia Networks (Finance) Trust

Report on the financial report

We have reviewed the accompanying interim financial report of SP Australia Networks (Distribution) Ltd (“the Company”), which comprises the combined interim statements of financial position as at 30 September 2010 and the combined interim income statements, combined interim statements of comprehensive income and combined interim statements of cash flows for the half-year period ended on that date, a summary of significant accounting policies and other explanatory notes 1 to 12 and the directors’ declaration set out on page 33. The combined interim financial report of SP Australia Networks (Distribution) Ltd comprises the financial statements of SP Australia Networks (Distribution) Ltd and the entities it controlled at the half-year’s end or from time to time during the half-year period, SP Australia Networks (Transmission) Ltd and the entities it controlled at the half-year’s end or from time to time during the half-year period 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) Pty Ltd, are responsible for the preparation of an interim financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such controls as the directors determine are necessary to enable the preparation of the interim financial report that is free from material misstatement, whether due to fraud or error.

Auditor’s responsibility

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Combined Entity’s financial position as at 30 September 2010 and its performance for the interim period ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of the Combined Entity, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of SP Australia Networks (Distribution) Ltd is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Combined Entity's financial position as at 30 September 2010 and of its performance for the interim period ended on that date; and
- (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

KPMG

KPMG



Michael Bray
Partner

Place: Melbourne

Date: 9 November 2010