

9 November 2011

TO: ASX Limited
Singapore Exchange Securities Trading Limited

SP AusNet 2011/12 Half-Year Results

Please find attached the following:

1. Appendix 4D – Half-Year Report for Period Ended 30 September 2011; and
2. SP Australia Networks (Distribution) Limited General Purpose Interim Financial Report for the financial period ended 30 September 2011.

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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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for SP Australia Networks (Finance) Trust

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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 2011

1. The current reporting period is the half year ended 30 September 2011. The previous corresponding period is the half year ended 30 September 2010.
2. Results for announcement to the market

	30 September 2011 \$M	30 September 2010 \$M	% change	Up / down
2.1 Revenue from ordinary activities	830.5	785.8	5.7	up
Profit from ordinary activities before tax	180.4	171.9	4.9	up
2.2 Profit from ordinary activities after tax attributable to stapled securityholders	146.2	166.0	11.9	down
2.3 Net profit for the half year attributable to stapled securityholders	146.2	166.0	11.9	down

Net profit after tax decreased by 11.9% as a result of a \$28.3 million increase in income tax expense primarily due to a number of tax benefits received in the prior period associated with tax consolidation legislation changes, investment allowance deductions and additional research and development deductions.

2.4 Distributions for the half year ended 30 September 2011:

	Cents per security
Interim 2012 distribution:	
Fully franked dividend	1.333
Interest income	2.213
Return of capital	<u>0.454</u>
Total interim distribution	<u>4.000</u>
Previous corresponding period interim 2011 distribution:	
Fully franked dividend	1.591
Interest income	2.228
Return of capital	<u>0.181</u>
Total interim distribution	<u>4.000</u>

2.5 The record dates for determining entitlements to the distributions:

Record date	Payment date
25 November 2011	21 December 2011

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 2011	30 September 2010
Net tangible assets per stapled security	\$0.89	\$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	1.333	37.3	29 June 2011
Interest income	2.279	63.7	29 June 2011
Return of capital	0.388	10.8	29 June 2011
	<hr/>	<hr/>	
	4.000	111.8	

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 2011/12 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 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 2011/12 interim distribution is 25 November 2011.

The deadline for the receipt of Election Notices for participation in the DRP for the 2011/12 interim distribution is 5.00pm (Australian Eastern Daylight Time) on 25 November 2011.

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 2011.

SP AusNet has a number of agreements in place and transactions with related parties. Refer to the 31 March 2011 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: 08 November 2011

SP Australia Networks (Distribution) Ltd
ACN 108 788 245

General Purpose Interim Financial Report

For the financial period ended 30 September 2011

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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 2011, 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 (Cth).

The interim financial report was authorised for issue by the Directors on 8 November 2011.

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 2011.

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**

Ian Andrew **Renard**

Executive Director

Nino **Ficca** (Managing Director)

Directors' report

Distributions

The final 2011 distribution paid to securityholders on 29 June 2011 was as follows:

	Cents per security	Total distribution \$M
Fully franked dividend paid by SP AusNet Transmission	1.333	37.3
Interest income paid by SP AusNet Finance Trust	2.279	63.7
Return of capital paid by SP AusNet Finance Trust	0.388	10.8
	4.000	111.8

In relation to the final distribution paid on 29 June 2011 of \$111.8 million, \$49.6 million was utilised in the allotment of new securities issued under the Distribution Reinvestment Plan (DRP).

Since the end of the financial period, the Directors have approved an interim distribution for 2012 of \$114.0 million (4.000 cents per stapled security) to be paid on 21 December 2011 comprised as follows:

	Cents per security	Total distribution \$M
Fully franked dividend payable by SP AusNet Transmission	1.333	38.0
Interest income payable by SP AusNet Finance Trust	2.213	63.1
Return of capital payable by SP AusNet Finance Trust	0.454	12.9
	4.000	114.0

Directors' report

Review of operations

A summary of the Stapled Group's revenues and results by operating segment is set out below:

	Electricity distribution	Gas distribution	Electricity transmission	Select Solutions	Inter-segment eliminations	Combined
	\$M	\$M	\$M	\$M	\$M	\$M
Regulated revenue	301.2	133.1	274.9	-	(4.6)	704.6
Excluded services revenue	11.3	1.8	17.2	-	(1.8)	28.5
Customer contributions	14.8	1.4	0.6	-	-	16.8
Service revenue	-	-	-	61.5	-	61.5
Other revenue	1.7	-	9.3	8.1	-	19.1
Total segment revenue	329.0	136.3	302.0	69.6	(6.4)	830.5
Segment result	95.8	100.0	147.9	6.6	-	350.3
Net finance costs						(169.9)
Income tax expense						(34.2)
Profit for the period ended 30 September 2011						146.2

On 1 April 2011, Select Solutions ceased charging the other segments of SP AusNet for the services provided to those segments. As a result, the Select Solutions segment revenues and operating results disclosed only relate to the provision of services to external parties. The comparative segment information in note 2(b) of the interim financial report has been restated as a result of these changes.

Discussion and analysis for the period ended 30 September 2011

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 \$146.2 million for the period ended 30 September 2011, a decrease of \$19.8 million or 11.9 per cent over the previous corresponding period. This includes a \$28.3 million increase in income tax expense primarily due to a number of tax benefits received in the prior period associated with tax consolidation legislation changes, investment allowance deductions and additional research and development deductions.

Profit before tax for the period ended 30 September 2011 was \$180.4 million, an increase of \$8.5 million or 4.9 per cent over the previous corresponding period.

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. Overall revenue increased by 5.7 per cent to \$830.5 million. The increase in revenue arose from regulated price increases, additional revenues from the Advanced Metering Infrastructure roll-out program (AMI program), and increased activities associated with 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 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 2011 (continued)

Electricity distribution business

SP AusNet's electricity distribution business contributed \$329.0 million in total revenues (prior to inter-segment eliminations) for the period ended 30 September 2011. Revenues increased as a result of regulated price increases and additional revenues from the AMI program. The electricity distribution business contributed \$95.8 million to profits from operating activities for the period ended 30 September 2011. Despite an increase in depreciation of \$11.4 million primarily resulting from the impact of the AMI program, profits from operating activities increased by \$1.5 million over the previous corresponding period. As at 30 September 2011, SP AusNet had 637,750 consumers connected to its electricity distribution network, representing an increase of 6,460 consumers or 1.0 per cent since 31 March 2011. During the financial period, 4,001 GWh was distributed through the electricity distribution network, representing a decrease of 3.9 per cent over the previous corresponding period. Total capital expenditure for the period was \$196.2 million, of which \$51.5 million was customer-initiated and \$49.7 million was in relation to the AMI program.

Gas distribution business

SP AusNet's gas distribution business contributed \$136.3 million in total revenues (prior to inter-segment eliminations) for the period ended 30 September 2011. Revenues declined slightly as a result of milder weather conditions which impacted the amount of gas distributed. Total gas delivered through the network was 44.8 PJ, a decrease of 2.8 per cent over the previous corresponding period. The gas distribution business contributed \$100.0 million to profits from operating activities for the period ended 30 September 2011, a decrease of \$2.7 million over the previous corresponding period. As at 30 September 2011, SP AusNet had 598,512 consumers connected to its gas distribution network, representing an increase of 9,057 consumers or 1.5 per cent since 31 March 2011. Total capital expenditure for the period was \$36.7 million, of which \$23.8 million was customer-initiated.

Electricity transmission business

SP AusNet's electricity transmission business contributed \$302.0 million in total revenues (prior to inter-segment eliminations) for the period ended 30 September 2011. Electricity transmission regulated revenue is not subject to volume risk. Revenues were favourably impacted by the annual regulated revenue reset. The electricity transmission business contributed \$147.9 million to profits from operating activities for the period ended 30 September 2011, an increase of \$10.1 million over the previous corresponding period. Total capital expenditure was \$71.5 million for the period, of which \$24.0 million was customer-initiated.

Select Solutions business

Select Solutions provides services to SP AusNet and also provides specialist utility-related solutions, in particular metering, monitoring and asset management services, to external parties. Select Solutions' customers are primarily electricity, water and gas utility owners and managers including Jemena Asset Management Pty Ltd (referred to as Jemena). The agreements with Jemena commenced on 29 September 2008 and are for an initial five-year term.

In October 2010, SP AusNet acquired the assets of the commercial and industrial plumbing and specialist water metering business from Schultz Plumbing Pty Ltd and Schultz Holdings Pty Ltd. This acquisition has enabled SP AusNet to grow in the water metering and related services market, as well as strengthen SP AusNet's competitive advantage in the metering market.

Select Solutions contributed \$69.6 million in total revenues for the period ended 30 September 2011. Revenue increased due to new revenue from the Schultz Plumbing acquisition as well as new revenue streams from thermal and electrical testing solutions. Select Solutions contributed \$6.6 million to profits from operating activities for the period ended 30 September 2011.

Directors' report

Discussion and analysis for the period ended 30 September 2011 (continued)

Financial position

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.

Securityholders' equity was \$2,895.1 million as at 30 September 2011, an increase of \$30.2 million compared to 31 March 2011. This increase is due to profit for the period, partially offset by distributions paid (net of the DRP).

SP AusNet has restated the statement of financial position as at 31 March 2011 as a result of a voluntary election to change the relevant accounting policy to classify derivative financial instruments between current and non-current. This has reduced current assets by \$15.0 million and current liabilities by \$123.8 million, instead reporting these amounts as non-current. There was no impact on the income statement, net assets or cash flows of the Stapled Group as a result of this change. Further details regarding this change are contained in note 1 of the financial statements.

SP AusNet's current liabilities exceed current assets by \$574.9 million at 30 September 2011. The financial report has been prepared on a going concern basis, which contemplates the continuity of normal trading operations, as the Stapled Group is trading profitably, generating positive cash flows and has continually been able to refinance maturing debt. In addition, at 30 September 2011 the Stapled Group had available a total of \$825.0 million of undrawn but committed non-current bank debt facilities.

Cash flow statements

Net operating cash inflows for the period ended 30 September 2011 were \$251.5 million, an increase of \$17.6 million on the comparative period primarily due to the increase in revenues.

Net outflows from investing activities of \$329.4 million resulted primarily from payments for property, plant and equipment.

The net inflow from financing activities of \$45.4 million resulted primarily from the proceeds from borrowings offset by repayment of borrowings, and the cash component of the distributions paid during the period of \$62.2 million.

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 April 2011, SP AusNet successfully established a \$75.0 million four-year bank debt facility. In September 2011, SP AusNet successfully executed a \$150.0 million three-year bank debt facility, a \$150.0 million five-year bank debt facility and a \$200.0 million three-year bank debt facility. SP AusNet has \$825.0 million of undrawn but committed non-current bank debt facilities as at 30 September 2011. The undrawn facilities can be used to repay the A\$435.0 million Medium Term Notes due in November 2011, with the remaining facilities available to fund capital expenditure and for other working capital requirements.

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 2011 (continued)

Victorian February bushfires

In early February 2009, the state of Victoria was impacted by significant bushfires. The Victorian Government subsequently established a Royal Commission of Inquiry into the bushfire crisis. The Royal Commission made a number of recommendations, which were then analysed by a Powerlines Bushfire Safety Taskforce (the Taskforce) established by the Victorian Government.

It is understood that the Taskforce issued its final report on 30 September 2011 to the Victorian Government and that the Victorian Government is in the process of reviewing the report. The Taskforce was required to recommend options intended to reduce bushfire risk, accompanied by recommendations for fairly and efficiently recovering the costs of those options. These recommendations will require implementation by means of law or regulation before they become obligations on SP AusNet. Until this occurs, it is not possible to estimate the network investment that will result from implementation of the recommendations. In the meantime, SP AusNet continues to enhance its processes designed to minimise bushfire risk as part of its usual continual improvement practices.

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. As part of these legal proceedings, SP AusNet has counterclaimed against several parties. 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. The hearings in the legal proceedings relating to the Kilmore East and Beechworth fires will be heard separately and are presently scheduled to commence in February 2012 (Beechworth) and January 2013 (Kilmore East). These dates may change. In neither of the proceedings have the Plaintiffs' claims yet identified any quantum of damages sought. SP AusNet will vigorously defend these claims.

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 (ATO) disputes

During the period, the ATO completed large business audits of the SP AusNet Group. The focus of the audits was 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 SPI Australia Group Pty Ltd joined the SP AusNet Distribution consolidated group in August 2004.

(i) *Section 163AA impost*

During August 2011, the ATO issued amended assessments to SP AusNet in respect of the 2001 to 2006 income years, disallowing deductions claimed in each of those income years in respect of Section 163AA imposts. Under the amended assessments, the total amount payable is \$87.7 million (representing \$54.0 million of primary tax, plus an interest component of \$33.7 million). On 7 October 2011, SP AusNet lodged notices of objection with the ATO in relation to the amended assessments issued. The ATO has 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 to the ATO in October 2011. This amount has been recorded as a receivable at the time of payment.

In the event that the ATO does not determine the objections in favour of SP AusNet, legal proceedings, if necessary, will be initiated to bring the disputed matter before the Federal Court.

Directors' report

Discussion and analysis for the period ended 30 September 2011 (continued)

Australian Taxation Office (ATO) disputes (continued)

(ii) *Intellectual Property*

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 total amount payable is \$44.3 million (representing \$27.4 million of primary tax, plus an interest and administrative penalty component of \$16.9 million). On 4 November 2011, SP AusNet lodged notices of objection in relation to the amended assessments issued. The ATO has 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 receivable at the time of payment.

In the event that the ATO does not determine the objections in favour of SP AusNet, legal proceedings, if necessary, will be initiated to bring the disputed matter before the Federal Court.

(iii) *Tax Consolidation*

On 4 August 2011, the ATO formally advised SP AusNet that it had decided not to pursue the ACA step 1 audit and that no further action was necessary in respect of this matter.

Advanced Metering Infrastructure roll-out program (AMI program)

The Victorian Government has mandated completion of the roll-out of smart electricity meters by the end of 2013. SP AusNet is progressing with the installation of the new electricity meters. The program's aims are to reduce peak demand and improve existing network asset efficiency, network reliability and performance. The moratorium on the Time of Use tariffs introduced by the Victorian Government on 22 March 2010 was in place during the current financial year and is expected to continue until the end of 2012.

On 28 February 2011, SP AusNet submitted to the Australian Energy Regulator (AER) the Budget and Charges Application for the 2012 to 2015 period. On 31 October 2011, the AER released its Final Determination, details of which are disclosed below.

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 current year's report with the Department of Climate Change prior to the 31 October 2011 deadline.

In July 2011, the Federal Government announced a plan designed to transition Australia to a clean energy economy through initiatives in four key areas – carbon pricing, renewable energy, energy efficiency and land management.

On 8 November 2011, the Senate passed the legislation to introduce the carbon pricing mechanism. A fixed price of \$23 a tonne will apply from 1 July 2012, moving to a flexible price after three years.

SP AusNet has made initial estimates of the costs of the proposals based on the Stapled Group's direct emissions and other related impacts. These estimates show that the direct cost impact is unlikely to be material at the Stapled Group level. The detailed regulatory treatment of these additional costs is currently being explored.

Distribution Reinvestment Plan

The take up rate for the DRP in June 2011 was approximately 46 per cent. The DRP will continue to operate during 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 the Stapled Group that occurred during the period under review.

Directors' report

Matters subsequent to the end of the financial period

Distribution

Since the end of the financial period, the Directors have approved an interim distribution for 2012 of \$114.0 million (4.000 cents per stapled security) to be paid on 21 December 2011.

The Directors expect that the total distribution for the year ended 31 March 2012 will be 8.000 Australian cents per security. Beyond the year ended 31 March 2012, 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.

ATO disputes

In October 2011, SP AusNet paid a total of \$47.7 million under part-payment arrangements with the ATO in relation to the Section 163AA impost and intellectual property tax disputes. This amount has been recorded as a receivable at the time of payment.

AMI Final Determination

On 31 October 2011, the AER released its Final Determination on the 2012 to 2015 Budget and Charges Application. The determination reduced SP AusNet's proposed expenditure for this period from \$410.7 million to \$304.1 million.

The Final Determination relates to proposed expenditure from calendar years 2012 to 2015 only and does not impact on the costs incurred by SP AusNet to date on the AMI program or the recoverability of those costs, which were approved by the AER for the 2009 to 2011 period.

The AMI Cost Recovery Order in Council allows for recovery of prudent costs of implementing the Victorian Government's mandated AMI program. SP AusNet maintains that its revised submission was an accurate reflection of the prudent costs required to implement the program.

SP AusNet is carefully reviewing the AER's Final Determination. Any appeal must be lodged by 1 December 2011.

With the exception of the matters outlined above, the Directors are not aware of any circumstances that have arisen since 30 September 2011 that have significantly affected or may significantly affect the operations, and the results of those operations, or the state of affairs of the Stapled Group in the financial periods subsequent to 30 September 2011.

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 2011.

Directors' report

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 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
8 November 2011



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 interim period ended 30 September 2011 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

8 November 2011

Combined interim income statement

For the period ended 30 September 2011

		30 September 2011	30 September 2010
	Notes	\$M	\$M
Revenue	2	830.5	785.8
Expenses, excluding finance costs		<u>(480.2)</u>	<u>(448.1)</u>
Profit/(loss) from operating activities		350.3	337.7
Finance income	4	7.3	19.4
Finance costs	4	<u>(177.2)</u>	<u>(185.2)</u>
Net finance (costs)/income		<u>(169.9)</u>	<u>(165.8)</u>
Profit before income tax		180.4	171.9
Income tax (expense)/benefit	5	<u>(34.2)</u>	<u>(5.9)</u>
Profit/(loss) for the period		<u>146.2</u>	<u>166.0</u>
Attributable to:			
SP AusNet Distribution		41.4	64.9
SP AusNet Transmission and SP AusNet Finance Trust (non-controlling interest)		<u>104.8</u>	<u>101.1</u>
Profit/(loss) for the period		<u>146.2</u>	<u>166.0</u>
Earnings per share attributable to the ordinary equityholders of SP AusNet Distribution			
Basic and diluted earnings per share (cents per share)*	7	1.47	2.38

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

* Basic earnings per stapled security of the Stapled Group for the period ended 30 September 2011 was 5.18 cents per security (2010: 6.09 cents). Refer note 7.

Combined interim statement of comprehensive income

For the period ended 30 September 2011

	30 September 2011 \$M	30 September 2010 \$M
Profit/(loss) for the period	146.2	166.0
Other comprehensive income		
Movement in defined benefit fund		
SP AusNet Distribution	(25.0)	(8.6)
SP AusNet Transmission and SP AusNet Finance Trust (non-controlling interest)	(7.5)	(6.7)
Movement in hedge reserve		
SP AusNet Distribution	(45.0)	(19.4)
SP AusNet Transmission and SP AusNet Finance Trust (non-controlling interest)	0.6	2.3
Income tax on other comprehensive income	23.1	9.7
Other comprehensive income for the period, net of income tax	<u>(53.8)</u>	<u>(22.7)</u>
Total comprehensive income for the period	<u>92.4</u>	<u>143.3</u>
Attributable to:		
SP AusNet Distribution	(7.6)	45.3
SP AusNet Transmission and SP AusNet Finance Trust (non-controlling interest)	100.0	98.0
Total comprehensive income for the period	<u>92.4</u>	<u>143.3</u>

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

Combined interim statement of financial position

As at 30 September 2011

	Notes	30 September 2011 \$M	31 March 2011 Restated* \$M	1 April 2010 Restated* \$M
ASSETS				
Current assets				
Cash and cash equivalents		17.4	49.9	545.1
Receivables		292.2	491.5	207.6
Inventories		41.9	32.4	16.4
Derivative financial instruments		4.1	2.5	0.8
Other assets		9.2	17.0	11.2
Total current assets		364.8	593.3	781.1
Non-current assets				
Inventories		16.3	16.1	15.8
Intangible assets		370.5	371.1	356.2
Property, plant and equipment		7,600.6	7,439.0	7,065.0
Deferred tax assets		9.1	3.9	-
Derivative financial instruments		163.1	36.9	32.0
Other assets		0.8	0.8	0.9
Total non-current assets		8,160.4	7,867.8	7,469.9
Total assets		8,525.2	8,461.1	8,251.0
LIABILITIES				
Current liabilities				
Payables and other liabilities		206.5	236.0	215.9
Borrowings		643.1	683.6	749.0
Derivative financial instruments		14.7	17.3	14.3
Current tax payable		12.1	10.5	4.1
Provisions		63.3	62.0	57.6
Total current liabilities		939.7	1,009.4	1,040.9
Non-current liabilities				
Payables and other liabilities		3.1	3.1	4.1
Borrowings		3,767.9	3,690.6	3,683.0
Derivative financial instruments		565.6	566.7	398.7
Deferred tax liabilities		287.2	290.8	306.5
Provisions		66.6	35.6	43.7
Total non-current liabilities		4,690.4	4,586.8	4,436.0
Total liabilities		5,630.1	5,596.2	5,476.9
Net assets		2,895.1	2,864.9	2,774.1
EQUITY				
Equityholders of SP AusNet Distribution				
Contributed equity	9	0.5	0.5	0.5
Reserves		(131.1)	(99.6)	(77.0)
Retained profits		679.5	655.6	608.1
		548.9	556.5	531.6
Equityholders of SP AusNet Transmission and SP AusNet Finance Trust (non-controlling interest)		2,346.2	2,308.4	2,242.5
Total equity		2,895.1	2,864.9	2,774.1

* 31 March 11 and 1 April 2010 have been restated. Refer note 14.

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

Combined interim statement of changes in equity

For the period ended 30 September 2011

	Note	Contributed equity \$M	Issued units \$M	Hedge reserve (i) \$M	Retained profits \$M	Fair value adjustment on stapling \$M	Other equity component (ii) \$M	Total equity \$M
30 September 2011								
SP AusNet Distribution								
Balance as at 1 April 2011		0.5	-	(99.6)	655.6	-	-	556.5
Total comprehensive income for the period								
Profit/(loss) for the period		-	-	-	41.4	-	-	41.4
Total other comprehensive income		-	-	(31.5)	(17.5)	-	-	(49.0)
Total comprehensive income for the financial period		-	-	(31.5)	23.9	-	-	(7.6)
Balance as at 30 September 2011		0.5	-	(131.1)	679.5	-	-	548.9
SP AusNet Transmission and SP AusNet Finance Trust (non-controlling interest)								
Balance as at 1 April 2011		650.1	2,199.3	(0.3)	503.0	51.4	(1,095.1)	2,308.4
Total comprehensive income for the period								
Profit/(loss) for the period		-	-	-	104.8	-	-	104.8
Total other comprehensive income		-	-	0.4	(5.2)	-	-	(4.8)
Total comprehensive income for the financial period		-	-	0.4	99.6	-	-	100.0
Transactions with owners, recorded directly in equity								
Distributions paid	6	-	(10.8)	-	(101.0)	-	-	(111.8)
Distribution Reinvestment Plan (net of transaction costs)	6	-	49.6	-	-	-	-	49.6
Total transactions with owners		-	38.8	-	(101.0)	-	-	(62.2)
Balance as at 30 September 2011		650.1	2,238.1	0.1	501.6	51.4	(1,095.1)	2,346.2
Total stapled securityholders' equity as at 30 September 2011		650.6	2,238.1	(131.0)	1,181.1	51.4	(1,095.1)	2,895.1

Combined interim statement of changes in equity

For the period ended 30 September 2011

	Note	Contributed equity \$M	Issued units \$M	Hedge reserve (i) \$M	Retained profits \$M	Fair value adjustment on stapling \$M	Other equity component (ii) \$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	6	-	(4.0)	-	(104.2)	-	-	(108.2)
Distribution Reinvestment Plan (net of transaction costs)	6	-	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 statement of changes in equity

For the period ended 30 September 2011

- (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.
- (ii) 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 statement of changes in equity should be read in conjunction with the accompanying notes.

Combined interim statement of cash flows

For the period ended 30 September 2011

	30 September 2011 Notes	30 September 2010 \$M
Cash flows from operating activities		
Receipts from customers (inclusive of goods and services tax)	853.8	797.0
Payments to suppliers and employees (inclusive of goods and services tax)	(410.7)	(391.4)
Income tax paid	(18.5)	(8.7)
Interest received	3.6	10.4
Interest and other finance costs paid	(176.7)	(173.4)
Net cash inflow/(outflow) from operating activities	251.5	233.9
Cash flows from investing activities		
Payments for property, plant and equipment	(328.7)	(299.0)
Proceeds from sale of property, plant and equipment	0.6	-
Payments for acquisition of business	13 (1.3)	-
Net cash inflow/(outflow) from investing activities	(329.4)	(299.0)
Cash flows from financing activities		
Distributions paid (i)	6 (62.2)	(73.6)
Proceeds from borrowings	506.6	239.9
Repayment of borrowings	(399.0)	(200.0)
Net cash inflow/(outflow) from financing activities	45.4	(33.7)
Net increase/(decrease) in cash held	(32.5)	(98.8)
Cash and cash equivalents at the beginning of the financial period	49.9	545.1
Cash and cash equivalents at the end of the financial period	17.4	446.3

(i) Amounts shown represent distributions paid of \$111.8 million (2010: \$108.2 million) offset by proceeds from the Distribution Reinvestment Plan of \$49.6 million (2010: \$34.6 million).

The above combined interim 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 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 2011 has been prepared in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001* (Cth).

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 2011 and any public announcements made by SP AusNet during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act.

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

The financial statements were approved by the Board of Directors on 8 November 2011.

SP AusNet's current liabilities exceed current assets by \$574.9 million at 30 September 2011. The financial report has been prepared on a going concern basis, which contemplates the continuity of normal trading operations, as the Stapled Group is trading profitably, generating positive cash flows and has continually been able to refinance maturing debt. In addition, at 30 September 2011 the Stapled Group had available a total of \$825.0 million of undrawn but committed non-current bank debt facilities.

(b) Significant accounting policies

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 2011.

(i) New accounting standards adopted

The accounting standards relevant to the Stapled Group that have been adopted during the reporting period beginning 1 April 2011 are:

- AASB 2010-4 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project* which impact the financial statements as follows:
 - Amendments to disclosure requirements in AASB 7 *Financial Instruments: Disclosures* regarding credit risk for financial assets. As the Stapled Group has minimal credit risk on financial assets, the impact of these amendments is immaterial.
 - Amendments to disclosure requirements in AASB 101 *Presentation of Financial Statements* to clarify that disaggregation of changes in each component of equity arising from transactions recognised in other comprehensive income is also required to be presented, either in the statement of changes in equity or in the notes.
 - Enhanced guidance in AASB 134 *Interim Financial Reporting* to illustrate how to apply the disclosure principles regarding significant events and transactions. This amendment does not result in any material changes to the disclosures in this combined interim financial report.
- AASB 124 *Related Party Disclosures (2009)* amends the definition of a related party to clarify its intended meaning and remove inconsistencies. It also provides a partial exemption from the disclosure requirements for government-related entities. AASB 124 only applies to related party disclosures and has no impact on SP AusNet's financial performance or its financial position.

Condensed notes to the combined interim financial statements

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Note 1 Summary of significant accounting policies (continued)

(b) Significant accounting policies (continued)

(ii) *Change in classification of derivative financial instruments*

Following an extensive review of the accounting for derivative financial instruments, SP AusNet has voluntarily amended its approach to classifying derivative financial instruments in the statement of financial position. Previously the split between current and non-current was based on the contractual cash flow of the instrument. From 1 April 2011, SP AusNet has determined this split 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. Comparative information has been restated to align with this change.

SP AusNet believes that the adoption of the maturity date approach for classifying derivative financial instruments provides better information to users of the financial statements by aligning the classification to the Stapled Group's approach to treasury risk management. Derivatives are presented according to the period for which they are providing a hedge against a financial risk exposure.

Refer to note 14 for further details regarding this change in the classification of derivative financial instruments.

(iii) *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 2011, but have not been applied in preparing this financial report:

- AASB 13 *Fair Value Measurement* is applicable effective 1 April 2013 and provides guidance on the use of fair value and defines it as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The standard requires the measurement of fair value to maximise the use of relevant observable inputs such as quoted prices in active markets and to minimise the use of unobservable inputs. The impact of this standard has yet to be quantified by the Stapled Group.
- AASB 119 *Employee Benefits* is applicable effective 1 April 2013 and requires actuarial gains and losses to be recognised immediately in other comprehensive income. The standard also 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. Any remeasurements of the defined benefit liability will be recognised in other comprehensive income. The standard also distinguishes between short-term and long-term employee benefits based on the expected timing of settlement rather than employee entitlement. The impact of this standard has yet to be quantified by the Stapled Group.

There are also other amendments and revisions to accounting standards and interpretations 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.

(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 interim financial report have been rounded off to the nearest hundred thousand dollars.

Condensed notes to the combined interim financial statements

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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 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. 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 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 does not purchase or sell electricity.

(iv) *Select Solutions*

Following the acquisition of the Schultz Plumbing business (refer note 13) it has been determined that Select Solutions constitutes a separate reportable segment.

Select Solutions provides services to all other segments of SP AusNet and also provides specialist utility-related solutions, in particular metering, monitoring and asset management services, to external parties. Select Solutions' customers are primarily electricity, water and gas utility owners and managers including Jemena. The agreements with Jemena commenced on 29 September 2008. The services provided by Select Solutions generally require minimal capital expenditure.

On 1 April 2011, Select Solutions ceased charging the other segments for the services provided to them. Given that the costs incurred by Select Solutions for internal works provided to the other segments are separately reported, managed and reviewed, these costs have been allocated to those segments for the purposes of segment reporting. As a result, the Select Solutions segment revenues and operating results disclosed only relate to the provision of services to external parties.

Comparative information has been restated to align to this segment disclosure.

Condensed notes to the combined interim financial statements

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Note 2 Segment information (continued)

(b) Reportable segment financial information

	Electricity distribution	Gas distribution	Electricity transmission	Select Solutions	Inter-segment eliminations	Combined
30 September 2011	\$M	\$M	\$M	\$M	\$M	\$M
Regulated revenue	301.2	133.1	274.9	-	(4.6)	704.6
Excluded services revenue	11.3	1.8	17.2	-	(1.8)	28.5
Customer contributions	14.8	1.4	0.6	-	-	16.8
Service revenue	-	-	-	61.5	-	61.5
Other revenue	1.7	-	9.3	8.1	-	19.1
Total segment revenue	329.0	136.3	302.0	69.6	(6.4)	830.5
Segment result	95.8	100.0	147.9	6.6	-	350.3
Net finance costs						(169.9)
Income tax expense						(34.2)
Profit for the period						146.2
30 September 2010						
Regulated revenue	279.9	135.6	267.4	-	(4.7)	678.2
Excluded services revenue	8.9	1.6	10.7	-	(1.7)	19.5
Customer contributions	15.3	1.2	-	-	-	16.5
Service revenue	-	-	-	55.6	-	55.6
Other revenue	6.0	0.5	7.5	2.0	-	16.0
Total segment revenue	310.1	138.9	285.6	57.6	(6.4)	785.8
Segment result	94.3	102.7	137.8	2.9	-	337.7
Net finance costs						(165.8)
Income tax expense						(5.9)
Profit for the period						166.0

Condensed notes to the combined interim financial statements

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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.

(d) Select Solutions

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

Note 4 Net finance costs/(income)

	30 September 2011 \$M	30 September 2010 \$M
Finance income		
Interest income	0.2	0.2
Investment income	0.4	12.6
Expected return on defined benefit fund plan assets	6.7	6.6
Total finance income	7.3	19.4
Finance costs		
Interest expense	174.0	175.0
Other finance charges - cash	2.6	2.4
Other finance charges - non-cash	2.4	1.9
(Gain)/loss on fair value hedges	0.8	0.4
(Gain)/loss on initial de-designation of cash flow hedge relationships (i)	4.8	11.8
(Gain)/loss on transactions not in a hedge relationship (i)	0.2	(0.4)
Ineffective portion of cash flow hedges	(3.8)	(1.7)
Change in discount on provisions	0.8	0.7
Defined benefit interest expense	5.2	5.4
Capitalised finance charges	(9.8)	(10.3)
Total finance costs	177.2	185.2
Net finance costs/(income)	169.9	165.8

Condensed notes to the combined interim financial statements

30 September 2011

Note 4 Net finance costs/(income) (continued)

- (i) 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 risk, based on contractual face values and cashflows over the life of the transaction.

Note 5 Income tax expense

(a) Numerical reconciliation of income tax expense/(benefit) to prima facie tax payable

	30 September 2011	30 September 2010
	\$M	\$M
Profit/(loss) before income tax expense	180.4	171.9
Tax at the Australian tax rate of 30% (2010: 30%)	54.1	51.6
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Non-assessable interest income	(18.9)	(18.4)
Changes to tax consolidation legislation	-	(10.2)
Investment allowance incentive	-	(5.7)
Prior year (over)/under provision	(0.1)	(10.4)
Sundry items	(0.9)	(1.0)
Income tax expense/(benefit)	34.2	5.9

The Stapled Group's effective tax rate for the period ended 30 September 2011 was approximately 19 per cent (2010: 3 per cent). The divergence in the effective tax rate from the prima facie rate of 30 per cent is mainly caused by 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. The corresponding interest expense incurred by SP AusNet Distribution and SP AusNet Transmission is, however, deductible for tax purposes.

Condensed notes to the combined interim financial statements

30 September 2011

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				
Fully franked dividend	SP AusNet Transmission	29 June 2011	1.333	37.3
Assessable interest income	SP AusNet Finance Trust	29 June 2011	2.279	63.7
Return of capital	SP AusNet Finance Trust	29 June 2011	0.388	10.8
Total distributions			4.000	111.8

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

Distributions				
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
Return of capital	SP AusNet Finance Trust	29 June 2010	0.148	4.0
Total distributions			4.000	108.2

In relation to the distributions paid in the current financial period of \$111.8 million (2010: \$108.2 million), \$49.6 million (2010: \$34.6 million), was utilised in the allotment of new securities issued under the Distribution Reinvestment Plan (DRP).

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

	30 September 2011	30 September 2010
Profit attributable to the ordinary equityholders of the SP AusNet Distribution (\$M)	41.4	64.9
Weighted average number of shares (million)	2,823.8	2,727.3
Earnings per share (cents)	1.47	2.38

(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.

Condensed notes to the combined interim financial statements

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Note 7 Earnings per stapled security (continued)**(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 interim 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

	30 September 2011	30 September 2010
Profit attributable to the ordinary securityholders of the Stapled Group (\$M)	146.2	166.0
Weighted average number of securities (million)	2,823.8	2,727.3
Earnings per stapled security (cents)	5.18	6.09

Note 8 Borrowings

In April 2011, SP AusNet successfully established a \$75.0 million four-year bank debt facility. In September 2011, SP AusNet successfully executed a \$150.0 million three-year bank debt facility, a \$150.0 million five-year bank debt facility and a \$200.0 million three-year bank debt facility. SP AusNet has \$825.0 million of undrawn but committed non-current bank debt facilities as at 30 September 2011. The undrawn facilities can be used to repay the A\$435.0 million Medium Term Notes due in November 2011, with the remaining facilities available to fund capital expenditure and for other working capital requirements.

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

Note 9 Equity**(a) Movements in ordinary share capital**

Date	Details	Notes	Number of shares	\$M
1 April 2011	Opening balance		2,795,115,439	0.5
29 June 2011	Distribution Reinvestment Plan	(i)	55,816,765	-
30 September 2011	Closing balance		2,850,932,204	0.5

(i) On 29 June 2011, 55.8 million new stapled securities were issued under the DRP. The new securities were issued at a price of \$0.89 per security providing approximately \$49.6 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.

Condensed notes to the combined interim financial statements

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Note 10 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 hedging activities carried out by the Stapled Group is to minimise the exposure to changes in interest rates and foreign exchange rates. Changes in interest rates are hedged by matching the actual cost of debt with the cost of debt assumed by the regulator when setting the rate of return for the relevant 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 2011.

Note 11 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 2011. Some of the critical assumptions and estimates used by management in applying the Stapled Group's accounting policies for the period ended 30 September 2011 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 12 Contingent liabilities

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

(a) Victorian February bushfires

In early February 2009, the state of Victoria was impacted by significant bushfires. The Victorian Government subsequently established a Royal Commission of Inquiry into the bushfire crisis. The Royal Commission made a number of recommendations, which were then analysed by a Powerlines Bushfire Safety Taskforce (the Taskforce) established by the Victorian Government.

It is understood that the Taskforce issued its final report on 30 September 2011 to the Victorian Government and that the Victorian Government is in the process of reviewing the report. The Taskforce was required to recommend options intended to reduce bushfire risk, accompanied by recommendations for fairly and efficiently recovering the costs of those options. These recommendations will require implementation by means of law or regulation before they become obligations on SP AusNet. Until this occurs, it is not possible to estimate the network investment that will result from implementation of the recommendations. In the meantime, SP AusNet continues to enhance its processes designed to minimise bushfire risk as part of its usual continual improvement practices.

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. As part of these legal proceedings, SP AusNet has counterclaimed against several parties. 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. The hearings in the legal proceedings relating to the Kilmore East and Beechworth fires will be heard separately and are presently scheduled to commence in February 2012 (Beechworth) and January 2013 (Kilmore East). These dates may change. In neither of the proceedings have the Plaintiffs' claims yet identified any quantum of damages sought. SP AusNet will vigorously defend these claims.

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Note 12 Contingent liabilities (continued)

(a) Victorian February bushfires (continued)

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

SP AusNet's 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.

(b) Australian Taxation Office (ATO) disputes

During the period, the ATO completed large business audits of the SP AusNet Group. The focus of the audits was 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 SPI Australia Group Pty Ltd joined the SP AusNet Distribution consolidated group in August 2004.

(i) Section 163AA impost

During August 2011, the ATO issued amended assessments to SP AusNet in respect of the 2001 to 2006 income years, disallowing deductions claimed in each of those income years in respect of Section 163AA imposts. Under the amended assessments, the total amount payable is \$87.7 million (representing \$54.0 million of primary tax, plus an interest component of \$33.7 million). On 7 October 2011, SP AusNet lodged notices of objection with the ATO in relation to the amended assessments issued. The ATO has 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 to the ATO in October 2011. This amount has been recorded as a receivable at the time of payment.

In the event that the ATO does not determine the objections in favour of SP AusNet, legal proceedings, if necessary, will be initiated to bring the disputed matter before the Federal Court.

(ii) Intellectual Property

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 total amount payable is \$44.3 million (representing \$27.4 million of primary tax, plus an interest and administrative penalty component of \$16.9 million). On 4 November 2011, SP AusNet lodged notices of objection in relation to the amended assessments issued. The ATO has 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 receivable at the time of payment.

In the event that the ATO does not determine the objections in favour of SP AusNet, legal proceedings, if necessary, will be initiated to bring the disputed matter before the Federal Court.

(iii) Tax Consolidation

On 4 August 2011, the ATO formally advised SP AusNet that it had decided not to pursue the ACA step 1 audit and that no further action was necessary in respect of this matter.

Other than listed above, the contingent liabilities are consistent with those disclosed in the combined financial report as at 31 March 2011.

Condensed notes to the combined interim financial statements

30 September 2011

Note 13 Business combinations

On 21 October 2010 SP AusNet acquired the assets of the commercial and industrial plumbing and specialist water metering business from Schultz Plumbing Pty Ltd and Schultz Holdings Pty Ltd. 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. During the six months ended 30 September 2011, SP AusNet had paid \$1.3 million of this contingent consideration due to the satisfaction of certain business integration targets. A final payment of \$1.1 million was made in October 2011, completing the contingent consideration payment.

Note 14 Change in classification of derivative financial instruments

The change in the classification of derivative financial instruments as mentioned in note 1(b)(ii) has had the following impact as at 31 March 2011:

- decreased current assets for derivative financial instruments by \$15.0 million;
- decreased non-current assets for derivative financial instruments by \$0.5 million;
- decreased current liabilities for derivative financial instruments by \$123.8 million; and
- increased non-current liabilities for derivative financial instruments by \$108.3 million.

There was no impact on the income statement, net assets or cash flows of the Stapled Group as a result of this change in approach to classifying derivative financial instruments. For the opening statement of financial position as at 1 April 2010, the impact of this change has been a decrease in total assets of \$8.3 million and a decrease in total liabilities of \$8.3 million.

Note 15 Events occurring after the balance sheet date**(a) Distribution**

Since the end of the financial period, the Directors have approved an interim distribution for 2012 of \$114.0 million (4.000 cents per stapled security) to be paid on 21 December 2011 comprised as follows:

	Cents per security	Total distribution \$M
Fully franked dividend payable by SP AusNet Transmission	1.333	38.0
Interest income payable by SP AusNet Finance Trust	2.213	63.1
Return of capital payable by SP AusNet Finance Trust	0.454	12.9
	4.000	114.0

(b) ATO disputes

In October 2011, SP AusNet paid a total of \$47.7 million under part-payment arrangements with the ATO in relation to the Section 163AA impost and intellectual property tax disputes. This amount has been recorded as a receivable at the time of payment.

(c) AMI Final Determination

On 31 October 2011, the AER released its Final Determination on the 2012 to 2015 Budget and Charges Application. The determination reduced SP AusNet's proposed expenditure for this period from \$410.7 million to \$304.1 million.

Condensed notes to the combined interim financial statements

30 September 2011

Note 15 Events occurring after the balance sheet date (continued)

(c) AMI Final Determination (continued)

The Final Determination relates to proposed expenditure from calendar years 2012 to 2015 only and does not impact on the costs incurred by SP AusNet to date on the AMI program or the recoverability of those costs, which were approved by the AER for the 2009 to 2011 period.

The AMI Cost Recovery Order in Council allows for recovery of prudent costs of implementing the Victorian Government's mandated AMI program. SP AusNet maintains that its revised submission was an accurate reflection of the prudent costs required to implement the program.

SP AusNet is carefully reviewing the AER's Final Determination. Any appeal must be lodged by 1 December 2011.

(d) Other matters

Other than outlined above, there has been no matter or circumstance that has arisen since 30 September 2011 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 2011 of the Stapled Group; or
- (b) the results of those operations; or
- (c) the state of affairs, in financial periods subsequent to 30 September 2011, of the Stapled Group.

SP Australia Networks (Distribution) Ltd
Directors' declaration

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

- (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 Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and
 - (ii) giving a true and fair view of the combined entity's financial position as at 30 September 2011 and its performance for the six month period ended on that date; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors.



Ng Kee Choe
Chairman



Nino Ficca
Managing Director

Melbourne
8 November 2011



Independent auditor's 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 statement of financial position as at 30 September 2011, combined interim statement of comprehensive income, combined interim statement of changes in equity and combined interim statement of cash flows for the interim period ended on that date, notes 1 to 15 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration. 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 interim period, SP Australia Networks (Transmission) Ltd and the entities it controlled at the half-year's end or from time to time during the interim period and SP Australia Networks (Finance) Trust ("the Combined Entity").

Directors' responsibility for the interim financial report

The directors of the Company and the directors of SP Australia Networks (Transmission) Ltd and of the Responsible Entity of SP Australia Networks (Finance) Trust, SP Australia Networks (RE) Ltd, are responsible for the preparation of the interim financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such control as the directors determine is necessary to enable the preparation of the interim financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 30 September 2011 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 SP Australia Networks (Distribution), SP Australia Networks (Transmission) Ltd and SP Australia Networks (Finance) Trust, 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 2011 and of its performance for the interim period ended on that date; and
- (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

KPMG

KPMG

Michael Bray
Partner

Melbourne

8 November 2011