SPI Networks (Gas) Pty Ltd
ACN 086 015 036

Special Purpose Financial Report

For the financial year ended 31 March 2009

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The financial report is presented in the Australian currency.

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

Level 31, 2 Southbank Boulevard
Southbank, Victoria 3006
Australia

A description of the nature of SPI Networks (Gas) Pty Ltd's operations and its principal activities is included in the Directors' report.

The financial report was authorised for issue by the Directors on 13 July 2009.

Directors' report

31 March 2009

The Directors of SPI Networks (Gas) Pty Ltd ("the Company") present their report on the special purpose financial report of the Company for the financial year ended 31 March 2009.

The immediate parent of the Company is SPI (No. 9) Pty Ltd. The ultimate Australian parent of the Company is SP Australia Networks (Distribution) Ltd ("SP AusNet Distribution"), a company incorporated in Australia, which is part of a listed stapled group trading as SP AusNet. SP AusNet comprises the Stapled Group of SP AusNet Distribution and its subsidiaries, SP Australia Networks (Transmission) Ltd ("SP AusNet Transmission") and its subsidiaries, and SP Australia Networks (Finance) Trust ("SP AusNet Finance Trust"). The Stapled Group is also referred to as the SP AusNet Group.

The immediate parent of SP AusNet Distribution is Singapore Power International Pte Ltd, a company incorporated in Singapore, a wholly-owned subsidiary of Singapore Power Ltd. Singapore Power International Pte Ltd owns 51 per cent of the issued shares in SP AusNet Distribution as part of its ownership of 51 per cent of the securities issued in SP AusNet.

The ultimate parent is Temasek Holdings (Private) Limited (a company incorporated in Singapore). Temasek Holdings (Private) Limited's sole shareholder is the Minister of Finance (Incorporated), a body corporate under the Minister for Finance (Incorporation) Act, Chapter 183 of Singapore.

Directors

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

Nino **Ficca** (Managing Director)
Paul John **Adams** (resigned effective 7 November 2008)
Norman Peter **Drew**
Geoff **Nicholson** (commenced effective 18 February 2009)

Principal activities

The principal activity of the Company is Gas distribution, the delivery of natural gas to approximately 554,000 consumer connection points over 60,000 square kilometres in central and western Victoria including some of Melbourne's western suburbs.

Dividends

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

Review of operations

A summary of the Company's revenues and results is set out below:

	2009	2008
	$M	$M
Revenue	**174.4**	159.9
Profit/(loss) before income tax	**30.0**	3.3
Income tax benefit/(expense)	**(9.0)**	(6.6)
Profit/(loss) for the year	**21.0**	(3.3)

Discussion and analysis for the year ended 31 March 2009

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

Income statements

The Company achieved a net profit after tax ("NPAT") of $21.0 million for the year ended 31 March 2009.

Directors' report
31 March 2009

Discussion and analysis for the year ended 31 March 2009 (continued)

Revenues were favourably impacted by the weather conditions which were cooler than the previous year leading to increased heating load. Revenues were also favourably impacted by a strong growth in customer numbers and from the Gas Access Arrangement Review Further Final Decision. In the year to 31 March 2009 approximately 17,000 additional customers, representing an increase of 3.2 per cent, were connected to the network. Total gas delivered through the network was 75.3 PJ, an increase of 7.1 per cent over the previous financial year.

Balance sheets

The Company's total assets as at 31 March 2009 were $1,490.0 million comprising principally property, plant and equipment of $1,153.4 million, intangible assets of $237.3 million and receivables of $99.1 million.

Current liabilities as at 31 March 2009 were $7.0 million comprising payables of $1.4 million and provisions of $5.6 million.

Non-current liabilities as at 31 March 2009 were $1,888.6 million comprising principally borrowings of $1,744.7 million and deferred tax liabilities of $135.8 million.

Shareholders' equity as at 31 March 2009 was a deficiency of $405.6 million. The Company's liabilities exceed its assets due primarily to the interest expense incurred on the long-term related party borrowings. However this special purpose financial report has been prepared on a going concern basis as a large portion of the Company's total liabilities are related party borrowings with entities within the SP AusNet Group and the Company is trading profitably and has access to financing through SP AusNet's common or central funding vehicle ("CFV").

Cash flow statements

Net operating cash inflows for the year ended 31 March 2009 were $57.6 million, an increase of $79.8 million on the comparative period.

Net outflows from investing activities of $90.1 million results from payments for property, plant and equipment.

The net inflows from financing activities of $32.5 million results from the increase in loans from related parties.

Climate Change

The *National Greenhouse and Energy Reporting Act 2007* was passed in September 2007 to establish a mandatory corporate system for the reporting of greenhouse gas, energy production and consumption. Corporations that meet thresholds as determined by the legislation are required to report. The reporting period commenced on 1 July 2008, and covers the Australian financial year. Corporations meeting or exceeding the thresholds are required to register by 31 August 2009 and lodge their first full report by 31 October 2009. SP AusNet meets the current thresholds under the National Greenhouse and Energy Reporting ("NGER") framework and has been participating in the Department of Climate Change's NGER corporate pilot scheme. SP AusNet will comply with its NGER requirements.

The Australian Government released its Green Paper for the *National Carbon Pollution Reduction Scheme* ("CPRS") in July 2008 as a consultation and discussion paper, followed by the release of its White Paper in December 2008. In March 2009, the Australian Government released its exposure draft legislation for consultation. On 4 May 2009, the Australian Government announced that it had delayed the commencement of the scheme by a year to July 2011. SP AusNet is closely monitoring the development of the regulatory framework for this emissions trading scheme. Under the draft legislation, SP AusNet is expected to have liabilities under the CPRS for unaccounted for gas losses from the gas distribution network. At this stage, it is too early to quantify the impacts and opportunities arising from the CPRS.

Significant changes in the state of affairs

In the opinion of the Directors, there were no significant changes in the state of affairs of the Company that occurred during the year under review.

Directors' report

31 March 2009

Matters subsequent to the end of the financial year

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. The Company has access to SP AusNet facilities through the CFV.

As at 31 March 2009, SP AusNet had $63.6 million outstanding under its commercial paper program and $161.5 million drawn under its $305.0 million of commercial paper standby lines and working capital facilities which mature in August 2009, with the remaining $143.5 million committed but undrawn. In May 2009, SP AusNet successfully established $325.0 million of three year bank debt facilities. This replaced $255.0 million of existing working capital and standby facilities that were due to mature in August 2009. Proceeds drawn under these new facilities were used to repay the $161.5 million drawn under the existing commercial paper standby lines and working capital facilities. As a consequence there is $163.5 million of undrawn but committed debt available under these three year bank debt facilities which will be used to refinance the $63.6 million outstanding under the commercial paper program as it matures.

In addition, $50.0 million of working capital facilities have been retained and will mature in August 2009 unless refinanced earlier. These facilities are committed but undrawn and are expected to be renewed for a further 12 months by August 2009.

SP AusNet maintains its A- credit rating from Standard and Poor's and A1 from Moody's. At the date of this report, other than the working capital facilities which will mature in August 2009, SP AusNet has no refinancing obligations until September 2010.

Capital Management Initiatives

On 12 May 2009, SP AusNet announced its intention to raise up to A$415.0 million through an accelerated non-renounceable pro-rata entitlement offer ("Entitlement Offer"). In May 2009, SP AusNet successfully raised A$336.0 million from the institutional component of the Entitlement Offer and in June 2009, the retail component of the Entitlement Offer was successfully completed, raising approximately A$72.0 million. These amounts exclude the costs of raising these funds.

Funds will be used to repay existing debt facilities. These facilities will then be redrawn over time to fund capital expenditure programs as required. SP AusNet's debt facilities are available to the Company through the CFV.

With the exception of the matters outlined above, the Directors are not aware of any circumstances that have arisen since 31 March 2009 that have significantly affected or may significantly affect the operations, and results of those operations or the state of affairs, of the Company in financial years subsequent to 31 March 2009.

Likely developments and expected results of operations

Information on likely developments in the operations of the Company and the expected results of operations have not been included in this report because the Directors believe it would be likely to result in unreasonable prejudice to the Company.

Environmental regulation

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

Directors' report
31 March 2009

Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the *Corporations Act* 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Company with leave of the court under section 237 of the *Corporations Act* 2001.

Indemnification and insurance

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

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

Non-audit services

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company are important.

Details of the amounts paid or payable to the auditor, KPMG, for audit and non-audit services provided during the year are set out in note 16 of the financial report.

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act* 2001 is set out on page 7.

Rounding off

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

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

Nino Ficca
Director

Melbourne
13 July 2009

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

To: the directors of SPI Networks (Gas) Pty Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 31 March 2009 there have been:

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

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

KPMG

KPMG

Alison Kitchen

Partner

Melbourne

13 July 2009

Income statements
For the year ended 31 March 2009

	Notes	2009 $M	2008 $M
Revenue	2	**174.4**	159.9
Expenses, excluding finance costs	3	**(43.1)**	(33.0)
Profit from operating activities		**131.3**	126.9
Finance expenses	4	**(101.3)**	(123.6)
Net finance costs		**(101.3)**	(123.6)
Profit before income tax		**30.0**	3.3
Income tax expense	5	**(9.0)**	(6.6)
Profit/(loss) for the year		**21.0**	(3.3)

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

Statements of recognised income and expense

For the year ended 31 March 2009

	2009 $M	2008 $M
Profit/(loss) for the year	**21.0**	(3.3)
Total recognised income and expense for the year	**21.0**	(3.3)

The above statements of recognised income and expense should be read in conjunction with the accompanying notes.

Balance sheets

As at 31 March 2009

	Notes	2009 $M	2008 $M
ASSETS			
Current assets			
Receivables	6	**99.1**	101.8
Other current assets	7	**0.2**	0.2
Total current assets		**99.3**	102.0
Non-current assets			
Property, plant and equipment	8	**1,153.4**	1,093.0
Intangible assets	9	**237.3**	237.3
Total non-current assets		**1,390.7**	1,330.3
Total assets		**1,490.0**	1,432.3
LIABILITIES			
Current liabilities			
Payables and other liabilities	10	**1.4**	1.0
Provisions	12	**5.6**	5.3
Total current liabilities		**7.0**	6.3
Non-current liabilities			
Borrowings	11	**1,744.7**	1,712.1
Deferred tax liabilities	5(c)	**135.8**	130.0
Provisions	12	**8.1**	10.5
Total non-current liabilities		**1,888.6**	1,852.6
Total liabilities		**1,895.6**	1,858.9
Net assets/(liabilities)		**(405.6)**	(426.6)
EQUITY			
Equityholders of SPI Networks (Gas) Pty Ltd			
Accumulated losses	13(c)	**(405.6)**	(426.6)
Total equity		**(405.6)**	(426.6)

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

Cash flow statements
For the year ended 31 March 2009

	Notes	2009 $M	2008 $M
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		**193.9**	173.7
Payments to suppliers and employees (inclusive of goods and services tax)		**(33.3)**	(77.4)
Income tax paid		**-**	4.2
Interest and other costs of finance paid		**(103.0)**	(122.7)
Net cash inflow/(outflow) from operating activities	19	**57.6**	(22.2)
Cash flows from investing activities			
Payments for property, plant and equipment		**(90.1)**	(24.0)
Net cash inflow/(outflow) from investing activities		**(90.1)**	(24.0)
Cash flows from financing activities			
Loan proceeds/(repayments) from related parties		**32.5**	46.1
Loan repayments/(proceeds) to related parties		**-**	0.1
Net cash inflow/(outflow) from financing activities		**32.5**	46.2
Net increase/(decrease) in cash held		**-**	-
Cash and cash equivalents at the beginning of the financial year		**-**	-
Cash and cash equivalents at the end of the financial year		**-**	-

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

Notes to the financial statements
31 March 2009

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Note 1 Summary of significant accounting policies

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

(a) Basis of preparation

In the opinion of the Directors, the Company is not a reporting entity. The financial report is a special purpose financial report which has been prepared for distribution to the members and for the purposes of fulfilling the requirements of the *Corporations Act* 2001.

The special purpose financial report has been prepared in accordance with the recognition and measurement requirements of Australian Accounting Standards ("AASBs") and Interpretations adopted by the Australian Accounting Standards Board and the *Corporations Act* 2001. Certain comparative amounts have been reclassified to conform with the current year's presentation.

The special purpose financial report does not include all disclosure requirements of the following standards:

- AASB 7: *Financial Instruments*: *Disclosures*
- AASB 112: *Income Taxes*
- AASB 116: *Property, Plant and Equipment*
- AASB 119: *Employee Benefits*
- AASB 132: *Financial Instruments: Presentation*
- AASB 137: *Provisions, Contingent Liabilities and Contingent Assets*

This special purpose financial report is presented in Australian dollars.

The financial statements were approved by the Board of Directors on 13 July 2009.

The Company's liabilities exceed its assets due primarily to the interest expense incurred on the long-term related party borrowings. However this special purpose financial report has been prepared on a going concern basis as a large portion of the Company's total liabilities are related party borrowings with entities within the SP AusNet Group and the Company is trading profitably and has access to financing through the CFV. SP AusNet has subsequently to year end refinanced short-term debt and announced a capital raising as outlined below.

In June 2008, SP AusNet successfully completed a £250.0 million ten year Sterling bond issue to raise approximately $537.5 million. The proceeds were used to refinance the Medium Term Notes facility which matured in November 2008, with the remaining amount used to fund growth capital expenditure and working capital requirements.

In August 2008, SP AusNet renewed $305.0 million short term debt facilities for a further 12 months. These facilities comprise $135.0 million of commercial paper standby facilities and $170.0 million of working capital facilities. These facilities replaced the $170.0 million commercial paper standby facilities and $100.0 million working capital facilities that were due to mature in September 2008. The commercial paper standby facilities and working capital facilities mature in August 2009.

As at 31 March 2009, SP AusNet had $63.6 million outstanding under its commercial paper program and $161.5 million drawn under its $305.0 million of commercial paper standby lines and working capital facilities which mature in August 2009, with the remaining $143.5 million committed but undrawn. In May 2009, SP AusNet successfully established $325.0 million of three year bank debt facilities. This replaced $255.0 million of existing working capital and standby facilities that were due to mature in August 2009. Proceeds drawn under these new facilities were be used to repay the $161.5 million drawn under the existing commercial paper standby lines and working capital facilities. As a consequence there is $163.5 million of undrawn but committed debt available under these three year bank debt facilities which will be used to refinance the $63.6 million outstanding under the commercial paper program as it matures.

Note 1 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

In addition, $50.0 million of working capital facilities have been retained and will mature in August 2009 unless refinanced earlier. These facilities are committed but undrawn and are expected to be renewed for a further 12 months by August 2009.

On 12 May 2009, SP AusNet announced its intention to raise up to A$415.0 million through an accelerated non renounceable pro rata entitlement offer ("Entitlement Offer"). In May 2009, SP AusNet successfully raised A$336.0 million from the institutional component of the Entitlement Offer and in June 2009, the retail component of the Entitlement Offer was successfully completed, raising approximately A$72.0 million. These amounts exclude the costs of raising these funds.

Funds will be used to repay existing debt facilities. These facilities will then be redrawn over time to fund capital expenditure programs as required. SP AusNet's debt facilities are available to the Company through the CFV.

(i) New standards adopted

The Company has elected, in accordance with Section 334(5) of the *Corporations Act* 2001, to early adopt the following standards for the annual reporting period beginning 1 April 2008:

- AASB 2008 - 7 *Amendments to Australian Accounting Standards - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*. Under this standard, all dividends from a subsidiary, jointly controlled entity or associate are recognised by the investor as income regardless of whether they are declared out of pre acquisition profits but the investment is subject to an impairment test. Early adoption of this standard does not impact the results presented in this financial report.

The Company has previously elected in accordance with Section 334(5) of the *Corporations Act* 2001, to early adopt the following standards:

- Revised AASB 123 *Borrowing Costs* is mandatory for annual reporting periods beginning on or after 1 January 2009 however early adoption is permitted. The revised AASB 123 removes the option of expensing borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset and requires such costs to be included as part of the cost of that asset. There was no impact from the adoption of the revised AASB 123 as the Company had elected to capitalise such costs under the superseded AASB 123.
- AASB 2007 - 6 *Amendments to Australian Accounting Standards arising from AASB 123* necessitates consequential amendments to existing Australian Accounting Standards, principally to remove references to expensing borrowing costs on qualifying assets.

(ii) New standards not yet adopted

The following standards are available for early adoption for the annual reporting period beginning 1 April 2008, but have not been applied in preparing the financial statements:

- Revised AASB 3 *Business Combinations* is applicable to annual reporting periods commencing on or after 1 July 2009. This standard results in changes to how mergers and acquisitions are accounted for. As the Company has not undertaken any mergers or acquisitions during the year, this standard will not result in any changes to historical financial results if it were early adopted.
- Revised AASB 127 *Consolidated and Separate Financial Statements* is applicable to annual reporting periods commencing on or after 1 July 2009. This standard results in changes to the accounting for non-controlling interests and the loss of control of a subsidiary. This standard cannot be early adopted unless revised AASB 3 is early adopted.
- AASB 2008 - 3 *Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127* is applicable to annual reporting periods commencing on or after 1 July 2009. AASB 2008 - 3 amends the requirements in several accounting standards due to the changes made to AASB 3 and AASB 127. The standard cannot be early adopted unless revised AASB 3 is early adopted.

Note 1 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(ii) New standards not yet adopted (continued)

- Revised AASB 101 *Presentation of Financial Statements* is applicable to annual reporting periods commencing on or after 1 January 2009. This standard results in changes to the financial statements including the replacement of the Income Statements with Statements of Comprehensive Income. This standard will not result in any changes to the financial results but will affect how those results are presented.
- AASB 2007 - 8 *Amendments to Australian Accounting Standards arising from AASB 101* and AASB 2007 - 10 *Further amendments to Australian Accounting Standards arising from AASB 101* are applicable to annual reporting periods commencing on or after 1 January 2009. Both AASB 2007 - 8 and AASB 2007 - 10 amend the terms used in several accounting standards due to the changes made to AASB 101. The standard cannot be early adopted unless revised AASB 101 is early adopted.
- AASB 2008 - 1 *Amendments to Australian Accounting Standard – Share based Payment: Vesting Conditions and Cancellations* is applicable to annual reporting periods commencing on or after 1 January 2009. AASB 2008 - 1 clarifies the definition of vesting conditions and also specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. As the vesting conditions present in SP AusNet's Long Term Incentive Plan consist of service and performance conditions and there were no relevant cancellations during the year, this standard would not result in any changes to historical financial results if it was early adopted.
- AASB 2008 - 2 *Amendments to Australian Accounting Standards - Puttable Financial Instruments and Obligations arising on Liquidation* is applicable to annual reporting periods commencing on or after 1 January 2009. This standard makes amendments to several other standards due to amendments to IAS 32 *Financial Instruments: Presentation* regarding puttable financial instruments and obligations arising from liquidation. As the Company does not have financial instruments of the kind referred to in this standard, this standard would not result in any changes to historical financial results if it was early adopted.
- AASB 2008 - 5 *Amendments to Australian Accounting Standards arising from the Annual Improvements Project* and AASB 2008 - 6 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project* are applicable to annual reporting periods commencing on or after 1 January 2009 and 1 July 2009 respectively. These standards make various minor amendments to other standards. However, these standards would not result in any changes to historical financial results if they were early adopted.
- AASB 2008 - 8 *Further Amendments to Australian Accounting Standards – Eligible Hedged Items* is applicable to annual reporting periods commencing on or after 1 July 2009. AASB 2008 - 8 clarifies the eligibility principles for designation as a hedged item. This standard is unlikely to have any material impact on the Company's results.
- AASB Interpretation 17 *Distributions of Non-cash Assets to Owners* is applicable to annual reporting periods commencing on or after 1 July 2009. This interpretation provides guidance on how an entity should measure distributions of assets other than cash when it pays dividends to its owners, except for common control transactions. As the Company has not distributed dividends in the form of assets, this standard would not result in any changes to historical financial results if it was early adopted.
- AASB 2008 - 13 *Amendments to Accounting Standards arising from AASB Interpretation 17 – Distributions of Non cash Assets to Owners* is applicable to annual reporting periods commencing on or after 1 July 2009. This standard makes various minor amendments to other standards due to the issuance of AASB Interpretation 17. This standard cannot be early adopted unless AASB Interpretation 17 is early adopted.
- AASB Interpretation 18 *Transfers of Assets from Customers* is applicable for transfers occurring on or after 1 July 2009. This interpretation clarifies the accounting for agreements where an entity receives an item of property, plant and equipment (or cash to construct such an item) from a customer and this equipment in turn is used to connect a customer to SP AusNet's network or to provide ongoing access to supply of goods or services. As revenue earned from customer contributions is in exchange for connection to the network, this interpretation results in no change to the accounting for customer contributions.

Note 1 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(ii) New standards not yet adopted (continued)

There are also other minor amendments and revisions to standards and interpretations that have not been early adopted. As these changes are minor in nature, they are not expected to result in any material changes to the Company's financial results.

The potential effect of these standards and interpretations is yet to be fully determined. However it is not expected that the new standards and interpretations will significantly affect the Company's financial report.

(iii) Historical cost convention

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain financial assets and liabilities at fair value through the income statement.

(iv) Critical accounting estimates and judgements

The preparation of financial statements in conformity with AASBs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 15.

(b) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in Australian dollars, which is the Company's presentation currency.

(ii) Transactions and balances

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

(c) Revenue recognition

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

(i) Sale of goods and rendering of services

Gas distribution regulated revenue

- Distribution regulated revenue is revenue earned from external network services, customer transfer and reconnection, meter reading and other services and is recognised as the services are rendered.

- Revenues from services rendered under a contract are recognised by reference to the stage of completion of the contract.

Note 1 Summary of significant accounting policies (continued)

(c) Revenue recognition (continued)

(ii) Other excluded services revenue

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

(iii) Contributions from customers for capital works

Contributions received from customers to assist in the financing of construction of assets are recognised as revenue when the project is complete. Customer contributions of cash are measured with reference to the cash contribution received and customer contributions of assets are measured at the fair value of the assets contributed at the date the Company gains control of the asset.

(d) Income tax

(i) Current tax

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

(ii) Deferred tax

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

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

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

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

(iii) Tax expense

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

Note 1 Summary of significant accounting policies (continued)

(d) Income tax (continued)

(iv) Tax consolidations

SP AusNet Distribution is the head entity in a tax consolidated group comprising SP AusNet Distribution and its wholly-owned subsidiaries.

The current and deferred tax amounts for the tax consolidated group are allocated among the entities in the group using the separate taxpayer within group method.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses assumed by the head entity from the subsidiaries in the tax consolidated group are recognised in conjunction with any tax funding arrangement amounts (refer below). Any difference between these amounts is recognised by the head entity as an equity contribution to, or distribution from, the subsidiary. Distributions firstly reduce the carrying amount of the investment in the subsidiary and are then recognised as revenue.

The head entity recognises deferred tax assets arising from unused tax losses of the tax consolidated group to the extent that it is probable that future taxable profits of the tax consolidated group will be available against which the assets can be utilised.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses assumed from subsidiaries are recognised by the head entity only.

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

(e) Leases

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

(i) Operating leases

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

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

(f) Acquisitions of assets and liabilities

The purchase method of accounting is used for all acquisitions of assets (including business combinations) regardless of whether equity instruments or other assets are acquired. Cost is determined as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued as part of an acquisition, the value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Notes to the financial statements
31 March 2009

Note 1 Summary of significant accounting policies (continued)

(f) Acquisitions of assets and liabilities (continued)

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at fair value at the acquisition date, irrespective of the extent of any minority interest. All potential intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair value can be measured reliably. The excess of the cost of acquisition over the fair value of the Company's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

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

(g) Impairment of assets

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

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

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

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognised in the income statement immediately.

(h) Receivables

Accounts receivable and loans are initially recognised at the fair value of the amounts to be received and are subsequently measured at amortised cost, less any allowance for impairment costs.

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

Note 1 Summary of significant accounting policies (continued)

(i) Customer deposits

Customer deposits are recognised as liabilities and represent refundable payments received in advance from customers as security on capital projects.

(j) Property, plant and equipment

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

Historical cost includes all expenditure that is directly attributable to the acquisition of the item. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

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

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

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

The expected average useful lives of major asset classes are as follows:

	Years
Distribution network (gas)	50-120
Buildings	40-99
Other general assets	3-10
Motor vehicles and heavy machinery	3-12
Computer equipment and software	3-5

(i) Capital works at cost

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

All expenditure indirectly attributable to the specific project is allocated based on activity based costing.

(k) Intangible assets

(i) Distribution licence

The distribution licence held entitles the Company to distribute gas within its licensed region. The distribution licence is stated at cost and is considered to be an indefinite life intangible asset, which is not amortised. The distribution licence is tested for impairment annually and is carried at cost less any accumulated impairment losses.

(l) Trade and other payables

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

Note 1 Summary of significant accounting policies (continued)

(m) Borrowings

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

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

(n) Net financing costs

Finance expenses comprise interest expense on borrowings and unwinding of the discount on provisions. All borrowing costs are recognised in the income statement using the effective interest rate method.

Borrowing costs directly attributable to a qualifying asset are capitalised to the cost of that asset.

The capitalisation rate used to determine the amount of borrowing costs to be included in the cost of qualifying assets is the weighted average interest rate of 7.4 per cent (2008: 6.8 per cent) applicable to the Company's outstanding borrowings during the period.

(o) Provisions

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

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

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

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

(i) Environmental provision

A provision for environmental costs is made for the rehabilitation of sites based on the estimated costs of the rehabilitation. The liability includes the costs of reclamation, plant closure and dismantling, and waste site closure. The liability is determined based on the present value of the obligation as appropriate. Annual adjustments to the liability are charged to the income statement over the estimated life of the sites. The costs are estimated based on the assumption of the current legal requirements and technologies. Any changes in estimates are dealt with on a prospective basis.

(ii) Licence Fee

Provision for licence fee represents an assessment of the amounts payable for annual gas distribution licence fees as determined by the Victorian Department of Treasury.

Notes to the financial statements
31 March 2009

Note 1 Summary of significant accounting policies (continued)

(o) Provisions (continued)

(iii) Unaccounted for Gas

Provision for unaccounted for gas represents an assessment of the amounts payable to gas retailers to account for gas losses in the distribution system. The losses represent gas measured as having entered the gas distribution system, but not measured as having been delivered to customers. An annual reconciliation and settlement is carried out after VENCorp has released final gas system volume information in June of each year.

(p) Contributed equity

Ordinary shares are classified as equity.

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

(i) Dividends

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

(q) Rounding of amounts

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

Note 2 Revenue

	2009	2008
	$M	$M
Revenue		
Regulated revenue	**171.4**	147.5
Excluded services	**3.0**	11.8
	174.4	159.3
Other revenue		
Other revenue	**-**	0.6
Total revenue	**174.4**	159.9

Notes to the financial statements
31 March 2009

Note 3 Expenses

	2009 $M	2008 $M
Profit before income tax includes the following specific expenses:		
Expenses, excluding finance costs, included in the income statement:		
Use of System and associated charges	**2.3**	0.2
Maintenance and contractors' services - related parties	**8.8**	-
Property taxes	**0.1**	0.1
Administrative expenses (i)	**2.1**	0.9
Other costs	**0.1**	0.1
Depreciation	**30.0**	31.6
Net (gain)/ loss on disposal of property, plant and equipment (ii)	**(0.3)**	0.1
Total expenses, excluding finance costs	**43.1**	33.0

(i) Prior year taxes and licences, insurance expenses and office, travel and consumable expenses have been presented under the category of administrative expenses.

(ii) The actual value of property, plant and equipment retired in the previous year was lower than the amount that was accrued. This resulted in a gain on disposal in the current year.

Note 4 Net finance costs

	2009 $M	2008 $M
Finance expenses		
Interest expense - related parties	**103.0**	122.7
Change in discount on provisions	**(1.7)**	0.9
Total finance expenses	**101.3**	123.6
Net finance costs	**101.3**	123.6

Note 5 Income tax expense

(a) Income tax expense

	2009 $M	2008 $M
Current tax	**3.1**	(4.7)
Deferred tax	**5.9**	5.7
Prior year (over)/under provision - deferred tax	**-**	5.6
	9.0	6.6

Notes to the financial statements

31 March 2009

Note 5 Income tax expense (continued)

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

	2009 $M	2008 $M
Profit before income tax expense	**30.0**	3.3
Tax at the Australian tax rate of 30% (2008: 30%)	**9.0**	1.0
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Prior year (over)/under provision in respect of entry into tax consolidation	**-**	5.6
Income tax expense	**9.0**	6.6

(c) Net deferred tax liabilities

	2009 $M	2008 $M
Deferred tax liabilities	**135.8**	130.0
Net deferred tax liabilities	**135.8**	130.0

Note 6 Receivables

	2009 $M	2008 $M
Current receivables		
Accounts receivable	**4.9**	4.6
Related party receivables	**85.2**	88.3
	90.1	92.9
Accrued revenue	**9.0**	8.9
Total current receivables	**99.1**	101.8

Note 7 Other assets

	2009 $M	2008 $M
Current other assets		
Prepayments	**0.2**	0.2
Total current other assets	**0.2**	0.2

Note 8 Non-current assets - property, plant and equipment

	2009 $M	2008 $M
Land and buildings		
Freehold land and buildings	**2.8**	3.1
Accumulated depreciation	**(0.4)**	(0.6)
	2.4	2.5
Plant and equipment		
Plant and equipment	**1,447.3**	1,356.8
Accumulated depreciation	**(296.3)**	(266.3)
	1,151.0	1,090.5
Total property, plant and equipment	**1,153.4**	1,093.0

Note 9 Non-current assets - intangible assets

	2009 $M	2008 $M
Opening net book amount - distribution licence	**237.3**	237.3
Closing net book amount - distribution licence	**237.3**	237.3

The distribution licence is considered to have an indefinite life for the following reasons:

- the licence has been issued in perpetuity provided the licensee achieves certain licence requirements;
- the Company monitors its performance against those licence requirements and ensures that they are met; and
- the Company intends to continue to maintain the network for the foreseeable future.

Note 10 Current liabilities - payables and other liabilities

	2009 $M	2008 $M
GST payable	**1.4**	1.0
Total current payables and other liabilities	**1.4**	1.0

Note 11 Borrowings

	2009 $M	2008 $M
Non-current borrowings		
Amounts owed to related parties	**1,744.7**	1,712.1
Total non-current borrowings	**1,744.7**	1,712.1

Notes to the financial statements
31 March 2009

Note 12 Provisions

	2009	2008
Current provisions	**$M**	$M
Environmental provision	**0.9**	1.8
Licence fee	**1.0**	0.7
Unaccounted for gas	**3.7**	2.8
Total current provisions	**5.6**	5.3
Non-current provisions		
Environmental provision	**8.1**	10.5
Total non-current provisions	**8.1**	10.5
Total provisions	**13.7**	15.8

Note 13 Equity

		2009	2008
Share capital	**Notes**	**Shares**	Shares
Ordinary shares - fully paid	(a), (b)	**1**	1

(a) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares issued. Holders of ordinary shares are entitled to one vote on a show of hands or one vote for each ordinary share held on a poll at shareholders' meetings.

(b) Movements in ordinary share capital

Date	**Details**	**Number of shares**	**$**
1 April 2007	Opening balance	1	1
31 March 2008	Closing balance	1	1
1 April 2008	Opening balance	1	1
31 March 2009	Closing balance	1	1

Notes to the financial statements
31 March 2009

Note 13 Equity (continued)

(c) Movements in equity

	Contributed equity	Accumulated losses	Total equity
2009	**$M**	**$M**	**$M**
Balance at 1 April 2008	-	426.6	426.6
Profit for the year	-	(21.0)	(21.0)
Balance at 31 March 2009	**-**	**405.6**	**405.6**
2008			
Balance at 1 April 2007	-	423.3	423.3
Loss for the year	-	3.3	3.3
Balance at 31 March 2008	**-**	**426.6**	**426.6**

Note 14 Financial risk management

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

The Company's activities expose it primarily to the financial risks of changes in interest rates and foreign currency exchange rates. The Company manages its exposure to these risks in accordance with SP AusNet Treasury Risk Policy which is approved by the Board. The policy is reviewed annually or more regularly if required by a significant change in the Company's operations. Any suggested changes are submitted to the Board for approval.

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

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

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

- SP AusNet Authority Manual which sets out the approvals required for such things as investment of surplus funds, execution of hedging transactions, borrowings and issue of guarantees and indemnities;
- SP AusNet Treasury Operations Manual which sets out the day-to-day Treasury front office processes such as cash management and the operations of the Treasury back office, such as settlement process and bank account operations; and
- SP AusNet Refinancing and Hedging Strategy which sets out the refinancing and hedging strategies over the relevant financial period.

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

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

Notes to the financial statements
31 March 2009

Note 15 Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Accounting estimates and assumptions where changes in those estimates and assumptions could result in a significant change are detailed below:

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

The following CGU has a significant amount of intangible assets with an indefinite useful life.

	Intangible assets with an indefinite useful life	
	2009	2008
	$M	$M
CGU		
Gas distribution	**237.3**	237.3
	237.3	237.3

Recoverable amount is the higher of fair value less costs to sell and value in use. Management has based its assessment of fair value on discounted cash flow projections over a period of 20 years together with an appropriate terminal value. Regulated cash flow forecasts are based on allowable returns on gas distribution assets as set out in the Victorian Gas Industries Tariff Order together with other information included in the Company's five year forecast. Cash flows after that period are based on an extrapolation of the forecast, taking into account inflation and expected customer connection growth rates. It is considered appropriate to use cash flows after the Company's five year forecast period considering the long term nature of the Company's activities. The Company expects to have liabilities under the National Carbon Pollution Reduction Scheme for unaccounted for gas losses from the gas distribution network. Management has not incorporated the potential impact of these liabilities into the 20 year cash flow projections as it is too early, at this stage, to quantify the impacts. Uncertainties include the price of the emission permits, the ability to pass on the cost of the permits and the impacts on costs charged by suppliers. Cash flows are discounted using a pre tax discount rate that reflects current market assessments of the time value of money and risks specific to the assets (refer note 1(g)).

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

(b) Income taxes

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

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

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

(c) Accrued revenue

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

Note 15 Critical accounting estimates and assumptions (continued)

(d) Useful lives of property, plant and equipment

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

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

Note 16 Remuneration of auditors

The auditor of the Company is KPMG. Audit fees for the Company are paid by another entity in the SP AusNet Group. It is not possible to allocate these audit fees to individual entities within the SP AusNet Group.

Note 17 Contingent liabilities

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

(a) Environmental

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

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

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

(b) Other

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

Other than listed above, the Directors are not aware of any contingent liabilities as at 31 March 2009.

Notes to the financial statements
31 March 2009

Note 18 Events occurring after the balance sheet date

(a) Debt raising

SP AusNet's CFV operates through SPI Electricity & Gas Australia Holdings Pty Ltd, a subsidiary of SP AusNet Distribution. The Company has access to SP AusNet facilities through the CFV.

In May 2009, SP AusNet successfully established $325.0 million of three year bank debt facilities. This replaced $255.0 million of existing working capital and standby facilities that were due to mature in August 2009. Proceeds drawn under these new facilities were used to repay the $161.5 million drawn under the existing commercial paper standby lines and working capital facilities. As a consequence there is $163.5 million of undrawn but committed debt available under these three year bank debt facilities.

(b) Capital Management Initiative

On 12 May 2009, SP AusNet announced its intention to raise up to A$415.0 million through an accelerated non-renounceable pro-rata entitlement offer ("Entitlement Offer"). In May 2009, SP AusNet successfully raised A$336.0 million from the institutional component of the Entitlement Offer and in June 2009, the retail component of the Entitlement Offer was successfully completed, raising approximately A$72.0 million. These amounts exclude the costs of raising these funds.

Funds will be used to repay existing debt facilities. These facilities will then be redrawn over time to fund capital expenditure programs as required. SP AusNet's debt facilities are available to the Company through the CFV.

(c) Other matters

There has been no matter or circumstance that has arisen since 31 March 2009 up to the date of issue of this financial report that has significantly affected or may significantly affect:

(a) the operations in financial years subsequent to 31 March 2009 of the Company; or

(b) the results of those operations; or

(c) the state of affairs, in financial years subsequent to 31 March 2009, of the Company.

Note 19 Reconciliation of profit/(loss) after income tax to net cash flows from operating activities

	2009	2008
	$M	$M
Profit/(loss) from ordinary activities after related income tax	**21.0**	(3.3)
Depreciation and amortisation of non-current assets	**30.0**	31.6
Net (gain)/loss on sale of non-current assets	**(0.3)**	0.1
Changes in operating assets and liabilities, net of the effects from acquisition of businesses:		
(Increase)/decrease in receivables	**(0.4)**	(1.8)
(Increase)/decrease in other assets	**-**	(0.2)
Increase/(decrease) in payables and other liabilities	**0.4**	(56.7)
Increase/(decrease) in provisions	**(2.1)**	(2.7)
Movement in tax balances	**9.0**	10.8
Net cash inflow/(outflow) from operating activities	**57.6**	(22.2)

Directors' declaration

In the Directors' opinion:

(a) the Company is not a reporting entity;

(b) the financial statements and notes set out on pages 8 to 30, are drawn up in accordance with the *Corporations Act* 2001, including:

  (i) complying with Australian Accounting Standards to the extent described in note 1 and the *Corporations Regulations* 2001; and

  (ii) giving a true and fair view of the financial position of the Company as at 31 March 2009 and of its performance, as represented by the results of its operations and its cash flows, for the financial year ended on that date in accordance with the basis of preparation described in note 1; and

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

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

N Ficca

Nino Ficca
Managing Director

Melbourne
13 July 2009

KPMG

Independent audit report to the members of SPI Networks (Gas) Pty Ltd

Report on the financial report

We have audited the accompanying financial report, being a special purpose financial report, of SPI Networks (Gas) Pty Ltd ("the Company"), which comprises the balance sheet as at 31 March 2009, and the income statement, statement of recognised income and expense and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration set out on pages 8 to 31.

Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation and fair presentation of the financial report and have determined that the accounting policies described in Note 1 to the financial statements, which form part of the financial report, are appropriate to meet the requirements of the *Corporations Act 2001* and are appropriate to meet the needs of the members. The directors' responsibility also includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. No opinion is expressed as to whether the accounting policies used, as described in Note 1, are appropriate to meet the needs of members. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

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

These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with the basis of accounting described in Note 1 to the financial statements so as to present a view which is consistent with our understanding of the Company's financial position, and of its performance.

The financial report has been prepared for distribution to members for the purpose of fulfilling the directors' financial reporting obligations under the *Corporations Act 2001*. We disclaim any assumption of responsibility for any reliance on this report or on the financial report to which it relates to any person other than the members, or for any purpose other than that for which it was prepared.

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

Independence

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

Auditor's opinion

In our opinion the financial report of SPI Networks (Gas) Pty Ltd is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Company's financial position as at 31 March 2009 and of its performance for the year ended on that date in accordance with the accounting policies described in Note 1; and

(b) complying with Australian Accounting Standards to the extent described in Note 1 and the *Corporations Regulations 2001.*

KPMG

KPMG

A Kitchen

Alison Kitchen
Partner

Melbourne
13 July 2009