National Gas Law
Annual Compliance Order

Jemena Gas Networks (NSW) Ltd
Annual Compliance Report for 2009–10

Statement of Compliance

I LIM HOWE RUN being a Director of Jemena Gas Networks (NSW) Ltd (**JGN**), provide this Statement of Compliance in respect of the attached Annual Compliance Report for the 12 month period ending 30 June 2010 (**Report**).

1. The Report is accurate and can be relied upon by the Australian Energy Regulator (**AER**):

   a) as a true and fair representation of JGN's operations and ownership of the Jemena Gas Network.
   b) in the performance or exercise of its functions or powers under the National Gas Law or the National Gas Rules.

2. To the extent that the Report relies on information and documentation that is prepared, kept, or maintained by JGN, that information and documentation is accurately represented.

3. The Report is not false or misleading.

4. The Report is provided in accordance with the Annual Compliance Order made by the AER and is complete.

Signed: ....

Director of Jemena Gas Networks (NSW) Ltd

Date: 15 OCT 2010

NATIONAL GAS LAW
ANNUAL COMPLIANCE ORDER

JEMENA GAS NETWORKS (NSW) LTD
ANNUAL COMPLIANCE REPORT FOR 2009–10

(Format reproduced from Attachment 1 to the Annual Compliance Order.)

Attachment 1 - Matters to be specifically addressed annually by service providers and related providers

Note: In addressing these matters, the information and documentation provided must only cover the relevant Compliance Period as defined in the Order.

1. General duties for the provision of pipeline services of covered pipeline services by a service provider

1.1 Legal entity

(a) Nominate the type of legal entity the service provider is according to the specified kinds of legal entity in section 131 of the NGL.

JGN response:

The service provider, Jemena Gas Networks (NSW) Ltd (**JGN**), is a legal entity registered under the *Corporations Act 2001* (Cth) (NGL s131(a)).

(b) What is the registered business name and ABN of the service provider legal entity providing the covered pipeline service?

JGN response:

JGN's registered business name is Jemena Gas Networks (NSW) Ltd, ABN 87 003 004 322.

(c) *Provide an outline of the group structure which is controlled by or which the service provider is a part (including identification of the head company, nature of investment or entity, relationship to the service provider and proportion of assets owned/share of investment within the group). This should include any assets (businesses) it owns or that own it. The group structure should include business that are beneficially controlled such as trustee companies, jointly owned or operated business such as partnerships or joint ventures, businesses that are significant investments or controlled. This can also be represented as an organisational chart.*

JGN response:

Attachment 1 contains an organisational chart which describes the corporate structure of which JGN is a part.

1.2 Preventing or hindering access

(a) Is the service provider aware of any claims that it has prevented or hindered access to services on the covered pipeline within the terms of section 133 of the NGL?

JGN response:

JGN is not aware of any claim that it has prevented or hindered access to services on the covered pipeline within the terms of section 133 of the NGL.

1.3 Supply and haulage of natural gas

(a) Does a producer supply natural gas through the covered pipeline at a place other than the exit flange of the producer's processing plant?

JGN response:

Not to JGN's knowledge. JGN cannot know if a network user is also a producer with the level of assurance required for this Report. (JGN notes that this question relates to section 134 of the NGL which does not impose any obligation on a service provider.)

1.4 Queuing requirements

(a) Has the service provider complied with the queuing requirements of the applicable access arrangement during the year?

JGN response:

Yes. There was no occasion during the reporting period when JGN received a request that required a queue to be formed.

1.5 Service provider providing light regulation services must not price discriminate

(a) Does the service provider provide light regulation services?

JGN response:

JGN does not provide any light regulation services.

(b) If so, are there any differences in the prices of the provision of those services? Please provide an explanation as to why these price differences exist.

JGN response:

Not applicable.

2. Structural and Operational Separation Requirements (Ring Fencing)

2.1 Carrying on of a related business

(a) Provide a list of associates of the service provider that take part in a related business and for each associate describe what the nature of the related business is.

JGN response:

None of JGN's associates takes part in a related business.

(b) Provide a list of associates that are service providers and/or provide pipeline services.

JGN response:

The following associates of JGN are service providers and/or provide pipeline services:

- Jemena Asset Management (6) Pty Ltd
- Jemena Colongra Pty Ltd
- Jemena Eastern Gas Pipeline (1) Pty Ltd
- Jemena Eastern Gas Pipeline (2) Pty Ltd
- Jemena Networks (ACT) Pty Ltd
- ActewAGL Distribution
- Jemena Queensland Gas Pipeline (1) Pty Ltd
- Jemena Queensland Gas Pipeline (2) Pty Ltd
- Jemena VicHub Pipeline Pty Ltd
- SPI Networks (Gas) Pty Ltd

2.2 Marketing staff and the taking part in related businesses

(a) Provide a list of associates of the service provider that are directly involved in the sale, marketing or advertising of pipeline services.

JGN response:

Interpreting this to require a list of associates of JGN that are directly involved in the sale, marketing or advertising of pipeline services where the pipeline services may be those of the associate, JGN or any other service provider, those associates are:

- Jemena Colongra Pty Ltd
- Jemena Eastern Gas Pipeline (1) Pty Ltd
- Jemena Eastern Gas Pipeline (2) Pty Ltd
- ActewAGL Distribution
- Jemena Queensland Gas Pipeline (1) Pty Ltd
- Jemena Queensland Gas Pipeline (2) Pty Ltd
- Jemena VicHub Pipeline Pty Ltd

– SPI Networks (Gas) Pty Ltd

(b) Provide a statement as to whether or not any of the service provider's marketing staff are also officers, employees, consultants, independent contractors or agents of an associate of the service provider that takes part in a related business.

JGN response:

None of JGN's associates takes part in a related business. Accordingly, none of JGN's marketing staff are also officers, employees, consultants, independent contractors or agents of an associate of the service provider that takes part in a related business.

(c) Provide a statement as to whether or not any of the service provider's officers, employees, consultants, independent contractors or agents are also marketing staff of an associate of the service provider that takes part in a related business.

JGN response:

None of JGN's associates takes part in a related business. Accordingly, none of JGN's officers, employees, consultants, independent contractors or agents are also marketing staff of an associate of the service provider that takes part in a related business.

2.3 Separate accounts must be prepared, maintained and kept

(a) Provide a statement as to whether or not the service provider has prepared, maintained and kept a separate set of accounts in respect of the services provided by every covered pipeline owned or operated by the service provider.

JGN response:

JGN operates four covered pipelines which are and have always been consolidated for access purposes. JGN's only and entire business is to own control and operate those pipelines. Consistent with the consolidation, JGN has prepared, maintained and kept a single set of accounts for its business.

(b) Name the legal entity or entities in which the separate accounts are reported, maintained or kept for the services provided by each covered pipeline owner or operator?

JGN response:

The accounts referred to in (a) above are in the name of JGN.

(c) Provide a statement as to whether or not the service provider has prepared, maintained and kept a consolidated set of accounts in respect of the whole of the business of the service provider.

JGN response:

JGN has prepared, maintained and kept a consolidated set of accounts being the set of accounts referred to in (a) above.

(d) Name the legal entity in which the consolidated set of accounts are reported, maintained or kept for the services provided by each covered pipeline owner or operator?

JGN response:

The accounts referred to in (c) above are in the name of JGN.

(e) Provide a copy of the most recently lodged annual financial reports with the Australian Securities and Investments Commission or if no such reports exists other similar audited financial reports prepared for or provided to a state or territory department, agency or body under relevant state or territory legislation. These financial reports may be the consolidated set of accounts in respect to the whole of the business of the service provider, and if also separately lodged with the Australian Securities and Investments Commission the most recently lodged annual separate set of accounts in respect of the services provided by the service provider.

JGN response:

A copy of JGN's special purpose financial report for the year ended 31 March 2010 is attached (Attachment 2). The report was submitted to the Australian Securities and Investments Commission in July 2010.

2.4 Additional ring fencing requirements or exemptions

(a) Does the service provider have any additional ring fencing requirements?

JGN response:

JGN has no additional ring fencing requirements.

(b) What are these requirements?

JGN response:

Not applicable.

(c) Provide a statement that these additional ring fencing requirements have or have not been met.

JGN response:

Not applicable.

(d) Does the service provider have any exemptions for the minimum ring fencing requirements?

JGN response:

JGN has no exemptions for the minimum ring fencing requirements.

(e) What are these exemptions?

JGN response:

Not applicable.

(f) By what jurisdictional regulator and when where these exemptions granted?

JGN response:

Not applicable.

2.5 Associate contracts

(a) Has the service provider entered into or given effect to any new associate contracts, or varied the terms and conditions of an existing associate contract?

JGN has not entered into or given effect to any new associate contracts or varied the terms and conditions of an existing associate contract during the reporting period.

(b) For each new or varied associate contract, please indicate the date the new or varied associate contract was entered into or given effect?

JGN response:

Not applicable.

(c) For each new or varied associate contract, please indicate if the contract or variation was approved by the AER and the date that it was approved?

JGN response:

Not applicable.

(d) If the associate contract was not approved by the AER, please indicate what date the new or varied associate contract was provided to the AER?

JGN response:

Not applicable.

Note: An ‘associate contract’ is defined under the NGL to include arrangements or understandings and is not limited to written contracts.

3. Other requirements

3.1 Making access arrangement or terms and conditions of access available

(i) Ensuring applicable access arrangement and other specified information is available on website

(a) Has the service provider published the approved access arrangement on its website?

JGN response:

Yes.

(b) Please provide the website address where this access arrangement can be accessed and the date that this access arrangement was provided on the website.

JGN response:

JGN's access arrangement is available on the Jemena website at:

http://www.jemena.com.au/operations/distribution/JGN/default.aspx

The then-current access arrangement was available on the website throughout the reporting period.

(c) Has the service provider received any requests from the AER to provide to prospective users generally other information specified as reasonably necessary to determine if access should be sought.

JGN response:

There have not been any relevant requests from the AER during the reporting period.

(d) Please provide details of when and how this request was met.

JGN response:

Not applicable.

(ii) Publishing approved competitive tender process access arrangement

(a) Where there is an approved competitive tender process access arrangement in place for a covered pipeline, has the service provider published the approved access arrangement on its website?

JGN response:

Not applicable.

(b) Please provide the website address where this access arrangement can be accessed and the date that this access arrangement was provided on the website.

JGN response:

Not applicable.

(iii) Publishing terms and conditions of access to light regulation services

(a) Where there is access to light regulation services on a covered pipeline, has the service provider published tariffs and other terms and conditions for these services on its website?

JGN response:

Not applicable.

(b) Please provide the website address where this information can be accessed and the date that this information was first made available on the website.

JGN response:

Not applicable.

(c) Has the service provider had access negotiations regarding light regulation services? If so, the following will need to be reported, the name of the party requesting the service, the pipeline service requested, and the outcome of the access negotiations.

JGN response:

Not applicable.

3.2 Access determinations

(a) Has the service provider been party to an access determination?

JGN response:

No.

(b) When did the access determination become operative?

JGN response:

Not applicable.

(c) For what period is the access determination in place?

JGN response:

Not applicable.

3.3 Confidentiality

(a) Provide a statement that the confidentiality requirements under rule 137 of the National Gas Rules have or have not been met.

JGN response:

With the exception of the incident reported separately in Attachment 3 to this report, there have been no instances where the requirements under rule 137 have not been met.

(b) Has the service provider established an internal protocol or policy guideline or procedure manual for the handling of confidential information?

If so please provide the AER with the relevant policy document

JGN response:

JGN does not maintain any documentation directed specifically at the handling of confidential information in accordance with the NGR.

SPI (Australia) Assets Pty Ltd has implemented a ring-fencing training program for all of its subsidiaries, including JGN, which emphasises the importance of ensuring that confidential information is handled properly and that any breaches or possible breaches are reported promptly. That training was completed by nearly 740 personnel (employees and contractors) during the reporting period. Ringfencing requirements, including provisions relating to confidential information, are also described in induction material provided to new employees.

Jemena maintains a compliance management system. The confidential information provisions of the NGL are included in the system which, among other things, delivers compliance questionnaires to responsible managers in the business on a periodic basis. This process serves to maintain awareness of the obligations and reinforces responsible managers' accountabilities for ensuring compliance.

3.4 Bundling

(a) Has the service provider bundled any of its services when providing access or negotiating access with a prospective user?

JGN response:

JGN offered and provided a number of gas transportation services and a Meter Data Service on a bundled basis during the reporting period in accordance with its then-current access arrangement as approved by IPART.

(b) If so, provide a description of the bundled services and related conditions of access.

JGN response:

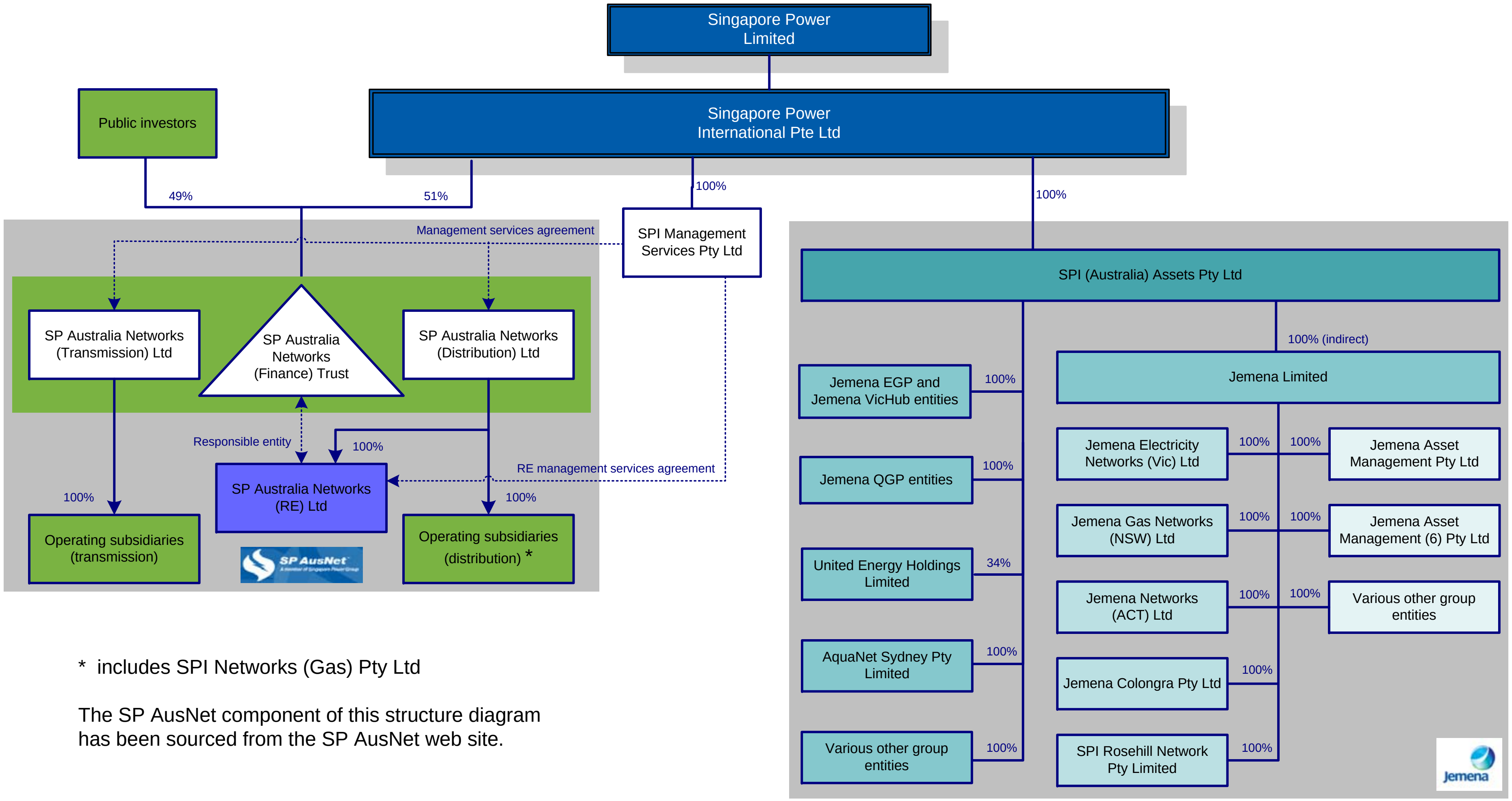
Section 2 of the JGN access arrangement that was current during the reporting period contained the following statement under the heading "Availability of Reference Services":

> "Meter Data Service – to any Delivery Point for which the User has a Local Network Reference Service. Jemena may cease to offer this service as a Reference Service if Meter Data Services become contestable;
>
> Trunk Reference Services – Reference Service corresponding to each of the Reference Services (other than a Meter Data Service) described in relation to the Local Network is offered from a Trunk Receipt Point to a Local Network Receipt Point. These Reference Services can be taken either as a forward haul or back haul from any Trunk Receipt Point to any Trunk Exit Zone. In the Wilton-Newcastle and Wilton-Wollongong Network Sections, every Local Network Reference Service (other than a Meter Data Service) must have a corresponding Trunk Reference Service. This requirement does not apply to Local Network Reference Services in the Wilton-Wollongong Network Section where Users are served by the Local Network Receipt Point established at Port Kembla with the Eastern Gas Pipeline;"

The provision of Meter Data Services was not contestable and so the Meter Data Service was offered as a Reference Service throughout the reporting period. Accordingly, the Meter Data Service was bundled with each Local Network Reference Service as provided in the terms and conditions of those Reference Services.

Related conditions of access were available in JGN's access arrangement.

ATTACHMENT 1
Question 1.1(c) – corporate structure of which JGN is a part



* includes SPI Networks (Gas) Pty Ltd

The SP AusNet component of this structure diagram has been sourced from the SP AusNet web site.

ATTACHMENT 2

Jemena Gas Networks (NSW) Ltd

ABN 87 003 004 322

Special purpose financial report for the year ended
31 March 2010

Jemena Gas Networks (NSW) Ltd

ABN 87 003 004 322

Special Purpose Financial Report for the year ended 31 March 2010

Contents

Directors' report

The Board of Directors of Jemena Gas Networks (NSW) Ltd, ("the Company") has pleasure in submitting its report, together with the financial report, in respect of the financial year ended 31 March 2010. Current period results are for the year ended 31 March 2010 and comparative information is for the year ended 31 March 2009.

Directors
The following persons were directors of the Company during the whole of the financial year and up to the date of this report (unless otherwise stated):

Mr Paul John Adams
Mr Lim Howe Run
Ms Lim Lay Hong

Principal activities
The principal activity of Jemena Gas Networks (NSW) Ltd is the reticulation of natural gas in New South Wales. Jemena Gas Networks (NSW) Ltd, a New South Wales gas distribution business was established in 1837 and owns approximately 24,000 kilometres of natural gas distribution system, delivering approximately 100 petajoules per annum ("PJ p.a") of natural gas to more than 1 million homes and businesses across New South Wales.

Dividends
No dividends were declared or paid by the Company during the year ended 31 March 2010.

Review of operations
Jemena Gas Networks (NSW) Ltd is incorporated and domiciled in Australia. Its registered office is at 321 Ferntree Gully Road, Mount Waverley Vic 3149.

The Company's profit after income tax for the year ended 31 March 2010 was $145.3 million (2009 : $113.4 million). The Company generated revenue of $381.6 million for year ended 31 March 2010 (2009: $372.7 million).

Significant changes in the state of affairs
There were no significant changes in the state of affairs.

Matters subsequent to the end of the financial year
On 3 June 2010, Tax Laws Amendment (2010 Measures No.1) Bill 2010 received Royal Assent. This Bill may impact the tax attributes of the Australian assets acquired by the SPI (Australia) Assets Pty Ltd ("SPIAA") Group in recent years. The impacts of the Bill are still being analysed.

The Australian Energy Regulator (AER) issued its final decision in relation to the Company's access arrangement on 11 June 2010. The final decision determines the revenue, operating expenditure, and capital expenditure profiles for the company for the period 1 July 2010 to 30 June 2015.

The final decision metrics were broadly in line with management expectations, and as such will not have a material impact on the financial position of the Company.

No other matter or circumstance has arisen since 31 March 2010 that has significantly affected, or may significantly affect:
(a) the Company's operations in future financial years, or
(b) the results of those operations in future financial years, or
(c) the Company's state of affairs in future financial years.

Likely developments and expected results of operations
Further information on likely developments in the operations of the company and the expected results of operations have not been included in this special purpose financial statements because the directors believe it would be likely to result in unreasonable prejudice to the Company.

Environmental regulation and performance
The operations of the Company are subject to environmental regulation under both Commonwealth and State legislation in relation to its gas distribution activities. The Directors are not aware of any significant breaches during the period covered by this report.

During the year ended 31 March 2010, the Company aims to control the impact of its activities on the environment and to the greatest extent possible, ensure that its operations are conducted in accordance with existing legislative requirements.

The Company has not incurred any liability (including any rectification costs) under any environmental legislation.

Insurance of directors and officers

The Directors and Officers of the Company are covered by the insurance policies of SPI (Australia) Assets Pty Ltd. The insurance cover insures Directors and Officers against liabilities and expenses arising as a result of their work, to the extent permitted by law. In accordance with normal commercial practices, under the terms of the insurance contracts, the nature of the liabilities insured against and the amount of premiums paid are confidential.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 3

Rounding of amounts

The Company is of a kind referred to in Class Order 98/100 dated 10 July 1998, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Auditor

The appointment of the Company's external auditor is 1) reviewed; and 2) reconfirmed, on an annual basis.

This report is made in accordance with a resolution of directors.

Mr Paul John Adams
Director

Date: 19/7/2010

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

To: the directors of Jemena Gas Networks (NSW) Ltd

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 31 March 2010 there have been:

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

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

KPMG

KPMG

Michael Bray
Partner

Melbourne

19 July 2010

	Notes	2010 $'000	2009 $'000
Revenue from continuing operations		**381,649**	372,669
Other income		**252**	627
Depreciation and amortisation expense		**(54,050)**	(49,349)
Asset management expenses		**(116,179)**	(113,242)
Other expenses		**(22,482)**	(29,341)
Profit before income tax		**189,190**	181,364
Income tax expense	4	**(43,917)**	(67,928)
Profit for the year		**145,273**	113,436
Attributable to:			
Owner of the Company		**145,273**	113,436
Profit for the year		**145,273**	113,436

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

	2010 $'000	2009 $'000
Profit for the year	**145,273**	113,436
Other comprehensive income for the year	**-**	-
Total comprehensive income for the year	**145,273**	113,436
Attributable to:		
Owner of the Company	**145,273**	113,436
Total comprehensive income for the period	**145,273**	113,436

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

	Notes	2010 $'000	2009 $'000
ASSETS			
Current assets			
Trade and other receivables	5	**418,247**	281,159
Total current assets		**418,247**	281,159
Non-current assets			
Property, plant and equipment	6	**2,948,348**	2,909,960
Intangible assets	7	**21,663**	18,807
Inventories		**798**	1,735
Total non-current assets		**2,970,809**	2,930,502
Total assets		**3,389,056**	3,211,661
LIABILITIES			
Current liabilities			
Trade and other payables		**9,625**	12,937
Provisions	8	**2,732**	5,120
Total current liabilities		**12,357**	18,057
Non-current liabilities			
Provisions	9	**-**	190
Deferred tax	10	**146,427**	108,415
Total non-current liabilities		**146,427**	108,605
Total liabilities		**158,784**	126,662
Net assets		**3,230,272**	3,084,999
EQUITY			
Issued capital	11	**111,308**	111,308
Reserve	12	**715,514**	715,514
Retained earnings		**2,403,450**	2,258,177
Total equity		**3,230,272**	3,084,999

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

	Issued capital $'000	Reserve $'000	Retained earnings $'000	Total equity $'000
Balance at 1 April 2008	**111,308**	**715,514**	**2,144,741**	**2,971,563**
Total comprehensive income for the year				
Profit for the year	-	-	113,436	113,436
Total comprehensive income for the year	-	-	113,436	113,436
Balance as at 31 March 2009	**111,308**	**715,514**	**2,258,177**	**3,084,999**

	Issued capital $'000	Reserves $'000	Retained earnings $'000	Total equity $'000
Balance as at 1 April 2009	**111,308**	**715,514**	**2,258,177**	**3,084,999**
Total comprehensive income for the year				
Profit for the year	-	-	145,273	145,273
Total comprehensive income for the year	-	-	145,273	145,273
Balance as at 31 March 2010	**111,308**	**715,514**	**2,403,450**	**3,230,272**

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

	Notes	2010 $'000	2009 $'000
Cash flows from operating activities			
Profit before income tax		**189,190**	181,364
Depreciation and amortisation		**54,050**	49,349
Loss on disposal of fixed assets		**2,405**	3,282
		245,645	233,995
Operating profit before changes in working capital and provisions			
Trade and other receivables		**(142,992)**	(137,144)
Trade and other payables		**(5,890)**	(2,121)
Inventories		**936**	(614)
Net cash inflow from operating activities		**97,699**	94,116
Cash flows from investing activities			
Payments for property, plant and equipment	6	**(93,346)**	(79,927)
Payments for intangibles		**(4,617)**	(14,959)
Proceeds from sale of property, plant and equipment		**264**	770
Net cash (outflow) from investing activities		**(97,699)**	(94,116)
Net increase/(decrease) in cash and cash equivalents		**-**	-
Cash and cash equivalents at the beginning of the year		**-**	-
Cash and cash equivalents at the end of the year		**-**	-

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

Contents of the notes to the financial statements

1 Basis of preparation

Jemena Gas Networks (NSW) Ltd ("the Company") is a company domiciled in Australia. This special purpose financial report for the Company is for the year ended 31 March 2010. The comparative information is for the year ended 31 March 2009.

Going concern basis of accounting

The financial report has been prepared on the going concern basis of accounting, which contemplates the continuity of normal business activity, realisation of assets and settlement of liabilities in the normal course of business.

At the balance sheet date, the total current assets exceeded total current liabilities by $405.9 million. Accordingly, the going concern basis of preparation is considered appropriate by the Directors.

(a) Financial reporting framework

In the opinion of the directors, the Company is not a reporting entity. Accordingly, the financial report has been drawn up as a "special purpose financial report" and has been prepared for distribution to members under the Corporation Act 2001. The directors have determined that the accounting policies adopted are appropriate to meet the needs of the members.

(b) Statement of compliance

This special purpose financial report has been prepared in accordance with the *Corporations Act 2001*, the recognition and measurement criteria specified by all Australian Accounting Standards and Interpretations, and the disclosure requirements of Australian Accounting Standards ("AASBs"), AASB 101 *Presentation of Financial Statements,* AASB 107 *Cash Flow Statements,* AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* and *AASB 1048 Interpretation and Application of Standards.*

(c) Basis of measurement

These financial statements have been prepared under the historical cost convention.

(d) Functional and presentation currency

The financial report is presented in Australian dollars, which is the Company's functional currency.

(e) Accounting policies

Significant accounting policies for this special purpose financial statements are presented in note 2.

(f) Use of estimates and judgements

The preparation of a financial report in conformity with AASBs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.

The estimates and associated assumptions are based on past experience and various other factors that are believed to be reasonable under the circumstances; the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. These accounting policies have been consistently applied by the Company.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The areas involving a higher degree of judgement, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

2 Summary of significant accounting policies

(a) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and duties and taxes paid.

Revenue is recognised for the major business activities as follows:

(i) Services revenue
Services revenue includes revenue earned from the sale of gas distribution and related services.

Sales and services revenue is recognised on delivery. Customers are billed for sales on a periodic and regular basis. However, as at each balance date, sales and receivables include an estimation of sales delivered to customers not yet billed ("unread sales"). This estimation is based on previous consumption patterns and meter reading dates.

From time to time the Company can receive revenue in advance of providing the services. This revenue is treated as unearned and is not recognised in the income statement but deferred to the balance sheet.

(ii) Interest income
Interest income is recognised as it accrues using the effective interest method.

(iii) Contribution from customers for capital works
Contribution received from customers to assist in the financing of assets construction are recognised as revenue when the service is performed.

(b) Finance and borrowing costs

Finance costs comprise of interest expense on borrowings calculated using the effective interest rate method and unwinding of the discount on provisions.

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed.

(c) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill and the initial recognition of assets or liabilities that affect neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using tax rates enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are not recognised to the extent that it is no longer probable that the related tax benefit will be realised. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the group intends to settle its tax assets and liabilities on a net basis.

Tax consolidation legislation
The Company is a wholly owned subsidiary, within the SPI (Australia) Assets Pty Ltd (SPIAA) tax consolidated group ("tax group"). The head entity of the tax group is SPIAA. The head entity recognises all of the current tax assets and liabilities of the tax consolidated group as if those transactions, events and balances are its own (using the group allocation method).

The tax consolidated group has entered into a tax funding agreement that requires the wholly owned Australian tax resident subsidiaries (including the Company) to make contributions to the head entity for current tax assets and liabilities arising from external transactions occuring after the implementation of tax consolidation.

2 Summary of significant accounting policies (continued)

Under the tax funding agreement, the contributions were calculated on a "group allocation method" so that the contributions were equivalent to the tax balances generated by external transactions entered into by the wholly owned Australian tax resident subsidiaries, adjusted for intragroup dividends. The contributions are payable as set out in the agreement and reflect the timing of the head entity's obligations to make payments for tax liabilities to the relevant tax authorities.

The members of the tax consolidated group have also entered into a tax sharing agreement under the tax consolidation legislation which sets 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.

(d) Impairment of assets

i) Financial assets
A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows associated with that asset.

When there is a decline in the recoverable amount of the Company's receivables, an impairment loss is recognised in the income statement.

The recoverable amount of the Company's receivables carried at amortised cost is calculated as the present value of estimated future cash flows discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

An impairment loss in respect of a receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

ii) Non financial assets
The carrying amounts of the Company's non financial assets, other than inventories (refer note 2(h)) and deferred tax assets (refer note 2(c)), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For goodwill, assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated each year.

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash generating units (group of units) and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. Impairment losses in respect of other assets are 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.

The recoverable amount of non-financial assets is the greater of their fair value less costs to sell and value-in-use. In assessing recoverable amount, 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 an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Where a group of assets working together supports the generation of cash inflows, the recoverable amount is assessed in relation to that group of assets which collectively comprise a cash generating unit.

(e) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and deposits at call. No bank account is maintained by the Company as a central bank is maintained by Jemena Limited, a related wholly owned group entity. Accordingly cash flows depicted in the cash flow statements and corresponding note are representative of movements in intercompany balances with wholly owned group entities.

2 Summary of significant accounting policies (continued)

(f) Trade and other receivables

Trade and other receivables are stated at amortised cost less impairment losses. Collectibility of trade debtors is reviewed on an ongoing basis. The carrying amount of trade receivables is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement within 'other expenses'. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against other expenses in the income statement.

(g) Property, plant and equipment

Items of property, plant and equipment are stated at historical cost less accumulated depreciation. Historical cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self constructed assets includes the cost of materials, direct labour, the initial estimate (where relevant) of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of direct production overheads. Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

The Company recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Company and the cost of the item can be measured reliably. All other costs are recognised in the income statement and expensed as incurred.

Depreciation is charged to the income statement on a straight line basis over the estimated useful life of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives in the current and comparative period are as follows:

Category	**Useful life (years)**
Gas distribution system comprises:	
-Mains	60 - 120
-Secondary gate stations	40 - 50
-Regulators	40 - 50
-Meters	25
-Telemetry and monitoring	25
Buildings	40 - 50
Leasehold improvements	6 - 10
Other plant and equipment	3 - 10

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. Costs consist of parts and consumables.

(i) Intangible assets

Software licences are recorded at cost and amortised on a straight-line basis over their remaining useful lives. The estimated useful life for software licences in the current and prior period is between 3 to 5 years.

(j) Trade and other payables

Trade and other payables represent liabilities for goods and services provided to the Company prior to the end of financial period which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are stated at amortised cost.

(k) Provisions

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

2 Summary of significant accounting policies (continued)

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.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

(l) Issued capital

Ordinary share capital is recorded at the fair value of consideration received. The costs of issuing securities are charged against the share capital. Ordinary share capital bears no special terms or conditions affecting income or capital entitlements of the shareholders.

(m) Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax ("GST"), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the Australian Tax Office ("ATO") is included as a current asset or liability in the balance sheet.

(n) Comparative figures

When required by Australian Accounting Standards, comparatives figures have been adjusted to conform to changes in presentation for the current financial period.

(o) New accounting standards and interpretations

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 31 March 2010, but have not been applied in preparing the financial report.

- AASB 2009-5 *Further amendments to Australian Accounting Standards arising from the Annual Improvements Process* affect various AASBs resulting in minor changes for presentation, disclosure, recognition and measurement purposes. The amendments, which become mandatory for the Company's 31 March 2011 financial statements, are not expected to have a significant impact on the financial statements.

3 Critical accounting estimates and judgements

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 in the recognised amounts of assets and liabilities are detailed below:

i) 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. 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 Company.

The tax expense assumes that the Company can carry forward income tax losses. If there is a change in the majority underlying ownership of the Company as a result of a reduction in Singapore Power Limited's ownership position, this assumption may cease to be applicable.

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.

3 Critical accounting estimates and judgements (continued)

The Company has taken positions in relation to the income tax and capital gains tax consequences of the acquisition by SPI (Australia) Assets Pty Ltd of the Alinta assets. This involves the exercise of judgements surrounding the calculation of tax bases for the Company assets and liabilities. Furthermore, the potential reversal of temporary differences also requires the use of estimates of future profitability, availability of taxable profits on both revenue and capital accounts and potential future changes in tax bases.

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 or on the fair value of the tax assets acquired.

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

ii) Recognition of deferred tax
The Company applies the criteria stated in Australian Accounting Standard AASB 112 Income Taxes ("AASB 112") with regards to the calculation and recognition of deferred tax assets. The application of the AASB 112 criteria involves the exercise of judgement surrounding the calculation of accounting and tax bases for the Company's assets and liabilities.

Furthermore, the potential reversal of temporary differences also requires the use of estimates of future profitability, availability of taxable profits/losses on both revenue and capital account and potential future changes in accounting and tax bases.

In particular, the expectation of the availability of future taxable profits against which deferred tax assets arising in respect of revenue losses is subject to estimation and judgement.

iii) 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 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.

4 Income tax expense

	2010 $'000	2009 $'000
Current tax expense	**(2,886)**	(674)
Deferred tax expense	**(50,240)**	(67,254)
Over provision in prior years	**9,209**	-
	(43,917)	(67,928)

5 Current assets - Trade and other receivables

	2010 $'000	2009 $'000
Trade receivables	**47,573**	50,862
Less: provision for doubtful debts	**(613)**	(1,385)
	46,960	49,477
Related party receivables	**371,142**	231,532
Prepayments	**145**	150
	418,247	281,159

6 Non-current assets - Property, plant and equipment

	Freehold land/buildings $'000	Plant and equipment $'000	Leasehold improvements $'000	Total $'000
Year ended 31 March 2009				
Opening net book amount - 1 April 2008	6,910	2,863,799	5,560	2,876,269
Additions	-	85,991	-	85,991
Disposals	-	(4,052)	-	(4,052)
Related party transfers	-	(36)	-	(36)
Depreciation charge	(87)	(47,581)	(544)	(48,212)
Closing net book amount - 31 March 2009	6,823	2,898,121	5,016	2,909,960
At 31 March 2009				
Cost	7,796	3,639,177	7,861	3,654,834
Accumulated depreciation	(973)	(741,056)	(2,845)	(744,874)
Net book amount	6,823	2,898,121	5,016	2,909,960

	Freehold land/buildings $'000	Plant and equipment $'000	Leasehold improvements $'000	Total $'000
Year ended 31 March 2010				
Opening net book amount - 1 April 2009	6,823	2,898,121	5,016	2,909,960
Additions	32	93,112	-	93,144
Disposals	-	(2,669)	-	(2,669)
Related party transfers	-	201	-	201
Depreciation charge	(86)	(51,658)	(544)	(52,288)
Closing net book amount - 31 March 2010	6,769	2,937,107	4,472	2,948,348
At 31 March 2010				
Cost	7,829	3,728,922	7,861	3,744,612
Accumulated depreciation	(1,060)	(791,815)	(3,389)	(796,264)
Net book amount	6,769	2,937,107	4,472	2,948,348

7 Non-current assets - Intangible assets

	Software licences $'000
Year ended 31 March 2009	
Opening net book amount - 1 April 2008	11,010
Additions	8,933
Amortisation charge	(1,136)
Closing net book amount - 31 March 2009	18,807
At 31 March 2009	
Cost	26,688
Accumulated amortisation	(7,881)
Net book amount	18,807

	Software licences $'000
Year ended 31 March 2010	
Opening net book amount - 1 April 2009	18,807
Additions	4,618
Amortisation charge	(1,762)
Closing net book amount - 31 March 2010	21,663
At 31 March 2010	
Cost	31,305
Accumulated amortisation	(9,642)
Net book amount	21,663

8 Current liabilities - Provisions

	2010 $'000	2009 $'000
Provision for claims	**2,732**	5,120
	2,732	5,120

The amounts represents the provision for unaccounted for gas (UAG), provision for rehabilitation at Bowral & Bathurst and other expenses.

9 Non-current liabilities - Provisions

	2010 $'000	2009 $'000
Other provisions	**-**	190
	-	190

Non current provision reclassified as current provision during the current financial year.

10 Non-current liabilities - Deferred Tax

	2010 $'000	2009 $'000
The balance comprises temporary differences attributable to:		
Provisions	**(877)**	(2,008)
Intangibles	**1,113**	372
Property, plant & equipment	**145,329**	110,051
Inherited deductions	**(1,008)**	-
Provision for uncertain deductions	**1,870**	-
	146,427	108,415

11 Issued capital

	2010 Shares	2009 Shares	**2010 $'000**	2009 $'000
(a) Share capital				
Ordinary shares				
Fully paid (1 share at $1)	**57,000,000**	57,000,000	**57,000**	57,000
(b) Other equity securities				
Deemed contribution on interest free intercompany loan balances			**54,308**	54,308
Total contributed equity - parent entity			**111,308**	111,308

12 Reserves and retained earnings

	2010 $'000	2009 $'000
Debt forgiveness reserves	**715,514**	715,514
	715,514	715,514

All pre-acquisition intercompany positions were taken to equity as at 31 March 2009. There were no debt forgiveness transactions during the year ended 31 March 2010.

13 Remuneration of auditors

Auditors remuneration have been paid by Jemena Limited, a related party, on behalf of the Company.

14 Commitments

	2010 $'000	2009 $'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	**18**	18
Later than one year but not later than five years	**73**	71
Later than five years	**236**	248
	327	337

The Company's capital commitments are managed by Jemena Asset Management Pty Ltd, a wholly owned subsidiary of the SPIAA Group.

15 Ultimate parent entity

Jemena Gas Networks (NSW) Limited is ultimately owned by Temasek Holdings (Private) Limited, a company incorporated in the Republic of Singapore.

16 Events occurring after the reporting period

The Australian Energy Regulator (AER) issued its final decision in relation to the Company's access arrangement on 11 June 2010. The final decision determines the revenue, operating expenditure, and capital expenditure profiles for the company for the period 1 July 2010 to 30 June 2015.

The final decision metrics were broadly in line with management expectations, and as such will not have a material impact on the financial position of the Company.

On 3 June 2010, Tax Laws Amendment (2010 Measures No.1) Bill 2010 received Royal Assent. This Bill may impact the tax attributes of the Australian assets acquired by the SPIAA Group in recent years. The impacts of the Bill are still being analysed.

With the exception of the matters outlined above, the Directors are not aware of any circumstances that have arisen since 31 March 2010 that have significantly affected or may significantly affect the operations, and results of those operations or the state of affairs, of the Group in financial years subsequent to 31 March 2010.

In the Directors' opinion:

(a) the Company is not a reporting entity;

(b) the financial statements and notes set out on pages 4 to 19 are in accordance with the *Corporations Act 2001*, including:

(i) complying with Accounting Standards and other mandatory professional reporting requirements as detailed above, and the *Corporations Regulations 2001*; and

(ii) giving a true and fair view of the company's and consolidated entity's financial position as at 31 March 2010 and of its performance for the financial year ended on that date, 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.

Mr Paul John Adams
Director

Date: 19/7/2010

Independent audit report to the members of Jemena Gas Networks (NSW) Ltd

We have audited the accompanying financial report, being a special purpose financial report, of Jemena Gas Networks (NSW) Ltd (the company), which comprises the statement of financial position as at 31 March 2010, and the income statement and statement of comprehensive income, statement of changes in equity and statement of cash flows 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 4 to 20.

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 2 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 2, 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 Jemena Gas Networks (NSW) 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 2010 and of its performance for the year ended on that date in accordance with the accounting policies described in Note 2;

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

KPMG

KPMG

Michael Bray
Partner

Melbourne

19 July 2010

ATTACHMENT 3
Question 3.3(a) – exception to assurance

In responding to question 3.3(a), JGN refers to an exception to the assurance given in that response. Details of the exception are as follows:

1. In its Annual Compliance Report for the year ending 30 June 2009, JGN described an arrangement under which Jemena Asset Management Pty Ltd (**JAM**) provided water meter readings to {c-i-c} in respect of units in developments owned and managed by {c-i-c} (the **Arrangement**). Water meter readings are used by JGN as a basis for allocating the total metered quantity of gas used for water heating in each development to individual units. That is, water meter readings are an indirect measure of gas consumption.

2. The National Third Party Access Code for Natural Gas Pipeline Systems (Code) was in force at the time the Arrangement was entered into. Provision of information under the Arrangement did not affect materially the commercial interest of a User or Prospective User and so it was permissible for JAM to disclose the information without the consent of the User(s) or Prospective User(s) to whom the information pertained (see Code section 4.1(g)).

3. The National Gas Rules (**NGR**) came into effect on 1 July 2008, replacing the Code. Rule 137 of the NGR provides that a scheme pipeline service provider must not disclose relevant confidential information without the consent of the person to whom the information relates and must take all practicable steps to protect relevant confidential information in its possession from disclosure, regardless of whether or not disclosure of that information might affect materially the commercial interest of a User or Prospective User.

4. As reported in last year's Annual Compliance Report, the Arrangement continued in force during the early part of the current reporting period. The last data that JGN provided to {c-i-c} under the Arrangement was in respect of the period ending 13 July 2009.

5. JGN subsequently established an interim arrangement with {c-i-c} pending negotiation of a comprehensive new agreement. Under that interim arrangement, JGN resumed and has continued to provide water meter readings to {c-i-c} but only in respect of those units where the occupant has given consent under NGR rule 138 in a form that is satisfactory to JGN.

6. Negotiations on the new agreement were ongoing as at 30 June 2010 and have still not been finalised.