TransGrid

Half Yearly Report

For the period 1 July 2012 to 31 December 2012

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1. TRANSGRID OBJECTIVES

TransGrid's vision is "Excellence in all we do". TransGrid's mission is "To provide safe, reliable and efficient transmission services to NSW, the ACT and the National Electricity Market".

TransGrid has operated to meet the following principal objectives of an energy transmission operator in accordance with the Energy Services Corporations Act, 1995:

(a) To be a successful business and, to this end:
   (i) to operate at least as efficiently as any comparable businesses;
   (ii) to maximise the net worth of the State's investment in it;
   (iii) to exhibit a sense of social responsibility by having regard to the interests of the community in which it operates,

(b) To protect the environment by conducting its operations in compliance with the principles of ecologically sustainable development contained in section 6(2) of the Protection of the Environment Administration Act 1991,

(c) To exhibit a sense of responsibility towards regional development and decentralisation in the way in which it operates,

(d) To operate efficient, safe and reliable facilities for the transmission of electricity and other forms of energy,

(e) To promote effective access to those transmission facilities.

2. PERFORMANCE HIGHLIGHTS

Financial Performance

TransGrid achieved a profit before tax of $178 million for the half year to 31 December 2012 and the results are disclosed in fuller details in the 2012/13 half yearly financial statements shown in Appendix A. This profit outcome represents a $37 million increase on the comparative result for the half year to 31 December 2011. Financial performance to date is also tracking positively to the targets set in the 2012/13 Statement of Corporate Intent (SCI) and TransGrid expects to deliver on these targets.

The 2012/13 Half Yearly Financial Statements also reported a $28 million superannuation actuarial gain from a change in the valuation of the Energy Industries Superannuation Scheme defined benefit plan. The superannuation actuarial gain reflected an increase in investment returns on the defined benefit plan assets and a higher discount rate resulting in a decrease in the present value of the defined benefit obligations. The actuarial gain constituted an equity movement and did not impact on the profit outcome.

Capital Program

Capital expenditure for the half year to 31 December 2012 was $272 million compared to a target of $234 million. The expenditure variance was due primarily to site work activities progressing positively ahead of budgeted timeframes and earlier than expected commencement of customer connection works. The variance will not have a significant impact on the overall capital program.

Major projects currently underway in TransGrid's high voltage network capital program include:

- The Western Sydney Supply project comprising the construction of new substations at Holroyd and Rookwood Road and underground 330kV cables, and the augmentation of the Sydney West to Holroyd 330kV transmission line.
- Construction of a 132kV transmission line between Tomago and Stroud.
- Construction of a 330kV cable between Beaconsfield and Haymarket.
- Construction of a 132kV substation at Wallerawang.

Additionally, TransGrid is continuing its asset replacement program for substation equipment and transmission lines that have reached the end of their service lives to ensure the high performance of the network is maintained.

Transmission system reliability and availability

TransGrid has maintained its strong reliability and availability performance with transmission system reliability exceeding 99.997% for the first half of the 2012/13 financial year. Supply interruptions for the half year amounted to 0.46 system minutes lost. This was largely due to a circuit breaker failure at Sydney West substation which impacted the supply to Endeavour Energy in the Eastern Creek area. Supply to Eastern Creek was completely restored after 5 hours and 28 minutes.

TransGrid's service performance in each calendar year is monitored by the Australian Energy Regulator (AER) under a service target performance incentive scheme. Under this scheme, the financial incentive linked to the transmission network reliability and plant availability outcomes can increase or reduce revenue by up to 1% each year. TransGrid is also provided with the opportunity to earn up to 2% additional revenue each year if the impact of transmission equipment outages on wholesale market prices is minimised.

For the calendar year to December 2012, TransGrid has performed well in the reliability and market impact measures compared to the AER performance targets. A positive overall result of $9 million will be submitted to the AER for their review and approval with a decision expected to be made by the AER in April 2013.

Health and Safety

The health and safety of TransGrid's employees, contractors and members of the public is the organisation's first priority, with a target of zero lost time injuries.

During the first half of the 2012/13 year, there were two lost time injuries involving TransGrid employees and one lost time injury involving a contractor. TransGrid is committed to a number of health and safety initiatives that are aimed at improving overall safety performance and promoting a positive health and safety culture.

Customer Connections

Customer connection activity associated with the connection of generators (wind farms) and loads (mainly large mines) has remained reasonably strong with a number of new enquiries received. However, a number of external factors are gradually impacting on the level of connection activity including reduced load growth forecasts and economic conditions.

While customers continue to progress the early stages of the connection process, the factors identified above are delaying the financial commitment and project approvals required to commence physical construction of these projects. In some instances these influencing factors have deferred or stopped projects.

TransGrid continues to work closely with its customers to improve and simplify the connection process. Construction is currently underway to connect the Gullen Range Wind Farm located near Goulburn to TransGrid's high voltage network under a connection agreement with Goldwind. The wind farm will consist of 73 wind turbines with an overall generation capacity of 165.5MW and is scheduled to be energised in late 2013.

3. OTHER

During the period, TransGrid has not entered into any form of Energy Price Risk Management transactions.

Statement of Comprehensive Income

Statement of Financial Position

Statement of Changes in Equity

Statement of Cash Flows

Abridged Notes to the Financial Statements

Statement of Comprehensive Income

For the six months ended 31st December 2012

	Note	Dec-12	Dec-11
		$'000	$'000
Income	1	438,725	407,170
Expenses excluding Finance Costs	2	(194,335)	(190,458)
Finance Costs		(66,267)	(75,249)
Profit/(Loss) Before Income Tax Expense		**178,123**	**141,463**
Income Tax Expense		(53,817)	(46,122)
Profit/(Loss) For The Period		**124,306**	**95,341**
Other Comprehensive Income			
Asset Revaluation Surplus: Net increase/(decrease) in revaluations		(53)	(7,112)
Cash Flow Hedge Reserve: Net increase/(decrease)		3,893	397
Superannuation Actuarial Gains/(Losses)	3	28,049	(137,712)
Income Tax relating to components of Other Comprehensive Income		(9,567)	43,329
Other Comprehensive Income For The Period, Net of Tax		**22,322**	**(101,098)**
Total Comprehensive Income For The Period		**146,628**	**(5,757)**

The accompanying notes form an integral part of these financial statements.

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Statement of Financial Position
As at 31st December 2012

	Note	Dec-12	Jun-12
		$'000	$'000
Current Assets			
Cash and cash equivalents		2,668	1,572
Trade and other receivables		105,458	123,051
Inventories		28,979	28,047
Derivatives		74	-
Other		6,038	4,325
Total Current Assets		**143,217**	**156,995**
Non-Current Assets			
Deferred tax assets		133,909	140,828
Property, plant and equipment		5,629,992	5,503,900
Intangibles		602,918	580,595
Other		7,320	7,320
Total Non-Current Assets		**6,374,139**	**6,232,643**
Total Assets		**6,517,356**	**6,389,638**
Current Liabilities			
Borrowings		387,707	148,210
Trade and other payables		121,579	139,755
Current tax liabilities		29,425	26,166
Provisions		79,927	224,174
Derivatives		84	3,903
Other		38,437	37,445
Total Current Liabilities		**657,159**	**579,653**
Non-Current Liabilities			
Borrowings		2,039,819	2,115,255
Deferred tax liabilities		963,718	949,122
Provisions		349,197	385,315
Total Non-Current Liabilities		**3,352,734**	**3,449,692**
Total Liabilities		**4,009,893**	**4,029,345**
Net Assets		**2,507,463**	**2,360,293**
Equity			
Capital		651,967	651,967
Reserves		1,709,751	1,708,326
Retained Earnings		145,745	-
Total Equity		**2,507,463**	**2,360,293**

The accompanying notes form an integral part of these financial statements.

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Statement of Changes in Equity
For the six months ended 31st December 2012

	Capital $'000	Retained Earnings $'000	Cash Flow Hedge Reserve $'000	Asset Revaluation Surplus $'000	Total $'000
Balance at 1 July 2011	**651,967**	**89,745**	**(2,826)**	**1,720,386**	**2,459,272**
Comprehensive Income For The Year:					
Profit/(loss) for the year	-	124,306	-	-	124,306
Other comprehensive income for the year before related tax effects	-	28,049	3,893	(53)	31,889
Income tax relating to components of other comprehensive income	-				-
Total Comprehensive Income For The Year	-	152,355	3,893	(53)	156,195
Owner Related Equity Transactions:					
Transfers from Asset Revaluation Surplus	-		-	-	-
Income tax relating to Transfers from Asset Revaluation Surplus	-	-	-		-
Total Owner Related Equity Transactions	-	-	-	-	-
Balance at 31 December 2011	**651,967**	**242,100**	**1,067**	**1,720,333**	**2,615,467**
Balance at 1 July 2012	**651,967**	**-**	**(2,714)**	**1,711,040**	**2,360,293**
Comprehensive Income For The Year:					
Profit/(loss) for the year	-	124,306	-	-	124,306
Other comprehensive income for the year before related tax effects	-	28,049	3,893	(53)	31,889
Income tax relating to components of other comprehensive income	-	(8,415)	(1,168)	16	(9,567)
Total Comprehensive Income For The Year	-	143,940	2,725	(37)	146,628
Owner Related Equity Transactions:					
Transfers from Asset Revaluation Surplus	-	1,805	-	(1,805)	-
Income tax relating to Transfers from Asset Revaluation Surplus	-	-	-	542	542
Total Owner Related Equity Transactions	-	1,805	-	(1,263)	542
Balance at 31 December 2012	**651,967**	**145,745**	**11**	**1,709,740**	**2,507,463**

The accompanying notes form an integral part of these financial statements.

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Statement of Cash Flows

For the six months ended 31st December 2012

	Dec-12	Dec-11
	$'000	$'000
Cash Flows from Operating Activities		
Cash Receipts from Customers	507,355	469,819
Cash Paid to Suppliers and Employees	(137,146)	(106,991)
Finance Costs Paid	(86,325)	(87,045)
Interest Received	123	192
Income Tax Paid	(38,067)	(23,214)
Net Cash Inflows / (Outflows) from Operating Activities	245,940	252,761
Cash Flows from Investing Activities		
Purchase of Property, Plant and Equipment, and Intangibles	(260,548)	(170,858)
Proceeds from the Sale of Property, Plant and Equipment	3,116	2,885
Net Cash Inflows / (Outflows) from Investing Activities	(257,432)	(167,973)
Cash Flows from Financing Activities		
Proceeds from Borrowings	159,450	236,049
Repayments of Borrowings	-	(185,999)
Dividends Paid	(146,862)	(133,947)
Net Cash Inflows / (Outflows) from Financing Activities	12,588	(83,897)
Net Increase / (Decrease) in Cash and cash equivalents	1,096	891
Cash and cash equivalents at the Beginning of the Period	1,572	1,297
Cash and cash equivalents at the End of the Period	**2,668**	**2,188**

The accompanying notes form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
For the Six Months Ended 31st December 2012

Basis of Preparation

The financial statements are a special purpose financial report for the interim reporting period ended 31 December 2012.

The financial statements have been prepared in accordance with the accounting policies disclosed in the 2011/12 Annual Report and should be read in conjunction with the Annual Report.

Property, plant and equipment, and derivative financial instruments are measured at fair value. Other financial statement items are prepared in accordance with the historical cost convention, except as otherwise stated in the financial statements.

Where necessary, comparative information has been reclassified to conform to the current interim reporting period's presentation.

All amounts are rounded to the nearest thousand dollars ($'000) and are expressed in Australian currency.

1. Income

	Dec-12 $'000	Dec-11 $'000
Revenue		
Prescribed	428,035	398,878
Non-prescribed Work	10,344	7,714
Interest	123	192
Sundry	223	386
Total Revenue	**438,725**	**407,170**

2. Expenses excluding Finance Costs

	Dec-12 $'000	Dec-11 $'000
Expenses excluding Finance Costs		
Prescribed excluding Depreciation and Amortisation Expense	69,625	74,335
Non-prescribed excluding Depreciation and Amortisation Expense	4,185	2,841
Depreciation and Amortisation Expense	119,851	112,810
Other	674	472
Total Expenses excluding Finance Costs	**194,335**	**190,458**

3. Energy Industries Superannuation Scheme (EISS) Defined Benefit Funds

Movements in EISS Superannuation Liability recognised in Other Comprehensive Income

The EISS defined benefit fund net actuarial gains of $28.0 million are recognised in the line item, Superannuation Actuarial Gains/(Losses), in the Statement of Comprehensive Income. The defined benefit actuarial gains reflect the change in actuarial assumptions in the fair value of the fund assets and the defined benefit obligations at the end of the reporting period.

The net actuarial gains recognised in respect of the period 1 July 2012 to 31 December 2012 has been estimated by the scheme's actuary, Mercer (Australia) Pty Ltd and is mainly attributable to:

- the actual investment return being higher than the expected investment return on the fund assets; and
- an increase in the discount rate associated with the present value of the defined benefit obligations.

The net liability recognised in the Statement of Financial Position as at 31 December 2012 was $331.2 million.