TransGrid

Half Yearly Report

For the period 1 July 2013 to 31 December 2013

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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 $170 million for the half year to 31 December 2013 and the results are disclosed in fuller detail in the 2013/14 Half Yearly Financial Statements shown in Appendix A. The profit outcome represents a decrease from the comparative result for the half year to 31 December 2012. The decrease in profit is primarily due to the transmission network revenue freeze that was applied for the 2013/14 financial year and changes in the accounting standard for defined benefit superannuation expense. Financial performance to date is tracking positively to the targets set in the 2013/14 Statement of Corporate Intent (SCI) and TransGrid expects to deliver on these targets.

The 2013/14 Half Yearly Financial Statements also reported a $66 million superannuation actuarial gain from a change in the valuation of the Energy Industries Superannuation Scheme defined benefit plans. 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

Major projects in TransGrid's high voltage network capital program for the 2013/14 financial year 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.
- Installation of 330kV reactors at Yass and Murray substations.
- Construction of a 132kV substation at Wallerawang.

Capital expenditure for the first half of the year to 31 December 2013 was $348 million compared to a target of $424 million. The expenditure variance was due primarily to contractor delays and outage constraints on the Western Sydney Supply project, access and wet weather delays on the Tomago to Stroud 132kV transmission line project and finalisation of property payments. Commissioning of the Tomago to Stroud project commenced in January 2014 and completion of the Wallerawang 132kV substation is scheduled for February 2014. The construction works for the Western Sydney Supply project are predominantly complete with key components of the project being progressively energised between February and March 2014.

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 99.999% for the first half of the 2013/14 financial year. Supply interruptions for the reporting period amounted to 0.58 system minutes lost. This was largely due to a busbar outage at TransGrid's Tamworth substation in September 2013 and the loss of load to a single large industrial customer at Parkes from an equipment failure in December 2013.

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 2013, TransGrid has performed well in the reliability and market impact measures compared to the AER performance targets. A positive overall result in the order of $9 million has been submitted to the AER for their approval with a decision expected in April 2014.

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.

For the first half of the year to 31 December 2013, there were five lost time injuries relating to contractors and one employee lost time injury. These incidents have been investigated and remedial actions implemented, with one lost time contractor injury being categorised as a high consequence incident.

TransGrid has specific health and safety targets and initiatives in its Corporate Plan that are aimed at improving overall safety performance and promoting a positive health and safety culture. The initiatives include a focus on health and safety in the engagement of contractors and an increased level of training for project and construction managers.

Customer Connections

TransGrid's connection works for the Gullen Range Wind Farm, located near Goulburn, were successfully completed ahead of schedule in October 2013. The wind farm, owned by Goldwind Australia Pty Ltd, will comprise 73 wind turbines with an overall generation capacity of 165.5MW when complete. Two new connection agreements were also successfully executed during the first half of the 2013/14 year. These agreements involve connection works for Idemitsu Australia Pty Ltd's extension to Boggabri Coal Mine and connection for AGL's Broken Hill Solar Plant. Construction at Boggabri is underway and planning activities for the Broken Hill project is progressing with construction expected to commence in August 2014.

Customer connection activity associated with the connection of generators, particularly solar farms, remained strong throughout the first half of the 2013/14 year. However, no new load enquiries were received. A number of external factors including uncertainty regarding the Renewable Energy Target (RET) and difficulty in obtaining Power Purchase Agreements (PPAs) are adversely impacting the volume of new enquiries received, as well as existing customers progressing their projects to completion.

TransGrid continues to work closely with its customers to improve and simplify the services being offered with delivery of more innovative and cost effective solutions. This includes provision of integrated solutions that combine negotiated and contestable components of the connection works. Initial feedback from customers regarding this initiative has been positive, with two connections progressing in this manner.

3. OTHER

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

Statement of Profit or Loss and Other Comprehensive Income

Statement of Financial Position

Statement of Changes in Equity

Statement of Cash Flows

Abridged Notes to the Financial Statements

Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 31st December 2013

	Note	Dec-13	Dec-12
		$'000	$'000
Income	1	440,674	438,725
Expenses excluding Finance Costs	2	(204,306)	(194,335)
Finance Costs		(66,706)	(66,267)
Profit/(Loss) Before Income Tax Expense		**169,662**	**178,123**
Income Tax Expense		(52,528)	(53,817)
Profit/(Loss) For The Period		**117,134**	**124,306**
Other Comprehensive Income:			
Items that will not be reclassified to profit or loss:			
Asset Revaluation Surplus: Net increase/(decrease) in revaluations		-	(53)
Superannuation Actuarial Gains/(Losses)	3	66,539	28,049
Income tax relating to items not reclassified		(19,962)	(8,399)
Total items that will not be reclassified to profit or loss		**46,577**	**19,597**
Items that may be reclassified subsequently to profit or loss:			
Cash Flow Hedge Reserve: Net increase/(decrease)		(841)	3,893
Income tax relating to items that may be reclassified		252	(1,168)
Total items that may be reclassified subsequently to profit or loss		**(589)**	**2,725**
Other Comprehensive Income For The Period, Net of Tax		**45,988**	**22,322**
Total Comprehensive Income For The Period		**163,122**	**146,628**

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

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Statement of Financial Position
As at 31st December 2013

	Dec-13	Jun-13
	$'000	$'000
Current Assets		
Cash and cash equivalents	2,557	1,101
Trade and other receivables	104,794	126,484
Inventories	31,575	31,048
Derivatives	492	1,331
Other	4,931	4,670
Total Current Assets	**144,349**	**164,634**
Non-Current Assets		
Deferred tax assets	93,690	115,103
Property, plant and equipment	5,558,311	5,330,054
Intangibles	607,139	612,110
Other	7,502	7,502
Total Non-Current Assets	**6,266,642**	**6,064,769**
Total Assets	**6,410,991**	**6,229,403**
Current Liabilities		
Borrowings	283,643	296,286
Trade and other payables	134,970	158,106
Current tax liabilities	36,146	32,430
Provisions	70,317	259,800
Derivatives	2	-
Other	26,364	33,590
Total Current Liabilities	**551,442**	**780,212**
Non-Current Liabilities		
Borrowings	2,454,756	2,139,563
Deferred tax liabilities	842,453	849,078
Provisions	222,690	287,062
Total Non-Current Liabilities	**3,519,899**	**3,275,703**
Total Liabilities	**4,071,341**	**4,055,915**
Net Assets	**2,339,650**	**2,173,488**
Equity		
Capital	651,967	651,967
Reserves	1,394,385	1,402,067
Retained Earnings	293,298	119,454
Total Equity	**2,339,650**	**2,173,488**

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 2013

	Capital $'000	Retained Earnings $'000	Cash Flow Hedge Reserve $'000	Asset Revaluation Surplus $'000	Total $'000
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
Transfers In Reserves:					
Transfers from Asset Revaluation Surplus	-	1,805	-	(1,805)	-
Income tax relating to Transfers from Asset Revaluation Surplus	-	-	-	542	542
Total Transfers In Reserves	-	1,805	-	(1,263)	542
Owner Related Equity Transactions:					
Dividend	-	-	-	-	-
Total Owner Related Equity Transactions	-	-	-	-	-
Balance at 31 December 2012	**651,967**	**145,745**	**11**	**1,709,740**	**2,507,463**
Balance at 1 July 2013	**651,967**	**119,454**	**951**	**1,401,116**	**2,173,488**
Comprehensive Income For The Year:					
Profit/(loss) for the year	-	117,134	-	-	117,134
Other comprehensive income for the year before related tax effects	-	66,539	(841)	-	65,698
Income tax relating to components of other comprehensive income	-	(19,962)	252	-	(19,710)
Total Comprehensive Income For The Year	-	163,711	(589)	-	163,122
Transfers In Reserves:					
Transfers from Asset Revaluation Surplus	-	10,133	-	(10,133)	-
Income tax relating to Transfers from Asset Revaluation Surplus	-	-	-	3,040	3,040
Total Transfers In Reserves	-	10,133	-	(7,093)	3,040
Owner Related Equity Transactions:					
Dividend	-	-	-	-	-
Total Owner Related Equity Transactions	-	-	-	-	-
Balance at 31 December 2013	**651,967**	**293,298**	**362**	**1,394,023**	**2,339,650**

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 2013

	Dec-13	Dec-12
	$'000	$'000
Cash Flows from Operating Activities		
Cash Receipts from Customers (inclusive of GST)	515,103	507,355
Cash Paid to Suppliers and Employees (inclusive of GST)	(143,553)	(137,146)
Finance Costs Paid	(76,186)	(74,102)
Interest Received	86	123
Income Tax Paid	(50,694)	(38,067)
Net Cash Inflows / (Outflows) from Operating Activities	244,756	258,163
Cash Flows from Investing Activities		
Purchase of Property, Plant and Equipment, and Intangibles	(366,633)	(272,771)
Proceeds from the Sale of Property, Plant and Equipment	10,384	3,116
Net Cash Inflows / (Outflows) from Investing Activities	(356,249)	(269,655)
Cash Flows from Financing Activities		
Proceeds from Borrowings	457,647	159,450
Repayments of Borrowings	(159,860)	-
Dividends Paid	(184,838)	(146,862)
Net Cash Inflows / (Outflows) from Financing Activities	112,949	12,588
Net Increase / (Decrease) in Cash and cash equivalents	1,456	1,096
Cash and cash equivalents at the Beginning of the Period	1,101	1,572
Cash and cash equivalents at the End of the Period	**2,557**	**2,668**

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

NOTES TO THE FINANCIAL STATEMENTS

For the Six Months Ended 31st December 2013

Basis of Preparation

The financial statements are a special purpose financial report for the interim reporting period ended 31 December 2013.

Accounting Standard AASB 119: Employee Benefits has recently been amended with effect from the 2013/14 financial year, and has been applied in the preparation of the financial statements. The amendments impact on the accounting treatment associated with TransGrid's defined benefit superannuation plans. With the exception of these amendments, the financial statements have been prepared in accordance with the accounting policies disclosed in the 2012/13 Annual Report and should be read in conjunction with the Annual Report.

Property, plant and equipment, provisions 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 dollars.

1. Income

	Dec-13 $'000	Dec-12 $'000
Revenue		
Prescribed Services	426,021	428,035
Non-prescribed Services	14,432	10,344
Interest	96	123
Sundry	125	223
Total Revenue	**440,674**	**438,725**

2. Expenses excluding Finance Costs

	Dec-13 $'000	Dec-12 $'000
Expenses excluding Finance Costs		
Prescribed Services excluding Depreciation and Amortisation Expense	84,437	69,625
Non-prescribed Services excluding Depreciation and Amortisation Expense	5,092	4,185
Depreciation and Amortisation Expense	114,380	119,851
Other	397	674
Total Expenses excluding Finance Costs	**204,306**	**194,335**

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

Movements in EISS Superannuation Liability recognised in Other Comprehensive Income

A net EISS defined benefit plan actuarial gain of $66.5 million is recognised in the line item, Superannuation Actuarial Gains/(Losses), in the Statement of Profit or Loss and Other Comprehensive Income. The defined benefit actuarial gain reflects the change in actuarial assumptions in the fair value of the plan assets and the defined benefit obligations at the end of the reporting period.

The net actuarial gain recognised in respect of the period 1 July 2013 to 31 December 2013 has been estimated by the scheme's actuary, Mercer Consulting (Australia) Pty Ltd and is mainly attributable to:

- the actual investment return being higher than the expected investment return on the plan 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 2013 was $200.6 million.

The amendments under Accounting Standard AASB 119: Employee Benefits resulted in an increase in the defined benefit superannuation expense recognised in profit/(loss) for the period and a decrease in the superannuation actuarial gains/(losses) recognised directly in equity. There was no impact to the net liability position in the Statement of Financial Position.