

Financial Report

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INCOME STATEMENT

For the year ended 30th June 2006

	Note	2006 \$'000	2005 \$'000
Income from Ongoing Activities	3	478,478	451,180
Superannuation Income / (Expense)	5(a)	57,148	(24,534)
Expenses from Ongoing Activities excluding Finance Costs	4	(260,875)	(245,132)
Finance Costs	4	(99,492)	(104,091)
Profit/(Loss) Before Income Tax Equivalent Expense		175,259	77,423
Income Tax Equivalent Expense	6(a)(i)	(50,571)	(25,020)
Profit/(Loss) After Income Tax Equivalent Expense		124,688	52,403

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

BALANCE SHEET

As at 30th June 2006

	Note	2006 \$'000	2005 \$'000
Current Assets			
Cash and cash equivalents	7	24,905	33,317
Receivables	8	45,944	53,027
Inventories	9	26,195	23,552
Derivatives	10	458	–
Other current assets	11	110	2,413
		97,612	112,309
Non-current assets held for sale	12	3,172	3,917
Total Current Assets		100,784	116,226
Non-Current Assets			
Available-for-sale financial assets	13	183	–
Other financial assets	14	–	50
Deferred tax assets	6(b)	25,477	41,986
Property, plant and equipment	15	3,145,130	3,081,174
Intangibles	16	478,421	457,630
Total Non-Current Assets		3,649,211	3,580,840
Total Assets		3,749,995	3,697,066
Current Liabilities			
Trade and other payables	18	68,649	61,802
Borrowings	22	158,486	196,602
Provisions	19	130,631	96,965
Current tax payable		6,649	6,766
Derivatives	20	1	–
Other current liabilities	21	52,189	113,520
Total Current Liabilities		416,605	475,655
Non-Current Liabilities			
Borrowings	22	1,296,814	1,323,062
Deferred tax liabilities	6(b)	410,536	371,712
Provisions	19	5,555	4,657
Total Non-Current Liabilities		1,712,905	1,699,431
Total Liabilities		2,129,510	2,175,086
Net Assets		1,620,485	1,521,980
Capital & Retained Earnings			
Capital	23	651,967	651,967
Reserves	24	891,371	849,936
Retained Profits/(Accumulated Losses)	25	77,147	20,077
		1,620,485	1,521,980

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

CASH FLOW STATEMENT

For the year ended 30th June 2006

	Note	2006 \$'000	2005 \$'000
Cash Flows from Operating Activities			
Cash Receipts from Customers		524,066	506,219
Cash Paid to Suppliers and Employees		(166,987)	(174,453)
Finance Costs Paid		(102,131)	(106,234)
Interest Received		1,346	1,374
Income Tax Paid		(13,920)	(3,842)
Net Cash Flows from Operating Activities	35(e)	242,374	223,064
Cash Flows from Investing Activities			
Purchase of Property, Plant and Equipment		(156,659)	(135,781)
Proceeds from the Sale of Property, Plant and Equipment		5,206	5,852
Net Cash Flows from Investing Activities		(151,453)	(129,929)
Cash Flows from Financing Activities			
Proceeds from Borrowings		152,000	190,500
Repayments of Borrowings		(213,333)	(191,500)
Dividends Paid	19(a)	(38,000)	(70,000)
Net Cash Flows from Financing Activities		(99,333)	(71,000)
Net Increase / (Decrease) in Cash and cash equivalents		(8,412)	22,135
Cash and cash equivalents at Beginning of the Financial Year		33,317	11,182
Cash and cash equivalents at the End of the Financial Year	35(a)	24,905	33,317

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

STATEMENT OF CHANGES IN EQUITY

For the year ended 30th June 2006

	Note	2006 \$'000	2005 \$'000
Asset Revaluation Reserve: Net increase/(decrease) in revaluations	24	61,293	312,407
Net Unrealised Gains/(Losses) Reserve: Net gains/(losses) taken to equity on Available-for-sale financial assets	24	(228)	–
Cash Flow Hedge Reserve: Net unrealised gains/(losses) taken to equity	24	2,368	–
Income tax on items taken directly to equity	6(a)(ii)	(19,030)	(95,079)
Net income recognised directly in equity		44,403	217,328
Profit for the year		124,688	52,403
Total recognised income and expense for the year attributable to members of TransGrid		169,091	269,731
Effect of change in accounting policy arising from adoption of AASB 139 "Financial Instruments: Recognition and Measurement"	37(b)	(1,086)	–

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30th June 2006

1. CORPORATE INFORMATION

The financial report of TransGrid for the year ended 30 June 2006 was authorised for issue in accordance with a resolution of the directors on 18 September 2006.

TransGrid is a Statutory State Owned Corporation under the State Owned Corporations Act, 1989 and was corporatised under the Energy Services Corporations Amendment (TransGrid Corporatisation) Act, 1998.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The financial statements are a general-purpose financial report, and have been prepared in accordance with Australian Accounting Standards and Urgent Issues Group Interpretations.

The financial statements have been prepared to comply with the requirements of the Public Finance and Audit Act, 1983; the Public Finance and Audit Regulation, 2005; the State Owned Corporations Act, 1989; and relevant Treasury Circulars.

Property, plant and equipment, assets classified as held for sale, derivative financial instruments and available-for-sale financial assets are measured at fair value. Other financial statement items are prepared in accordance with the historical cost convention.

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

(b) Statement of Compliance

The financial report complies with Australian Accounting Standards, which include the Australian equivalents to International Financial Reporting Standards (AIFRS). The financial report also complies with the International Financial Reporting Standards.

This is the first financial report prepared based on AIFRS and comparatives for the year ended 30 June 2005 have been restated accordingly, unless otherwise permitted.

In accordance with AASB 1 "First-time Adoption of Australian equivalents to International Financial Reporting Standards" and Treasury Mandates, the date of transition to AASB 132 "Financial Instruments: Disclosure and Presentation" and AASB 139 "Financial Instruments: Recognition and Measurement" was deferred to 1 July 2005. As a result, comparative information for these two Standards is presented under the previous Australian Accounting Standards which applied to the year ended 30 June 2005. Under previous Accounting Standards, financial instruments were recognised at cost, with the exception of TCorp Hour-Glass Facilities, which were measured at fair value.

Reconciliations of AIFRS equity and surplus for 30 June 2005 to the balances reported in the 30 June 2005 financial report are detailed in Note 37. This note also includes separate disclosure of the 1 July 2005 equity adjustments arising from the adoption of AASB 132 and AASB 139.

(c) New Australian Accounting Standards issued

In accordance with Treasury Mandate, TransGrid has early adopted AASB 2005-4 "Amendments to Australian Accounting Standards: AASB 139 Financial Instruments: Recognition and Measurement" on the designation of financial instruments at "fair value through profit and loss" upon initial recognition.

There is no change to TransGrid's accounting policies and therefore no consequential impact on TransGrid's financial report arising from the following:

- Accounting Standard that has been early adopted from 1 July 2005;

- Accounting Standards and Urgent Issues Group Interpretations available for early adoption from 1 July 2005 but have not been early adopted;

- Accounting Standards and Urgent Issues Group Interpretations that have been recently issued or amended but are not yet effective.

(d) Changes in Accounting Policies

First-time adoption of AASB 132 and AASB 139 on 1 July 2005 is treated as a change in accounting policy for the year, with the impact on equity disclosed in the Statement of Changes in Equity.

(e) Property, plant and equipment

(i) Acquisition of Assets

The cost method of accounting is used for the initial recording of all acquisitions of assets controlled by TransGrid. Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire the asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Australian Accounting Standards.

Assets acquired at no cost, or for nominal consideration, are initially recognised at their fair value at the date of acquisition.

(ii) Revaluations

Property, plant and equipment are valued in accordance with NSW Treasury's Policy TPP 05-3 "Valuation of Physical Non-Current Assets at Fair Value".

Fair value of property, plant and equipment is determined based on the best available market evidence, including current market selling prices for the same or similar assets. Where there is no available market evidence, the asset's fair value is measured at its market buying price, the best indicator of which is depreciated replacement cost.

TransGrid revalues depreciable property, plant and equipment by reference to current prices for assets newer than those being revalued, and adjusts those amounts to reflect the present condition of the asset. The accumulated depreciation for the revalued asset is restated proportionately with the change in the gross carrying amount of the asset, so that the carrying amount of the asset after revaluation equals its revalued amount, in line with Treasury Policy.

Any revaluation surplus is credited to the asset revaluation reserve included in the equity section of the Balance Sheet, unless it reverses a revaluation decrease of the same asset previously recognised in the Income Statement.

Any revaluation deficit is recognised in the Income Statement unless it directly offsets a previous surplus of the same asset in the asset revaluation reserve.

Upon disposal, any revaluation reserve relating to the particular asset or parts of asset being sold is transferred to retained earnings.

Property, plant and equipment comprise the following types of assets:

Regulated Assets

Regulated Assets comprise property, plant and equipment used by TransGrid to provide electricity transmission services that are regulated by the Australian Energy Regulator (AER). Regulated assets as disclosed in Notes 15(a) and (b) are:

- Network Asset
- Other Assets

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30th June 2006

Network Asset is a complex infrastructure asset that works together as an integrated whole to provide regulated electricity transmission services. It comprises the following major parts:

- Land
- Buildings
- System Plant and Equipment
- Communication Equipment

TransGrid's valuation policy provides for a full and detailed valuation of these assets to be undertaken at five-year intervals, in conjunction with NSW Treasury Policy and in association with the transmission network revenue setting process. In the intervening years, a revaluation based on price index movements is undertaken.

A detailed valuation of land was undertaken as at 30 June 2005 by independent valuers. Detailed valuations of system plant and equipment, buildings and communication equipment associated with optical fibres were undertaken by TransGrid staff as at 30 June 2004.

Non-regulated Assets

Non-regulated Assets comprise property, plant and equipment used by TransGrid to provide services other than regulated electricity transmission services. Non-regulated assets as disclosed in Notes 15(a) and (b) are:

- Substation Assets
- Communication Equipment
- Other Assets

Valuation of non-regulated assets is based on relevant commercial agreements, which define their earning capacity.

(iii) Capitalisation

Capital expenditure is defined as expenditure in relation to:

- acquisition of a new unit of plant;
- installation of a new unit of plant;
- work performed on a unit of plant, where the need for the work existed at the time the unit was acquired and the work was carried out prior to it being put into operation;
- replacement of a unit of plant, or of a substantial part of a unit of plant;
- an addition or alteration to a unit of plant, which results in a significant improvement to its overall design.

Expenditure is not capitalised below a minimum threshold of \$1,000.

(iv) Depreciation

Property, plant and equipment excluding land are depreciated over their estimated useful lives. The straight-line method is used. Assets are depreciated from the month of acquisition or in respect of constructed assets, from the time the asset reaches practical completion and is ready for use. Asset lives are reviewed annually in accordance with AASB 116 "Property, Plant and Equipment", and where required, adjustments have been made to the remaining useful lives of separately identifiable parts of assets having regard to factors such as asset usage and the rate of technical and commercial obsolescence.

The useful lives presently assigned to TransGrid's assets are shown in the table below.

(f) Intangible assets

Intangible assets comprise the following assets as disclosed in Notes 16(a) and (b):

- Easements
- Computer software
- Airspace rights

Intangible assets are measured at cost.

Easements are a component of TransGrid's infrastructure assets that provide electricity transmission services that are regulated by the Australian Energy Regulator (AER). Easements are not amortised.

Computer software is amortised over a period of 5 years using the straight-line method. The useful life for software is reviewed annually, and adjustments, where applicable, are made on a prospective basis.

Airspace rights have been recognised when the cost of the asset can be measured reliably and it is probable that the asset will generate expected future economic benefits for TransGrid. Airspace rights are not amortised.

Capital expenditure on intangible assets is defined as expenditure in relation to:

- acquisition of computer software or easements;
- installation of computer software;
- an addition or alteration to computer software, which results in a significant improvement to its overall design.

Expenditure is not capitalised below a minimum threshold of \$1,000.

Regulated Assets	Network Asset	Buildings	30 years
		System Plant and Equipment	40-50 years
		Communication Equipment	10-35 years
	Other Assets		2-10 years
Non-regulated Assets	Substation Assets		20-40 years
	Communication Equipment		35 years
	Other Assets		2-10 years

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30th June 2006

(g) Impairment

TransGrid's business as a whole represents a cash-generating unit. At each reporting date, TransGrid's specialised plant and infrastructure assets, land and buildings, and easements are tested for impairment as part of the cash-generating unit. If there is any indication that the cash-generating unit may be impaired, TransGrid makes an estimate of the recoverable amount of the unit.

As TransGrid's revenue from electricity transmission services is determined by the AER, the risks of impairment for the business as a whole during the regulatory period are considered to be extremely low.

The recoverable amount of the cash-generating unit is based on the value in use for the business as a whole. In assessing value in use, the estimated future cash flows for the business are discounted to their present value using a pre-tax discount rate that reflects the risks specific to the business and relevant market assessments of the time value of money as applied by the AER in determining TransGrid's revenue cap.

If the carrying amounts of the assets exceed the recoverable amount of the business, the assets comprising the business as a whole are considered to be impaired. The assets are written down proportionately to ensure their carrying amounts reflect the recoverable amount.

(h) Investments

Investments are recognised at the fair value of the consideration given, including any acquisition charges associated with the investment, less any impairment.

Gains or losses on available-for-sale investments are recognised as a separate component of equity until the investment is disposed of or determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the Income Statement.

TransGrid's available-for-sale investment is traded on the Australian Stock Exchange. The fair value of this investment is determined by reference to the Stock Exchange quoted market bid price at the close of business on the balance sheet date.

TransGrid does not actively engage in external investment activities.

(i) Non-current assets held for sale

TransGrid has non-current assets classified as held for sale, where their carrying amount will be recovered principally through a sale transaction, not through continuing use. Non-current assets held for sale are recognised at the lower of carrying amount and fair value less costs to sell. These assets are not depreciated while they are classified as held for sale.

(j) Inventories

Inventories of Stores and Materials are valued at the average cost of items in store automatically adjusted at time of delivery of new items, separately determined for each location.

(k) Cash and cash equivalents

Cash and cash equivalents in the Balance Sheet and for purposes of the Cash Flow Statement comprise cash at bank and deposits at call with financial institutions.

(l) Borrowings

All borrowings are measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Finance costs include interest and costs incurred in connection with the arrangement of borrowings. Discount/Premium on loans is in the nature of a cost/cost reduction of borrowing. Discount/Premiums are amortised over the term of the loans. The amount applicable to

each year is included in the Income Statement as part of TransGrid's borrowing costs for the year.

Interest on borrowings is recognised as an expense in the period in which it is incurred unless it relates to qualifying assets. Qualifying assets are assets which take more than 12 months to get ready for their intended use. Where funds are borrowed generally, interest on the borrowings is capitalised to qualifying assets in accordance with AASB 123 "Borrowing Costs".

The amount of interest attributed to qualifying assets during the year was \$2,606,000 (2005 – \$2,373,000) at a weighted average rate of 6.75% (2005 – 6.74%).

(m) Dividends

Provision is made for the amount of dividend payable in relation to the current financial year, in accordance with the dividend recognition policy set out in Treasury Circular NSW TC 05/11 "Accounting for Dividends". Accordingly, a dividend in relation to the financial year is taken to be determined before reporting date, consistent with the requirements of AASB 137 "Provisions, Contingent Liabilities and Contingent Assets".

(n) Employee Benefits

A calculation in accordance with AASB 119 "Employee Benefits" is made each year in respect of TransGrid's liability at reporting date for employees' entitlements to long service leave and annual leave, and an annual contribution is made to adjust the provision to an amount which is considered adequate to meet that liability.

(i) Annual Leave

The provision for employee entitlements to annual leave represents the amount which TransGrid has a present obligation to pay resulting from employees' services provided up to reporting date.

The provision has been calculated at nominal amounts based on the remuneration rates that are expected to be paid when the leave is taken.

(ii) Long Service Leave

The liability for employee entitlements to long service leave has been calculated on the basis of current salary rates to be paid by TransGrid resulting from employees' services provided up to reporting date and includes related on-costs, in accordance with the guidelines of Treasury Circular NSW TC 06/09 "AASB 119 'Employee Benefits' other than Superannuation".

(o) Superannuation

TransGrid has four defined benefit schemes and one accumulation scheme.

The Defined Benefits Schemes include:

- Energy Industries Superannuation Scheme Pool B (EISS)
- State Authorities Superannuation Scheme (SASS)
- State Authorities Non-Contributory Superannuation Scheme (SANCS)
- State Superannuation Scheme (SSS)

With the Defined Benefits Schemes, a component of the final benefit is derived from a multiple of member salary and years of membership. All the Defined Benefits Schemes are closed to new members.

Contributions to employee superannuation plans are charged as an expense as the contributions are paid or become payable.

The Superannuation Schemes advise the level of liability in respect of TransGrid's superannuation commitments to its employees who are members of the various divisions of the schemes. The calculation of the superannuation position is based upon actuarial

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30th June 2006

reviews independent of TransGrid's ongoing activities and involvement. The main drivers of the actuarial calculations are the level of investment return, salary inflation and CPI increases. Details of these assumptions are presented below:

Actuarial Assumptions	EISS Pool B	SASS, SANCS & SSS
Investment Return		
2004/2005	7.3%	7.3%
2005/2006	7.6%	7.6%
Salary Inflation		
2004/2005	4.0%	4.0%
2005/2006	4.0%	4.0%
Increase in CPI		
2004/2005	2.5%	2.5%
2005/2006	2.5%	2.5%
Discount rate at 30 June 2005	4.9%	5.2%
Discount rate at 30 June 2006	5.5%	5.9%

TransGrid recognises the net total of the following as an asset or a liability in its Balance Sheet:

- Present value of the defined benefit obligation at reporting date
- Fair value of plan assets at reporting date

The difference between the opening and closing balances of the net defined benefit asset or liability for the year is brought to account as revenue or expense in TransGrid's Income Statement, depending on the direction of movement in the superannuation reserve.

(p) Insurance

TransGrid maintains a mix of external insurance policies and internal provisioning in accordance with AASB 137 "Provisions, Contingent Liabilities and Contingent Assets". The treatment of risks and associated liabilities are determined in conjunction with independent insurance advisers and loss adjusters.

TransGrid is a self-insurer for Workers' Compensation. The liability for claims made, or to be made, against the Insurance Provision is determined by reference to the Workers' Compensation Act, 1987 and the WorkCover Authority's guidelines to self-insurers. The amount recognised as a provision for workers' compensation at reporting date is based on best estimate of the expenditure required to settle the present obligation at that date, as determined by the judgement of management, supplemented by independent actuary assessment. Management adopts a conservative position in the determination of the adequacy of the provision, consistent with generally accepted level of organisational risk aversion.

(q) Receivables

Receivables from debtors are recognised at amounts due less a provision for doubtful debts. The ability to collect debts is reviewed on an ongoing basis. A provision for doubtful debts is raised when some doubt as to collection exists. Debts which are known to be uncollectible are written off.

Trade debtors are normally settled within 20 working days from date of issue of invoice. The payment terms for other debtors are generally within 30 working days.

(r) Payables

Accounts payable, including accruals not yet billed, are recognised when TransGrid has an obligation to pay as a result of the completion of a work or service. Trade accounts are usually settled within 60 days.

(s) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to TransGrid and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and can be measured reliably. Risks and rewards are considered passed to the buyer at the time of delivery of the goods to the customer.

(ii) Rendering of services

Revenue from electricity transmission services is subject to the application of an AER-determined revenue cap for the financial year. The revenue caps are determined by the AER at five-year intervals. The transmission service prices are set at the beginning of the financial year to achieve the revenue cap applicable for that year.

Revenue from the rendering of other services is recognised when the service is provided or by reference to the stage of completion. Where the contract outcome cannot be measured reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

(iii) Interest

Interest revenue is recognised as it is earned, using the effective interest method as set out in AASB 139 "Financial Instruments: Recognition and Measurement".

(t) Income Tax

TransGrid is subject to the National Tax Equivalent Regime (NTER) administered by the Australian Taxation Office. The NTER is based on application of federal income tax laws under which TransGrid pays income tax equivalents to NSW Treasury.

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences, except where the deferred income tax liability arises from the initial recognition of an asset or liability and at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised, except:

- where the deferred income tax asset arises from the initial recognition of an asset or liability, and at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rate that is expected to apply to the year when the asset is realised or the liability is settled, based on tax rate (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the Income Statement.

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(u) Goods and Services Tax

Revenues, 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 Australian Taxation Office (ATO). In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item 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 ATO is included as a current asset or current liability in the Balance Sheet.

Cash flows are included in the Cash Flow Statement on a gross basis. The GST component of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(v) Derivative Financial Instruments

TransGrid uses derivative financial instruments such as forward foreign currency contracts to hedge its risks associated with foreign currency fluctuations.

For the purposes of hedge accounting, TransGrid classifies its hedges as cash flow hedges. The hedges are undertaken to address exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction.

In relation to cash flow hedges to hedge firm commitments which meet the specific conditions for hedge accounting, the portion of the

gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity and the ineffective portion is recognised in the Income Statement.

When the hedged firm commitment results in the recognition of an asset or liability, then, at the time the asset or liability is recognised, the associated gains or losses that had previously been recognised in equity are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability.

(w) Segment Reporting

TransGrid operates in one industry being the transmission of electricity in New South Wales. As such, TransGrid has only one business segment as well as one geographical segment in accordance with AASB 114 "Segment Reporting", and this is reported in the financial statements.

(x) Income / (Expenses) from Ongoing Activities

Income / (Expenses) from Ongoing Activities represent TransGrid's financial performance on its day to day business operations, the activities of which TransGrid is able to exercise some degree of control over the outcomes.

(y) Superannuation Income / (Expense)

Superannuation Income / (Expense) represents the movement during the year in the superannuation position for the defined benefit superannuation schemes, as determined by actuarial reviews.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30th June 2006

3. INCOME

	2006	2005
	\$'000	\$'000
Revenue from Ongoing Activities		
Transmission of Electricity	459,485	435,257
Non-regulated Work	15,562	12,408
Conveyancing Inquiries	1,678	1,612
Interest	1,353	1,372
Sundry	400	531
Total Revenue	478,478	451,180

4. EXPENSES

	2006	2005
	\$'000	\$'000
Expenses from Ongoing Activities excluding Losses & Finance Costs		
Transmission of Electricity	246,748	235,736
Other Services	10,579	9,113
Total Expenses from Ongoing Activities excluding Losses & Finance Costs	257,327	244,849
Net Loss on Disposal of Property, Plant and Equipment	3,342	283
Net Loss on Cash Flow Hedges	206	–
Total Expenses from Ongoing Activities excluding Finance Costs	260,875	245,132
Finance Costs	99,492	104,091
Total Expenses from Ongoing Activities	360,367	349,223

Total Expenses above include:

	2006	2005
	\$'000	\$'000
Depreciation of Property, Plant and Equipment (refer to Note 15(b))	124,036	116,560
Amortisation of Intangibles (refer to Note 16(b))	3,045	2,593
Bad Debts/Doubtful Debts	–	8
Inventory Expense	2,449	3,083
Employee Benefits Expense	82,391	81,999
Maintenance Expenses:		
Employee-related maintenance expenses	25,065	27,996
Other maintenance expenses	36,827	35,378
	61,892	63,374

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30th June 2006

5. SUPERANNUATION DEFINED BENEFIT PLANS

The following tables summarise the components of movement in employer's superannuation reserve recognised in the Income Statement, and the funded status and amounts recognised in the Balance Sheet for the respective defined benefit superannuation plans.

(a) Movement in Employer's Superannuation Reserve during the year

2006	Asset/(Liability) at 1 July 2005 \$'000	Net Movement Revenue/(Expense) \$'000	Asset/(Liability) at 30 June 2006 \$'000
Name of Plan			
Energy Industries Superannuation Scheme (EISS) Pool B	(75,732)	57,130	(18,602)
State Authorities Superannuation Scheme (SASS)	102	15	117
State Authorities Non-Contributory Superannuation Scheme (SANCS)	(13)	3	(10)
State Superannuation Scheme (SSS)	3	–	3
	92	18	110
Superannuation Income / (Expense)		57,148	

Name of Plan	Net Gains/ (Expenses) \$'000	Contributions \$'000	Net Movement Revenue/(Expense) \$'000
Energy Industries Superannuation Scheme (EISS) Pool B	49,666	7,464	57,130
State Authorities Superannuation Scheme (SASS)	(3)	19	16
State Authorities Non-Contributory Superannuation Scheme (SANCS)	(1)	4	3
State Superannuation Scheme (SSS)	(1)	–	(1)
	(5)	23	18
	49,661	7,487	57,148

2005	Asset/(Liability) at 1 July 2004 \$'000	Net Movement Revenue/(Expense) \$'000	Asset/(Liability) at 30 June 2005 \$'000
Name of Plan			
Energy Industries Superannuation Scheme (EISS) Pool B	(51,211)	(24,521)	(75,732)
State Authorities Superannuation Scheme (SASS)	(85)	187	102
State Authorities Non-Contributory Superannuation Scheme (SANCS)	(57)	44	(13)
State Superannuation Scheme (SSS)	247	(244)	3
	105	(13)	92
Superannuation Income/(Expense)		(24,534)	

Name of Plan	Net Gains/ (Expenses) \$'000	Contributions \$'000	Net Movement Revenue/(Expense) \$'000
Energy Industries Superannuation Scheme (EISS) Pool B	(32,615)	8,094	(24,521)
State Authorities Superannuation Scheme (SASS)	163	24	187
State Authorities Non-Contributory Superannuation Scheme (SANCS)	39	5	44
State Superannuation Scheme (SSS)	(244)	–	(244)
	(42)	29	(13)
	(32,657)	8,123	(24,534)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30th June 2006

(b) Movements in Superannuation Reserve recognised in Income Statement

2006	EISS \$'000	SASS \$'000	SANCS \$'000	SSS \$'000	Total \$'000
Current service cost	(1,972)	(29)	(5)	–	(2,006)
Interest cost on benefit obligation	(21,600)	(38)	(4)	–	(21,642)
Expected return on plan assets	25,235	58	5	–	25,298
Net actuarial gains/(losses) recognised in the year	48,003	59	3	–	48,065
Change in surplus in excess of recovery available from scheme	–	(53)	–	(1)	(54)
Past service cost	–	–	–	–	–
Net gains/(expense)	49,666	(3)	(1)	(1)	49,661

2005	EISS \$'000	SASS \$'000	SANCS \$'000	SSS \$'000	Total \$'000
Current service cost	(12,386)	(24)	(4)	–	(12,414)
Interest cost on benefit obligation	(20,312)	(33)	(4)	–	(20,349)
Expected return on plan assets	21,775	32	1	18	21,826
Net actuarial gains/(losses) recognised in the year	(21,692)	188	46	(262)	(21,720)
Past service cost	–	–	–	–	–
Net gains/(expense)	(32,615)	163	39	(244)	(32,657)

(c) Actual return on plan assets

2006	EISS \$'000	SASS \$'000	SANCS \$'000	SSS \$'000
Actual return on plan assets	58,315	121	11	1

2005	EISS \$'000	SASS \$'000	SANCS \$'000	SSS \$'000
Actual return on plan assets	38,443	77	6	8

(d) Superannuation Surplus/(Deficit)

2006	Fair Value of Plan Assets at End of Year \$'000	Present Value of Defined Benefit Obligations at End of Year \$'000	Surplus in excess of recovery available from scheme \$'000	Net Asset/(Liability) Recognised in Balance Sheet at End of Year \$'000
Name of Plan				
Energy Industries Superannuation Scheme (EISS) Pool B	387,066	(405,668)	–	(18,602)
State Authorities Superannuation Scheme (SASS)	465	(295)	(53)	117
State Authorities Non-Contributory Superannuation Scheme (SANCS)	26	(36)	–	(10)
State Superannuation Scheme (SSS)	4	–	(1)	3
	495	(331)	(54)	110

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30th June 2006

2005	Fair Value of Plan Assets at End of Year	Present Value of Defined Benefit Obligations at End of Year	Surplus in excess of recovery available from scheme	Net Asset/(Liability) Recognised in Balance Sheet at End of Year
Name of Plan	\$'000	\$'000	\$'000	\$'000
Energy Industries Superannuation Scheme (EISS) Pool B	335,671	(411,403)	–	(75,732)
State Authorities Superannuation Scheme (SASS)	753	(651)	–	102
State Authorities Non-Contributory Superannuation Scheme (SANCS)	68	(81)	–	(13)
State Superannuation Scheme (SSS)	3	–	–	3
	824	(732)	–	92

(e) Funding Arrangements for Employer Contributions

The following is a summary of the 30 June 2006 and 30 June 2005 financial position of the defined benefit superannuation schemes calculated in accordance with AAS 25 "Financial Reporting by Superannuation Plans".

30 June 2006	Net Market Value of Scheme Assets	Accrued Benefits	Net Surplus/ (Deficit)
Name of Plan	\$'000	\$'000	\$'000
Energy Industries Superannuation Scheme (EISS) Pool B	387,067	(331,764)	55,303
State Authorities Superannuation Scheme (SASS)	465	(286)	179
State Authorities Non-Contributory Superannuation Scheme (SANCS)	26	(34)	(8)
State Superannuation Scheme (SSS)	4	–	4
	495	(320)	175

30 June 2005	Net Market Value of Scheme Assets	Accrued Benefits	Net Surplus/ (Deficit)
Name of Plan	\$'000	\$'000	\$'000
Energy Industries Superannuation Scheme (EISS) Pool B	335,671	(301,112)	34,559
State Authorities Superannuation Scheme (SASS)	753	(566)	187
State Authorities Non-Contributory Superannuation Scheme (SANCS)	68	(67)	1
State Superannuation Scheme (SSS)	3	–	3
	824	(633)	191

Recommended contribution rates for the Defined Benefit Schemes are:

	EISS Division B	EISS Division C	EISS Division D	SASS	SANCS	SSS
	Multiple of member contributions	% Member salary	Multiple of member contributions	Multiple of member contributions	% Member salary	Multiple of member contributions
Recommended Contribution Rate	1.90	2.50	1.64	1.90	2.50	–

The method used to determine the employer contribution recommendations at the last actuarial review was the *Aggregate Funding* method. The method adopted affects the timing of the cost to the employer.

Under the *Aggregate Funding* method, the employer contribution rate is determined so that sufficient assets will be available to meet benefit payments to existing members, taking into account the current value of assets and future contributions.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30th June 2006

6. INCOME TAX

(a) Income Tax Equivalent Expense

Major components of income tax expense for the years ended 30 June 2006 and 2005 are:

(i) Income Statement

	2006	2005
	\$'000	\$'000
Current Income Tax Equivalent		
Current income tax charge	13,971	11,294
Adjustments in respect of current income tax of previous years	–	(14)
Deferred Income Tax		
Relating to origination and reversal of temporary differences	36,600	13,740
	50,571	25,020

(ii) Statement of Changes in Equity

	2006	2005
	\$'000	\$'000
Deferred Income Tax		
Net gain on revaluation of property, plant and equipment	19,251	95,079
Write back asset revaluation reserve for recognition of airspace right as intangible asset	(863)	–
Net gain/(loss) on available-for-sale financial assets	(68)	–
Net gain/(loss) on cash flow hedges	710	–
	19,030	95,079
Income tax on items taken directly to equity during the year		
Adjustments to opening equity reserves: Change in accounting policy from adoption of AASB 139 "Financial Instruments: Recognition and Measurement"	(465)	–
	18,565	95,079

(iii) Reconciliation of income tax expense on pre-tax accounting profit to income tax expense reported in the Income Statement

The prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the Income Statement as follows:

	2006	2005
	\$'000	\$'000
Profit/(Loss) Before Income Tax Equivalent Expense	175,259	77,423
Income tax equivalent expense/(benefit) calculated at statutory income tax rate of 30%	52,578	23,227
Capital allowances	288	1,693
Expenditure not allowed for income tax purposes	19	114
Reversal of temporary differences recognised in previous years	(2,314)	–
Adjustments in respect of current income tax of previous years	–	(14)
	50,571	25,020

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30th June 2006

(b) Deferred Income Tax

Deferred Income Tax at 30 June relates to the following:

	Balance Sheet		Income Statement	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Deferred Tax Assets				
Provisions	18,844	18,110	(734)	(917)
Employer Superannuation Reserve Deficit	5,581	22,720	17,140	(7,356)
Property, plant and equipment	969	1,070	101	127
Doubtful debts & impairment losses	–	–	–	–
Other	83	86	3	(23)
Gross Deferred Tax Assets	25,477	41,986		
Deferred Tax Liabilities				
Property, plant and equipment and Intangibles	(409,433)	(371,103)	19,941	22,001
Other	(1,103)	(609)	149	(92)
Gross Deferred Tax Liabilities	(410,536)	(371,712)		
Deferred Tax Charge			36,600	13,740

7. CASH AND CASH EQUIVALENTS

	2006 \$'000	2005 \$'000
Cash on Hand	13	14
Deposits at Call	24,892	33,303
	24,905	33,317

Deposits at call bear average floating interest rates of 5.77% (2005 – 5.72%).

8. RECEIVABLES

	2006 \$'000	2005 \$'000
Current		
Debtors		
Trade Debtors	39,698	49,813
Debtors Other Than Trade	5,227	2,346
	44,925	52,159
Provision For Doubtful Debts	–	–
Total Debtors	44,925	52,159
Prepayments	917	775
Other	102	93
	45,944	53,027

9. INVENTORIES

	2006 \$'000	2005 \$'000
Transmission Plant Spares	25,740	23,398
Other	455	154
	26,195	23,552

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30th June 2006

10. DERIVATIVES (CURRENT ASSET)

	2006 \$'000	2005 \$'000
Forward Contract	458	–

11. OTHER ASSETS

	2006 \$'000	2005 \$'000
Current		
Superannuation Surplus	110	92
Deferred exchange losses and costs on forward foreign exchange contracts	–	2,321
Total	110	2,413

Deferred exchange losses on forward foreign exchange contracts are recognised as assets in the comparative period in accordance with accounting policies applicable to that period. Such losses are not recognised as assets in the current period under AASB 139, but are deferred in equity or recognised in the Income Statement, as appropriate.

Non-Current

TransGrid holds one "B" Employer Class Share in Energy Industry Superannuation Scheme Pty. Limited. The Share has a par value of \$1.00.

12. NON-CURRENT ASSETS HELD FOR SALE

	2006 \$'000	2005 \$'000
Network Assets		
Land	3,055	3,725
Buildings	117	192
	3,172	3,917

Non-current assets held for sale comprise land and buildings that are available for immediate sale at reporting date. An active program has been initiated for the sale of these assets and it is highly probable that the sale will occur within one year from reporting date.

13. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2006 \$'000	2005 \$'000
Investments	183	–

Available-for-sale financial asset comprises listed shares in Geodynamics Limited. This does not represent a material interest in the entity. The investment in Geodynamics Limited was undertaken as part of TransGrid's research and development activities to sponsor investigation of sustainable green energy through the generation of electricity from hot dry rocks geothermal energy.

14. OTHER FINANCIAL ASSETS

	2006 \$'000	2005 \$'000
Investments	–	50

Other financial asset comprises listed shares in Geodynamics Limited recognised at cost in the comparative period in accordance with accounting policies applicable to that period. The asset is recognised at fair value in the current period under AASB 139 (refer Note 13).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30th June 2006

15. PROPERTY, PLANT AND EQUIPMENT

(a) Valuation and accumulated depreciation for each class of property, plant and equipment

	2006	2005
	\$'000	\$'000
Regulated Assets		
Network Assets	6,050,607	5,815,699
Accumulated Depreciation	(3,082,333)	(2,920,783)
Work in Progress	127,594	131,872
	3,095,868	3,026,788
Other Assets	80,428	76,369
Accumulated Depreciation	(46,972)	(39,864)
Work in Progress	3,253	5,969
	36,709	42,474
Total Regulated Assets	3,132,577	3,069,262
Non-regulated Assets		
Substation Assets	13,128	13,126
Accumulated Depreciation	(2,155)	(1,559)
Work in Progress	19	13
	10,992	11,580
Communication Equipment	197	197
Accumulated Depreciation	(41)	(32)
	156	165
Other Assets	1,637	149
Accumulated Depreciation	(260)	(33)
Work in Progress	28	51
	1,405	167
Total Non-regulated Assets	12,553	11,912
Total Property, Plant and Equipment	3,145,130	3,081,174

TransGrid has within its books fully depreciated assets, comprising Air Conditioners, Office Machines and Miscellaneous Equipment. These items are considered immaterial in the context of the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30th June 2006

(b) Reconciliations of the carrying amounts of each class of property, plant and equipment at the beginning and end of the financial year

	Carrying Amount at Beginning of year	Additions	Disposals	Non-current Assets Held for Sale	Depreciation	Impairment	Revaluation Increments/ (Decrements)	Carrying Amount at End of year
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
2006								
Regulated Assets:								
Network Assets	3,026,788	119,059	(2,641)	744	(112,253)	-	64,171	3,095,868
Other Assets	42,474	10,250	(5,327)	-	(10,688)	-	-	36,709
Total Regulated Assets	3,069,262	129,309	(7,968)	744	(122,941)	-	64,171	3,132,577
Non-regulated Assets:								
Substation Assets	11,580	8	-	-	(596)	-	-	10,992
Communication Equipment	165	-	-	-	(9)	-	-	156
Other Assets	167	2,577	(849)	-	(490)	-	-	1,405
Total Non-regulated Assets	11,912	2,585	(849)	-	(1,095)	-	-	12,553
Total	3,081,174	131,894	(8,817)	744	(124,036)	-	64,171	3,145,130

	Carrying Amount at Beginning of year	Additions	Disposals	Non-current Assets Held for Sale	Depreciation	Impairment	Revaluation Increments/ (Decrements)	Carrying Amount at End of year
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
2005								
Regulated Assets:								
Network Assets	2,719,385	105,481	(1,321)	(3,917)	(105,247)	-	312,407	3,026,788
Other Assets	40,243	17,985	(5,087)	-	(10,667)	-	-	42,474
Total Regulated Assets	2,759,628	123,466	(6,408)	(3,917)	(115,914)	-	312,407	3,069,262
Non-regulated Assets:								
Substation Assets	12,176	-	-	-	(596)	-	-	11,580
Communication Equipment	173	-	-	-	(8)	-	-	165
Other Assets	115	94	-	-	(42)	-	-	167
Total Non-regulated Assets	12,464	94	-	-	(646)	-	-	11,912
Total	2,772,092	123,560	(6,408)	(3,917)	(116,560)	-	312,407	3,081,174

(c) Cost Model

	Cost	Accumulated Depreciation	Net Book Value
	\$'000	\$'000	\$'000
As at 30 June 2006			
Regulated Assets:			
Network Assets	2,646,600	(519,826)	2,126,774
As at 30 June 2005			
Regulated Assets:			
Network Assets	2,536,500	(440,523)	2,095,977

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30th June 2006

16. INTANGIBLES**(a) Valuation and Accumulated Amortisation of Intangibles**

	2006	2005
	\$'000	\$'000
Easements	452,063	445,805
Work in Progress	2,968	3,047
	455,031	448,852
Computer software	42,758	28,208
Accumulated Depreciation	(28,544)	(25,499)
Work in Progress	1,961	6,069
	16,175	8,778
Airspace rights	7,215	–
Total Intangibles	478,421	457,630

(b) Reconciliations of the carrying amounts of intangibles at the beginning and end of the financial year

	Carrying Amount at Beginning of year	Additions	Disposals	Amortisation	Impairment	Adjustment	Carrying Amount at End of year
2006	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Intangible Assets							
Easements	448,852	6,179	–	–	–	–	455,031
Computer software	8,778	10,442	–	(3,045)	–	–	16,175
Airspace rights	–	10,093	–	–	–	(2,878)	7,215
Total	457,630	26,714	–	(3,045)	–	(2,878)	478,421

	Carrying Amount at Beginning of year	Additions	Disposals	Amortisation	Impairment	Adjustment	Carrying Amount at End of year
2005	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Intangible Assets							
Easements	444,201	4,651	–	–	–	–	448,852
Computer software	7,254	4,117	–	(2,593)	–	–	8,778
Airspace rights	–	–	–	–	–	–	–
Total	451,455	8,768	–	(2,593)	–	–	457,630

17. CAPITAL EXPENDITURE COMMITMENTS

Commitments arising from contracts for expenditure in respect of property, plant and equipment to the extent not provided for in the accounts:

	2006	2005
	\$'000	\$'000
Payable Within One Year	66,136	44,918
Payable One to Five Years	1,970	24,285
Payable Later than Five Years	–	–
Total (including GST)	68,106	69,203

Total Expenditure Commitments above include input tax credits of \$6,191,000 (2005 – \$6,291,000) that are expected to be recoverable from the Australian Taxation Office.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30th June 2006

18. TRADE AND OTHER PAYABLES

	2006	2005
	\$'000	\$'000
Current		
Creditors	31,287	22,361
Accrued Interest	34,104	35,565
Other	3,258	3,876
Total	68,649	61,802

19. PROVISIONS

	2006	2005
	\$'000	\$'000
Current		
Dividend	69,500	38,000
Employees' Accrued Entitlements	59,982	57,962
Insurance	1,149	1,003
	130,631	96,965
Non-Current		
Employees' Accrued Entitlements	1,966	1,632
Insurance	3,589	3,025
	5,555	4,657
Total	136,186	101,622

(a) Dividends

	2006	2005
	\$'000	\$'000
Opening Balance	38,000	70,000
Dividend Payments	(38,000)	(70,000)
Dividend for the year	69,500	38,000
Closing Balance	69,500	38,000

(b) Employees' Accrued Entitlements

The following table shows a breakdown of the Employees' Accrued Entitlements Provision at reporting date:

	2006	2005
	\$'000	\$'000
Annual Leave	12,945	13,001
Long Service Leave	49,003	46,593
	61,948	59,594

The following table shows a breakdown of the Current Portion of the Employees' Accrued Entitlements Provision at reporting date, split into the period of time the entitlement amount is expected to be settled:

	2006	2005
	\$'000	\$'000
Within one year	10,230	9,758
Later than one year	49,752	48,204
	59,982	57,962

All of the above liabilities have been fully provided. During the financial year, \$12,512,000 (2005 – \$11,368,000) was contributed to the above provisions.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30th June 2006

(c) Insurance

In accordance with Condition 6(a)(iii) of the license granted under Section 211 of the Worker's Compensation Act, 1987, the provision for total outstanding workers' compensation claims liability including incurred but not reported claims and administration is \$4,583,000 (2005 – \$3,802,000). During the financial year, \$2,070,870 (2005 – \$117,056) was contributed to the provision for Workers' Compensation.

The following table details the movements in the insurance provision during the year.

Class	Opening Balance \$'000	Contributions \$'000	Payments \$'000	Closing Balance \$'000
General	226	–	(71)	155
Workers' Compensation	3,802	2,071	(1,290)	4,583
Total	4,028	2,071	(1,361)	4,738

20. DERIVATIVES (CURRENT LIABILITY)

	2006 \$'000	2005 \$'000
Forward Contract	1	–

21. OTHER CURRENT LIABILITIES

	2006 \$'000	2005 \$'000
Electricity Creditors	33,458	35,322
Superannuation Liability	18,602	75,732
Net Payable on Hedges	–	2,321
Other	129	145
Total	52,189	113,520

Electricity Creditors relates to monies received for electricity transmission services that are above the revenue cap as determined by the AER and from the National Electricity Market settlement residues process.

The National Electricity Market (NEM) includes inter-regional trading between the defined market regions using transmission interconnectors. Settlement residues accrue from the power flows between respective regions. The National Electricity Market Management Company (NEMMCO) auctions these inter-regional settlement residues. Under the National Electricity Rules, the proceeds of the auction are paid to the Transmission Network Service Provider in the importing region. Accordingly NEMMCO pays to TransGrid the auction proceeds for interconnectors that import energy into the New South Wales and Snowy market regions.

In addition, the settlement process within each market region results in the accumulation of intra-regional settlement residues. These residues are not auctioned and are paid directly to the relevant Transmission Network Service Provider. TransGrid receives intra-regional settlement residues for the New South Wales and Snowy market regions.

In the event that these residues cause the total revenue received during the year to exceed TransGrid's revenue cap, the excess is held in Electricity Creditors and is taken into account when setting the next period's transmission service prices, resulting in those prices being lower than they would have otherwise been.

22. MATURITY ANALYSIS OF BORROWINGS

	2006 \$'000	2005 \$'000
Summary of Maturity Pattern		
Up to one year	158,486	196,602
Over one and up to two years	255,522	158,489
Over two and up to three years	143,489	257,373
Over three and up to four years	144,740	143,489
Over four and up to five years	277,274	144,740
Over five years	475,789	618,971
Total	1,455,300	1,519,664

Premium on domestic loans issued by NSW Treasury Corporation amounted to \$6,820,000 (2005 – Premium \$9,903,000). The effective interest rate applicable for the debt portfolio is 6.20% (2005 – 6.27%).

Borrowings shown as current liability are nominally due for repayment within twelve months. However due to the availability of rollover facilities and the liquidity of the underlying debt instruments, TransGrid may not necessarily need to repay these loans within twelve months.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30th June 2006

23. CAPITAL

TransGrid commenced operations on 1st February 1995 on separation from Pacific Power under the Electricity Transmission Authority Act, 1994 at which time a series of assets and liabilities were transferred.

TransGrid was corporatised as a Statutory State Owned Corporation on 14th December 1998, with share capital of two \$1.00 shares.

These shares were issued to the Treasurer and the Minister for Finance as at 30th June 2006. The \$2.00 is reported as part of Capital.

	2006 \$'000	2005 \$'000
Capital		
Opening Balance	651,967	584,871
Transfer from reserves – Revaluation reserve attributable to easement at Corporatisation	–	67,096
Closing Balance	651,967	651,967

24. RESERVES

Reserves	Asset Revaluation Reserve \$'000	Net Unrealised Gains/(Losses) Reserve \$'000	Cash Flow Hedge Reserve \$'000	Total \$'000
At 1 July 2004	695,181	–	–	695,181
Revaluation of Property, Plant & Equipment (Note 15(b))	312,407	–	–	312,407
Tax effect of Property, Plant & Equipment Revaluation (Note 6(a)(ii))	(95,079)	–	–	(95,079)
Transfer to Retained Earnings – Revaluation Reserve for assets disposed (Note 25)	4,523	–	–	4,523
Transfer to Capital – Revaluation Reserve attributable to easement at Corporatisation (Note 23)	(67,096)	–	–	(67,096)
At 30 June 2005	849,936	–	–	849,936
Application of AASB 132 and 139 (Note 37(b)) At 1 July 2005	–	360	(1,911)	(1,551)
Tax effect: Application of AASB 132 and 139 (Note 37(b)) At 1 July 2005	–	(108)	573	465
Revaluation of Property, Plant & Equipment (Note 15(b))	64,171	–	–	64,171
Tax effect of Property, Plant & Equipment Revaluation (Note 6(a)(ii))	(19,251)	–	–	(19,251)
Write back asset revaluation reserve for recognition of airspace right as intangible asset (Note 16(b))	(2,878)	–	–	(2,878)
Tax effect: Write back asset revaluation reserve for recognition of airspace right as intangible asset (Note 6(a)(ii))	863	–	–	863
Transfer to Retained Earnings – Revaluation Reserve for assets disposed (Note 25)	(1,882)	–	–	(1,882)
Unrealised Net Gains/(Losses) on Available-for-Sale Financial Assets	–	(228)	–	(228)
Tax effect: Unrealised Net Gains/(Losses) on Available-for-Sale Financial Assets (Note 6(a)(ii))	–	68	–	68
Unrealised Net Gains/(Losses) on Cash Flow Hedges	–	–	2,368	2,368
Tax effect: Unrealised Net Gains/(Losses) on Cash Flow Hedges (Note 6(a)(ii))	–	–	(710)	(710)
At 30 June 2006	890,959	92	320	891,371

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30th June 2006

Nature and Purpose of Reserves

Asset Revaluation Reserve

This reserve is used to record increases in the fair value of property, plant and equipment, and decreases to the extent that such decreases relate to an increase on the same asset previously recognised in equity.

Net Unrealised Gains/(Losses) Reserve

This reserve records fair value changes on available-for-sale investments.

Cash Flow Hedge Reserve

This reserve records the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be effective.

25. RETAINED EARNINGS/(ACCUMULATED LOSSES)

	2006	2005
	\$'000	\$'000
Opening Balance	20,077	10,197
Net Profit/(Loss) Before Dividend	124,688	52,403
Dividend	(69,500)	(38,000)
Transfer from Asset Revaluation Reserve	1,882	(4,523)
Closing Balance	77,147	20,077

26. DIVIDEND AND CONTRIBUTIONS TO SHAREHOLDER

A dividend of \$69,500,000 (2005 – \$38,000,000) has been recognised for distribution to the shareholder. The dividend will be paid during the course of the 2006/07 financial year and is represented by the dividend provision.

27. SECURED LIABILITIES

At reporting date, there was no loan liability of TransGrid secured by a charge over TransGrid's assets.

28. AUDIT FEES

Amounts received, or due and receivable, by the auditors for:

	2006	2005
	\$'000	\$'000
Auditing the financial report	175	162

29. COMPENSATION OF KEY MANAGEMENT PERSONNEL

	2006	2005
	\$'000	\$'000
Short-term employee benefits	2,265	2,061
Post-employment benefits	456	280
Other long-term benefits	409	307
Total	3,130	2,648

(i) Fees Paid to Directors

Fees, including superannuation benefits paid to Directors, other than salaries paid to full-time Directors, were \$390,065 (2005 – \$370,753). There are no vacant Board positions at reporting date.

30. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

(a) Contingent Liabilities

	2006	2005
	\$'000	\$'000
Contract Liability	311	2,446

Contract Liability

In addition to the contract liability disclosed above, TransGrid is disputing claims lodged by its contractor on a construction work-related contract. At this stage, it is not possible for management to form an opinion on the likely outcomes arising from the settlement of these claims.

Other

A claim for compensation is being pursued via arbitration against TransGrid, for alleged reduction in the value of a coal mine due to the construction of a transmission tower. At this stage, it is not possible for management to form an opinion about the likely outcome of the arbitration.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30th June 2006

31. EVENTS OCCURRING AFTER REPORTING DATE

There are no post reporting date events that affect TransGrid's financial statements.

32. CONSULTANCY COSTS

The costs of consultancy services during the financial year were \$336,505 (2005 – \$287,447).

33. FAIR COMPENSATION TRUST FUND

In accordance with the Land Acquisition (Just Terms Compensation) Act, TransGrid maintains a Trust Account. The account balance at reporting date was \$61,846 (2005 – \$118,007).

34. LEASES

TransGrid has no finance lease commitments. The following lease commitments disclosed are in the nature of operating leases.

Lessor

Lease of property

An operating lease for a building is in existence. Lease commitment receivable, GST-inclusive as at reporting date amounts to \$202,330 (2005 – \$605,000).

Lessee

TransGrid has operating lease commitments under a commercial lease for office accommodation, which expires in 2007. The lease expenditure for the financial year, GST-exclusive, was \$2,391,319 (2005 – \$1,964,907).

Minimum rentals payable GST-inclusive, as at 30 June are as follows:

	2006	2005
	\$'000	\$'000
Within one year	2,097	2,518
Later than one year but not later than 5 years	–	2,153
Later than 5 years	–	–
Total (including GST)	2,097	4,671

35. NOTES TO CASH FLOW STATEMENT

(a) Reconciliation of Cash

Cash as at the end of the financial year as shown in the Cash Flow Statement is reconciled to the related items in the Balance Sheet as follows:

	2006	2005
	\$'000	\$'000
Cash and Cash Equivalents	24,905	33,317

(b) Dividends and Taxes

No dividends were received. Dividends and tax equivalents paid during the year amounted to \$51,920,000 (2005 – \$73,842,000).

(c) Acquisitions and Disposals of Entities

No entities were acquired or disposed of during the year.

(d) Financing Arrangements

TransGrid is required to borrow all new money through NSW Treasury Corporation. TransGrid has an overdraft facility of \$6,000,000 with the ANZ Bank and this facility was undrawn at reporting date. TransGrid also has approval for an indemnity guarantee facility for \$10,000,000 of which \$5,059,200 has been drawn.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30th June 2006

(e) Reconciliation of Net Cash Provided by Operating Activities to Operating Profit

	2006 \$'000	2005 \$'000
Profit/(Loss) after Income Tax Equivalent Expense	124,688	52,403
Add/(Less): Items Classified as Financing/Investing Activities		
Loss/(Gain) on Disposal of Property, Plant and Equipment	3,342	283
Add/(Less) Non-Cash Items		
Depreciation and Amortisation	127,081	119,153
Amortisation of (Premium)/Discount on Loans	(3,032)	(2,949)
Provision for Doubtful Debts	–	–
Accruals relating to other than operating activities	44	273
Net Cash Provided by Operating Activities Before Change in Assets and Liabilities	252,123	169,163
Net Changes in Assets and Liabilities During the Financial Year		
(Increase)/Decrease in Trade Debtors & Other Receivables	7,083	9,464
(Increase)/Decrease in Inventories	(2,643)	(25)
(Increase)/Decrease in Other Current Assets	2,303	(2,040)
Increase/(Decrease) in Trade Creditors & Other Payables	5,124	(3,076)
Increase/(Decrease) in Provisions	3,064	2,112
Increase/(Decrease) in Income Tax & Deferred Taxes	36,651	21,178
Increase/(Decrease) in Other Liabilities	(61,331)	26,288
Net Cash Provided by Operating Activities	242,374	223,064

36. FINANCIAL INSTRUMENTS DISCLOSURE

(a) Interest Rate Risk

TransGrid's exposure to interest rate risk and the effective weighted average interest rate for each class of financial asset and liability is set out in the following table. Exposure to interest rate risk arises from assets and liabilities bearing variable interest rates. TransGrid's exposure is limited due to the majority of its financial assets and liabilities being either non-interest bearing or held in fixed rates.

	Note	Weighted Average Effective interest rate %		Floating interest rate \$'000		Fixed interest rate \$'000		Non-interest bearing \$'000		Total \$'000	
		2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Assets											
Cash	7	5.77	5.72	24,892	33,303	–	–	13	14	24,905	33,317
Receivables	8			–	–	–	–	45,944	53,027	45,944	53,027
Available-for-sale financial asset	13			–	–	–	–	183	–	183	–
Other financial asset	14			–	–	–	–	–	50	–	50
Total Financial Assets				24,892	33,303	–	–	46,140	53,091	71,032	86,394
Liabilities											
Accounts Payable	18	6.20	6.27	–	–	34,104	35,565	34,545	26,237	68,649	61,802
Other financial liabilities	21	5.54	5.33	33,458	35,322	–	–	129	145	33,587	35,467
Borrowings	22	6.20	6.27	–	–	1,455,300	1,519,664	–	–	1,455,300	1,519,664
Total Financial Liabilities				33,458	35,322	1,489,404	1,555,229	34,674	26,382	1,557,536	1,616,933

(b) Credit Risk

Credit risk represents the loss that would occur if counterparties failed to perform as contracted. TransGrid does not have any significant exposure to any individual customer or counterparty.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30th June 2006

(c) Foreign Exchange Risk

TransGrid enters into forward foreign exchange contracts to hedge certain anticipated purchase and sales commitments denominated in foreign currencies (12% United States Dollars and 88% European Euro). The terms of these commitments are for not more than two years.

Cash Flow Hedges

As at 30 June 2006, TransGrid held eight forward foreign exchange contracts in European Euro and five forward foreign exchange contracts in United States Dollars, designated as hedges of expected future purchases, for which TransGrid has firm commitments.

The forward foreign exchange contracts are being used to reduce the exposure to foreign exchange risk. The terms of these contracts are as follows:

	Buy	Maturity	Forward Exchange Rate (AUD/EUR)		Buy	Maturity	Forward Exchange Rate (AUD/USD)
European Euro:	316,280	13-Jul-06	0.6019	United States Dollars:	397,163	24-Jul-06	0.7524
	245,868	23-Oct-06	0.6075		420,463	15-Aug-06	0.7522
	2,105,745	31-Oct-06	0.6040		412,293	30-Oct-06	0.7502
	2,105,745	30-Nov-06	0.6019		397,163	30-Nov-06	0.7461
	2,105,745	29-Dec-06	0.6000		397,163	30-Nov-06	0.7461
	175,930	22-Jan-07	0.5829				
	2,105,745	30-Mar-07	0.5939	Total	2,024,245		
	2,105,745	30-Apr-07	0.5919				
Total	11,266,803						

Cash Flow Hedge Equity Movements

	Carrying Amount at beginning of period (1/7/05)	Amount recognised in equity during the period	Amount removed from equity and included in Income Statement	Amount removed from equity and included in assets	Carrying Amount at end of period (30/6/06)
	\$'000	\$'000	\$'000	\$'000	\$'000
Equity	(1,911)	1,506	6	856	457

(d) Net Fair Value of Financial Assets and Liabilities

The net fair value of financial assets and liabilities, with the exception of borrowings, is reflected by their carrying amounts in the Balance Sheet, in accordance with AASB 132 and AASB 139.

The net fair value of borrowings is based on market value derived by NSW Treasury Corporation using market interest rates current at reporting date.

The carrying amounts and net fair values of financial assets and liabilities at reporting date are:

	2006		2005	
	Carrying Amount \$'000	Net Fair Value \$'000	Carrying Amount \$'000	Net Fair Value \$'000
Financial Assets				
Cash	24,905	24,905	33,317	33,317
Receivables	45,944	45,944	53,027	53,027
Available-for-sale financial asset	183	183	–	–
Other financial asset	–	–	50	410
Forward contract	458	458	–	–
Total Financial Assets	71,490	71,490	86,394	86,754
Financial Liabilities				
Accounts payable	68,649	68,649	61,802	61,802
Borrowings	1,455,300	1,484,118	1,519,664	1,589,726
Other financial liabilities	33,587	33,587	35,467	35,467
Forward contract	1	1	–	–
Net Payable on Hedges	–	–	2,321	1,093
Total Financial Liabilities	1,557,537	1,586,355	1,619,254	1,688,088

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30th June 2006

37. IMPACT OF ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (AEIFRS)

TransGrid has applied the AEIFRS for the first time in the 2005/06 financial report. The key areas where changes in accounting policies have impacted on the financial report are disclosed below. Some of these impacts arise because AEIFRS requirements are different from previous AASB requirements (AGAAP). Other impacts arise from options in AEIFRS that were not available or not applied under previous AGAAP. TransGrid has adopted the options mandated by NSW Treasury.

The impacts of adopting AEIFRS on the total equity and surplus/(deficit) as reported under previous AGAAP are shown below. There are no material impacts on TransGrid's cash flows.

(a) Reconciliations – 1 July 2004 and 30 June 2005

Reconciliation of equity under previous AGAAP to equity under AEIFRS:

	Notes	30 June 2005** \$'000	01 July 2004* \$'000
Total Equity Under AGAAP		1,867,944	1,516,408
Adjustments to accumulated funds			
Defined benefit superannuation adjustment for change in discount rate	1	(110,390)	(71,364)
Tax effect adjustment	2	33,574	19,274
Adjustments to other reserves			
Write back asset revaluation reserve for recognition of easement as intangible	3	(23,612)	(23,612)
Tax effect adjustment	2	(245,536)	(150,457)
Total Equity Under AEIFRS		1,521,980	1,290,249

* 1 July 2004 reflects adjustments as at the date of transition to AEIFRS.

** 30 June 2005 reflects the 1 July 2004 opening AEIFRS with 2004/05 transactions accounted for under AEIFRS.

Reconciliation of surplus/(deficit) under previous AGAAP to surplus/(deficit) under AEIFRS:

	Notes	\$'000
Year ended 30 June 2005		
Surplus/(deficit) under previous AGAAP		77,129
Defined benefit superannuation	1	(39,026)
Income tax expense	2	14,300
Surplus/(deficit) under AEIFRS		52,403

Notes to tables above

Note 1 – Defined Benefit Superannuation Adjustment

AASB 119 "Employee Benefits" requires the defined benefit superannuation obligation to be discounted using the Government bond rate as at each reporting date, rather than the long-term expected rate of return on plan assets.

The difference in the basis of the discount rate used under previous AGAAP compared to AEIFRS resulted in a significant impact on the superannuation position, turning a surplus under previous AGAAP to a deficit under AEIFRS.

The use of the Government bond rate in future calculations is likely to introduce significant volatility from year to year in the calculation of the superannuation position with a flow-on impact to reported profit level.

Note 2 – Tax effect adjustment

AASB 112 "Income Taxes" uses a balance sheet approach which requires the differences between the accounting and tax value of assets and liabilities to be recognised as deferred tax assets or liabilities. Previous AGAAP uses an operating statement method that accounts for tax by adjusting accounting profit for temporary and permanent differences to derive taxable income. The AASB 112 approach alters the quantum and timing of tax assets and liabilities recognised. In particular, the balance sheet approach results in the recognition of a deferred tax liability in relation to revalued assets that are generally not recognised under previous AGAAP, and the recognition of deferred tax impact associated with employer's superannuation reserve. This also changes the quantum and timing of tax expense.

Note 3 – Easement Adjustment

The adoption of AASB 138 "Intangible Assets" resulted in the reclassification of easements from Property, Plant and Equipment to Intangible Assets.

A write back of the easement revaluation reserve was required to reflect the valuation of easement at cost, in the absence of an active market for revaluation purposes.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30th June 2006

(b) Financial Instruments – 1 July 2005 first time adoption impacts

As discussed in Note 2(b), the comparative information for 2004/05 for financial instruments has not been restated and is presented in accordance with previous AGAAP. AASB 132 and AASB 139 have been applied from 1 July 2005.

Accordingly, the 1 July 2005 AEIFRS opening equity adjustments for the adoption of AASB 132 and AASB 139 are shown below:

	Note	Accumulated Funds \$'000	Asset Revaluation Reserve \$'000	Other reserves \$'000	Total \$'000
Total opening AEIFRS equity 1 July 2005		20,077	849,936	–	870,013
Increase/(Decrease) in fair value recognised through Equity – Net Unrealised Gains/(Losses) Reserve – Available-for-sale financial asset	1	–	–	360	360
Increase/(Decrease) in fair value recognised through Equity – Cash Flow Hedge Reserve	2	–	–	(1,911)	(1,911)
Tax effect of unrealised gain on Available-for-sale financial asset	3	–	–	(108)	(108)
Tax effect of net unrealised losses on Cash flow hedges	3	–	–	573	573
Restated opening AEIFRS equity 1 July 2005		20,077	849,936	(1,086)	868,927

Notes to table above

Note 1 – Available-for-sale financial assets

Under AASB 139, TransGrid's available-for-sale financial asset is recognised at fair value through a reserve. Previously, the asset was recognised at cost. This change has increased the financial asset and other reserves.

Note 2 – Cash flow hedges

Under AASB 139, TransGrid's forward foreign exchange contracts used to hedge risks associated with foreign currency fluctuations are classified as cash flow hedges. The hedging instruments are measured at fair value, through a reserve. Previously, the gains or costs arising from entry into hedging transactions, together with subsequent exchange gains or losses resulting from those transactions are deferred from the inception of the hedge transaction up to the date of purchase or sale and included in the measurement of the purchase or sale. This change has resulted in unrealised gains and losses on the hedges being recognised through equity.

Note 3 – Tax effect adjustment

The deferred taxes associated with the revaluation of available-for-sale financial asset and cash flow hedges are recognised in equity, consistent with recognition of the underlying unrealised gains/(losses) in equity.

END OF AUDITED FINANCIAL REPORT

STATEMENT BY MEMBERS OF THE BOARD
For the year ended 30th June 2006



TRANSGRID

STATEMENT BY MEMBERS OF THE BOARD

Pursuant to Section 41C of the Public Finance and Audit Act 1983, and in accordance with a resolution of the Board of TransGrid we declare on behalf of TransGrid that in our opinion:

1. the accompanying Financial Statements and Notes exhibit a true and fair view of the financial position and financial performance of TransGrid for the year ended 30th June 2006;
2. the Financial Report has been prepared in accordance with Australian Accounting Standards, Urgent Issues Group Interpretations, the Public Finance and Audit Act 1983, the Public Finance and Audit Regulation 2005, the State Owned Corporations Act 1989, and relevant Treasury Circulars; and
3. we are not aware of any circumstances at the date of this declaration which would render any particulars in the Financial Report to be misleading or inaccurate.




P R HIGGINSON
CHAIRMAN

K MURRAY
MANAGING DIRECTOR

INDEPENDENT AUDIT REPORT

For the year ended 30th June 2006



GPO BOX 12
Sydney NSW 2001

INDEPENDENT AUDIT REPORT

TRANSGRID

To Members of the New South Wales Parliament

Audit Opinion

In my opinion the financial report of TransGrid (the Corporation):

- presents fairly the Corporation's financial position as at 30 June 2006 and its performance for the year ended on that date, in accordance with Accounting Standards and other mandatory financial reporting requirements in Australia, and
- complies with section 41B of the *Public Finance and Audit Act 1983* (the Act), and the *Public Finance and Audit Regulation 2005*.

My opinion should be read in conjunction with the rest of this report.

Scope

The Financial Report and Directors' Responsibility

The financial report comprises the balance sheet, income statement, statement of changes in equity, cash flow statement and accompanying notes to the financial statements for the Corporation for the year ended 30 June 2006.

The directors of the Corporation are responsible for the preparation and true and fair presentation of the financial report in accordance with the Act. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for accounting policies and accounting estimates inherent in the financial report.

Audit Approach

I conducted an independent audit in order to express an opinion on the financial report. My audit provides *reasonable assurance* to Members of the New South Wales Parliament that the financial report is free of *material* misstatement.

My audit accorded with Australian Auditing Standards and statutory requirements, and I:

- assessed the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors in preparing the financial report, and
- examined a sample of evidence that supports the amounts and disclosures in the financial report.

An audit does not guarantee that every amount and disclosure in the financial report is error free. The terms 'reasonable assurance' and 'material' recognise that an audit does not examine all evidence and transactions. However, the audit procedures used should identify errors or omissions significant enough to adversely affect decisions made by users of the financial report or indicate that the directors had not fulfilled their reporting obligations.

INDEPENDENT AUDIT REPORT

For the year ended 30th June 2006

My opinion does not provide assurance:

- about the future viability of the Corporation,
- that it has carried out its activities effectively, efficiently and economically, or
- about the effectiveness of its internal controls.

Audit Independence

The Audit Office complies with all applicable independence requirements of Australian professional ethical pronouncements. The Act further promotes independence by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General, and
- mandating the Auditor-General as auditor of public sector agencies but precluding the provision of non-audit services, thus ensuring the Auditor-General and the Audit Office are not compromised in their role by the possibility of losing clients or income.



G J Gibson, FCA
Assistant Auditor-General

SYDNEY
21 September 2006