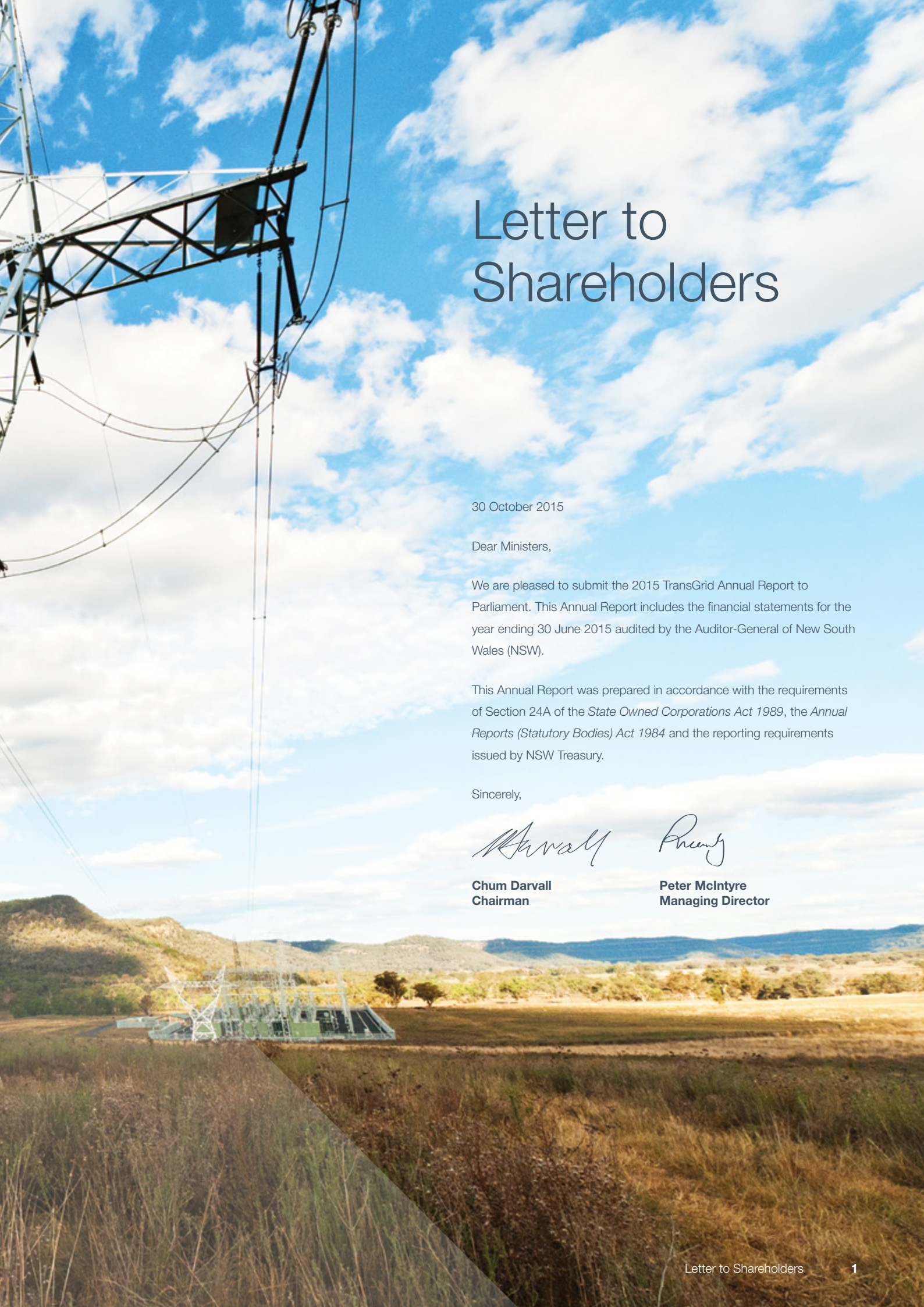
Connecting you

# Annual Report 2015



TransGrid


TransGrid



# Letter to Shareholders

30 October 2015

Dear Ministers,

We are pleased to submit the 2015 TransGrid Annual Report to Parliament. This Annual Report includes the financial statements for the year ending 30 June 2015 audited by the Auditor-General of New South Wales (NSW).

This Annual Report was prepared in accordance with the requirements of Section 24A of the *State Owned Corporations Act 1989*, the *Annual Reports (Statutory Bodies) Act 1984* and the reporting requirements issued by NSW Treasury.

Sincerely,

**Chum Darvall**
**Chairman**

**Peter McIntyre**
**Managing Director**

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Chapter 1

# Corporate Profile



Safely and reliably connecting homes and
businesses to the electricity they use,
24 hours a day, 7 days a week.

## 1.1
# Year in review

**99.999%**

OF NETWORK
RELIABILITY ACHIEVED

**93%**

OF CAPITAL PROJECTS
COMPLETED WITHIN BUDGET

**1.9**

EMPLOYEE LOST TIME
INJURY FREQUENCY RATE

**67%**

OF NEW CONNECTIONS
TO OUR NETWORK WERE
RENEWABLE GENERATORS

**$279m**

REDUCTION IN
CAPITAL EXPENDITURE

**31%**

OF OUR BOARD AND
SENIOR MANAGEMENT
ARE WOMEN

OUR PEOPLE

# >1,040

QUALIFIED TRADESPEOPLE, ENGINEERS, TECHNICIANS, SUBSTATION AND TRANSMISSION LINE DESIGNERS, APPRENTICES AND CADETS, ADMINISTRATORS, PROFESSIONALS AND MANAGERS

# 170%

GROWTH IN NON-PRESCRIBED REVENUE OVER THE LAST FIVE YEARS

# 517

ENERGY USERS AND COMMUNITY MEMBERS ENGAGED ON OUR BUSINESS AND PROJECT PLANS



# 2,081

HECTARES OF LAND IN NSW REHABILITATED AND PROTECTED BY TRANSGRID SINCE 1998

# $887m

REVENUE FOR 2014/15, UP BY $29M IN THE LAST YEAR

# 74%*

OVERALL CUSTOMER SATISFACTION RATING

*Updated in January 2016 to reflect 2015/16 figures which were finalised after publication

## 1.2

# Chairman's message



Advances in technology with the potential to change the way we use electricity and the ways in which electricity is generated, provides both challenges and opportunities to TransGrid. Leveraging more than 60 years of infrastructure excellence, I am proud that TransGrid is among those businesses that has embraced change as an opportunity. We are now more than a network, providing not just our regulated electricity transmission services but telecommunications and infrastructure across the eastern seaboard, including Canberra and Victoria.

Our ongoing initiative to participate more in competitive markets, is consistent with our strategy to drive the business forward through growth and innovation. To that end, non-prescribed activities which embraces our non-regulated business, increased by over 37% in 2014/15. We continue to support the growth of renewable energy, connecting both wind and solar generation in New South Wales. We expect these activities, including the potential development of a renewable hub in northern New South Wales, to expand in both 2016 and 2017.

As a business which creates value by providing safe, reliable and efficient transmission services, TransGrid meets the needs of more than 3 million homes and businesses across NSW and the ACT and the customers directly connected to our network.

The performance of the organisation during 2014/15 was strong both operationally and financially. Our network performance was again first rate, our focus and service to customers measurably improved, and our financial returns to the shareholder, the NSW Government, above target. While our safety performance has improved in some areas, we remain committed to further improvement. TransGrid will have an ongoing focus on low voltage safety in 2016.

In May 2015, TransGrid's shareholder, the NSW Government, tabled legislation to allow for the long-term 100% lease of TransGrid. On 4 June 2015, the NSW Parliament passed the bill to allow the transfer of TransGrid to the private sector. The lease provides new opportunities for the business in terms of service provision and commercialisation of services. A clear shared vision and strong leadership will be essential for a smooth transition to the private sector. I am confident the leadership of this organisation will provide that for the new owners.

After a year of continuing growth and preparation for the long term lease of TransGrid, I would like to thank my fellow directors for their contribution to the strategic and robust governance in the organisation and to the executive leadership team for delivering strong results in all areas of the business.

We have proven our ability to be successful within an industry that is navigating its way through a period of great uncertainty. This would not have been possible without the dedication of our highly skilled, experienced and committed workforce.

Armed with a wealth of industry knowledge and specialist technical expertise, combined with a strong performance culture in pursuit of innovation, I see a bright future for TransGrid. I wish Peter McIntyre, his executive team and all TransGrid staff very best wishes for a rewarding future.



**Chum Darvall**
**Chairman**

## 1.3

# Managing Director's report



At a time when customers and consumers expect value for money from their networks, I am proud of the work that TransGrid has done to streamline our business, drive down costs for consumers, sharpen our focus on customers and deliver momentum to our growth strategy. Our history of delivering excellence in infrastructure design, delivery, management, operation and maintenance has provided a solid platform to support growth and drive new opportunities in the evolving energy industry.

2014/15 saw us complete our regulatory reset process, working with the Australian Energy Regulator, customers and consumers to establish our regulated revenues through to 2017/18. As always, we are focusing on running the business for the benefit of our customers and shareholders.

We have heard our stakeholders – we need to be even more efficient. We are working hard to drive down costs and deliver value to our shareholders and consumers. We have restructured to streamline our business operations by moving more fully to a centralised Asset Manager – Service Provider model. This has enabled us to work smarter and faster, and will position us to bring further benefits to consumers by improving our cost efficiency, centralising some of our key operations, and streamlining our service offerings.

To enable our growth strategy we have diversified our business outside of our regulated portfolio and in 2014/15 introduced two new lines of business focused on infrastructure and telecommunications. In developing these business lines, we are targeting measured growth, leveraging off our existing competencies and capitalising on our cost focus. Our diversification provides an opportunity to showcase innovative infrastructure solutions and to offer a new alternative to customers in the large scale telecommunications services market.

This year, we achieved a net profit after tax of almost $203 million, a 6.6% increase over the previous year. Taken together with our achievement of network reliability better than 99.999%, this represents a combination of strong commercial and service performance.

A major reason why we have achieved such solid results is due to our highly skilled and experienced workforce. The commitment of our people to building and maintaining a strong performance culture, particularly during a period of uncertainty across the industry, is testament to the ability that I believe we have as a business to rise through tough times.

In our industry, we know we cannot afford to lose our absolute focus on safety. During the year we undertook a safety culture assessment engaging with employees from across the business to identify areas for improvement. In 2014/15, we focused on understanding the risks that lead to incidents that have potential to be fatal and the way in which we can avoid these incidents.

In creating value by providing safe, reliable and efficient transmission services, TransGrid keeps you, your way of life, and your business connected all day, every day. We recognise that the way we manage our business has a direct impact on electricity bills for consumers across the state, the level of success our customers achieve and the value we deliver to our shareholders. It is important that we strike the right balance. As a business operating in an increasingly challenging environment, we must carefully consider the impact of our decisions and make sensible choices accordingly.

The year ahead will bring a number of great opportunities for the industry and our business. For TransGrid, the prospect of new ownership from the private sector allows us to push our company further, look at new opportunities, find innovative ways of operating and will bring a fresh new perspective to our business. Our future is bright and I am confident that our people will continue to help make TransGrid a successful company that we can be proud of.



**Peter McIntyre**
**Managing Director**

## 1.4

# Our business

As owner and operator of the NSW high voltage electricity network, TransGrid keeps you and your way of life connected – 24/7. We connect generators, distributors and major end users across the state, enabling you to access electricity where and when you need it.

Our core role is to provide safe, reliable and efficient transmission services. Through our high voltage network we connect more than 3 million homes and businesses across NSW and the ACT to their electricity.

Backbone of the National Electricity Market, our network makes energy trading possible between Australia's three largest states along the east coast. We support a competitive wholesale electricity market which provides a level playing field for all participants; the benefits of which filter through to consumers.

With transmission services accounting for around 11% of the average electricity bill, we recognise that the way we manage our business, and the approach we take to operating and maintaining the network, has a direct impact on your everyday. We take this responsibility seriously. As a provider of an essential service, we believe that you should not pay more than necessary for your electricity. With this in mind, we are committed to delivering the most efficient solution to meet your energy needs, both now and into the future.

Our capability in planning, building, operating and maintaining the network has matured over time, creating a sustainable business. We recognise that our ability to adapt to change is important for continued success in this evolving industry. Focused on developing new opportunities for growth outside our regulated portfolios, in 2014/15 we introduced two new business lines:

- **TransGrid Infrastructure** develops collaborative infrastructure solutions with customers, leveraging more than 60 years of experience in the electricity industry.
- **TransGrid Telecommunications** offers a real alternative in telecommunications services for large data users through a network of more than 4,000 km across NSW, VIC and the ACT.

TransGrid's offices are located throughout NSW in Sydney, Western Sydney, Orange, Wagga Wagga, Yass, Tamworth and Newcastle.

## Our vision

Excellence in all we do.

## Our mission

Create value by providing safe, reliable and efficient transmission services.

## Our values

TransGrid's reputation and performance is influenced by the decisions our people make and the actions they take on behalf of our business each day. Our values influence these decisions and actions and guide employees on how to best conduct their work.



**Committed:** We deliver on our promises and are accountable for our actions.



**Enterprising:** We embrace new ideas and are not afraid to challenge the norm.



**Collaborative:** We work as one to achieve our vision.



**Caring:** We treat all people with respect and dignity.



# Keeping you and your way of life connected – 24/7

## 1.5

# TransGrid at a glance

HOUSEHOLDS AND BUSINESSES

**>3m**

CONNECTED TO ELECTRICITY
ACROSS NSW AND THE ACT

ELECTRICITY

**64,200**

GIGAWATT HOURS OF
ELECTRICITY MOVED IN 2014/15

BUSINESSES AND INDUSTRY

**>30,000**

BUSINESSES AND INDUSTRY
WITH MORE THAN 20 EMPLOYEES
ACCOUNTS FOR APPROXIMATELY
70% OF ELECTRICITY DEMAND

CONNECTION POINTS

**418**

TO DISTRIBUTORS
AND CUSTOMERS

CUSTOMERS

**21**

DIRECT CONNECT CUSTOMERS

GENERATORS

**52**

CONNECTION POINTS
TO GENERATORS

OPTICAL FIBRE



**2,300**

KILOMETRE NETWORK IN NSW

NSW TRANSMISSION



**12,900**

KILOMETRES OF HIGH VOLTAGE OVERHEAD TRANSMISSION LINE

INFRASTRUCTURE



**99**

SUBSTATIONS AND SWITCHING STATIONS AND 37,241 TRANSMISSION STRUCTURES

UNDERGROUND CABLE



**82**

KILOMETRES OF UNDERGROUND CABLE OPERATING AT VOLTAGES OF UP TO 330 KV

RADIO TOWERS



**123**

CONNECTING OUR TELECOMMUNICATIONS NETWORK

INTERCONNECTORS



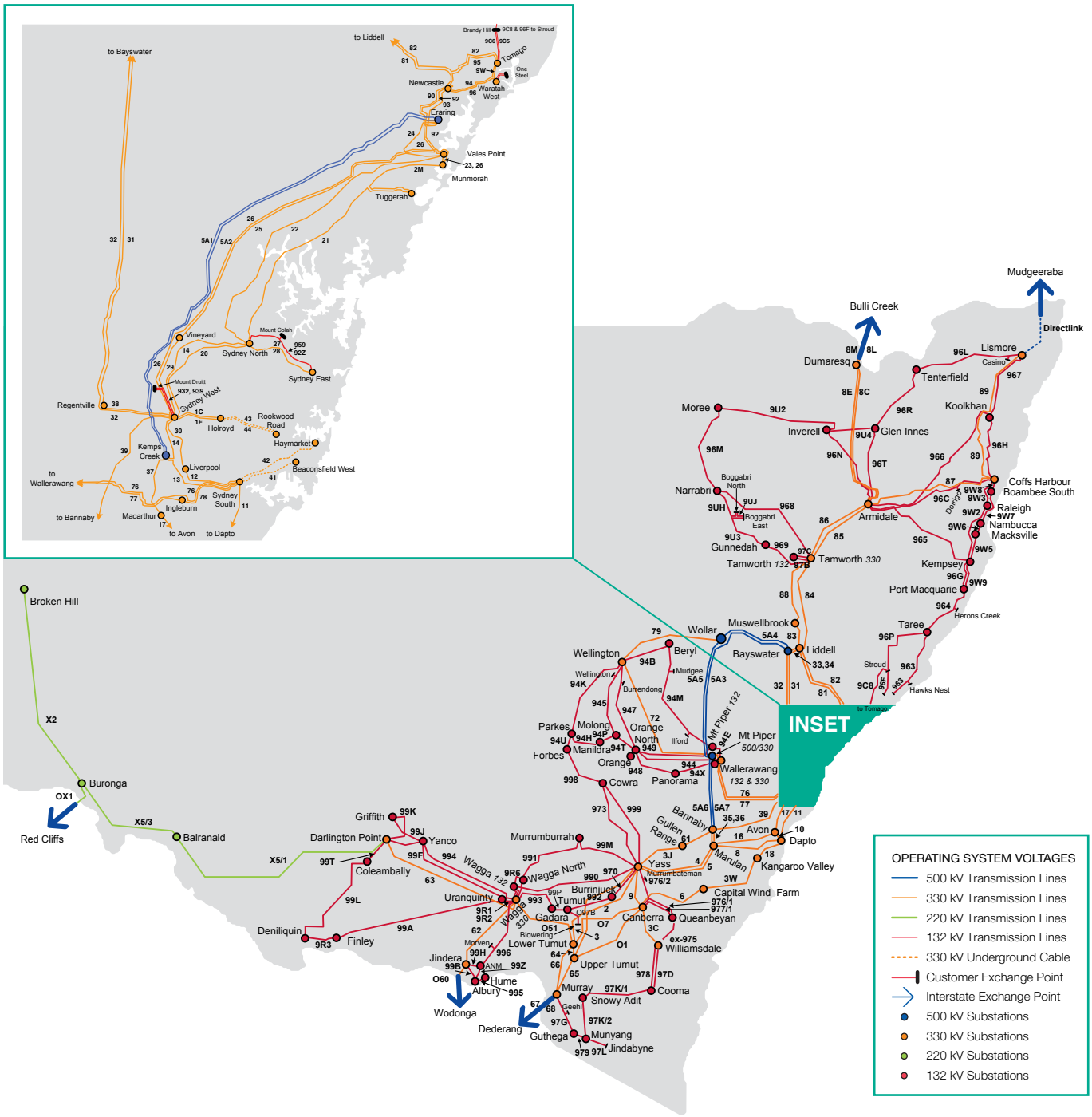
**6**

TO ELECTRICITY NETWORKS IN VICTORIA AND QUEENSLAND

## 1.6

# Our network

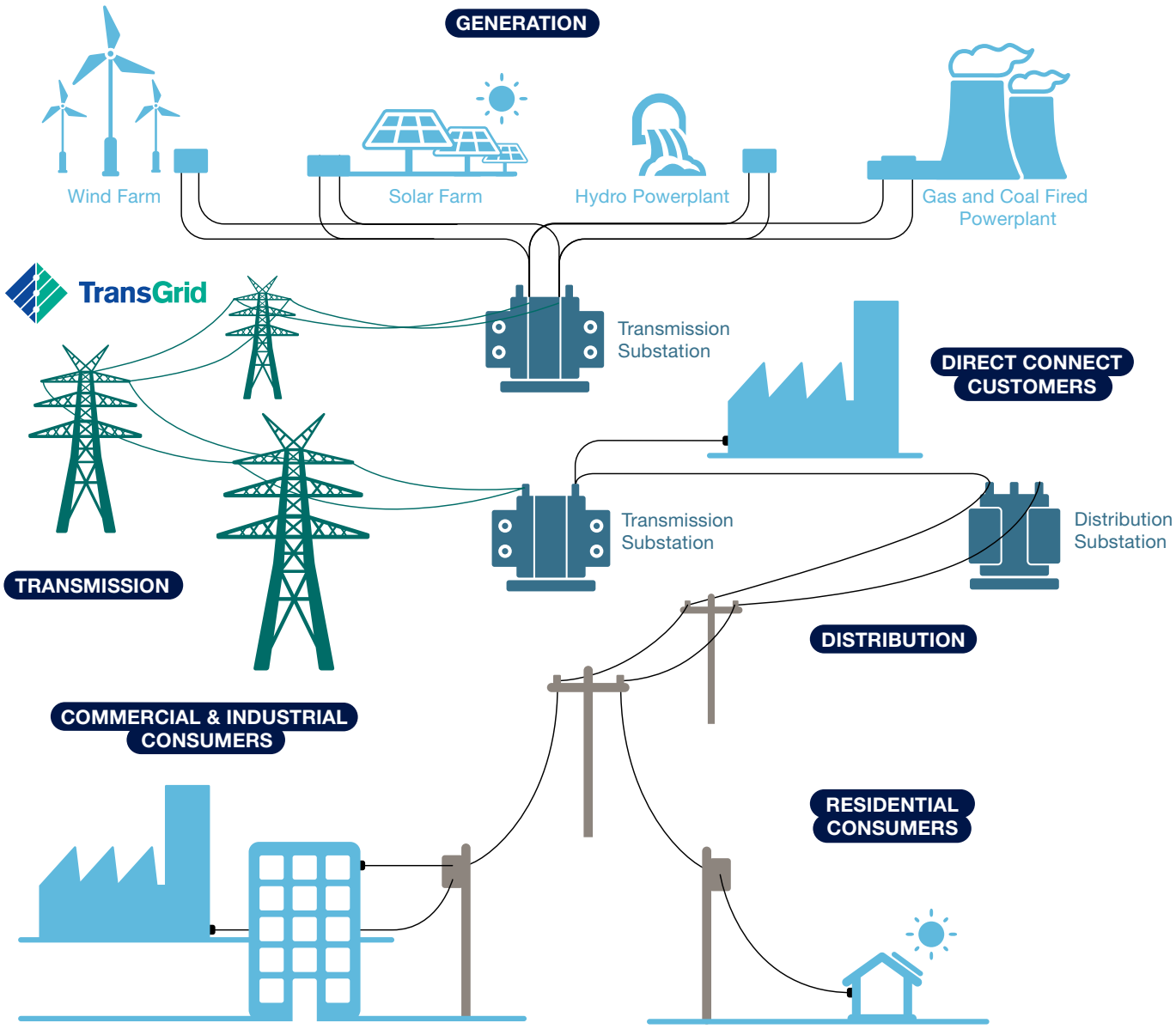
Our network is comprised of 99 bulk supply substations and more than 12,900 kilometres of high voltage transmission lines and cables. It is interconnected to Queensland and Victoria, providing a strong electricity system that makes interstate energy trading possible.



## 1.7

# Our role in connecting you to your energy

Our network carries electricity from generators (such as wind, solar, hydro and coal) to points of connection in NSW. The high voltage electricity is then converted to low voltage electricity suitable for regular household use at substations closer to power users. Distribution networks including Ausgrid, Endeavour Energy, Essential Energy and ActewAGL deliver electricity through smaller poles and wires to more than 3 million homes and businesses throughout NSW and the ACT.



## 1.8

# Our board

TransGrid's Board of Directors bring a wealth of knowledge, varied experience and value to our business. In guiding our business through this period of change, the Board provides strong leadership and direction.



### Chum Darvall AM

**BA, SF Fin, FAICD**

**Director and Chairman**

Mr Chum Darvall was appointed as Chairman of TransGrid on 16 January 2012. Chum brings a background in banking, treasury and markets to the Board. He was non-executive Vice Chairman of Deutsche Bank from November 2011 to June 2014 and was Chief Executive Officer, Deutsche Bank Australia and New Zealand from July 2002 to March 2011. Prior to this, Chum worked in a variety of roles across the banking industry including Director Treasury and Head of Global Markets at Deutsche Bank and various positions in the financial markets division of Westpac. His current Board memberships include Pinnacle Investment Management, Palisade Investment Partners Advisory Board, Financial Markets Foundation for Children, Australian Cricketer's Association Player Hardship Fund, Macquarie University Council and Metrics Credit Partners.



### Peter McIntyre

**BSc, BE (Hons), MBA, FIEAust, FAIE, FAICD**

**Executive Director and Managing Director**

Peter McIntyre was appointed to the TransGrid Board on 27 April 2010. With more than 30 years' experience in the electricity transmission industry, Peter has expertise in policy development, asset management and regulatory strategy. Before his appointment as Managing Director, Peter held three executive positions within TransGrid including General Manager/System Operations, General Manager/Network Performance and General Manager/Network Development and Regulatory Affairs. Peter is Deputy Chairman of the Energy Networks Association, and is a Fellow of the Institution of Engineers Australia, a Fellow of the Australian Institute of Energy and a Fellow of the Australian Institute of Company Directors.



### Trevor Danos AM

**LLB, BEc, GradDipSc**

**Director**

Trevor Danos was appointed to the TransGrid Board on 6 September 2010. Trevor is a lawyer and throughout his career of more than 30 years, he has specialised in domestic and international corporate finance, as well as major procurements. Having acted for a variety of prominent domestic and overseas financial institutions as well as a number of Commonwealth and State Government authorities, Trevor brings to the Board an understanding of industry and government needs, expectations and limitations. He is currently a director of Sydney Local Health District and a member of the NSW Social Investment Expert Advisory Group. Trevor's previous board memberships include Civil Aviation Safety Authority and Cooperative Research Centres Committee. As Chair of the Dean of Science's Advisory Committee at UNSW, Trevor's passion for science and engineering is a welcome addition to the TransGrid Board.



## Suzanne Jones

**BTP (Hons), MBA, MPIA, FAICD**

**Director**

Suzanne Jones was appointed to the TransGrid Board on 8 August 2012. Suzanne brings expertise in infrastructure planning and development, environment and sustainability, and organisational transformation and business growth to the Board. She has held senior executive roles involving strategic planning, major project delivery, public-private partnerships and stakeholder management. Suzanne's previous Board positions include the NSW Public Transport Authority, Parramatta Rail Link Company Pty Ltd (which financed and constructed the Chatswood to Epping underground railway and the Parramatta Transport Interchange), Newcastle Urban Renewal and Transport, the Illawarra Regional Information Service and Garrigal Housing. She has undertaken a business leadership course at Harvard and was also awarded an international leadership fellowship by the United States government. Suzanne is currently the Chair of the NSW National Parks and Wildlife Council, the NSW Conservation Audit and Compliance Committee and a social enterprise, Waste Aid Ltd. She is also a Director of UNE Partnerships Pty Ltd and Disabled Wintersport Australia.



## Patricia McKenzie

**LLB, FAICD**

**Director**

Patricia McKenzie was appointed to the TransGrid Board on 1 March 2015. Patricia has worked on both the operational and regulatory sides of the energy industry for more than 35 years. Through her extensive experience, she brings to the Board a deep understanding of the electricity and gas markets and the strategic issues facing the sector. With a background in corporate law, Patricia has strong interests in the health and not-for-profit sectors where she has made significant contributions at Board level. She is currently Non-Executive Director of the APA Group and Chair of Healthdirect Australia, and named in the 2015 AFR 100 Women of Influence. Patricia's previous appointments include Director of Macquarie Generation, Director Australian Energy Market Operator Limited, Chair of Diabetes Australia Limited, Chair of Sunnyfield Limited, Member/Chair Gas Market Leaders Group, Chair Information Exchange Committee/Retail Market Executive Committee and Member NSW Premiers Council for Women. Patricia was CEO of Gas Market Company Limited, following her time with the AGL Group.



## Michael Nugent

**FCPA, FAICD**

**Director**

Michael Nugent was appointed to the TransGrid Board on 1 August 2008. Through his career both as a company director and executive, Michael brings a strong background in management, strategy, governance, marketing and finance, combined with infrastructure management experience to his role as Director of TransGrid. Michael currently holds a directorship with Murrumbidgee Irrigation Limited, a water infrastructure company servicing farming in the Murrumbidgee irrigation area and was formerly a non-executive director of Eraring Energy, Rail Access Corporation and Snowy Mountains Engineering Corporation. His previous appointments include Chief Executive of Goodman Fielder Limited, Managing Director of Elders Agribusiness and an executive director of its parent company Foster's Brewing Group Limited. Michael also held a number of general management, marketing and financial positions with Henry Jones IXL Limited, Provincial Traders Holdings Limited, Brambles Limited, Ansett Transport Industries, British Leyland Motor Corporation and Peat Marwick (now KPMG).



## Emma Stein

**BSc (Hons), MBA, FAICD**

**Director**

Emma Stein was appointed to the TransGrid Board on 1 March 2015. With extensive international experience in energy, oil and gas, power and utilities markets, Emma's executive career spans a cross-section of industries including building materials, fuel distribution and energy retail. Her detailed commercial understanding has been developed through significant transaction/mergers and acquisitions, initial public offerings and capital markets experience, both as an executive and at Board level. Emma was the UK Managing Director for Gaz de France Energy, following a number of years with British Fuels and is an Honorary Fellow of the University of Western Sydney. Emma is currently Non-Executive Director of Transpacific Industries, Alumina, Programmed Maintenance Group, DUET and Todd Corporation; her previous Board appointments include Clough Limited, Transfield Services Infrastructure Fund, Arc Energy, Integral Energy, NSW Growth Centres Commission, Central Petroleum and Cofathec Heatsave.

## 1.9

# Our leadership team



### Peter McIntyre

**BSc, BE (Hons), MBA, FIEAust, FAIE, FAICD**

**Managing Director**

**Executive General Manager/ Project Services**



### Stephen Clark

**BEng (Hons), MAICD**

- Design services
- Contract management
- Power system equipment procurement
- Procurement and contract administration
- Project management
- Works estimation

**Executive General Manager/ People, Strategy and Stakeholders**



### Greg Garvin

**BEcon, MBA**

- Corporate strategy
- Regulatory strategy
- Business planning and performance
- People and culture
- Stakeholder engagement
- Environmental approvals
- Marketing and communications
- Ethics and corporate social responsibility
- TransGrid lease transaction support

**Executive General Manager/ Field Services**



### Michael Gatt

**Dip Elec Eng, BComm (Business)**

- Health, safety and environment
- Maintenance and construction services
- Emergency response
- Field operations
- Commissioning
- Land and property
- Facilities management
- Warehouse logistics
- Fleet management
- Technical training

**Executive General Manager/ Business Growth and Revenue**



### Tony Meehan

**BComm (Accounting, Finance and Systems), FCPA**

- Growth strategy
- Market analysis
- Strategic acquisitions
- Sales and marketing
- Bid development
- Customer account management
- Revenue reset
- Transmission pricing
- Business diversification

TransGrid's leadership team is proactive, commercially oriented, people focused and responsive to change. Driving business operations and managing a safe, diverse and highly skilled workforce, our leaders set the standard for a high performance culture.

**Executive General Manager/ Asset Management**



## Gerard Reiter

**BEng (Hons), RPEQ**

- Asset strategy
- Property asset management
- Network planning
- Investment strategy
- Demand management
- Portfolio management
- Design standards
- System operations

**Executive General Manager/ Finance and Support Services**



## Boon Thiow

**BComm (Accounting), FCPA**

- Corporate finance
- Financial and management accounting
- Internal audit
- Financial services
- Corporate risk
- Governance and board support
- Legal
- Information technology
- Payroll and accounts
- Treasury and tax



## Lionel Smyth

**BEng, GradMgt Qual, GAICD**

Lionel Smyth left TransGrid in March 2015 following a restructure. As Executive General Manager/Network Services and Operations, Lionel was responsible for network services, maintenance and construction, and system operations. The organisation thanks Lionel for his service over many years.



Chapter 2

# Our Performance



Increasing efficiencies in our business,
driving down costs and promoting
strong customer service.

## 2.1
# Financial summary

REVENUE (INCOME)

**$887m**

INCREASED BY $29 MILLION

▲ 29

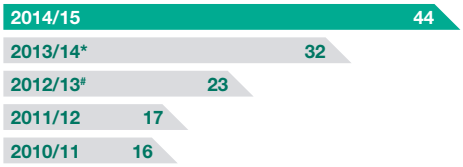



NON-PRESCRIBED REVENUE

**$44m**

INCREASED BY $12 MILLION†

▲ 12

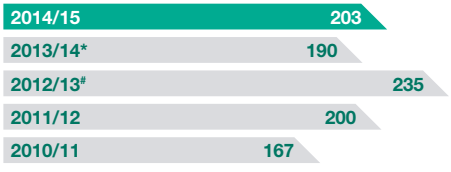



OPERATING PROFIT AFTER TAX

**$203m**

INCREASED BY $13 MILLION

▲ 13




†2014/15 non-prescribed revenue includes net rental income from an investment property but excludes the net gain from the changes in fair value of the investment property.

EBITDA

# $705m

INCREASED BY $35 MILLION

▲ 35

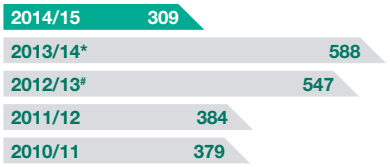



CAPITAL EXPENDITURE

# $309m

DECREASED BY $279 MILLION

▼ 279

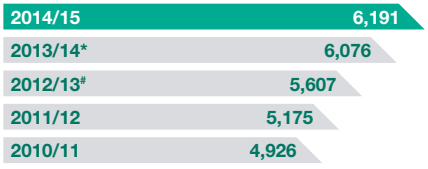



REGULATED ASSET BASE

# $6,191m

INCREASED BY $115 MILLION

▲ 115




*Following the change in revenue accounting policy in 2014/15, relevant KPIs in 2013/14 have been restated under the new accounting policy.

#Following the adoption of the revised AASB119: *Employee Benefits* in 2013/14, relevant KPIs in 2012/13 have been restated under the new accounting policy.

## 2.2

# People performance

## Leadership training

We are committed to fostering a performance culture which develops, recognises, values and empowers our people. Based on our values and behaviours, in 2014/15 we delivered a range of programs to develop our people for future success. We recognise that effective leadership is crucial to creating a strong, high performing culture that delivers on strategy and goals, while maintaining and improving employee engagement.

| Program | Description | Outcomes | Number of Participants |
|---|---|---|---|
| **Senior Leaders Program** | In the 2014/15 Corporate Plan one of the two enablers to assist with the delivery of the Corporate Plan Initiatives relates to leadership. As part of this enabler we identified the attributes we require from our leaders to drive the business. These attributes are being used to develop our current leadership team as well as to assist the recruitment of leaders, reward strategies and how we differentiate and reward technical leaders. | Assist leaders to model behaviours, and for being the points of reference that employees are looking towards. | 58 |
| **High Potential Leaders Program** | A 12 month program comprised of workshops: leadership; self, others and the organisation; change management; intra/entrepreneurship; customer service; and strategic financial management. The final participants were chosen from more than 40 applicants, all of whom underwent a series of online and face-to-face assessments. | To assess and develop high potential employees to build the leadership capabilities TransGrid needs to deliver its goals now and into the future. | 14 |
| **Leadership Development Framework** | A series of leadership and management modules aimed to develop capacity for TransGrid employees at various career stages. | The framework provides a series of training options to expand our leaders' ability, at all levels of their career, to help lead our teams to achieve personal, team and organisational goals. | 522 |
| **Performance Management Process (PMP)** | A process to enable employees to monitor progress, track achievements, and identify opportunities for improvement. | Focused on employee development, and setting clear individual goals and performance indicators linked to the priorities of the business, the PMP provides an effective measurement system for performance. | 92% |

## 2.3

# Our workforce

Our people define the success of our business. We will continue to ensure we have the right people, skills and culture required to deliver on our vision now and well into the future.

**1,040**

QUALIFIED TRADESPEOPLE, ENGINEERS, TECHNICIANS, SUBSTATION AND TRANSMISSION LINE DESIGNERS, APPRENTICES AND CADETS, ADMINISTRATORS, PROFESSIONALS AND MANAGERS

## Staff numbers by category

| Employment Category | 30 June 2012 | 30 June 2013 | 30 June 2014 | 30 June 2015 |
|---|---|---|---|---|
| Apprentice | 48 | 46 | 45 | 44 |
| Casual | 2 | 1 | 0 | 1 |
| Contract – Executive – SES equivalent | 92 | 93 | 98 | 91 |
| Contract – non-executive | 8 | 16 | 34 | 39 |
| Graduate | 37 | 35 | 31 | 20 |
| Permanent (other than Senior Officer) | 872 | 874 | 848 | 818 |
| Sessional or Seasonal | 0 | 0 | 5 | 4 |
| Temporary Employee | 16 | 14 | 8 | 19 |
| Trainee | 4 | 4 | 5 | 4 |
| **Total** | **1,079** | **1,083** | **1,074** | **1,040** |

## Staff numbers by gender

| Gender | 30 June 2012 | 30 June 2013 | 30 June 2014 | 30 June 2015 |
|---|---|---|---|---|
| Male | 894 | 892 | 880 | 846 |
| Female | 185 | 191 | 194 | 846 |
| **Total** | **1,079** | **1,083** | **1,074** | **1,040** |

## Diversity and inclusion

In 2014, an external review of TransGrid's Diversity and Inclusion program was undertaken to ensure best practice in this area.

The review found that in recent years TransGrid has implemented a range of best-practice diversity policies, recruitment practices and targets to increase the diversity of the workforce. These provide a solid diversity policy and practice foundation that will allow TransGrid to embark on a more strategic diversity and inclusion path.

TransGrid will focus on shifting workplace culture from diversity compliance to a culture where diversity is valued, embraced and leveraged to increase individual, team and organisation capability. This requires implementation of targeted interventions to deliver a level playing field for all employees with an ongoing commitment to merit-based employment at TransGrid.

TransGrid's new Diversity and Inclusion Strategy provides a roadmap to achieve increased diversity capability to meet diversity targets, build a more inclusive work culture and increase productivity outcomes and employee engagement.

# 2.4 Community

## Building better partnerships

TransGrid is committed to supporting communities across NSW and the ACT. In 2014/15 we were proud to contribute more than $459,000 through partnership and sponsorship programs to assist a variety of organisations to support their local communities and initiatives. Our Community Partnerships Program (CPP) supports communities where our infrastructure is located or where we are undertaking network upgrades. This is part of our ongoing commitment to help build relationships that have a positive impact in those communities for years to come.

At a grassroots level we provide additional support by sponsoring a variety of local initiatives of the communities in which we work. We also assist our employees in fundraising activities they undertake in their own communities such as charity fun runs and provide dollar for dollar donations to a selection of fundraising events selected by TransGrid employees each year. Environmental partnerships are another important aspect of our community involvement as is our sponsorship of a range of initiatives to support education and diversity within the engineering industry.

## Community Partnerships Program

Our Community Partnerships Program is one of the ways we contribute to and make a difference in the community. Through our partnerships program, we support local communities by providing fundraising for initiatives that deliver lasting benefits to communities where our infrastructure is located or we are undertaking network upgrades. This forms part of our ongoing commitment to help build genuine partnerships and to have a positive impact in the community, now and into the future.

In 2015, we rolled out our fourth annual program across the Albury and Wagga Wagga regions, where substation rebuild projects were being undertaken.

Since its establishment in 2012, TransGrid's CPP has delivered almost $250,000 in grants to support local initiatives, providing lasting and tangible benefits for a wide range of communities.

| Project | Organisation | Funding |
|---|---|---|
| **Community Partnership Program** | Country Hope Trust – Wagga | $10,000 |
| | Country Hope – Albury | $10,000 |
| | Eunony Bush Fire Brigade | $5,420 |
| | Albury Wodonga Rugby Union Football Inc | $5,000 |
| | Petaurus Education Working Group Inc – Albury | $5,000 |
| | Petaurus Education Working Group Inc – Wagga | $5,000 |
| | Lake Albert Bush Fire Brigade | $7,000 |
| | Wagga Wagga High School | $5,000 |
| | James Fallon High School P & C | $5,000 |

## Supporting local community initiatives

Throughout the year we continued to support a range of local community initiatives. Our sponsorship of the Snowy Hydro SouthCare rescue helicopter was one of the ways in which we supported residents of the ACT and South Eastern NSW. A critical medical care tool within these communities, the helicopter is specially fitted with instruments that make it easier for the crew to retrieve patients and provides the ability to transfer up to four stretcher patients at a time. With safety as our number one priority at TransGrid, we extended this message into our communities through our sponsorship of the Child Safety Handbook, a resource for parents, carers and teachers. A fundraiser for NSW Police Legacy, the Handbook enables people of all ages to develop strategies to deal with difficult situations. It covers issues such as bullying at school, personal safety, first aid, safety online, fire prevention, road safety, healthy living and drug and alcohol awareness.

Recognising that health and fitness is an important part of community life, during the year we sponsored the Special Olympics NSW as well as the Cancer Council Relay for Life events in Orange and Wagga Wagga.

## Environmental partnerships

We continued to support environmental initiatives in 2014/15 through our partnership with Greening Australia, our sponsorship of a research facility at The Australian Botanic Garden, Mount Annan and by supporting the construction of wildlife crossings in the Snowy Mountains.

GreenGrid, our award winning environmental partnership with Greening Australia has evolved to become a series of greening projects around NSW. Since its inception in 1998, GreenGrid has rehabilitated and protected 2,081 hectares of land in NSW, including the erection of 488 kilometres of fencing and planting of 332,670 tubestock. GreenGrid has featured an extraordinary level of broad scale revegetation through direct seeding – some 2,287 kilometres of tree line and in the past decade, sequestered more than 32,000 tonnes of carbon.

Our sponsorship of the Australian PlantBank, a science and research facility of the Royal Botanic Gardens and Domain Trust located near our Macarthur substation at Mount Annan, is now in its fourth year. Officially opened in October 2013, PlantBank will safeguard the future of precious plant species through 'seed-banking', research and information-sharing. This facility brings together the best scientists to recover degraded landscapes, generating new knowledge for better conservation planning and responding to climate change.

## Employee fundraising

TransGrid recognises the importance of community wellbeing by encouraging and supporting our employees who participate in a broad range of charity fundraising events. In 2014/15 we made a donation to the Children's Medical Research Institute in lieu of an employee receiving a 40 year service gift, supported the Kids Cancer Project by donating 50 per cent of each TransGrid employee's entry fee to the Spring Cycle 2013 and sponsored a TransGrid team that participated in the Central West Dragon Boat Regatta in support of breast cancer research. During the year we also made donations to Cancer Council, Multiple Sclerosis, Smith Family and Beyond Blue.

Each year TransGrid employees vote for a selection of charities and fundraising days that they would like to see the business support.

Events such as morning and afternoon teas and BBQs are held to support these charities and TransGrid matches employee donations dollar for dollar. During 2014/2015 RUOK Day, Jeans for Genes Day, Heart Week and Australia's Biggest Morning Tea were supported.

## Shaping the future of our industry

Encouraging innovation in engineering, fostering a culture of knowledge sharing, supporting research and encouraging greater diversity across our industry are some of the ways that TransGrid contributes to the community. In November 2014, we sponsored the Research Conversazione, a showcase of research results of postgraduate and undergraduate students from the School of Electrical and Information Engineering at the University of Sydney. In January 2015, we sponsored and participated in the Women in Engineering Summit hosted by the University of Wollongong. The two day event is an annual initiative to support and inspire young women interested in a career in engineering.

Other industry sponsorships for 2014/15 included Engineers Australia (Sydney Division) for their annual Excellence Awards event and the annual conferences of the Energy Users Association of Australia and the Electric Energy Society of Australia.





Chapter 3

# Operations



TransGrid's role is to create value by providing safe, reliable and efficient transmission services.

# 3.1
# Safety



## Our safety culture

The safety of employees, contractors and members of the public is our number one priority. We promote a positive safety culture in which all employees and contractors are encouraged to actively manage their safety and the safety of others.

Through our corporate initiative on safety (ensuring an effective safety culture) and other management actions, we have seen significant improvements in safety outcomes. Our corporate initiative supports our commitment to extend beyond traditional process management activities to a broader cultural shift, to firmly embed safety risk awareness in the core of our business.

The initiative commenced in 2014/15 and is designed as a three-year change program. In its first year, the initiative focused on improving safety outcomes by enhancing our understanding of our current safety culture and increasing our employee safety engagement. A safety culture assessment was undertaken where employees participated in focus groups to gauge the maturity of our safety culture against the well renowned Hudson Safety Maturity Model. Actions in 2015/16 are designed to increase TransGrid's maturity score.

The inherent danger of the high voltage electricity network and large infrastructure projects makes delivering on our safety commitment all the more important. Following two tragic contractor fatalities during the past five years, we have reviewed and re-developed our contractor management processes. During 2014/15 the safety focus shifted from lost-time injuries to understanding the key risks that can lead to incidents that have the potential to be fatal, known as TransGrid's high consequence risks. This work culminated in the launch of a communications program that increases awareness of these risks and the contribution that all employees must make to avoid them.

As the initiative continues into 2015/16 it will build on this work as we continue to strive to achieve zero injuries for employees and contractors.

Certified System
Health & Safety
AS 4801
SAI GLOBAL

## Lost Time Injury Frequency Rate

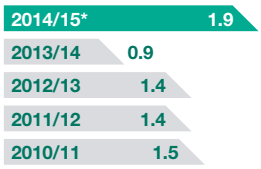
$$\text{LOST TIME INJURY FREQUENCY RATE (LTIFR)} = \frac{\text{Total number of lost time accidents for the year x 1,000,000}}{\text{Average number of full time equivalent employees x 2,000 hours}}$$

## Employees

### LOST TIME INJURY FREQUENCY RATE (LTIFR) - EMPLOYEES

**1.9** ▲ 1.0

INCREASED




*The increase was due to a slightly higher number of less serious injuries. The most common injuries were slips, trips and falls with failure to identify potential hazards the most frequent cause.

## Contractors

### LOST TIME INJURY FREQUENCY RATE (LTIFR) - CONTRACTORS

**3.5** ▼ 0.52

DECREASED




*The most common type of contractor injury was impact with a moving object with lack of concentration the most frequent cause.

# 3.2
# Infrastructure excellence

## Transforming our operations

Over the last three years, we have transitioned to a strengthened Asset Manager – Service Provider model, beginning with a central Asset Manager and rigorous Portfolio Management Office, which has resulted in an improvement in on-time and on-budget performance for major capital projects.

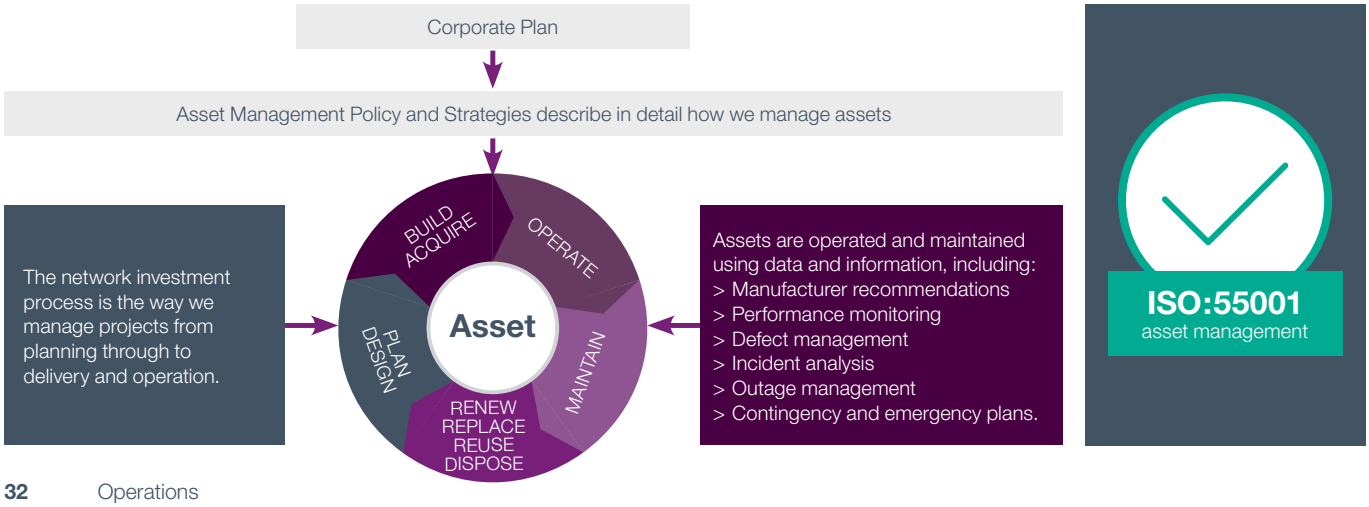
In 2014/15, we restructured our business to strategically align our operations to the Asset Manager – Service Provider model. This resulted in a reduction in management roles, reducing overall management costs by about 12%. By transitioning to this model we have expanded our major capital project delivery framework to include minor capital works. Aligning maintenance activities to functions rather than geography, as well as refining roles and responsibilities within the model has enabled us to improve our operational efficiency.




## Asset management system

Our asset management system provides a framework for effectively managing our transmission network assets over their complete life cycle. Assets are managed from the planning stage through to operation and then to decommissioning. The service life of an asset is extended, where appropriate, with components being replaced as needed. Our asset renewal program comprises the most economic combination of replacement and refurbishment options. Our approach to asset management encompasses our jurisdictional requirements and obligations to meet the service level requirements of our customers, consumers and other stakeholders.

The asset management landscape has undergone a significant shift with the release of the new ISO 55001 asset management standard last year. In preparation for assessment against the new standard, we enhanced our asset management framework through alignment to internationally recognised asset management standards. As part of this process we improved our asset management strategy by strengthening our decision making criteria, with a particular focus on risk-based decision making. Our system was one of the first systems independently reviewed and certified against the standard in November 2014.



## Governance framework for network decision making

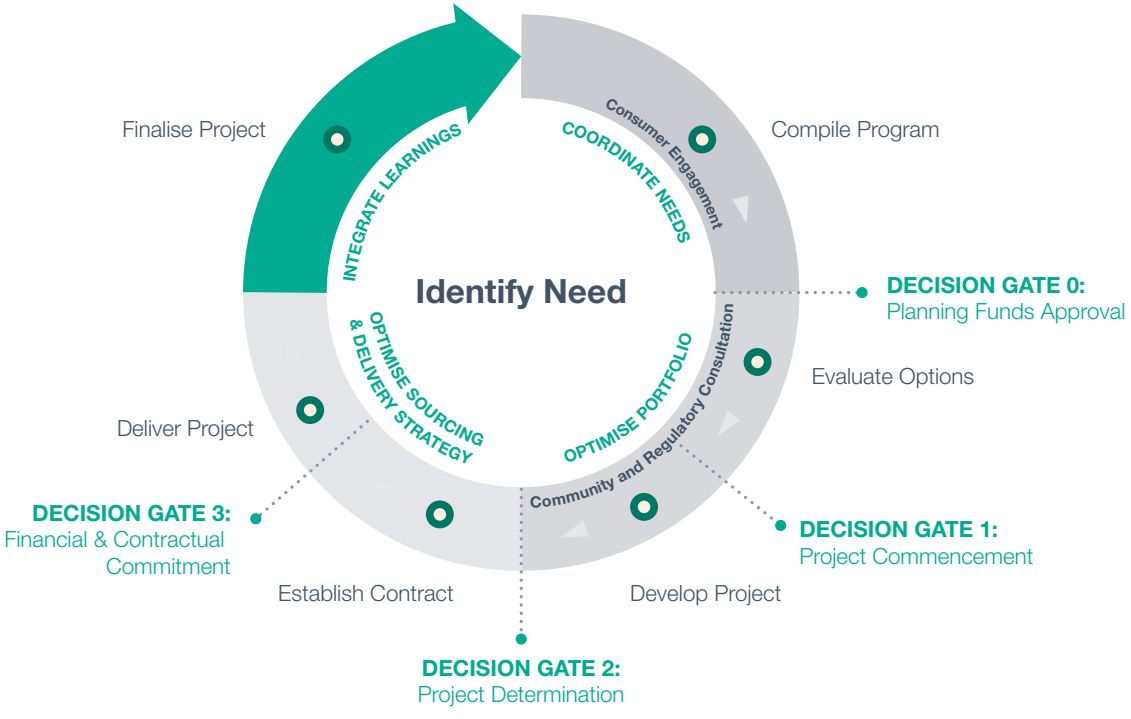
A comprehensive planning and analysis process is undertaken to assess network capabilities and identify areas of the network where limitations are expected to emerge in the future. These limitations could be addressed with non-network solutions, network solutions or a combination thereof.

Our governance framework for network decision making promotes an integrated, whole of business approach to capital program management. The process enables us to resolve key risk areas such as environmental approvals, property acquisition and scope definition early in the project delivery process. It also incorporates structured documentation around options evaluation and project scoping to enhance the transparency of decision making. Early communication with stakeholders throughout the planning cycle, including engagement with the community from the onset of a project demonstrates our commitment to opening our planning processes.

## Adapting to lower demand

Electricity demand is a key driver of growth in transmission services. As a transmission network service provider, we are required to provide sufficient capacity to meet electricity demand at times of peak demand, within the likely operating conditions. The past few years have seen marked changes in trends for peak demand growth across NSW and the ACT. This has largely been driven by consumer response to energy efficiency policies, green energy policies, the impact of global economic conditions on major industry and consumer confidence and electricity price increases.

In the past, TransGrid has mainly undertaken replacement and refurbishment of individual items of equipment to keep existing substations operational at the lowest cost. However, when the majority of equipment in a substation or structures on a transmission line reach a condition that reflects the end of their serviceable lives at around the same time, a complete rebuild can be a more prudent and economic option. Our asset renewal program comprises the most economic combination of replacement and refurbishment options. The program is essential to ensure the ongoing safety of staff, contractors and the public and to maintain a sustainable and reliable electricity supply.



Through the program we have been able to minimise our capital expenditure in the current regulatory period. We are also making more granular, targeted investment decisions. This includes, for example, implementing best practice dynamic line ratings and prioritising rectification of critical line clearances. Both projects aim to maximise the capacity of our existing assets ensuring we are able to meet service delivery expectations at the most efficient cost.

## Innovation in infrastructure

### Network innovation

We are strongly committed to exploring and implementing non-network alternatives, wherever it is technically feasible and cost efficient to do so. This commitment is important to us as we believe that the way Australians generate, supply and use electricity, will significantly evolve in the future. Networks must become more flexible and scalable to be able to provide the services that customers want at efficient prices.

While TransGrid currently does not have any active demand management contracts, historically we have procured load reduction through financial agreements with our customers by either contracting directly or via a third party known as a demand response aggregator. Because of the magnitude of desired demand reductions at the transmission level, these arrangements generally involve larger customers. However, demand management can also be effective when aggregating a larger number of smaller customers. In preparation for future demand management procurements we are exploring ways to both leverage that greater scale and integrate it into operational timeframes using recently developed and proven technology.

As part of our revenue proposal to the Australian Energy Regulator, we received an allowance of $1 million per annum to continue demand management innovation in the 2014/15 to 2017/18 regulatory period.

We are currently planning to use this allowance to target activities in three broad key areas:

- **Collaboration:** to improve consumers and our own understanding of demand management, capture synergies across different industry participants' activities and to identify and then reduce barriers
- **Market understanding and development:** to achieve greater understanding of the demand management market and promote information flows between relevant parties
- **Technology trialling:** to overcome practical barriers to the application of demand management tools and technologies, both in the market and in integrating demand management into our regular business operations and practices.

### iDemand

Commissioned in November 2014, iDemand was designed and implemented using part of our demand management innovation allowance for the 2009-2014 regulatory period.

iDemand facilitates research into demand management, and promotes development of, and education in, demand management. The iDemand system consists of a 400 kilowatt-hour energy storage system (battery), almost 100 kilowatts of solar generation capacity (including thin film technology and polycrystalline panels), energy efficient LED lighting, and a web portal that provides iDemand's live status and historical data for download. Installed at our Sydney West site, the system aims to reduce site electrical demand by 50%.

Our current focus is to achieve innovative operational improvements in partnership with researchers and then, to the extent that this is possible, to publish the outcomes on the iDemand portal. By making this material available we hope to assist interested parties in making better informed decision. We are partnering with several academic and industry bodies to complete research into peak shaving, maximising energy market value and life cycle costing. To find out more about iDemand visit: http://www.transgrid.com.au/what-we-do/innovation/idemand/Pages/default.aspx

### Renewable Energy Hub

Consumer choice, including preferences about where your energy comes from, is changing the industry in which we operate. For transmission networks, the impact is two-fold: policies and consumer behaviour are increasingly supporting large-scale renewable generation through the grid, as well as supporting distributed renewable energy at the edge of the grid.

A meaningful shift towards a de-carbonised economy is likely to represent opportunities for TransGrid and the centralised grid in the longer term. This could include fuel switching away from traditional fossil fuel sources towards electrification, especially in the case of transport and industrial processes.

Approximately 70% of our new formal connection agreements over the last two years came from renewable generators. While this demonstrates that there is growing interest, cost remains a barrier for some of our potential customers. In order to alleviate a constrained part of the network in the New England region, in 2014/15 we prepared a submission for a funding commitment to explore the possibility of building a Renewable Energy Hub. Designed to facilitate the scale efficient connection of multiple renewable generators in close proximity, if proven feasible, our proposed model would provide a more cost-effective, scalable and flexible option for our customers at this and potentially other locations.

In October 2015 we presented our plan to the Australian Renewable Energy Agency in support of our submission of a proposal for funding to undertake a feasibility study.

## Preparing for extreme weather

Bushfire risk management forms an integral part of our overall asset management. Effective management of our infrastructure helps to uphold public safety, reduce interruptions to electricity supply and minimise the possibility of fire ignition by electricity assets.

Each summer we review easement maintenance completion and check vegetation that may pose a bushfire risk has been managed. Ground based inspections and aerial patrols are carried out on our transmission lines; our substation and radio repeater site building gutters and compounds are inspected and maintained, along with their buffer zones. In preparing our assets for extreme weather, we work closely with emergency services, particularly with the NSW Rural Fire Service (RFS). Our control centre staff have access to the RFS Incident Control Online Notification system which provides full details of fire operations in real time. Through this system we are able to provide feedback to the RFS regarding the proximity of our assets to their identified hazards which assists in their operations. The control centre systems also display rain, wind, lightning and storm data tracking which helps us assess potential impacts to our assets enabling us to make informed decisions relating to hazards that may affect the power system or safety of our staff working in the field.

Bushfires and storms are the most significant environmental threats to the transmission network. Historically, bushfires and storms combined cause approximately 90% of all transmission line trips. Whilst there is little that can be done to mitigate against the physical impact of a storm, we put considerable effort into making sure that operator situational awareness is maximised through our weather monitoring systems.

This monitoring uses information provided by several private and government agencies, overlaid onto a map of the network. Predicted storm paths and intensities allow decisions to be made regarding the risk to the network. For instance, it may be necessary for the Australian Energy Market Operator (AEMO) to regard the trip of two circuits as a single credible contingency during adverse weather or environmental conditions. This is then factored into the generation dispatch process, reducing the loading through that part of the power system.

In the event of a storm having a widespread impact, control centre staff are trained in the management of critical system incidents and have contingency plans in place to minimise the impact and optimise the restoration process. In April 2015 severe storms and flooding swept across Newcastle, the Hunter and lower north coast and Illawarra regions, as well as Sydney and the Central Coast. There was no major impact to our network; however our field staff assisted the distribution networks to restore power to more than 200,000 homes across the state.

## 3.3

# Capital delivery programs

### The following projects were completed from 2013/14 to 2014/15:

| Project | Location | Purpose | Status |
|---|---|---|---|
| **Boggabri East and Boggabri North switching stations** | North West NSW | Customer connections | Completed |
| **Western Sydney Supply Project** | Sydney CBD and Western Sydney | Maintain reliable supply | Completed |
| **Munmorah power station 330 kV generator disconnection** | Central Coast | Retirement of power station | Completed |
| **Remediation of Wallerawang to Sydney South/Ingleburn 330 kV lines** | NSW Central Tablelands and Sydney South | Meet quality of supply requirements | Completed |
| **Murray – Guthega 132 kV line remediation** | Snowy Mountains | Remediation to restore capacity to maintain reliable supply | Completed |
| **Capacity upgrade of Yass – Bannaby and Gullen Range – Yass 330 kV lines** | Southern Tablelands | Maintain reliable supply | Completed |
| **Transformer replacements at Newcastle, Griffith and Yanco substations** | Hunter and South West | Condition based replacement to maintain reliable supply | Completed |
| **Capacitor bank replacements and installations at Canberra and Yass substations** | ACT and Southern Tablelands | Maintain adequate power transfer capability | Completed |

## Committed developments

Committed and underway network solutions, which have financial and contractual commitments, are under development and have passed Decision Gate 3 of TransGrid's Network Investment Process.

| Project | Location | Purpose | Status |
|---|---|---|---|
| **Redevelopment of Orange 132 kV substation and capacitor bank installation** | Central West | Condition based replacement to maintain reliable supply | Committed Due 2017 |
| **Strategic land acquisition at Riley Street (Surry Hills)** | Sydney CBD | Strategic acquisition for maintaining long term reliable supply to the Sydney CBD | Underway Due Q3 2015 |
| **Upper Tumut switching station rehabilitation** | Snowy Mountains | Condition based replacement to maintain reliable supply | Underway Due Q4 2015 |
| **Cooma substation replacement** | Snowy Mountains | Condition based replacement to maintain reliable supply | Underway Due Q4 2015 |
| **Yanco substation refurbishment** | South West | Condition based replacement to maintain reliable supply | Underway Due Q3 2015 |
| **Dynamic line ratings (installation of monitors to determine real time line capabilities)** | Various | Monitor weather conditions and conductor temperature to improve management of line ratings | Underway Due Q2 2016 |
| **Quality of supply monitors at 13 strategic customer connection points** | Various | Measure, record and analyse aspects of quality of supply at these customer connection points | Underway Due Q4 2016 |
| **Transformer and reactor replacements at Beaconsfield West, Buronga and Broken Hill** | Sydney and Western NSW | Condition based replacement to maintain reliable supply | Underway Due 2018 |
| **Condition based replacement of assets nearing the end of their serviceable lives** | Various | Condition based replacement to maintain reliable supply | Underway Due 2018 |

## 3.4

# Reliability

In 2014/15 TransGrid's transmission network reliability continued to exceed 99.999%. This result reflects our ability to make prudent planning decisions in line with international best practice. Our capability in effectively maintaining and operating the network, in addition to improvements to design standards and equipment procurement practices have also contributed to this outcome.

### NETWORK RELIABILITY (SYSTEM MINUTES LOST)

A system minute is the amount of energy which would not be supplied if the whole NSW system was unavailable for a minute at peak usage.

**0.31** ▼ 56%

SYSTEM MINUTES LOST HAS DECREASED BY 0.33




TransGrid continued to perform strongly under this measure in 2014/15.

In 2014/15 TransGrid's transmission network reliability continued to exceed 99.999%



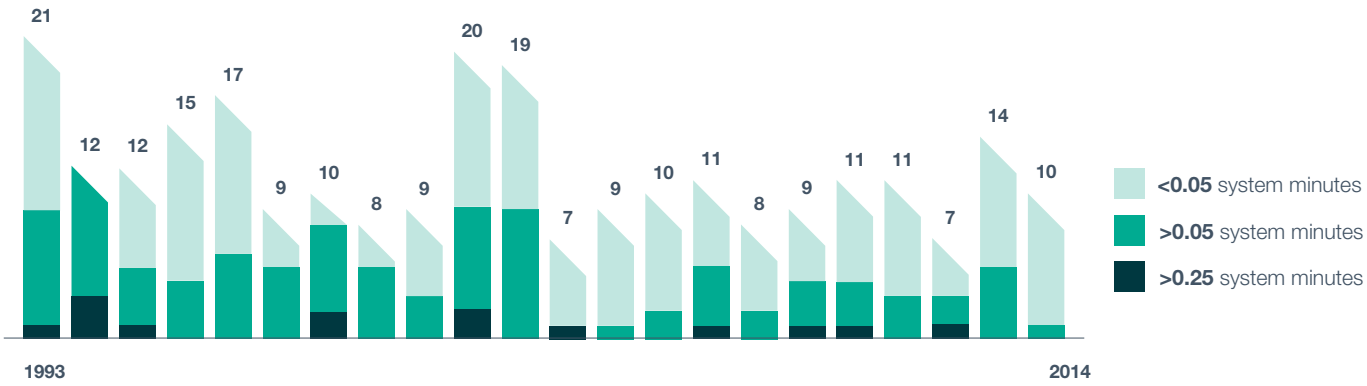
Our willingness to embrace innovative approaches to finding efficient solutions has played an important role in driving high levels of network reliability. Throughout the year we continued to:

Install online condition monitoring to provide real time diagnostics of key equipment condition allowing early detection of equipment failure

Improve visibility of switching through the use of portable tablets allowing the progression through a switching sequence to be automatically synchronised between the control room and the switcher in the field

Improve accuracy in the determination of line capacity through the installation of dynamic line rating systems on critical transmission lines

## NUMBER OF ENERGY NOT SUPPLIED EVENTS




## PERCENTAGE OF MAINTENANCE ACHIEVED (%)

**99.7** ▲ 0.4%

INCREASED BY 0.4%

| | |
|---|---|
| 2014/15 | 99.7 |
| 2013/14 | 99.3 |
| 2012/13 | 98.5 |
| 2011/12 | 98.0 |
| 2010/11 | 97.9 |

Maintenance achievement is calculated by comparing the maintenance work carried out during the year to the work specified by our maintenance policies. We strive to complete at least 96% of planned work during the year with any outstanding work being completed during the first three months of the following financial year.



Chapter 4

# Customer Service



Recognising the importance of building open, collaborative partnerships, we work closely with our customers to plan, develop and manage the network to ensure it meets their service expectations now and into the future.

## 4.1
# Customer satisfaction

Over the last few years, we have moved towards driving a better experience for our customers on the back of feedback received on the connection services that we provide. In June 2014, we completed our third annual Customer Experience Survey. The survey allowed us to measure our performance through feedback provided by 66 customers who had contact with our staff over the course of the year. Our overall customer experience rating has increased by 6%* this year, taking the score up to 74%*.

The results tell us that our customers have seen improvements in communication and timeliness over the past year. Customers also acknowledged our approach in providing a range of flexible solutions to meet specific needs. Generators, in particular, have shown an increase in customer satisfaction of 7.7% driven by improvements in timings, issues resolution and staff empowerment. While real improvements have been made, we remain committed to continually improving the experience of our customers.

Our key areas of focus for the year ahead include improvements in:

- Processes to deliver more timely and cost effective connection solutions
- Enhanced communication and channels of information.

*Updated in January 2016 to reflect 2015/16 figures which were finalised after publication

## 4.2
# Consumer engagement

Historically, TransGrid's interface has been with generators, distribution network service providers, large direct connected customers and the communities in which we operate. However, over the last two years, in recognition of growing consumer and public interest in our operations we have substantially changed our approach to engagement. We are proud of the work we have achieved and more importantly, we know that our stakeholders appreciate our progress.

Our aim is to build stakeholder and consumer awareness and integrate feedback into our planning cycles. To date, we have designed and implemented a range of stakeholder activities to educate, inform and seek feedback from energy users and representative groups on a series of initiatives covering local generation, energy efficiency, reliability, standards, demand response and network planning.

Recognising that we have a wide range of stakeholders that represent those who consume, connect to or advocate usage of today's electricity and the future of the grid has made us evaluate our communication platforms. To help facilitate an accessible, transparent two-way communication style we continue to maintain a suite of online platforms and run a number of face-to-face discussion forums.

TransGrid is committed to being an industry leader in stakeholder engagement. The business has invested to have the best people in the industry to continue to drive this change in a systematic and collaborative way.

Understanding our performance is a critical step in setting goals to improve our stakeholder engagement. This year we commissioned a piece of research that will benchmark and track our overall reputation ratings against each of our stakeholder and consumer groups, and we plan to measure these ratings and identify areas for improvement as we continue our efforts.

We thank our stakeholders and consumers who have participated in our program to date and look forward to continuing this important body of work with them.

# 4.3
# Regulated revenue determination

## Key determination outcome

In April 2015, the Australian Energy Regulator (AER) released its final determination for the 2014/15 to 2017/18 regulatory period. The outcomes of the determination are outlined below:

- The final decision allows us to recover $3,036 million ($nominal) over the 2014/15 – 2017/18 regulatory period, with a total capital expenditure of $1,015 million ($Jun-14) and a total operating expenditure of $667 million ($Jun-14)
- The determination allowed a cost of capital of 6.84% for 2014/15 and 6.75% for 2015/16

Although challenging, TransGrid will run its business within the operating and capital expenditure allowances granted. Our view remains that the level of capital expenditure allowed is not sufficient or sustainable in the longer term and we will be working with customers and the AER to address this issue in our next regulatory reset.

## Pricing reform

We understand that consumers and businesses are feeling the pressure of rising electricity prices and we are committed to providing reliable electricity at least cost. As the coordinating transmission service provider, we must determine publish NSW transmission prices calculated in accordance with a Pricing Methodology approved by the AER.

In December 2014 we brought together consumer representatives, large energy users and business groups for the third round of engagement workshops on our Five Year Business Plan. The full day of discussion covered both the AER's Draft Determination and our engagement program moving forward. Following the workshop, we hosted a webinar to provide an opportunity for those who were unable to attend to participate in an information session on the AER Draft Determination.

Webinar participants were also provided with an update on TransGrid's Pricing Methodology. Prior to submitting our proposal in May 2014, we consulted with more than 1,000 stakeholders including representatives from the following groups: direct customers, government and regulators, consumers and impacted communities. Based on the feedback we received, we reduced our capital and operating expenditure proposal by more than $75 million and restructured our pricing methodology proposal.



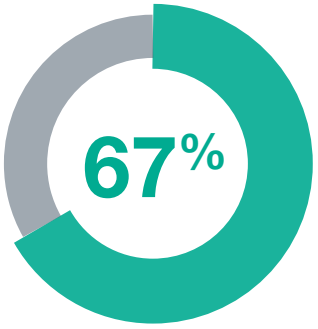


## 4.4
# Customer connections

At TransGrid, we aim to meet the needs of our customers by providing responsive, cost effective and dynamic connection solutions. We have continued to develop new levels of customer service to ensure our customers receive the most efficient possible connection to our network. In the 2014/15 financial year, we executed formal agreements associated with connection to the high voltage network for the following generation projects.

### New connection agreements in 2014/15

- White Rock Wind Farm
- Collector Wind Farm




NEW CONNECTIONS FROM RENEWABLE GENERATORS

We continue to work to provide our customers with the greatest possible customer service experience by analysing all facets of the way we do business. With an influx of new potential large electrical load customers and renewable energy sources requiring connections, these figures are expected to grow.

## 4.5

# Our new lines of business

### TransGrid Infrastructure

During 2014/15 we delivered two major customer connection projects. Both projects were delivered ahead of schedule and under budget.

TransGrid successfully bid for a terminal station at Deer Park, which is a build, own, operate and maintain project in Victoria.

Negotiations for new load and generation projects include extensive contestable works. Along with assets for connection to the network ('negotiated assets'), our service offering is being expanded to provide a range of contestable services such as complete substations, including transformers. This provides an overall lower cost solution for customers and significantly increases the scope of our service provision and associated revenues.

### New wind farm connection status

| Status | Number |
|---|---|
| Negotiated | 2 |
| Proposal | 4 |
| Future | 5 |

### TransGrid Telecommunications

In May 2015, the Board approved the development and expansion of the telecommunications business line, recognising a potentially significant opportunity to offer services through our fibre network. This builds on the decision to apply for a carrier licence which was granted by the Australian Communications and Media Authority in February 2014. TransGrid has operated telecommunications infrastructure for 15 years, and the development of TransGrid Telecommunications means that we are now able to extend this offering to large data users including wholesale services to Internet Service Providers, as well as government and enterprise sectors.

Interest in TransGrid Telecommunications continues to grow with significant pipeline leads and a number of contracts confirmed. TransGrid built and commissioned our first capital project to expand capability and signed our first customers to this network in early 2015/16.

TransGrid has the potential to grow to reach **60+** data centres and NBN Points of Interconnect over our large and diverse fibre network.



Chapter 5

# Corporate Governance



TransGrid's Board and management support an environment that encourages accountability amongst all employees to a deliver a service in the best interests of our stakeholders, shareholders and the community.

## 5.1
# Our charter

TransGrid was established as a state owned corporation on 14 December 1998 by and under the *Energy Services Corporations Amendment (TransGrid Corporatisation) Act 1998* (NSW).

Section 6C of the *Energy Services Corporations Act* (1995) gives TransGrid, as an energy transmission operator, two principal functions:

- To establish, maintain and operate facilities for the transmission of electricity and other forms of energy
- To provide services for the transmission of electricity and other forms of energy in accordance with the relevant regulatory regime.

Section 6C also empowers TransGrid to use and develop its electricity transmission facilities to carry out telecommunications services.

On 4 February 2014, the Australian Communications and Media Authority granted a carrier licence to TransGrid under the *Telecommunications Act 1997* (Cth).

The principal legislation TransGrid operates under includes the *Energy Services Corporations Act 1995* (NSW), the *Electricity Supply Act 1995* (NSW) and the *State Owned Corporations Act 1989* (NSW).

## 5.2
# Our shareholders

TransGrid's Board is responsible and accountable to the voting shareholders, being the NSW Treasurer and the Minister for Finance, Services and Property, who each hold one share for and on behalf of the NSW Government in accordance with the *State Owned Corporations Act 1989.*

## 5.3

# Our board of directors

## Board charter

The TransGrid Board has a charter which is reviewed annually and is available on TransGrid's website www.transgrid.com.au.

The Charter aligns with the recommendations in the NSW Treasury Guidelines for Boards of Government Businesses as well as the ASX Limited Corporate Governance Principles and Recommendations.

The current Charter includes details on the role, powers and specific responsibilities of the Board as well as details of the key stakeholders and Board operations.

## Purpose

The principal objectives and functions of TransGrid and the structure and composition of the TransGrid Board are laid out in the following:

- *Energy Services Corporations Act 1995 No. 95*
- *State Owned Corporations Act 1989 No. 134*
- TransGrid's Constitution
- NSW Treasury Guidelines for Boards of Government Businesses.

## Role and Delegation of Authority

The Board's role is to provide leadership and direction for the organisation.

Section 20L (1) of the *State Owned Corporations Act 1989* provides that all decisions relating to the operation of TransGrid are to be made by or under the authority of the Board.

Section 20L (2) of the *State Owned Corporations Act 1989* and Article 16.7 (a) of TransGrid's Constitution provide that the Managing Director is responsible for the day to day management of operations of TransGrid in accordance with the general policies and specific directions of the Board. This direction is prepared in the form of an "Instrument of Delegation of Functions to the Managing Director". This document is reviewed every two years or as required.

## Responsibilities

In carrying out its role, the Board has, but is not limited to, the following specific responsibilities:

- Reviewing and approving the overall corporate strategy proposed by the Executive team
- Providing input into and final approval of the Statement of Corporate Intent
- Overseeing the implementation of an effective system of corporate governance
- Overseeing compliance with relevant Government policies
- Overseeing executive development and succession planning
- Appointment of the Managing Director in consultation with the voting shareholders
- Ratification of the appointment and removal of senior executives, where appropriate
- Reviewing performance of senior executives including the Managing Director
- Reviewing and endorsing risk management and internal control systems
- Approving and monitoring financial and other reporting
- Approving and reviewing the progress of major capital expenditure, capital management, and major acquisitions and divestitures
- Appointment of the Board Secretary.

## Key stakeholders

In undertaking its responsibilities, the TransGrid Board takes into consideration a number of key stakeholders:

- The voting shareholders currently being the Treasurer and the Minister for Finance, Services and Property
- The portfolio Minister for Industry, Resources and Energy
- NSW Treasury
- Regulatory bodies and other governing organisations
- Electricity industry counterparts
- Our customers
- The community
- Suppliers and contractors
- TransGrid employees.

## Code of Conduct

The TransGrid Board has a Code of Conduct which binds all Directors and which is reviewed on an annual basis.

## Board committees

Under Section 20.9 (a) of TransGrid's Constitution, committees of Directors may be formed, consisting of one or more Directors.

TransGrid is required to have an Audit and Risk Committee and a Remuneration and Structure Committee. Committee structure and membership is reviewed on an annual basis. Each committee has a charter governing the activities of the Committee.

An Executive Board Committee, consisting of the Chairman and another Director, can also be formed out of session of the monthly schedule of board meetings. The Board must delegate prior authority to the Executive Committee to exercise approval on behalf of the Board.

Additional committees relating to other specific functions of the Board may also be created as and when required.

The Board currently has a Board Health and Safety Committee and a Board Regulatory Committee, both of which have a Charter governing their activities.

## Role of the Chairman

The Chairman provides leadership and promotes the cohesiveness and effectiveness of the Board.

Key roles performed by the Chairman include:

- Assisting the Board to develop good relationships with the Shareholding Ministers and Portfolio Minister, with the Managing Director and with other key stakeholders and interested parties
- Assisting individual Directors, and the Board as a whole, to understand their role, responsibilities and accountabilities
- Helping Directors understand their risks and liabilities as individual members and as a Board
- Ensuring a comprehensive agenda is presented to each meeting of the Board.

In a situation where the Chairman is absent from a Board Meeting, an Acting Chairman may be elected for that meeting and exercise all the powers and authorities of the Chairman.

## Role of the Board Secretary

Under Section 23.1 of TransGrid's Constitution, the Directors are responsible for appointing the Board Secretary. The Directors may also remove any Board Secretary who has been appointed.

Key roles to be performed by the Board Secretary include:

- Being a source of advice and counsel for Directors and management
- Preparing the agenda for approval by the Chairman and compiling the supporting papers
- Arranging for members of the management team and expert advisors to provide advice and, if required, attend meetings of the Board to present this advice
- Advising on and working to enhance Board practices and procedures
- Keeping abreast of and informing Directors of any changes to legislative requirements of governance expectations.

## Operation of Board meetings

The Board meets every month (excluding January). Board Committees will meet at least quarterly. Additional meetings may be called upon depending on the business requirement.

Under Section 20.2 of the TransGrid Constitution, the quorum for meetings of the Board is three Directors and under Section 20.9 (d) of the Constitution the quorum for meetings of Board Committees (where the Committee consists of two or more Directors) is two Directors.

## Circulation of Board and Board committee papers

Board and Board Committee Papers are circulated in advance of the meeting.

## Conduct of Board meetings

All decisions of the Board are made on the basis of consensus and votes are only taken where consensus cannot be reached. All decisions and individual Director dissent is recorded, if requested by the Director.

## Board minutes

Under Section 22.1 of TransGrid's Constitution, minutes of all Board Meetings and Board Committee Meetings are to be retained and filed appropriately. These minutes are circulated to all Directors at the following meeting, where they will be confirmed by the Board or Board Committee meetings. The Board Secretary will action resolutions of the Board in a timely manner.

## Board structure

The *Energy Services Corporations Act 1995* provides for the Board to consist of the Managing Director and at least three (3) other Directors, to be appointed by the voting shareholders at their discretion.

## Terms of office

In accordance with Schedule 8, Clause 5 of the *State Owned Corporations Act 1989*, a Director holds office for such period (not exceeding five years) as may be specified in the Director's instrument of appointment.

The voting shareholders may remove a Director, or the Chairman, from office at any time for any or no reason and without notice (but only at a duly convened meeting of the voting shareholders).

## Remuneration

The remuneration of each Non-Executive Director is paid out of TransGrid funds, and is determined by the shareholders. The total income received, or due receivable, by all Directors of TransGrid is listed in the Notes to the Financial Statements. The Managing Director is not entitled to any additional remuneration for being an Executive Director.

## Method of appointment

Directors are to be appointed pursuant to a written instrument of appointment which must: be signed by the voting shareholders; be delivered to the Secretary at the office of the corporation; specify the term of office of the Director; and specify the terms of the appointment.

## Conflict of interest

Director independence plays an important role in ensuring good corporate governance. All TransGrid Non-Executive Directors are considered independent.

On occasion, a situation may arise where a Director must disclose interests to the Board (which includes positions and pecuniary interests) in corporations, partnerships or other businesses that maybe relevant to the activities of the Board or an associated Committee. A register of such interests is maintained by TransGrid and the process is clearly documented in the Code of Conduct.

## Meetings of the Board

| Name | TransGrid Board | |
|---|---|---|
| | Meetings attended | Meetings entitled to attend |
| Chum Darvall | 11 | 11 |
| Peter McIntyre | 10 | 11 |
| Trevor Danos | 11 | 11 |
| Suzanne Jones | 11 | 11 |
| Patricia McKenzie | 3 | 4 |
| Michael Nugent | 10 | 11 |
| Emma Stein | 4 | 4 |

| Name | Board Audit and Risk Committee | | Board Health and Safety Committee | | Board Regulatory Committee | | Board Remuneration and Structure Committee | |
|---|---|---|---|---|---|---|---|---|
| | Meetings attended | Meetings entitled to attend | Meetings attended | Meetings entitled to attend | Meetings attended | Meetings entitled to attend | Meetings attended | Meetings entitled to attend |
| Chum Darvall | 4 | 4 | - | - | 3 | 3 | 4 | 4 |
| Peter McIntyre | - | - | 4 | 4 | 3 | 3 | 4 | 4 |
| Trevor Danos | 5 | 5 | 4 | 4 | 3 | 3 | - | - |
| Suzanne Jones | 5 | 5 | 4 | 4 | 3 | 3 | - | - |
| Patricia McKenzie | - | - | 1 | 1 | - | - | - | - |
| Michael Nugent | 4 | 5 | - | - | 3 | 3 | 4 | 4 |
| Emma Stein | 1 | 1 | - | - | - | - | 2 | 2 |

## Board committees

To assist the Board in fulfilling its responsibilities, the Board currently utilises four committees as follows:

- The Board Audit and Risk Committee
- The Board Remuneration and Structure Committee
- The Board Health and Safety Committee
- The Board Regulatory Committee
- A Charter governing each of these committees is available on TransGrid's www.transgrid.com.au website.

Each Committee is chaired by a Non-Executive Director and a report detailing the items considered by the committee is tabled at the following Board meeting.

## Executive Board Committee

The Board may also convene the Executive Board Committee usually consisting of the Managing Director and the Chairman. Other Directors may be invited to sit on this committee as and when required or considered appropriate. The purpose of this committee is to consider matters between Board meetings which would otherwise require Board approval.

## The Board Audit and Risk Committee

Chaired by Michael Nugent, the primary function of the Board Audit and Risk Committee is to assist the Board in fulfilling its oversight responsibilities by reviewing:

- The overall audit process of the organisation
- The systems of internal control which management and the Board of Directors have established
- Risk management process and determination of risk appetite for the organisation
- The process for monitoring compliance with laws
- The Code of Conduct and financial information which will be provided to the Board Audit and Risk Committee from time to time.

## The Board Remuneration and Structure Committee

Chaired by Chum Darvall, the primary function of this Board committee is to assist the Board in determining the remuneration and employment conditions of TransGrid's executive and senior management and reviewing the organisational structure of TransGrid.

## The Board Health and Safety Committee

Chaired by Suzanne Jones, the primary function of the Board Health and Safety Committee is to assist the Board in fulfilling its responsibilities relating to the health and safety of the organisation's employees and contractors.

## The Board Regulatory Committee

Chaired by Trevor Danos, the primary function of the Committee is to assist the Board in preparing oversee the preparation and submission of TransGrid's Revenue Proposals.

The committee also has such other functions in relation to reviewing and guiding governance, policy and strategic decisions with regulatory implications.

## Employee related expenditure relating to senior management

| BAND (Converted to SES equivalents) | 2013/14 | | 2014/15 | |
|---|---|---|---|---|
| | Female | Male | Female | Male |
| Band 4 and above (Secretary) | 0 | 1 | 0 | 1 |
| Band 4 (Deputy Secretary) | 1 | 6 | 1 | 5 |
| Band 2 (Executive Director) | 1 | 16 | 2 | 13 |
| Band 1 (Director) | 12 | 60 | 14 | 68 |
| **Total** | **97** | | **104** | |

| BAND (Converted to SES equivalents) | Range $ (SES grades) | Average Remuneration | Range $ (SES grades) | Average Remuneration |
|---|---|---|---|---|
| | 2013/14 $ | | 2014/15 $ | |
| Band 4 (Secretary) | 422,501 – 488,100 | 778,043 | 430,451 – 497,300 | 816,683 |
| Band 4 (Deputy Secretary) | 299,751 – 422,500 | 397,643 | 305,401 – 430,450 | 394,180 |
| Band 2 (Executive Director) | 238,301 – 299,750 | 266,138 | 242,801 – 305,400 | 262,228 |
| Band 1 (Director) | 167,100 – 238,300 | 205,890 | 170,250 – 242,800 | 202,480 |

18.13% of TransGrid's employee related expenditure in 2014/15 was related to the senior management in Bands 1-4, compared with 16.67% in 2013/14.

Chapter 6

# Statistical & statutory information explained



## 6.1

# Agreements with Multicultural NSW

TransGrid is not a party to any agreement with the Community Relations Commission under the *Multicultural NSW Act 2000.*

## 6.2

# Community activities

| Project | **Community publications** (including newsletter, construction notification and fact sheets) | **Community activities and events** (including information session, survey, focus group or event) | **Stakeholder briefings** (in person or via correspondence including local council, MPs, key stakeholders) |
|---|---|---|---|
| Cooma Substation rebuild | 4 | 4 | 14 |
| Yanco Substation rebuild | 2 | - | - |
| Orange Substation rebuild | 2 | 1 | - |
| Northern Telecommunications back up loop | 4 | - | 11 |
| Coffs Harbour to Koolkhan transmission line rebuild | - | - | 1 |
| Western Sydney Supply Project | 1 | 1 | - |
| Yanco to Uranquinty transmission line rebuild | - | - | 1 |
| Powering Sydney's Future | 2 | 4 | 1 |
| Canberra Second Electrical Supply Project | - | - | 1 |
| Tamworth Substation rebuild | 2 | - | 10 |
| Canberra Fibre Optic Project | 2 | - | 6 |
| Regional project update forums | 5 | 5 | - |
| Orange to Wallerawang transmission line rebuild | 1 | - | 1 |
| Griffith Substation rebuild | 2 | - | 3 |
| Sydney North Substation rebuild | 2 | - | 1 |
| Beaconsfield Substation rebuild | 1 | - | 2 |
| Burrinjuck to Tumut transmission line rebuild | 1 | - | - |
| Molong Substation rebuild | 1 | - | - |
| Dynamic line rating project | 1 | - | - |
| Holroyd to Rookwood cable repairs | 2 | - | - |
| **Total** | **35** | **15** | **52** |

## 6.3
# Complaints management

Effective complaints and enquiry management increases stakeholder satisfaction and recognises our principal objective to exhibit a sense of social responsibility by having regard for the interests of the community in which we operate.

A large majority of complaints received during the year related to impacts from our capital works program. These are primarily construction related impacts and noise from existing substation and transmission line assets.

Over the next year, we will continue to improve our complaints management processes across the business to support effective community and stakeholder engagement.

All complaints received were addressed in a timely manner with the complainant.

## 6.4
# Consultant fees

Consulting services refers to professional advice provided to TransGrid in the form of a report, in cases where the professional expertise is not available in-house. During the year, $244,146.63 (comprised of capital and operating expenditure) was spent on consulting services relating to the preparation of environmental impact assessments.

## 6.5
# Credit card usage

TransGrid has in place policies and procedures on credit card usage which have been developed considering the various NSW Government policies and procedures. We continue to promote the correct usage of corporate credit cards and continually review usage characteristics and authorisations.

## 6.6
# Cost of annual report

Production costs of this Annual Report have been kept to a minimum with content limited to recording performance and meeting statutory requirements. The report has been produced in colour as it is to be viewed online and will be made available at www.transgrid.com.au and to the relevant agencies. The total external costs for producing this Annual Report were $12,970 (ex. GST). TransGrid has no in-house design capability therefore production of the report was outsourced. Design costs were kept to a minimum by reusing last year's report as a template for this year.

## 6.7
# Digital information security

TransGrid's corporate Digital Information Security policies and procedures are annually reviewed and aligned to best practices and industry standards including ISO27001.

Areas where there is a high level of compliance include:

- Security policy and accountability
- Organisation of Information security
- Financial systems security
- Human resources security
- Communications and operations management
- Access control including user and other general controls
- Information security incidents.

Other features of TransGrid's Digital Information Security system include:

- Contractual agreements with third parties for a range of data security management services including: protection, monitoring, testing and incident resolution
- A segmented data network with associated access controls
- User security awareness testing
- Periodic internal and external audits.

TransGrid's self-assessment for corporate Digital Information Security is considered at maturity level 3 (defined), which is characterised by defined policies and procedures, defined security organisation and improving user awareness.

## 6.8
# Disclosure of controlled entities

TransGrid has no controlled entities for the 2014/15 reporting year.

## 6.9
# Electronic service delivery

TransGrid uses many different communication tools to engage the public, customers, employees and suppliers. TransGrid provides employees with facilities to securely access electronic corporate applications, such as the intranet and their email account through the internet. TransGrid's website www.transgrid.com.au provides a range of information to meet the needs of stakeholders. The public can subscribe to regular updates on capital projects, media releases and regulatory documents. The website also facilitates simple access to the e-tendering and e-recruitment sites.

## 6.10

# Equal Employment Opportunity (EEO)

EEO figures are as of 19 June 2015. There may be a slight variation compared to end of financial year figures as at 30 June 2015.

| Current selections | |
|---|---|
| **Cluster** | **Reporting Entity** |
| Trade & Investment, Regional Infrastructure & Services | TransGrid |

**1. Size of agency (headcount)**

| | 2013 | 2014 | 2015 | % Change 2014 to 2015 |
|---|---|---|---|---|
| **Headcount at Census Date** | 1,083 | 1,071 | 1,048 | -2.15% |
| **Non-casual headcount at Census Date** | 1,082 | 1,069 | 1,046 | -2.15% |

**2. Workforce Diversity (EEO) survey response rate (non-casual headcount at Census Date)**

| | 2013 | 2014 | 2015 |
|---|---|---|---|
| **Non-casual headcount at Census Date** | 1,082 | 1,069 | 1,046 |
| **Non-casual Workforce Diversity (EEO) survey respondents at Census Date** | 706 | 689 | 669 |
| **Response rate** | **65.25%** | **64.45%** | **63.96%** |

Note: All calculated Workforce Diversity data in Tables 1 and 2 are based on employee status as at Census Date.

**3. Workforce Diversity actual staff numbers (non-casual headcount at Census Date) 2015**

| Remuneration level of substantive position | Total staff (men, women & unspecified) | Respondents | Men | Women | Unspecified gender | Aboriginal & Torres Strait Islanders | People from racial, ethnic, ethno-religious minority groups | People whose language first spoken as a child was not English | People with a disability | People with a disability requiring work-related adjustment |
|---|---|---|---|---|---|---|---|---|---|---|
| $0 - $43,593 | 9 | 5 | 7 | 2 | 0 | 1 | 0 | 0 | 1 | 0 |
| $43,593 - $57,256 | 25 | 12 | 22 | 3 | 0 | 1 | 1 | 0 | 0 | 0 |
| $57,256 - $64,008 | 19 | 13 | 15 | 4 | 0 | 1 | 2 | 2 | 0 | 0 |
| $64,008 - $80,997 | 131 | 76 | 100 | 31 | 0 | 3 | 10 | 6 | 4 | 1 |
| $80,997 - $104,743 | 360 | 228 | 279 | 81 | 0 | 2 | 34 | 44 | 9 | 1 |
| $104,743 - $130,929 | 288 | 191 | 250 | 38 | 0 | 1 | 38 | 46 | 8 | 0 |
| $130,929 > (Non SES) | 214 | 144 | 177 | 37 | 0 | 1 | 43 | 38 | 8 | 0 |
| **Total** | **1,046** | **669** | **850** | **196** | **0** | **10** | **128** | **136** | **30** | **2** |

Note 1: Unspecified gender includes unknown, withdrawn, or indeterminate/intersex recorded values.

| 4. Workforce Diversity actual and estimated staff numbers (non-casual headcount at Census Date) 2015 | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Actual | | | | | | Actual | | | |
| Remuneration level of substantive position | Total staff (men, women & unspecified) | Respondents | Men | Women | Unspecified gender | Aboriginal & Torres Strait Islanders | People from racial, ethnic, ethno-religious minority groups | People whose language first spoken as a child was not English | People with a disability | People with a disability requiring work-related adjustment |
| $0 - $43,593 | 9 | 5 | 7 | 2 | 0 | 1.0 | 0.0 | 0.0 | 1.0 | 0.0 |
| $43,593 - $57,256 | 25 | 12 | 22 | 3 | 0 | 1.0 | 1.0 | 0.0 | 0.0 | 0.0 |
| $57,256 - $64,008 | 19 | 13 | 15 | 4 | 0 | 1.0 | 2.0 | 2.0 | 0.0 | 0.0 |
| $64,008 - $80,997 | 131 | 76 | 100 | 31 | 0 | 3.0 | 10.0 | 6.0 | 4.0 | 1.0 |
| $80,997 - $104,743 | 360 | 228 | 279 | 81 | 0 | 2.0 | 34.0 | 44.0 | 9.0 | 1.0 |
| $104,743 - $130,929 | 288 | 191 | 250 | 38 | 0 | 1.0 | 38.0 | 46.0 | 8.0 | 0.0 |
| $130,929 > (Non SES) | 214 | 144 | 177 | 37 | 0 | 1.0 | 43.0 | 38.0 | 8.0 | 0.0 |
| **Total** | **1,046** | **669** | **850** | **196** | **0** | **10** | **128** | **136** | **30** | **2** |

Note 1: Estimated figures are calculated on the basis of the number of employees that have responded “yes” to the Workforce Diversity category as a proportion of the total number of employees who have responded to the Workforce Diversity (EEO) survey, multiplied by the total amount of employees in the salary band i.e. Estimated People with a Disability from salary band 1 = (Actual number of People with a Disability in salary band 1/ Total number of respondents from salary band 1)* Total number of Staff in salary band 1.

Note 2: Estimated figures are only calculated for those agencies with a response rate of greater than 65%. For those agencies with response rates less than 65%, actual figures are used to calculate the representation and distribution of these groups.

Note 3: Respondents are classified as employees who have provided an answer for any of the Workforce Diversity questions, whether they have chosen to withdraw their response or not i.e. all employees who do not have “missing” as their response.

Note 4: Separated employees are excluded in the above table.

Note 5: Unspecified gender includes unknown, withdrawn, or indeterminate/intersex recorded values.

| 4a. Workforce Diversity actual and estimated staff numbers (non-casual headcount at Census Date) as percentage 2015 | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Actual | | | | | Actual | | | | |
| Remuneration level of substantive position | Total staff (men, women & unspecified) | Respondents | Men | Women | Unspecified gender | Aboriginal & Torres Strait Islanders | People from racial, ethnic, ethno-religious minority groups | People whose language first spoken as a child was not English | People with a disability | People with a disability requiring work-related adjustment |
| $0 - $43,593 | 9 | 55.6% | 77.8% | 22.2% | 0.0% | 11.1% | 0.0% | 0.0% | 11.1% | 0.0% |
| $43,593 - $57,256 | 25 | 48.0% | 88.0% | 12.0% | 0.0% | 4.0% | 4.0% | 0.0% | 0.0% | 0.0% |
| $57,256 - $64,008 | 19 | 68.4% | 78.9% | 21.1% | 0.0% | 5.3% | 10.5% | 10.5% | 0.0% | 0.0% |
| $64,008 - $80,997 | 131 | 58.0% | 76.3% | 23.7% | 0.0% | 2.3% | 7.6% | 4.6% | 3.1% | 0.8% |
| $80,997 - $104,743 | 360 | 63.3% | 77.5% | 22.5% | 0.0% | 0.6% | 9.4% | 12.2% | 2.5% | 0.3% |
| $104,743 - $130,929 | 288 | 66.3% | 86.8% | 13.2% | 0.0% | 0.3% | 13.2% | 16.0% | 2.8% | 0.0% |
| $130,929 > (Non SES) | 214 | 67.3% | 82.7% | 17.3% | 0.0% | 0.5% | 20.1% | 17.8% | 3.7% | 0.0% |
| **Total** | **1,046** | **64.0%** | **81.3%** | **18.7%** | **0.0%** | **24.1%** | **64.8%** | **61.1%** | **23.2%** | **1.1%** |

Note 1: Estimated percentages are calculated in a similar manner to the estimated figures in table 4, only they are expressed as a percentage i.e. Estimated Percentage of People with a Disability from salary band 1 = (Actual number of People with a Disability from salary band 1/Total number of respondents from salary band 1).

Note 2: Estimated figures are only calculated for those agencies with a response rate of greater than 65%. For those agencies with response rates less than 65%, actual figures are used to calculate the representation and distribution of these groups.

Note 3: Unspecified gender includes unknown, withdrawn, or indeterminate/intersex recorded values.

## Parliamentary Annual Report Tables

| 5a. Trends in the representation of Workforce Diversity groups | | | | |
|---|---|---|---|---|
| **Workforce Diversity Group** | **Benchmark/target*** | **2013** | **2014** | **2015** |
| Women | **50%** | 17.4% | 17.8% | 18.7% |
| Aboriginal People and Torres Strait Islanders | **2.6%** | 0.9% | 0.6% | 1.0% |
| People whose first language spoken as a child was not English | **19.0%** | 20.2% | 13.5% | 13.0% |
| People with a disability | **N/A** | 4.8% | 2.9% | 2.9% |
| People with a disability requiring work-related adjustment | **1.5%** | 0.3% | 0.2% | 0.2% |

| 5b. Trends in the distribution of Workforce Diversity groups | | | | |
|---|---|---|---|---|
| **Workforce Diversity Group** | **Benchmark/target*** | **2013** | **2014** | **2015** |
| Women | **100** | 95 | 98 | 97 |
| Aboriginal People and Torres Strait Islanders | **100** | N/A | N/A | N/A |
| People whose first language spoken as a child was not English | **100** | 108 | 108 | 109 |
| People with a disability | **100** | 103 | 104 | 102 |
| People with a disability requiring work-related adjustment | **100** | N/A | N/A | N/A |

*Information in section 6.10 is presented as per NSW Public Service Commissioner Workforce Profile reporting standards. The Benchmark/Target represents a metric (Distribution Index) which is outlined in Notes below.

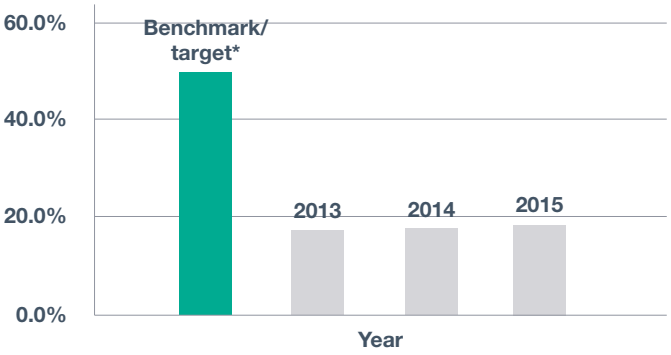
Note 1: A Distribution Index of 100 indicates that the centre of the distribution of the Workforce Diversity group across salary levels is equivalent to that of other staff. Values less than 100 mean that the Workforce Diversity group tends to be more concentrated at lower salary levels than is the case for other staff. The more pronounced this tendency is, the lower the index will be. In some cases the index may be more than 100, indicating that the Workforce Diversity group is less concentrated at lower salary levels.

Note 2: The Distribution Index is not calculated where Workforce Diversity group or Non-Workforce Diversity group numbers are less than 20.

## Representation of workforce diversity groups

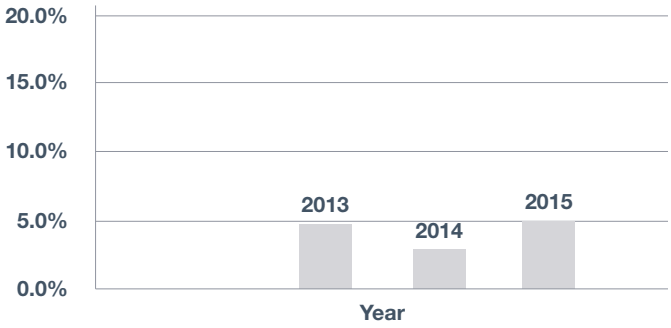
| Workforce Diversity group | Benchmark/ target* | 2013 | 2014 | 2015 |
|---|---|---|---|---|
| Women | **50%** | 17.4% | 17.8% | 18.6% |

**Trends in Workforce Diversity group women**



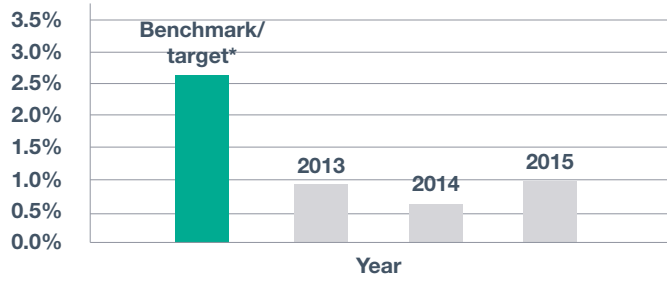

| Workforce Diversity group | Benchmark/ target* | 2013 | 2014 | 2015 |
|---|---|---|---|---|
| People with a disability | **N/A** | 4.8% | 2.9% | 5.0% |

**Trends in Workforce Diversity group people with a disability**



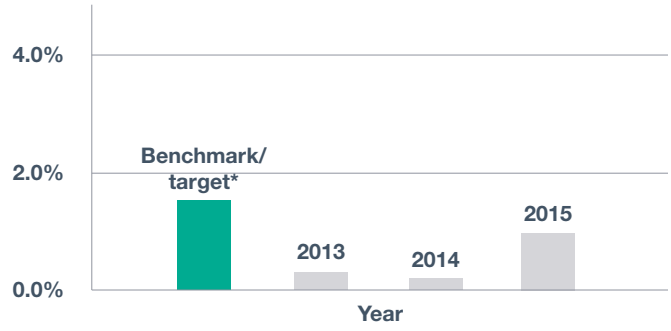

| Workforce Diversity group | Benchmark/ target* | 2013 | 2014 | 2015 |
|---|---|---|---|---|
| Aboriginal People and Torres Strait Islanders | **2.60%** | 0.9% | 0.6% | 0.96% |

**Trends in Workforce Diversity group Aboriginal People and Torres Strait Islanders**



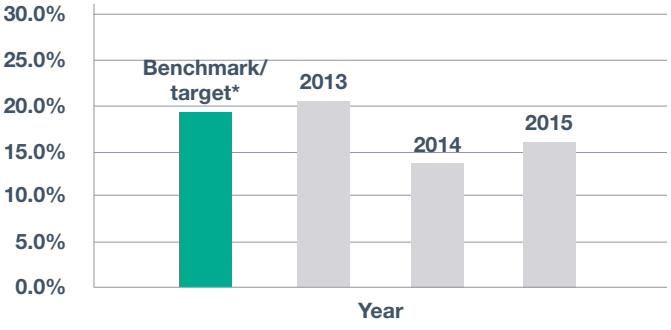

| Workforce Diversity group | Benchmark/ target* | 2013 | 2014 | 2015 |
|---|---|---|---|---|
| People with a disability requiring work-related adjustment | **1.5%** | 0.3% | 0.2% | 0.96% |

**Trends in Workforce Diversity group people with a disability requiring work-related adjustment**




| Workforce Diversity group | Benchmark/ target* | 2013 | 2014 | 2015 |
|---|---|---|---|---|
| People whose first language spoken as a child was not English | **19.0%** | 20.2% | 13.5% | 15.8% |

**Trends in Workforce Diversity group people whose first language spoken as a child was not English**




*Information in section 6.10 is presented as per NSW Public Service Commissioner Workforce Profile reporting standards. The Benchmark/ Target represents a metric (Distribution Index) which is outlined in Notes 1 and 2 on page 62.

## 6.11

# Government Information (Public Access) Act 2009 (GIPA)

| Table A: Number of applications by type of applicant and outcome | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Access granted in full | Access granted in part | Access refused in full | Information not held | Information already available | Refuse to deal with application | Refuse to confirm/ deny whether information is held | Application withdrawn |
| Media | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Members of Parliament | 2 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Private sector business | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Not for profit organisations or community groups | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Members of the public (application by legal representative) | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Members of the public (other) | 1 | 1 | 0 | 0 | 0 | 0 | 0 | 0 |

| Table B: Number of applications by type of application and outcome | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Access granted in full | Access granted in part | Access refused in full | Information not held | Information already available | Refuse to deal with application | Refuse to confirm/ deny whether information is held | Application withdrawn |
| Personal information applications | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Access applications (other than personal information applications | 3 | 1 | 0 | 0 | 0 | 0 | 0 | 0 |
| Access applications that are partly personal information applications and partly other | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

| Table C: Invalid applications | |
|---|---|
| | Number of applications |
| Application does not comply with formal requirements (section 41 of the Act) | 2 |
| Application is for excluded information of the agency (section 43 of the Act) | 0 |
| Application contravenes restraint order (section 110 of the Act) | 0 |
| Total number of invalid applications received | 2 |
| Invalid applications that subsequently became valid applications | 2 |

| Table D: Conclusive presumption of overriding public interest against disclosure: matters listed in Schedule 1 of the Act | |
|---|---|
| | Number of times consideration used |
| Overriding secrecy laws | 0 |
| Cabinet information | 0 |
| Executive Council information | 0 |
| Contempt | 0 |
| Legal professional privilege | 0 |
| Excluded information | 0 |
| Documents affecting law enforcement and public safety | 0 |
| Transport safety | 0 |
| Adoption | 0 |
| Care and protection of children | 0 |
| Ministerial code of conduct | 0 |
| Aboriginal and environmental heritage | 0 |

| Table E: Other public interest considerations against disclosure: matters listed in table to section 14 of the Act | |
|---|---|
| | Number of occasions when application not successful |
| Responsible and effective government | 0 |
| Law enforcement and security | 0 |
| Individual rights, judicial processes and natural justice | 0 |
| Business interests of agencies and other persons | 0 |
| Environment, culture, economy and general matters | 0 |
| Secrecy provisions | 0 |
| Exempt documents under interstate Freedom of Information legislation | 0 |

| Table F: Timeliness | |
|---|---|
| | **Number of applications** |
| Decided within the statutory timeframe (20 days plus any extensions) | 5 |
| Decided after 35 days (by agreement with applicant) | 0 |
| Not decided within time (deemed refusal) | 0 |
| **Total** | **5** |

| Table G: Number of applications reviewed under Part 5 of the Act (by type of review and outcome) | | | |
|---|---|---|---|
| | **Decision varied** | **Decision upheld** | **Total** |
| Internal review | 0 | 0 | 0 |
| Review by Information Commissioner | 0 | 0 | 0 |
| Internal review following recommendation under section 93 of Act | 0 | 0 | 0 |
| Review by ADT | 0 | 0 | 0 |
| **Total** | **0** | **0** | **0** |

| Table H: Applications for review under Part 5 of the Act (by type of review and outcome) | |
|---|---|
| | **Number of applications for review** |
| Applications by access applicants | 0 |
| Applications by persons to whom information the subject of access application relates (see section 54 of the Act) | 0 |

## 6.12

# Judicial decisions

During the reporting period, there were no decisions which affected TransGrid's operations, financial position or financial performance to a material extent.

## 6.13

# Land disposal 2014/15

During the reporting period, there were no land disposals greater than $5,000,000 and not sold by public auction, or that falls within this reporting category.

## 6.14

# Legislative change

During the reporting period, the Electricity Network Assets (Authorised Transactions) Act 2015 was introduced. This Act authorises the transfer of electricity network assets to the private sector for a 99 year lease. In relation to the electricity transmission network, 100% of TransGrid's business will be leased to the private sector following the outcome of a competitive bid process. The legislation enables the transfer of TransGrid's assets, rights and liabilities, as well as its employees. Following completion of the transaction, the Lessee of the transmission business will not be an 'Energy Services Corporation' and, therefore, will no longer be subject to the State Owned Corporations Act or the Energy Services Corporation Act.

## 6.15

# Overseas visits

Below is a listing of the overseas visits undertaken by TransGrid employees over the reporting period.

| Officer | Title | Countries visited | Purpose of visit |
|---|---|---|---|
| D. Yoga | Professional Officer | Sweden | Witness testing of SVC control protection system |
| L. Xu | Professional Engineer | Sweden | Witness testing of SVC control protection system |
| H. Allen | Engineering Officer | China | Attend design review meeting |
| H. Allen | Engineering Officer | China | Witness factory acceptance testing for 220kv/30MVAr shunt reactor |
| D. Yoga | Professional Officer | Thailand | Witness factory acceptance testing for 120MVA Transformer |
| D. Yoga | Professional Officer | Sweden | Witness factory acceptance testing for SVC Refurbishment |
| K. Fernando | Professional Officer | Germany | Witness factory acceptance testing for GIS |

## 6.16

# Privacy

TransGrid's Privacy Policy is published on the TransGrid website and sets out how we deal with personal information. We are committed to respecting individuals' right to privacy and to protecting personal information we retain about individuals.

TransGrid's Privacy Policy is consistent with the *Privacy Act 1988* (Cth) and the Australian Privacy Principles.

TransGrid also has a Privacy Procedure which provides guidance to employees on how personal information should be managed within the organisation. The Privacy Procedure is available to all employees on the intranet.

## 6.17

# Public Interest Disclosure

| Statistical Information on Public Interest Disclosure (PID) – 30 June 2014 | | | |
|---|---|---|---|
| | **PIDs made by Public officials in performing their day to day functions** | **PIDs that are made under a statutory or other legal obligation** | **All other PIDs** |
| Number of public officials who made PIDs | 0 | 0 | 4 |
| Number of PIDs received | 0 | 0 | 1 |
| Of PIDs received, number primarily about: | 0 | 0 | |
| > Corrupt conduct | | | 1 |
| > Maladministration | | | Nil |
| > Serious and substantial waste | | | Nil |
| > Local government pecuniary interest contravention | | | Nil |
| Number of PIDs finalised | 0 | 0 | 1 |

TransGrid has an internal reporting procedure "Reporting of corruption, maladministration, serious and substantial waste or government information contraventions". The procedure has been established to provide guidance to employees on the *Public Interest Disclosures (PID) Act 1994,* its confidentiality provisions, how disclosures will be managed within TransGrid and TransGrid's commitment to the proper investigation and the protection of employees making disclosures.

This procedure was implemented in accordance with a detailed communications plan. Communications included policy briefings for senior management, an email message to all staff, an information pack for managers and team leaders, and a page on the Intranet. Training is also provided to all staff through the on-boarding and induction process.

## 6.18

# Reporting exemptions

The following reporting exemptions have been granted by NSW Treasury to enable financial reporting requirements that apply, to be broadly consistent with Corporations Act reporting requirements.

| Statutory requirements | Act/regulation reference | Comments |
|---|---|---|
| Budgets | ARSBA s.7(1)(a)(iii)<br>ARSBA s.7(1)(a)(iii)<br>ARSBR c7-8 | Continuing exemption as notified by NSW Treasury in March 2006 |
| Credit card certification | TD 205.01 | Not required to submit as advised by NSW Treasury, credit card usage is outlined in summarised form on page 57 |
| Consultants | PM 2002-07<br>ARSBR Schedule 1 | Exemption subject to a condition. The condition is that the total amount spent on consultants is to be disclosed along with a summary of the main purposes of the engagements. |
| Disability inclusion action plans | DIA s12n and 13<br>ARSBR Schedule 1<br>ARSBR c18 TC 15/18 | This requirement does not apply TransGrid as it is only required of 'public authorities' as defined by the act. |
| Disclosure of subsidiaries | PM 06-02 | This requirement does not apply to State Owned Corporations |
| Human resources | ARSBR Schedule 1 | Continuing exemption as notified by NSW Treasury in March 2006 |
| Internal audit and risk management policy attestation | TPP 09-5<br>TC 09/08 | This requirement does not apply to State Owned Corporations |
| Investment performance | ARSBR Clause 12 | Continuing exemption as notified by NSW Treasury in March 2006 |
| Land disposal | ARSBR Schedule 1 | Continuing exemption as notified by NSW Treasury in March 2006 |
| Liability management performance | ARSBR Clause 13<br>TC 09/07 | Continuing exemption as notified by NSW Treasury in March 2006 |
| Management and activities | ARSBR Schedule 1 | Exemption subject to a condition. The condition is that comments and information relating to 'management and activities' are to be disclosed in a summarised form. |
| Payment of accounts | TC 11/21<br>ARSBR Schedule 1 | This exemption only applies to statutory State Owned Corporations as they are not subject to the payment of accounts provisions in s15 of the Public Finance and Audit Regulation. |
| Research and development | ARSBR Schedule 1 | Continuing exemption as notified by NSW Treasury in March 2006 |
| Risk management and insurance activities | ARSBR Schedule 1 | Exemption subject to a condition. The condition is that the comments and information are to be disclosed in a summarised form. |
| Summary review of operations | ARSBR Schedule 1 | Exemption subject to a condition. The condition is that comments and information relating to the 'summary review of operations' are to be disclosed in a summarised form. |
| Time for payment of accounts | ARSBR Schedule 1<br>TC 11/21 | This exemption only applies to statutory State Owned Corporations as they are not subject to the payment of accounts provisions in s15 of the Public Finance and Audit Regulation. |

## 6.19

# Risk management

TransGrid's risk management system is based on the AS/NZS 31000 Risk Management-Principles and Guidelines and is outlined in a number of documents including:

- Risk Management Framework
- Corporate Audit and Risk Framework
- Board Audit and Risk Committee Charter
- Executive Audit and Risk Committee Charter

The organisation has structured its risk planning process into two areas: key risks and operational risks. The key risk assessment is reviewed at least quarterly by the Board Audit and Risk Committee and the Executive Audit and Risk Committee.

An operational risk assessment is undertaken on at least an annual basis and is incorporated into the business planning process. Monitoring of operational risks occurs on a regular basis, with escalation of high or extreme risks to the Executive and Board Audit and Risk Committees.

Specific fraud risk assessments are undertaken every three years and are an input into the audit program.

Identified risks are rated using a standardised matrix and those rated above a certain level require mitigation strategies to be developed. These strategies are then incorporated into the business unit plans.

## Key business risks

| | |
|---|---|
| Safety of people | TransGrid's actions or in-actions put the safety of its staff, contractors or the public at risk, or damages public or private property. |
| Changes to the industry structure (i.e. disruption of new technology/ regulatory changes) | TransGrid does not effectively respond to the mid to long-term aspects of our operating environment and fails to adapt to these changes once they do occur. |
| Commercial performance | Inability to deliver the shareholder's expected return on equity. |
| Strategic asset management | Resources are not managed to effectively balance the service/cost trade-off and achieve optimal outcomes for TransGrid and consumers in addressing network constraints, maintenance requirements and meet the future requirements of the network. Widespread loss of supply from TransGrid assets for an extended period, or other observable asset failures. |
| Efficient delivery of capital works | Capital projects are not completed as per customer requirements or project commitment, within the required time, quality and cost. |
| Compliance obligations | Failure to implement systems and processes that drive compliance with legislation including the National Electricity Rules and National Electricity Law. (Excludes Health and Safety and Environment which are covered separately). |
| Management of customer obligations | Failure to meet contractual or regulatory obligations to customers. |
| Employee engagement | Failure to effectively engage staff and management to deliver corporate objectives. |
| Critical information/operation technology and communications | The loss or unauthorised access to critical IT systems (i.e. SCADA, EDMS, Ellipse, TheOS) affects TransGrid's ability to operate the network or provide services to third parties. |
| Fraud and corruption | There is a misappropriation of funds, corruption, maladministration or serious and substantial waste. |
| Environmental management | TransGrid's actions or in-actions put the environment at risk, or cause damage to the environment. |
| Reputation | Inability to influence, or negative impact on TransGrid's reputation through (a) poor stakeholder management (b) poor customer management (c) in-actions or process failure. |
| Agility and ability to respond to change | The underlying culture and business model of TransGrid does not enable successful execution of the strategic objectives and changes. |

## 6.20

# Insurance

TransGrid's insurance strategy is to obtain the most comprehensive insurance coverage available at the most economical cost.

Each year, TransGrid looks at the risks for which it is prepared to seek cover, the available insurance coverage or other means to meet the remaining risks and the costs of covering these risks.

## 6.21

# Sponsorships, donations and charities

TransGrid's corporate sponsorship, partnership and donation program supports the organisation in meeting its key business objectives. The program is transparent and robust with all approved sponsorships, partnerships and donations assessed against publicly available criteria.

Listed below are details of corporate sponsorships, partnerships and donations for 2014/2015. TransGrid's sponsorships, partnerships and donations can be grouped into the following categories which reflect the key business objectives and priorities for the business:

- Local community initiatives
- Employee/charity events
- Environment
- Engineering/network/research
- Engineering/recruitment.

### Local community initiatives

This category includes local, often one off community initiatives in areas where TransGrid is building new assets or upgrading existing assets.

| Name of organisation | Amount | Nature and purpose |
|---|---|---|
| Snowy Hydro South Care | $38,500 | Logo sponsor of Snowy Hydro SouthCare rescue helicopter (2014/15) |
| Stroud Road Community Hall and Progress Association Inc. | $500 | Sponsorship of Stroud Road Bash 'n Bang – bonfire and fireworks fundraiser (August 2014) |
| Local schools in Southern Region | $900 | Donations for academic prizes to local schools in and around Yass: (November 2014) |
| Rotary Club of South Wagga | $220 | Support of local community event and fundraiser (July 2014) |
| Bredbo Community Progress Association | $3,500 | Anzac Day 2015 Honour Walk (March 2015) |
| Special Olympics NSW, Central West Region | $4,000 | Support of the Special Olympics, Central West Region (August 2014) |
| Orange RSL | $5,000 | Support for Anzac Day 2015 (March 2015) |
| Tamworth RSL | $3,500 | Support for Anzac Day 2015 (March 2015) |
| Wagga Scouts | $500 | Support for 100th year celebrations (August 2014) |
| Yass Valley Men's shed | $2,500 | Support for Yass Valley Men's shed (September 2014) |
| TAFE NSW – Riverina Institute – Wagga Wagga Campus | $500 | Donation to annual graduation and awards presentation at Wagga Wagga Campus, Riverina Institute, TAFE NSW (December 2014) |
| Child Safety Handbook, NSW Policy Legacy | $2,200 | Sponsorship of the Child Safety Handbook and advertising of TransGrid's BeSafeKids Primary School program (March/April 2015) |

## Employee charity events

Events that have been supported due to participation by TransGrid employees, for example, Spring Cycle. This category also includes donations to TransGrid supported charities. Each year TransGrid employees vote for four fundraising days that they would like to see the organisation support. Events such as morning and afternoon teas and BBQs are held to support these fundraising days and TransGrid matches employee donations dollar for dollar.

| Name of organisation | Amount | Nature and purpose |
|---|---|---|
| Spring Cycle 2014 – Kids Cancer Project | $712.50 | A donation of 50% of each TransGrid employee's entry fee was made to the chosen charity of the Spring Cycle – being the Kids Cancer Project (October-November 2014) |
| Dragon Boats NSW Inc. | $560 | Support of TransGrid team who participated in the Central West Dragon Boat Regatta (November 2014) |
| Heart Foundation of Australia | $1,197 | Dollar for dollar matching of employees donations to Heart Week (January 2015) |
| Cancer Council NSW | $948 | Australia's biggest morning tea (January 2015) |
| Children's Medical Research Institute | $1,412 | Jeans for Genes Day (January 2015) |
| RUOK Foundation | $530 | RUOK Day (January 2015) |
| Cancer Council NSW | $5,915 | Support for Relay for Life – Wagga (October 2014) |
| Cancer Council NSW | $3,700 | Support for Relay for Life – Orange (March 2015) |
| Cancer Council NSW | $80 | Safety Day Prizes (August 2014) |
| Children's Medical Research Institute | $400 | Safety Day Prizes (August 2014) |
| Multiple Sclerosis | $400 | Safety Day Prizes (August 2014) |
| Tamworth Meals on Wheels | $320 | Safety Day Prizes (August 2014) |
| Heart Foundation | $560 | Safety Day Prizes (August 2014) |
| Beyond Blue | $640 | Safety Day Prizes (August 2014) |
| Cerebral Palsy Alliance | $4,017 | Steptember (September 2014) |
| Smith Family Christmas Toy & Book Appeal | $2,080 | Kids Christmas Safety Drawing Competition (December 2014) |
| Immune Deficiencies Foundation Australia | $100 | Support for World Festival of Magic (November 2014) |
| Children's Medical Research Institute | $300 | Donation on behalf of employee in lieu of their 40 year service gift (January 2015) |
| St Vincent de Paul Society | $5,000 | Donation in support of TransGrid's Managing Director who participated in Vinnies CEO Sleepout (June 2014) |

## Environment

Key environmental sponsorships support our commitment to the environment.

| Name of organisation | Amount | Nature and purpose |
|---|---|---|
| Greening Australia | $160,000 | GreenGrid 2014/2015<br><br>TransGrid's environmental partnership between Greening Australia and TransGrid |
| National Parks and Wildlife Service (NPWS) | $35,200 | Construction of wildlife crossings in National Park (November 2014) |
| Royal Botanic Gardens and Domain Trust | $55,000 | PlantBank 2015-2016<br><br>Continuing sponsorship of this research facility which opened at the Australian Botanic Gardens, Mount Annan in October 2013 |

## Engineering/Network/Research

Sponsorship of major industry conferences and/or events.

| Name of organisation | Amount | Nature and purpose |
|---|---|---|
| Engineers Australia – Sydney Division | $5,500 | Three year sponsorship with Engineers Australia – Sydney Division to sponsor the annual Engineering Excellence Awards (2013-2015) |
| Energy Users Association of Australia (EUAA) Annual Conference | $11,500 | Sponsorship of the EUAA Annual Conference (October 2014) |
| Electric Energy Society of Australia (EESA) NSW Annual Conference | $16,500 | Sponsorship of the EESA NSW conference (November 2014) |
| Australian Power Quality and Reliability Centre (ADQRC) Conference | $9,000 | Sponsorship of the Australian Power Quality and Reliability Centre Conference (September 2015) |

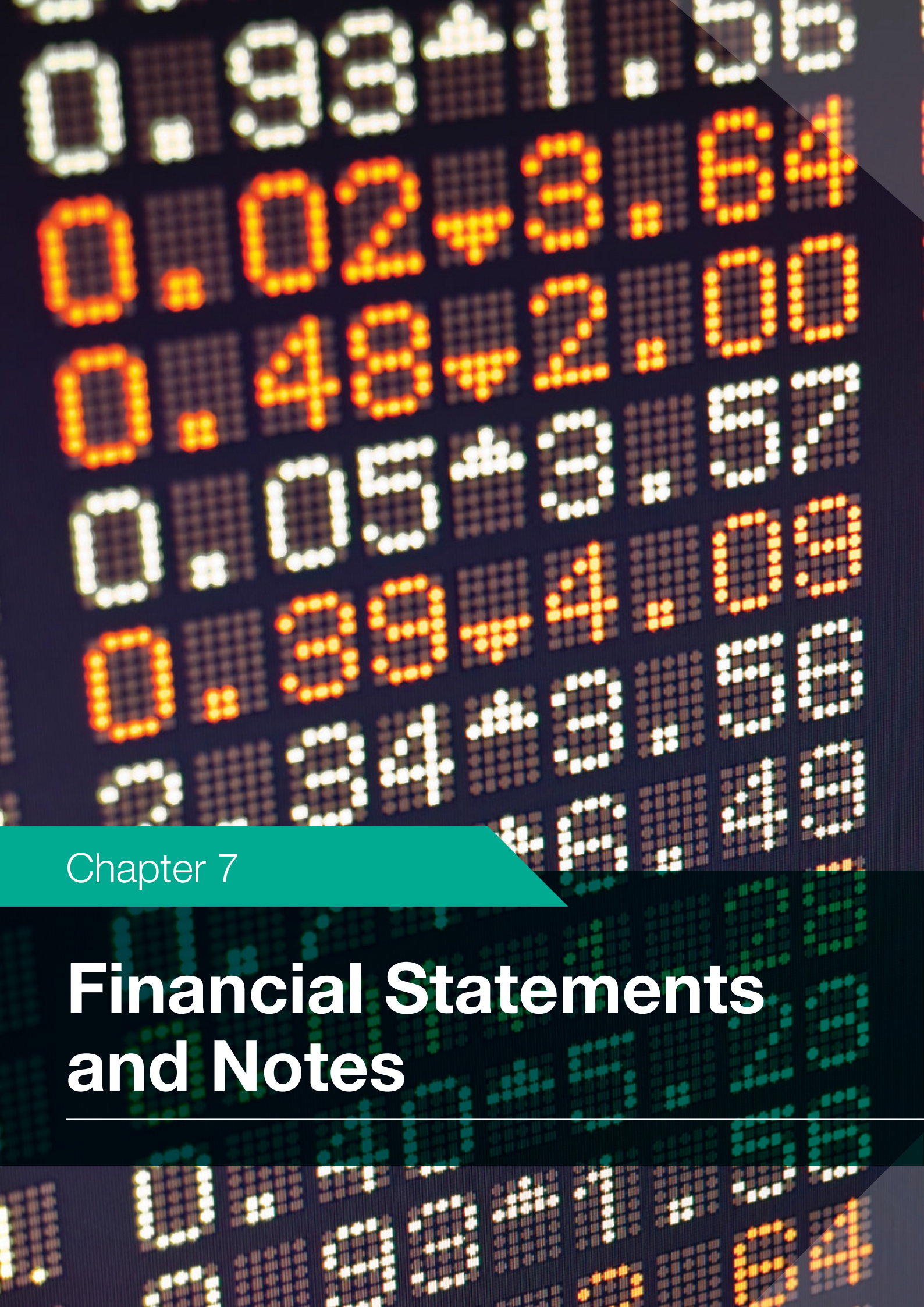
## Engineering/Recruitment

This category includes events that promote a career in engineering to young people and promote TransGrid as an employer of choice.

| Name of organisation | Amount | Nature and purpose |
|---|---|---|
| Robogals UNSW | $1,100 | One year sponsorship of Robogals Sydney Chapter, based at the University of NSW (2015) |
| Engineers Australia | $1,650 | Sponsorship of the Great Engineering Challenge 2014 held as part of Engineering Week 2014 (August 2014) |
| School of Electrical and Information Engineering, Faculty of Engineering and Information Technologies at the University of Sydney | $5,500 | Sponsorship of the Research Conversazione (November 2014)<br><br>The Research Conversazione is an event where postgraduate and undergraduate students showcase the results of their research in poster format for industry representatives |
| The University of Wollongong | $11,000 | The Women in Engineering Summit (January 2015) is a residential summit for young women (those entering Year 11) interested in a career in engineering |
| The Engineering Link Group | $11,000 | Support of the Sydney Engineering Link Project (October 2015) and Linking Engineers and Scientists with Teachers (May 2015) |

# 6.22
# Workplace relations

TransGrid continues to consult with employees and unions on a range of industrial matters. This consultative approach has resulted in no time lost as a result of organisational industrial disputes during the report period. Our consultative approach results in an workplace that is smart, sustainable, flexible and fair for all parties and puts TransGrid in the best possible position to meet its future objectives.



Chapter 7

# Financial Statements and Notes



For the Year Ended 30th June 2015

# Statement of Financial Position

## As at 30th June 2015

| | Notes | As at 30 June 2015 $'000 | As at 30 June 2014 Restated* $'000 | As at 1 July 2013 Restated* $'000 |
|---|---|---|---|---|
| **Current Assets** | | | | |
| Cash and cash equivalents | 7 | 706 | 903 | 1,101 |
| Trade and other receivables | 8 | 112,911 | 110,486 | 117,018 |
| Inventories | 9 | 28,827 | 28,816 | 31,048 |
| Derivatives | 10 | 126 | - | 1,331 |
| Other | 11 | 5,509 | 3,938 | 4,670 |
| **Total Current Assets** | | **148,079** | **144,143** | **155,168** |
| **Non-Current Assets** | | | | |
| Deferred tax assets | 6(b) | 144,023 | 123,865 | 115,103 |
| Property, plant and equipment | 12 | 5,675,617 | 5,618,329 | 5,330,054 |
| Intangibles | 13 | 604,903 | 613,921 | 612,110 |
| Investment Property | 14 | 58,711 | 43,508 | - |
| Other | 15 | 15,333 | 6,581 | 7,502 |
| **Total Non-Current Assets** | | **6,498,587** | **6,406,204** | **6,064,769** |
| **Total Assets** | | **6,646,666** | **6,550,347** | **6,219,937** |
| **Current Liabilities** | | | | |
| Borrowings | | 561,454 | 369,047 | 296,286 |
| Trade and other payables | 16 | 121,968 | 163,849 | 158,106 |
| Current tax liabilities | | 19,649 | 57,171 | 32,430 |
| Provisions | 17 | 363,620 | 252,887 | 259,800 |
| Derivatives | 10 | 52 | 255 | - |
| Other | 18 | 4,369 | 7,540 | 3,454 |
| **Total Current Liabilities** | | **1,071,112** | **850,749** | **750,076** |
| **Non-Current Liabilities** | | | | |
| Borrowings | | 2,313,664 | 2,369,396 | 2,139,563 |
| Deferred tax liabilities | 6(b) | 855,486 | 847,624 | 855,280 |
| Provisions | 17 | 313,473 | 274,117 | 287,062 |
| **Total Non-Current Liabilities** | | **3,482,623** | **3,491,137** | **3,281,905** |
| **Total Liabilities** | | **4,553,735** | **4,341,886** | **4,031,981** |
| **Net Assets** | | **2,092,931** | **2,208,461** | **2,187,956** |
| **Equity** | | | | |
| Capital | 19 | 651,967 | 651,967 | 651,967 |
| Reserves | 20 | 1,389,699 | 1,391,018 | 1,402,067 |
| Retained Earnings | 21 | 51,265 | 165,476 | 133,922 |
| **Total Equity** | | **2,092,931** | **2,208,461** | **2,187,956** |

The accompanying notes form an integral part of these financial statements.
* Certain amounts shown here do not correspond to the 2014 financial statements and reflect adjustments, refer Note 2(d).

# Statement of Profit or Loss and Other Comprehensive Income

## For the year ended 30th June 2015

| | Notes | 2015 $'000 | 2014 Restated* $'000 |
|---|---|---|---|
| Income | 3 | 887,069 | 857,584 |
| Expenses excluding Finance Costs | 4, 5(a) | (426,475) | (426,708) |
| Finance Costs | 4 | (168,268) | (150,860) |
| **Profit/(Loss) Before Income Tax Expense** | | **292,326** | **280,016** |
| **Income Tax Expense** | 6(a)(i) | (89,351) | (89,656) |
| **Profit/(Loss) For The Year** | | **202,975** | **190,360** |
| **Other Comprehensive Income:** | | | |
| **Items that will not be reclassified subsequently to profit or loss:** | | | |
| Asset Revaluation Surplus: Net increase/(decrease) in revaluations | 20 | - | - |
| Superannuation Actuarial Gains/(Losses) | 5(b) | (35,240) | 10,402 |
| Income tax relating to items that will not be reclassified | 6(a)(ii) | 10,573 | (3,121) |
| **Total items that will not be reclassified subsequently to profit or loss** | | **(24,667)** | **7,281** |
| **Items that may be reclassified subsequently to profit or loss:** | | | |
| Cash Flow Hedge Reserve: Net increase/(decrease) | 20 | 203 | (1,586) |
| Income tax relating to items that may be reclassified | 6(a)(ii) | (61) | 476 |
| **Total items that may be reclassified subsequently to profit or loss** | | **142** | **(1,110)** |
| **Other Comprehensive Income For The Year, Net of Tax** | | **(24,525)** | **6,171** |
| **Total Comprehensive Income For The Year** | | **178,450** | **196,531** |

The accompanying notes form an integral part of these financial statements.
* Certain amounts shown here do not correspond to the 2014 financial statements and reflect adjustments, refer Note 2(d).

# Statement of Changes in Equity

## For the year ended 30th June 2015

| | Capital | Retained Earnings | Cash Flow Hedge Reserve | Asset Revaluation Surplus | Total |
|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Balance at 1 July 2013** | **651,967** | **119,454** | **951** | **1,401,116** | **2,173,488** |
| Adjustment on changes of accounting policy (Note 2(d)) | - | 14,468 | - | - | 14,468 |
| Balance at 1 July 2013 (Restated*) | **651,967** | **133,922** | **951** | **1,401,116** | **2,187,956** |
| **Comprehensive Income For The Year:** | | | | | |
| Profit/(loss) for the year (Restated*) | - | 190,360 | - | - | 190,360 |
| Other comprehensive income for the year before related tax effects | - | 10,402 | (1,586) | - | 8,816 |
| Income tax relating to components of other comprehensive income | - | (3,121) | 476 | - | (2,645) |
| **Total Comprehensive Income For The Year** | - | **197,641** | **(1,110)** | **-** | **196,531** |
| **Transfers In Reserves:** | | | | | |
| Transfers from Asset Revaluation Surplus | - | 12,413 | - | (12,413) | - |
| Income tax relating to Transfers from Asset Revaluation Surplus | - | - | - | 2,474 | 2,474 |
| **Total Transfers In Reserves** | - | **12,413** | **-** | **(9,939)** | **2,474** |
| **Owner Related Equity Transactions:** | | | | | |
| Dividend | - | (178,500) | - | - | (178,500) |
| **Total Owner Related Equity Transactions** | **-** | **(178,500)** | **-** | **-** | **(178,500)** |
| **Balance at 30 June 2014 (Restated*)** | **651,967** | **165,476** | **(159)** | **1,391,177** | **2,208,461** |
| **Balance at 1 July 2014 (Restated*)** | **651,967** | **165,476** | **(159)** | **1,391,177** | **2,208,461** |
| **Comprehensive Income For The Year:** | | | | | |
| Profit/(loss) for the year | - | 202,975 | - | - | 202,975 |
| Other comprehensive income for the year before related tax effects | - | (35,240) | 203 | - | (35,037) |
| Income tax relating to components of other comprehensive income | - | 10,573 | (61) | - | 10,512 |
| **Total Comprehensive Income For The Year** | **-** | **178,308** | **142** | **-** | **178,450** |
| **Transfers In Reserves:** | | | | | |
| Transfers from Asset Revaluation Surplus | - | 2,088 | - | (2,088) | - |
| Income tax relating to Transfers from Asset Revaluation Surplus | - | - | - | 627 | 627 |
| **Total Transfers In Reserves** | - | **2,088** | **-** | **(1,461)** | **627** |
| **Owner Related Equity Transactions:** | | | | | |
| Dividend | - | (294,607) | - | - | (294,607) |
| **Total Owner Related Equity Transactions** | **-** | **(294,607)** | **-** | **-** | **(294,607)** |
| **Balance at 30 June 2015** | **651,967** | **51,265** | **(17)** | **1,389,716** | **2,092,931** |

The accompanying notes form an integral part of these financial statements.
* Certain amounts shown here do not correspond to the 2014 financial statements and reflect adjustments, refer Note 2(d).

# Statement of Cash Flows

## For the year ended 30th June 2015

| | Note | 2015 $'000 | 2014 $'000 |
|---|---|---|---|
| **Cash Flows from Operating Activities** | | | |
| Cash Receipts from Customers | | 968,840 | 971,220 |
| Cash Paid to Suppliers and Employees | | (302,252) | (285,606) |
| Finance Costs Paid | | (159,400) | (135,381) |
| Rental Income from Investment Property | | 2,045 | - |
| Interest Received | | 163 | 174 |
| Income Tax Paid | | (128,031) | (81,503) |
| **Net Cash Inflows / (Outflows) from Operating Activities** | **31(c)** | **381,365** | **468,904** |
| **Cash Flows from Investing Activities** | | | |
| Purchase of Property, Plant and Equipment, Intangibles and Investment Property | | (338,732) | (586,555) |
| Proceeds from the Sale of Property, Plant and Equipment | | 5,379 | 13,365 |
| **Net Cash Inflows / (Outflows) from Investing Activities** | | **(333,353)** | **(573,190)** |
| **Cash Flows from Financing Activities** | | | |
| Proceeds from Borrowings | | 1,132,363 | 826,132 |
| Repayments of Borrowings | | (1,002,072) | (537,206) |
| Dividends Paid | 17(a) | (178,500) | (184,838) |
| **Net Cash Inflows / (Outflows) from Financing Activities** | | **(48,209)** | **104,088** |
| Net Increase / (Decrease) in Cash and cash equivalents | | (197) | (198) |
| Cash and cash equivalents at Beginning of the Financial Year | | 903 | 1,101 |
| **Cash and cash equivalents at the End of the Financial Year** | **7, 31(a)** | **706** | **903** |

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

# Notes to the Financial Statements

## For the year ended 30th June 2015

## 1. Reporting Entity

The financial statements of TransGrid for the year ended 30 June 2015 were authorised for issue in accordance with a resolution of the Directors on 15 September 2015.

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*.

The Electricity Network Assets (Authorised Transactions) Bill 2015 was assented on 4 June 2015 which initiated the process for the long term lease of the TransGrid network.

## 2. Summary of Significant Accounting Policies

### (a) Basis of Preparation

The financial statements are general-purpose financial statements, and have been prepared in accordance with Australian Accounting Standards including Accounting Interpretations, the requirements of the *Public Finance and Audit Act 1983*, the *Public Finance and Audit Regulation 2015*, the *State Owned Corporations Act 1989* and relevant NSW Treasury Policies and Circulars.

TransGrid is classified as a for-profit entity for the purposes of the application of Australian Accounting Standards and NSW Treasury Policy TPP 05-4 *Distinguishing For-Profit from Not-For-Profit Entities.*

Property, plant and equipment, investment property 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.

Comparative information is disclosed in respect of the previous period for all amounts reported in the financial statements. Where necessary, comparative information has been reclassified to conform to the current year's presentation.

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

### (b) Statement of Compliance

The financial statements comply with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

### (c) New Australian Accounting Standards and Interpretations not yet adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended, but are not yet effective, have not been adopted by TransGrid in preparing the financial statements in accordance with NSW Treasury Circular NSW TC 15-03 *Mandates of Options and Major Policy Decisions under Australian Accounting Standards.*

The standards, amendments to standards and interpretations included in the table below have been identified as those which may impact TransGrid in the period of initial application. It is considered that these new standards will not have a material impact on TransGrid's financial statements.

| Australian Accounting Standard / Interpretation | Applies to annual reporting periods beginning on or after: | Expected to be initially applied in the financial year ending: |
|---|---|---|
| **AASB 9 *Financial Instruments*** | 1 January 2018 | 30 June 2019 |
| **AASB 2014-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2014)*** | 1 January 2018 | 30 June 2019 |
| **AASB 2014-1 *Amendments to Australian Accounting Standards Part E*** | 1 January 2018 | 30 June 2019 |
| **AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)*** | 1 January 2018 | 30 June 2019 |
| **AASB 15 *Revenue from Contracts with Customers*** | 1 January 2017 | 30 June 2018 |
| ***AASB 2014-5 Amendments to Australian Accounting Standards arising from AASB 15*** | 1 January 2017 | 30 June 2018 |
| **AASB 2014-4 *Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation*** | 1 July 2016 | 30 June 2017 |
| **AASB 2015-2 *Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101*** | 1 January 2016 | 30 June 2017 |
| **AASB 2015-3 *Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality*** | 1 July 2015 | 30 June 2016 |

## (d) Changes in Accounting Policies

The accounting policies are consistent with those applied in the previous financial reporting period, except for the adoption of new standards and interpretations and the voluntary change in revenue accounting policy noted below:

**Adoption of new standards**

### (i) *AASB 2014-1 Part A – Amendments to Australian Accounting Standards – Annual Improvements 2010- 2012 and 2011-2013 Cycle*

This standard sets out amendments to Australian Accounting Standards arising from the issuance by the International Accounting Standards Board (IASB) of International Financial Reporting Standards (IFRSs) Annual Improvements to IFRSs 2010–2012 Cycle and Annual Improvements to IFRSs 2011–2013 Cycle.

These amendments are effective for annual periods beginning on or after 1 July 2014. The adoption of these amendments had no material impact on the financial position or performance of TransGrid.

### (ii) *AASB 2014-1 Part B – Amendments to Australian Accounting Standards – Defined Benefit Plans: Employee Contributions*

This makes amendments in relation to the requirements for contributions from employees or third parties that are set out in the formal terms of the benefit plan and linked to service. The amendments clarify that if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the related service is rendered, instead of attributing the contributions to the periods of service.

These amendments are effective for annual periods beginning on or after 1 July 2014. The adoption of these amendments had no impact on the financial position or performance of TransGrid since the policy has already been applied.

**Voluntary Change in Accounting Policy**

In 2015, TransGrid changed its accounting policy for recognised revenues from the rendering of prescribed services. The rationale for the change reflects the Australian Accounting Standards Board's (AASB) recent clarification of its position on the recognition of rate-regulated assets. Management believes that the new accounting policy reflects the AASB view.

As a result of the change, TransGrid has recognised prescribed services revenue on the basis of amounts received or receivable with no amounts accrued for future receipts from (or credits to) customers allowed under any regulatory pricing mechanism.

Previously, TransGrid recognised the Maximum Allowable Revenue (MAR) determined by the AER by recognising the amount of revenue exceeding the MAR as a payable or the amount of revenue below the MAR as a receivable.

Refer below for further details about deferred revenues or credits that have not been recognised in profit or loss.

**(i) *Transmission Use of System (TUOS) revenue***

TransGrid collects its Maximum Allowed Revenue (MAR) based on the transmission prices set in accordance with the pricing methodology approved by the AER and published in May each year for application in the following financial year. In any given year, revenue may exceed or not achieve the MAR due to differences between demand load forecasts and actual loads for TUOS and volatility in settlement residues.

As at 30 June 2015, revenue is a total of $110.6m (2014 - $38.2m) below the MAR, which will be included in transmission prices in following years.

**(ii) *Service Target Performance Incentive Scheme***

TransGrid is subject to a Service Target Performance Incentive Scheme (STPIS) which provides for the AER to adjust TransGrid's Maximum Allowable Revenue (MAR) in a financial year by between -1% to +3% based on the performance in the previous calendar year.

As at 30 June 2015, a STPIS adjustment of $12.1m (2014 - $8.7m) has been determined by the AER and has been built into 2015-16 transmission price.

**(iii) *Network Support***

Network support refers to non-network solutions used by transmission network service providers (TNSPs) as a cost effective means of deferring network augmentation. In the prior regulatory period 2009/10 to 2013/14, TransGrid received a network support pass-through allowance which is required to be adjusted for any under-expenditure.

As at the reporting date, a total amount of $8.3m (2014 - $15.3m) is required to be credited in following years.

As a result of the change in the accounting policy, prior year financial statements had to be restated. A summary of the quantitative impacts relating to the voluntary change in accounting policy is shown below:

| Impact on Statement of Profit or Loss and Other Comprehensive Income | Prior year restatements | | |
|---|---|---|---|
| | 2014 (Previously stated) | Increase/(Decrease) Change of revenue recognition policy | 2014 (Restated) |
| | $'000 | $'000 | $'000 |
| Income | 910,881 | (53,297) | 857,584 |
| Finance Costs | (151,915) | 1,055 | (150,860) |
| **Profit/(Loss) Before Income Tax Expense** | **332,258** | **(52,242)** | **280,016** |
| **Income Tax Expense** | (105,329) | 15,673 | (89,656) |
| **Profit/(Loss) For The Year** | **226,929** | **(36,569)** | **190,360** |

| Impact on Statement of Financial Position | Prior year restatements | | | | | |
|---|---|---|---|---|---|---|
| | 30 June 2014 (Previously stated) | Increase/(Decrease) Change of revenue recognition policy | 30 June 2014 (Restated) | 1 July 2013 (Previously stated) | Increase/(Decrease) Change of revenue recognition policy | 1 July 2013 (Restated) |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| Trade and other receivables | 142,059 | (31,573) | 110,486 | 126,484 | (9,466) | 117,018 |
| Deferred tax assets | 119,493 | 4,372 | 123,865 | 115,103 | - | 115,103 |
| **Total Assets** | **6,577,548** | **(27,201)** | **6,550,347** | **6,229,403** | **(9,466)** | **6,219,937** |
| Other current liabilities | 7,540 | - | 7,540 | 33,590 | (30,136) | 3,454 |
| Deferred tax liabilities | 852,724 | (5,100) | 847,624 | 849,078 | 6,202 | 855,280 |
| **Total Liabilities** | **4,346,986** | **(5,100)** | **4,341,886** | **4,055,915** | **(23,934)** | **4,031,981** |
| **Net impact on equity** | **2,230,562** | **(22,101)** | **2,208,461** | **2,173,488** | **14,468** | **2,187,956** |

The change in accounting policy for revenue over or under recovery has no impact on the cash flow statements.

The amounts disclosed for the 2014 reporting period and in the Statement of Financial Position as at 1 July 2013 and 30 June 2014 are after the abovementioned changes in accounting policies. Comparatives in relevant notes are also restated accordingly.

### (e) Significant Accounting Judgements, Estimates and Assumptions made by management

In applying TransGrid's accounting policies, management evaluates judgements, estimates and assumptions based on experience and other factors, including expectations of future events that may have an impact on TransGrid. All judgements, estimates and assumptions made are believed to be reasonable, based on the most current set of circumstances known to management. Actual results may differ from the judgements, estimates and assumptions. Significant judgements, estimates and assumptions made by management in the preparation of these financial statements are outlined below:

#### (i) *Significant accounting judgements*

**Impairment**

TransGrid assesses impairment of all assets, excluding investment property, at the end of the reporting period by evaluating conditions specific to TransGrid's business as a whole, which may lead to impairment. If an impairment trigger exists, the recoverable amount of the value in use for the business is determined. Further details on the value in use calculations and adjustment for impairment are disclosed in Note 2(i)(ii).

**Recovery of Deferred Tax Assets**

Deferred tax assets are recognised for deductible temporary differences as management considers that it is probable that future taxable profits will be available to utilise those temporary differences.

**Long Service Leave Provision**

The liability for long service leave is based on an annual independent actuarial assessment, supplemented by management considerations, to arrive at a best estimate of the expenditure required to settle present obligations at the end of the reporting period.

**Workers' Compensation Provision**

The liability for workers' compensation is based on an annual independent actuarial assessment, supplemented by management considerations, to arrive at a best estimate of the expenditure required to settle present obligations at the end of the reporting period.

**Operating Leases – TransGrid as Lessor**

TransGrid has entered into commercial property leases for its investment property. Under the lease terms, TransGrid retains all the significant risks and rewards of ownership of the property. Therefore the lease contracts are accounted for as operating leases.

### (ii) *Significant accounting estimates and assumptions*

**Allowance for impairment loss on trade and other receivables**

Where receivables are outstanding beyond the normal trading terms, the likelihood of recovery of these receivables is assessed by management. This assessment is based on enquiries as to the intention of late paying customers to pay, supportable past collection history, and historical write-offs of bad debts.

**Estimation of useful lives of assets**

The estimation of the useful lives of assets is based on historical experience, industry comparisons, as well as expected usage, physical wear and tear, and the rate of technical and commercial obsolescence. Further information on the estimation of useful lives is disclosed in Note 2(i)(vi).

**Revaluation of property, plant and equipment and investment property**

TransGrid applies the revaluation model to property, plant and equipment and recognises changes in fair value in the asset revaluation reserve in equity. Due to the specialised nature of TransGrid's assets and consequent lack of sales market, property, plant and equipment are valued by the discounted cash flow (DCF) model based on an income approach. Any fair value movement greater than 5% (in absolute terms) of the total asset base being measured will be adjusted.

TransGrid carries its investment property at fair value, with changes in fair value being recognised in profit or loss. An independent valuation was undertaken to assess the fair value of the investment property as at 17 March 2015. The DCF model based on market approach (i.e., market selling price) was used.

The key assumptions and inputs used to determine the fair value and sensitivity analyses are provided in Note 33(b)(ii).

## (f) Cash and cash equivalents

Cash and cash equivalents in the Statement of Financial Position and for the purposes of the Statement of Cash Flows comprise cash on hand, cash at bank and deposits with financial institutions.

## (g) Trade and Other Receivables

Receivables from trade and other debtors are recognised at amounts due less an allowance for any uncollectible amounts. Collectability of these receivables is reviewed on an ongoing basis. Debts that are known to be uncollectible are written off when identified. An allowance for impairment loss on trade and other receivables is raised when there is objective evidence that TransGrid will not be able to collect the debt.

## (h) Inventories

Inventories of Stores and Materials are valued at the lower of cost and net realisable value. Cost is determined by TransGrid to be the weighted average cost of items in store. TransGrid's inventories relate mostly to specialist equipment. As there is no active market in respect of the majority of TransGrid's inventories, TransGrid recognises the weighted average cost of items as a proxy for lower of cost and net realisable value.

## (i) 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 at the time of acquisition or construction, adjusted for any gains or losses on qualifying cash flow hedges in respect of the purchases of relevant assets. Cost also includes interest on borrowings related to Qualifying Assets as detailed in Note 2(i)(v).

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

After initial recognition as an asset, items of property, plant and equipment are measured at fair value.

### (ii) *Revaluations*

Property, plant and equipment is measured at fair value in accordance with AASB 116 *Property, Plant and Equipment* and NSW Treasury Policy TPP 14-1 *Valuation of Physical Non-Current Assets at Fair Value.* The valuation of property, plant and equipment is determined in a two-step process. First, fair value is determined in accordance with AASB 116 *Property, Plant and Equipment.* Second, the fair value is subject to a separate impairment test in accordance with AASB 136 *Impairment of Assets.*

**Fair Value**

Fair value is best represented as current market price, however where this cannot be observed, an asset's fair value is measured at either depreciated replacement cost or an income approach in accordance with AASB 116 *Property, Plant and Equipment*. NSW Treasury Policy TPP 14-1 *Valuation of Physical Non-Current Assets at Fair Value* also allows the option in AASB 116 *Property, Plant and Equipment* to measure specialised assets using either depreciated replacement cost or an income approach. TransGrid has elected to adopt the option to measure the fair value of its assets using the income approach which reflects a discounted cash flow methodology.

TransGrid assesses at the end of the reporting period whether there is any indication that an asset's carrying amount differs materially from fair value. If any indication exists, the asset is revalued.

Where an asset's carrying amount is increased as a result of a revaluation, the increase is recognised in Other Comprehensive Income and accumulated in Equity under the heading of Asset Revaluation Surplus. However, to the extent that it reverses a revaluation deficit of the same asset previously recognised in profit or loss, the increase is recognised in profit or loss.

Where an asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in Other Comprehensive Income to the extent of any credit balance existing in the Asset Revaluation Surplus in respect of that asset. The decrease recognised in Other Comprehensive Income reduces the amount accumulated in Equity under the heading of Asset Revaluation Surplus.

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 NSW Treasury Policy.

**Impairment Assessment**

Each year, TransGrid's specialised plant and infrastructure assets, land and buildings, and easements are tested for impairment. Should there be any indication that the cash-generating unit may be impaired, TransGrid makes an estimate of the recoverable amount. TransGrid as a whole, excluding investment property, represents a cash generating unit (CGU).

The recoverable amount 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 discount rate that reflects the risks specific to the business and relevant market assessments.

If the carrying amount of the CGU exceeds 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 by the amount of the excess and a corresponding impairment loss is firstly recognised in Other Comprehensive Income to the extent of the revaluation surplus recognised in prior periods with the residual impairment loss being recognised in profit or loss.

At the end of each year, an assessment is made as to whether there is any indication that an impairment loss recognised in prior periods for an asset may no longer exist or may have decreased. If any such indication exists, TransGrid estimates the recoverable amount of that asset. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount since the last impairment loss was recognised. A reversal of an impairment loss is allocated proportionately to the assets to ensure their carrying amounts reflect the recoverable amount. A corresponding amount is recognised as a revaluation increase.

**(iii) *Retirements or Disposals***

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss when the asset is derecognised.

Upon retirement or disposal, any revaluation surplus relating to the particular asset is transferred to Retained Earnings.

### (iv) *Categories*

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

– **Prescribed Assets**

Prescribed Assets comprise property, plant and equipment used by TransGrid to provide electricity transmission services that are regulated by the Australian Energy Regulator (AER). Prescribed assets as disclosed in Note 12 are:

- Network Asset; and
- Other Assets.

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

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

– **Negotiated Transmission Assets**

Negotiated Transmission Assets include those assets relating to some connection services between TransGrid and:

- Generators; and
- Large load customers.

– **Non-regulated Assets**

Non-regulated Assets comprise property, plant and equipment used by TransGrid to provide services other than prescribed and negotiated electricity transmission services. Non-regulated assets as disclosed in Note 12 are:

- Network Asset; and
- Other Assets.

### (v) *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 an increase in economic benefits.

Interest on borrowings is capitalised against Qualifying Assets in accordance with AASB 123 *Borrowing Costs*. Qualifying Assets are assets which take more than 12 months to be ready for their intended use.

Expenditure is not capitalised below a minimum threshold of $3,000.

### (vi) *Depreciation*

Property, plant and equipment, excluding land, are depreciated over their estimated useful lives. The straight-line depreciation 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.

Within the Prescribed, Non-regulated and Negotiated Transmission Asset base the following sub-categories have been established. The useful lives presently assigned to these assets are:

| | | | |
|---|---|---|---|
| **Prescribed & Non-regulated Assets** | Network Asset | Buildings | 40 years |
| | | System Plant and Equipment | 20 – 50 years |
| | | Communication Equipment | 7 – 35 years |
| | Other Assets | | 2 – 10 years |
| **Negotiated Transmission Assets** | Network Asset | System Plant and Equipment | 20 – 40 years |

## (j) Intangible assets

Intangible assets are measured at cost and comprise Easements and Computer Software as disclosed in Note 13.

Capital expenditure on intangible assets is defined as expenditure in relation to: a) acquisition of computer software or easements; b) installation of computer software; and c) an addition or alteration to computer software, which results in an increase in economic benefits. Expenditures below a minimum threshold of $3,000 is expensed and recognised directly in profit or loss.

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 assessed for impairment on an annual basis and are not amortised as they are granted for an unlimited time, and thus have an indefinite useful life.

Computer software is amortised over a period of 4-6 years using the straight-line amortisation method. Amortisation expense is included in the "Expenses excluding Finance Costs" line item of the Statement of Profit or Loss and Other Comprehensive Income. The useful life for software is reviewed annually, and adjustments where applicable, are made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

## (k) Investment Property

The investment property is measured initially at cost. Subsequent to initial recognition, the investment property is stated at fair value. A market approach is used to assess the fair value of the investment property. The market approach uses prices and other relevant information generated by market transactions involving identical or similar assets. Gains or losses arising from changes in the fair value of the investment property are included in profit or loss in the period in which they arise, including the corresponding tax effect.

Fair value of the investment property is reviewed at each reporting period and is subject to a comprehensive revaluation approach at least every three years which is performed by an accredited external independent valuer.

The investment property is derecognised either when it has been disposed of or when it is permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in profit or loss in the period of derecognition.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If an owner-occupied property becomes an investment property, TransGrid accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

## (l) Leases

### TransGrid as a lessor

Leases in which TransGrid does not transfer substantially all the risks and benefits of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease, including lease incentives granted to lessees, are recognised as lease assets over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

## (m) Borrowings

All borrowings are measured at amortised cost using the effective interest method. Furthermore, TransGrid's overall debt portfolio includes a number of Consumer Price Index (CPI) linked bonds which are subject to a quarterly CPI adjustment.

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 $4.95m (2014 - $25.2m) at a weighted average rate of 6.0% (2014 – 6.5%).

Loans are classified as current when they have a maturity of less than one year from the end of the reporting period.

## (n) Payables

Trade and other payables, including accruals not yet billed, represent liabilities for goods and services provided to TransGrid prior to the end of the financial year and there is an obligation to make future payment. The amounts are unsecured and are usually paid within 28 days of recognition.

Subsequent to initial recognition of these liabilities at fair value, they are measured at amortised cost using the effective interest rate method. This measurement is equivalent to the original invoice amount.

### (o) 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 NSW Treasury Policy TPP 14-4 *Financial Distributions Policy for Government Businesses*. Accordingly, a dividend in relation to the financial year is taken to be determined before the end of the reporting period, consistent with the requirements of AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*.

A dividend of $294.6m (2014: $178.5m) is payable from profit for the year in accordance with the recommendation by TransGrid's Board and confirmation by the Shareholder.

### (p) Employee Benefits

A calculation in accordance with AASB 119 *Employee Benefits* and NSW Treasury Circular NSW TC 14-04 *Accounting for Long Service Leave and Annual Leave* is made each year in respect of TransGrid's liability at the end of the reporting period for employee benefits relating to long service leave, annual leave and short term incentive schemes. 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 benefits relating to annual leave represents the amount which TransGrid has a present obligation to pay resulting from employees' services provided up to the end of the reporting period and includes related on-costs.

The provision has been calculated at nominal amounts based on the remuneration rates that are expected to be paid when the leave is taken, rather than discounted amounts, as TransGrid deems the difference between the calculation methods to be immaterial.

#### (ii) *Long Service Leave*

The liability for employee benefits relating 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 the end of the reporting period and includes related on-costs. The liability for long service leave is recognised and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Expected future payments are discounted using market yields at the reporting date on Commonwealth Government bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

### (q) Superannuation

TransGrid contributes to the Energy Industries Superannuation Scheme Pool B which is a defined benefit superannuation scheme for which liabilities accrue.

The Energy Industries Superannuation Scheme (the Fund) is divided into seven divisions, of which Divisions B, C and D provide defined benefits whereby at least a component of the final benefit is derived from a multiple of member salary and years of membership. Members receive lump sum or pension benefits on retirement, death, disablement and withdrawal. Divisions B, C and D are closed to new members except for members of eligible schemes who can transfer their entitlements into the Fund.

TransGrid also contributes to a number of accumulation superannuation schemes for which no long-term liability accrues.

The Fund was established on 30 June 1997 by a Trust Deed made under an Act of the NSW Parliament, for the purpose of providing retirement benefits for employees of certain Energy Industries bodies in NSW.

The Fund is regulated primarily by the *Superannuation Industry (Supervision) Act 1993 (Cth)* ("the SIS legislation"), but is also subject to regulation under the *Superannuation Administration Act 1996 (NSW)*.

The SIS legislation governs the superannuation industry and provides the framework within which superannuation plans operate. The SIS legislation require an actuarial valuation to be performed for each defined benefit superannuation plan every three years, or every year if the plan pays defined benefit pensions, unless an exemption has been obtained.

The prudential regulator, the Australian Prudential Regulation Authority (APRA), licenses and supervises regulated superannuation plans.

The Fund has received an exemption from annual actuarial valuation and therefore actuarial valuations are only required triennially. The last actuarial valuation of the Fund was performed as at 30 June 2012.

The Fund's Trustee is responsible for the governance of the Fund. The Trustee has a legal obligation to act solely in the best interests of the Fund's beneficiaries. The Trustee has the following roles:

- Administration of the Fund and payment to the beneficiaries from Fund assets when required in accordance with the Fund rules;
- Management and investment of the Fund assets;
- Compliance with other applicable regulations; and
- Compliance with the Trust Deed.

There are a number of risks to which the Fund exposes TransGrid. The more significant risks relating to the defined benefits are:

- Investment risk – The risk that investment returns will be lower than assumed and TransGrid will need to increase contributions to offset this shortfall;
- Longevity risk – The risk that pensioners live longer than assumed, increasing future pensions;
- Pension indexation risk – The risk that pensions will increase at a rate greater than assumed, increasing future pensions;
- Salary growth risk – The risk that wages or salaries (on which future benefit amounts for active members will be based) will rise more rapidly than assumed, increasing defined benefit amounts and thereby requiring additional employer contributions; and
- Legislative risk – The risk that legislative changes could be made which increase the cost of providing the defined benefits.

The defined benefit fund assets are invested with independent fund managers and have a diversified asset mix. The Fund has no significant concentration of investment risk or liquidity risk.

The Fund advises the level of liability in respect of TransGrid's superannuation commitments to its employees who are members of the various divisions of the Fund. The calculation of the superannuation position is based upon actuarial reviews independent of TransGrid's ongoing activities and involvement. Various actuarial assumptions underpin the determination of TransGrid's defined benefit obligations. These assumptions and the related carrying amounts are disclosed in Note 5.

TransGrid recognises the net total of the following as an asset or a liability in its Statement of Financial Position:

- Present value of the defined benefit obligation at the end of the reporting period; and
- Fair value of Fund assets in the defined benefit Funds at the end of the reporting period.

In accordance with NSW Treasury Circular NSW TC 14-05 *Accounting for Superannuation*, remeasurements of the net defined benefit liability are recognised in Other Comprehensive Income while service costs and net interest on the net defined liability are recognised in profit or loss.

### (r) 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.

Prior to 1 July 2012, TransGrid was a self-insurer for Workers' Compensation. The liability for claims made, or to be made, against the Insurance Provision was determined by reference to the *Workers Compensation Act 1987* and the WorkCover Authority's guidelines to self-insurers. From 1 July 2012, TransGrid's insurance arrangements, including Workers' Compensation, are provided by the NSW Treasury Managed Fund (TMF).

Insurable incidents occurring prior to 1 July 2012 are treated in accordance with the previous insurance arrangements, while incidents from 1 July 2012 onwards are managed under the TMF arrangements. This development will reduce TransGrid's need to self-insure and provides broader commercial protection for the period post 30 June 2012.

### (s) Derivative Financial Instruments and Hedge Accounting

TransGrid uses derivative financial instruments such as forward foreign currency contracts to hedge its risks associated with foreign currency fluctuations. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

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 Other Comprehensive Income and the ineffective portion, subject to a materiality threshold, is recognised in profit or loss.

The full fair value of hedging derivatives is classified as a non-current asset or liability when the remaining maturity of the hedged items is more than 12 months. Relevant asset or liability is classified as a current asset or liability when the remaining maturity of the hedged items is less than 12 months.

Once the anticipated underlying transaction occurs, gains or losses accumulated in Other Comprehensive Income are recognised as part of the initial acquisition cost or carrying cost of the asset to which it relates.

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in profit or loss and are included in Sundry Income or Expenses Excluding Finance Costs.

## (t) 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 Maximum Allowable Revenue (MAR) for the financial year. TransGrid is in the first year of the current four year regulatory determination which operates from July 2014 to June 2018. The transmission service prices are set at the beginning of the financial year in accordance with the MAR.

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.

### (iv) *Contributions for Capital Works*

Cash and non-cash capital contributions are recognised in accordance with Accounting Interpretation 18 *Transfers of Assets from Customers*.

Contributions of non-current assets are recognised as revenue and an asset when TransGrid gains control of the asset. The amount recognised is the fair value of the contributed asset at the date on which control is gained.

Cash capital contributions are recognised as revenue when the network is extended or modified, consistent with the terms of the contribution.

### (v) *Rental Income*

Rental income arising from operating leases on the investment property is accounted for on a straight-line basis over the lease terms and is included as revenue due to its operating nature.

## (u) Income Tax

TransGrid is subject to the National Tax Equivalent Regime (NTER) administered by the Australian Taxation Office (ATO). 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 end of the reporting period 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 the end of each reporting period 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 end of each reporting period.

Income taxes relating to items recognised directly in equity (such as asset revaluation surplus, cash flow hedges and superannuation actuarial gains and losses) are recognised in equity and not in profit or loss.

## (v) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of Goods and Services Tax (GST), with the following exceptions:

- Where the amount of GST incurred is not recoverable from the 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; and
- 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 Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows 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.

## (w) Foreign Currency Translation

Functional and presentation currency of TransGrid is Australian dollars.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when they are deferred in equity as qualifying cash flow hedges.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss.

## (x) Financial Risk Management

### Overview

TransGrid has exposure to the following risks from its use of financial instruments:

- Credit risk;
- Liquidity and funding risk;
- Interest rate risk;
- Foreign exchange risk;
- Commodity risk; and
- Operational risk.

### Credit Risk

Credit risk is the risk that arises if a financial loss is suffered due to the inability of the counterparty being able to meet its financial obligations to TransGrid.

The risk is managed by undertaking transactions with counterparties that meet or whose obligations are guaranteed by entities that meet minimum credit ratings. For prescribed customers, the exposure is minimised through the transmission pricing recovery provisions in the National Electricity Rules. Monetary limits apply to contain the exposure within reasonable levels.

#### – Trade and other receivables

TransGrid's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of TransGrid's customer base, including the default risk of the industry and country in which customers operate, has less of an influence on credit risk.

TransGrid considers a concentration of credit risk to exist when an individual customer's outstanding trade receivable balance exceeds 10% of the total trade receivables balance. Approximately 84% (2014 - 85%) of TransGrid's trade debtors balance is attributable to three distribution customers who have individual trade debtors balances in excess of 10% of the total balance. All of TransGrid's distribution customers have been transacting with the organisation since its inception, with no credit losses occurring during that time.

### Liquidity and Funding Risk

The main objective of liquidity risk management is to ensure that TransGrid has sufficient funds available to meet its financial obligations and in a timely manner.

TransGrid maintains detailed cash flow forecasts and uses approved instruments with liquidity limits to maintain adequate cash flow. Borrowing limits are monitored to ensure funding commitments for major capital works are in place. The debt portfolio is managed in such a way that no more than 20% of the total projected portfolio will mature in any 12 month period.

### Interest Rate Risk

Interest rate risk is the risk of a material change in earnings as a consequence of adverse movements in interest rates.

The objective in managing interest rate risk is to minimise interest expense volatility whilst ensuring that an appropriate level of flexibility exists to accommodate potential changes in funding requirements and movements in market interest rates. To achieve this, TransGrid's overall debt portfolio comprises nominal, floating rate, Consumer Price Index (CPI) linked and working capital facilities.

As TransGrid's debt portfolio includes CPI linked bonds, a component of the interest rate risk relates to the risk from CPI movements.

### Foreign Exchange Risk

Foreign Exchange risk is the risk that TransGrid suffers financial loss due to a change in foreign exchange rates.

TransGrid's policy is to hedge all foreign currency exposures in excess of AUD 0.5 million equivalent.

### Commodity Risk

TransGrid may be exposed to commodity price risk typically in relation to adverse and unexpected increases in costs for infrastructure related capital expenditure. TransGrid's preferred position in relation to commodity risk is to negotiate fixed price contracts with its suppliers. In addition, appropriate policies are in place to monitor movements in commodity prices with hedging strategies to mitigate risk.

**Operational Risk**

Operational risk is the risk that TransGrid suffers financial loss due to mismanagement, error, fraud or unauthorised use of financial products.

Appropriate segregation of duties and maintenance of control systems are in place to mitigate operational risk.

### (y) Capital Management

TransGrid has been subject to the NSW Government's Financial Distribution Policy since its inception and is fully committed to providing an adequate return to its Shareholder. This objective must be managed within the regulatory framework provided by the National Electricity Rules (NER), given that the majority of TransGrid's revenue is subject to regulation.

TransGrid's return on capital is based on a Weighted Average Cost of Capital (WACC) set by the AER, as part of the revenue cap determination process at defined intervals. Although the regulatory rate of return is significantly lower for the current four-year regulatory control period ending 30 June 2018, compared to the prior regulatory control period, it is deemed sufficient to ensure the continuing viability of TransGrid's business. The Return on Equity component of the WACC applicable to TransGrid for the current four-year regulatory period ending 30 June 2018 is 7.10% (10.29% in prior five-year regulatory period). The allowed Return on Debt is 6.67% for the 2014/15 financial year and 6.51% for the 2015/16 financial year. The allowed WACC is 6.84% for the 2014/15 financial year and 6.75% for the 2015/16 financial year (10.05% in prior five-year regulatory period). The Return on Debt for the remainder of the current regulatory period will be updated on an annual basis by the AER with a corresponding update to the WACC to reflect the allowed Return on Debt.

There were no changes in TransGrid's approach to capital management during the year.

TransGrid is not subject to externally imposed capital requirements.

### (z) Joint Ventures

TransGrid has entered into an Unincorporated Joint Venture Agreement for the future provision of telecommunications services.

In accordance with AASB 128 *Interests in Associates and Joint Ventures*, the joint venture is deemed to be a jointly controlled operation as each venturer uses its own assets in pursuit of the joint operations. The joint venture has not traded.

## 3. Income

| Revenue | 2015 $'000 | 2014 $'000 Restated* |
|---|---|---|
| Prescribed Services | 826,778 | 825,105 |
| Non-prescribed Services | 42,196 | 31,891 |
| Net gain from change in fair value of investment property | 14,977 | - |
| Net rental income from investment property | 1,375 | - |
| Net Gain on Cash Flow Hedges | 37 | - |
| Interest | 164 | 174 |
| Sundry | 1,542 | 414 |
| **Total Revenue** | **887,069** | **857,584** |

## 4. Expenses

| | 2015 $'000 | 2014 $'000 Restated* |
|---|---|---|
| **Expenses excluding Losses & Finance Costs** | | |
| Prescribed Services | 408,294 | 409,780 |
| Non-prescribed Services | 17,585 | 14,964 |
| **Total Expenses excluding Losses & Finance Costs** | **425,879** | **424,744** |
| Net Loss on Disposal of Property, Plant and Equipment | 596 | 1,964 |
| **Total Expenses excluding Finance Costs** | **426,475** | **426,708** |
| Finance Costs | 168,268 | 150,860 |
| **Total Expenses** | **594,743** | **577,568** |

**Total Expenses above include:**

| | 2015 $'000 | 2014 $'000 |
|---|---|---|
| Depreciation of Property, Plant and Equipment (refer to Note 12(b)) | 229,234 | 223,581 |
| Amortisation of Intangibles (refer to Note 13(b)) | 14,933 | 15,291 |
| Impairment Loss on Trade and Other Receivables | 24 | - |
| Inventory Expense | 3,345 | 2,758 |
| Inventory Write-downs | 1,404 | 237 |
| Employee Benefits Expense | 138,673 | 132,548 |
| Defined Contribution Superannuation Funds Expense | 9,338 | 8,594 |

**Maintenance Expenses are a subset of the above total expenses:**

| **Maintenance Expense:** | **2015 $'000** | **2014 $'000** |
|---|---|---|
| Prescribed | | |
| Employee-related maintenance expense | 41,061 | 41,370 |
| Other maintenance expense | 29,408 | 32,113 |
| **Prescribed – Maintenance Expense** | **70,469** | **73,483** |
| Non-prescribed | | |
| Employee-related maintenance expense | 93 | 64 |
| Other maintenance expense | 248 | 150 |
| **Non-prescribed – Maintenance Expense** | **341** | **214** |
| **Total Maintenance Expense** | **70,810** | **73,697** |

## 5. Superannuation Defined Benefit Funds

The following tables summarise the components of movement in TransGrid's net superannuation asset/liability recognised in Profit or Loss and Other Comprehensive Income, and the funded status and amounts recognised in the Statement of Financial Position for the defined benefit superannuation funds.

The Assets and Liabilities of TransGrid's Energy Industries Superannuation Scheme Defined Benefit Funds are provided by the Fund's Actuary, Mercer Consulting (Australia) Pty Ltd.

Details of the net superannuation asset/liability calculated under AASB 119 *Employee Benefits* are covered by notes 5(a) to 5(k). The net superannuation position calculated under AAS 25 *Financial Reporting by Superannuation Plans* is covered by note 5(l). As at 30 June 2015, a superannuation net liability of $296.3m was reported under AASB 119 whilst a net superannuation liability of $1.9m was reported under AAS 25.

### (a) Movements in Superannuation Net Asset/(Liability) recognised in profit or loss

| | 2015 $'000 | 2014 $'000 |
|---|---|---|
| Current service cost | (7,949) | (8,908) |
| Net interest | (7,660) | (8,431) |
| **Total net income/(expense)** | **(15,609)** | **(17,339)** |

### (b) Movements in Superannuation Net Asset/(Liability) recognised in Other Comprehensive Income

| | 2015 $'000 | 2014 $'000 |
|---|---|---|
| Actuarial gains/(losses) on liabilities | (52,553) | (24,336) |
| Actuarial gains/(losses) on assets | 17,313 | 34,738 |
| **Total actuarial gains/(losses)** | **(35,240)** | **10,402** |

### (c) Reconciliation of the Superannuation Net Asset/(Liability)

| | 2015 $'000 | 2014 $'000 |
|---|---|---|
| **Net Asset/(Liability) at the beginning of the year** | **(258,618)** | **(269,556)** |
| Current service cost | (7,949) | (8,908) |
| Net Interest on the net defined benefit asset/(liability) | (7,660) | (8,431) |
| Actuarial gains/(losses) on assets | 17,313 | 34,738 |
| Actuarial gains/(losses) arising from changes in demographic assumptions | - | - |
| Actuarial gains/(losses) arising from changes in financial assumptions | (58,429) | (23,923) |
| Actuarial gains/(losses) arising from liability experience | 5,876 | (413) |
| Employer Contributions | 13,157 | 17,875 |
| **Net Asset/(Liability) at the end of the year** | **(296,310)** | **(258,618)** |

### (d) Reconciliation of the present value of the defined benefit obligations

| | 2015 $'000 | 2014 $'000 |
|---|---|---|
| **Present value of defined benefit obligations at the beginning of the year** | (737,344) | (704,562) |
| Current service cost | (7,949) | (8,908) |
| Interest cost | (24,484) | (24,788) |
| Contributions by Fund participants | (2,639) | (3,292) |
| Actuarial (gains)/losses arising from changes in demographic assumptions | - | - |
| Actuarial (gains)/losses arising from changes in financial assumptions | (58,429) | (23,923) |
| Actuarial (gains)/losses arising from liability experience | 5,876 | (413) |
| Benefits Paid | 39,160 | 24,883 |
| Taxes, premiums & expenses paid | 3,025 | 3,659 |
| **Present value of defined benefit obligations at the end of the year** | **(782,784)** | **(737,344)** |

### (e) Reconciliation of the fair value of Fund assets

| | 2015 $'000 | 2014 $'000 |
|---|---|---|
| **Fair value of Fund assets at the beginning of the year** | 478,726 | 435,006 |
| Interest income | 16,824 | 16,357 |
| Actuarial gains/(losses) on assets | 17,313 | 34,738 |
| Employer Contributions | 13,157 | 17,875 |
| Contributions by Fund participants | 2,639 | 3,292 |
| Benefits Paid | (39,160) | (24,883) |
| Taxes, premiums & expenses paid | (3,025) | (3,659) |
| **Fair value of Fund assets at the end of the year** | **486,474** | **478,726** |

### (f) Maturity profile of defined benefit obligations

The weighted average duration of the defined benefit obligation is 14.5 years (2014 – 14.3 years).

### (g) Description of significant events

There were no Fund amendments, curtailments or settlements during the year.

### (h) Fair value of Fund assets

All Division B, C and D assets are held in Pool B of the Fund. Pool B in turn holds units invested in the Energy Investment Fund, a pooled superannuation trust. As such, assets are not separately invested for each employer and it is not possible or appropriate to disaggregate and attribute Fund assets to individual entities, and the disclosures below relate to total assets of Pool B of the Fund.

| Energy Investment Fund | 2015 $'000 | 2014 $'000 |
|---|---|---|
| Level 1 – Quoted prices in active markets for identical assets | - | - |
| Level 2 – Significant observable inputs | 2,351,159 | 2,377,119 |
| Level 3 – Unobservable inputs | - | - |
| **Total** | **2,351,159** | **2,377,119** |

Level 1 – quoted prices in active markets for identical assets or liabilities. The assets in this level are listed shares and listed unit trusts.

Level 2 – inputs other than quoted prices observable for the asset or liability either directly or indirectly. The assets in this level are cash, notes, government, semi-government and corporate bonds and unlisted trusts containing where quoted prices are available in active markets for identical assets or liabilities.

Level 3 – inputs for the asset or liability that are not based on observable market data. The assets in this level are unlisted property, unlisted shares, unlisted infrastructure, distressed debt and hedge funds.

Some Pool B assets are invested in accordance with member investment choices. For Pool B assets invested in the Energy Investment Fund but not subject to investment choice, the percentage invested in each asset class at the end of the reporting period is:

| Asset Category | 2015 | 2014 |
|---|---|---|
| Alternatives | 32% | 25% |
| International Equities | 36% | 23% |
| Australian Equities | 12% | 17% |
| Fixed Income | 0% | 12% |
| Infrastructure | 7% | 10% |
| Property | 4% | 7% |
| Emerging Markets | 0% | 4% |
| Private Equity | 2% | 1% |
| Cash | 7% | 1% |
| **Total** | **100%** | **100%** |

Derivatives can be used by investment managers, however strict investment guidelines detail all limits approved on the use of derivatives. The use of derivatives is governed by the investment policies, which permit the use of derivatives to change the Fund's exposure to particular assets. The Trustee requires that derivative financial instruments are not entered into for speculative purposes or to gear the Fund, and that all derivatives positions are (a) fully cash covered; (b) are offset to existing assets; or (c) are used to alter the exposures in underlying asset classes. Compliance with policies and exposure limits are reviewed by the Trustee on a continual basis. As such, the investment managers make limited use of derivatives.

The fair value of Fund assets includes no amounts relating to:

- any of TransGrid's financial instruments; and
- any property occupied by, or other assets used by, TransGrid.

### (i) Significant actuarial assumptions at the end of the reporting period:

| | 2015 | 2014 |
|---|---|---|
| Discount rate | 3.03% p.a. | 3.57% p.a. |
| Salary increase rate (excluding promotional increases) | 2.5% p.a. | 2.5% p.a. |
| Rate of CPI Increase | 2.5% p.a. | 2.5% p.a. |
| Contributions tax rate | 15% p.a. | 15% p.a. |
| Pensioner mortality | As per 30 June 2012 triennial report | As per 30 June 2012 triennial report |

### (j) Sensitivity Analysis

TransGrid's total defined benefit obligation as at the end of the reporting period under several scenarios is presented below. Scenarios A to F relate to the sensitivity of the total defined benefit obligation to economic assumptions, and scenarios G and H relate to its sensitivity to demographic assumptions.

**As at 30 June 2015**

| | Base case | Scenario A -1.0% discount rate | Scenario B +1.0% discount rate |
|---|---|---|---|
| Discount rate | 3.03% | 2.03% | 4.03% |
| Rate of CPI increase | 2.5% | 2.5% | 2.5% |
| Salary inflation rate | 2.5% | 2.5% | 2.5% |
| Defined benefit obligation ($000) | 782,784 | 911,159 | 679,846 |

| | Base case | Scenario C +0.5% rate of CPI increase | Scenario D -0.5% rate of CPI increase |
|---|---|---|---|
| Discount rate | 3.03% | 3.03% | 3.03% |
| Rate of CPI increase | 2.5% | 3.0% | 2.0% |
| Salary inflation rate | 2.5% | 2.5% | 2.5% |
| Defined benefit obligation ($000) | 782,784 | 833,912 | 736,238 |

| | Base case | Scenario E +0.5% salary increase rate | Scenario F -0.5% salary increase rate |
|---|---|---|---|
| Discount rate | 3.03% | 3.03% | 3.03% |
| Rate of CPI increase | 2.5% | 2.5% | 2.5% |
| Salary inflation rate | 2.5% | 3% pa | 2% pa |
| Defined benefit obligation ($000) | 782,784 | 795,352 | 770,814 |

| | Base case | Scenario G +5% pensioner mortality rates | Scenario H -5% pensioner mortality rates |
|---|---|---|---|
| Defined benefit obligation ($000) | 782,784 | 773,865 | 792,244 |

The defined benefit obligation has been recalculated by changing the assumptions outlined above, whilst retaining all other assumptions.

### (k) Asset/Liability matching strategies

TransGrid is not aware of any asset and liability matching strategies currently adopted by the Fund.

### (l) Funding arrangements for employer contributions

Funding arrangements are reviewed at least every three years following the release of the triennial actuarial review and was last reviewed following completion of the triennial review as at 30 June 2012. Contribution rates are set after discussions between TransGrid and the trustee.

The next review is due to be undertaken for the triennial period ending 30 June 2015 and the report is expected to be completed by the end of the 2015 calendar year.

Funding positions are reviewed annually and funding arrangements may be adjusted as required after each annual review.

#### (i) *Net Surplus/(Liability)*

The following is a summary of the financial position of the Fund as at the end of the reporting period calculated in accordance with AAS 25 *Financial Reporting by Superannuation Plans*.

| | 2015 $'000 | 2014 $'000 |
|---|---|---|
| Net market value of Fund assets | 486,474 | 478,726 |
| Accrued benefits | (488,405) | (492,813) |
| **Net Surplus/(Liability)** | **(1,931)** | **(14,087)** |

#### (ii) *Contribution Recommendations*

Recommended contribution rates for the entity are:

**As at 30 June 2015**

| Division B | Division C | Division D | Additional Contributions |
|---|---|---|---|
| Multiple of member contributions | % of member salary | Multiple of member contributions | $000 p.a. |
| 1.9 | 2.5% | 1.64 | 7,171 |

**As at 30 June 2014**

| Division B | Division C | Division D | Additional Contributions |
|---|---|---|---|
| Multiple of member contributions | % of member salary | Multiple of member contributions | $000 p.a. |
| 1.9 | 2.5% | 1.64 | 7,171 |

### (iii) *Economic Assumptions*

The economic assumptions adopted by the Fund's Actuary in determining the employer contribution recommendations are set out in the following table. These assumptions differ from the economic assumptions shown in Note 5(i) which are used to determine the superannuation net asset/(liability) in the Statement of Financial Position.

| Weighted Average Assumptions | 2015 | 2014 |
|---|---|---|
| Expected rate of return on Fund Assets | 7.0% p.a. | 7.0% p.a. |
| Expected salary increase rate | 3.5% p.a. until 30/06/2018; 4% p.a. thereafter | 3.5% p.a. until 30/06/2018; 4% p.a. thereafter |
| Expected rate of CPI Increase | 2.5% p.a. | 2.5% p.a. |

### (m) Expected contributions

| | $'000 |
|---|---|
| Expected employer contributions to be paid in the 2015/16 financial year | 11,393 |

## 6. Income Tax

### (a) Income Tax Expense

Major components of income tax expense for the years ended 30 June 2015 and 2014 are:

### (i) *Profit or loss*

| | 2015 $'000 | 2014 $'000 (Restated*) |
|---|---|---|
| **Current Income Tax** | | |
| Current income tax charge | 92,760 | 96,421 |
| Adjustments in respect of current income tax of previous years | (2,251) | 3,622 |
| Total Current Income Tax | 90,509 | 100,043 |
| **Deferred Income Tax** | | |
| Relating to origination and reversal of temporary differences | (1,158) | (10,387) |
| **Income tax expense** | **89,351** | **89,656** |

### (ii) *Other Comprehensive Income*

| | 2015 $'000 | 2014 $'000 |
|---|---|---|
| **Deferred Income Tax** | | |
| Net tax (gain)/loss on transfers from asset revaluation surplus | - | - |
| Net tax (gain)/loss on superannuation reserve on underlying actuarial losses/gains | (10,573) | 3,121 |
| Net tax (gain)/loss on cash flow hedges | 61 | (476) |
| **Income tax on items taken directly to equity during the year** | **(10,512)** | **2,645** |

### (iii) *Statement of Changes in Equity*

| | 2015 $'000 | 2014 $'000 |
|---|---|---|
| **Deferred Income Tax** | | |
| Net tax (gain)/loss on transfers from asset revaluation surplus | (627) | (2,474) |
| **Income tax on items taken directly to equity during the year** | **(627)** | **(2,474)** |

### (iv) *Reconciliation of income tax expense on pre-tax accounting profit to income tax expense reported in profit or loss*

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

| | 2015 $'000 | 2015 $'000 | 2014 $'000 (Restated*) | 2014 $'000 (Restated*) |
|---|---|---|---|---|
| Profit/(Loss) Before Income Tax Expense | 292,326 | | 280,016 | |
| Income tax expense/(benefit) calculated at statutory income tax rate of 30% | | 87,698 | | 84,004 |
| Expenditure not allowed for income tax purposes | | 23 | | 14 |
| Origination and reversal of temporary differences recognised in relation to previous years | | 3,881 | | 2,016 |
| Adjustments in respect of current income tax of previous years | | (2,251) | | 3,622 |
| **Income tax expense recognised in profit or loss** | | **89,351** | | **89,656** |

## (b) Deferred Income Tax

**Deferred Income Tax at 30 June relates to the following:**

| | Recognised in Statement of Financial Position | | Recognised in Profit or Loss | |
|---|---|---|---|---|
| | 2015 $'000 | 2014 $'000 (Restated*) | 2015 $'000 | 2014 $'000 (Restated*) |
| **Deferred Tax Assets** | | | | |
| Provisions | 23,580 | 24,049 | 1,447 | 433 |
| Superannuation Liability | 88,893 | 77,585 | (736) | 161 |
| Property, plant and equipment and Intangibles | 19,009 | 16,270 | (2,739) | (7,589) |
| Other | 12,541 | 5,961 | (7,619) | (4,811) |
| **Gross Deferred Tax Assets** | **144,023** | **123,865** | **(9,647)** | **(11,806)** |
| **Deferred Tax Liabilities** | | | | |
| Property, plant and equipment and Intangibles | (830,694) | (832,360) | (6,368) | (3,263) |
| Other | (24,792) | (15,264) | 14,857 | 4,682 |
| **Gross Deferred Tax Liabilities** | **(855,486)** | **(847,624)** | **8,489** | **1,419** |

## 7. Cash and cash equivalents

| | 2015 $'000 | 2014 $'000 |
|---|---|---|
| Cash on Hand | 4 | 13 |
| Cash at Bank | 702 | 890 |
| **Total** | **706** | **903** |

## 8. Trade and other receivables

| | 2015 $'000 | 2014 $'000 (Restated*) |
|---|---|---|
| **Current** | | |
| **Debtors** | | |
| Debtors | 112,908 | 110,415 |
| **Total Debtors** | **112,908** | **110,415** |
| **Other** | | |
| Prepaid Railway Travel Passes | 3 | 71 |
| **Total Other** | 3 | 71 |
| **Total** | **112,911** | **110,486** |

## 9. Inventories

| | 2015 $'000 | 2014 $'000 |
|---|---|---|
| Transmission Plant Spares | 28,827 | 28,816 |
| **Total** | **28,827** | **28,816** |

## 10. Derivatives Assets and Liabilities

| | 2015 $'000 | 2014 $'000 |
|---|---|---|
| **Derivative Assets – Current** | | |
| Forward Foreign Currency Contracts – unhedged | 126 | - |
| **Total** | **126** | **-** |
| **Derivative Liabilities – Current** | | |
| Forward Foreign Currency Contracts – hedged | (52) | (255) |
| **Total** | **(52)** | **(255)** |

## 11. Other current assets

| | 2015 $'000 | 2014 $'000 |
|---|---|---|
| Prepayments | 3,510 | 3,249 |
| Insurance Recovery Asset (Note 17(c)) | 688 | 689 |
| Lease Incentive Asset | 1,311 | - |
| **Total** | **5,509** | **3,938** |

## 12. Property, plant and equipment

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

| | 2015 $'000 | 2014 $'000 |
|---|---|---|
| **Prescribed Assets** | | |
| Network Assets | 10,490,935 | 10,290,201 |
| Accumulated Depreciation | (5,573,377) | (5,364,715) |
| Work in Progress | 526,020 | 498,378 |
| | **5,443,578** | **5,423,864** |
| Other Assets | 135,168 | 120,057 |
| Accumulated Depreciation | (82,764) | (75,457) |
| Work in Progress | 12,356 | 13,201 |
| | **64,760** | **57,801** |
| **Total Prescribed Assets** | **5,508,338** | **5,481,665** |
| **Negotiated Transmission Assets** | | |
| Network Assets | 142,364 | 91,894 |
| Accumulated Depreciation | (20,964) | (15,186) |
| Work in Progress | 3,086 | 23,433 |
| **Total Negotiated Transmission Assets** | **124,486** | **100,141** |
| **Total Negotiated Assets** | **124,486** | **100,141** |
| **Non-regulated Assets** | | |
| Network Assets | 38,683 | 42,948 |
| Accumulated Depreciation | (8,880) | (11,913) |
| Work in Progress | 11,640 | 4,769 |
| | **41,443** | **35,804** |
| Other Assets | 1,205 | 768 |
| Accumulated Depreciation | (184) | (204) |
| Work in Progress | 329 | 155 |
| | **1,350** | **719** |
| **Total Non-regulated Assets** | **42,793** | **36,523** |
| **Total Property, Plant and Equipment** | **5,675,617** | **5,618,329** |

## (b) Reconciliations of the carrying amounts of each class of Property, Plant and Equipment at the beginning and end of the financial year

Property, Plant and Equipment is treated in accordance with the various explanations set out in Note 2. Property, Plant and Equipment are valued in accordance with NSW Treasury Policy TPP 14-1 *Valuation of Physical Non-Current Assets at Fair Value.*

| 2015 | Carrying Amount at Beginning of year | Movements | Disposals | Depreciation | Revaluation Increments/ (Decrements) | Carrying Amount at End of year |
|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Prescribed Assets:** | | | | | | |
| Network Assets | 5,423,864 | 232,265 | (1,814) | (210,737) | - | 5,443,578 |
| Other Assets | 57,801 | 22,386 | (3,000) | (12,427) | - | 64,760 |
| **Total Prescribed Assets** | **5,481,665** | **254,651** | **(4,814)** | **(223,164)** | **-** | **5,508,338** |
| **Negotiated Transmission Assets**: | | | | | | |
| Network Assets | 100,141 | 28,895 | - | (4,550) | - | 124,486 |
| **Total Negotiated Transmission Assets** | **100,141** | **28,895** | **-** | **(4,550)** | **-** | **124,486** |
| **Non-regulated Assets:** | | | | | | |
| Network Assets | 35,804 | 7,009 | - | (1,370) | - | 41,443 |
| Other Assets | 719 | 1,049 | (268) | (150) | - | 1,350 |
| **Total Non-regulated Assets** | **36,523** | **8,058** | **(268)** | **(1,520)** | **-** | **42,793** |
| **Total** | **5,618,329** | **291,604** | **(5,082)** | **(229,234)** | **-** | **5,675,617** |

| 2014 | Carrying Amount at Beginning of year | Movements | Disposals | Depreciation | Revaluation Increments/ (Decrements) | Carrying Amount at End of year |
|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Prescribed Assets:** | | | | | | |
| Network Assets | 5,175,350 | 467,559 | (11,622) | (207,423) | - | 5,423,864 |
| Other Assets | 53,883 | 18,562 | (3,215) | (11,429) | - | 57,801 |
| **Total Prescribed Assets** | **5,229,233** | **486,121** | **(14,837)** | **(218,852)** | **-** | **5,481,665** |
| **Negotiated Transmission Assets**: | | | | | | |
| Network Assets | 70,910 | 32,677 | - | (3,446) | - | 100,141 |
| **Total Negotiated Transmission Assets** | **70,910** | **32,677** | **-** | **(3,446)** | **-** | **100,141** |
| **Non-regulated Assets:** | | | | | | |
| Network Assets | 28,678 | 8,258 | - | (1,132) | - | 35,804 |
| Other Assets | 1,233 | 9 | (372) | (151) | - | 719 |
| **Total Non-regulated Assets** | **29,911** | **8,267** | **(372)** | **(1,283)** | **-** | **36,523** |
| **Total** | **5,330,054** | **527,065** | **(15,209)** | **(223,581)** | **-** | **5,618,329** |

### (c) Cost Model

| As at 30 June 2015 | Cost $'000 | Accumulated Depreciation $'000 | Net Book Value $'000 |
|---|---|---|---|
| **Prescribed Assets:** | | | |
| Network Asset | 5,384,842 | 1,601,988 | 3,782,854 |

| As at 30 June 2014 | Cost $'000 | Accumulated Depreciation $'000 | Net Book Value $'000 |
|---|---|---|---|
| **Prescribed Assets:** | | | |
| Network Asset | 5,178,445 | 1,436,365 | 3,742,080 |

## 13. Intangibles

### (a) Valuation and Accumulated Amortisation of Intangibles

| | 2015 $'000 | 2014 $'000 |
|---|---|---|
| Easements | 537,661 | 538,554 |
| Work in Progress | 25,683 | 25,074 |
| | **563,344** | **563,628** |
| Computer software | 88,144 | 85,029 |
| Accumulated Amortisation | (63,472) | (48,538) |
| Work in Progress | 16,887 | 13,802 |
| | **41,559** | **50,293** |
| **Total Intangibles** | **604,903** | **613,921** |

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

| 2015 | Carrying Amount at Beginning of Year | Movements | Disposals | Amortisation | Impairments | Carrying Amount at End of Year |
|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Intangible Assets** | | | | | | |
| Easements | 563,628 | 609 | (893) | - | - | 563,344 |
| Computer software | 50,293 | 6,199 | - | (14,933) | - | 41,559 |
| **Total** | **613,921** | **6,808** | **(893)** | **(14,933)** | **-** | **604,903** |

| 2014 | Carrying Amount at Beginning of Year | Movements | Disposals | Amortisation | Impairments | Carrying Amount at End of Year |
|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Intangible Assets** | | | | | | |
| Easements | 557,913 | 5,835 | (120) | - | - | 563,628 |
| Computer software | 54,197 | 11,387 | - | (15,291) | - | 50,293 |
| **Total** | **612,110** | **17,222** | **(120)** | **(15,291)** | **-** | **613,921** |

## 14. Investment Property

### (a) Reconciliation of the carrying amount

| | 2015 $'000 | 2014 $'000 |
|---|---|---|
| **Carrying amount at the beginning of the year** | 43,508 | - |
| Acquisitions | - | 43,508 |
| Additions (subsequent expenditure) | 226 | - |
| Change in Fair Value | 14,977 | - |
| **Carrying amount at the end of the year** | **58,711** | **43,508** |

Investment property of TransGrid refers to the TransGrid headquarter building at 180 Thomas Street, Ultimo of which Levels 4 to 9 are held primarily for earning rental income or capital appreciation.

### (b) Measurement of Fair Value

The fair value measurement for the investment property is categorised as a Level 2 fair value based on the inputs to the valuation technique used (refer Note 33(b)(i) for detailed valuation approach).

### (c) Rental Income and Direct Operating Expenses

Net rental income from investment property included in "Income" (refer Note 3) and property maintenance expenses included in "Total Expenses excluding Finance Costs" (refer Note 4) were as follows:

| | 2015 $'000 | 2014 $'000 |
|---|---|---|
| Gross rental income derived from investment property | 1,859 | - |
| Amortisation of lease incentives provided to tenants | (484) | - |
| Net rental income derived from investment property | 1,375 | - |
| Direct operating expenses (including repairs and maintenance) generating rental income | (225) | - |
| Direct operating expenses (including repairs and maintenance) that did not generate rental income | (169) | - |
| **Profit arising from investment property carried at fair value** | **981** | **-** |

TransGrid has no restrictions on the realisability of its investment property and no contractual obligations to purchase, construct or develop investment properties or for repairs, maintenance and enhancements.

## 15. Other non-current assets

| | 2015 $'000 | 2014 $'000 |
|---|---|---|
| Insurance Recovery Asset (Note 17(c)) | 6,723 | 6,581 |
| Lease Incentive Asset | 8,610 | - |
| **Total** | **15,333** | **6,581** |

## 16. Trade and other payables

| | 2015 $'000 | 2014 $'000 |
|---|---|---|
| **Current** | | |
| Creditors | 45,426 | 93,955 |
| Accrued Finance Costs | 66,988 | 64,843 |
| GST Payable | 9,554 | 5,051 |
| **Total** | **121,968** | **163,849** |

## 17. Provisions

| | 2015 $'000 | 2014 $'000 |
|---|---|---|
| **Current** | | |
| Dividend | 294,607 | 178,500 |
| Employees' Accrued Benefits | 68,047 | 73,380 |
| Insurance | 966 | 1,007 |
| | **363,620** | **252,887** |
| **Non-Current** | | |
| Employees' Accrued Benefits | 7,441 | 6,262 |
| Insurance | 9,722 | 9,237 |
| Superannuation Liability (Note 5(c)) | 296,310 | 258,618 |
| | **313,473** | **274,117** |
| **Total** | **677,093** | **527,004** |

### (a) Dividends

The following table details the movements in the Dividend Provision during the year:

| Class | Opening Balance $'000 | Contributions $'000 | Payments $'000 | Closing Balance $'000 |
|---|---|---|---|---|
| Dividends | 178,500 | 294,607 | (178,500) | 294,607 |
| **Total** | **178,500** | **294,607** | **(178,500)** | **294,607** |

### (b) Employees' Accrued Benefits

The following table shows a breakdown of the Current Portion of the Employees' Accrued Benefits Provision at the end of the reporting period, split into the period of time the benefits are expected to be settled:

| | 2015 $'000 | 2014 $'000 |
|---|---|---|
| Within one year | 23,516 | 21,555 |
| Later than one year | 44,531 | 51,825 |
| **Total** | **68,047** | **73,380** |

### (c) Insurance

Prior to July 2012 TransGrid was self insured for Workers' Compensation and in accordance with Condition 6(a)(iii) of the license granted under Section 211 of the *Workers Compensation Act, 1987*, the provision for total outstanding workers' compensation claims liability including incurred but not reported claims and administration is $10.7m (2014 - $10.2m). During the financial year, $1.5m (2014 - $1.4m) was contributed to the provision for Workers' Compensation.

The provision includes $7.4m for a 2005 workers' compensation claim under TransGrid's reinsurance policy. Reinsurance recoveries have commenced and future recoveries for this claim are considered to be virtually certain. TransGrid has recognised an insurance recovery asset of $7.4m (2014 – $7.3m) based on independent actuarial advice (refer to Notes 11 and 15).

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

| Class | Opening Balance $'000 | Contributions $'000 | Payments $'000 | Unused Amounts Reversed $'000 | Unwinding of Discount / Change in Discount Rate $'000 | Closing Balance $'000 |
|---|---|---|---|---|---|---|
| Workers' Compensation | 10,244 | 1,467 | (561) | (773) | 311 | 10,688 |
| **Total** | **10,244** | **1,467** | **(561)** | **(773)** | **311** | **10,688** |

## 18. Other current liabilities

| | 2015 $'000 | 2014 $'000 |
|---|---|---|
| Unearned Revenue | 4,315 | 4,931 |
| Security Deposits | 54 | 2,609 |
| **Total** | **4,369** | **7,540** |

## 19. Capital

TransGrid commenced operations on 1 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 14 December 1998, with share capital of two $1.00 shares. These shares were issued to the Treasurer and the Minister for Finance, Services and Property, as Voting Shareholders on behalf of the NSW Government, as at the end of the reporting period. The $2.00 is reported as part of Capital.

| | 2015 $'000 | 2014 $'000 |
|---|---|---|
| **Capital** | | |
| Opening Balance | 651,967 | 651,967 |
| Movements | - | - |
| **Closing Balance** | **651,967** | **651,967** |

## 20. Reserves

| Reserves | Asset Revaluation Surplus $'000 | Cash Flow Hedge Reserve $'000 | Total $'000 |
|---|---|---|---|
| **As at 30 June 2013** | **1,401,116** | **951** | **1,402,067** |
| Revaluation of Property, Plant & Equipment (Note 12(b)) | - | - | - |
| Transfers to Retained Earnings – Revaluation Surplus for assets disposed (Note 21) | (12,413) | - | (12,413) |
| Tax effect of Property, Plant & Equipment Revaluation (Note 6(a)(ii)) | - | - | - |
| Tax effect of Transfers to Retained Earnings (Note 6(a)(iii)) | 2,474 | - | 2,474 |
| Revaluation of Cash Flow Hedges | - | 742 | 742 |
| Realised (Gains)/Losses on Cash Flow Hedges removed from equity and included in assets | - | (2,328) | (2,328) |
| Tax effect of Cash Flow Hedge Equity Movements (Note 6(a)(ii)) | - | 476 | 476 |
| **As at 30 June 2014** | **1,391,177** | **(159)** | **1,391,018** |
| Revaluation of Property, Plant & Equipment (Note 12(b)) | - | - | - |
| Transfers to Retained Earnings – Revaluation Surplus for assets disposed (Note 21) | (2,088) | - | (2,088) |
| Tax effect of Property, Plant & Equipment Revaluation (Note 6(a)(ii)) | - | - | - |
| Tax effect of Transfers to Retained Earnings (Note 6(a)(iii)) | 627 | - | 627 |
| Revaluation of Cash Flow Hedges | - | 20 | 20 |
| Realised (Gains)/Losses on Cash Flow Hedges removed from equity and included in profit or loss | - | (37) | (37) |
| Realised (Gains)/Losses on Cash Flow Hedges removed from equity and included in assets | - | 220 | 220 |
| Tax effect of Cash Flow Hedge Equity Movements (Note 6(a)(ii)) | - | (61) | (61) |
| **As at 30 June 2015** | **1,389,716** | **(17)** | **1,389,699** |

The net movement in equity, excluding tax effects, in respect of the Cash Flow Hedge Reserve during the year was $0.2m (2014 – ($1.6m)).

**Asset Revaluation Surplus**

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. Assets are revalued in accordance with NSW Treasury Policy TPP 14-1 *Valuation of Physical Non-Current Assets at Fair Value*.

**Cash Flow Hedge Reserve**

This reserve records the effective portion of the unrealised gain or loss on the hedging instruments used in cash flow hedges pending subsequent recognition of the hedged cash flows.

## 21. Retained Earnings

| | 2015 $'000 | 2014 $'000 |
|---|---|---|
| Opening Balance | 165,476 | 119,454 |
| Adjustment on changes of accounting policy (Note 2(d)) | - | 14,468 |
| Restated opening balance | 165,476 | 133,922 |
| Net Profit/(Loss) Before Dividend (Restated, refer Note 2(d)) | 202,975 | 190,360 |
| Superannuation Actuarial Gains/ (Losses) | (35,240) | 10,402 |
| Income Tax Benefit/(Expense) on Superannuation Actuarial Gains/ (Losses) | 10,573 | (3,121) |
| Dividend | (294,607) | (178,500) |
| Transfers from Asset Revaluation Surplus | 2,088 | 12,413 |
| **Closing Balance** | **51,265** | **165,476** |

## 22. Capital expenditure commitments

As at the end of the reporting period, TransGrid had capital expenditure commitments of $197.6m (2014 - $245.6m) arising from contracts entered into relating to property, plant, equipment and land. This expenditure has not been provided for in the accounts.

The capital expenditure commitments above include input tax credits of $18.1m (2014 - $22.3m) that are expected to be recoverable from the ATO.

## 23. Operating expenditure commitments

Under the operating lease agreements with two tenants, TransGrid is liable for any non-statutory outgoing expenses incurred in the 2015/16 financial year above a certain outgoing cap. Actual outgoing expenses paid for these tenants amounted to $0.2m for the 2014/15 financial year.
The amount to be paid for tenants in the 2015/16 financial year is not quantifiable at the date of the report.

## 24. Dividend and Contributions to Shareholder

A dividend of $294.6m (2014 - $178.5m) has been recognised for distribution to the Shareholder. The dividend will be paid during the course of the 2015/16 financial year and is represented by the dividend provision.

## 25. Secured Liabilities

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

## 26. Audit Fees

Amounts received, or due and receivable, by the Audit Office of New South Wales for:

| Amounts received, or due and receivable, by the Audit Office of New South Wales for: | 2015 $'000 | 2014 $'000 |
|---|---|---|
| **Audit services** | | |
| Auditing the financial statements | 203 | 198 |
| **Other assurance services** | | |
| Due diligence services in relation to the long-term lease of TransGrid | 6 | - |
| **Total auditor's remuneration** | **209** | **198** |

## 27. Compensation of Key Management Personnel

| | 2015 $'000 | 2014 $'000 |
|---|---|---|
| Short-term employee benefits | 3,843 | 3,466 |
| Post-employment benefits | 463 | 441 |
| Other long-term benefits | 582 | 322 |
| Termination benefits | 424 | - |
| **Total** | **5,312** | **4,229** |

**Fees Paid to Directors**

Fees, including superannuation benefits paid to Directors, other than salaries paid to full-time Directors, were $0.4m (2014 – $0.4m).

**Operating lease with a company controlled by key management personnel**

TransGrid entered into a commercial operating lease for commercial office and car park (the facilities) with High Pass Holdings Pty Ltd on a three-year term commencing 2 February 2015. High Pass Holdings Pty Ltd is a company controlled by Mr C. Darvall, Chairman of the Board.

Monthly rent for the facilities is $1,712 (including. GST) for the first 12 months and is subject to a 3.5% annual increase. The lease can be terminated by either party by giving no less than 30 days' notice in writing should Mr Darvall ceases to be Chairman of the Board of TransGrid. There is no bank guarantee or security deposit required under the lease.

The monthly rent reflects what would have been charged should the facilities have been leased to a third party, assuming 50% of time is related to non-TransGrid business. The lease arrangements are considered to be on an arm's length basis.

During the year ended 30 June 2015, total rent income from the lease contract amounted to $8K (2014 – nil). The amount outstanding under the lease at 30 June 2015 was $4K (2014 – nil).

## 28. Contingent Liabilities and Contingent Assets

Details of Contingent Assets and Liabilities of TransGrid are as follows:

### (a) Contingent liabilities arising from Contractual Disputes/Litigations

As at 30 June 2015, there are six ongoing negotiations or legal proceedings between TransGrid and third parties. According to management's best estimate, the total contingent liabilities at the end of the reporting period is $8.7m (2014 – nil).

### (b) Contingent Assets

As at 30 June 2015, TransGrid has no contingent assets for disclosure (2014 – nil).

## 29. Fair Compensation Trust Account

In accordance with the Land Acquisition (Just Terms Compensation) Act, TransGrid maintains a Trust Account. TransGrid performs only a custodial role in respect of these monies, and as the monies cannot be used for the achievement of the entity's own objectives, these funds are not recognised in the financial statements. The account balance at the end of the reporting period was $1.2m (2014 - $198K).

## 30. Leases

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

**Lessee**

The lease expenditure recognised in profit or loss for the financial year, GST exclusive, was $71K (2014 - $2.7m) and related to a commercial operating lease that commenced on 9 May 2013. Although this lease had a term of 3 years, TransGrid has exercised an early termination option which took effect on 8 November 2014.

There are no future minimum lease payments (2014 – Nil).

**Lessor**

The Investment property of TransGrid (refer Note 14) is a commercial property that is leased to third parties. These leases have terms of between 3 and 10 years. All leases include a clause to enable upward revision of the rental charge on an annual basis according to a fixed rate. There is no contingent rent.

Future minimum rentals receivable under non-cancellable operating leases as at reporting date are as follows:

| | 2015 $'000 | 2014 $'000 |
|---|---|---|
| Not later than one year | 5,101 | 1,270 |
| Later than one year but not later than 5 years | 22,322 | 10,701 |
| Later than 5 years | 18,697 | 17,493 |
| **Total (including GST)** | **46,120** | **29,464** |

Total Lease Commitments above include GST of $4.2m (2014 - $2.7m) that are expected to be payable to the ATO.

## 31. Notes to Statement of Cash Flows

### (a) Reconciliation of Cash

Cash as at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

| | 2015 $'000 | 2014 $'000 |
|---|---|---|
| Cash and Cash Equivalents | 706 | 903 |

### (b) Dividends and Taxes

No dividends were received. Dividends and tax equivalents paid during the year amounted to $306.5m (2014 - $266.3m).

### (c) Reconciliation of Profit after Income Tax Equivalent Expense to Net Cash Provided by Operating Activities

| | 2015 $'000 | 2014 $'000 (Restated*) |
|---|---|---|
| **Profit/(Loss) after Income Tax Equivalent Expense** | 202,975 | 190,360 |
| **Add/(Less): Items Classified as Financing/Investing Activities** | | |
| Net Loss/(Gain) on Disposal of Property, Plant and Equipment (Note 4) | 596 | 1,964 |
| Net gain on cash flow hedges – ineffective (Note 3) | (37) | - |
| **Add/(Less) Non-Cash Items** | | |
| Depreciation and Amortisation (Note 4) | 244,167 | 238,872 |
| Amortisation of Lease Incentive Assets (Note 14) | 484 | - |
| Fair Value Movement of Investment Property (Note 3) | (14,977) | - |
| Amortisation of (Premium)/Discount on Loans | (5,855) | (3,943) |
| Borrowings Indexation | 12,238 | 17,611 |
| **Net Cash Provided by Operating Activities Before Change in Assets and Liabilities** | **439,591** | **444,864** |
| **Net Changes in Assets and Liabilities During the Financial Year** | | |
| (Increase)/Decrease in Trade Debtors and Other Receivables | (2,425) | 6,531 |
| (Increase)/Decrease in Inventories | (11) | 2,232 |
| (Increase)/Decrease in Other Current Assets | (386) | 732 |
| (Increase)/Decrease in Other Non-Current Assets | (142) | 921 |
| Increase/(Decrease) in Trade Creditors & Other Payables | (12,151) | 4,504 |
| Increase/(Decrease) in Provisions | (1,259) | (3,118) |
| Increase/(Decrease) in Income Tax & Deferred Taxes | (38,680) | 8,152 |
| Increase/(Decrease) in Other Current Liabilities | (3,172) | 4,086 |
| **Net Cash Provided by Operating Activities** | **381,365** | **468,904** |

### (d) Financing Arrangements

TransGrid has a number of financial arrangement facilities in place to meet liquidity and contractual requirements as identified in the table below:

| Facility Type | Financial Institution | Facility Limit $'000 |
|---|---|---|
| Borrowings | NSW Treasury Corporation | 3,020,000 |
| Come and Go Facility | NSW Treasury Corporation | 450,000 |
| Bank overdraft | Westpac Banking Corporation | 30,000 |
| Bank guarantee | NSW Treasury Corporation | 8,000 |
| Bank guarantee | Commercial Banks | 8,000 |
| Credit card | Westpac Banking Corporation | 4,000 |

## 32. Financial Instruments Disclosure

### (a) Credit Risk

**Exposure to credit risk**

The carrying amount of TransGrid's financial assets represents the maximum credit exposure. TransGrid's maximum exposure to credit risk at the end of the reporting period was:

| Carrying Amount | Note | 2015 $'000 | 2014 $'000 (Restated*) |
|---|---|---|---|
| Cash and cash equivalents | 7 | 706 | 903 |
| Trade and other receivables | 8 | 112,911 | 110,486 |
| Forward exchange contracts (Assets) | 10 | 126 | - |
| | | **113,743** | **111,389** |

**Gross receivables and impairment losses**

The aging of TransGrid's trade and other receivables at the end of the reporting period was:

| | Gross Receivables 2015 $'000 | Impairment Losses 2015 $'000 | Gross Receivables 2014 $'000 (Restated*) | Impairment Losses 2014 $'000 |
|---|---|---|---|---|
| Not past due | 112,751 | - | 106,938 | - |
| Past due 1-30 days | 160 | - | 3,162 | - |
| Past due 31-60 days | - | - | 22 | - |
| More than 60 days | - | - | 364 | - |
| | **112,911** | **-** | **110,486** | **-** |

The above table defines the Gross Receivables expected to be received by TransGrid. For the year ended 30 June 2015, $24K impairment losses were recognised in respect to TransGrid's outstanding Gross Receivables balance (2014 - Nil). As at the end of the reporting period, all receivable transactions were assessed to determine their fair value and that collectability was highly probable.

### (b) Liquidity and Funding Risk

The following are the contractual maturities of financial liabilities, including estimated interest payments:

| As at 30 June 2015 | Carrying Amount | Contractual Cash Flows | Less than 1 year | 1 year to 5 years | More than 5 years |
|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Non-derivative financial liabilities** | | | | | |
| Borrowings | 2,875,118 | 3,696,550 | 681,292 | 1,416,392 | 1,598,866 |
| Trade and other payables | 112,414 | 112,414 | 112,414 | - | - |
| **Derivative financial liabilities (assets)** | | | | | |
| Forward exchange contracts used for hedging: Gross outflow | 52 | 2,360 | 2,360 | - | - |
| Other unhedged forward foreign exchange contracts: Gross outflow | (126) | 3,791 | 3,791 | - | - |
| **Total** | **2,987,458** | **3,815,115** | **799,857** | **1,416,392** | **1,598,866** |

| As at 30 June 2014 | Carrying Amount | Contractual Cash Flows | Less than 1 year | 1 year to 5 years | More than 5 years |
|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Non-derivative financial liabilities** | | | | | |
| Borrowings | 2,738,443 | 3,684,246 | 488,563 | 1,339,087 | 1,856,596 |
| Forward start borrowings | - | 7,574 | (96,190) | 103,764 | - |
| Trade and other payables | 158,798 | 158,798 | 158,798 | - | - |
| **Derivative financial liabilities (assets)** | | | | | |
| Forward exchange contracts used for hedging: Gross outflow | 255 | 3,823 | 3,823 | - | - |
| **Total** | **2,897,496** | **3,854,441** | **554,994** | **1,442,851** | **1,856,596** |

### (c) Foreign Exchange Risk

#### – Cash Flow Hedges

The cash flows arising from cash flow hedges are not expected to materially affect profit or loss.

**Cash Flow Hedge Equity Movements**

| 2014/15 | Carrying Amount at beginning of period (1/7/14) | Amount recognised in equity during the period | Amount removed from equity and included in profit or loss | Amount removed from equity and included in assets | Carrying Amount at end of period (30/6/15) |
|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Equity** | (255) | 20 | (37) | 220 | (52) |

| 2013/14 | Carrying Amount at beginning of period (1/7/13) | Amount recognised in equity during the period | Amount removed from equity and included in profit or loss | Amount removed from equity and included in assets | Carrying Amount at end of period (30/6/14) |
|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Equity** | 1,331 | 742 | - | (2,328) | (255) |

### Sensitivity analysis

TransGrid employs cash flow hedges to remove currency risk associated with the purchase of overseas equipment.

A 10 percent strengthening and weakening of the Australian dollar against the following currencies would have increased/(decreased) equity, or profit or loss, by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

**As at 30 June 2015**

| Foreign Currency | Impact on Equity in AUD | | Impact on Profit or Loss in AUD | |
|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 |
| | +10% | -10% | +10% | -10% |
| EUR | (208) | 254 | - | - |

**As at 30 June 2014**

| Foreign Currency | Impact on Equity in AUD | | Impact on Profit or Loss in AUD | |
|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 |
| | +10% | -10% | +10% | -10% |
| EUR | (122) | 149 | - | - |
| SEK | (119) | 145 | - | - |
| USD | (81) | 99 | - | - |

### Unhedged Forward Contracts

For the year ended 30 June 2015, unhedged forward contracts are also entered as currency protection for contingent exposures arising from bidding of non-regulated projects.

A 10 percent strengthening and weakening of the Australian dollar against the following currencies would have increased/(decreased) equity, or profit or loss, by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

**As at 30 June 2015**

| Foreign Currency | Impact on Equity in AUD | | Impact on Profit or Loss in AUD | |
|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 |
| | +10% | -10% | +10% | -10% |
| USD | - | - | (355) | 434 |

There was no unhedged forward contract entered during the year ended 30 June 2014.

### (d) Interest Rate Risk

**Profit and Loss sensitivity analysis for variable rate instruments**

A change of 100 basis points in interest rates and the CPI applicable at the end of the reporting period would have increased/(decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

**As at 30 June 2015**

| | Impact on Profit or Loss | |
|---|---|---|
| **Variable Rate Instruments** | **$'000 -100bp** | **$'000 +100bp** |
| Bank Accounts | (7) | 7 |
| Borrowings | 3,607 | (3,607) |
| Borrowings: CPI Linked Bonds | 7,413 | (7,530) |
| **Cash flow sensitivity (net)** | **11,013** | **(11,130)** |

**As at 30 June 2014**

| | Impact on Profit or Loss | |
|---|---|---|
| **Variable Rate Instruments (Restated*)** | **$'000 -100bp** | **$'000 +100bp** |
| Bank Accounts | (9) | 9 |
| Borrowings | 1,630 | (1,630) |
| Borrowings: CPI Linked Bonds | 7,269 | (7,262) |
| **Cash flow sensitivity (net)** | **8,890** | **(8,883)** |

### (e) Net Fair Value of Borrowings

All borrowings are measured at amortised cost using the effective interest method. In comparison, the net fair value of borrowings is based on market values derived by Barrington Treasury Services using market interest rates current at the end of the reporting period and is categorised as Level 2 in the fair value hierarchy (refer to Note 33 for fair value hierarchy definitions). The carrying amounts and net fair values of borrowings at the end of the reporting period are:

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | **Carrying Amount $'000** | **Fair Value $'000** | **Carrying Amount $'000** | **Fair Value $'000** |
| Borrowings | 2,875,118 | 3,184,387 | 2,738,443 | 3,004,683 |

## 33. Fair Value Measurement

Financial and non-financial assets and liabilities measured at fair value in the Statement of Financial Position are grouped into three levels of a fair value hierarchy. The three levels are defined in AASB 13: *Fair Value Measurement* as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3: unobservable inputs for the asset or liability.

Transfers between levels of the fair value hierarchy are recognised at the end of the reporting period during which the change has occurred. No transfers between the levels occurred during the period.

## (a) Fair Value Measurement of Financial Instruments

The following table shows the levels within the fair value hierarchy of financial assets and liabilities measured at fair value on a recurring basis as at the end of the reporting period:

| As at 30 June 2015 | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 | Total $'000 |
|---|---|---|---|---|
| **Financial Assets** | | | | |
| Derivatives | - | 126 | - | 126 |
| **Total Financial Assets** | **-** | **126** | **-** | **126** |
| **Financial Liabilities** | | | | |
| Derivatives | - | (52) | - | (52) |
| **Total Financial Liabilities** | **-** | **(52)** | **-** | **(52)** |
| **Net Fair Value** | **-** | **74** | **-** | **74** |

| As at 30 June 2014 | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 | Total $'000 |
|---|---|---|---|---|
| **Financial Assets** | | | | |
| Derivatives | - | - | - | - |
| **Total Financial Assets** | **-** | **-** | **-** | **-** |
| **Financial Liabilities** | | | | |
| Derivatives | - | (255) | - | (255) |
| **Total Financial Liabilities** | **-** | **(255)** | **-** | **(255)** |
| **Net Fair Value** | **-** | **(255)** | **-** | **(255)** |

### Measurement of fair value of financial instruments

**Derivatives (Level 2)**

The fair values of derivatives are based on market valuations as at the end of the reporting period. Independent foreign exchange spot rates and forward points are obtained to recalculate the forward rates. These current forward rates are then discounted to calculate the current market value.

For financial instruments measured at a mortised cost for which fair value is disclosed, refer to Note 32(e).

## (b) Fair Value Measurement of Non-financial Assets

The following table shows the Levels within the fair value hierarchy of non-financial assets and liabilities measured at fair value on a recurring basis at the end of the reporting period:

| As at 30 June 2015 | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 | Total $'000 |
|---|---|---|---|---|
| **Non-financial assets** | | | | |
| Property, Plant & Equipment | - | - | 5,675,617 | 5,675,617 |
| Investment Property | - | 58,711 | - | 58,711 |
| **Net Fair Value** | **-** | **58,711** | **5,675,617** | **5,734,328** |

| As at 30 June 2014 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 |
| **Non-financial assets** | | | | |
| Property, Plant & Equipment | - | - | 5,618,329 | 5,618,329 |
| Investment Property | - | 43,508 | - | 43,508 |
| **Net Fair Value** | **-** | **43,508** | **5,618,329** | **5,661,837** |

**(i)** ***Investment Property (Level 2)***

As at 30 June 2014, the cost approach was adopted to estimate the fair value of the investment property due to the timing of the initial recognition of the investment property being close to the reporting period. The cost approach is a valuation technique that reflects the amount that would be required currently to replace the service capacity of an asset.

As at 30 June 2015, the fair value of the property is based on valuations performed by Jones Lang LaSalle, an accredited independent valuer who has appropriate recognised professional qualifications and recent experience in the location and category of the property valued.

– **Valuation Technique and Significant Observable Inputs**

| Valuation Technique | Significant Observable Inputs | Range Weighted Average 2015 |
|---|---|---|
| **DCF method** | Estimated rental value per sqm per month | $41.25 per sqm per month |
| | Rent growth p.a. | 3.87% |
| | Long-term vacancy rate | 0% |
| | Discount rate | 8.25% |
| | Terminal yield | 8% |

Under the DCF method, fair value is estimated using assumptions regarding the benefits and liabilities of ownership over the asset's life including an exit or terminal value. This method involves the projection of a series of cash flows on a real property interest. To this projected cash flow series, a market-derived discount rate is applied to establish the present value of the income stream associated with the asset. The exit yield is normally separately determined and differs from the discount rate.

The duration of the cash flows and the specific timing of inflows and outflows are determined by events such as rent reviews, lease renewals and related re-letting, redevelopment, or refurbishment. The appropriate duration is typically driven by market behaviour that is characteristic of the class of real property. Periodic cash flow is typically estimated as gross income less vacancy, non-recoverable expenses, collection losses, lease incentives, maintenance cost, agent and commission costs and other operating and management expenses. The series of periodic net operating income, along with an estimate of the terminal value anticipated at the end of the projection period, is then discounted.

Significant increases (decreases) in estimated rental value and rent growth per annum in isolation would result in a significantly higher (lower) fair value of the properties. Significant increases (decreases) in long-term vacancy rate and discount rate (and terminal yield) in isolation would result in a significantly lower (higher) fair value.

Generally, a change in the assumption made for the estimated rental value is accompanied by a directionally similar change in the rent growth per annum and discount rate (and terminal yield), and an opposite change in the long term vacancy rate.

**(ii)** ***Property, Plant and Equipment (Level 3)***

The fair value of property, plant and equipment are estimated using the income approach which is a valuation technique that converts future amounts (e.g. cash flows or income and expenses) to a single current (i.e. discounted) amount.

The most significant inputs, all of which are unobservable, are the:

- Forecast cash flows – which are an estimate of the future cash flows TransGrid expects to derive from the CGU; and
- Discount rate.

The estimated fair value increases if forecast cash flows increase or the discount rate decreases and vice versa. The overall valuation is sensitive to both assumptions. Management considers that there is an interrelationship between these inputs.

The rate used to discount TransGrid's forecast cash flows to a present value is 5.88% (2014 - 6.98%).

### Sensitivity analysis

For the fair value of property, plant and equipment, reasonably possible changes as at the end of the reporting period to the discount rate, holding other inputs constant, would have the following effects:

| Description | Fair Value as at 30 June 2015 $'000 | Unobservable Inputs | Range Of Inputs | Impact on Equity | | Impact on Profit or Loss | |
|---|---|---|---|---|---|---|---|
| | | | | $'000 | $'000 | $'000 | $'000 |
| | | | | +0.5% | -0.5% | +0.5% | -0.5% |
| Property, Plant and Equipment | 5,675,617 | Discount Rate | 5.38% - 6.38% (5.88%) | (499,349) | 586,547 | - | - |

| Description | Fair Value as at 30 June 2014 $'000 | Unobservable Inputs | Range Of Inputs | Impact on Equity | | Impact on Profit or Loss | |
|---|---|---|---|---|---|---|---|
| | | | | $'000 | $'000 | $'000 | $'000 |
| | | | | +0.5% | -0.5% | +0.5% | -0.5% |
| Property, Plant and Equipment | 5,618,329 | Discount Rate | 6.48% - 7.48% (6.98%) | (388,961) | 404,058 | - | - |

The forecast cash flows are dependent on a number of variables, among which WACC is the most significant one. Holding other inputs constant, the increase of WACC by 0.5% may lead to an increase in fair value by $48.3 million while the decrease of WACC by 0.5% may lead to a decrease in fair value by $48.3 million.

The reconciliation of the carrying amounts of Property, Plant and Equipment classified within Level 3 of the fair value hierarchy is as follows:

| Property, Plant and Equipment | Carrying Amount at Beginning of year | Movements | Disposals* | Depreciation* | Revaluation Increments/ (Decrements)** | Carrying Amount at End of year |
|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| 2015 | 5,618,329 | 291,604 | (5,082) | (229,234) | - | 5,675,617 |
| 2014 | 5,330,054 | 527,065 | (15,209) | (223,581) | - | 5,618,329 |

* Disposals and Depreciation expense are recognised in profit or loss and included in the line item "Expenses excluding Finance Costs" of the Statement of Profit or Loss and Other Comprehensive Income.

** Revaluation increments/decrements are recognised in other comprehensive and included in the line item "Asset Revaluation Surplus: Net increase/(decrease) in revaluations" of the Statement of Profit or Loss and Other Comprehensive Income.

## 34. Events after the Reporting Period

### (a) Transtelco Pty Ltd

A wholly owned subsidiary of TransGrid, Transtelco Pty Limited, was incorporated on 7 August 2015 for the purpose of applying for a carrier licence under the *Telecommunications Act 1997* (Cth).

*End of Audited Financial Statements*

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 2015;

2. the Financial Statements and Notes have been prepared in accordance with Australian Accounting Standards including Accounting Interpretations, the *Public Finance and Audit Act 1983*, the *Public Finance and Audit Regulation 2015*, 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 Statements and Notes to be misleading or inaccurate.

**C DARVALL**
CHAIRMAN

**P MCINTYRE**
MANAGING DIRECTOR

15 September 2015.
**Date**

# INDEPENDENT AUDITOR'S REPORT

**TransGrid**

To Members of the New South Wales Parliament

I have audited the accompanying financial statements of TransGrid (the Corporation), which comprise the statement of financial position as at 30 June 2015, the statement of profit and loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information.

## Opinion

In my opinion, the financial statements:

- give a true and fair view of the financial position of the Corporation as at 30 June 2015, and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards
- are in accordance with section 41B of the *Public Finance and Audit Act 1983* (PF&A Act) and the Public Finance and Audit Regulation 2015
- Comply with the International Financial Reporting Standards as disclosed in Note 2(b).

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

## Directors' Responsibility for the Financial Statements

The Directors are responsible for preparing financial statements that give a true and fair view in accordance with Australian Accounting Standards, the PF&A Act and the *State Owned Corporations Act 1989* and for such internal control as the directors determine is necessary to enable the preparation of financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

In Note 2(b) the directors state, in accordance with Accounting Standard AASB 101 'Presentation of Financial Statements' that the financial statements comply with International Financial Reporting Standards.

## Auditor's Responsibility

My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with Australian Auditing Standards. Those standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

Level 15, 1 Margaret Street, Sydney NSW 2000 | GPO Box 12, Sydney NSW 2001 | t 02 9275 7101 | f 02 9275 7179 | e mail@audit.nsw.gov.au | audit.nsw.gov.au

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

My opinion does *not* provide assurance:

- about the future viability of the Corporation
- that it carried out its activities effectively, efficiently and economically
- about the effectiveness of the internal control
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented
- about other information that may have been hyperlinked to/from the financial statements.

## Independence

In conducting my audit, I have complied with the independence requirements of the Australian Auditing Standards and relevant ethical pronouncements. The PF&A Act further promotes independence by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- 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 of New South Wales are not compromised in their roles by the possibility of losing clients or income.



Karen Taylor
Director, Financial Audit Services

15 September 2015
SYDNEY




Chapter 8

# Index and Glossary


CLEARANCE
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# Index


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# Glossary

| Term | Explanation/Comments |
|---|---|
| AAS | Australian Accounting Standards |
| AASB | Australian Accounting Standards Board |
| ACT | Australian Capital Territory |
| ADT | Administrative Decisions Tribunal |
| AER | The Australian Energy Regulator |
| AEMO | The Australian Energy Market Operator |
| APRA | Australian Prudential Regulation Authority |
| ARSBA | Annual Reports Statutory Bodies Act |
| ARSBR | Annual Reports Statutory Bodies Regulation |
| AS/NZS | Australian Standard/New Zealand Standard |
| Assets | TransGrid's 'poles and wires', all the substations, and electricity transmission lines that form the network |
| ASX | Australian Securities Exchange Limited |
| ATO | Australian Taxation Office |
| AUD | Australian Dollars |
| Augmentation Expenditure | Expenditure required to enlarge the transmission system or to increase its capacity to transmit electricity |
| BeSafeKids | TransGrid's school community program |
| Capital Expenditure | When a business spends money either to buy fixed assets to add to the value to existing assets. |
| CBD | Central Business District |
| CGU | Cash Generating Unit |
| CIGRE | Conseil International des Grands Réseaux Électriques (International Council on Large Electric Systems) |
| CPI | Consumer Price Index |
| CPP | Community Partnerships Program |

| Term | Explanation/Comments |
|---|---|
| Customers | TransGrid's customers are those directly connected to the network. They are either Distribution Network Service Providers, directly connected generators, large industries customers, customers connected through inter-regional connections or potential new customers |
| CSIRO | Commonwealth Scientific and Industrial Research Organisation |
| Easement | As easement over a property gives TransGrid the right to construct and maintain our assets, while ownership of the property remains with the original landowner |
| EBITDA | Earnings before interest, tax, depreciation and amortisation |
| EEO | Equal Employment Opportunity |
| GIPA | Government Information Public Access Act |
| GreenGrid | TransGrid environmental partnership with Greening Australia |
| GREP | Government Resource Efficiency Policy |
| GST | Goods and Services Tax |
| GWh | Gigawatt Hours |
| IASM | International Accounting Standards Board |
| IFRS | International Financial Reporting Standards |
| ISO | International Organisation for Standardisation |
| km | Kilometres |
| kV | Operating voltage of electricity transmission equipment. One kilovolt is equal to one thousand volts. |
| kW | Kilowatt |
| kWh | Kilowatt hour |
| Load | The amount of electrical power that is drawn from the network. |

| Term | Explanation/Comments |
|---|---|
| LED | Light-emitting diode |
| LTIFR | Lost time Injury Frequency Rate |
| MAR | Maximum Allowable Revenue |
| MW | Mega watts |
| National Electricity Law | Common laws across the states which compromise the NEM, which make the NER enforceable |
| Nation Electricity Rules (NER or 'the rules') | The rules that govern the operation of the NEM |
| NEM | National Electricity Market |
| Network augmentation | An expansion of the existing electricity transmission network |
| The Network | The systems and assets which allows electricity to be transported to consumers |
| Non-network options | Solutions outside of network build |
| NSCAS | Network Support and Ancillary Services |
| NSW | New South Wales |
| NTER | National Tax Equivalent Regime |
| Operating Expenditure | Expenditures a business incurs as a result of performing its normal business operations |
| PID | Public Interest Disclosure |
| PMP | Performance Management Process |
| RFS | Rural Fire Service |
| RPS | Rural Planning Services plc |
| SES | Senior Executive Service |
| SIS | Superannuation Industry supervision |
| Substation | Installation at which electricity is received from one or more power stations |

| Term | Explanation/Comments |
|---|---|
| TC | Treasury Circular |
| TMF | Treasury Managed Fund |
| TNSP | Transmission Network Service Provider, a body that owns, controls and operates an electricity transmission system in the NEM |
| TPP | Treasury Policy Papers |
| Transmission line | A high-voltage power line running at 500 kV, 330 kV, 200 kV or 132 kV |
| UNSW | University of New South Wales |
| UTS | University Technology Sydney |
| WACC | Weighted average cost of capital |




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