



Annual Report

2003-04





CAPACITOR BANK: A capacitor bank was installed at Transend's Chapel Street Substation during 2003-04.



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HIGHLIGHTS 2003–04



NORTH-EAST REDEVELOPMENT: Civil construction work at Scottsdale substation as part of the substation redevelopments in north-east Tasmania. (Photo courtesy of John Copas, Enerserve)

SUBSTATION WORK: Transend's Geoff Flack at New Norfolk Substation where a capacitor bank will soon be installed.

NEM entry

With only months to go before Tasmania joins the National Electricity Market in May 2005, we are making good progress to ensure Transend is ready in time.

Basslink

Design work has started on the connection equipment needed to connect Basslink to our George Town Substation. We are working hard to ensure that Transend is ready for Basslink to start trading in November 2005.

Service performance

Once again, our service performance was better than target. On the main performance measures—circuit availability and loss-of-supply frequency—we performed well.

Profit

Profit was up \$5 million on the previous year's result: profit before tax was \$32.2 million (\$27.2 million in 2002–03). The directors have recommended a dividend of \$9.9 million.

Revenue cap decision

The ACCC's revenue cap decision allows sufficient funds for the capital projects we plan to implement over the 5.5-year regulatory period to 30 June 2009. However, the decision cut \$27 million from our forecast expenditure on operations and maintenance over the regulatory period.

Capital expenditure

In 2003–04, we set a new record for annual capital expenditure. We invested almost \$61 million in a variety of projects that collectively aim to provide a more secure and reliable transmission service.

Pricing policy

We introduced a new pricing policy that aligns with recent revisions to the Tasmanian Electricity Code. The new policy sets out how our aggregate annual revenue is recovered from users of the transmission network.

Safety

There were no lost time injuries to our staff during the year. This is the fourth time in our six-year history that we have achieved this goal.

Environment

We have fulfilled a long-term goal to upgrade the oil containment facilities at all our substations. The new facilities reduce the risk of oil leaks from our substations contaminating nearby land and waterways.



SECOND CIRCUIT: The second circuit being strung on the Burnie-Smithton transmission line as part of the redevelopment of the transmission system in the Circular Head area (Photo courtesy of Electrix Pty Ltd)

CONTENTS

Highlights 2003-04	3
Chairman's review	5
Review of operations	7
Financial statements	18
Notes to the financial statements	21
Directors' declaration	34
Independent Audit Report	35
Directors' report	36
Corporate governance	37

COMPANY OVERVIEW

Transend Networks Pty Ltd owns and operates the electricity transmission system in Tasmania. Transend transmits electricity from 29 power stations to substations around the State. The company owns 3500 circuit kilometres of transmission lines, 45 substations and eight switching stations.

As well as operating the transmission system, Transend is currently responsible for power system control in Tasmania. In 2005, when Tasmania joins the National Electricity Market, responsibility for system control will transfer to NEMMCO. However, Transend will retain the capability to maintain the security of the power system in Tasmania.

Chairman's REVIEW



CHAIRMAN: John Lord, Transend's chairman

With the extent of change facing Transend and the electricity industry in Tasmania, the company's annual strategic planning process took on even greater significance during 2003–04. Early in 2004, the board and executive team met to reconsider the strategic direction of the company and to develop the framework for a strategic plan for the next few years.

In a series of subsequent meetings, the board reviewed Transend's mission and pictured the company operating in the National Electricity Market (NEM). The purpose of this exercise was to test if the mission was still valid and to consider whether it should be modified in light of changing circumstances.

The consensus was that in general, the mission was still valid. Despite the changes that are under way, Transend's core business remains the same: electricity transmission and power system control. However, the board agreed that the mission should be modified to affirm Transend's vital role in fulfilling the State Government's NEM entry objective. The board also agreed that the company should develop the capability to take advantage of new business opportunities that build on Transend's existing strengths.

The result of this exercise is a revised mission that helps to establish clear boundaries and priorities for the company. Importantly, the revised mission is still true to Transend's primary purposes and objectives, as set out in the company's Memorandum of Association.

MISSION

Transend's mission is to—

- efficiently provide a reliable and secure electricity transmission service at a cost commensurate with appropriate and sustainable returns to shareholders;
- efficiently arrange generation dispatch and ensure power system security in Tasmania;
- facilitate Tasmania's successful entry into the National Electricity Market; and
- respond to new business opportunities building on our established strengths.



STATEMENTS OF CORPORATE INTENT

The strategic meetings also helped the board to define the way that the company aims to operate. This was affirmed in six statements of corporate intent, which reinforce the objectives set out in the mission. The statements emphasise Transend's collaborative approach to going about its business. They will help to guide everyone in the company as each person contributes to fulfilling the corporate objectives.

- 1) Together, we will enjoy a safe, respectful and stimulating work environment that promotes innovation, encourages career development and makes Transend an employer of choice.
- 2) Together, we will continue to manage and develop the Tasmanian electricity transmission system for the benefit of Tasmanians.
- 3) Together, we will work cooperatively with other parties to facilitate Tasmania's successful entry and ongoing participation in the National Electricity Market via Basslink.
- 4) Together, we will strive for excellence in environmental management and be a good corporate citizen.
- 5) Together, we will pursue opportunities to lever off our existing assets to provide services useful to customers and profitable for our shareholders.
- 6) Together, we will enhance our ability to respond to new business opportunities in energy transmission or areas that build on our established strengths, arising either at the request of our shareholders or in other ways.

I would like to thank my fellow directors and the executive team for their participation in the strategic review and for their contribution during 2003-04. I would also like to thank Transend's management and staff for their efforts over the past year. It was not an easy year for the company, given the scope of the work program and the complexity of the preparations for NEM and Basslink. Nevertheless, Transend produced strong results in both its operational and financial performance.

In December 2003, the board noted with sadness the passing of a fellow director, John Halfpenny. Although John's time with Transend was relatively brief, he brought a fresh perspective to the board's deliberations.

Susan Hocking resigned from the board in July 2004 after three years' service to the company. Susan was always a strong contributor to the board. She was a member of the Audit Committee throughout her term and was chair of the committee when she resigned in July 2004. We wish her well for the future.

Although we face major challenges in the year ahead, our strengthening asset base, our clear sense of direction and our dedicated workforce put us in a strong position to prosper as we move into the NEM.

John Lord
Chairman

Review of OPERATIONS



NEW SWITCHGEAR: Transend's Nicole Eastoe (left) and David Tossel, of National Power Services, in front of the new 22 kV switchgear at Burnie Substation

The Tasmanian electricity industry is preparing for the most significant change in its history. We are now in the countdown to Tasmania's entry to the National Electricity Market in May 2005. Six months later, Basslink is scheduled to start operating, thereby unlocking the full potential of the electricity market in Tasmania. In the meantime, we are doing everything possible to ensure that Transend is ready in time to meet the deadlines.

But we have not neglected our core business. In fact, despite the extra challenges of NEM entry and Basslink, we produced good results during 2003–04. Transmission service performance was better than target and profit was up \$5 million on the previous year's result. We are continuing to invest so that we can sustain that performance in future. In 2003–04, we invested almost \$61 million to continue upgrading and modernising the transmission system in Tasmania, a new record for our annual capital expenditure program.

In December 2003, the Australian Competition and Consumer Commission (ACCC) released its decision on Transend's regulated revenue cap for the 5.5-year period to 30 June 2009. Although the ACCC allowed sufficient revenue for us to continue our essential capital program, the ACCC did not allow enough revenue to cover the company's projected operating and maintenance expenditure.

SERVICE PERFORMANCE

For the third year in a row, our service performance was better than target. On the key performance measures—circuit availability and loss-of-supply frequency—we performed well during 2003–04.

The ACCC has developed a performance incentive scheme for transmission network service providers (TNSPs). Under the

incentive scheme, which operates on calendar years, TNSPs are rewarded for improvements in service performance and penalised if the service deteriorates. The maximum reward or penalty will be one per cent of annual revenue from the regulated TNSP component of the business. The reward or penalty will be determined using the average regulated revenue for the two financial years that cover the calendar year performance measurement.

In our 2003 revenue cap application (RCA) to the ACCC, we proposed to apply two categories of performance indicators—circuit availability and loss-of-supply frequency. Circuit availability, which is vital to the wholesale generation market, is measured in terms of transmission line circuits and transformer circuits. Loss-of-supply frequency is of most interest to electricity retailers and consumers. To reflect the characteristics of the Tasmanian customer load, we proposed a loss-of-supply frequency index with two thresholds: those events with a loss of more than 0.1 system minutes and those with a loss of more than 2.0 system minutes. The ACCC agreed that the performance measures we proposed were appropriate, but applied more challenging targets to both measures.

Measured against the new targets, our service performance was better than target in the 12 months to 30 June 2004 (table 1). Transmission line circuits were available 99.22 per cent of the time. Coincidentally, the result for transformer circuit availability was also 99.22 per cent. On loss-of-supply frequency, 16 events of more than 0.1 system minutes were recorded during the year. (System minutes measure the impact of the loss of electricity supply.) Fortunately, none of the loss-of-supply events during 2003–04 was significant enough to register more than 2.0 system minutes.



TRANSMISSION LINE COMPLIANCE: Post insulators were attached to a tower on the Tungatinalh–Waddamana 110 kV transmission line by a crew from Aurora energy. The objective of the work was to raise the heights of conductors to meet contemporary conductor-to-ground clearances.



AWARD: In May 2004, Transend's external auditor, the Tasmanian Audit Office, presented Transend with the "Financial Statement Working Papers Award 2002–2003" for Government Business Enterprises and State Owned Companies. Pictured with the award are Kirsty Palmer and Louis Molnar.

TABLE 1:
Power supply
performance
(12 months to
30 June)

PERFORMANCE MEASURE	Weighting ¹ Total = +/- 1.00%	Dead band range ²		RESULTS	
		Lower	Upper	2003–04	2002–03 ³
Circuit availability (%)					
• Transmission lines	0.25%	99.10	99.20	99.22	98.86
• Transformers	0.15%	99.00	99.10	99.22	99.52
Loss-of-supply frequency (number)					
• >0.1 system minutes	0.20%	16	13	16	13
• >2.0 system minutes	0.40%	3	2	0	1

Notes:

- 1 Each performance measure has a weighting based on its contribution to the possible reward or penalty. The total possible penalty or bonus is 1% of allowable revenue.
- 2 Results in the dead band range yield a neutral outcome. Transend would receive neither a reward nor a penalty if the results were in the dead band range.
- 3 Under the standard used in 2002–03, transmission line availability was within the acceptable range of performance.

The performance incentive scheme applies from 1 January 2004, in line with the new regulatory period. Each service standard is given a weighting. The result for the 12 months to 30 June 2004 indicates that, if the performance incentive scheme had operated over the financial year 2003–04, Transend would have received a bonus.

The Ministerial Council on Energy (MCE) has acknowledged that the effective operation of the transmission network is vital to competition in electricity generation and retailing. In a report to the Council of Australian Governments¹, the MCE argued that valuable customer and investor benefits would flow from more closely aligning transmission performance measures with their market impact. The MCE therefore supported the ACCC's intention to extend the performance incentive scheme in future to more closely align TNSPs' actions with the needs of transmission customers.

FINANCIAL PERFORMANCE

Revenue increased in the second half of 2003–04 as a consequence of the ACCC's revenue decision (published in December 2003).

The decision established Transend's maximum allowable revenue for regulated transmission charges for the period 1 January 2004 to 30 June 2009. Operating expenses increased during 2003–04 mainly due to additional expenses relating to NEM entry and Basslink. The result was profit before tax of \$32.2 million, up \$5 million on the previous year's result (\$27.2 million). Net profit for 2003–04 was \$19.8 million, from which the directors have recommended a dividend of \$9.9 million.

Looking ahead, the ACCC's decision has put a clamp on Transend's potential earnings over the 5.5-year life of the regulatory period. The ACCC recommended significant cuts to the operating and maintenance expenditure (opex) we requested in our revenue application—cuts totalling almost \$27 million over the 5.5-year period (table 2). In our view, the ACCC's opex allowance is insufficient to run the business in a sustainable manner over the long term.

¹ Ministerial Council on Energy, December 2003, Reform of Energy Markets, Report to the Council of Australian Governments



NEMMCO TRAINING: NEMMCO's Greg Mitchell (left) and David Marr are shown the finer points of Transend's network operation and control system by Transend's David Crouch (in chair).

In the medium term, we are concerned that the expenditure estimates presented in our revenue cap application (in March 2003) might have under-stated future opex requirements, given the magnitude and complexity of the changes facing the company.

NEM ENTRY AND BASSLINK

The Tasmanian electricity industry is preparing for the most significant period of change in its history. Tasmania's entry to the National Electricity Market and the connection of Basslink will provide new sources of supply to meet the growing demand for electricity. The staged introduction of a competitive retail market also offers consumers the prospect of choice in their supplier of electricity.

With less than a year to go before Tasmania is scheduled to join the NEM, we are making good progress to ensure Transend is ready in time. Basslink, which will connect to our George Town Substation, is scheduled to go into service in November 2005.

Collectively, NEM entry and Basslink presented us with major challenges. We are managing these challenges through our Tasmanian Wholesale Electricity Market (TWEM) project, which was established in 2001. The scope of the TWEM project is vast and reaches into almost every aspect of our operations.

TABLE 2: *Opex forecast: Transend's RCA v ACCC's decision (\$ million, 2002–03)*

Includes total operating and maintenance expenditure and debt-raising costs

	Jan–June 2004	2004–05	2005–06	2006–07	2007–08	2008–09	Total
RCA	16.0	33.6	37.2	37.6	35.7	36.0	196.1
ACCC	13.9	30.1	33.7	32.2	29.6	29.5	169.0
Difference	-2.1	-3.5	-3.5	-5.4	-6.1	-6.5	-26.9

It is also complex: many outputs of the project are not only on our critical path but are also essential to other parties including the National Electricity Market Management Company (NEMMCO), Basslink Pty Ltd (BPL), Hydro Tasmania, Bell Bay Power and Aurora Energy.

NEM entry: Building on our achievements of the previous year, during 2003–04 we successfully passed a number of important milestones on the road to NEM entry. For example, in June 2004 we established an operational communication link with NEMMCO. The link allowed NEMMCO to manage the Tasmanian power system in real time from its control room in Queensland, thereby helping NEMMCO prepare for taking over responsibility for power system security from May 2005.

Also in collaboration with NEMMCO, we developed and implemented a comprehensive training program for NEMMCO's power system operators, who need to understand the characteristics of the Tasmanian power system before NEMMCO takes control next year. And by the end of 2003–04, a program to install NEM-compliant meters at key connection points in the transmission system was well under way.

During 2003–04, we substantially completed our work on the NEM entry limit equations—one of the most complex and resource-intensive aspects of the NEM entry project. Limit equations are mathematical models that describe the capabilities of the Tasmanian power system under various scenarios of generation and load patterns. NEMMCO needs the limit equations in order to program their market systems and to allow them to take on the extra responsibility of power system security for the Tasmanian region of the NEM. Given that the power system continues to evolve—new plant is added and old plant taken out of service—the limit equations work also had to take account of various stages of power system development.



LIMIT EQUATION TEAM (from left): (standing) Andrew Jin, Steve Jarvis, Chandra Kumble, Andrew Robbie (consultant), Ranil de Silva (consultant) and Marc Brunet-Watson; and (sitting) Caroline Lee and Soruby Bharathy were part of the TWEM team producing our NEM entry limit equations.



However, much more remains to be done before we are ready for the scheduled deadline for NEM entry, 29 May 2005, when responsibility for power system control in Tasmania transfers from Transend to NEMMCO.

Basslink: By the end of 2003–04, construction of Basslink—the 360-kilometre inter-connector that will link Tasmania to the NEM—was well under way. The first 98 kilometres of the submarine cable component of the project has been laid off the coast of Victoria. Meanwhile, the converter stations at Loy Yang in Victoria and George Town in Tasmania are being constructed, as are the overhead line sections on both sides of the link.

Basslink will be the largest single connection to the Tasmanian transmission system. Designed for up to 630 megawatts (MW) on export from Tasmania and up to 480 MW on import, Basslink is much bigger than any single load or generator currently connected to the transmission system.

We have worked closely with Basslink's owners, BPL, to develop the design details for the inter-connector, in particular the control logic and the connection assets at George Town Substation. We also assisted BPL with the design of a system protection scheme (SPS). The SPS will monitor the status of Basslink and the Tasmanian power system and will take pre-determined actions following contingencies on Basslink or any of 17 critical Tasmanian transmission circuits. The transmission system has the capacity to supply the expected export or import requirements of Basslink, provided that all the critical circuits are in service.

The SPS will allow increased power transfers through the transmission network while maintaining power system security in Tasmania. The transmission system has limited capacity to cope with the wide variety of export and import scenarios that will occur once Basslink is operational. Whatever is happening on the link, our aim is to ensure that the operation of Basslink does not adversely affect the operation of the local transmission system or our local customers.

Tasmania is scheduled to join the NEM in May 2005. Although some elements of Transend's NEM entry and Basslink work program are currently behind schedule, we are confident that we will meet the delivery timetable agreed with the State Government and other industry participants.

CAPITAL INVESTMENT

We set a new record for the company's annual capital expenditure program during 2003–04. Almost \$61 million was invested in a variety of capital projects that collectively aim to provide a reliable electricity transmission service, add capacity for forecast load growth and cater for new connections to the network. The capital expenditure result for 2003–04 is a significant increase over recent years: annual capital expenditure in the three years 2000–01 to 2002–03 has averaged less than \$35 million.

The boost in capital expenditure is a foretaste of the unfolding capital program outlined in our revenue cap application. In its decision on the RCA, released in December 2003, the ACCC acknowledged the need for continued investment in Tasmania's electricity transmission system. The ACCC accepted that a continuing program of renewal, refurbishment and augmentation is needed to ensure that the



METERING: (from left) Shaun O'Loughlin, Aurora Energy, and Bob Neil, Department of Treasury and Finance, are shown NEM meters at Chapel Street Substation by John Peter, Transend.



BASSLINK: (from left) Johann Müller, Commissioning Manager of HVDC Systems with Siemens; John Gleadow, Transend's Basslink Consultant; and Transend's Dinesh Perera in front of the control equipment that will be installed at Basslink's converter station at George Town.

Tasmanian community can rely on our transmission service. Compared with the previous regulatory period, the ACCC has significantly increased our allowance for capital expenditure over the new regulatory period. The ACCC's decision allows sufficient funds in the revenue cap for most of the capital projects we plan to implement over the 5.5-year regulatory period to 30 June 2009.

Entry into the NEM will have significant implications for the physical operation of the Tasmanian power system. Responsibility for power system security will transfer from Transend to NEMMCO in 2005. A number of capital projects are designed to achieve this objective. In addition, before Tasmania can join the NEM, we need modern metering equipment at all wholesale connection points in the transmission system, that is, at the physical connections between Transend and other market participants such as Hydro Tasmania, Aurora Energy and Basslink. By the end of June 2004, many of the new metering installations had been completed and the program was on track for completion prior to NEM entry.

We completed several major capital projects during 2003–04 and a number of others were almost complete by the end of the year. These included redevelopments of substations at Smithton, Burnie, Queenstown and Waddamana. Two important transmission line projects were completed: the installation of a second 110 kilovolt (kV) circuit between Burnie and Smithton, and the re-arrangement of two circuits from Palmerston (Liapootah–Palmerston no. 1 and Waddamana–Palmerston). We also installed capacitors at Chapel Street Substation near Hobart. The Chapel Street capacitors, which provide reactive power, are the latest in a program of similar installations at key substations throughout the transmission network.

The redevelopment at Smithton Substation also included connection equipment for the new transmission line from Hydro Tasmania's Woolnorth wind farm. Hydro's Woolnorth–Smithton transmission line and the connection equipment at Smithton Substation have sufficient capacity for stage 2 of Woolnorth wind farm. Any further development of Woolnorth, or the development of other wind farms in the area, will require more investment in transmission infrastructure, including the construction of a new transmission line through to Burnie. The proponents of those wind farms must allow for the cost of this extra transmission capacity when assessing the viability of their projects.

The completion of our transmission line compliance program during 2003–04 was a major achievement for the company. The purpose of the program, which began in 1999, was to eliminate substandard conductor-to-ground clearances on transmission lines around the State, and to ensure that the lines comply with contemporary design and safety standards. The objectives of the program have been fulfilled: the substandard lines have been rectified and they now comply with contemporary standards. And a potential safety risk has been significantly reduced. For a marginal increase in cost, we took the opportunity to increase the rating of some of the transmission lines in the compliance program, thereby providing more transfer capacity on those circuits.



OIL CONTAINMENT: A blast wall was installed at Knights Road Substation, Huonville, as part of Transend's program to build contemporary oil containment facilities at all its substations.



OPTICAL FIBRE GROUND WIRE An OPGW being installed on the transmission line between Burnie and Smithton substations. (Photo courtesy of Electrix Pty Ltd)

The past year saw the fulfilment of a long-term environmental goal: to prevent oil leaks at our substations from contaminating nearby land and waterways. Distributed throughout the network are 119 power transformers that contain a total of 3.5 million litres of oil, which had the potential to cause environmental damage. This risk is now under control. The last four installations in our oil containment program were completed in 2003–04. The end of this program, which was initiated in the mid-1990s, means that all our substations now have oil containment systems that meet contemporary design standards.

Our largest committed projects at present include substation redevelopments in north-east Tasmania, the construction of a new substation at Mowbray and associated Trevallyn–Mowbray 110 kV transmission line, installation of modern protection and control systems at George Town, Temco and Boyer substations, and the redevelopment of Lindisfarne 110 kV Substation. We have also placed orders for the supply of nine new power transformers, three of which will be installed at Chapel Street Substation before winter 2005. Another major committed project is the construction of office accommodation in Hobart.

Southern power system: We are steadily implementing a program of work aimed at increasing the security of the power system in the south of the State. Over the past few years we have done a lot of work to improve the security and increase the capacity of the transmission system in southern Tasmania. However, the southern system has limited scope for further incremental upgrades. It also relies heavily on Chapel Street Substation (in Glenorchy) for supply to Hobart and the south of the State: Chapel Street provides the only 220 kV supply point in the south.

Meanwhile, demand for electricity continues to grow. Tasmania's population is growing and the economic outlook is positive, all of which places extra load on the power system. The system needs to grow to keep pace with demand and load growth. Under the Tasmanian Electricity Code (TEC), Transend must consider all options to find the most effective way of meeting future needs of the power system. The two main options considered were (a) network support from a gas-fired power station situated near Hobart and (b) augmenting the transmission network by building a new 220 kV supply point in Hobart.

We evaluated the costs and characteristics of the options and found that network augmentation is the preferred solution because it has the lowest cost and least risk. The augmentation proposal involves the installation of 220 kV equipment at Waddamana and Lindisfarne substations and the construction of a 220 kV transmission line to link the two substations. We aim to submit a development application early in 2005 for the proposed 220 kV transmission line.

Transend's capital program is one of the most ambitious that any Tasmanian company has undertaken in recent years. Since 1998, we have invested more than \$250 million to upgrade and modernise the transmission network in Tasmania. And the program continues: over the next three years we are planning to invest a further \$250 million on a variety of transmission projects around the State. It's a program that aims to inspire confidence—confidence that Tasmanians can depend on Transend to provide a reliable and secure electricity transmission service, now and in future.



NORTH-EAST REDEVELOPMENT: A new 110 kV circuit breaker is being installed at Scottsdale Substation as part of the substation redevelopments in north-east Tasmania. (Photo courtesy of John Copas, Enerserve)



CUSTOMER FOCUS: Transend's David Allen (foreground), with Norske Skog's Adam Tassell, examining a paper roll at machine number 3 at Norske Skog's Boyer mill. We work closely with major industrial customers who connect directly to our transmission system.

CUSTOMERS

Tasmania's imminent entry to the NEM is the driving force behind recent and planned changes to Transend's connection agreements with its customers. When the company was established in 1998, we entered into connection and network service agreements with Aurora Energy and Hydro Tasmania. The agreements, known as CANS 1 (between Transend and Aurora) and CANS 2 (Transend and Hydro), set out the terms and conditions governing the connection of Hydro's generators and Aurora's loads to the transmission system.

With the benefit of experience over the past few years, the parties to the agreements have identified a number of shortcomings in both CANS 1 and 2. More recently, we found that the existing agreements do not cover some matters that are required under the National Electricity Code. Joining the NEM with the agreements in their current form would have posed an unacceptable risk to Transend. Accordingly, as a precondition of the State's NEM entry project, we agreed to remove this risk by negotiating appropriate amendments to the CANS agreements.

The parties to both CANS 1 and 2 have worked diligently during 2003–04 to identify the issues and propose amendments to the agreements. In respect of CANS 2, negotiations are now complete, and we propose to enter into a deed with Hydro to amend the agreement. Both parties—Hydro and Transend—are satisfied that the amendments deliver a mutually beneficial agreement that is appropriate for operation in the NEM. In respect of CANS 1, we completed negotiations with Aurora in October 2004.

The next stage of this work is to apply the principles from the revised CANS agreements to other parties that connect directly to our transmission system, in particular, major industrial customers. At present, although we have direct physical connections with these customers, the commercial arrangements are indirect (through the connection agreement with Aurora, CANS 1). We have advised Aurora that we propose to enter into individual connection agreements with new direct connection customers and with existing customers whose power supply agreements are about to expire. Existing direct connection customers have been informed of this proposal through information sessions presented by the Energy Markets Branch, a division of the Department of Treasury and Finance.

Pricing policy: We introduced a new transmission pricing policy during the past year. The new policy supersedes the original pricing policy that had been in place since 2000. The original policy was based on principles set out in the TEC, as it existed then, and the 1999 Electricity Pricing Determination.

In late 2003, chapter 6 of the TEC—which covers network pricing—was revised to align it with the National Electricity Code in preparation for Tasmania’s entry to the NEM. Following these revisions, we took the opportunity to review the pricing policy to ensure that it satisfied the revised TEC provisions. In addition, the Regulator’s Pricing Determination had expired and was replaced by the ACCC’s decision on Transend’s revenue cap for the period 1 January 2004 to 30 June 2009. In summary, the pricing policy had to be changed because:

- the TEC is now more comprehensive and reduces our discretion in setting prices policies and methodologies; and
- the pricing principles in the Regulator’s 1999 pricing determination no longer applied.

We consulted interested parties to seek input on the new pricing policy before its implementation. We would like to thank those customers and other interested parties who made submissions and provided comments on the proposed changes.

The new pricing policy establishes how our aggregate annual revenue requirement is recovered from users of the transmission network. The policy has been revised only where changes were required to follow the new provisions or principles of the TEC. The most significant changes to the policy are:

- different treatment of dedicated radial lines for new transmission customers;
- different treatment of dedicated radial lines for existing generators;
- separation of the TUOS charge into “usage” and “general” components; and
- changes to the negotiation and discounting frameworks.

Following discussions with customers, it was determined that the new pricing policy would apply from 1 January 2004, even though it was not finalised until later. Interim prices were set for the period 1 January to 30 June 2004 by scaling the prices levied in 2003 to reflect the new revenue cap. Once the pricing policy was finalised, we made a reconciliation of each customer’s charges.



WIND FARM CONNECTION: Hydro Tasmania’s Woolnorth wind farm is connected to the transmission system by a new 110 kV line to Smithton Substation.

Wind farms: In January 2004, stages 1 and 2 of Hydro’s Woolnorth wind farm—the first wind farm on mainland Tasmania—were connected to the transmission system by a new 110 kV line to Smithton Substation. (Woolnorth stage 1 had been connected to the distribution system.) The new line and the connection equipment at Smithton are sufficient to cater for the present generating capacity of the Woolnorth project, almost 65 MW. Transend has an agreement with Hydro to operate and maintain the Woolnorth–Smithton transmission line, which is 43 kilometres long.

Hydro has proposed a third stage for the Woolnorth development to increase its capacity to almost 140 MW. If that stage were to proceed, then a new transmission line would be required between Smithton and Burnie. The existing transmission infrastructure has insufficient capacity to cater for Woolnorth stage 3 or for any other wind farms proposed for the area.

We worked with Hydro to develop innovative solutions to turbine design to increase the amount of wind power that could be connected to the transmission network. For example, the Woolnorth wind farm is the first commercial installation in Australia to have wind turbines that have improved fault ride-through characteristics.

Several other wind farm projects, totalling more than 500 MW, are in various stages of planning in Tasmania. If all of these projects were to proceed, Tasmania’s generating capacity would increase significantly from the current capacity of about 2500 MW, which would require more investment in the transmission system.

SYSTEM CONTROLLER

At present, Transend is responsible for power system control in Tasmania. In 2005, when Tasmania joins the national electricity market, our responsibility for power system control will transfer to NEMMCO. Under an agency agreement with NEMMCO, we will assist NEMMCO in the secure operation of the power system in Tasmania. Unlike other Australian TNSPs, Transend owns and operates high voltage assets (<88 kV), which are outside the scope of NEMMCO's supervision. After NEM entry, we will continue to control those assets. However, we will retain the capability to maintain the security of the power system in Tasmania.

Seven days a week, 24 hours a day, we monitor the state of the power system in terms of three key criteria: we need to know whether the system is secure, satisfactory and reliable. (These criteria are defined in section 4.2 of the Tasmanian Electricity Code.) In the 12 months to 30 June 2004, the power system was in a secure state for 99.83 per cent of the time (an improvement on 2002–03), satisfactory for 99.92 per cent and reliable for 99.99 per cent of the time (table 3).

TABLE 3: *Power system performance: 12 months to 30 June (%)*

Operating state	Target	2003–04	2002–03
Secure	100.0	99.83	98.07
Satisfactory	100.0	99.92	99.93
Reliable	100.0	99.99	100.00

During 2003–04, we completed a number of improvement projects that have already benefited the local electricity industry and have prepared us for operating in the NEM. We reviewed our operational procedures to ensure they comply with the NEM environment. And with new on-line tools now available, we were able to reduce the capacity reserve margin from the previous level of up to 288 MW (that is, the two largest machines in operation) to 144 MW (the single largest machine). The new margin is consistent with national standards for capacity reserves.

A Regulator's compliance audit of the System Controller group found that we comply with our obligations under the *Electricity Supply Industry Act 1995* and the Tasmanian Electricity Code (TEC). Outside the scope of the compliance audit, the auditors made a number of recommendations for improvements that were based on sound industry practice and risk management principles. We are implementing the auditors' recommendations.

Each December, we publish a planning statement for the Tasmanian power system. The planning statement is a valuable reference and a key input to decisions on investing in the power system. It provides existing and potential market participants with information about the future demand for electricity and gives a forward-looking overview of the electricity supply system. The latest planning statement (published in December 2003) forecasts continued load growth, averaging more than 1.5 per cent over the 15 years to 2018. The forecast takes account of the significant economic impacts of natural gas and Basslink.

Given the level of interest in developing wind farms in Tasmania, the latest planning statement included a separate chapter on wind generation. Connecting large-scale wind farms to relatively small power systems (such as Tasmania's) presents some technical challenges for system operators like Transend and NEMMCO. Wind generation has implications for frequency control, voltage stability and short circuit levels. Furthermore, the existing and proposed wind farm sites are on the periphery of the existing transmission network, potentially requiring considerable additions to the transmission system.

During the past year, our System Controller group established a technical working group to investigate these issues. The working group included representatives of Tasmanian electricity companies, NEMMCO and other electricity industry participants from Australia and New Zealand. The working group found that with the current technology of wind turbines, there are limits to the amount of wind generation that can be dispatched into the Tasmanian power system. The working group recommended that Tasmania ask NEMMCO to address the deficiencies in the market arrangements relating to large-scale wind generation. The group also recommended that Transend should ensure that proponents of new wind farms in Tasmania are made aware of the issues raised in the working group's report.

Recently the Ministerial Council on Energy established a working group to examine the policy issues on wind energy. The policy group is working with NEMMCO to identify impediments to large-scale wind generation in the NEM. To assist the policy group with its analysis of the technical matters, NEMMCO will form a technical advisory group, which will include industry sector representation.



GRADUATE DEVELOPMENT: (from left) Daniel Capece, Caroline Lee and Ben March were recruited as part of Transend's development program for graduate engineers.

OUR PEOPLE

We are committed to the highest safety standards for our staff and contractors. For the fourth year in our six-year history, we recorded no lost time injuries to our staff.

The Tasmanian electricity industry is going through a period of unprecedented change, with deadlines for NEM entry and Basslink rapidly approaching. On joining the NEM in May 2005, our responsibility for system control will transfer to NEMMCO. As a transmission network service provider, we will be required to operate under the national regime. These imminent changes have been the catalyst for a review of Transend's organisational structure.

The previous organisational structure had been in place since 2000 and was based on the company's core business processes, supported by three business service groups. Following the review, we adjusted the organisation's structure to more effectively manage existing and future responsibilities, and to develop the capability to respond to new business opportunities. The result is a revised organisational structure that will allow the company to:

- adapt to the new operating environment in the NEM;
- deliver the works program (including capital projects and scheduled maintenance work);
- improve our capabilities in business planning and corporate compliance; and
- respond to new business opportunities.

Given the significant changes already in progress throughout the company, the structural changes emphasised evolution rather than revolution to minimise disruption to staff.

Staffing: Staff numbers increased in the past twelve months to a total of 160 at 30 June 2004, compared with 127 a year earlier. A significant proportion—45 per cent—of the new staff were recruited from interstate and overseas. As we move beyond the transition to the NEM, staff numbers are expected to stabilise.

The main impetus for growth was the additional demands associated with fulfilling our obligations relating to NEM entry and Basslink. Another factor that contributed to the growth in staff numbers was the re-balancing of external and internal resources, that is, a shift from the use of contract personnel to direct employees in some areas. For example, the engineers who maintain the network operation and control system and related SCADA equipment were previously contractors; they are now employed by Transend.

Our professional development program for graduate engineers continues to pay dividends. These young people inject new blood and fresh ideas, and are a vital part of our plans to develop suitably qualified and experienced people to sustain the company into the future. A side effect of the graduate program is that the company's average age profile has reduced to 41 years.

In support of our commitment to young engineers, we continued to sponsor an undergraduate scholarship with the School of Engineering at the University of Tasmania.



The aim of our scholarship is to encourage engineering undergraduates to specialise in power engineering and to alert them to the career opportunities in the electricity industry. We also provide temporary employment for engineering undergraduates, which allows them to fulfil the compulsory work experience component of their degrees.

Over the past year, a major focus of our training program has been to prepare our power system operators—and NEMMCO's—to manage Tasmania's power system in the NEM. Transend and NEMMCO are more than half-way through a year-long operator training program.

Transend staff were actively involved in the continuing implementation of the initiatives agreed in our Enterprise Agreement 2002, particularly those relating to flexible work arrangements and work-life balance. The benefits of the agreement are evident in our productive and harmonious workplace: we had no industrial disputes during the year.

Our southern employees are currently based at three sites—leased accommodation at Moonah and Hobart, and company-owned offices in Lenah Valley. A project to consolidate our accommodation on one site in Hobart is nearing completion. By the end of 2004 when the new office building is finished, all southern-based staff will be located at the Lenah Valley site, which is next to Creek Road Substation.

CONCLUSION

The past year was successful for Transend on many fronts, and our stakeholders shared in that success. Our customers benefited from service performance that was better than target. Our shareholders gained from an improved profit result. Our suppliers shared in our record capital expenditure program. And our people made it happen.

But the challenge continues and the rules are changing. Tasmania's entry to the NEM and the connection of Basslink presents us with a new market environment, set within an ever-evolving regulatory regime. Despite the continuing changes and potential opportunities, we must not lose sight of the main game. Around Tasmania, every day, the energy we deliver helps people live their lives—at home, at work and at play. In carrying out our vital role in the electricity supply chain, we aim to inspire confidence—confidence that people can depend on Transend to provide a reliable and secure transmission service, now and in future.

Financial STATEMENTS

STATEMENT OF FINANCIAL PERFORMANCE

For the year ended 30 June 2004

	Note	2004 S'000	2003 S'000
Revenues from ordinary activities	2	96,998	83,113
Expenses from ordinary activities	2	(35,593)	(32,267)
Carrying amount of decommissioned assets	2, 9	(200)	(173)
Borrowing costs	3	(2,052)	(981)
Depreciation expense	2	(26,979)	(22,537)
Profit from ordinary activities before related taxation equivalent expense		32,174	27,155
Taxation equivalent expense relating to ordinary activities	4	(12,327)	(10,789)
Net profit		19,847	16,366
Increase (decrease) in asset revaluation reserve	14	13,600	(13,218)
Total changes in equity from non-owner related transactions		33,447	3,148

The Statement of Financial Performance is to be read in conjunction with the accompanying notes to the financial statements.

STATEMENT OF FINANCIAL POSITION

As at 30 June 2004

	Note	2004 S'000	2003 S'000
Current assets			
Cash	23	4	-
Receivables	5	10,169	9,389
Investments	6	-	3,946
Inventories	7	421	425
Other	8	234	264
Total current assets		10,828	14,024
Non-current assets			
Property, plant and equipment	9	633,568	586,251
Deferred tax asset	4 (c)	4,238	3,357
Total non-current assets		637,806	589,608
Total assets		648,634	603,632
Current liabilities			
Bank overdraft	23	-	37
Payables	10	13,410	12,221
Interest bearing liabilities	11	9,896	4,994
Income tax equivalent liabilities	4 (b)	5,870	1,473
Provisions	12	3,407	3,565
Other		1	1
Total current liabilities		32,584	22,291
Non-current liabilities			
Interest bearing liabilities	11	25,191	20,510
Deferred tax liabilities	4 (d)	28,551	26,934
Provisions	12	10,635	7,488
Total non-current liabilities		64,377	54,932
Total liabilities		96,961	77,223
Net assets		551,673	526,409
Equity			
Share capital	13	336,549	336,549
Reserves	14 (a)	156,089	142,489
Accumulated profits	14 (b)	59,035	47,371
Total equity	15	551,673	526,409

The Statement of Financial Position is to be read in conjunction with the accompanying notes to the financial statements.

STATEMENT OF CASH FLOWS

For the year ended 30 June 2004

	Note	2004 \$'000	2003 \$'000
Cash flows from operating activities			
Receipts from customers		105,067	90,994
Interest received		91	190
Payments to suppliers and employees		(40,345)	(35,741)
Interest paid		(2,338)	(1,186)
Income tax equivalents paid		(7,225)	(6,197)
Net cash provided by operating activities	23 (c)	55,250	48,060
Cash flows from investing activities			
Proceeds from sale of property and plant		360	542
Payments for fixed assets and capital work in progress		(60,915)	(43,076)
Net cash used in investing activities		(60,555)	(42,534)
Cash flows from financing activities			
Net (Repayment)/proceeds - overnight borrowings		4,834	(1,760)
Net (Payment)/proceeds - overnight investment		3,946	(3,946)
Net (Repayment)/proceeds - fixed term borrowings		4,749	10,177
Dividends paid		(8,183)	(9,837)
Net cash provided by financing activities		5,346	(5,366)
Net increase /(decrease) in cash held		41	160
Cash at the beginning of financial year		(37)	(197)
Cash at the end of financial year	23 (a)	4	(37)

The Statement of Cash Flows is to be read in conjunction with the accompanying notes to the financial statements.

Notes to the FINANCIAL STATEMENTS

NOTE	Contents	Page
1	Statement of significant accounting policies	21
2	Statement of financial performance details	25
3	Borrowing costs	25
4	Statement of taxation equivalent	25
5	Receivables	26
6	Investments	26
7	Inventories	27
8	Other assets	27
9	Property, plant and equipment	27
10	Payables	28
11	Interest bearing liabilities	28
12	Provisions	29
13	Share capital	29
14	Reserves	29
15	Equity	30
16	Financial instrument disclosures	30
17	Foreign exchange	31
18	Commitments for expenditure	32
19	Contingent liabilities	32
20	Auditors' remuneration	32
21	Directors' remuneration	32
22	Related party information	32
23	Notes to the statement of cash flows	33
24	Events subsequent to balance date	33

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been adopted in the preparation of these financial statements are listed below.

(a) Basis of preparation

The financial statements are a general purpose financial report and have been prepared in accordance with Australian Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The financial statements have been prepared on an accrual basis under the historical cost convention, and except where stated, do not take into account changing money values or fair values of assets.

All values expressed in the notes are to the nearest thousand dollars unless otherwise stated.

(b) Accounting estimate revisions

Revisions to accounting estimates are recognised prospectively in current and future periods only.

(c) Acquisition of assets

All assets acquired, including property, plant and equipment, are initially recorded at their costs of acquisition at the date of acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition.

(d) Borrowing costs

Borrowing costs are recognised on an effective yield basis and include interest and amortisation of discounts or premiums relating to borrowings.

Borrowing costs are expensed as they are incurred unless they relate to qualifying assets. Qualifying assets are assets that take more than 12 months to commission for their intended use. As funds are borrowed generally, borrowing costs are capitalised using a weighted average capitalisation rate (note 3).

(e) Cash assets and bank overdrafts

Cash assets and bank overdrafts are carried at face value of the amounts deposited or drawn. The carrying amounts of cash assets and bank overdrafts approximate net fair value.

(f) Depreciation

Complex assets

The components of major assets that have materially different useful lives, are effectively accounted for as separate assets, and are depreciated separately.

Useful lives

Depreciation on property, plant and equipment is based on the straight-line method and expensed over their useful lives (notes 1(n) and 9). Depreciation rates and methods are reviewed annually for appropriateness. When changes are made, adjustments are reflected prospectively in the current and future periods.

The useful lives assigned to Transend's major assets for the financial years ending 30 June 2003 and 30 June 2004 are listed below:

Transmission lines	60 yrs
Substation switch bays	50 yrs
Substation establishment	60 yrs
Capacitors	45 yrs
Transformers	45 yrs
Control and protection schemes	15 yrs
Buildings	80 yrs
Other assets	3 – 10 yrs

(g) Employee benefits

The provisions for employee benefits represent the amount that Transend has a current obligation to pay resulting from employees' services provided up to the balance date. Transend adopts the liability calculation methodology recommended under revised Australian Accounting Standard AASB 1028 Employee Benefits (note 12).

Contributions to these provisions are included in the cost of labour and charged directly to capital jobs or cost centres, and correspondingly, the provisions absorb the cost when employees utilise their benefits. An annual adjustment is made to the provisions in order to represent the fair value of the provision at year-end.

Annual leave and annual leave loading

The provisions for annual leave and annual leave loading have been calculated using undiscounted amounts based upon salaries at balance date, including appropriate labour on costs.

Long service leave

The provision for long service leave represents the present value of Transend's estimated future obligations at balance date, including appropriate labour on costs. Liabilities for employee benefits are, where appropriate, discounted using rates attached to Commonwealth bonds at balance date, which closely match the terms of the related liabilities. Future salary increases and staff departure rates have also been taken into account.

Sick leave

No provision for sick leave is allowed for in the accounts as sick leave is non-vesting and employee benefit only exists when an employee becomes sick.

Workers compensation

Transend is insured by an external organisation for liabilities arising from workers compensation claims.

Superannuation

The superannuation liability associated with the Retirement Benefits Fund (RBF) Contributory Scheme is fully provided for as a provision in the accounts of Transend. Employee contributions to the scheme are transferred to independent RBF administrators, while employer contributions are retained internally in a provision. Transend's share of its emerging superannuation obligations is met from this provision.

(h) Foreign currency

Transactions

Foreign currency transactions are translated to Australian dollars at the rates of exchange ruling at the dates of the transactions.

Hedging

Transend uses forward foreign currency contracts to hedge currency exposures above a limit of \$0.050 million relating to the purchase of equipment. Gains and losses arising from these contracts are deferred and included in the purchase cost of the goods or services acquired.

Forward foreign currency contracts are not entered into for speculative purposes.

(i) Goods and services tax

Revenue, expenses and property, plant and equipment are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

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

(j) Income tax

Transend is required to make income tax equivalent payments to the State Government as if it were a company under Commonwealth income tax laws. From 1 July 2001, Transend joined the National Taxation Equivalent Regime (NTER), which replaced the previous State Taxation Equivalent Regime (TER).

Transend adopts the liability method of tax effect accounting (note 4).

Income tax expense is calculated on operating profit adjusted for permanent differences between taxable and accounting income and expenditure. The tax effect of timing differences, resulting from items being accounted for in different periods for tax and accounting purposes, is carried forward in the balance sheet as a future income tax benefit or a provision for deferred income tax.

Future income tax benefits are not brought to account unless the realisation of the asset is assured beyond reasonable doubt.

(k) Interest bearing liabilities

Loans are carried on the statement of financial position at an amount equal to the original proceeds received adjusted for any amortisation of discount or premiums received (note 11).

(l) Inventories

Inventories are carried at the lower of cost and net realisable value, with a provision being maintained for loss on disposal of surplus stores (note 7). Inventories are not held for resale and are used in the maintenance and construction of the transmission system.

(m) Payables

Liabilities are recognised, including accruals for accounts not yet billed, when goods are received or services are provided (note 10). Accounts are usually settled within normal trading terms. The carrying amount of accounts payable approximates net fair value.

(n) Property, plant and equipment

Network assets

The network assets have been valued based upon the depreciated optimised replacement cost (DORC) methodology.

The gross replacement cost of modern equivalent assets is determined for each class of asset and consequentially optimised for over-design, over-capacity and redundant assets. The DORC value is derived from the gross optimised replacement cost after allowing for depreciation, which is calculated using the remaining useful life and the assigned useful life of each class of asset.

Directors have valued the network assets in service on 1 July 2001 based upon a determination by the Tasmanian State Treasurer. This was part of the process for Transend's revenue cap application to the ACCC. The Treasurer's determination was based upon an independent review, carried out by Meritec Pty Ltd, on an asset valuation proposed by Transend. Transend's valuation was based upon work undertaken by Sinclair Knight Merz Pty Ltd.

Current valuation basis

The valuation has been inflated to 30 June 2004 values by applying escalation factors based upon the Australian Bureau of Statistics Consumer Price Index (weighted average of eight capital cities). The escalation factor for the 2002–03 financial year was 2.7% and the escalation factor for the 2003–04 financial year was 2.5%.

Allowance is also made for assets completed and transferred to completed works, assets retired from use, and for depreciation of the assets since the last valuation. Assets completed and transferred to completed works during 2002–03 are escalated by the 2003–04 factor; assets completed and transferred to completed works during 2003–04 are valued at cost.

The carrying amount of Transend's assets is reviewed to determine whether they are in excess of their recoverable amount at balance date. If the carrying amount of Transend's assets exceeds the recoverable amount, the assets are written down to the lower amount. Directors' valuation, based upon the DORC methodology, which is adopted by the ACCC is a reasonable approximation of recoverable amount and therefore no write down is considered necessary.

The cost of network assets includes the cost of contracted services, materials, direct labour costs and an appropriate portion of overhead costs. Costs incurred on an asset subsequent to the initial acquisition are capitalised when the original capacity of an asset has been enhanced, or the life of an asset has been extended.

Land and buildings

Land and buildings are valued at market value where known. Otherwise the Valuer-General's most recent valuation is used as the basis of determining values for those assets. The most recent valuation from the Valuer-General was received on 8 August 2003.

Other assets

Other assets include motor vehicles, application systems, computer equipment, office furniture and equipment. These assets are valued at their written-down historic cost value because of their lower value, shorter lives and higher turnover.

Capital work-in-progress

Capital work-in-progress is valued at cost.

Disposal of assets

The gain or loss on the disposal of assets is calculated as the difference between the carrying amount of the asset at the time of disposal and the proceeds on disposal, and is included in the operating result in the year of disposal.

Revaluations of non-current assets

Revaluation increments are recognised in the asset revaluation reserve except for amounts reversing a decrement previously recognised as an expense, which are recognised as revenues. Revaluation decrements are only offset against revaluation increments relating to the same class of assets and any excess is recognised as an expense.

Leased assets

Payments made for operating leases are charged against profit over the period of the lease.

(o) Receivables

Accounts receivable are generally settled within prescribed periods. To ensure the carrying amount of accounts receivable approximates their fair value, a provision for doubtful debts is, if required, raised at year-end after assessing the collectability of outstanding debts (note 5). Bad debts are written off in the year they are identified.

(p) Revenue recognition

Revenues are recognised at fair value of the consideration received net of the amount of goods and services tax (GST) payable to the ATO.

Regulated revenue

Revenue from the transmission use of system (TUOS) is earned by the transportation of electricity through the transmission system owned and operated by Transend (note 2). Revenue from the System Controller is earned by ensuring a secure and reliable electricity system (note 2). Revenue is recognised when the service is provided.

Interest

Interest revenue is recognised as it accrues.

Asset sales

The gross proceeds of asset sales are included as revenue; the profit or loss on sale is recognised when an unconditional contract of sale is signed.

Customer contributions

Transend's policy is to treat contributions from customers which relate to capital projects as revenue. Where capital works are incomplete, the portion of customer contributions received in advance for the incomplete works is included as a liability in the Statement of Financial Position.

(q) Segment reporting

Transend owns and operates the transmission system and, as from 1 July 2000, acquired the functions of the System Controller which is integral to ensuring a secure and reliable electricity system. Revenue earned and costs incurred are associated with the performance of that function. The reporting of information by segment is not required for the 2003-04 financial year.

	2004	2003
	\$'000	\$'000
2. STATEMENT OF FINANCIAL PERFORMANCE DETAILS		
Operating revenue		
Transmission use of system (TUOS)	85,946	71,601
System Controller	9,508	9,757
Interest received	70	216
Proceeds from the sale of assets	360	493
Income from external work	201	426
Rental and lease income	113	119
Other	800	501
Total operating revenue	96,998	83,113
Operating expenses		
Operating and maintenance costs–TNSP	23,016	19,755
Operating and maintenance costs–SC	7,399	8,761
Tasmanian Wholesale Electricity Market–TNSP	2,380	1,202
Tasmanian Wholesale Electricity Market–SC	1,149	696
Lease payments	547	403
Carrying amount of assets disposed (note 9)	200	173
Borrowing costs (note 3)	2,052	981
Insurance	858	816
Cost of external work	244	634
Depreciation	26,979	22,537
Total operating expenses	64,824	55,958
Operating profit (loss) before tax	32,174	27,155
Taxation equivalent expense (note 4)	(12,327)	(10,789)
Profit (loss) after tax	19,847	16,366
3. BORROWING COSTS		
Borrowing costs incurred during the financial year	2,266	1,707
Borrowing costs capitalised during the financial year	(214)	(726)
	2,052	981
Weighted average capitalisation rate on funds borrowed	6.74%	6.11%

	2004	2003
	\$'000	\$'000
4. STATEMENT OF TAXATION EQUIVALENT		
(a) Taxation equivalent expense		
Prima facie tax equivalent expense on operating profit calculated at 30%	9,652	8,146
Increase in taxation equivalent expense due to:		
Depreciation on assets not depreciable for taxation purposes	2,688	2,489
Entertainment costs not deductible for taxation purposes	-	9
Other non deductible items	21	129
	12,361	10,773
Decrease in taxation equivalent expense due to:		
Building amortisation allowance	(14)	(14)
Other deductible items	(29)	(18)
	12,318	10,741
Under/(over) provision of taxation equivalent from prior year	9	48
Taxation equivalent expense	12,327	10,789
Taxation equivalent expense comprises:		
Taxation equivalent payable	11,620	7,398
Provision for deferred income tax	1,589	3,660
Future income tax benefit	(891)	(317)
Under/(over) provision of taxation equivalent from prior year	9	48
	12,327	10,789
(b) Current tax liability		
Current taxation equivalent liability movements during the year:		
Balance at the beginning of the year	1,473	712
Current year's tax provision	11,620	7,398
Under/(over) provision for tax in prior year	2	(412)
Taxation equivalent paid–prior year	(1,475)	(6,180)
Taxation equivalent paid–current year	(5,750)	(45)
Provision for taxation equivalent payable	5,870	1,473

4. STATEMENT OF TAXATION EQUIVALENT *continued*

	2004	2003
	\$'000	\$'000
(c) Deferred tax asset		
Future income tax benefit comprises the estimated future benefit at the applicable rate of 30% on the following items:		
Provision for accrued employee entitlements not currently deductible	4,244	3,346
Sundry items	(6)	11
	<u>4,238</u>	<u>3,357</u>

The potential future income tax benefit will only be obtained if:

- (i) the company derives future assessable income of a nature and an amount sufficient to enable the benefit to be realised;
- (ii) the company continues to comply with the conditions of deductibility imposed by the law; and
- (iii) no changes in tax legislation adversely affect the company in realising the benefit.

	2004	2003
	\$'000	\$'000
(d) Deferred tax liabilities		
Provision for deferred income tax comprise the estimated expense applicable rate of 30% on the following items:		
Difference in depreciation of property, plant and equipment for accounting and income tax purposes	28,359	25,310
Expenditure currently deductible for tax but deferred and depreciated for accounting purposes	603	1,613
TWEM costs	(517)	-
Sundry items	106	11
	<u>28,551</u>	<u>26,934</u>
5. RECEIVABLES		
Current accounts receivable	10,169	9,132
GST receivable	-	257
	<u>10,169</u>	<u>9,389</u>
Bad debts identified or written off during the financial year:	225	-
6. INVESTMENTS		
Cash management facility	-	3,946

All money market investments transacted during the financial year were executed with the Tasmanian Public Finance Corporation.

	2004	2003
	\$'000	\$'000
7. INVENTORIES		
Consumables		
Stores (valued at cost)	158	158
Provision for loss on stores	(5)	(4)
	153	154
Transend reviewed the nature and quantity of its consumables held at 30 June 2004 in order to determine its fair value, and as a result, the provision for loss on stores was increased.		
Reclaimed steel		
Reclaimed steel	368	371
Provision for loss on reclaimed steel	(100)	(100)
	268	271
Transend assessed the value of the reclaimed steel held at 30 June 2004 to determine its net realisable value. The assessment was that the provision for loss on reclaimed steel remain unchanged.		
	421	425
8. OTHER ASSETS		
Current		
Prepayments	209	236
Miscellaneous	25	28
	234	264

	2004	2003
	\$'000	\$'000
9. PROPERTY, PLANT AND EQUIPMENT		
Asset values as at 30 June are as follows:		
Network assets		
Transmission lines and cables—at directors' valuation	587,674	559,682
Transmission lines and cables—at cost	16,997	13,658
Optimised replacement cost	604,671	573,340
Accumulated depreciation	(312,953)	(295,616)
Depreciated optimised replacement cost	291,718	277,724
Transmission substations—at directors' valuation	570,698	543,091
Transmission substations—at cost	31,357	17,648
Optimised replacement cost	602,055	560,739
Accumulated depreciation	(303,503)	(286,930)
Depreciated optimised replacement cost	298,552	273,809
Land and buildings		
Land substation—at directors' valuation	3,133	3,055
Land and buildings—at market value	4,248	3,104
Accumulated depreciation	(105)	(71)
Depreciated value	7,276	6,088
Other assets		
Other assets—at cost	16,911	14,090
Accumulated depreciation	(8,674)	(5,023)
Depreciated value	8,237	9,067
Capital works in progress		
At cost	27,785	19,563

9. PROPERTY, PLANT AND EQUIPMENT *continued*

Reconciliation of the movement in property, plant and equipment during the financial year:

	2004				2004
	\$'000	\$'000	\$'000	\$'000	\$'000
	Transmission lines	Transmission substations	Land and buildings	Other assets	Capital works in progress
Carrying amount at beginning of year	277,724	273,809	6,088	9,067	19,563
Additions during the year	16,997	31,357	1,207	3,113	60,682
Net increase (decrease) in revaluation reserve (note 14)	6,940	6,583	77	-	-
Assets disposed	-	-	(57)	(143)	-
Depreciation (notes 1(f) and 2)	(9,943)	(13,197)	(39)	(3,800)	-
Borrowing costs capitalised	-	-	-	-	214
Transfers to property, plant and equipment	-	-	-	-	(52,674)
Carrying amount at end of year	291,718	298,552	7,276	8,237	27,785

10. PAYABLES

	2004 \$'000	2003 \$'000
Trade creditors	12,639	11,590
Accrued expenses	315	154
Accrued interest	406	477
GST payable	50	-
	13,410	12,221

All trade creditors and accrued expenses are unsecured.

11. INTEREST BEARING LIABILITIES

Throughout the 2003–04 financial year, all borrowings were executed with the Tasmanian Public Finance Corporation (Tascorp), in accordance with Transend's Treasury Policy Statement. Transend did not enter into any derivative instruments or debt restructuring activities during the 2003–04 financial year. The loans are secured by assets of the company. The weighted average interest rate is 6.74% (2003: 6.11%).

Transend borrowings comprised the following:

	2004 \$'000	2003 \$'000
Overnight borrowings	4,834	-
Term borrowings with less than one year maturity	5,062	4,994
Total current borrowings	9,896	4,994
Non-current borrowings	25,191	20,510
Total borrowings	35,087	25,504
For information purposes only, borrowings have been revalued at 30 June using market yield to maturity.	35,493	25,940

Transend has forward start loan agreements to be drawn over the next 4 years. These agreements bear interest ranging from 6.24% to 6.33%. Refer note 16 for further details.

	2004	2003
	\$'000	\$'000
12. PROVISIONS		
Current provisions		
Employee benefits:		
Annual leave	810	608
Long service leave	118	153
Superannuation	2,479	2,804
	3,407	3,565
Non-current provisions		
Employee benefits:		
Annual leave	624	489
Long service leave	1,661	1,139
Superannuation	8,350	5,860
	10,635	7,488

The present values of long service leave entitlements not expected to be settled within twelve months of the reporting date have been calculated using the following weighted averages:

	2004	2003
-Assumed rate of increase in wage and salary rates	7.00%	4.00%
-Discount rates	6.00%	5.00%
-Settlement terms (years)	10	10
Number of employees at year end	160	128

Provision for superannuation RBF defined benefits scheme

Each year, the State Actuary conducts a valuation of the past service and accrued liabilities within the Retirement Benefits Fund defined benefit scheme at the reporting date. Any shortfall between the value of these benefits and the market value of the Retirement Benefits Fund assets relevant for those members determines the value of any unfunded superannuation liability, and is shown as a liability in the balance sheet.

The funding status of Transend for the defined benefit scheme as at 30 June based upon actuarial valuations is summarised as follows:

	2004	2003
	\$'000	\$'000
Vested benefits	17,631	14,750
Accrued benefits	16,235	12,585
Net market value of RBF assets	(5,406)	(3,921)
Superannuation liability applicable to Transend	10,829	8,664
Provision for superannuation at 30 June	10,829	8,664
Deficit	-	-

The assumptions that were used to determine these amounts are set out in a report prepared by PricewaterhouseCoopers, dated 15 July 2004. The main economic assumptions were:

	2004	2003
	% p.a.	% p.a.
Discount rate (pensioners)	7.00	7.00
Discount rate (others)	7.00	7.00
Interest rate	7.00	7.00
Salary increase rate	4.50	4.00
Average weekly ordinary time earnings increases	4.00	3.50
CPI increases	2.50	2.50

Transend has met the requirements of the *Commonwealth Superannuation Guarantee (Administration) Act 1992* in respect to those employees who are not covered by the *Retirement Benefits Act 1993*.

	2004	2003
	\$'000	\$'000
13. SHARE CAPITAL		
Issued and paid-up capital		
Four ordinary shares, fully paid	336,549	336,549
No shares were issued during the 2003-04 financial year.		

14.(a) RESERVES

Asset revaluation reserve		
Balance at 1 July	142,489	155,707
Net revaluation increment (decrement) in the year	13,600	(13,218)
	156,089	142,489

The asset revaluation reserve includes the net revaluation increments and decrements arising from revaluation of non-current assets measured in accordance with the company's policy stated in note 1 (n).

14.(b) RETAINED PROFITS

Retained profits at the beginning of the year	47,371	31,005
Net profit	19,847	16,366
Dividends recognised during the year (note 15)	(8,183)	-
Retained profits at end of year	59,035	47,371

	2004	2003
	\$'000	\$'000
15. EQUITY		
Total equity at beginning of year	526,409	523,261
Dividends paid*	(8,183)	-
Net profit	19,847	16,366
Increase (decrease) in asset revaluation reserve	13,600	(13,218)
Total changes in equity from non-owner related transactions	25,264	3,148
Total equity at end of year	551,673	526,409

*Dividends recognised and paid during the year in respect to 2002–03 financial year. Refer to note 24 for details in respect to dividends for 2003–04 financial year.

16. FINANCIAL INSTRUMENTS DISCLOSURES

At 30 June 2004 Transend's debt portfolio had increased by \$9.583 million to \$35.087 million, which was represented by borrowings with Tascorp. In accordance with Transend's Treasury Policy Statement, all borrowings and investments during 2003–04 were executed with Tascorp. Financial instruments were used by Transend to manage its interest rate risk exposures in a manner that was consistent with the long-term cash flow stability and the interest rate management strategy of the company. The administration of all

financial instruments will be strictly controlled in accordance with the requirements of Transend's Treasury Policy Statement and debt management strategy.

Forward start loans

Transend has entered into forward start loan agreements to manage its cash flows and as an interest rate management strategy. Forward start loan agreements allow Transend to lock in interest rates attributable to future borrowings mainly to replace maturing debt.

As at 30 June 2004 Transend had five (2003: nil) forward start loan contracts with Tascorp.

	2004	2003
	\$'000	\$'000
The face value and the settlement dates of the forward start loans at balance date are:		
Not later than one year	15,000	-
Over one year and up to two years	10,000	-
Over two years and up to five years	5,000	-
Later than five years	-	-
	30,000	-

All of the above loans mature on 15 June 2009. The weighted average interest rate attributable is 6.30% pa. These loan agreements have not been recognised in the statement of financial position at balance date.

Interest rate exposures

Transend's exposure to interest rates on financial instruments at 30 June was as follows:

Note	Weighted average effective interest rate	2004							Non-interest bearing	Total	
		Floating interest	Fixed interest maturing in								
			0 to 1 years	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years				
	30 June 2004										
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000		
Financial assets											
Cash	23	4.0%	4						4		
Receivables	5	n/a						10,169	10,169		
Investments	6	n/a							-		
Other current assets		n/a							-		
Total financial assets			4	-	-	-	-	10,169	10,173		
Financial liabilities											
Bank overdraft	23	n/a							-		
Payables	10	n/a						13,410	13,410		
Interest bearing liabilities	11	6.7%	4,834	5,062	5,058	5,000	5,133	10,000	35,087		
Total financial liabilities			4,834	5,062	5,058	5,000	5,133	10,000	48,497		
Net financial assets/ (liabilities)			(4,830)	(5,062)	(5,058)	(5,000)	(5,133)	(10,000)	(38,324)		

FINANCIAL INSTRUMENTS DISCLOSURES continued

		2003								
Note	Weighted average effective interest rate	Floating interest	Fixed interest maturing in					Non-interest bearing	Total	
			0 to 1 years	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years			
30 June 2003										
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
Financial assets										
Cash	23	n/a							-	
Receivables	5	n/a						9,389	9,389	
Investments	6	4.8%	3,946						3,946	
Other current assets		n/a						25	25	
Total financial assets			3,946	-	-	-	-	-	9,414	13,360
Financial liabilities										
Bank overdraft	23	8.5%						37	37	
Payables	10	n/a						12,221	12,221	
Interest bearing liabilities	11	5.9%		4,994	5,229	5,112	5,000	5,169	25,504	
Total financial liabilities			-	4,994	5,229	5,112	5,000	5,169	12,258	37,762
Net financial assets/ (liabilities)			3,946	(4,994)	(5,229)	(5,112)	(5,000)	(5,169)	(2,844)	(24,402)

Liquidity risk

Liquidity risk arises from the possibility that Transend is unable to settle a transaction on the due date. Liquidity risk can also arise when a financial instrument requires exiting, but there is no market to trade the instrument. To counter this risk, Transend executes all financial instrument transactions with Tascorp.

Credit risk

Credit risk represents the loss that would be recognised at the reporting date if counterparties failed to meet their contractual obligations. Transend minimises counterparty risk by executing all transactions, other than transactions relating to routine banking functions, with Tascorp.

17. FOREIGN EXCHANGE
Forward foreign exchange contracts

Transend enters into forward foreign exchange contracts to buy and sell specified amounts of various foreign currencies in the future at pre-determined rates. The contracts are entered into to hedge goods or service commitments denominated in foreign currencies.

It is Transend's policy to enter forward foreign exchange contracts to hedge all foreign currency exposures greater than \$0.050 million as soon as they are recognised. These hedges are maintained until the exposures expire.

Foreign currency exposures at 30 June

At 30 June 2004, Transend had no exposure to foreign currency exchange rates that required a hedge to be in place.

	2004	2003
	\$'000	\$'000
Hedging (gains)/losses from hedging foreign currency exposures incurred in relation to capital projects	11	11

	2004	2003
	\$'000	\$'000
18. COMMITMENTS FOR EXPENDITURE		
Capital expenditure commitments		
The following items relate to Transend's contractual commitments as at 30 June:		
Not later than one year	23,046	20,993
Operating expenditure commitments		
Operating leases:		
Not later than one year	223	275
Over one year and up to five years	-	92
	223	367

Operating lease commitments relate to the lease of premises and office furniture and equipment. Contingent rental costs are mostly as a result of periodic escalation of leases by the Consumer Price Index. Since total contingent rentals are immaterial and cannot be reliably determined, they have been excluded from the calculations of lease commitments.

Other operating expenditure commitments:		
Not later than one year	9,308	2,463
Over one year and up to five years	18,592	121
	27,900	2,584

Other operating expenditure commitments mainly relate to procurement of maintenance and communications related services.

19. CONTINGENT LIABILITIES

There are no claims relating to insurance and other contractual matters outstanding at the date of publication of the accounts.

20. AUDITOR'S REMUNERATION

The fee for auditing the financial statements and regulatory financial statements required by the Office of the Tasmanian Energy Regulator, and payable to the Auditor-General by Transend, was:

	2004	2003
	\$	\$
	50,570	48,300

The Auditor-General performed no other work for, or on behalf of, Transend.

21. DIRECTORS' REMUNERATION

The number of directors whose income from the company fell within the following bands was as follows:

	2004	2003
\$1 - \$9,999	-	1
\$10,000 - \$19,999	1	-
\$30,000 - \$39,999	4	4
\$70,000 - \$79,999	-	1
\$80,000 - \$89,999	1	-
\$230,000 - \$239,999	-	1
\$250,000 - \$259,999	1	-

	2004	2003
	\$'000	\$'000
Total income paid or payable to all directors	507	448
Retirement benefits		
Superannuation benefits paid to directors:	24	19

Indemnity insurance

During the financial year, the company paid for directors' and officers' liability insurance, to the extent permitted under the *Corporations Act 2001*. In accordance with common commercial practice, the terms of the insurance policy prohibit disclosure of the nature of the liability insured against and the amount of the premium.

22. RELATED PARTY INFORMATION

The names of each person holding the position of Director of Transend Networks Pty Ltd during the financial year are Messrs J Lord, R Bevan, R Brown, J Bennett, and J Halfpenny and Ms S Hocking and Ms J Field. Mr Halfpenny passed away during the year.

Details of directors' remuneration and retirement benefits are set out in note 21.

Apart from the details disclosed in this note, no director has entered into a material contract with the company since the end of the previous financial year and there were no material contracts involving directors' interests existing at year-end.

	2004	2003
	\$'000	\$'000
Transactions with directors and director related entities		
Mr John Lord has an interest as a partner in the business advisory firm KPMG. The total amount billed by KPMG during the financial year was:	215	376

The payments related to the provision of professional advice and services relating to internal audit, taxation and commercial issues. KPMG successfully tendered to provide the audit and taxation services to Transend. Mr Lord did not participate in either the tendering process or the selection process and is not involved in the provision of professional advice and services to Transend.

RELATED PARTY INFORMATION continued

All transactions with KPMG were conducted on an arm's length basis in the normal course of business and on commercial terms and conditions.

At balance date no amounts remained unpaid to KPMG.

23. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Cash reconciliation

For the purposes of the statement of cash flows, cash includes cash on hand and in banks, and 11am cash net of outstanding bank overdrafts. Cash at the end of the reporting period, as shown in the statement of cash flows, is reconciled to the related items in the statement of financial position as follows:

	2004	2003
	\$'000	\$'000
Cash at bank and on hand/ (Bank overdraft)	4	(37)
(b) Loan facilities		
Details of the limit and usage of all facilities are as follows:		
Bank overdraft facility		
Facility limit	1,000	1,000
Used	-	16
Balance	1,000	984
Corporate MasterCard		
Facility limit	745	650
Used	(144)	(134)
Balance	601	516
(c) Reconciliation of net cash provided by operating activities to operating profit after income tax		
Operating profit after income tax equivalent	19,847	16,366
Depreciation	26,979	22,537
(Profit)/Loss on disposal of non-current assets	(160)	(369)
Debts written off	225	-
Borrowing costs capitalised	(214)	(726)
Decrease in stores and consumables	4	56
Increase in trade receivables	(1,037)	(57)
Increase / (Decrease) in accrued interest payable	(71)	138
Increase in deferred taxes	736	3,802
Increase in tax equivalent liabilities	4,397	761
Increase in trade creditors and accrued expenses	1,526	4,041
Increase in employee benefit provisions	2,990	1,026
Changes in other assets/liabilities	28	485
Net cash provided by operating activities	55,250	48,060

24. EVENTS SUBSEQUENT TO BALANCE DATE

Dividends

Subsequent to the end of the financial year, the board recommended a dividend of \$9.924 million in respect to the current financial year. The financial effect of this recommended dividend has not been brought to account in the financial statements for the year ended 30 June 2004.

International Financial Reporting Standards

For the reporting periods beginning on or after 1 January 2005, the company must comply with the International Financial Reporting Standards (IFRS) as issued by the Australian Accounting Standards Board.

This financial report has been prepared in accordance with the Australian accounting standards and other financial reporting requirements (Australian GAAP). The differences between Australian GAAP and IFRS identified to date as potentially having a significant effect on the company's financial performance and financial position are summarised below. The summary should not be taken as an exhaustive list of differences between Australian GAAP and IFRS. No attempt has been made to identify all disclosure, presentation and classification differences that would affect the manner in which transactions or events are presented.

The company has not completed its detailed assessment of the potential impact of the differences discussed below. Accordingly, there can be no assurance that the financial performance and financial position as disclosed in this financial report would not be significantly different if determined in accordance with IFRS.

The company has commenced transitioning its accounting policies and financial reporting from current Australian GAAP to Australian equivalents of IFRS. The company has allocated internal resources and engaged expert consultants to perform diagnostics and conduct impact assessments to isolate key areas that will be impacted by the transition to IFRS. As a result of these procedures, the company has graded impacts areas as high, medium, or low and has established a project team to address each of the areas in order of priority as represented by the grading.

The key potential implications of the conversion to IFRS on the company are as follows:

- Income tax will be calculated based on the "balance sheet" approach, which will result in more deferred tax assets and liabilities and, as tax effects follow the underlying transaction, some effects will be recognised in equity.
- Revaluation increments and decrements relating to revalued property, plant and equipment will be recognised on an individual asset basis, not a class assets basis.
- Financial instruments must be recognised in the statement of financial position and all derivatives and most financial assets must be carried at fair value.
- Impairment of assets will be determined on a discounted basis with strict tests whether cash-generating operations have been impaired.
- The discount rate used for valuing the RBF defined benefits superannuation scheme provision will be based upon a high quality (AA) corporate bond rate as compared to the expected earning rate required under current standards. The effect of these changes is likely to be a reduction in the discount rate used for valuing unfunded past service liabilities, resulting in increase in these liabilities in order of 13%.
- Changes in accounting policies will be recognised by restating comparatives rather than making current year adjustments with note disclosure of prior year effects.

Directors'
DECLARATION

The directors of Transend Networks Pty Ltd declare that the accompanying financial statements and notes thereto:

- (a) comply with applicable Accounting Standards and the Corporations Regulations; and
- (b) give a true and fair view of the financial position of Transend Networks Pty Ltd as at 30 June 2004 and of its performance for the financial year ended on that date.

In the directors' opinion:

- (a) the financial statements and notes thereto are in accordance with the *Corporations Act 2001*; and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration was made in accordance with a resolution of the directors. Signed for and on behalf of the board:



John Lord

Chairman

23 September 2004

Independent AUDIT REPORT

To the Directors of Transend Networks Pty Ltd

TRANSEND NETWORKS PTY LTD

Financial Report for the Year Ended 30 June 2004

Scope

The financial report and the Directors' responsibilities

The financial report comprises the Statement of Financial Performance, Statement of Financial Position, Statement of Cash Flows, accompanying notes to the financial statements, and the Statement by the Directors for Transend Networks Pty Ltd for the year ended 30 June 2004.

The Directors are responsible for the preparation and true and fair presentation of the financial report in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

I conducted an independent audit in order to express an opinion to the members of the Company. My audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgment, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

I performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with my understanding of the Company's financial position, and of its performance as represented by the results of its operations and cash flows.

I formed my audit opinion on the basis of these procedures, which included:

- Examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- Assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the Directors.

While I considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of my procedures, my audit was not designed to provide assurance on internal controls.

The Audit Opinion expressed in this report has been formed on the above basis.

Independence

In conducting my audit, I followed applicable independence requirements of Australian professional ethical pronouncements.

Audit Opinion

In my opinion the financial report of Transend Networks Pty Ltd is in accordance with:

- a. *Corporations Act 2001*, including:
 - I. Giving a true and fair view of the financial position of Transend Networks Pty Ltd at 30 June 2004 and its performance for the year ended on that date, and
 - II. Complying with Accounting Standards in Australia and the *Corporations Regulations 2001*; and
- b. Other mandatory financial reporting requirements in Australia.

TASMANIAN AUDIT OFFICE



D W R Baulch
DEPUTY AUDITOR-GENERAL
Delegate of the AUDITOR-GENERAL

1 October 2004
HOBART

Directors' REPORT

Transend's principal activities include the operation of Tasmania's electricity transmission system and being System Controller for the Tasmanian power system.

A review of Transend's operations during the financial year to 30 June 2004 and the results of those operations appear in the accompanying Review of Operations and other material in this Annual Report.

No significant changes in the company's state of affairs occurred during the year.

No matters or circumstances have arisen since the end of 2003-04 that have significantly affected the company's operations, results of operations or the company's state of affairs in future financial years.

Transend is preparing for Tasmania's entry into the National Electricity Market. When this occurs, the System Controller function will transfer to NEMMCO Ltd.

There were no reportable environmental incidents during 2003-04.

Transend paid \$8.2 million as a dividend to its shareholders in 2003-04.

In respect of the financial year ended 30 June 2004, the directors have recommended a dividend of \$9.924 million.

Transend pays liability insurance that covers professional indemnity for the directors.

Information on each of the directors and their attendance at board meetings is reported in the accompanying Corporate Governance section. Information on the remuneration of directors is shown in note 21.

This report has been made in accordance with a resolution of directors.



John Lord

Chairman

23 September 2004

Corporate GOVERNANCE

The Board of Directors is accountable to the shareholders for the performance of the company. The board oversees the business of Transend Networks Pty Ltd and is responsible for the overall corporate governance of the company. The board currently comprises four non-executive directors and the Chief Executive Officer. To help carry out its responsibilities, the board has established two committees: the Audit Committee and the Board Review Committee. Another committee, which focused on environment, safety and security matters, was disbanded in January 2004.

The Audit Committee considers any matters relating to the financial affairs of the company and to internal and external audit that it

considers necessary. The committee also examines any other matters referred to it by the board. The committee comprises two non-executive directors who usually meet four times a year. Also attending the meetings, by invitation, are the company's internal and external auditors, the Chief Executive Officer, and the Chief Financial Officer.

The Board Review Committee considers any matters relating to the composition and performance of the Board of Directors and related functions that it considers necessary. The committee comprises three non-executive directors.



DIRECTORS: Transend's board of directors (from left): Ray Brown, Richard Bevan, Jan Field, John Lord and John Bennett.

BOARD AND COMMITTEE ATTENDANCES

12 months to 30 June 2004

Director	Board meetings	Attended	Committee meetings					
			Audit	Attended	Board Review ¹	Attended	ESS ²	Attended
John Lord	12	12	–	–	1	1	–	–
Richard Bevan	12	12	–	–	–	–	–	–
Ray Brown	12	12	4	4	–	–	–	–
John Bennett	12	12	–	–	1	1	3	3
Jan Field	12	12	–	–	1	1	3	3
Susan Hocking ³	12	12	4	4	–	–	–	–
John Halfpenny ⁴	6	5	–	–	–	–	–	–

Notes

- 1 The Board Review Committee was established in February 2004.
- 2 The Environment, Safety and Security Committee was disbanded in January 2004.
- 3 Ms Hocking resigned in July 2004.
- 4 Mr Halfpenny died on 20 December 2003.

DIRECTORS

JOHN LORD

LLB, FCA, MAICD, FTIA

Mr Lord was appointed in June 1998 and has been chairman of the board since July 2000. He is a lawyer and chartered accountant and is a partner in KPMG's Tasmanian regional practice. Mr Lord is the Tasmanian member of the Tasmanian Freight Equalisation Scheme Review Authority. He is a fellow of the Taxation Institute of Australia and a member of the Australian Institute of Company Directors (AICD).

RICHARD BEVAN

BTech, FIEAust, CPEng, FAICD

Mr Bevan was appointed Chief Executive Officer and a director in June 1998. He is an electrical engineer with experience in the electricity, mining and building services industries. Mr Bevan is a fellow and past president of Engineers Australia (Tasmania Division) and a fellow of the AICD. He is deputy chairman of the Australian National Committee of CIGRE (Conseil International des Grand Réseaux Electriques, or International Council on Large Electric Systems). Mr Bevan is chairman of the University of Tasmania's School of Engineering External Advisory Committee.

RAY BROWN

LLB, MAICD

Mr Brown was appointed in February 1999. He is a lawyer and partner in the Hobart law firm Page Seager. Mr Brown is a director and deputy chairman of the Tasmanian hardware and building products company Kemp and Denning Limited. He is a member of the AICD.

JOHN BENNETT

LLB, MAICD

Mr Bennett was appointed on 1 July 2001. He is a lawyer and a former partner in the Hobart law firm Dobson, Mitchell and Allport. He is a board member of the Australian Fisheries Management Authority and was chairman of the Tasmanian Totalizator Agency Board from August 1993 until March 2001. Mr Bennett was a Member of the House of Assembly between 1986 and 1990 and served as Attorney-General and Minister for Lands, Parks and Wildlife during that time. He is a member of the AICD.

JAN FIELD

BA, MSocSci (IR), MAICD

Ms Field was appointed on 1 July 2001. She operates an organisational change consultancy with her husband, Mr Michael Field, AC. She has management experience in small business, government and the aid and development sectors. Ms Field has a BA in Political Science and Psychology and a Master of Social Science degree in International Relations. She is a member of the AICD.

JOHN HALFPENNY OAM

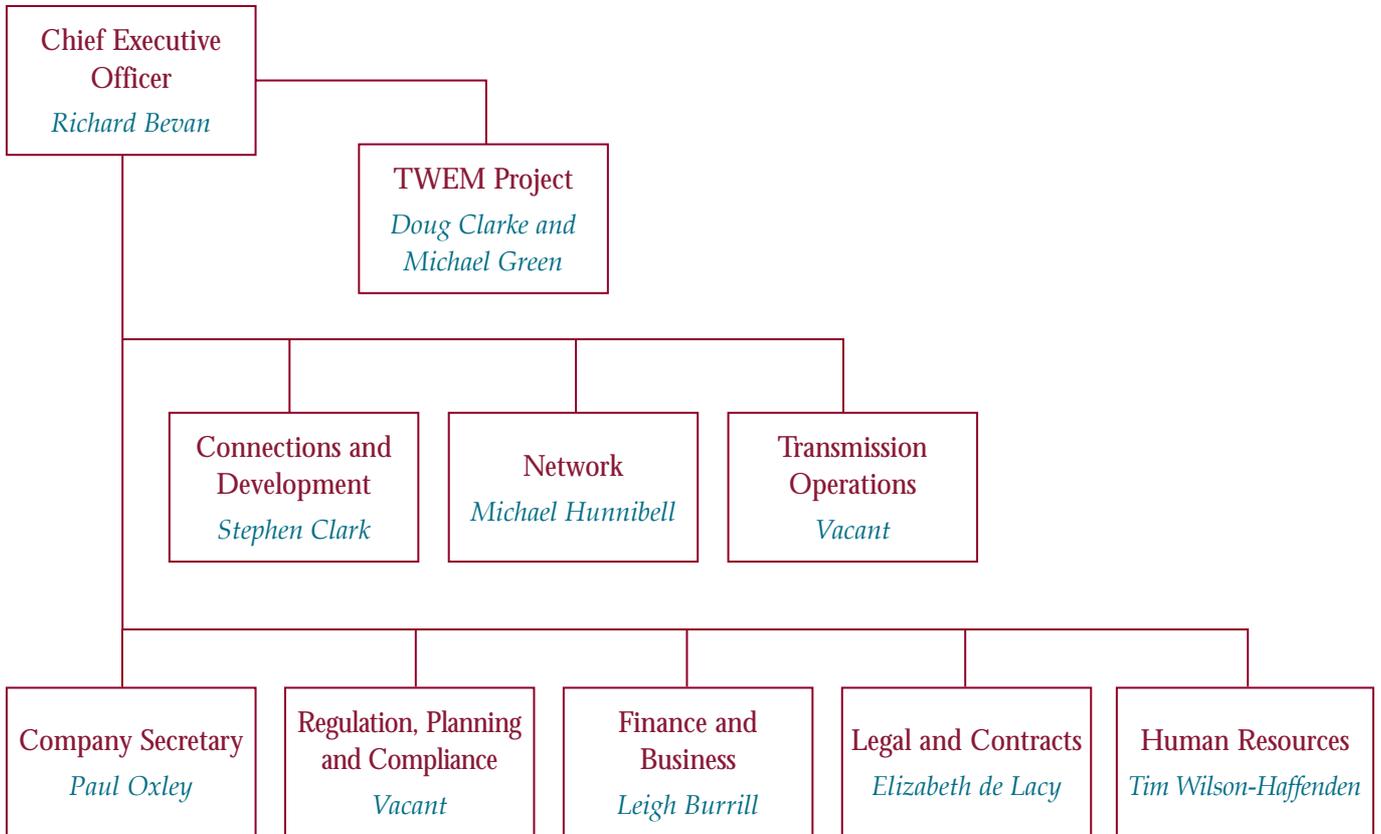
Mr Halfpenny was a director of Transend from his appointment in May 2003 until his death in December 2003. He was Victorian State Secretary of the Australian Manufacturing Workers Union for 16 years until 1987 when he was elected Secretary of the Victorian Trades Hall Council. He retained this position until his retirement in 1995. Mr Halfpenny was awarded the Order of Australia Medal in 1988.

SUSAN HOCKING

BEC, MA, FAICD

Ms Hocking was appointed on 1 July 2001. She is a consultant economist who has held senior research positions in the Victorian Parliament and the Industry Commission. She has undertaken assignments on petrol pricing, electricity cooperatives and economic aspects of philanthropy. Ms Hocking, who is a fellow of the AICD, resigned from Transend in July 2004.

Executive
MANAGEMENT
 ORGANISATIONAL STRUCTURE



EXECUTIVE MANAGEMENT: Transend's executive management team: (standing from left) Stephen Clark, Michael Hunnibell, Tim Wilson-Haffenden, Leigh Burrill, and Michael Green; and (sitting from left) Paul Oxley, Richard Bevan, Doug Clarke and Elizabeth de Lacy

MANAGEMENT TEAM

RICHARD BEVAN

Chief Executive Officer

DOUG CLARKE

BE, Grad Dip Man, MIEAust, GAICD

Mr Clark was seconded to the TWEM project in 2001, with responsibility for the NEM entry aspects of the project. He combines this role with his substantive position as General Manager System Control. He is a member of Engineers Australia and is a graduate member of the AICD.

MICHAEL HUNNIBELL

BEng, MBA, CPEng, MIEAust, GAICD

Appointed General Manager Network in 1998, Mr Hunnibell is one of the founding members of Transend's executive team. He is responsible for transmission asset management, project implementation, network operations, and operating and performance standards. He is a member of Engineers Australia and is a graduate member of the AICD.

STEPHEN CLARK

BEng (Hons), PEng, MAICD

Mr Clark joined Transend in 2000 and was appointed General Manager Connections and Development in 2004. He has a background in generation, power system development and system control. He is responsible for managing the relationships with Transend's customers and for the long-term development of the network. He is a professional engineer and is a member of the AICD.

MICHAEL GREEN

MEng Sc, BE (Hons), MIEAust, CPEng, GAICD

Mr Green is one of the founding members of the executive team. He was seconded to the TWEM project in 2001, with responsibility for the Basslink aspects of the project. He is the Australian member of the CIGRE working group on electricity markets and regulation. Mr Green is a member of Engineers Australia and is a graduate member of the AICD.

LEIGH BURRILL

BCom, CPA, GAICD

Mr Burrill was appointed to the position of Manager Finance and Business in August 2002 after joining Transend in December 1999 as Finance Manager. He is responsible for finance, administration, office facilities, corporate information technology and information management. He is a member of CPA Australia and a graduate member of the AICD.

ELIZABETH DE LACY

Dip Law, MAICD

Mrs de Lacy worked in private legal practice in Sydney for several years before joining Transend in 1999. She was appointed to the position of Manager Legal and Contracts in 2001. She is responsible for the provision of the company's legal, contract and tendering services. She is a member of the AICD.

TIM WILSON-HAFFENDEN

MAHRI, MAICD

Mr Wilson-Haffenden has held the position of Manager Human Resources since Transend was established in 1998. He is a member of the Australian Human Resources Institute and the AICD.

PAUL OXLEY

BLitt, MBA, DipCM, MAICD, MPRIA

Appointed Company Secretary in 1998, Mr Oxley is one of the founding members of the executive team. He is also responsible for the company's public relations program and for ministerial liaison. He is a member of the AICD and the Public Relations Institute of Australia.

GLOSSARY

A C C C	<i>Australian Competition and Consumer Commission</i>
A I C D	<i>Australian Institute of Company Directors</i>
B P L	<i>Basslink Pty Ltd</i>
C A N S	<i>Connection and network service [agreement]</i>
k V	<i>Kilovolt</i>
M A R	<i>Maximum allowable revenue</i>
M C E	<i>Ministerial Council on Energy</i>
M W	<i>Megawatt</i>
N E M	<i>National Electricity Market</i>
N E M M C O	<i>National Electricity Market Management Company Ltd</i>
N O C S	<i>Network operation and control system</i>
O P E X	<i>Operating and maintenance expenditure</i>
P I D	<i>Public Interest Disclosures Act</i>
R C A	<i>Revenue cap application</i>
S C A D A	<i>Supervisory control and data acquisition</i>
S P S	<i>System protection scheme</i>
T N S P	<i>Transmission network service provider</i>
T U O S	<i>Transmission use of system</i>
T W E M	<i>Tasmanian wholesale electricity market</i>
Y T D	<i>Year-to-date</i>

Public Interest Disclosures Act 2002

Copies of Transend's PID procedures are available on the company's web site, www.transend.com.au, and intranet portal. No disclosures were made to the company since the Act's proclamation on 1 January 2004.

TRANSEND STAFF AND DIRECTORS

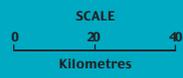
during 2003–04

Adam King	Daniel Lavis	Kevin Fagan	Ranjan Mohapatra
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Bruce Scanlon	Jan Dittmann	Nils Blichfeldt	Tanya Collins
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Daniel Alimu	Julia Johnson	Philip Adamson	
Daniel Capece	Julian Roberts	Pradip Verma	
Daniel Hugo	Kerry Gourlay	Prahlad Tilwalli	



TRANSEND

Tasmania's Electricity Transmission System



LEGEND	
	SUBSTATION (Indicative location)
	Power Station
	220 kV TRANSMISSION ROUTE
	110 kV TRANSMISSION ROUTE
	88 kV TRANSMISSION ROUTE

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