Eraring energy

# Thermal

# Hydro

# Wind

**The Hon. Michael Costa MLC**
Treasurer

Minister for Infrastructure

Level 31
Governor Macquarie Tower
1 Farrer Place
Sydney NSW 2000

**The Hon. John Watkins MP**
Deputy Premier

Minister for Finance
Minister for Transport

Level 30
Governor Macquarie Tower
1 Farrer Place
Sydney NSW 2000

Dear Shareholders

On behalf of the Board, we have pleasure in submitting the Eraring Energy Annual Report and Financial Statements for the year ended 30 June 2007.

This Report has been prepared in accordance with the requirements of Section 24A of the State Owned Corporations Act 1989, and the Annual Reports (Statutory Bodies) Act 1984.

It is submitted for presentation to both houses of Parliament.

**R M Bunyon**
Chairman

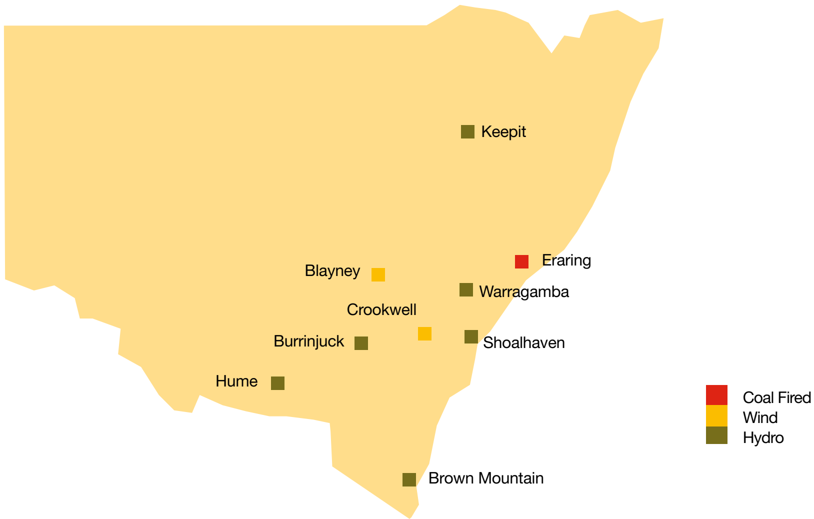
**Peter Jackson**
Managing Director

**Eraring Energy** is a state-owned corporation (SOC) established on 2 August 2000 under the State Owned Corporations Act 1989, the Energy Services Corporation Act 1995 and Energy Services Corporation (Eraring Energy) Regulation 2000.

Under the provisions of the State Owned Corporations Act, Eraring Energy is required to operate as a commercial enterprise and not represent the Crown or benefit from Crown guarantees.

Eraring Energy manages a diverse portfolio of coal fired, wind, hydro and pumped storage electricity generating assets located throughout New South Wales.

The generation portfolio consists of ten power stations, with total capacity of over 3,000 Megawatts (MW), with Eraring Power Station being the largest at 2,640 MW. Eraring Energy supplies approximately 9% of the energy requirement of the National Electricity Market.




| Generating Asset | Unit(s) size | Capacity (MW) | Fuel Source |
|---|---|---|---|
| Eraring Power Station | 4 x 660 MW | 2,640 | Black Coal |
| Shoalhaven Scheme – Bendeela Station | 2 x 40 MW | 80 | Hydro/ Pumped Storage |
| Shoalhaven Scheme – Kangaroo Valley Station | 2 x 80 MW | 160 | Hydro/Pumped Storage |
| Hume Power Station | 2 x 29 MW | 58 | Hydro |
| Warragamba Power Station | 1 x 50 MW | 50 | Hydro |
| Burrinjuck Power Station | 1 x 15 MW<br>2 x 6 MW | 27 | Hydro |
| Keepit Power Station | 1 x 6 MW | 6 | Hydro |
| Brown Mountain Power Station | 1 x 4.2 MW<br>1 x 0.75 MW | 4.95 | Hydro |
| Blayney Wind Farm | 15 x 660 KW | 10 | Wind |
| Crookwell Wind Farm | 8 x 600 KW | 5 | Wind |

## "BY DEVELOPING AND INVOLVING OUR PEOPLE, ERARING ENERGY WILL BE A LEADER IN THE CHANGING ENERGY ENVIRONMENT"

### OBJECTIVES

Eraring Energy's principal objectives, as set out in the State Owned Corporations Act 1989, are:

a) to be a successful business and, to this end; to operate at least as efficiently as any comparable business, and to maximise the net worth of the State's investment in it;

b) to exhibit a sense of social responsibility by having regard to the interests of the community in which it operates;

c) where Eraring Energy's activities affect the environment, to conduct its operations in compliance with the principles of ecologically sustainable development contained in Section 6 (2) of the Protection of the Environment Administration Act 1991; and

d) to exhibit a sense of responsibility towards regional development and decentralisation in the way it operates.

Each of the principal objectives is of equal importance.

Eraring Energy will achieve this leadership position by focusing on the following strategic areas:

- People Development and Growth – Eraring Energy will continue to work towards the company vision through four key pillars: shaping our culture; developing our people; rewarding and recognising our people, and planning for the future. These pillars focus on our people being the best in the industry, with the major aim being to maximise internal capacities to capitalise on electricity market opportunities.
- Health and Safety – staff, contractor and visitor safety has been, and will continue to be, a major focus of the organisation.
- Positive and Productive Stakeholder Relationships – Eraring Energy will proactively engage key stakeholders in supporting the achievement of business aims, particularly in the area of business development; license to operate; changes to regulatory policy; and meeting our Shareholders' expectations.
- Greenhouse Response – In response to ongoing community, Government and regulatory debate, Eraring Energy has committed to taking a leadership role in reducing greenhouse gases, including operating and trading its existing renewable assets to maximum benefit.
- Environmental Excellence – Eraring Energy seeks to achieve environmental leadership through its Environmental Excellence Strategies. In particular, Eraring Energy will take a proactive and leading position on practical management and reduction of its impact on the environment.

NON EXECUTIVE DIRECTORS

**Ross Bunyon AM**
**Chairman and Director**

BComm (UNSW), CIE Aust.
Director/Consultant

Appointed 21 July 2000 continuing with reappointment to 30 June 2009

**Beverley Hoskinson-Green**
**Director**

Solicitor/Director, Suzie Broome & Company Pty Limited, Strata Lawyers

Appointed 21 July 2000 continuing with reappointment to 30 June 2008

**Peter Murray**
**Director**

General Secretary, Construction, Forestry, Mining and Energy Union

Appointed 1 September 2006 to 31 August 2008

**Michael Nugent**
**Director**

FCPA

Director

Appointed 1 July 2001 continuing with reappointment to 30 June 2007

Reappointed to 30 June 2010

**Dean Pritchard**
**Director**

BE, FIE Aust, CP Eng, FAICD

Director

Appointed 22 August 2001 continuing with reappointment to 30 June 2007

Reappointed to 30 June 2010

**Michael Vertigan AC**
**Director**

BEc (Hons) Tasmania, PhD California, FAICD

Director/Consultant

Appointed 21 July 2000 continuing with reappointment to 30 June 2008

EXECUTIVE DIRECTOR

**Peter Jackson**
**Managing Director**

BSc, BE, MEM GAICD

Acting from 26 June 2006

Appointed 11 September 2006

**Rochelle Reynolds**
**Company Secretary**

LLB, BCom, Grad Dip CSP

Appointed Company Secretary 1 October 2004 - on extended leave from 17 April 2007

Philip Russell appointed Acting Company Secretary from that date

**I am pleased to report that Eraring Energy has posted yet another record financial performance. This year's result continues the year on year improvement that has been achieved since the company was formed in 2000.**

Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) from underlying operations was $308.7 million, an increase of more than 50% on the previous year.

Eraring Energy continues to achieve outstanding performance in a range of financial and business performance measures. This is the case in a market environment that has seen electricity spot prices more than double since January 2007, averaging $232/MWh in June, with increases in the forward contract prices exceeding previous expectations. These increases are mainly due to the prolonged impacts of the drought. Eraring Energy is well positioned to increase production and assist with electricity shortages caused by the drought given its access to sea water and the use of recycled water in its day to day operations.

The market price increases had two major impacts on Eraring Energy's financial position, being a significant uplift in the value of our non-current assets; and an increase in derivative liability balances.

Our Managing Director, Peter Jackson, has led the company for the past 12 months, having previously been General Manager of the Production Assets. Peter brings to the role a wealth of practical experience and a focus on business development that is timely as we enter a period of significant change in the Australian energy industry.

I would also like to welcome our new Director, Peter Murray, who joins us as the Unions NSW nominee. Peter's background and experience in the coal industry will prove a valuable asset to the Board.

Eraring Energy made submissions and representations to a number of Inquiries on the structuring of the electricity industry in NSW and Australia, including the Energy Reform Implementation Group (ERIG); the Commonwealth Emissions Trading Scheme Taskforce; and the NSW Owen Inquiry into base load requirements. We look forward to the challenges and rewards of performing in the changing energy environment.

Ulan Power Station is a major proposal being offered as a practical solution to the base load needs of NSW. Our proposal incorporates 1,500 MW of the most thermally efficient, lowest greenhouse gas producing, commercially reliable coal fired technology available. The plant, which will utilise waste mine water, targets minimisation of impact on the local environment and community.

The engineering excellence of our staff has again been demonstrated, with high plant reliability during a period of record production levels. Our environmental performance was also pleasing to note as we initiated our Environmental Excellence strategies through the period.

Approval was sought from the Department of Planning during the year for a significant upgrade of all four Eraring Power Station generating units to 720 MW each, with an associated project to create a cooling water attemperation reservoir. Both projects will enhance Eraring Energy's contribution to the supply security of NSW, particularly in the summer peak periods.

Safety is a fundamental focus of our staff and management and it is pleasing to note the increased support of our safety programs and initiatives, which has seen further improvement in our safety performances. The Board remains committed to the introduction of measures to assist the organisation, our staff, contractors and visitors, achieve a zero injury workplace.

Pacific Western, Eraring Energy's wholly owned subsidiary, will be wound up during 2007/08 following completion of contractual obligations and settlement of the dispute with Verve, formerly Western Power. The contract performance significantly exceeded budget expectations.

On behalf of the Board, I acknowledge the widespread commitment to continual improvement within the organisation and thank every member of the Eraring Energy team for their contribution to another outstanding year.

**Ross Bunyon**
Chairman

**Eraring Energy staff can be proud of the continued excellent performance that has seen the sixth consecutive increase in Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) from underlying operations, which was $308.7 million for the year.**

This result has been achieved in a period of unprecedented spot price volatility; Electricity Trading Equalisation Fund (ETEF) drawdowns; record production levels for Eraring Energy; and a national drought that has impacted the generation capacity across state boundaries.

Eraring Energy's excellent performance is in part due to its drought resistance, having the Eraring Power Station cooled by sea water and plant process water provided from recycled effluent. Eraring Energy staff were again recognised through the year for their excellent water conservation and recycling efforts with an award under the Department of Energy, Utilities and Sustainability (now the Department of Water & Energy) "Energy and Water Green Globe Awards 2006".

Safety is a paramount focus for the organisation. Our conviction that "Nothing is so important that it can't be done safely", directs our efforts for continuous improvement in this area. Throughout the year the organisation implemented the recommendations of a number of insightful staff working parties, including the introduction of a comprehensive Fitness for Work program, and the preparation for a plant isolation safety lock-out system. Both initiatives are expected to assist in meeting our goal of zero workplace injuries.

In the area of asset management, Eraring Energy's capabilities were "Highly Commended" in the Engineer's Australia Engineering Excellence Awards – this was in relation to the Integrated Controls and Monitoring System, which is now proving itself to be a reliable control system. This upgrade set a standard for project management which is being applied by our staff to the significant projects currently in progress.

These projects include installation of a Black Start Gas Turbine – to provide quick restart capability in the event of a system blackout; ash dam extension and redesign of ash handling processes to support the extended station life; planned capacity upgrade of Eraring Power Station; and associated installation of an attemperation reservoir – both of which will assist NSW meet underlying load growth and summer peak demands, while improving the greenhouse performance of our plant.

The Eraring Power Station upgrade works has been an excellent opportunity for Eraring Energy to again engage and consult with the local community, through our three monthly Community Forum. Throughout the year Eraring Energy staff have represented themselves with distinction at many such events and regular forums aimed at engaging with the communities that host our sites across NSW.

The year also saw the commencement of a major overhaul program of our Shoalhaven hydro assets, with Bendeela Unit 1 outage. At the same time, a 24 x 7 central control centre was commissioned at Shoalhaven to coordinate the operation of our nine hydro and wind sites across NSW.

Since formation of the company, our energy trading team has demonstrated leadership in risk management, particularly the innovative management of our challenging inherited Victorian contracts. It is pleasing to report that these contracts were finalised at the end of the period.

Eraring Energy has experienced a steady influx of recruits over the past years and we continued to welcome more new employees throughout the year. The efforts of those that are retiring or moving to new employment is acknowledged, as are the accomplishments of all staff, who have contributed to yet another successful year.

Peter Jackson

**Peter Jackson**
Managing Director


Wind


Hydro


ERARING
Thermal

> Increased EBITDA of $308.7 million - more than 50% increase and the sixth consecutive year of growth

> Return on assets was approximately 8.2% - up on last year

> Strong energy trading result with electricity sales revenue up 29.6%

> A new record generation - 23% over the previous year

> Building assets to meet future energy demands by -
- Finalising program of overload capacity upgrades from 680 MW to 700 MW on Eraring Power Station units

- Commencing tender process for major capacity upgrade of Eraring Power Station units - up to 750 MW

> Received Energy and Water Green Globe Award from the Department of Energy, Utilities and Sustainability for water conservation and re-use

> "Highly Commended" in the Engineer's Australia Engineering Excellence Awards for the Integrated Control and Monitoring System upgrade

> A NSW finalist in the 2006 Australian Human Resources Institute Awards for Excellence in People Management - Medium Size Enterprise, Government or Private Industry Sector

# ECONOMIC PERFORMANCE

**SALES REVENUE FROM ORDINARY ACTIVITIES OF $816.1 MILLION INCREASED BY 29.6% ON THE PREVIOUS YEAR. THIS WAS PREDOMINANTLY DRIVEN BY RECORD SPOT PRICES AND GENERATION LEVELS CAUSED BY THE PROLONGED EFFECTS OF THE DROUGHT.**

## FINANCIAL OVERVIEW

Eraring Energy continues to deliver strong financial performance through a focus on balancing revenue enhancing and risk management trading operations together with substantial asset management strategies.

Eraring Energy delivered an increasing Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) of $308.7 million, with a record return of $198.5 million to our Shareholders. Successful financial performance is essential to a sustainable future for Eraring Energy and also contributes to the State Government's capacity to provide public services and social programs to the people of New South Wales.

### Capital Expenditure

Eraring Energy's capital expenditure program in 2006/07 of $38.0 million related to the upgrade and refurbishment of existing assets to provide improved efficiency and availability.

Major projects included:

- The purchase of a Black Start Gas Turbine which will be operational by the summer of 2007/08 ;
- Station Capacity Upgrade work has commenced on increasing the generating capacity of units at Eraring Power Station, coal combustion products project, and the construction of an attemperation reservoir;
- The capacity upgrade to Brown Mountain was completed in 2006/07; and
- The purchase of mobile coal plant.

### Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)

Eraring Energy achieved an EBITDA of $308.7 million, representing an increase of $126.3 million on the previous years' result.

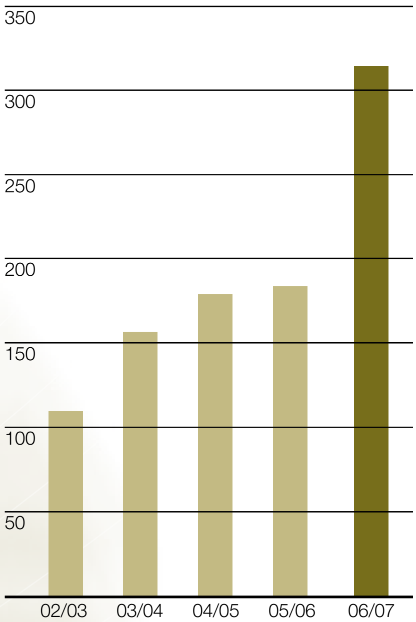
### Revenue

Sales revenue from ordinary activities of $816.1 million increased by 29.6% on the previous year. This was predominantly driven by record spot prices and generation levels mainly caused by the prolonged effects of the drought.

### Insurance Provision

Increase to the net provision and reduction to profit of $2.1 million due to actuarial assessment of future claims liability for dust diseases obligations. These obligations are managed by Eraring Energy on behalf of the Shareholder as a community service obligation.

**EBITDA** ($ Million)




### Superannuation Defined Benefit Scheme Provision

Actuarial assessments resulted in an increase in net assets and increase to profit of $17.3 million predominantly due to high fund earnings.

### Non-Current Asset Revaluation and Fair Value Derivative Movements

The spot price of electricity has more than doubled since January 2007 due to the drought impacts. This has resulted in significant increases to both non-current asset and derivative liability balances at 30 June 2007. Non-current assets have increased by $0.6 billion. The negative fair value of electricity derivatives of $1.3 billion at 30 June 2007, represents the difference in current forward prices measured against actual contract prices. Eraring Energy undertakes a rolling sales program with a large proportion of 2007/08 sales contracts entered into prior to January 2007 which has caused the majority of the negative mark to market position. At 31 August 2007, this position had reduced to negative $338 million.

### Debt Management

In 2006/07 financial liabilities were managed to minimise risk against volatility in financial markets, protect the value of Eraring Energy's equity and minimise the cost of these liabilities. As at 30 June 2007, Eraring Energy had total debt of $295 million (market value) with approved facilities in place of $1,042 million.

### Shareholder Return

Eraring Energy is committed to delivering sustainable and reliable returns to its shareholder, the NSW Government. The share dividend scheme requires financial distributions of 100% of pre-tax profits from underlying operations plus or minus significant fair value movements and community service obligations.

Total financial distributions to the Shareholder of $198.5 million include dividend, tax equivalent and loan guarantee payments. In addition, a return of equity payment of $184 million was made to the Shareholders.

### Controlled Entities

Pacific Western Pty Limited is a wholly owned subsidiary of Eraring Energy. Pacific Western's operation and maintenance contract with Collie Power Station was terminated with Verve, formerly Western Power, in 2004/05 with all claims now settled. In May 2007, the Voting Shareholders of Eraring Energy approved the wind up of Pacific Western which will take place in 2007/08.

**Entity Financial Performance Indicators**

| | | 02/03 | 03/04 | 04/05 | 05/06 | 06/07 |
|---|---|---|---|---|---|---|
| Electricity Sales | $m | 535.5 | 548.9 | 578.4 | 629.8 | 816.1 |
| EBITDA from normal operations | $m | 110.1 | 157.2 | 181.4 | 182.4 | 308.7 |
| Normal Profit Before Tax# | $m | 67.2 | 87.0 | 107.1 | 97.1 | 224.0 |
| Capital Expenditure | $m | 21.5 | 33.0 | 44.5 | 36.3 | 38.0 |
| Financial Distributions* | $m | 56.4 | 94.0 | 121.3 | 102.7 | 198.5 |
| Return on Equity | % | 3.7 | 6.1 | 6.9 | 11.0 | 41.2 |
| Return on Assets | % | 4.7 | 7.3 | 8.0 | 7.1 | 8.2 |

# Excludes fair value movements in electricity derivatives, superannuation and insurance provision movements and ETEF.

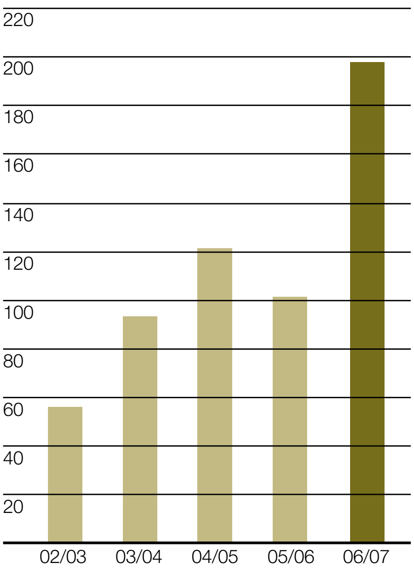
* Represents accrued dividend, tax equivalent and loan guarantee payments.

### Departures from Financial SCI Targets

Eraring Energy exceeded all financial targets agreed with Government in the 2006/07 Statement of Corporate Intent (SCI). The targets excluded the impacts of fair value electricity derivative movements. The major explanations for the out-performance relate to:

- Higher average spot prices and record generation offset by a contribution to ETEF.
- Lower financing costs due to lower debt levels which resulted mainly from better gross margin performance and lower capital and operating expenditure.
- Positive actuarial adjustments for defined benefit superannuation schemes.
- Lower operating materials and expenses due to delays to certain projects and cost containment.

**Financial Distribution** ($ Million)




## ENERGY TRADING

Eraring Energy posted another successful trading performance. This was the result of a buoyant electricity spot market, record generation output and an improving electricity derivatives position.

The foundation of the buoyant spot electricity market has been the drought induced water shortages impacting generation capacity across the National Electricity Market.

Eraring Energy's main generation asset, Eraring Power Station, utilises sea water from Lake Macquarie for cooling and thus is not drought affected. This has enabled Eraring Energy to take advantage of the buoyant spot electricity market and increase market share.

Conversely, Eraring Energy's hydro sites have been impacted by the drought with a significant reduction in generation output and revenue from the hydro stations.

In parallel with the buoyant spot electricity market, prices in the electricity derivative market have increased markedly. This has presented both opportunities and risks to Eraring Energy.

In line with the higher prices in the electricity derivative market, electricity sales revenue is expected to show robust growth.

In the short to medium term Eraring Energy is at risk of making significant contributions to the Electricity Tariff Equalisation Fund, the regulatory mechanism by which the NSW state owned generators provide price protection to regulated end users of electricity.

In a milestone for Eraring Energy, Energy Trading celebrated the maturation of Eraring Energy's Victorian electricity derivative position.

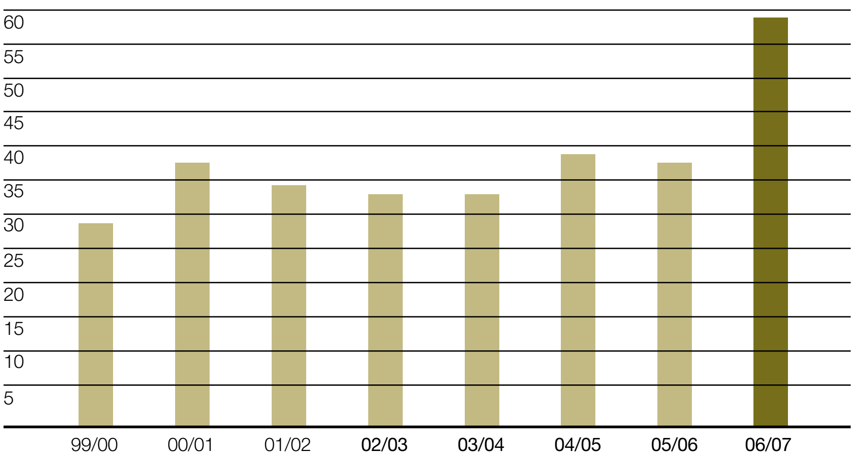
## ERARING PLANT

Eraring Energy manages a diverse set of generating assets located throughout New South Wales, with Eraring Power Station being the largest with a capacity of 2,640 MW.

### Coal Supplies

Eraring Power Station receives black coal supplies by road, rail and overland conveyors from local and distant coal mines. A total of 6,932,266 tonnes was delivered with consumption amounting to 7,003,486 tonnes in 2006/07.

**NSW Time-Weighted Average Spot Price** ($/MWh)



## Performance

Eraring Power station generated a total of 17,530 GWh of electrical energy for the year ending 30 June 2007, which was a 23% increase from the previous year. Eraring Power Station recorded an availability factor of 92.99% compared to a target of 95.5%. This below target availability was mainly due to an extension of Unit 1's planned Easter outage to allow additional identified works to be carried out and a short outage on Unit 2 to reduce high boiler drum level splits. Plant improvement projects aimed at increasing thermal efficiency and reducing environmental impact will continue to be investigated for implementation at Eraring Power Station.

## Building Value in Assets

Unit 1 was taken out of service on 29 March 2007 following discovery of a boiler tube leak. The unit had been due to come out of service for a planned Co-ordinated Maintenance Outage Program (CMOP) on 30 March 2007.

The Unit 1 return to service date was extended four days to the 4 May 2007. This extension was granted to enable the surveying of all five secondary superheater panels for potential tube failures. Major outcomes from the outage were the installation of 18 heat flux sensors to permit furnace capacity research, the detection and repair of four generator stator leaks, the identification of several potential tube leaks in the ash hopper and economiser areas, the replacement of the main condenser expansion joint, overhaul of the Generator Circuit Breaker and the repair of both primary air heaters.

## Rail Unloader

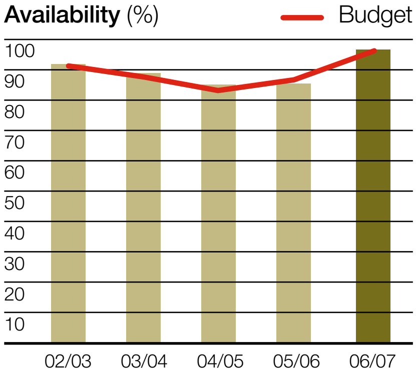
With the completion of the Ulan Coal Supply Contract on 1 January 2008, ownership of the Rail Unloader at Eraring Power Station reverts to Eraring Energy. A Consultants Brief has been developed to prepare Asset Management Plans, assist with any accreditation or licensing requirements, assess options for the operation and maintenance of the Rail Unloader and, if required, prepare a specification for an operation and maintenance (O&M) contract.

## Coal Combustion Product Project

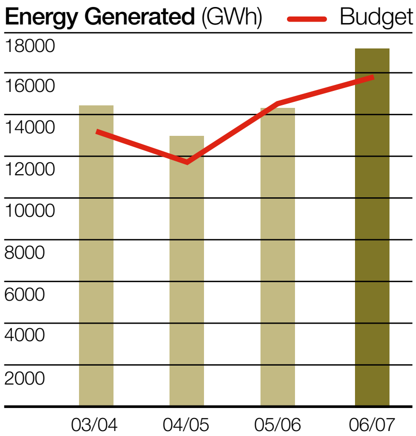
Under current conditions the ash disposal facility will reach maximum storage capacity in approximately five years. A number of alternative systems for ash disposal have been analysed in detail. The most viable project has been determined to be a change from existing wet slurry to a system of dense phase disposal.

The Department of Planning granted project concept approval in December 2006, which requires Eraring Energy to pursue 80% recycling of ash by 2015. An 'Ash Management Strategy' has been prepared in consultation with the Department of Environment and Climate Change (DECC) and Lake Macquarie City Council and will form part of the final Project Application.

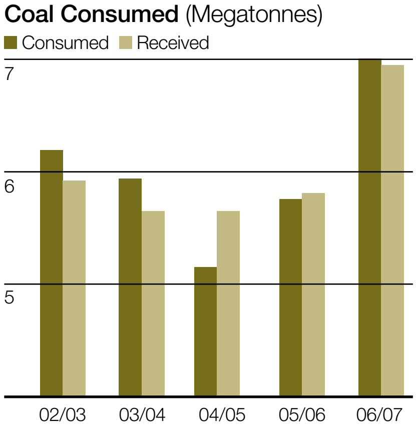
**Availability** (%)




**Energy Generated** (GWh)




**Coal Consumed** (Megatonnes)




**2006/07 Operational Performance**

| | |
|---|---|
| Eraring Power Station | 17,530 GWh |
| Capacity Factor | 75.8% |
| Availability Factor | 92.99% |
| Equivalent Forced Outage Factor | 1.76% |
| Output Factor | 80.3% |
| Thermal Efficiency Generated | 37.92% |
| Unit Trips | 6 |
| Coal Consumed | 7003 kT |

The tender for construction of the dense phase plant will be finalised in the third quarter 2007 with construction to commence in July 2008.

Negotiations with the companies, currently removing approximately 45% of material produced, are underway to develop new long term ash collection/ reuse contracts.

An Eraring Energy employee attended an Ash Utilisation Conference in Kentucky, USA, to assist in developing recycling methods that may assist in achieving the DECC specified utilisation targets.

### Black Start Gas Turbine Generator

The installation of a 40 MW gas turbine at Eraring Power Station will enable the station to restart in the event of a state black out without an external electricity supply and will also augment power generation during times of peak demand.

Development approval for the project was granted by the Minister on 14 December 2006, with the gas turbine components being delivered to the site in June 2007. Construction work will begin in July 2007 continuing through to commissioning and performance testing due in December 2007.

### Generating Unit Upgrade

Expressions of interest were called for from companies wishing to be considered for tendering on turbine capacity and performance upgrades. Preselected companies were issued with specification documentation in June 2007. Technical data is presently being gathered on Unit 1 high heat flux area which will assist in analysing boiler circulation issues that are likely to be encountered with the boiler plant upgrade. Boiler specifications will then be prepared and issued in early 2008.

### CW Attemperating Reservoir

To assist in reducing temperatures of the cooling water released into Lake Macquarie, an attemperating reservoir is proposed to be constructed on land east of the high level cooling water inlet canal. The reservoir will be an 800 Ml conventional design earth and rockfill dam with an associated transfer pumping station.

Design works are being finalised with contract award expected in November 2007. Construction is programmed to commence in January 2008 following project approval by the Minister, which is expected to be granted in December 2007.

### Geosequestration in NSW

Eraring Energy has been working with the other NSW Generators (Macquarie Generation and Delta Electricity) to investigate geosequestration potential in NSW. Stage 1 of the project is complete, with reports recently finalised on geosequestration potential in the Darling Basin (West NSW), the potential for Coal Seam Geosequestration in the Gunnedah Basin (North West of Muswellbrook), $CO_2$ compression and pipeline design, and an investigation into legal issues surrounding the transport and storage of $CO_2$. During Stage 2 of the project it is proposed to gather further geological data for key areas of interest in both the Darling and Gunnedah Basins, with the view to drilling 1-2 km deep boreholes to confirm the geology is suitable for $CO_2$ storage.

The NSW Generators reported the results of the above studies to the Minister for Energy, Mineral Resources and Primary Industries, Ian Macdonald MLC, and to the NSW Clean Coal Technology Working Group on 29 May 2007. This working group brings together relevant government departments (eg, Department of Primary Industries, Department of Water and Energy) and the Ministers' Offices, NSW Generators, research organisations (CSIRO, CO2CRC), and industry (eg, Rio Tinto, Xstrata), to share significant developments and work effectively to progress understanding and action on geosequestration options for NSW.

### Eraring Energy's Green Strategy for 2007

This strategy recognises the uncertainty surrounding future carbon obligations but recommends taking action now to develop an adequate response. Eraring Energy's response will be based on utilising a decision matrix to assess possible investment projects (taking into account both potential carbon benefits and obligations); giving consideration to possible carbon price path requirements; and actively exploring options for projects.

Some options for future investment currently under consideration include natural gas supplied for gas turbine; Mallee Mark II (expansion of Mallee tree pilot); and Eraring Power Station plant upgrades, amongst others.

With increasing public recognition of global warming and options for abatement, it is considered an opportunity exists to capitalise on the proactive investment made to reduce Eraring Energy's carbon footprint.

## HYDRO AND WIND POWER STATIONS

Drought conditions across New South Wales have affected the amount of generation able to be produced from our Hydro facilities which resulted in the lowest amount of generation since Eraring Energy was formed. However the same drought has continued the increasing trend to pump water from the Shoalhaven Pump/Storage Scheme to supply Sydney's water demand. This has resulted in a record 175,532 Mls of water being pumped by our equipment in the 2006/07 financial year. The starting reliability of the generators within the Shoalhaven Scheme improved slightly over last year at 98%.

Wind farms at Blayney and Crookwell continued to generate green energy with 24,233 MWh being produced.

| Wind Farm | Availability |
|---|---|
| Blayney | 82.2% |
| Crookwell | 93.1% |

### Shoalhaven Hydro Station Pump/Turbine Refurbishment

Bendeela Power Station Unit 1 was the first of our Shoalhaven hydro units to undergo a major life extension refurbishment since it was commissioned in March 1977. Bendeela Unit 2 is currently undergoing a similar refurbishment which commenced on the 19 June and the unit is scheduled for return to service in early October 2007.

The two units at Kangaroo Valley Power Station are scheduled for refurbishment in 2008 and 2009.

### Kangaroo Valley Control Centre

Up until recently, control of the Hydro and Wind sites was undertaken by TransGrid under a commercial operating agreement. Following TransGrid's decision not to continue to offer this service, various options for operating the sites were considered. It was decided to upgrade the control system and install a 24 x 7 control centre at Kangaroo Valley Power Station. This will allow all nine Hydro and Wind sites to be monitored and/or controlled from Kangaroo Valley. The introduction of the control centre operating on a "round the clock" basis has resulted in the business unit employing an additional five operating and maintenance staff. The advantages of the control centre at Kangaroo Valley include building the in-house operating knowledge base across all of our operating staff, improving the ability to initiate actions in the event of emergencies, and improved ability to assist our staff at single man sites.

The control centre became operational in June 2007 by temporarily utilising the existing TransGrid control equipment. Work commenced in June to design and install new control system hardware to replace the TransGrid equipment and it is expected that the project will be completed early in 2008.

### Brown Mountain Official Opening

The new Brown Mountain Power Station generating unit was officially opened in 2006 and has generated 5,314 MWHrs in 2006/07.

**Hydro and Wind Generation (MWh)**

| | 01/02 | 02/03 | 03/04 | 04/05 | 05/06 | 06/07 |
|---|---|---|---|---|---|---|
| **Hydro** | | | | | | |
| Brown Mountain | 17,006 | 2,609 | 3,855 | 2,320 | 5,759 | 5,314 |
| Burrinjuck | 2,421 | 20,763 | 12,940 | 27,267 | 36,000 | 8,440 |
| Hume | 174,007 | 87,524 | 146,643 | 149,290 | 208,495 | 51,309 |
| Keepit | 13,786 | 15,339 | 1,011 | 4,348 | 6,600 | 2,331 |
| Shoalhaven | 60,136 | 46,609 | 5,706 | 18,537 | 52,089 | 46,428 |
| Warragamba | – | – | – | – | – | – |
| Subtotal (Hydro) | 267,356 | 172,844 | 170,155 | 201,762 | 308,943 | 113,822 |
| **Wind** | | | | | | |
| Blayney Wind Farm | 19,854 | 22,507 | 19,652 | 19,669 | 18,519 | 15,898 |
| Crookwell Wind Farm | 7,923 | 8,527 | 7,582 | 8,214 | 7,444 | 8,335 |
| Subtotal (Wind) | 27,777 | 31,034 | 27,234 | 27,883 | 25,963 | 24,233 |

# ENVIRONMENTAL PERFORMANCE

THROUGH A NUMBER OF STUDIES PERFORMED AT ERARING POWER STATION A TOTAL OF 229 PLANT SPECIES AND MORE THAN 100 VERTEBRATE SPECIES HAVE BEEN IDENTIFIED ON SITE. SOME OF THESE SPECIES ARE LISTED AS THREATENED AND ERARING ENERGY MANAGES THESE SPECIES IN LINE WITH THE OBJECTIVES OF THE LAND MANAGEMENT PLAN.

## ENVIRONMENTAL PERFORMANCE

### Introduction

Eraring Energy continues to fulfil its licence and legislative requirements while taking an active role in working with stakeholders in the development of environment policy.

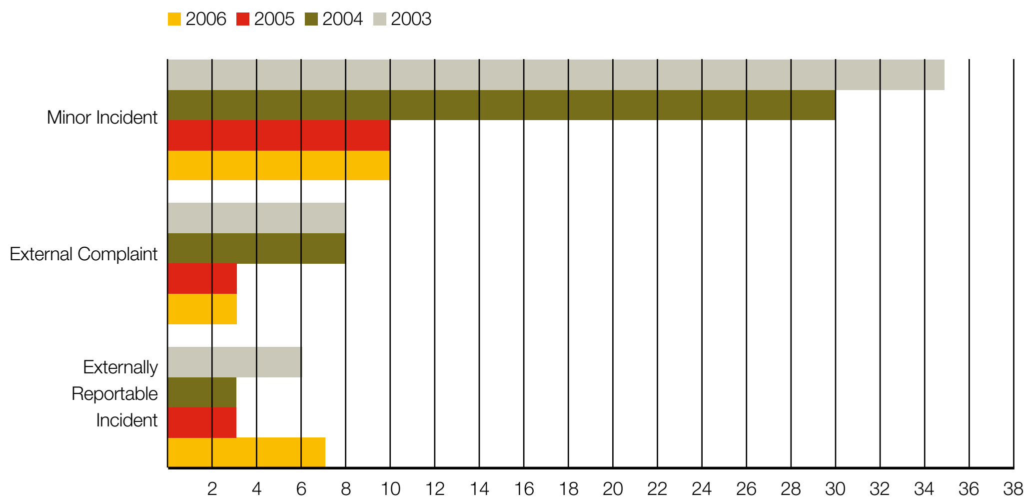
Industry leadership in Environmental Management is a key objective for Eraring Energy. The organisation's approach is based on processes of continual improvement by integrating our Environmental Management System compliant to IS14001:2004 and the business planning cycle with our commitment to leadership in Environmental Excellence.

### Incidents and Complaints

There were seven externally reportable incidents in the 2006 calendar year.

- Taprogge Balls (small, spongy rubber balls used to clean the insides of condenser tubes in the cooling water system at Eraring Power Station) escaped from a broken strainer to the Myuna Bay foreshore. Corrective action was implemented immediately.
- A high rainfall event in March 2006 at Eraring Power Station caused an over-boarding of the oil water separator and a small quantity of water containing residual oil reached the outlet canal. This was attributed to large amounts of stormwater entering the contaminated water system due to extreme storm events.
- In April 2006 a sample taken from Hume Power Station Licence discharge point 2, had an oil in water result above the licence limit. Maintenance records show there was no loss of oil from, or topping up of equipment. An investigation revealed algal growth in a separator prior to the sample point was responsible for a false high result. Following cleaning of the system all results have been below licence limits. This false high result was reported to EPA and included in the Annual Licence Return.
- Four incidents of turtle mortalities occurred in 2006 at the cooling water inlet canal at Eraring Power Station. Corrective actions included structural modifications and preparation of a Turtle Management Strategy.

**Incidents and Complaints**




**Note: Incidents and complaints are reported on a calendar year basis in line with the EPA licence reporting period.**

## ISO14001 Accreditation

In 2006, Eraring Energy successfully managed the continual improvements of the Environmental Management System (EMS) for the organisation and maintained its certification status.

Organisations are required to demonstrate continual environmental improvements as part of their ISO14001 certification. In order to meet this obligation, Eraring Energy has developed an EMS database that contains a register of the environmental risks associated with the organisation's operations.

Each significant risk has an associated Environmental Management Plan (EMP) which contains a number of steps to manage each risk and minimise their potential impact. An EMP describes the actions required and assigns responsibilities for their completion. EMPs are routinely reviewed by environmental committees within Eraring Energy.

An ongoing series of reviews and audits were conducted by Eraring Energy staff and by external consultants, to identify, assess, and develop controls for environmental risks.

The EMS clearly defines Eraring Energy's environmental policy, objectives and targets and is based upon a system of continual environmental improvement.

## Auditing

Environmental auditing is an important tool used by Eraring Energy to manage the environmental impacts of its operations. Environmental audits provide an objective measure of the organisation's performance against those standards set in its EMS.

Eraring Energy undertook an extensive internal and external audit program. These audits identified a number of areas for environmental improvement. Eraring Energy incorporated the audit recommendations into action plans and the progress of these plans are routinely reviewed by senior management committees for implementation.

Auditing not only provides information about areas where improvements can be made, but also serves as a benchmark for assessing environmental performance from one year to the next.

## Significant Environmental Issues and Achievements

There are a number of future projects planned at Eraring Power Station which include:

- Coal Combustion Products upgrade;
- Station Capacity upgrade;
- Black Start Gas Turbine; and
- Contaminated water system upgrade.

The first three projects are detailed in other areas of this report. The contaminated water system has had significant modifications in 2006/07 and future work is planned for 2007/08. These modifications are designed to improve the capability of the contaminated water system to cope with large rainfall storm events.

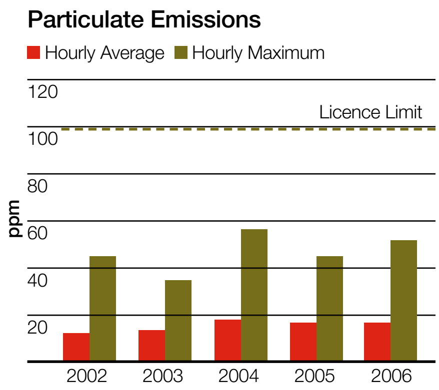
## Forestry Plantations for Carbon Offset

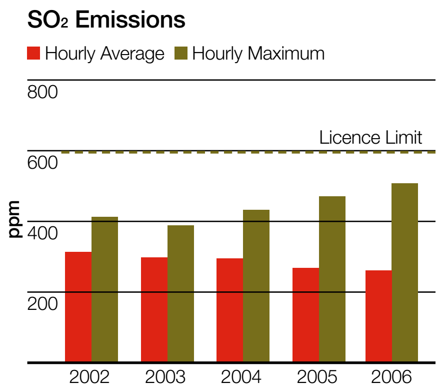
As part of Eraring Energy's strategy to minimise its carbon footprint, Eraring Energy has implemented a program of forestry plantations utilising the services of CO2 Australia Ltd.

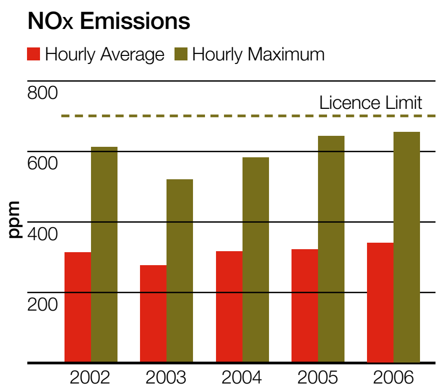
Thus far 1000 hectares of mallee eucalypts have been planted across farmlands in Western NSW.

In addition to the offsetting of carbon emissions, the forestry plantations provide the added benefits of:

- Reduced soil salinity through lowering the water table;
- Increased soil conservation through providing a wind break; and
- Increased crop yields for farmers through the improvement in the micro-climate.




## Emissions to Air

In the 2006 licence reporting period, all air emissions from Eraring Power Station were below the limits specified in the Environment Protection Licence. In 2006 Eraring Power Station maintained the hourly average levels of air emissions comparable to the previous year, even though electricity generation was higher.

## Land Management

A Land Management Plan (LMP) has been developed and implemented to facilitate a coordinated management approach for Eraring Power Station.

The plan has been developed in accordance with legislation to manage environmental issues in areas of biodiversity (flora and fauna), heritage, weeds, feral animals, bush fire, ash dam and re-vegetation and remediation. The LMP has been updated in 2006/07 to reflect the changing land management issues associated with the future projects being planned and implemented for Eraring Power Station.

A number of programs were undertaken in 2006/07 to manage environmental issues at Eraring Power Station, which included:

- Ash dam rehabilitation;
- Wetlands development;
- Turtle Management Strategy;
- Intensive site weed eradication;
- Bushfire Management Strategy.

## Biodiversity

Through a number of studies performed at Eraring Power Station a total of 229 plant species and more than 100 vertebrate species have been identified on site. Some of these species are listed as threatened and Eraring Energy manages these species in line with the objectives of the Land Management Plan.

## Weeds

Eraring Energy has performed a large volume of work to eradicate, control and manage noxious weed species at the Eraring Power Station site. Programs undertaken include:

- Pampas grass eradication at the ash dam; and
- Mechanical removal of lantana and follow-up weed spraying.

The Weed Management Plan aims to manage weeds on the Eraring Power Station site in a practical and environmentally sustainable manner.

## Bushfire Management

In June 2007, a new Bushfire Management Plan has been developed at Eraring Power Station, with community consultation and input. The plan describes a schedule of activities to be performed which includes:

- Fuel load monitoring;
- Fuel load reduction activities; and
- Controlled burns.

Control burns are a necessary part of the Bushfire Management Plan for the protection of assets and to minimise the possibility of wildfires. All means are undertaken to minimise any adverse impact upon native flora and fauna.

A schedule for controlled burns for 2007/08 has been submitted to the Rural Fire Service for approval.

## Heritage Management

Eraring Energy manages two sites of potential heritage significance, Brown Mountain and Burrinjuck Power Stations, in accordance with Section 170 of the Heritage Act:

- Brown Mountain was upgraded in 2006. However the original power station which began operation in 1943 will be maintained; and
- Burrinjuck Power Station. No. 1 station which began operation in 1927 and was decommissioned following flooding in 1974.

Additionally, Eraring Energy has developed a Heritage Asset Management Strategy for these sites.

## Waste Reduction and Purchasing Policy (WRAPP)

The WRAPP covers all areas of the organisation, from purchasing through to disposal.

Eraring Energy actively continues to publicise the importance of waste reduction and recycling through the initiatives of the Waste Management Committee (WMC). This Committee has been operating for five years and has achieved many improvements in various fields with recycling.

The WMC has focused its initiatives in 2006/07 on site energy savings, biofuel investigations, and usage and waste oil reconciliation practices.

## Major Recycling

### Ash

Ash is one of the major by-products produced by coal-fired power stations and what was once a waste product is now a valuable resource. Eraring Energy is an industry leader in ash recycling. In 2006/07, 477,000 tonnes of ash from Eraring Power Station was reused, which represents 29.6% of the ash produced. The tonnage of ash reused is less than previous years due to reduced demand in our traditional markets.

### Effluent

Eraring Power Station operates a Water Reclamation Plant which recycles secondary treated effluent supplied by Dora Creek Sewage Plant.

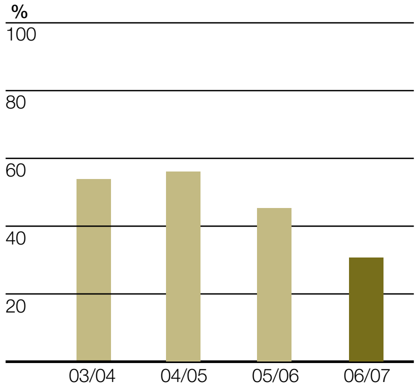
Reclaimed water provides the majority of the station's water needs and, in 2006/07, 54.5% of the station water usage was reclaimed water. The power station uses around four million litres of water everyday, so the use of recycled effluent saves precious water resources for other consumers.

### Environmental Products

Eraring Energy created 26,925 Renewable Energy Certificates (REC) in the calendar year 2006, and surrendered 7,757 RECs to back pumping liabilities at Shoalhaven. The remaining RECs were transferred to trading counterparties under the relevant contract obligations.

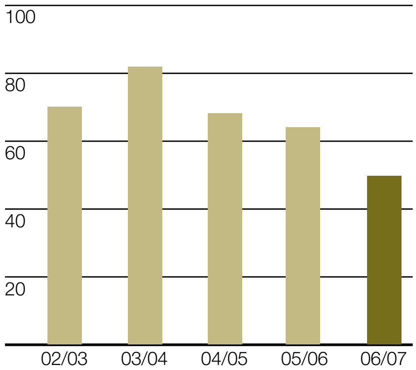
Eraring Energy created 70,711 NSW Greenhouse Gas Abatement Certificates (NGAC) in the calendar year 2006 from improvement in plant efficiency at Eraring Power Station.

**Ash Reuse**




**Effluent Recycling**

(% of Total Water Usage)



# SOCIAL PERFORMANCE

STRONG COMMITMENT OF ERARING ENERGY PEOPLE TO SAFETY IN THE WORKPLACE

CONTINUED FOCUS ON GROWTH AND DEVELOPMENT OF PEOPLE

ACTIVE CONTRIBUTOR TO REGIONAL COMMUNITIES THROUGHOUT NSW

## PEOPLE

During the past year, Eraring Energy has continued to promote a culture that values fairness, honesty, integrity, safety, diversity, equity, and working together.

The demographic and diversity of our people is transforming as predicted retirements are realised and new employees are recruited. Currently 25% of employees have less than five years service and over 27% of employees are aged under 40 with the average age of employees currently standing at 45.

During the reporting period 41 new employees joined the organisation, 17% were women.

In recognition of this diversity future focus workshops are being held involving new and younger employees, whilst our baby boomers have been invited to attend seminars to assist them with retirement preparation and transition.

The involvement of all levels of staff in a range of initiatives, committees, planning days, working parties and workplace change and improvements, is a key driver of the organisation's culture and commitment to the value that we place in our people.

Our people management practices were recognised by the Australian Human Resources Institute in 2006 when Eraring Energy was selected as one of two state finalists for the National Award for People Management - Medium Enterprise Private Sector and/or Government Business Enterprise.

The development and growth of our people continues to be a major focus for Eraring Energy. There have been record numbers of internal promotions and development opportunities through participation in special projects and working parties such as Contractor Benchmarking and Fitness for Work.

With the increase in retirement and recruitment activities comes an increase in training and development. Training schools are currently in place for power plant operations – these schools can take up to six months to complete including on the job training.

Our personal development planning process is well established and provides the platform for leadership and development activities for employees, one on one feedback and career development discussions between team leaders and their team members.

To further enhance existing people and development processes, a capability framework is under development that will enable better identification of skills gaps, training requirements, workforce and succession planning needs, and recruitment strategies. The capability framework will also enhance employees understanding of career path/ development options and opportunities.

We continue to reward and recognise our people and their efforts through a mixture of informal and formal individual, team and organisational initiatives.

## CODE OF CONDUCT

The Eraring Energy Code of Conduct objectives are to ensure:

- A working environment that is free from discrimination and harassment;
- All business actions and decisions are based on the highest standards of ethics and honesty, free from any conflicts of interest;
- Any benefits or gifts obtained while performing duties for Eraring Energy be treated in accordance with Eraring Energy "Code of Conduct" Procedures;
- Eraring Energy information is protected and safeguarded and Eraring Energy resources are used efficiently and economically;
- Any instances of possible corruption, maladministration or serious and substantial waste be reported to the appropriate Eraring Energy Officer;
- Where employees of Eraring Energy engage in other employment or business, that their employment or business does not compromise or conflict with their employment with Eraring Energy;
- Refresher education and training of our code of conduct has continued during the period to reinforce the objectives and responsibilities contained in the Code and the Code of Conduct Procedure.

### Disability Action Plan

Eraring Energy continues to be pro-active in the provision of assistance and access, to meet the needs of people with a disability. The Workforce Diversity section of this report includes actions and outcomes that relate to meeting the needs of EEO Group members including people with a disability.

### Ethnic Affairs Priority Statement

Eraring Energy's Ethnic Affairs Priority Statement includes strategies and actions that ensure the operation and conduct of our business reflects, accommodates and considers cultural diversity.

Eraring Energy's Ethnic Affairs Priority Statement and actions have been reviewed during the period. The Workforce Diversity section of this report includes actions and outcomes that relate to meeting the needs of EEO Group members, including people from culturally diverse backgrounds.

## WORKFORCE DIVERSITY/EEO REPORT

### Introduction

Eraring Energy is committed to the principles of EEO and recognises the values of fairness, diversity and equity as a means of achieving business success.

### Planning Outcome Achievements

EEO related data has been collected for 92% of staff.

Eraring Energy continues to make a determined effort to ensure diverse representation by classification grouping, gender/age, and social/cultural background is sought for business planning activities, working parties, committees and development programs.

There were a number of opportunities for staff to have their views heard and addressed during the period including:

- Six monthly small group staff briefings with the Managing Director.
- Monthly Site Consultative Committee Meetings, Team Meetings and Tool Box Talks.
- Consultations with samples of staff relating to specific initiatives via focus groups, surveys, and feedback workshops.

A cross section of 10% of staff was involved in reviewing a range of survey questions including questions relating to harassment and discrimination for inclusion in an employee survey that will be issued to all staff in July 2007.

### Action Outcome Achievements

Diversity considerations have been incorporated into all aspects of mainstream training particularly our custom designed leadership development program, "Leaders". We are proud that this program is open to all levels of staff, with over 120 employees having already participated. A central theme of the program is to appreciate and encourage the benefits that diversity can bring to the workplace.

Diversity and equity principles and practices are incorporated into recruitment, promotion, training and development processes and opportunities.

Our Workforce Diversity Policy and Procedure and Grievance Handling and Complaint Resolution Procedure were reviewed during the period.

## Program Outcome Achievements

41 people were recruited during the period with 100% responding to the EEO data request form. 17% of the new employees were women, 12% identified as being from a racial, ethnic, ethno-religious minority group, and 5% as people with a disability.

29 men and three women left the organisation during the period. Of the 32 separations, seven employees had identified as being from a racial, ethnic, ethno-religious minority group, two as people with a disability and one as a person with a disability requiring workplace modifications.

42 internal promotional appointments occurred, 10% were women.

Our external recruitment advertisements have been reviewed and diversity considerations incorporated to ensure we attract a diverse candidate pool for vacant positions.

## Key Initiatives
## 1 July 2007 – 30 June 2008

The following activities are planned for the next reporting period:

- Review the results of the 2007 Eraring Energy Employee Survey, particularly the questions relating to equity, harassment and discrimination in the workplace;
- Continue to reinforce, communicate and educate our people on the value, benefits and business outcomes to be realised by respecting and increasing the diversity of our workplace;
- Refresher training relating to equity, diversity, harassment and discrimination for managers, team leaders and staff, planned for 2006/07 is completed by the end of June 2008.

### A. Trends in the Representation of EEO Groups[1]

| EEO Group | % of Total Staff[2] NSW Government Public Sector Benchmark or Target | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|
| Women | 50% | 9% | 9% | 9% | 10% |
| Aboriginal people and Torres Strait Islanders | 2% | 0.3% | 0.3% | 0.6% | 0.5% |
| People whose first language was not English | 20% | 6% | 6% | 6% | 5% |
| People with a disability | 12% | 8% | 8% | 7% | 7% |
| People with a disability requiring work-related adjustment | 7% | 3.6% | 3.6% | 3.6% | 3.1% |

### B. Trends in the Distribution of EEO Groups

| EEO Group | Distribution Index[3] NSW Government Public Sector Benchmark or Target | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|
| Women | 100 | 97 | 99 | 99 | 99 |
| Aboriginal people and Torres Strait Islanders | 100 | n/a | n/a | n/a | n/a |
| People whose first language was not English | 100 | 115 | 115 | 115 | 114 |
| People with a disability | 100 | 100 | 100 | 100 | 103 |
| People with a disability requiring work-related adjustment | 100 | n/a | n/a | n/a | n/a |

[1] Staff numbers are as at 30 June 2007

[2] Excludes casual staff

[3] A Distribution Index of 100 indicates that the centre of the distribution of the EEO group across salary levels is equivalent to that of other staff. Values less than 100 mean that the EEO group tends to be more concentrated at lower salary levels than is the case for other staff. The more pronounced this tendency is, the lower the index will be. In some cases the index may be more than 100, indicating that the EEO group is less concentrated at lower salary levels. The Distribution Index is automatically calculated by the software provided by NSW Government.

## OCCUPATIONAL HEALTH AND SAFETY (OHS)

Since the formation of Eraring Energy in 2000, workplace health and safety and the welfare of its employees, has been, and continues to be a core value of the organisation.

2006/07 has seen Eraring Energy demonstrate this commitment with the allocation of resources to assist and support the organisation in achieving its goal of an injury and illness free workplace.

The organisation's approach in the past 12 months has seen significant progress to improve the OHS Management Systems and foster a 'mindful safety culture' within the organisation.

As in previous years, OHS audit and benchmarking activities have been used successfully to identify and implement improvements in both the cultural and systematic aspects of workplace health and safety.

### The OHS Management System (Safety Systems)

Underpinning all of Eraring Energy's activities is a series of robust safety systems, which govern the way that work and work planning is carried out. In 2006/07 there was significant review and refinement of many of these systems.

Eraring Energy's comprehensive audit program has continued to utilise skilled internal and external auditors to determine the level of system implementation, adherence and compliance with internal and external standards.

Eraring Power Station continued its involvement in the Australian Standard 4801 OHS Management System Certification Program, with two surveillance audits being completed by an external organisation in 2006/07.

A new external auditor provider, Det Norske Veritas, an international risk management specialist, was engaged in late 2006 to carry out compliance audits against the WorkCover Self Insurance Model. Audits were carried out at all Eraring Energy power stations.

Internal audit teams, consisting of 19 volunteer employees, audited over 30 safety standards in 2006/07.

In 2006/07 implementation of the isolation lockout system was progressed extensively with:

- Isolation attachment points being installed on all items of plant;
- Construction of a new isolation room to house the locks and prepare isolations;
- Selection of a new computer system to manage the lockout isolation system.

The rewrite of the Access to Apparatus Rules (isolation rules) in a plain English format, with accommodation for the lockout system was commenced with role out scheduled for December 2007.

The Work Process Risk Assessment system was improved. The new system requires:

- Toolbox talks to be carried out and documented for all work activities;
- Riggers to complete a stop and think process and sign an acknowledgement form before slinging loads;
- Managers and Team Leaders to conduct live (on the job) audits of risk assessments.

Work has also commenced on restructuring and updating the risk assessment system to coincide with the introduction of the new Isolation Software. The new risk assessment system will follow the industry best practice of sequential risk identification and control, such as utilised by the Safe Work Method Statement approach. The upgrade will also incorporate Confined Space and High Risk Hot Work Risk Assessments into one risk assessment process.

The Eraring Power Station OHS Risk Register was reviewed and redeveloped to include a section for organisational risks and plant risks. The organisational risks section captures high level OHS risks and will be used for annual OHS planning and strategy formation. The Plant Risk Register will export location or ambient risks into work activity risk assessments, following the introduction of the new isolation software.

The Fitness for Work Program including procedural guidelines, employee and team leader training, and impairment testing machines (OSPAT) for all Eraring Energy and Contractor employees, was implemented in 2007.

Following a major emergency exercise with external emergency services in 2006 (Exercise Vertigo), the Eraring Power Station Emergency Response Plan was reviewed and rewritten with the assistance of the NSW Fire Brigade.

Following on from work carried out by the Health Assessment Working Party in early 2006, an Occupational Therapist was engaged to carry out Physical Demand Analyses of all position types within the organisation, to identify the inherent physical requirements.

In 2007, Eraring Power Station's major site contractors were requested to give presentations on how their companies planned to improve their safety performance over the coming year.

## Engaging our People

Several years ago Eraring Energy identified that safety leadership and its goal of an injury and illness free workplace could only be achieved through the engagement and involvement of our people at all levels of OHS process. This consultative approach to workplace health and safety has been continued throughout 2006/07.

For the second year running the annual OHS Plan was developed in a consultative forum with key people from all power station based business units.

The Eraring Power Station OHS Committee and Subcommittees have continued to operate during 2006/07. A new OHS Committee Chairperson and Deputy Chairperson were elected in early 2007. The participation of both employees and contractors has continued to grow throughout this period.

The Hydro and Wind OHS Committee continued to be very active throughout 2006/07, focusing on Hydro and Wind specific issues.

The BSafe Program has continued to be a cornerstone of Eraring Energy's employee and contractor participation strategies. In April 2007 there were a record number of 243 observations. For the first time since the program was launched the average number of monthly observations did not drop during an outage period (April 2007).

In late 2006 the Precision Leadership initiative was rolled out. The initiative was designed to improve manager and team leader support activities for the BSafe Program. 39 team leaders, managers and contractor supervisors attended the two day training session and follow up review sessions.

BSafe training was rolled out for Hume and Kangaroo Valley Hydro Stations, with both stations planning to join the BSafe Program in 2007/08.

In September 2006, Eraring Energy hosted the 10th annual Power Industry Fire and First Aid Competition at the Lake Macquarie Centre.

Plant safety improvements continued with 257 Safety Work Orders (SWO) being completed in the financial year.

## Employee Wellbeing

Eraring Energy has continued to support employee health and wellbeing issues in 2006/07. Some of the activities/ initiatives supported by the organisation included:

- "Movember" – prostate cancer awareness;
- "10,000 steps" – heart and cardiovascular disease awareness;
- voluntary influenza vaccinations;
- provision of a workplace gym;
- employee fitness programs;
- exercise and stretching classes;
- fatigue, drug and alcohol awareness (Fitness for Work Program).

A new Employee Assistance Program (EAP) counselling provider was engaged in 2006 to give greater flexibility and availability for all employees who may wish to access the service.

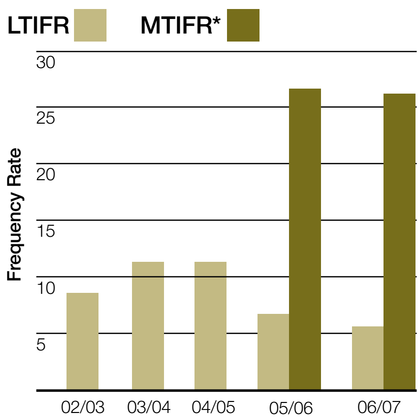
## OHS Performance

Due to the significant reduction in Lost Time Injuries (LTI) across the organisation, the decision was made to change the injury/illness performance indicator to focus on Medical Treatment Injury Frequency Rates (MTI FR).

There were seven LTI's in the 2006/07 financial year, five contractors and two employees.

There were 30 MTI's in the 2006/07 financial year, 14 contractors and 16 employees.

**Lost Time Injury Frequency Rate (LTIFR)**
**Medical Treatment Injury Frequency Rate (MTIFR)**




*** Commenced reporting in 05/06**

## COMMUNITY

Eraring Energy is a strong supporter of local community and charitable organisations.

This support is focused on building partnerships with the communities in regional areas throughout New South Wales that are associated with our business operations; establishing positive community consultative relationships; contributing to environmental initiatives; enabling learning and development programs; and encouraging the contribution of our people to a range of community activities.

Eraring Energy provided a total of $60,212 in general community based sponsorships and donations during the year.

### Community Forum

The Eraring Energy Community Forum, based at Eraring Power Station, met at three-monthly intervals throughout the year, with a primary focus on the exchange of information on environmental issues and the encouragement of dialogue and feedback.

Now in its fifth year, the Forum continues to be a key ongoing mechanism for Eraring Energy, via consultation with the representatives of community based groups, to demonstrate a commitment to productive discussions and the achievement of action outcomes.

The Forum provides an opportunity for presentation of information on key business strategies, such as plant upgrade planning, and to provide inspection tours of established projects, such as the created wetland area within Eraring Energy land holdings. The Forum members made a valuable contribution to the development of a revised Land Management Plan; encouragement for school based programs; and suggestions for informational signage on power station infrastructure associated with the cooling water system.

Direct support of Community Forum member groups included sponsorship for programs under the direction of Lake Macquarie Landcare Inc.; Coal Point Progress Association; Native Animal Trust Fund; Dora Creek Catchment Group; and the Royal Volunteer Coastal Patrol.

### Charitable Support

The opportunity to support various charitable organisations is strengthened through the commitment and contribution of Eraring Energy's people.

A major achievement was the corporate donation of an amount of $25,300 in 2006/07, shared equally between the regionally-based Westpac Rescue Helicopter Service and the nationally based CanTeen organisation. This achievement resulted from the ongoing continued strong commitment of Eraring Energy people to safety, which is recognised in part by the Safety Performance Reward Program. Since its inception in July 2003, over $70,000 has been raised by the Program in support of these external organisations.

Special ceremonies, hosted by various work teams, have been held on-site at Eraring Power Station to facilitate the presentation of cheques to the respective organisations.

Our people have also been generous through their support for, and active participation in, fundraising for a range of organisations. Their success has been enhanced by an additional Eraring Energy corporate donation. These organisations include the NSW Cancer Council; Camp Quality; Royal Volunteer Coastal Patrol; Royal Institute for Deaf and Blind Children; West's Cycle Classic; MS Australia; Prostrate Cancer Council; and Beyondblue.

Eraring Energy people were again generous in their continued annual support of the Barnardos Australia "Star of Wonder Christmas Gift Appeal" 2006, and for "Santa's Outback Run" which was coordinated by the local Morisset community in support of the drought-affected residents of Wellington, NSW.

### Community Events

Eraring Energy was a key sponsor of the Southlake Business Excellence Awards, 2006; Lake Macquarie City Council Australia Day Celebrations 2007; the Toronto Heritage Afloat Festival 2007; the Crookwell Country Weekend Festival 2007; and the Morisset Community Festival Day 2007.

Other community events supported by Eraring Energy included the Christmas Carols celebrations held in the respective communities of Rathmines, Wangi Wangi, and Dora Creek; Heritage College Country Fair and Fun Day; the Christmas Party for Special Children held in Albury, NSW; and the Dobell Festival of Art and Craft 2007.

## Corporate Sponsorship Support

During the year, Eraring Energy was pleased to become a Foundation Sponsor of the Hunter Valley Research Foundation, with a $5000 annual donation to this prestigious organisation.

Eraring Energy participated as a Bronze level supporter of the 2006 Energy and Water Green Globe Awards. The Awards recognise and promote leadership and commitment in the sustainable use of energy and urban water in NSW.

Eraring Energy was also proud to provide support to the Morisset and Toronto Meals on Wheels Inc. and Careflight.

A model wind turbine was gifted to the collection at the Powerhouse Museum. Previously on loan to the Museum, the model represents an important renewable energy technology and was also used for the process of community consultation prior to the establishment of the wind farm at Crookwell, NSW.

## Environmental Initiatives and Support

Eraring Energy has entered into an agreement with the Koompahtoo Local Aboriginal Land Council to undertake a Seed Cultivation Project based at Eraring Power Station. Under this project, Koompahtoo people will be involved in seed collection from station land; propagation and maintenance of seeds; and planting out of tube stock on Eraring Energy land. The program is designed to create direct training opportunities for long term unemployed Aboriginals in the Koompahtoo Local Aboriginal Land Council area.

In addition, Eraring Energy is extending the Seed Cultivation Project via partnerships with schools, local to the vicinity of Eraring Power Station.

Koompahtoo people have also been employed by Eraring Energy to perform inspections, on a weekly basis, of nearby Lake Macquarie foreshores. Yunaga Mine Service, Wonnarua People, in conjunction with Koompahtoo people have also assisted in developing an Ash Dam Rehabilitation plan for Eraring Power Station.

During the reporting year, Eraring Energy joined a tri-partite partnership with Lake Macquarie City Council and the Department of Sport and Recreation to undertake a coordinated program of weed eradication, particularly lantana, from the land area surrounding Whiteheads Lagoon, adjacent to Myuna Bay, Lake Macquarie. Eraring Energy was pleased to provide a $30,000 special contribution to this project, which was undertaken to provide more effective land management capability and improve the general amenity of the area.

Eraring Energy is a long term key partner supporter of the Lake Macquarie Environment Research Grants, coordinated by the Lake Macquarie City Council, and is pleased to be a member of the Lake Macquarie Environment Research Grants Committee.

As part of its support for the Adopt-a-SQID Program, also administered by Lake Macquarie City Council, Eraring Energy is a member of the Adopt-a-SQID (Stormwater Quality Improvement Device) Program Steering Committee.

Eraring Energy also works closely with Lake Macquarie City Council as an active member of the Coastal and Estuary Committee.

In April 2007, Eraring Energy produced the first issue of the community newsletter, Elements of Environmental Excellence. The newsletter seeks to inform the community of environmental strategies and actions undertaken by Eraring Energy to protect and enhance the natural environment.

### Learning Initiatives

Eraring Energy is proud to support learning initiatives at primary, secondary and tertiary levels. This includes the Gifted and Talented Students Program at Morisset High School, the extension of the Seed Cultivation Project into local schools, and sponsorship support as diverse as the Learning Assistance Mentoring Program at Bonnells Bay Public School; a Junior Waterwatch Kit for Cooranbong Public School; and Achievement Awards at Morisset High School.

Eraring Energy employs 22 apprentices based at Eraring Power Station, Hume Power Station and Kangaroo Valley Power Station. High standards of on-the-job performance and academic attainment are being achieved in electrical, mechanical, boilermaking and motor mechanic trades skills.

During the year, Eraring Energy has been a Trainee Host Employer for up to seven young persons undertaking traineeships in Business Administration, Human Resources, Finance, Material Management, and Purchasing and Contract Administration.

A key ongoing initiative is the corporate sponsorship of the University of Newcastle Industry Scholarship Scheme (UNISS). Four engineering students are sponsored through this UNISS program.

Educational institutions, community groups and various overseas visitors have been provided with site tours at Eraring Power Station; Kangaroo Valley Power Station; and the Crookwell and Blayney Wind Farms.

### Opening of Brown Mountain Power Station

The 4.95 MW upgrade of the Brown Mountain Hydro-Electric Power Station was officially opened by The Hon. Joe Tripodi, MP, Minister for Energy and Mr Ross Bunyon, Chairman on 14 December 2006.

The contract for the upgrade was awarded to Tyco Flow Control Pty Ltd in August 2004, with on-site works beginning in May 2005. The new unit was available for local operation in February 2006 and the remaining parts of the upgrade were completed in May 2006.

The opening was attended by contractors involved in the upgrade, key members of the local community, and Eraring Energy staff.

### Eraring Power Station 25th Anniversary Celebration

To recognise the 25th anniversary of the No. 1 generating unit being first synchronised on 22 March 1982 and to thank the contribution of Eraring Energy and contractor's staff, a family "fun day" was held on Saturday, 17 March, 2007 for current employees of Eraring Energy and major contractor companies at the power station.

Over 560 people attended the celebration event. Family entertainment; walking and mini-bus tours of the power plant; and displays of memorabilia and station equipment, culminated in a luncheon and formalities.

Initial development of the site commenced in 1976, with the completion of construction in 1984 for a generating capacity of 2,640 MW. The power station was the largest in Australia when built and remains the equal largest in Australia to this day.

With a commitment to environmental leadership, Eraring Power Station was the first in the world to generate electricity using ultra pure boiler quality water, which is reclaimed from secondary sewerage effluent from the Dora Creek Water Treatment Plant. Eraring Energy is recognised nationally and internationally as being a pioneer in water recycling on a large industrial scale.

### Social Program

Eraring Energy has not been involved in any social programs as defined in the Annual Reports (Statutory Bodies) Regulation 2000 for reporting period 2006/07.

### Funds Granted to Non Government Organisations

Eraring Energy plays an active role in the community through its contribution to community projects and events, and the positive support given to staff involved in various fundraising activities.

More than 36 organisations and community groups benefited from donations and sponsorships from Eraring Energy, totalling approximately $52,500 during the year.

# GOVERNANCE

## THE MANAGEMENT OF MATERIAL BUSINESS RISK

### Risk Management

Risk Management forms a central and key input into the running of Eraring Energy's business.

Eraring Energy continues its focus on the management of material business risk. The Board's governance structure reinforces its commitment to ensuring the organisation's risks are effectively managed to mitigate the exposure.

The risk management process starts and ends with Eraring Energy's people who assess identified risks and prepare action plans to mitigate these risks to an acceptable level. The Executive Risk Management Committee monitors the status of actions and obtains assurance from reports and measures through a risk based internal program. This process is overseen by the Board Risk Committee, with continuous feedback at all these different stages, allowing Eraring Energy to manage risk in a transparent and learning environment.

Each business unit ensures that risks identified are addressed in their Business Unit Plan. Monitoring and reporting of actions to mitigate risks is aligned with the monthly reporting.

Management has reported to the Board on the effectiveness of its management of material business risks.

### Internal Audit

The results of the risk assessment process are used to prepare a three-year audit plan. The Executive Audit Committee reviews and endorses the Annual Audit Plan, which is approved by the Board Audit Committee.

The review of the effectiveness of controls by internal audit provides assurance to the Audit Committees.

Where recommendations are made to improve control, management provide responses, commit to actions and provide dates for implementation. The status of management actions are monitored by the Audit Committees on a quarterly basis.

### Insurance

Eraring Energy continually reviews and improves its risk management practices resulting in more favourable insurance premiums being negotiated and purchased.

### Fraud Prevention

Eraring Energy is committed to ensuring that it has appropriate systems and processes in place to prevent fraud and corruption. These processes are an integral part of our governance framework.

Awareness continues to be created and maintained through Code of Conduct awareness sessions and employees are encouraged to report any instances of potential or actual fraud through the established formal reporting framework.

### Incident Reporting

The Incident Reporting System is another feature of Eraring Energy's risk management focus. The system allows any staff member to anonymously report any concerns they may have that could present a risk to Eraring Energy for example a breach, or a near miss in the following categories:

- Health and Safety;
- Australian Finance Services Licence;
- Environment;
- Security;
- National Electricity Law/Rules Compliance;
- Asset Damage and Loss;
- Production;
- Other compliance eg. Trade Practices Act etc; and
- Energy Trading Risk Management Policy.

Once a report is made it is referred to the owner of the issue and addressed. The Executive also conducts a review on a monthly basis of all incidents that have been reported. This system has been widely used by staff and has proven that it is effective in the reporting of day to day risks.

### Information Management

The Corporate Information Management Strategy has ensured the implementation of new tools for Eraring Energy employees to assist with the management of corporate information. These tools encompassed a new Electronic Document Records Management System (EDRMS) and a Content Management System (CMS). The EDRMS has been fully implemented across all business units and is used as the central repository for all corporate information. The purpose of the CMS tool is to facilitate the use of the Eraring Energy intranet, and in the long term the internet, for the dissemination of corporate information without duplicating processes already established with the use of the EDRMS.

With the CMS fully integrated with the EDRMS, Eraring Energy expects to have improved communication processes, a single source for current corporate policies and procedures, and a streamlined process for the publication of corporate information.

In addition the strategy has supported the development and implementation of a full administrative framework including an approved Retention and Disposal Authority.

## THE BOARD

The Board is responsible for ensuring the long-term success of the corporation, the achievement of the Shareholders' objectives of efficient operation, maximisation of Shareholder wealth, social responsibility, compliance with the principle of ecological sustainable development, support of regional development, and being a successful participant in the wholesale electricity market.

Our success is determined by our approach to the creation of Shareholder value, managing risks and reputation, and discharging our responsibilities as a corporate citizen.

**The role of the Board is to:**

- Set the strategic direction for the corporation and oversee implementation;
- Appoint the Managing Director and Company Secretary, monitor performance and oversee the development, succession and reward of the Managing Director and senior management;
- Ensure the development, maintenance and operation of appropriate risk management and people management systems; and
- Ensure the corporation's values are embraced at all levels and in all activities.

The Board actively pursues the highest standards of corporate governance and promotes sound commercial practice ensuring Eraring Energy's business activities are conducted not only in accordance with all applicable legislation but also in an ethical manner.

The governance framework incorporates monitoring and review processes together with incident and breach reporting at executive management and Board level.

### Board Membership

The Constitution of Eraring Energy, the State Owned Corporations Act 1989, and the Energy Services Corporations Act 1995 allow for a minimum of three and a maximum of seven directors to be appointed by the shareholders. The only executive director is the Managing Director. The chairperson is a non-executive director appointed by the shareholders.

The term of each director's appointment is determined by voting shareholders up to a period of five years. Appointments may be renewed.

Directors have access to management and to independent advice. Such advice would normally be sought after consultation with the Chairman or Company Secretary.

### Remuneration of Directors

The remuneration of each non-executive director is determined by the voting shareholders and is paid out of Eraring Energy funds. The Managing Director is not entitled to any additional remuneration for being an executive director.

### Changes in Board Membership

The appointment of the Directors, Michael Nugent and Dean Pritchard expired on 30 June 2007, and they were reappointed for a further three years.

The appointment of the Unions NSW representative is agreed between the Shareholding Ministers and Unions NSW.

Mr. Peter Murray was appointed as Director on 1 September 2006.

## BOARD COMMITTEES

The Board has established four standing committees, outlined below, and when required forms a committee of appropriately skilled directors to deal with specific matters.

### Audit Committee

This Committee meets quarterly to support the Board by monitoring auditors and management in relation to:

- financial reporting processes;
- systems for internal control and management of financial risks;
- processes for monitoring of compliance with legislation and regulation, and internal controls;
- audit scopes, outcomes and actions; and
- performance of auditors.

### Risk Committee

This Committee meets quarterly to assist the Board in relation to:

- ensuring there is an effective risk management framework in place across Eraring Energy;
- assessment of the material risks faced by various business units of Eraring Energy;
- making recommendations to the Board concerning Eraring Energy's risk appetite and particular risks or risk management practices of concern to the Committee; and
- promotion of awareness of the need to manage risk and the achievement of a balance between risk minimisation and reward for risks accepted.

### Environment and Safety Committee

Supports the Board in fulfilling its oversight responsibilities in the management of environmental and safety issues, risk and incidents. This Committee meets quarterly to provide advice on:

- monitoring performance against set objectives and targets;
- reviewing processes for monitoring of compliance with legislation and regulations;
- reviewing reports on audit action plans; and
- reviewing or requesting reports from the Executive Environment Committee or the Executive Safety Committee on significant issues.

### Human Resource and Remuneration Committee

This Committee meets quarterly to provide advice to the Board on:

- appointment and remuneration of executives reporting directly to the Managing Director;
- framework for at-risk payments and executive senior staff remuneration;
- ensuring an appropriately skilled workforce is available by succession plan strategies for staff other than the Managing Director; and
- monitoring compliance with employment legislation and regulations.

### Conflict of Interest

A register of Directors' interests is maintained and directors disclose any material contract in which they have an interest. Directors do not take part in any decision-making processes considered by the Board if they have any personal interest in the matters.

(Note 27 to the accounts details related parties' transactions.)

### Board Evaluation

The Board undertakes a self assessment of its performance at least every three years. A facilitated self assessment process was completed in October 2005.

## MEETINGS OF THE BOARD

Meetings of the Eraring Energy Board are held monthly (except in January) and generally Board committee meetings held quarterly.

| | Attended | Eligible Meetings |
|---|---|---|
| **Board** | | |
| Ross Bunyon | 13 | 13 |
| Beverley Hoskinson-Green | 13 | 13 |
| Peter Murray (Term appointed from 1/9/06 to 31/8/08) | 9 | 10 |
| Michael Nugent | 13 | 13 |
| Dean Pritchard | 12 | 13 |
| Michael Vertigan | 12 | 13 |
| Peter Jackson | 13 | 13 |
| **Audit** | | |
| Michael Vertigan | 6 | 6 |
| Ross Bunyon | 6 | 6 |
| Michael Nugent | 6 | 6 |
| **Human Resources and Remuneration** | | |
| Beverley Hoskinson-Green | 5 | 5 |
| Ross Bunyon | 5 | 5 |
| Dean Pritchard | 4 | 5 |
| **Environment and Safety** | | |
| Dean Pritchard | 4 | 4 |
| Beverley Hoskinson-Green | 4 | 4 |
| Michael Nugent | 4 | 4 |
| **Risk** | | |
| Michael Nugent | 5 | 5 |
| Dean Pritchard | 5 | 5 |
| Michael Vertigan | 5 | 5 |

## EXECUTIVE MANAGEMENT

**Organisation Structure**

**Voting Shareholders**
**The Hon. Michael Costa MLC**
**The Hon. John Watkins MP**

**Board of Directors**
Chairman – **Ross Bunyon**

**Managing Director**
**Peter Jackson**

- General Manager Eraring Plant
  **Wayne Winterbine**
- General Manager Trading
  **Stephan Boras**
- General Manager Finance
  **Philip Russell**
- General Manager People
  **Shaun Edwards**
- General Manager Hydro & Wind
  **John Kennedy**
- Company Secretary
  **Rochelle Reynolds**
- IT & Telecommunications Manager
  **Mark Edwards**

## EXECUTIVE COMMITTEES

The following executive committees are responsible for the oversight and implementation of the Board strategic and operational decisions and the day to day operations of the business.

### Executive Committee

Meets monthly to monitor corporate performance, review audit reports, agree and monitor the implementation of actions arising from those reports, develop and review implementations of business strategy, and promote the development of business improvement initiatives. Key strategies in areas such as information technology are also addressed within this Committee.

MEMBERS
Managing Director
**Peter Jackson**

General Manager Trading
**Stephan Boras**

General Manager Eraring Plant
**Wayne Winterbine**

General Manager Finance
**Philip Russell**

General Manager People
**Shaun Edwards**

General Manager Hydro & Wind
**John Kennedy**

Company Secretary
**Rochelle Reynolds**

IT & Telecommunications Manager
**Mark Edwards**

### Executive Environmental Committee

Meets every six weeks to review environmental audit reports, agree and monitor the implementation of actions arising from such reports, oversee the development of compliance and audit programs, set and review policy, review incidents, and develop environmental initiatives.

MEMBERS
Managing Director
**Peter Jackson**

General Manager Eraring Plant
**Wayne Winterbine**

Company Secretary
**Rochelle Reynolds**

General Manager Hydro & Wind
**John Kennedy**

Environment Manager
**Neil Williams**

Acting Manager Energy Derivatives
**Gregory Wong**

### Energy Trading Risk Management Committee

Meets weekly to review and monitor all risk issues associated with Energy Trading's business activities in the financial market, National Electricity Market (NEM), coal contracts and deliveries, and market trading IT systems and processes.

MEMBERS
Managing Director
**Peter Jackson**

General Manager Trading
**Stephan Boras**

General Manager Finance
**Philip Russell**

General Manager Eraring Plant
**Wayne Winterbine**

General Manager Hydro & Wind
**John Kennedy**

Company Secretary
**Rochelle Reynolds**

## Executive Safety Committee

Meets monthly to review and monitor the effectiveness of OHS&R management and performance, determine and implement initiatives and targets aimed at achieving best practice OHS&R in all parts of the business, and monitor compliance with all NSW Occupational Health and Safety and Workers' Compensation legislation.

MEMBERS
Managing Director
**Peter Jackson**

General Manager Eraring Plant
**Wayne Winterbine**

General Manager People
**Shaun Edwards**

General Manager Hydro & Wind
**John Kennedy**

Asset Manager
**Kate Coates**

Operations Manager
**Neil Morris**

Project Manager
**George Wells**

Administration Manager
**Antony Cotic**

Occupational Health & Safety Manager
**Steve Gambrill**

Resource Manager
**Jeff Hogan**

Chairperson Eraring Occupational Health & Safety Committee
**Keith McBurney**

Chairperson Hydro & Wind Safety Committee
**Adam Jackson**

Shift Manager on Duty

Team Leaders

## Executive Audit Committee

The Executive Audit Committee meets quarterly and provides support and advice to the Board Audit Committee by reviewing the strategic Internal Audit Plan annually, monitoring the progress of the Internal Audit Plan, reviewing audit outcomes and management responses, obtaining confirmation of implementation of management actions to address issues raised, initiating special management reviews and monitoring the performance of the auditors.

MEMBERS
Managing Director
**Peter Jackson**

Company Secretary
**Rochelle Reynolds**

General Manager Finance
**Phil Russell**

General Manager Trading
**Stephan Boras**

General Manager Eraring Plant
**Wayne Winterbine**

General Manager Hydro & Wind
**John Kennedy**

General Manager People
**Shaun Edwards**

IT & Telecommunications Manager
**Mark Edwards**

Business Risk & Assurance Manager
**Julian Gaillard**

## Executive Risk Committee

The Executive Risk Committee meets quarterly and provides support and advice to the Board Risk Committee by reviewing the alignment of the Risk Management Framework and risk profile with the Business Plan, overseeing the integration of risk management within the business, reviewing the risk profile twice a year to ensure all major risks are identified and addressed, monitoring the management of business risks and reporting on the status of actions to mitigate risks.

MEMBERS
Managing Director
**Peter Jackson**

Company Secretary
**Rochelle Reynolds**

General Manager Finance
**Phil Russell**

General Manager Trading
**Stephan Boras**

General Manager Eraring Plant
**Wayne Winterbine**

General Manager Hydro & Wind
**John Kennedy**

General Manager People
**Shaun Edwards**

IT & Telecommunications Manager
**Mark Edwards**

Business Risk & Assurance Manager
**Julian Gaillard**

## EXECUTIVE MANAGEMENT REMUNERATION AND PERFORMANCE

Contracts for all these officers provide for an at-risk payment and the Board has established a policy for the assessment of performance and the calculation of at-risk payments based on a balanced scorecard approach and the organisation's performance. The Managing Director's assessment of executive officers is reviewed by the Board Remuneration Committee and recommendations are made by that Committee to the Board.

The following specific payments were made to executives during the financial year:

| **Position/Name** (Time in Position) | **Qualifications** | **Remuneration Paid to 30/6/07** | **Performance Payment** | **Individual Performance Statement** |
|---|---|---|---|---|
| **Managing Director** Peter Jackson (Acting from 26/6/06 Appointed 11/9/06) | BSc BE, MEM GAICD | $332,594 | $75,000* | Assessed by the Board against business plan targets including financial performance, strategic advice and strategy implementation, stakeholder relationships, safety and environmental performance. |
| **General Manager Trading** Stephan Boras (All of Year) | Degree in Business Administration (Hamburg), MAICD | $272,003 | $70,000* | Assessed by the Managing Director against business plan targets including market strategy, trading performance, coal strategy purchases and other performance targets |
| **General Manager Finance** Philip Russell (All of Year) | Comm Acct Cert Dip Chartered Sec FCPA, FCIS, GAICD, MFTA, MCIPS | $230,348 | $60,000* | Assessed by the Managing Director against business plan targets including financial management and projects, stakeholder relationships and other performance targets. |

* Amount shown relates to performance payments for 2005/06 made in 2006/07. Determinations under this policy for 2006/07 will be concluded in 2007/08 and reported in the 2007/08 annual report.

## EXECUTIVE AND SENIOR OFFICERS PROFILE

The number of executives and senior officers with remuneration packages (excluding incentive payments) equal to or exceeding SES Level 1 at the end of this reporting period and comparison with the previous reporting year are disclosed below:

| | As at 30/6/06 | As at 30/6/07 |
|---|---|---|
| Number of Officers with remuneration equal to or exceeding of SES Level 1 at 30 June 2007 | 23 | 16 |
| Number of the above positions filled by women | 2 | 2 |

## PACIFIC WESTERN

Pacific Western Pty Limited is a wholly owned subsidiary of Eraring Energy incorporated under Corporations Law.

Pacific Western's operations are governed by Corporations Law, its constitution and the provisions of the Energy Services Corporations Act 1989, and State Owned Corporations Act 1995 relating to the operations of subsidiaries of state owned corporations.

Pacific Western ceased operation of Collie Power Station in Western Australia on 24 March 2005.

Following the approval of Eraring Energy's voting shareholders in May 2007, Pacific Western's Board in July 2007, resolved to voluntarily wind up the company and appoint a liquidator.

### The Board

The Board is responsible for the oversight of the management of the company in accordance with the Corporations Law, and other applicable legislation and regulations.

### Board Membership

Pacific Western's Board is comprised of non-executive directors and at present is as follows:

**Ross Bunyon,** Chairman
**Michael Vertigan,** Director
**Gerry Grove-White,** Director – resigned 15/8/06
**Peter Jackson,** Director – appointed 15/8/06
**Rochelle Reynolds,** Company Secretary
**Philip Russell,** appointed additional Company Secretary on 13/4/07

Directors have access to management and to independent advice. Such advice would normally be sought after consultation with the Chairman or Company Secretary.

### Remuneration of Directors

No remuneration is currently paid to Directors of Pacific Western.

### Changes in Board Membership

Gerry Grove-White ceased as Director on 15 August 2006.
Peter Jackson was appointed Director on 15 August 2006.

### Meetings of the Board

| Directors | Attended | Held |
|---|---|---|
| Ross Bunyon | 5 | 5 |
| Michael Vertigan | 5 | 5 |
| Gerry Grove-White | 1 | 2 |
| Peter Jackson | 3 | 3 |

## REGULATORY COMPLIANCE

### Exemptions from Reporting

The New South Wales Treasury granted approval under delegation from the Treasurer, to exempt Eraring Energy for the financial year ended 30 June 2001 and subsequent years from the following requirements:

- Budgets
- Payment of Accounts
- Time for Payment of Accounts
- Investment Management Performance
- Liability Management Performance
- Research and Development
- Land Disposal

Exemptions were also approved for the following annual reporting requirements subject to the conditions that comments and information relating to these items are disclosed in summarised form:

- Report of Operations
- Management and Activities
- Consumer Response
- Risk Management and Insurance Activities

Further exemptions were approved subject to specific conditions:

**Consultants Disclosure -** Total amount spent on consultants with a summary of the main purposes of the engagement.

**Human Resources Disclosure -** Overseas visits with the main purposes highlighted.

**Disclosure of Controlled Entities -** Name of controlled entity to be disclosed along with a summarised disclosure of the controlled entities' objectives, operations and activities and measures of performance.

**Financial Statements of Controlled Entities -** Exemption from preparing manufacturing and trading statements but required to prepare a summarised operating statement.

### Credit Card Certification

The issue and use of credit cards of Eraring Energy has been in accordance with Treasurer's Direction.

### Cost of Annual Report

Eraring Energy has produced 250 copies of the annual report in printed format at a total cost of $22,560. Eraring Energy's annual report is available on-line at **www.eraring-energy.com.au.**

### Freedom of Information

During the 2006/07 financial year Eraring Energy received one Freedom of Information application. This request was granted in full with an application fee of $30 received. No further processing costs were applicable.

This year:

- Impact of the requirements of the Act on Eraring Energy's activities was minor;
- Eraring Energy's compliance with the Freedom of Information Act did not raise any major issues;
- No inquiries were made under the Act by the Ombudsman, nor were there any appeals under the Act to the District Court or the Supreme Court.

In the 2005/06 year Eraring Energy did not receive any Freedom of Information applications.

### Legal Change

The recent changes in the regulatory environment in which participants in the National Electricity Market (the Market) operate have now been effectively implemented. The Australian Energy Regulator currently provides greater scrutiny of the Market, with a number of prosecutions and reports having already been made in relation to various participants. The Australian Energy Market Commission has also made significant changes to the National Electricity Rules, whilst the Ministerial Council of Energy continues to further evaluate a number of relevant issues, such as transmission congestion. The Eraring Energy Trading team will continue a watching brief in relation to greenhouse issues and developments.

### Promotion

Eraring Energy utilises, as required, a variety of communication vehicles to inform the public, customers and suppliers, and provides the following publications:

- Annual Reports;
- Environmental Reports;
- Environmental Policy;
- Code of Conduct;
- Health and Safety Policy;
- Brochures – Environmental
  Eraring Power Station;
- Fact Sheets – Cooling Water
  Emissions
  Land Management.

### Overseas Visits

During 2006/07 the following officers travelled overseas.

| Name/designation | Dates travelled | Destination | Purpose |
|---|---|---|---|
| **Stephan Boras**<br>General Manager Trading | 26/7/06 – 28/7/06 | Singapore | Guest speaker at CFO Asia Summit, Singapore (Reimbursement for an economy class fare by CFO Asia Summit) |
| **John Wethered**<br>Maintenance Coordinator Officer<br>**Darren Sinclair**<br>Contracts Development Officer<br>**Emily Harper**<br>Professional Officer/Electrical<br>**Ian Dawson**<br>Senior Plant Owner | 3/9/06 – 9/9/06 | New Zealand | Contract Management Benchmarking visit |
| **Ash Baweja**<br>Professional Officer/Projects<br>**Keith McBurney**<br>Senior Plant Owner<br>**Antony Cotic**<br>Contracts Development Consultant | 12/9/06 – 26/9/06 | United States of America | Contract Management Benchmarking visit |
| **Garry Craig**<br>Special Projects Manager | 4/5/07 – 21/5/07 | United States of America | Attend World Ash Conference in Covington, Kentucky, and site visits to view ash disposal management and new methods of ash recycling/reuse. |
| **John Kennedy**<br>General Manager Hydro & Wind | 14/6/07 – 15/7/07 | United Kingdom | Attend London Business School – Accelerated Development Program. |

# FINANCIAL STATEMENTS

For the year ended 30th June, 2007

| | | Consolidated | | Parent Entity | |
|---|---|---|---|---|---|
| | | **2007** | 2006 | **2007** | 2006 |
| | Note | **$'000** | $'000 | **$'000** | $'000 |
| Revenue | 2 | **848,731** | 629,794 | **848,731** | 629,794 |
| Other income, excluding fair value movements in financial instruments | 2 | **5,904** | 2,908 | **5,900** | 2,886 |
| Finance costs | 3 | **(14,663)** | (15,718) | **(14,678)** | (15,768) |
| Other expenses, excluding actuarial superannuation gains/(losses) and insurance provision gains/(losses) | | **(652,237)** | (520,017) | **(648,552)** | (519,772) |
| **Profit before income tax, actuarial superannuation gains, financial instrument fair value movements and insurance provision gains/(losses)** | | **187,735** | 96,967 | **191,401** | 97,140 |
| Income tax on profit before actuarial superannuation gains, financial instrument fair value movements and insurance provision gains/(losses) | 4 | **(56,156)** | (29,129) | **(57,256)** | (29,070) |
| **Profit after tax on underlying operations and before superannuation gains, financial instrument fair value movements and insurance provision gains/(losses)** | | **131,579** | 67,838 | **134,145** | 68,070 |
| Superannuation actuarial gains | 2 | **17,341** | 23,385 | **17,341** | 23,385 |
| Gain on fair value movement in financial instruments | 2 | **4,871** | 30,242 | **4,871** | 30,242 |
| Insurance provision gains/(losses) | 2/3 | **(2,075)** | 42,213 | **(2,075)** | 42,213 |
| Income tax on superannuation actuarial gains, financial instrument fair value movements and insurance provision gains/(losses) | 4 | **(6,041)** | (28,752) | **(6,041)** | (28,752) |
| **Net profit for the period** | 21 | **145,675** | 134,926 | **148,241** | 135,158 |

The above income statement should be read in conjunction with the accompanying notes

As at 30th June, 2007

| | | Consolidated | | Parent Entity | |
|---|---|---|---|---|---|
| | | **2007** | 2006 | **2007** | 2006 |
| | Note | **$'000** | $'000 | **$'000** | $'000 |
| **Current Assets** | | | | | |
| Cash and cash equivalents | 5 | **2,990** | 2,579 | **2,644** | 2,499 |
| Receivables | 6 | **466,879** | 76,671 | **466,878** | 73,952 |
| Investments | 7 | **-** | 670 | **-** | 670 |
| Inventories | 8 | **18,388** | 24,159 | **18,388** | 24,159 |
| Electricity derivatives | 10 | **43,949** | 14,776 | **43,949** | 14,776 |
| Assets held for sale | 11 | **2,586** | - | **2,586** | - |
| Other current assets | 12 | **17,818** | 4,503 | **17,818** | 4,503 |
| **Total Current Assets** | | **552,610** | 123,358 | **552,263** | 120,559 |
| **Non-Current Assets** | | | | | |
| Intangible assets | 9 | **7,747** | 6,133 | **7,747** | 6,133 |
| Property, plant and equipment | 14 | **1,948,328** | 1,393,933 | **1,948,328** | 1,393,933 |
| Investment properties | 15 | **7,586** | - | **7,586** | - |
| Deferred tax assets | 4 | **405,299** | 38,541 | **405,299** | 38,541 |
| Electricity derivatives | 10 | **37** | 9,415 | **37** | 9,415 |
| **Total Non-Current Assets** | | **2,368,997** | 1,448,022 | **2,368,997** | 1,448,022 |
| **Total Assets** | | **2,921,607** | 1,571,380 | **2,921,260** | 1,568,581 |
| **Current Liabilities** | | | | | |
| Payables | 16 | **405,341** | 44,724 | **405,341** | 44,595 |
| Interest bearing liabilities | 17 | **76,800** | 17,340 | **77,183** | 17,966 |
| Current tax liabilities | 4 | **37,358** | 17,026 | **37,358** | 17,026 |
| Provisions | 18 | **151,712** | 61,134 | **151,012** | 61,134 |
| Electricity derivatives | 19 | **967,769** | 79,497 | **967,769** | 79,497 |
| Other current liabilities | 20 | **-** | 5,753 | **-** | 5,753 |
| **Total Current Liabilities** | | **1,638,980** | 225,474 | **1,638,663** | 225,971 |
| **Non-Current Liabilities** | | | | | |
| Interest bearing liabilities | 17 | **218,066** | 195,214 | **218,066** | 195,214 |
| Deferred tax liabilities | 4 | **270,608** | 94,605 | **270,608** | 94,605 |
| Provisions | 18 | **26,175** | 23,584 | **26,175** | 23,584 |
| Electricity derivatives | 19 | **387,774** | 40,675 | **387,774** | 40,675 |
| **Total Non-Current Liabilities** | | **902,623** | 354,078 | **902,623** | 354,078 |
| **Total Liabilities** | | **2,541,603** | 579,552 | **2,541,286** | 580,049 |
| **Net Assets** | | **380,004** | 991,828 | **379,974** | 988,532 |
| **Equity** | | | | | |
| Contributed equity | 21 | **646,481** | 830,481 | **646,481** | 830,481 |
| Reserves | 21 | **(320,284)** | 121,084 | **(320,284)** | 121,084 |
| Retained profits | 21 | **53,807** | 40,263 | **53,777** | 36,967 |
| **Total Parent Entity Interest** | | **380,004** | 991,828 | **379,974** | 988,532 |
| **Total Equity** | | **380,004** | 991,828 | **379,974** | 988,532 |

The above balance sheet should be read in conjunction with the accompanying notes

For the year ended 30th June, 2007

| | Note | Consolidated 2007 $'000 Inflows (Outflows) | Consolidated 2006 $'000 Inflows (Outflows) | Parent Entity 2007 $'000 Inflows (Outflows) | Parent Entity 2006 $'000 Inflows (Outflows) |
|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | |
| Cash received in the course of operations | | **513,703** | 717,947 | **513,703** | 717,920 |
| Interest and bill discount received | | **2,505** | 173 | **2,502** | 170 |
| Cash paid in the course of operations | | **(255,160)** | (527,984) | **(253,684)** | (527,674) |
| GST refunded | | **(33,776)** | (23,218) | **(34,156)** | (22,636) |
| Interest and other finance costs paid | | **(16,101)** | (16,453) | **(16,117)** | (16,503) |
| Income tax paid | | **(43,463)** | (25,853) | **(43,463)** | (25,407) |
| **Net cash inflow from operating activities** | 5 | **167,708** | 124,612 | **168,785** | 125,870 |
| **Cash flows from investing activities** | | | | | |
| Proceeds from sale of equipment | | **512** | 576 | **512** | 576 |
| (Purchases of) / proceeds from sale of investments | | **670** | 1,255 | **670** | 1,255 |
| Payments for property, plant & equipment | | **(27,707)** | (43,078) | **(27,707)** | (43,078) |
| **Net cash (outflow) from investing activities** | | **(26,525)** | (41,247) | **(26,525)** | (41,247) |
| **Cash flows from financing activities** | | | | | |
| Proceeds from borrowings | | **554,579** | 700,269 | **554,579** | 700,269 |
| Repayment of borrowings | | **(654,031)** | (699,169) | **(654,031)** | (699,169) |
| (Repayment) / borrowing of loan by related parties | | **-** | - | **(1,343)** | (1,299) |
| Dividend paid | | **(41,320)** | (82,327) | **(41,320)** | (82,327) |
| **Net cash (outflow) from financing activities** | | **(140,772)** | (81,227) | **(142,115)** | (82,526) |
| Net increase / (decrease) in cash and cash equivalents | | **411** | 2,138 | **145** | 2,097 |
| Cash and cash equivalents at the beginning of the financial year | | **2,579** | 441 | **2,499** | 402 |
| **Cash and cash equivalents at the end of the financial year** | 5 | **2,990** | 2,579 | **2,644** | 2,499 |

The above cash flow statement should be read in conjunction with the accompanying notes

For the year ended 30th June, 2007

| | | Consolidated | | Parent Entity | |
|---|---|---|---|---|---|
| | | **2007** | 2006 | **2007** | 2006 |
| | Note | **$'000** | $'000 | **$'000** | $'000 |
| Total equity at the beginning of the financial year | | **909,235** | 1,035,578 | **905,939** | 1,032,049 |
| Effect of prior period adjustments | | | | | |
| Electricity derivatives valuation method | | **103,789** | 117,364 | **103,789** | 117,364 |
| Insurance provision settlement method | | **14,200** | - | **14,200** | - |
| Related tax effect | | **(35,396)** | (35,209) | **(35,396)** | (35,209) |
| Total restated equity at the beginning of the financial year | | **991,828** | 1,117,733 | **988,532** | 1,114,204 |
| Net asset revaluation increment | | **412,945** | - | **412,945** | - |
| Adjustment on initial and subsequent adoption of AASB139 net of tax, to: | | | | | |
| Retained earnings | | **-** | (106,558) | **-** | (106,558) |
| Hedging reserve | 21 | **(854,313)** | (63,953) | **(854,313)** | (63,953) |
| **Net income recognised directly in equity** | | **(441,368)** | (170,511) | **(441,368)** | (170,511) |
| **Profit after tax for the year** | | **145,675** | 134,926 | **148,241** | 135,159 |
| **Total recognised income and expense for the year** | | **(295,693)** | (35,585) | **(293,127)** | (35,352) |
| Dividends provided for | | **(132,131)** | (41,320) | **(131,431)** | (41,320) |
| Equity repayment | | **(184,000)** | (49,000) | **(184,000)** | (49,000) |
| | | **(316,131)** | (90,320) | **(315,431)** | (90,320) |
| **Total equity at the end of the financial year** | 21 | **380,004** | 991,828 | **379,974** | 988,532 |

The above statement of changes in equity should be read in conjunction with the accompanying notes

## CORPORATE INFORMATION

The financial report of Eraring Energy for the year ended 30 June 2007 was authorised for issue in accordance with a resolution of the Directors on 18th September 2007.

Eraring Energy is a for-profit entity.

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of Preparation

The financial report is a general purpose financial report prepared in accordance with the provisions of the Public Finance and Audit Act, 1983 and Public Finance and Audit Regulation, 2005, Australian Accounting Standards, and the requirements of the State Owned Corporations Act, 1989.

The financial report has been prepared on the basis of historical cost except for property, plant and equipment, intangible assets, investment property, assets held for sale, New South Wales Greenhouse Abatement Certificates (NGAC's) and derivative financial instruments, which have been accounted for at fair value. Cost is based on the fair values of the consideration given in exchange for assets. The accounting policies have been consistently applied by each entity in the consolidated entity.

Despite current liabilities exceeding current assets at balance date, Eraring Energy is able to pay its debts as and when they fall due owing to Public Authorities Financial Arrangements Act approved facilities with NSW Treasury Corporation including a working capital facility that allows Eraring Energy to hold minimum cash and investment balances.

### (b) Statement of Compliance

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

### (c) Basis of Consolidation

The financial statements of Eraring Energy and its controlled entity are consolidated in compliance with AASB 127 *Consolidated and Separate Financial Statements.* The consolidated financial report combines the financial report of Eraring Energy and its controlled entity, Pacific Western Pty Limited.

In preparing the consolidated financial statements, any inter-company balances and transactions, income and expenses and profits and losses resulting from intra-group transactions have been eliminated in full.

Eraring Energy guarantees the performance of Pacific Western.

### (d) Property, Plant and Equipment

Power station asset values are reviewed annually and independent valuations are obtained at least every five years for power station assets, land and buildings. All asset lives are reviewed on an annual basis.

The fair value of non-current assets is determined in accordance with AASB116 *Property, Plant and Equipment,* AASB136 *Impairment of Assets* and NSW Treasury Accounting policy on *Valuation of Physical Non-Current Assets at Fair Value.*

Fair value is determined using the lower of the depreciated optimised replacement cost and market selling price or value in use. The value in use is the net cash flows arising from its continued use and subsequent disposal, discounted to present value using Eraring Energy's weighted average cost of capital. The valuation methodology uses a discounted cash flow of existing contracts and the forecast contract and spot price of electricity referencing external forward price curves, together with internal assumptions for the remaining residual lives of generating plant.

Assets that form part of a cash generating unit also need to be written down where the recoverable amount is lower than its carrying amount. The recoverable amount of specialised assets that form part of a cash generating unit, in the absence of a market selling price, is the value in use.

The three cash generating units identified in Eraring Energy is a combined Eraring Power Station and Hydro portfolio, as well as Blayney Wind Farm and Crookwell Wind Farm.

Any revaluation surplus is credited to the asset revaluation reserve included in the equity section of the balance sheet unless it reverses a revaluation decrease of the same asset previously recognised in the income statement.

Any revaluation deficit is recognised in the income statement unless it directly offsets a previous surplus of the same asset in the particular asset revaluation reserve.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is able to be restated proportionately where the change in the gross carrying amount of the asset after revaluation equals its revalued amount.

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. Impairment losses are recognised in the income statement. However, any impairment is debited directly to equity to the extent of any credit balance existing in the revaluation reserve in respect of that asset.

The purchase method of accounting is used for all acquisition of assets. Cost is measured as the fair value of the assets given up or liabilities undertaken at the date of acquisition plus incidental costs directly attributable to the acquisition.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year the item is derecognised.

The replacement cost of a part of an item of property, plant and equipment is recognised in the carrying amount of an item of property, plant and equipment. The cost of the replaced part of the item is then derecognised. The gain or loss arising from the de-recognition of the replaced part of an item of property, plant and equipment is included in the income statement in the year the item is de-recognised.

#### (e) Depreciation of Property, Plant and Equipment

Depreciation is calculated on a straight line basis over the estimated useful life of the asset as follows:

| | |
|---|---|
| Buildings – Power Stations | Up to 50 years |
| Buildings – Other | Up to 40 years |
| Plant and Equipment – Power Stations | Up to 50 years |
| Plant and Equipment – Other | Up to 10 years |
| Leasehold Improvements | 10 years |

Component parts of power stations may have different asset lives.

Major spares purchased specifically for particular plant are capitalised and depreciated on the same basis as the plant to which they relate.

#### (f) Intangible Assets

Intangible assets acquired separately are capitalised at cost. The useful lives of these intangible assets are assessed to be finite.

Where amortisation is charged on assets, this expense is taken to the income statement.

Intangible assets are tested for impairment where an indicator of impairment exists. Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

#### (g) Foreign Currency Translation

Foreign currency transactions are initially translated into Australian currency at the rate of exchange at the date of the transaction. Foreign currency monetary items outstanding at balance date have been converted to Australian dollars using the exchange rate current at that date. Exchange differences relating to monetary items have been brought to account as exchange gains or losses in determining the profit or loss for the year.

Eraring will seek to qualify forward foreign exchange contracts as a cash flow hedge with the effective portion of the hedging instrument to be recognised directly in equity and any ineffective portion through the income statement. Any deferred gains or losses will be included in the measurement of the purchase or sale when it takes place.

In the event of the early termination of a foreign currency hedge of an anticipated purchase or sale of goods and services, the deferred gains and losses that arose on the foreign exchange contract prior to its termination are:

- Deferred and included in the measurement of the purchase or sale when it takes place, where the anticipated transaction is still expected to occur; or
- Recognised in the income statement at the date of termination, if the anticipated transaction is no longer expected to occur.

#### (h) Interest Rate Contracts

Gains and losses on forward interest rate contracts are deferred and amortised over the period of the underlying borrowing. Gains and losses on interest rate swaps are included in the determination of interest expense.

#### (i) Derivative Financial Instruments

The consolidated entity is exposed to changes in interest rates, foreign exchange rates and commodity prices from its activities. The consolidated entity uses the following derivative financial instruments to manage these risks: interest rate swaps, forward rate agreements, interest rate options, forward foreign exchange contracts and electricity derivative contracts. Derivative instruments are not held for speculative purposes.

Derivatives are classified as either “held for trading” or designated as hedges. Eraring Energy hedges its physical generation output to ensure revenue certainty. It does not have a proprietary trading book and any “held for trading” contracts are the result of volume optionality and where contracts have been purchased to cover plant outage positions. Eraring Energy will seek to qualify most electricity derivatives as cash flow hedges, where the gain or loss on the hedging instrument is recognised directly in equity or through the income statement. Derivatives that are designated as “held for trading” are fair valued with changes recognised in the income statement. To qualify for hedge accounting, Eraring Energy designates the derivative contracts within the guidelines of AASB139 and performs initial prospective testing and annual retrospective and prospective testing.

### (j) Liability Management

Eraring Energy actively manages its liabilities against a benchmark in accordance with Board approved policies and the Treasury Management Guidelines issued by New South Wales Treasury. Eraring's debt book contains a core debt portfolio, a value add portfolio and a working capital portfolio. The core debt portfolio contains financial instruments held to maturity where accounting is maintained at historical cost and deferred off balance sheet. The value add portfolio uses trading instruments to adjust modified duration levels with fair value movements taken to the income statement. The working capital portfolio is made up of Come & Go and New South Wales Treasury Corporation (TCorp) short term loans of maturity less than six months. These are fair valued with movements taken to the income statement.

### (k) Borrowing Costs

Borrowing costs directly attributable to projects under construction spanning a 12 month period and land held for resale are capitalised as part of the cost of those assets.

### (l) Discount and Premium on Loans

Discount and premium on loans is treated as an adjustment to the cost of borrowing which is amortised over the term of the loans, the amortisation amount applicable to each year being included as interest income/ expense in the income statement as part of Eraring Energy's borrowing costs for that year.

### (m) Revenue Recognition

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

#### Sale of Electricity

Revenue from the sale of electricity is recognised based on metered energy sent out from generation facilities adjusted for transmission line losses at the regional reference node.

#### Sale of Non-Current Assets

The gross proceeds of non-current asset sales are included as revenue at the date control of the asset passes to the buyer, usually when settlement of an unconditional contract takes place. The gain or loss on disposal is the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal. The carrying amount of the asset is written off.

#### Interest Revenue

Interest revenue is recognised as it accrues.

### (n) Segment Reporting

Eraring Energy operates predominantly in one business segment, that being electricity generation, and within one geographical segment, that being Australia.

### (o) Inventories

Inventories are measured at the lower of cost and net realisable value in accordance with AASB 102 *Inventories.* Costs have been assigned to inventory quantities on hand at balance date using the weighted average cost method.

### (p) Leases

Eraring Energy's operating lease payments are charged to expense in the periods in which they are incurred, as this represents the pattern of benefits derived from the leased assets.

### (q) Insurance

Eraring Energy has external insurances in place. The majority of these policies carry a significant excess. The corporation is a self-insurer for certain risks and is responsible for the portion of risk applicable below the external insurance excess.

### (r) Income Tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

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

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

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

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

Eraring Energy and its wholly owned entity have formed a tax-consolidated group with effect from 1 July 2006 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Eraring Energy.

The head entity, in conjunction with the other member of the tax-consolidated group, has entered into a tax funding arrangement which sets out the funding obligations of members of the tax-consolidated group in respect of tax amounts. The tax funding arrangements require payments to/from the head entity equal to the current tax liability (asset) assumed by the head entity and any tax-loss deferred tax asset assumed by the head entity, resulting in the head entity recognising an inter-entity receivable (payable) equal in amount to the tax liability (asset) assumed. The inter-entity receivable (payable) are due and payable on demand, or otherwise agreed between members of the tax-consolidated group.

Eraring Energy recognises deferred tax assets arising from unused tax losses of the tax-consolidated group to the extent that it is probable that future taxable profits of the tax-consolidated group will be available against which the asset can be utilised.

### (s) Employee Benefits

Eraring Energy's present obligation in respect of employee benefits, namely salaries, wages and annual leave, are recorded as liabilities, having been calculated at nominal amounts based on remuneration rates that are expected to be paid including related on-costs.

For long service leave, the liability has been determined using an actuarial method of calculation, and represents the present value of estimated future cash outflows in respect of long service leave, after taking into account projected remuneration increases and related on-costs.

Actuarial gains and losses on defined benefits superannuation plans are recognised in the income statement in the year they occur.

### (t) Leasehold Improvements

The cost of improvements to or on leasehold properties is amortised over the unexpired period of the lease or the estimated useful life of the improvement to the consolidated entity, whichever is the shorter.

### (u) Payables

Liabilities are recognised for amounts to be paid in the future for goods and services received. Trade accounts payable are normally settled within 30 days. Payables in the balance sheet represent the principal amounts outstanding at balance date plus any accrued interest.

### (v) Rounding of Amounts

Amounts shown in these financial statements have been rounded to the nearest thousand dollars, unless otherwise stated.

### (w) Receivables

Trade accounts receivable, amounts due from related parties and other receivables represent the principal amounts due at balance date plus, where applicable, accrued interest and less any unearned income and provisions for doubtful accounts. Trade debtors are generally settled within 30 days.

### (x) Investment Property

Investment properties comprise freehold land determined as surplus to business needs. Investment properties are recognised at fair value. An external independent valuer, having appropriate recognised professional qualification and recent experience in the category of property being valued, determined the fair value at balance date.

The fair value represents the amount at which assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction at the date of valuation.

Gains or losses arising from changes in the fair values of investment properties are recognised in the income statement in the year in which they arise.

Investment properties are derecognised either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the year of retirement or disposal.

Transfers are made from investment property when there is a change in use, evidenced by commencement of owner-occupation or commencement of the sales process.

### (y) Assets Held for Sale

Freehold land is presented as held for sale following the decision to sell a property within twelve months.

### (z) New Accounting Standards

Certain new accounting standards have been published that are not mandatory for 30 June 2007 reporting periods. Eraring Energy has not early adopted these standards, and its assessment of the impact of these new standards is set out below:

**AASB 7 *Financial Instruments: Disclosures* and AASB 2005-10 *Amendments to Australian Accounting Standards* [AASB 1, AASB 4, AASB 101, AASB 114, AASB 117, AASB 132, AASB 133, AASB 139, AASB 1023 and AASB 1038]**

AASB 7 and AASB 2005-10 are applicable to annual reporting periods beginning on or after 1 January 2007. Application of the standards will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to Eraring Energy's financial instruments.

**AASB 2007-1 *Amendments to Australian Accounting Standards arising from* AASB *Interpretation* 11 [AASB 2]**

AASB 2007-1 applies to annual reporting periods beginning on or after 1 March 2007. This standard does not impact Eraring Energy, as it does not make share-based payments to directors or officers.

**AASB 2007-3 *Amendments to Australian Accounting Standards arising from* AASB 8 [AASB 5, AASB 6, AASB 102, AASB 107, AASB 119, AASB 127, AASB 134, AASB 136, AASB 1023 and AASB 1038]**

AASB 2007-3 applies to annual reporting periods beginning on or after 1 January 2009. This standard makes amendments to several standards relating to segment reporting, which is not applicable to Eraring Energy. Refer to Note 1 (n) for further information.

**AASB 2007-4 *Amendments to Australian Accounting Standards arising from* ED 151 *and Other Amendments* [AASB 1, AASB 2, AASB 3, AASB 4, AASB 5, AASB 6, AASB 7, AASB 102, AASB 107, AASB 108, AASB 110, AASB 112, AASB 114, AASB 116, AASB 117, AASB 118, AASB 119, AASB 120, AASB 121, AASB 127, AASB 128, AASB 129, AASB 130, AASB 131, AASB 132, AASB 133, AASB 134, AASB 136, AASB 137, AASB 138, AASB 139, AASB 141, AASB 1023 and AASB 1038]**

AASB 2007-4 applies to annual reporting periods beginning on or after 1 July 2007. This standard amends a variety of standards, so as to include options currently available under IFRS. These changes are not expected to have a material impact on the financial statements of Eraring Energy.

**(aa) Comparative Restatements**

The comparative information contained in these financial statements relating to the year ended 30th June 2006 has been adjusted.

**Intangible Assets**

Intangible assets were treated as current assets in the balance sheet in the financial statements for 2006. In 2007, intangible assets have been reclassified as non-current. This basis of presentation has been used in amending the comparative figures for 2006.

**Insurance Claims Settlements**

The process of settling dust disease claims has changed as a result of recently introduced legislation. Under the new legislation, all co-defendants join the claim up-front, with settlement now taking place on an actual liability apportionment basis. As a result, there is now a net liability, rather than separate grossed up liabilities and assets for future insurance recoveries in the balance sheet. The comparatives for 2006 have been restated in line with the new settlement process, leaving Eraring Energy with a net liability provision in the balance sheet.

**Property, Plant and Equipment Valuation**

Eraring Energy has adopted the gross restatement method to recognise the change in asset value as a result of the revaluation of property, plant and equipment. The comparatives for 2006 have not been restated in accordance with this methodology, as the relevant information is not readily available.

**(ab) Change in Accounting Policy**

**Fair Value Derivative Measurement**

Eraring Energy has amended its valuation methodology for long dated contracts following external accounting advice. This advice recommended changing the valuation methodology given the characteristics of the contracts were similar to longer term, high volume smelter contracts. Previously, fair value was calculated using external forward price curves. This method did not reflect the economic reality of these derivative contracts. An input cost plus margin model has been adopted, and has been used in determining the fair value of these derivatives in 2007, with the comparatives for 2006 being restated in accordance with this change in measurement basis.

This accounting change resulted in an increase in electricity derivative assets of $7,609,523 (2006 - $13,157,956), a decrease in electricity derivative liabilities of $100,168,456 (2006 - $90,630,793), an increase in mark to market fair value movements recognised as revenue and/or decrease in mark to market fair value movements recognised as expense in the income statement of $107,777,979 (2006 - $13,574,793 decrease in revenue) and a net increase in retained earnings in 2006 of $103,788,749. As a consequence of the above adjustment, tax effect accounting changed with tax expense increasing by $32,333,394 (2006 - $4,072,438 decrease).

| | Consolidated 2007 $'000 | Consolidated 2006 $'000 | Parent Entity 2007 $'000 | Parent Entity 2006 $'000 |
|---|---|---|---|---|
| **NOTE 2 REVENUE** | | | | |
| **From continuing operations** | | | | |
| **Sales revenue** | | | | |
| Electricity sales | **848,731** | 629,794 | **848,731** | 629,794 |
| **Other income** | | | | |
| Interest received | **2,883** | 173 | **2,879** | 170 |
| Community Service Obligation - NSW Treasury | **70** | 60 | **70** | 60 |
| Miscellaneous | **2,947** | 2,675 | **2,947** | 2,656 |
| Net gain on disposal of assets | **4** | - | **4** | - |
| | **5,904** | 2,908 | **5,900** | 2,886 |
| Defined benefits superannuation income | **17,341** | 23,385 | **17,341** | 23,385 |
| Fair value movement in electricity derivatives | **4,871** | 30,242 | **4,871** | 30,242 |
| Insurance provision adjustment income | **-** | 42,213 | **-** | 42,213 |
| **Total revenue** | **876,847** | 728,542 | **876,843** | 728,520 |

**NOTE 3 EXPENSES**

| | Consolidated 2007 $'000 | Consolidated 2006 $'000 | Parent Entity 2007 $'000 | Parent Entity 2006 $'000 |
|---|---|---|---|---|
| **Profit before income tax includes the following specific expenses:** | | | | |
| **Depreciation:** | | | | |
| Buildings | **750** | 735 | **750** | 735 |
| Plant and equipment | **66,841** | 63,296 | **66,841** | 63,296 |
| Leasehold improvements | **78** | 66 | **78** | 66 |
| Depreciated value of assets written off | **318** | 2,139 | **318** | 2,139 |
| **Amortisation:** | | | | |
| Intangibles | **1,992** | 2,810 | **1,992** | 2,810 |
| | **69,979** | 69,046 | **69,979** | 69,046 |
| Net loss on disposal of assets | **-** | 48 | **-** | 48 |
| **Finance costs:** | | | | |
| Interest and finance charges paid/payable | **15,505** | 16,159 | **15,520** | 16,209 |
| Interest capitalised | **(842)** | (441) | **(842)** | (441) |
| | **14,663** | 15,718 | **14,678** | 15,768 |
| **Operating lease rentals:** | | | | |
| Minimum lease payments | **471** | 400 | **471** | 400 |
| Insurance provision adjustment expense | **2,075** | - | **2,075** | - |
| Consultants | **324** | 155 | **324** | 155 |
| Employee benefits expense | **48,790** | 45,810 | **48,790** | 45,770 |
| Electricity Tariff Equalisation Fund | **32,617** | - | **32,617** | - |

**Consultants**

Expenditure on consultants totalled $323,581 (2006 - $154,969). The engagements related to the provision of corporate governance, tax and accounting advice.

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **$'000** | $'000 | **$'000** | $'000 |
| **NOTE 4 INCOME TAX** | | | | |
| **Major components of tax expense (income) include:** | | | | |
| **Income Statement** | | | | |
| **Current income tax** | | | | |
| Current tax expense | **64,909** | 34,729 | **64,909** | 34,729 |
| Current tax expense (revenue) relating to current tax losses of subsidiary | **(879)** | - | **-** | - |
| Adjustment in respect of current income tax of previous years | **(15)** | 11 | **(15)** | - |
| **Deferred income tax** | | | | |
| Tax expense (revenue) relating to the origination and reversal of temporary differences | **(1,597)** | 23,141 | **(1,597)** | 23,093 |
| Tax expense (revenue) relating to the non-recognition of temporary differences | **(221)** | - | **-** | - |
| Income tax expense reported on the income statement | **62,197** | 57,881 | **63,297** | 57,822 |
| **Explanation of the relationship between tax expense and accounting profit** | | | | |
| Accounting profit | **207,872** | 192,807 | **211,538** | 192,980 |
| Income tax at the statutory income tax rate of 30% | **62,361** | 57,842 | **63,461** | 57,894 |
| Expenditure not allowable for income tax purposes | **12** | 110 | **12** | 23 |
| Expenditure deductible for income tax purposes | **(168)** | (95) | **(168)** | (95) |
| Adjustment in respect of current income tax of previous years | **(8)** | 11 | **(8)** | - |
| Tax loss derecognised | **-** | 13 | **-** | - |
| Tax expense reported in the income statement | **62,197** | 57,881 | **63,297** | 57,822 |
| **Deferred tax recognised directly in equity** | | | | |
| Relating to fair value of electricity derivatives | **366,134** | 37,867 | **366,134** | 37,867 |
| Relating to revaluation of property, plant and equipment | **(176,977)** | - | **(176,977)** | - |
| | **189,157** | 37,867 | **189,157** | 37,867 |
| **Current tax liabilities** | | | | |
| Income tax payable | **37,358** | 17,026 | **37,358** | 17,026 |

| | Balance Sheet | | Recognised in Income | | Recognised in Equity | |
|---|---|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 | **2007** | 2006 |
| | **$'000** | $'000 | **$'000** | $'000 | **$'000** | $'000 |
| **NOTE 4 INCOME TAX (CONTINUED)** | | | | | | |
| **The amount of the deferred tax assets and liabilities recognised in the balance sheet and the resultant impact on income tax expense** | | | | | | |
| **Parent Entity** | | | | | | |
| **Deferred income tax liabilities** | | | | | | |
| Property, plant and equipment | **(255,183)** | (85,386) | **5,297** | 2,401 | **(175,094)** | - |
| Fuel purchases | **(5,060)** | (6,989) | **1,929** | 5,970 | **-** | - |
| Insurance recoveries | **(703)** | (1,056) | **353** | (51) | **-** | - |
| Accrued interest income | **(113)** | (19) | **(94)** | (19) | **-** | - |
| Capitalised interest | **(1,359)** | (1,155) | **(204)** | (87) | **-** | - |
| Investment properties | **(2,851)** | - | **(968)** | - | **(1,883)** | - |
| Recognition of NGACs* | **(511)** | - | **(511)** | - | **-** | - |
| Employer superannuation receivable | **(4,828)** | - | **(4,828)** | - | **-** | - |
| **Gross deferred income tax liabilities** | **(270,608)** | (94,605) | | | | |
| Deferred income tax charge | | | **974** | 8,214 | **(176,977)** | - |
| *New South Wales Greenhouse Abatement Certificates | | | | | | |
| | | | | | | |
| **Deferred income tax assets** | | | | | | |
| Employee leave entitlements | **5,296** | 4,905 | **390** | 230 | **-** | - |
| Employer superannuation liabilities | **-** | 375 | **(375)** | (7,016) | **-** | - |
| Insurance provision | **3,790** | 3,477 | **313** | (15,778) | **-** | - |
| Staff at-risk bonuses | **282** | 298 | **(16)** | 40 | **-** | - |
| Provision for doubtful debts | **39** | 35 | **4** | (4) | **-** | - |
| Business development costs | **1,131** | 604 | **527** | 313 | **-** | - |
| Fair value assessment of electricity derivatives | **393,467** | 28,794 | **(1,461)** | (9,073) | **366,134** | 37,867 |
| Software expenditure | **32** | 35 | **(3)** | (22) | **-** | - |
| Low value asset pool | **26** | 18 | **8** | 3 | **-** | - |
| Litigation settlement expenditure | **287** | - | **287** | - | **-** | - |
| Electricity futures | **728** | - | **728** | - | **-** | - |
| Subsidiary tax losses | **221** | - | **221** | - | **-** | - |
| **Gross deferred income tax assets** | **405,299** | 38,541 | | | | |
| Deferred income tax charge | | | **623** | (31,307) | **366,134** | 37,867 |
| | | | | | | |
| **Consolidated Entity** | | | | | | |
| **Deferred income tax liabilities** | | | | | | |
| Property, plant and equipment | **(255,183)** | (85,386) | **5,297** | 2,401 | **(175,094)** | - |
| Fuel purchases | **(5,060)** | (6,989) | **1,929** | 5,970 | **-** | - |
| Insurance recoveries | **(703)** | (1,056) | **353** | (51) | **-** | - |
| Accrued interest income | **(113)** | (19) | **(94)** | (19) | **-** | - |
| Capitalised interest | **(1,359)** | (1,155) | **(204)** | (87) | **-** | - |
| Investment properties | **(2,851)** | - | **(968)** | - | **(1,883)** | - |
| Recognition of NGACs | **(511)** | - | **(511)** | - | **-** | - |
| Employer superannuation receivable | **(4,828)** | - | **(4,828)** | - | **-** | - |
| **Gross deferred income tax liabilities** | **(270,608)** | (94,605) | | | | |
| Deferred income tax charge | | | **974** | 8,214 | **(176,977)** | - |

For the year ended 30th June, 2007

| | Balance Sheet | | Recognised in Income | | Recognised in Equity | |
|---|---|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 | **2007** | 2006 |
| | **$'000** | $'000 | **$'000** | $'000 | **$'000** | $'000 |
| **NOTE 4 INCOME TAX (CONTINUED)** | | | | | | |
| **Deferred income tax assets** | | | | | | |
| Employee leave entitlements | **5,296** | 4,905 | **390** | 214 | **-** | - |
| Employer superannuation liabilities | **-** | 375 | **(375)** | (7,016) | **-** | - |
| Insurance provision | **3,790** | 3,477 | **313** | (15,778) | **-** | - |
| Voluntary redundancies | **-** | - | **-** | (27) | **-** | - |
| Staff at-risk bonuses | **282** | 298 | **(16)** | 40 | **-** | - |
| Provision for doubtful debts | **39** | 35 | **4** | (4) | **-** | - |
| Business development costs | **1,131** | 604 | **527** | 313 | **-** | - |
| Fair value assessment of electricity derivatives | **393,467** | 28,794 | **(1,461)** | (9,073) | **366,134** | 37,867 |
| Software expenditure | **32** | 35 | **(3)** | (22) | **-** | - |
| Low value asset pool | **26** | 18 | **8** | 3 | **-** | - |
| Litigation settlement expenditure | **287** | - | **287** | - | **-** | - |
| Electricity futures | **728** | - | **728** | - | **-** | - |
| Subsidiary tax losses | **221** | - | **221** | - | **-** | - |
| Miscellaneous expenditure | **-** | - | **-** | (5) | **-** | - |
| **Gross deferred income tax assets** | **405,299** | 38,541 | | | | |
| Deferred income tax charge | | | **623** | (31,355) | **366,134** | 37,867 |

| | 2007 | 2006 |
|---|---|---|
| | **$'000** | $'000 |
| **Unrecognised deferred tax assets** | | |
| Pacific Western tax losses | **-** | 13 |

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **$'000** | $'000 | **$'000** | $'000 |
| **NOTE 5 CASH AND CASH EQUIVALENTS** | | | | |
| Cash at bank and on hand | **2,990** | 2,579 | **2,644** | 2,499 |
| Reconciliation of profit from ordinary activities after income tax expense to net cash provided by operating activities: | | | | |
| Profit from ordinary activities after income tax expense | **145,675** | 134,926 | **148,241** | 135,158 |
| Add/(less): | | | | |
| (Profit)/loss on repayment of borrowings | **(21)** | (4) | **(21)** | (4) |
| Amortisation of fixed interest borrowings | **(2,214)** | (2,478) | **(2,214)** | (2,478) |
| Provision for doubtful debts | **12** | (12) | **12** | (12) |
| (Profit)/loss on sale of property, plant and equipment | **(4)** | 48 | **(4)** | 48 |

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **$'000** | $'000 | **$'000** | $'000 |
| **NOTE 5 CASH AND CASH EQUIVALENTS (CONTINUED)** | | | | |
| Add/(less): Non-cash items | | | | |
| Depreciation | **67,669** | 64,097 | **67,669** | 64,097 |
| Amortisation of intangibles | **1,992** | 2,810 | **1,992** | 2,810 |
| AIFRS adjustments | **-** | (63,444) | **-** | (63,444) |
| Depreciation on assets written off and sold | **318** | 2,139 | **318** | 2,139 |
| Asset revaluation - land | **(3,226)** | - | **(3,226)** | - |
| Movement on derivative contracts | **(4,871)** | (30,242) | **(4,871)** | (30,242) |
| Increase/(decrease) in income tax payable | **19,835** | 31,979 | **19,835** | 32,414 |
| Increase/(decrease) in accrued interest expense | **780** | 1,721 | **780** | 1,721 |
| Net cash provided by operating activities before changes in assets and liabilities | **225,945** | 141,540 | **228,511** | 142,207 |
| Net changes in assets and liabilities during the financial year: | | | | |
| (Increase)/decrease in receivables | **1,380** | 25 | **(238)** | 25 |
| (Increase)/decrease in other debtors | **(393,734)** | (21,545) | **(393,734)** | (21,545) |
| (Increase)/decrease in inventories | **5,771** | 20,043 | **5,771** | 20,043 |
| (Increase)/decrease in other assets | **(13,896)** | 34,277 | **(13,896)** | 34,212 |
| Increase/(decrease) in payables and borrowings | **(138)** | (490) | **(9)** | 22 |
| Increase/(decrease) in other liabilities | **342,380** | (49,238) | **342,380** | (49,094) |
| Net cash provided by operating activities | **167,708** | 124,612 | **168,785** | 125,870 |

For the purposes of the Cash Flow Statement, cash includes cash on hand and on deposit at bank, net of outstanding bank overdrafts. It also includes investments as part of the daily cash management function.

## NOTE 6 RECEIVABLES

| | | | | |
|---|---|---|---|---|
| Trade receivables | **463,350** | 72,219 | **463,350** | 69,501 |
| Provision for doubtful receivables | **(130)** | (118) | **(130)** | (118) |
| | **463,220** | 72,101 | **463,220** | 69,383 |
| Insurance recoveries | **2,345** | 3,520 | **2,345** | 3,520 |
| Other receivables | **781** | 659 | **780** | 658 |
| Prepayments | **533** | 391 | **533** | 391 |
| | **466,879** | 76,671 | **466,878** | 73,952 |

**Other Receivables**

These amounts generally arise from transactions outside the usual operating activities of the group. Interest may be charged at commercial rates where terms of repayment exceed six months. Collateral is not normally obtained.

| | | **2007** | 2006 |
|---|---|---|---|
| | | **$'000** | $'000 |
| **Insurance Recoveries** | | | |
| **Parent Entity** | | | |
| Balance @ 01 July | | **3,520** | 3,350 |
| Additional recoveries recognised | (see Note 18) | **1,019** | 4,884 |
| Recoveries received | | **(2,194)** | (4,714) |
| Balance @ 30 June | | **2,345** | 3,520 |

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **$'000** | $'000 | **$'000** | $'000 |
| **NOTE 7 INVESTMENTS** | | | | |
| Investments | **-** | 670 | **-** | 670 |

| | Consolidated 2007 $'000 | Consolidated 2006 $'000 | Parent Entity 2007 $'000 | Parent Entity 2006 $'000 |
|---|---|---|---|---|
| **NOTE 8 INVENTORIES** | | | | |
| Stores and materials | **1,521** | 862 | **1,521** | 862 |
| Coal stocks | **16,213** | 22,285 | **16,213** | 22,285 |
| Oil stocks | **654** | 1,012 | **654** | 1,012 |
| | **18,388** | 24,159 | **18,388** | 24,159 |

**Inventory Write-Downs**

Write-downs of inventories recognised as an expense during the year amounted to $1,050,345 (2006 - $202,792).

## NOTE 9 INTANGIBLE ASSETS

Intangible assets comprise computer software costs and carbon sequestration rights.

For the year ended 30 June 2007, computer software costs are capitalised at cost. Software assets have been assessed as having a finite life and are amortised using the straight line method over the expected useful life. The useful life of computer software assets varies from 2 to 5 years.

No revaluation or impairment loss was recognised during the 2007 financial year.

Carbon sequestration rights accrue from plantations of Mallee trees. Expenditure has been incurred in the plantation of trees where Eraring Energy will receive future NGACs. Amortisation will occur over a 30 year period commencing on the production of NGACs.

| | Non-Current | | |
|---|---|---|---|
| | **Carbon Sequestration** | **Computer Software** | **Total** |
| | **$'000** | **$'000** | **$'000** |
| **Parent Entity** | | | |
| **Year ended 30 June 2007** | | | |
| As at 1 July 2006, net of accumulated amortisation | 2,526 | 3,607 | 6,133 |
| Additions | 1,614 | 1,992 | 3,606 |
| Amortisation | - | (1,992) | (1,992) |
| As at 30 June 2007, net of accumulated amortisation | 4,140 | 3,607 | 7,747 |
| **As at 1 July 2006** | | | |
| Cost (gross carrying amount) | 2,526 | 11,873 | 14,399 |
| Accumulated amortisation and impairment | - | (8,266) | (8,266) |
| As at 1 July 2006, net of accumulated amortisation | 2,526 | 3,607 | 6,133 |
| **As at 30 June 2007** | | | |
| Cost (gross carrying amount) | 4,140 | 13,865 | 18,005 |
| Accumulated amortisation and impairment | - | (10,258) | (10,258) |
| As at 30 June 2007, net of accumulated amortisation | 4,140 | 3,607 | 7,747 |

**Net Carrying Amount**

Included in intangibles as at 30th June 2007 is an amount of $1,738,677 (2006 - $338,253) relating to work in progress expenditure.

| | Non-Current Carbon Sequestration $'000 | Computer Software $'000 | Total $'000 |
|---|---|---|---|
| **NOTE 9 INTANGIBLE ASSETS (CONTINUED)** | | | |
| **Parent Entity** | | | |
| **Year ended 30 June 2006** | | | |
| As at 1 July 2005, net of accumulated amortisation | - | 5,223 | 5,223 |
| Additions | 2,526 | 1,194 | 3,720 |
| Amortisation | - | (2,810) | (2,810) |
| As at 30 June 2006, net of accumulated amortisation | 2,526 | 3,607 | 6,133 |
| **As at 1 July 2005** | | | |
| Cost (gross carrying amount) | - | 10,680 | 10,680 |
| Accumulated amortisation and impairment | - | (5,457) | (5,457) |
| As at 1 July 2005, net of accumulated amortisation | - | 5,223 | 5,223 |
| **As at 30 June 2006** | | | |
| Cost (gross carrying amount) | 2,526 | 11,873 | 14,399 |
| Accumulated amortisation and impairment | - | (8,266) | (8,266) |
| As at 30 June 2006, net of accumulated amortisation | 2,526 | 3,607 | 6,133 |

| | | Consolidated | | Parent Entity | |
|---|---|---|---|---|---|
| | | **2007 $'000** | 2006 $'000 | **2007 $'000** | 2006 $'000 |
| **NOTE 10 ELECTRICITY DERIVATIVES - ASSETS** | | | | | |
| Current asset - electricity derivatives | | **43,949** | 14,776 | **43,949** | 14,776 |
| Non-current asset - electricity derivatives | | **37** | 9,415 | **37** | 9,415 |
| | | **43,986** | 24,191 | **43,986** | 24,191 |
| **NOTE 11 ASSETS HELD FOR SALE** | | | | | |
| Transfer from investment properties | | **2,639** | - | **2,639** | - |
| Less: Cost to sell the assets | | **(53)** | - | **(53)** | - |
| Assets held for sale | | **2,586** | - | **2,586** | - |

**Assets Held for Sale**

An impairment loss of $52,778 being the assessed cost to sell the asset has been recognised in the Income Statement. The carrying amount of assets held for sale, net of impairment, is $2,586,105 as at 30 June 2007.

| | | Consolidated 2007 $'000 | Consolidated 2006 $'000 | Parent Entity 2007 $'000 | Parent Entity 2006 $'000 |
|---|---|---|---|---|---|
| **NOTE 12 OTHER CURRENT ASSETS** | | | | | |
| New South Wales Greenhouse Abatement Certificates | | **1,728** | - | **1,728** | - |
| Superannuation - overfunded position | (see Note 25) | **16,090** | 4,503 | **16,090** | 4,503 |
| | | **17,818** | 4,503 | **17,818** | 4,503 |

**New South Wales Greenhouse Abatement Certificates**

Eraring Energy registers internally generated NGACs from power station efficiency measures and also previously purchased forestry rights which have been converted to NGACs.

| | Consolidated 2007 $'000 | Consolidated 2006 $'000 | Parent Entity 2007 $'000 | Parent Entity 2006 $'000 |
|---|---|---|---|---|
| **NOTE 13 SHARES IN CONTROLLED ENTITIES** | | | | |
| Shares in controlled entities | **-** | - | **.001** | .001 |

**Unlisted Shares in Controlled Entity**
As at balance date, Eraring Energy held 100% of the shareholding in Pacific Western Pty Ltd, being one $1.00 ordinary share.

## NOTE 14 PROPERTY, PLANT AND EQUIPMENT

| | Freehold Land $'000 | Power Station Building $'000 | Other Buildings $'000 | Plant & Equipment Power Stn $'000 | Plant & Equipment Other $'000 | Leasehold Improve-ment $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|
| **Parent Entity 2007** | | | | | | | |
| As at 1 July 2006, net of accumulated depreciation | 32,863 | 20,850 | 1,097 | 1,333,490 | 5,262 | 371 | 1,393,933 |
| Additions | 54 | 1,080 | 28 | 25,259 | 7,355 | 70 | 33,846 |
| Parent plant spares transfer | - | - | - | 5,243 | - | - | 5,243 |
| Capital spares transfer | - | - | - | 279 | - | - | 279 |
| Revaluation | 5,645 | 34,342 | (306) | 1,789,944 | - | - | 1,829,625 |
| Impairment | - | (35,853) | - | (1,203,850) | - | - | (1,239,703) |
| Transfers to investment properties and assets held for sale | (6,400) | - | - | - | - | - | (6,400) |
| Disposals | - | (69) | - | (248) | (509) | - | (826) |
| Depreciation charge for the year | - | (718) | (32) | (64,742) | (2,099) | (78) | (67,669) |
| Balance @ 30 June 2007 | 32,162 | 19,632 | 787 | 1,885,375 | 10,009 | 363 | 1,948,328 |
| **As at 1 July 2006** | | | | | | | |
| Cost or fair value | 32,863 | 22,245 | 1,219 | 1,450,509 | 10,593 | 699 | 1,518,128 |
| Accumulated depreciation/impairment | - | (1,395) | (122) | (117,019) | (5,331) | (328) | (124,195) |
| Net carrying amount | 32,863 | 20,850 | 1,097 | 1,333,490 | 5,262 | 371 | 1,393,933 |
| **As at 30 June 2007** | | | | | | | |
| Cost or fair value | 32,162 | 61,014 | 896 | 3,500,208 | 16,727 | 770 | 3,611,777 |
| Accumulated depreciation/impairment | - | (41,382) | (109) | (1,614,833) | (6,718) | (407) | (1,663,449) |
| Net carrying amount | 32,162 | 19,632 | 787 | 1,885,375 | 10,009 | 363 | 1,948,328 |
| **Parent Entity 2006** | | | | | | | |
| As at 1 July 2005, net of accumulated depreciation | 32,830 | 21,324 | 1,127 | 1,361,083 | 4,634 | 437 | 1,421,435 |
| Additions | 33 | 231 | - | 29,301 | 3,004 | - | 32,569 |
| Parent plant spares transfer | - | - | - | 6,066 | - | - | 6,066 |
| Capital spares transfer | - | - | - | 723 | - | - | 723 |
| Disposals | - | - | - | - | (626) | - | (626) |
| Depreciation charge for the year | - | (705) | (30) | (63,683) | (1,750) | (66) | (66,234) |
| Balance @ 30 June 2006 | 32,863 | 20,850 | 1,097 | 1,333,490 | 5,262 | 371 | 1,393,933 |
| **As at 1 July 2005** | | | | | | | |
| Cost or fair value | 32,830 | 22,014 | 1,219 | 1,417,337 | 8,759 | 699 | 1,482,858 |
| Accumulated depreciation/impairment | - | (691) | (91) | (56,253) | (4,125) | (263) | (61,423) |
| Net carrying amount | 32,830 | 21,323 | 1,128 | 1,361,084 | 4,634 | 436 | 1,421,435 |

| | Freehold Land $'000 | Power Station Building $'000 | Other Buildings $'000 | Plant & Equipment Power Stn $'000 | Plant & Equipment Other $'000 | Leasehold Improve-ment $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|
| **NOTE 14 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)** | | | | | | | |
| **As at 30 June 2006** | | | | | | | |
| Cost or fair value | 32,863 | 22,245 | 1,219 | 1,450,509 | 10,593 | 699 | 1,518,128 |
| Accumulated depreciation/impairment | - | (1,395) | (122) | (117,019) | (5,331) | (328) | (124,195) |
| Net carrying amount | 32,863 | 20,850 | 1,097 | 1,333,490 | 5,262 | 371 | 1,393,933 |

### Valuation of Power Station Equipment and Power Station Buildings

The classes of power station equipment and associated building assets are measured on a fair value basis. An independent review of the written down optimised replacement value of the Eraring power station and hydro and wind assets was conducted by Rodney Hyman Asset Services as at 30th June 2007. The revaluation resulted in an increase to the power station building and plant and equipment power station classes of $584 million. No revaluation was recognised in 2006.

The discounted cash flow valuation (DCF) was conducted effective at 30th June 2007 using existing contracts and estimates for future contracts and spot referencing external forward curves for sales revenue together with 2007/08 SCI 10 year forecasts as at 31st March 2007 and internal models. The significant change in the DCF value has been caused by increased forward prices of electricity driven mainly by the prolonged effects of the drought. The written down optimised replacement value exceeded the DCF value, and in accordance with Australian Accounting Standards, the DCF value was used. This led to an impairment adjustment of $1.233 billion.

There was an increase of 0.5% to Eraring Energy's pre-tax weighted average cost of capital applied in the value in use calculation.

The discounted cash flow valuation of property, plant and equipment uses a number of estimates which are subject to volatility in competitive energy and coal markets. The most vulnerable are forecasting long term electricity and coal prices and production levels in an environment of predicting the timing of new entrants, technology improvements, the regulatory regime including a potential greenhouse impost on generators, general competitive bidding behaviour as well as world energy prices. The consequences of these factors in particular may cause future asset values to materially change. Eraring uses its internal weighted average cost of capital to discount future revenue and cost streams to present value. A 0.5% change in the weighted average cost of capital alters asset values by around $60 million.

### Valuation of Land

The class of land assets are measured at fair value. An independent review of the market fair value of Eraring Energy land was conducted by BEM Property Consultants and Valuers as at 30th June 2007. The valuation resulted in an increase in land values of $5.6 million. No valuation was conducted in 2006.

### Valuation of Other Buildings

The class of other buildings are measured at fair value. An independent review of the fair value of Eraring Energy buildings was conducted by BEM Property Consultants and Valuers as at 30th June 2007. The valuation resulted in a decrease in other buildings value of $0.3 million. No valuation was conducted in 2006.

### Impairment of Other Property, Plant and Equipment

Blayney and Crookwell windfarm cash generating units are recorded at fair value using the discounted cash flow method as this value is lower than the written down optimised replacement value provided by Rodney Hyman Asset Services as at 30th June 2007. The total impairment loss recognised this year is $6.4 million. No impairment loss was recognised in 2006.

For the year ended 30th June, 2007

| | Freehold Land $'000 | Power Station Building $'000 | Other Buildings $'000 | Plant & Equipment Power Stn $'000 | Plant & Equipment Other $'000 | Leasehold Improvement $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|
| **NOTE 14 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)** | | | | | | | |
| If property, plant and equipment were measured using the cost model the carrying amounts would be as follows: | | | | | | | |
| **Parent Entity 2007** | | | | | | | |
| Cost | 2,496 | 14,914 | 1,828 | 1,367,001 | 16,727 | 770 | 1,403,736 |
| Accumulated depreciation | - | (2,915) | (312) | (315,894) | (6,718) | (407) | (326,246) |
| Net carrying amount | 2,496 | 11,999 | 1,516 | 1,051,107 | 10,009 | 363 | 1,077,490 |
| **Parent Entity 2006** | | | | | | | |
| Cost | 2,565 | 13,903 | 1,800 | 1,336,486 | 10,593 | 700 | 1,366,047 |
| Accumulated depreciation | - | (2,448) | (266) | (253,242) | (5,331) | (329) | (261,616) |
| Net carrying amount | 2,565 | 11,455 | 1,534 | 1,083,244 | 5,262 | 371 | 1,104,431 |

**Net Carrying Amount**

Included in plant and equipment as at 30 June is an amount of $31,304,712 (2006 - $22,055,373) relating to work in progress expenditure.

| | Consolidated 2007 $'000 | Consolidated 2006 $'000 | Parent Entity 2007 $'000 | Parent Entity 2006 $'000 |
|---|---|---|---|---|
| **NOTE 15 INVESTMENT PROPERTIES** | | | | |
| Investment properties | **7,586** | - | **7,586** | - |
| **Reconciliation** | | | | |
| As at 1 July | **-** | - | **-** | - |
| Acquisitions | **546** | - | **546** | - |
| Transfer from property, plant and equipment | **6,400** | - | **6,400** | - |
| Net gain / (loss) from fair value adjustments | **3,279** | - | **3,279** | - |
| Transfer to assets held for sale | **(2,639)** | - | **(2,639)** | - |
| As at 30 June | **7,586** | - | **7,586** | - |

The carrying amount of investment property is the fair value of the property as determined by BEM Property Consultants Pty Ltd as at 30th June 2007. BEM Property Consultants is an industry specialist in valuing these type of investment properties.

| | Consolidated 2007 $'000 | Consolidated 2006 $'000 | Parent Entity 2007 $'000 | Parent Entity 2006 $'000 |
|---|---|---|---|---|
| **NOTE 16 PAYABLES** | | | | |
| Trade payables | **38,802** | 18,040 | **38,802** | 17,912 |
| Other payables | **366,539** | 26,684 | **366,539** | 26,683 |
| | **405,341** | 44,724 | **405,341** | 44,595 |

| | Consolidated 2007 $'000 | Consolidated 2006 $'000 | Parent Entity 2007 $'000 | Parent Entity 2006 $'000 |
|---|---|---|---|---|
| **NOTE 17 INTEREST BEARING LIABILITIES** | | | | |
| Borrowings | **294,866** | 212,554 | **294,866** | 212,554 |
| Loan from Pacific Western | **-** | - | **383** | 626 |
| | **294,866** | 212,554 | **295,249** | 213,180 |
| **Current Borrowings** | | | | |
| Short term loans - face value | 76,800 | | | |
| | 76,800 | | | |
| **Non-Current Borrowings** | | | | |
| Non-current borrowings | 218,738 | | | |
| Premium on domestic loans issued by NSW Tcorp | (672) | | | |
| | 218,066 | | | |
| **Total Debt and Maturity Analysis** | | | | |
| Total debt outstanding at 30th June 2007, and maturity pattern is: | | | | |
| Up to one year | 76,800 | | | |
| Over two and up to five years | 122,604 | | | |
| Over five years | 95,462 | | | |
| Total | 294,866 | | | |
| **Finance Facilities Available** | | | | |
| Bank overdraft | 2,000 | | | |
| NSW Treasury Corporation loans and come and go | 1,040,000 | | | |
| Total | 1,042,000 | | | |
| **Finance Facilities Used as at 30 June 2007** | | | | |
| NSW Treasury Corporation loans and come and go | 294,866 | | | |
| Total | 294,866 | | | |

Eraring Energy also utilises T'Corp facilities for contingent liabilities associated with dust disease liabilities ($20,000,000) and letters of credit for futures transactions ($5,000,000), Commonwealth Bank of Australia facilities for intra day cash management (real time gross settlements - $20,000,000) and credit card facilities ($1,250,000) as approved by the Treasurer of NSW under Public Authorities Finance Act legislation. With the exception of the Commonwealth Bank of Australia facilities, all new borrowings are arranged through T'Corp.

The come and go facility of $40,000,000 is used for short term working capital and other discrete (rather than continuous) requirements. The principal is repaid and redrawn at any time within approved limits.

**Capital Restructure**

Eraring Energy repaid capital of $184 million in June 2007 via a non cash equity to debt swap.

| | | Consolidated 2007 $'000 | Consolidated 2006 $'000 | Parent Entity 2007 $'000 | Parent Entity 2006 $'000 |
|---|---|---|---|---|---|
| **NOTE 18 PROVISIONS** | | | | | |
| **Current** | | | | | |
| Dividend | (see Note 24) | **132,131** | 41,320 | **131,431** | 41,320 |
| Employee entitlements | (see Note 25) | **17,651** | 16,348 | **17,651** | 16,348 |
| Insurances | | **1,930** | 3,466 | **1,930** | 3,466 |
| | | **151,712** | 61,134 | **151,012** | 61,134 |
| **Non-current** | | | | | |
| Insurances | | **26,175** | 23,584 | **26,175** | 23,584 |
| | | **177,887** | 84,718 | **177,187** | 84,718 |

## NOTE 18 PROVISIONS (CONTINUED)

**Reconciliations**

Reconciliations of the carrying amounts of each class of provision, other than employee benefits, at the end of the current financial year are set out below:

| | Current | | Non-current | Total |
|---|---|---|---|---|
| | Dividend | Insurances | Insurances | |
| | $'000 | $'000 | $'000 | $'000 |
| **Parent Entity 2007** | | | | |
| Balance @ 01 July 2006 | 41,320 | 3,466 | 23,584 | 68,370 |
| Additional provisions recognised | 131,431 | - | 3,094 | 134,525 |
| Provision payments | (41,320) | (2,039) | - | (43,359) |
| Current v non-current transfer | - | 503 | (503) | - |
| Balance @ 30 June 2007 | 131,431 | 1,930 | 26,175 | 159,536 |
| **Consolidated Entity 2007** | | | | |
| Balance @ 01 July 2006 | 41,320 | 3,466 | 23,584 | 68,370 |
| Additional provisions recognised | 132,131 | - | 3,094 | 135,225 |
| Provision payments | (41,320) | (2,039) | - | (43,359) |
| Current v non-current transfer | - | 503 | (503) | - |
| Balance @ 30 June 2007 | 132,131 | 1,930 | 26,175 | 160,236 |

The insurance provision comprises workers' compensation claims for employees, and existing and future dust diseases insurance liabilities for third party contractors and employees associated with:

Former decommissioned Power Stations of the former Electricity Commission;

Delta Electricity and Macquarie Generation Power Stations prior to their formation; and

Pacific Power prior to 2nd August 2000 were transferred to Eraring Energy with the WorkCover licence under the Ministerial Order.

The total insurance provision is made up of a provision for current workers compensation and dust diseases claims liability at $3,725,000 (2006 - $3,240,000) which is the minimum amount certified by the actuary in accordance with Clause 3.3 (a) (iv) of the Self Insurer licence provisions. The remaining net balance of the insurance provision is $22,035,000 (2006 - $20,290,000) and represents future dust diseases claims liability, net of third party recoveries. The insurance provision includes a provision for $24,450,000 (2006 - $22,200,000) which relates to other than Eraring Energy employees and contractors. Eraring Energy has created an asset in these financial statements for anticipated insurance recoveries from third parties where matters have already been settled and recovery virtually certain. The value of this asset is $2,345,000 (2006 - $3,520,000), and is in accordance with independent actuarial advice. These recoveries relate to settled claims under previous legislation. New legislation which came into force on 1st July 2005 requires the joining of co-defendents at inception and allocation of liability.

The actuarial assessment is based on estimates of future claims (based on past experience), forecast cost of claims and annual year on year increases, all of which impact on the assessed liability. Changes to these recovery estimates could impact future provisions. A 0.5% change in the rate used to discount future liabilities to present value, would result in a change of around $1.0 million.

| | | Consolidated | | Parent Entity | |
|---|---|---|---|---|---|
| | | **2007** | 2006 | **2007** | 2006 |
| | | **$'000** | $'000 | **$'000** | $'000 |
| **NOTE 19 ELECTRICITY DERIVATIVES - LIABILITIES** | | | | | |
| Current liability - electricity derivatives | | **967,769** | 79,497 | **967,769** | 79,497 |
| Non-current liability - electricity derivatives | | **387,774** | 40,675 | **387,774** | 40,675 |
| | | **1,355,543** | 120,172 | **1,355,543** | 120,172 |
| **NOTE 20 OTHER CURRENT LIABILITIES** | | | | | |
| Superannuation - underfunded liability | (see Note 25) | **-** | 5,753 | **-** | 5,753 |
| **NOTE 21 CONTRIBUTED EQUITY, RESERVES AND RETAINED PROFITS** | | | | | |
| Contributed equity | | **646,481** | 830,481 | **646,481** | 830,481 |
| Reserves | | **(320,284)** | 121,084 | **(320,284)** | 121,084 |
| Retained profits | | **53,807** | 40,263 | **53,777** | 36,967 |
| | | **380,004** | 991,828 | **379,974** | 988,532 |
| **Movements in Contributed Equity** | | | | | |
| Opening balance | | **830,481** | 879,481 | **830,481** | 879,481 |
| NSW Treasury debt for equity swap | | **(184,000)** | (49,000) | **(184,000)** | (49,000) |
| | | **646,481** | 830,481 | **646,481** | 830,481 |
| **Movements in Reserves** | | | | | |
| **Movements in Asset Revaluation Reserve** | | | | | |
| Opening balance | | **185,037** | 185,037 | **185,037** | 185,037 |
| Asset revaluation increment, net of tax | | **412,945** | - | **412,945** | - |
| | | **597,982** | 185,037 | **597,982** | 185,037 |
| **Movements in Hedging Reserve** | | | | | |
| Opening balance | | **(63,953)** | (34,888) | **(63,953)** | (34,888) |
| Net gains/(losses) on cash flow hedges, net of tax | | **(854,313)** | (29,065) | **(854,313)** | (29,065) |
| | | **(918,266)** | (63,953) | **(918,266)** | (63,953) |
| **Reserves Balance** | | | | | |
| Asset revaluation reserve | | **597,982** | 185,037 | **597,982** | 185,037 |
| Hedging reserve | | **(918,266)** | (63,953) | **(918,266)** | (63,953) |
| | | **(320,284)** | 121,084 | **(320,284)** | 121,084 |
| **Movements in Retained Profits** | | | | | |
| Opening balance | | **40,263** | 53,215 | **36,967** | 49,687 |
| Net profit after tax | | **145,675** | 134,926 | **148,241** | 135,158 |
| Dividends | (see Note 24) | **(132,131)** | (41,320) | **(131,431)** | (41,320) |
| AIFRS Derivatives transition adjustments | | **-** | (106,558) | **-** | (106,558) |
| | | **53,807** | 40,263 | **53,777** | 36,967 |

The asset revaluation reserve includes the net revaluation increments and decrements arising from the revaluation of non-current assets measured at fair value and adjusted for the recoverable amount test.

Net income / (expense) recognised directly in the hedging reserve relates to the movement in the fair value of hedge contracts, net of tax.

In accordance with the State Owned Corporations Act, 1989, the two voting shareholders, the Hon. M. Costa, Treasurer, and the Hon. J. Watkins, Deputy Premier and Minister for Finance, hold one share each valued at $1.00 per share.

For the year ended 30th June, 2007

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **$'000** | $'000 | **$'000** | $'000 |
| **NOTE 22 COMMITMENTS** | | | | |
| **Capital commitments payable:** | | | | |
| Within one year | **11,794** | 22,124 | **11,794** | 22,124 |
| Later than one year but not later than five years | **-** | 902 | **-** | 902 |
| | **11,794** | 23,026 | **11,794** | 23,026 |
| **Operating lease rentals payable:** | | | | |
| Within one year | **530** | 432 | **530** | 432 |
| Later than one year but not later than five years | **961** | 831 | **961** | 831 |
| | **1,491** | 1,263 | **1,491** | 1,263 |
| **Operating expenditure commitments payable:** | | | | |
| Within one year | **23,474** | 19,258 | **23,474** | 19,258 |
| Later than one year but not later than five years | **13,326** | 13,998 | **13,326** | 13,998 |
| | **36,800** | 33,256 | **36,800** | 33,256 |

Eraring Energy expects to receive input tax credits from the Australian Taxation Office totalling $4,769,484 (2006 - $5,231,230) for Goods and Services Tax paid with these commitments.

**Operating Leases**

The operating lease commitments are non-cancellable and are not provided for in the accounts.

## NOTE 23 CONTINGENT LIABILITIES

**Parent Entity**

Eraring Energy has received a claim for additional costs from a contractor for work performed at Burrinjuck in the order of $14 million. Eraring Energy is contesting the quantum of the claim and has made a without prejudice offer of settlement of $3 million. Arbitration concluded in June 2007 with a decision expected in three to four months.

The dispute over alleged acid sulphate soil contamination on land adjacent to Eraring Power Station was settled during the period.

**Pacific Western Pty Limited**

The early contract termination dispute between Pacific Western Pty Limited and Verve (formerly Western Power) was settled during the period.

## NOTE 24 DIVIDENDS

In accordance with the share dividends scheme determined by the voting shareholders, and as required by the Energy Services Corporation Act, 1995 and State Owned Corporations Act, 1989, the Board has provided for a consolidated dividend payment of $132,130,838 (2006 - $41,320,295). This will be paid during the course of the 2007/08 financial year and is represented by the balance of the provision (see Note 18). The dividend provision has been increased by the amount of $551,846 (2006 - $2,047,067) for net recoveries for worker's compensation and dust disease Court determinations for other than Eraring Energy employees. This liability was transferred from the NSW Government to Eraring Energy on corporatisation with agreement for the matter to be treated as a community service obligation and the net of payments less recoveries deducted from dividends.

## NOTE 25 EMPLOYEE ENTITLEMENTS

| | | Consolidated 2007 $'000 | Consolidated 2006 $'000 | Parent Entity 2007 $'000 | Parent Entity 2006 $'000 |
|---|---|---|---|---|---|
| **Provision for employee entitlements** | | | | | |
| Current | (see Note 18) | **17,651** | 16,348 | **17,651** | 16,348 |
| **Defined benefits superannuation balance** | | | | | |
| Superannuation - overfunded asset | (see Note 12) | **16,090** | 4,503 | **16,090** | 4,503 |
| Superannuation - underfunded (liability) | (see Note 20) | **-** | (5,753) | **-** | (5,753) |
| | | **16,090** | (1,250) | **16,090** | (1,250) |

## NOTE 25 EMPLOYEE ENTITLEMENTS (CONTINUED)

### Long Service Leave

Long service leave is measured at its present value, using the following assumptions:

| | |
|---|---|
| Consumer price index | 3.0% |
| Investment return | 6.0% |
| Salary increase | 4.8% |

### Superannuation

Eraring Energy contributes to three defined benefit superannuation schemes which are managed by Pillar. The pooled fund holds in trust the investments of the closed NSW public sector superannuation schemes. These schemes are the State Superannuation Scheme (SSS), State Authorities Superannuation Scheme (SASS) and the State Authorities Non-Contributory Superannuation Scheme (SANCS).

These schemes are all defined benefit schemes - at least a component of the final benefit is derived from a multiple of member salary and years of membership. All the schemes are closed to new members.

Contributions to the scheme are expensed when paid or payable and reduce the superannuation liability. These contribution receipts are invested by Pillar and the resultant investment income or deficits adds to or subtracts from the fund balances.

Superannuation asset and liability balances are impacted by fund earnings, the Government bond rate used to discount future liabilities to present value and actuarial demographics, each of which could have a material impact on the values in the future.

| | SASS $'000 | SANCS $'000 | SSS $'000 | Total $'000 |
|---|---|---|---|---|
| **Superannuation position as at 30th June 2007** | | | | |
| **Reconciliation of the assets and liabilities recognised in the balance sheet** | | | | |
| Present value of partly funded defined benefits obligations | 38,198 | 8,652 | 108,755 | 155,605 |
| Fair value of fund assets | (43,583) | (11,693) | (117,805) | (173,081) |
| Adjustment for limitation on net asset | 427 | 240 | 719 | 1,386 |
| Net (asset)/liability recognised in the balance sheet | (4,958) | (2,801) | (8,331) | (16,090) |
| **Reconciliation of the present value of the defined benefit obligation** | | | | |
| Present value of partly funded defined benefit obligations at the start of the year | 33,970 | 8,684 | 109,292 | 151,946 |
| Current service cost | 1,058 | 496 | 1,466 | 3,020 |
| Interest cost | 1,975 | 492 | 6,426 | 8,893 |
| Contributions by fund participants | 540 | - | 1,539 | 2,079 |
| Actuarial (gains)/losses | 1,219 | (171) | (7,296) | (6,248) |
| Benefits paid | (564) | (849) | (2,672) | (4,085) |
| Present value of partly funded defined benefit obligations at the end of the year | 38,198 | 8,652 | 108,755 | 155,605 |
| **Reconciliation of the fair value of fund assets** | | | | |
| Fair value of fund assets at the start of the year | 36,624 | 10,533 | 103,539 | 150,696 |
| Expected return on fund assets | 2,784 | 794 | 7,933 | 11,511 |
| Actuarial gains/(losses) | 3,144 | 666 | 5,013 | 8,823 |
| Employer contributions | 1,056 | 549 | 2,453 | 4,058 |
| Contributions by fund participants | 540 | - | 1,539 | 2,079 |
| Benefits paid | (565) | (849) | (2,672) | (4,086) |
| Fair value of fund assets at the end of the year | 43,583 | 11,693 | 117,805 | 173,081 |
| **Expense/(income) recognised in income statement** | | | | |
| Components recognised in income statement | | | | |
| Current service cost | 1,058 | 496 | 1,466 | 3,020 |
| Interest cost | 1,975 | 492 | 6,426 | 8,893 |
| Expected return on fund assets (net of expenses) | (2,784) | (794) | (7,933) | (11,511) |
| Actuarial gains/(losses) recognised in year | (1,925) | (837) | (12,309) | (15,071) |
| Movement in adjustment for limitation on net asset | 427 | 241 | 718 | 1,386 |
| Expense/(income) recognised | (1,249) | (402) | (11,632) | (13,283) |
| **Actual return on plan assets** | | | | |
| Actual return on plan assets | 5,337 | 1,460 | 14,915 | 21,712 |

| | SASS $'000 | SANCS $'000 | SSS $'000 | Total $'000 |
|---|---|---|---|---|
| **NOTE 25 EMPLOYEE ENTITLEMENTS (CONTINUED)** | | | | |
| **Historical information** | | | | |
| Present value of defined benefit obligation | 38,198 | 8,652 | 108,755 | 155,605 |
| Fair value of fund assets | (43,583) | (11,693) | (117,805) | (173,081) |
| (Surplus)/deficit in fund | (5,385) | (3,041) | (9,050) | (17,476) |
| Experience adjustment - fund liabilities | 1,219 | (171) | (7,296) | (6,248) |
| Experience adjustment - fund assets | (3,144) | (666) | (5,013) | (8,823) |
| **Expected contributions** | | | | |
| Expected employer contributions | 1,025 | 540 | 2,462 | 4,027 |
| **Member numbers** | | | | |
| Contributors | 132 | 249 | 117 | |
| Deferred benefits | - | - | 4 | |
| Pensioners | 2 | - | 54 | |
| Pensioners fully commuted | - | - | 6 | |

| | SASS $'000 | SANCS $'000 | SSS $'000 | Total $'000 |
|---|---|---|---|---|
| **Superannuation position as at 30 June 2006** | | | | |
| **Reconciliation of the assets and liabilities recognised in the balance sheet** | | | | |
| Present value of partly funded defined benefits obligations | 33,970 | 8,684 | 109,293 | 151,947 |
| Fair value of fund assets | (36,624) | (10,533) | (103,540) | (150,697) |
| Net (asset)/liability recognised in the balance sheet | (2,654) | (1,849) | 5,753 | 1,250 |
| **Reconciliation of the present value of the defined benefit obligation** | | | | |
| Present value of partly funded defined benefit obligations at the start of the year | 31,956 | 8,523 | 110,133 | 150,612 |
| Current service cost | 1,140 | 497 | 2,046 | 3,683 |
| Interest cost | 1,891 | 428 | 6,265 | 8,584 |
| Contributions by fund participants | 542 | - | 1,359 | 1,901 |
| Actuarial (gains)/losses | (222) | (458) | (8,215) | (8,895) |
| Benefits paid | (1,337) | (306) | (2,295) | (3,938) |
| Present value of partly funded defined benefit obligations at the end of the year | 33,970 | 8,684 | 109,293 | 151,947 |
| **Reconciliation of the fair value of fund assets** | | | | |
| Fair value of fund assets at the start of the year | 31,218 | 8,728 | 86,030 | 125,976 |
| Expected return on fund assets | 2,372 | 661 | 6,574 | 9,607 |
| Actuarial gains/(losses) | 2,912 | 763 | 9,303 | 12,978 |
| Employer contributions | 917 | 687 | 2,569 | 4,173 |
| Contributions by fund participants | 542 | - | 1,359 | 1,901 |
| Benefits paid | (1,337) | (306) | (2,295) | (3,938) |
| Fair value of fund assets at the end of the year | 36,624 | 10,533 | 103,540 | 150,697 |
| **Expense/(income) recognised in income statement** | | | | |
| Components recognised in income statement | | | | |
| Current service cost | 1,140 | 497 | 2,046 | 3,683 |
| Interest cost | 1,891 | 428 | 6,265 | 8,584 |
| Expected return on fund assets (net of expenses) | (2,371) | (660) | (6,573) | (9,604) |
| Actuarial gains/(losses) recognised in year | (3,134) | (1,222) | (17,518) | (21,874) |
| Expense/(income) recognised | (2,474) | (957) | (15,780) | (19,211) |
| **Actual return on plan assets** | | | | |
| Actual return on plan assets | 4,829 | 1,424 | 13,438 | 19,691 |

| | SASS $'000 | SANCS $'000 | SSS $'000 | Total $'000 |
|---|---|---|---|---|
| **NOTE 25 EMPLOYEE ENTITLEMENTS (CONTINUED)** | | | | |
| **Historical information** | | | | |
| Present value of defined benefit obligation | 33,970 | 8,684 | 109,293 | 151,947 |
| Fair value of fund assets | (36,624) | (10,533) | (103,540) | (150,697) |
| (Surplus)/deficit in fund | (2,654) | (1,849) | 5,753 | 1,250 |
| Experience adjustment - fund liabilities | (222) | (458) | (8,215) | (8,895) |
| Experience adjustment - fund assets | (2,912) | (763) | (9,303) | (12,978) |
| **Expected contributions** | | | | |
| Expected employer contributions | 1,030 | 516 | 2,175 | 3,721 |
| **Member numbers** | | | | |
| Contributors | 131 | 263 | 132 | |
| Deferred benefits | - | - | 4 | |
| Pensioners | 2 | - | 39 | |
| Pensioners fully commuted | - | - | 4 | |

**Assets invested in the entity or in property occupied by the entity**

All fund assets are invested by the Superannuation Trustee Corporation (STC) at arm's length through independent fund managers.

**Expected rate of return on assets**

The expected return on assets assumption is determined by weighting the expected long-term return for each asset class by the target allocation of assets to each class. The returns used for each class are net of investment tax and investment fees.

| **Principal actuarial assumptions at the reporting date** | **2007** | 2006 |
|---|---|---|
| Discount rate at 30 June | **6.4%** | 5.9% |
| Expected return on assets backing current pension liabilities | **7.6%** | 7.6% |
| Expected return on assets backing other liabilities | **7.6%** | 7.6% |
| Expected salary increases | **4.0%** | 4.0% |
| Expected rate of CPI increase | **2.5%** | 2.5% |

Expected salary increases are 4.0% per annum to June 2008, then 3.5% thereafter.

**Fund assets**

| The percentage invested in each asset class at the balance sheet date are: | **2007** | 2006 |
|---|---|---|
| Australian equities | **33.6%** | 37.4% |
| Overseas equities | **26.5%** | 27.9% |
| Australian fixed interest securities | **6.8%** | 9.9% |
| Overseas fixed interest securities | **6.4%** | 6.8% |
| Property | **10.1%** | 8.6% |
| Cash | **9.8%** | 5.0% |
| Other | **6.8%** | 4.4% |

| | SASS $'000 | SANCS $'000 | SSS $'000 | Total $'000 |
|---|---|---|---|---|

## NOTE 25 EMPLOYEE ENTITLEMENTS (CONTINUED)

**Arrangements for employer contributions for funding**

The following is a summary of the financial position of the fund calculated in accordance with AAS 25 - *Financial Reporting by Superannuation Plans.*

| | SASS $'000 | SANCS $'000 | SSS $'000 | Total $'000 |
|---|---|---|---|---|
| **Financial position as at 30 June 2007** | | | | |
| Accrued benefits | 37,660 | 8,567 | 98,228 | 144,455 |
| Net market value of fund assets | (43,583) | (11,693) | (117,805) | (173,081) |
| Net (surplus)/deficit | (5,923) | (3,126) | (19,577) | (28,626) |
| **Financial position as at 30 June 2006** | | | | |
| Accrued benefits | 32,351 | 8,245 | 91,791 | 132,387 |
| Net market value of fund assets | (36,624) | (10,533) | (103,538) | (150,695) |
| Net (surplus)/deficit | (4,273) | (2,288) | (11,747) | (18,308) |

Recommended contributions rates for the entity are:

| SASS | SANCS | SSS |
|---|---|---|
| multiple of member contributions | % member salary | multiple of member contributions |
| 1.90 | 2.50 | 1.60 |

The method used to determine the employer contribution recommendations at the last actuarial review was the aggregate funding method. The method adopted affects the timing of the cost to the employer. Under the aggregate funding method, the employer contribution rate is determined so that sufficient assets will be available to meet benefit payments to existing members, taking into account the current value of assets and future contributions.

| The economic assumptions adopted for the last actuarial review of the Fund were: | June 2006 |
|---|---|
| Expected rate of return on fund assets backing current pension liabilities | 7.7% |
| Expected rate of return on fund assets backing other liabilities | 7.0% |
| Expected salary increase rate | 4.0% |
| Expected rate of CPI increase | 2.5% |

**Nature of asset/liability**

If a surplus exists in the employer's interest in the fund, the employer may be able to take advantage of it in the form of a reduction in the required contribution rate, depending on the advice of the fund's actuary. Where a deficiency exists, the employer is responsible for any difference between the employer's share of fund assets and the defined benefit obligation.

**Valuation method**

The Projected Unit Credit (PUC) valuation method was used to determine the present value of the defined benefit obligations and the related current service costs. This method sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

## NOTE 26 FINANCIAL INSTRUMENTS

All derivatives are managed in accordance with policies approved by the Eraring Energy Board including total value and credit risk limits and can only be used to hedge existing exposures. There were no outstanding interest rate or currency swaps at balance date.

**Forward Foreign Exchange Contracts**

In the normal course of business, Eraring Energy enters into contracts required for goods or services from overseas which are settled in the suppliers currency. Under Board approval, Eraring Energy hedges specific commitments by use of forward foreign exchange contracts. The contracts are timed to mature when settlement of the goods and services are due, and any gain or loss realised being included in the measurement of the purchase price. At balance date Eraring Energy had 1 (2006 - 3) forward foreign exchange contracts as detailed:

| | 2007 Contracts | 2007 Average Exchange Rate | 2007 Principal Amount AUD | 2006 Contracts | 2006 Average Exchange Rate | 2006 Principal Amount AUD |
|---|---|---|---|---|---|---|
| United States Dollar duration greater than one year | **1** | **0.843** | **1,456,700** | 3 | 0.727 | 10,139,507 |

The contracts as at 30 June 2007 are showing an unrealised loss of $4,170 (2006 - $141,024 loss).

## NOTE 26 FINANCIAL INSTRUMENTS (CONTINUED)

### a) Interest Rate Risk

Interest rate risk is the risk that the value of the financial instrument used will fluctuate due to changes in the market interest rates resulting in an adverse financial effect.

| | Floating Interest Rate $'000 | Fixed Interest Rate Maturing In 1 Year or less $'000 | 1 to 5 years $'000 | Over 5 years $'000 | Non-Interest Bearing $'000 | Total Carrying Amount $'000 | Weighted Average Effective Interest Rate pa % |
|---|---|---|---|---|---|---|---|
| **Parent Entity 2007** | | | | | | | |
| **Financial Assets** | | | | | | | |
| Cash | 2,310 | - | - | - | 334 | 2,644 | 4.69% |
| Trade Receivables | - | - | - | - | 464,127 | 464,127 | - |
| Derivatives | - | - | - | - | 43,986 | 43,986 | - |
| Other | - | - | - | - | 4 | 4 | - |
| Total Financial Assets | 2,310 | - | - | - | 508,451 | 510,761 | - |
| **Financial Liabilities** | | | | | | | |
| Accounts Payable | - | - | - | - | 364,594 | 364,594 | - |
| Derivatives | - | - | - | - | 1,355,543 | 1,355,543 | - |
| Debt | 35,500 | 41,300 | 122,604 | 95,462 | - | 294,866 | 5.64% |
| Other | - | - | - | - | 131,431 | 131,431 | - |
| Total Financial Liabilities | 35,500 | 41,300 | 122,604 | 95,462 | 1,851,568 | 2,146,434 | - |
| **Consolidated Entity 2007** | | | | | | | |
| **Financial Assets** | | | | | | | |
| Cash | 2,656 | - | - | - | 334 | 2,990 | 4.69% |
| Trade Receivables | - | - | - | - | 465,652 | 465,652 | - |
| Derivatives | - | - | - | - | 43,986 | 43,986 | - |
| Other | - | - | - | - | 4 | 4 | - |
| Total Financial Assets | 2,656 | - | - | - | 509,976 | 512,632 | - |
| **Financial Liabilities** | | | | | | | |
| Accounts Payable | - | - | - | - | 364,594 | 364,594 | - |
| Derivatives | - | - | - | - | 1,355,543 | 1,355,543 | - |
| Debt | 35,500 | 41,300 | 122,604 | 95,462 | - | 294,866 | 5.64% |
| Other | - | - | - | - | 132,131 | 132,131 | - |
| Total Financial Liabilities | 35,500 | 41,300 | 122,604 | 95,462 | 1,852,268 | 2,147,134 | - |
| **Parent Entity 2006** | | | | | | | |
| **Financial Assets** | | | | | | | |
| Cash | 2,018 | - | - | - | 481 | 2,499 | 5.30% |
| Trade Receivables | - | - | - | - | 70,155 | 70,155 | - |
| Derivatives | - | - | - | - | 24,191 | 24,191 | - |
| Deposits | 670 | - | - | - | - | 670 | 5.49% |
| Other | - | - | - | - | 4 | 4 | - |
| Total Financial Assets | 2,688 | - | - | - | 94,831 | 97,519 | - |
| **Financial Liabilities** | | | | | | | |
| Accounts Payable | - | - | - | - | 40,246 | 40,246 | - |
| Derivatives | - | - | - | - | 120,172 | 120,172 | - |
| Debt | - | 17,340 | 95,477 | 99,737 | - | 212,554 | 5.42% |
| Other | - | - | - | - | 41,320 | 41,320 | - |
| Total Financial Liabilities | - | 17,340 | 95,477 | 99,737 | 201,738 | 414,292 | - |

| | Floating Interest Rate $'000 | Fixed Interest Rate Maturing In 1 Year or less $'000 | 1 to 5 years $'000 | Over 5 years $'000 | Non-Interest Bearing $'000 | Total Carrying Amount $'000 | Weighted Average Effective Interest Rate pa % |
|---|---|---|---|---|---|---|---|
| **NOTE 26 FINANCIAL INSTRUMENTS (CONTINUED)** | | | | | | | |
| **Consolidated 2006** | | | | | | | |
| **Financial Assets** | | | | | | | |
| Cash | 2,098 | - | - | - | 481 | 2,579 | 5.30% |
| Trade Receivables | - | - | - | - | 72,874 | 72,874 | - |
| Derivatives | - | - | - | - | 24,191 | 24,191 | - |
| Deposits | 670 | - | - | - | - | 670 | 5.49% |
| Other | - | - | - | - | 4 | 4 | - |
| Total Financial Assets | 2,768 | - | - | - | 97,550 | 100,318 | - |
| **Financial Liabilities** | | | | | | | |
| Accounts Payable | - | - | - | - | 40,374 | 40,374 | - |
| Derivatives | - | - | - | - | 120,172 | 120,172 | - |
| Debt | - | 17,340 | 95,477 | 99,737 | - | 212,554 | 5.42% |
| Other | - | - | - | - | 41,320 | 41,320 | - |
| Total Financial Liabilities | - | 17,340 | 95,477 | 99,737 | 201,866 | 414,420 | - |

**b) Credit Risk - Recognised Financial Instruments**

Credit risk is the risk of financial loss arising from another party to a contract or financial position failing to discharge a financial obligation thereunder. Eraring Energy's maximum exposure to credit risk is represented by the carrying amount of the financial assets included in the consolidated Balance Sheet.

**Electricity Hedging Contracts**

The corporation is an active manager of its credit risk exposure to electricity hedging contracts. Following Board approved policy, exposure limits are applied to each respective counterparty. This is done by reference to an acceptable public credit rating assigned by an approved credit rating agency, or in the absence of an acceptable public rating, by assessing internally the credit rating of that counterparty using a methodology consistent with the approach of an approved credit rating agency. Credit limits and exposures are monitored regularly and reported monthly to the Board. It is preferred policy to seek an ISDA master agreement with all trading counterparts, and when necessary, the ISDA may require a Bank Guarantee or other acceptable security exercisable in the State of New South Wales.

| | Government $'000 | Banks $'000 | Others $'000 | Total $'000 |
|---|---|---|---|---|
| **Parent Entity 2007** | | | | |
| **Financial Assets** | | | | |
| Cash | - | 2,644 | - | 2,644 |
| Trade Receivables | 430,433 | - | 33,694 | 464,127 |
| Derivatives | 11,777 | 9,801 | 20,668 | 42,246 |
| Other | - | - | 4 | 4 |
| Total Financial Assets | 442,210 | 12,445 | 54,366 | 509,021 |
| **Consolidated 2007** | | | | |
| **Financial Assets** | | | | |
| Cash | - | 2,990 | - | 2,990 |
| Trade Receivables | 430,816 | 1 | 33,694 | 464,511 |
| Derivatives | 11,777 | 9,801 | 20,668 | 42,246 |
| Other | - | - | 4 | 4 |
| Total Financial Assets | 442,593 | 12,792 | 54,366 | 509,751 |

## NOTE 26 FINANCIAL INSTRUMENTS (CONTINUED)

| | Government $'000 | Banks $'000 | Others $'000 | Total $'000 |
|---|---|---|---|---|
| **Parent Entity 2006** | | | | |
| **Financial Assets** | | | | |
| Cash | - | 2,018 | 481 | 2,499 |
| Trade Receivables | 64,474 | 575 | 5,106 | 70,155 |
| Derivatives | 16,595 | 9,131 | 22,119 | 47,845 |
| Deposits | 670 | - | - | 670 |
| Total Financial Assets | 81,739 | 11,724 | 27,706 | 121,169 |
| **Consolidated 2006** | | | | |
| **Financial Assets** | | | | |
| Cash | - | 2,098 | 481 | 2,579 |
| Trade Receivables | 67,193 | 575 | 5,106 | 72,874 |
| Derivatives | 16,595 | 9,131 | 22,119 | 47,845 |
| Deposits | 670 | - | - | 670 |
| Total Financial Assets | 84,458 | 11,804 | 27,706 | 123,968 |

**c) Net Fair Value**

The recognised and unrecognised financial assets and financial liabilities of the Corporation are recorded at net fair value except as disclosed in the following table:

| | Total Carrying Amount $'000 | Aggregate Net Fair Value $'000 |
|---|---|---|
| **Parent Entity 2007** | | |
| Semi-Government Bonds | 294,866 | 289,992 |
| **Consolidated 2007** | | |
| Semi-Government Bonds | 294,866 | 289,992 |
| **Parent Entity 2006** | | |
| Semi-Government Bonds | 212,554 | 211,873 |
| **Consolidated 2006** | | |
| Semi-Government Bonds | 212,554 | 211,873 |

**d) Electricity Derivatives Disclosure Note**

| | 2007 Face Value $'000 | 2006 Face Value $'000 |
|---|---|---|
| **Electricity Hedging Contracts** | | |
| Duration less than one year | **512,116** | 484,707 |
| Duration later than one year but not later than five years | **435,895** | 523,996 |
| | **948,011** | 1,008,703 |

| | 2007 Fair Value $'000 | 2006 Fair Value $'000 |
|---|---|---|
| **Electricity Derivatives Fair Values** | | |
| Contracts designated as cash flow hedges (balance reflected in equity) | **(1,311,809)** | (91,362) |
| Contracts classified as held for trading | **(2,175)** | (4,619) |
| Total fair value of electricity derivatives | **(1,313,984)** | (95,981) |

The contracts as at the 30th June 2007 have a net mark to market value of negative $1,314 million (2006 - negative $96 million).

## NOTE 26 FINANCIAL INSTRUMENTS (CONTINUED)

The table includes predominantly swap contracts where the face value is calculated by multiplying the MW volume by the contract price. In addition to the above derivatives, Eraring has purchased CAP contracts which may be exercised depending on the spot price in relation to the strike price. Whilst the value of CAP contracts have been included in the credit risk exposure and mark to market disclosures, CAP contracts have been excluded in the face value disclosures because CAPS are not firm contracts and have a distortionary affect on face value disclosures.

Wholesale market contracts have been entered into with electricity market counterparties to hedge the risk associated with fluctuations in the sale price of electricity into the national electricity market (NEM). It is the policy of the entity to manage its exposure in line with forecast generation. In doing so, the entity has entered into various electricity contracts.

Mark to market value is measured based on industry accepted valuation methodologies and a market published forward curve, and complies with AASB 139.

The forward price of electricity since January 2007 has been extremely volatile and for 2007/08 more than doubled in price due mainly to the prolonged effects of the drought. Eraring Energy undertakes a rolling sales program with a large proportion of 2007/08 sales contracts entered into prior to January 2007 which has caused the majority of the negative mark to market position at 30th June 2007. As at 31st August 2007, the negative mark to market had reduced to $338 million, which is 26% of the market value at 30 June 2007.

The volatility of electricity prices also impacts non-current asset values (see Note 14).

## NOTE 27 RELATED PARTY DISCLOSURES

### a) Directors and Director-Related Entities

Some Directors of Eraring Energy hold Directorships in other companies. Any business transactions undertaken between Eraring Energy and these entities during the financial year have been made in the normal course of business and on normal commercial terms and conditions.

The Directors of Eraring Energy at financial year end were Mr RM Bunyon, Ms BA Hoskinson-Green, Dr MJ Vertigan, Mr M Nugent, Mr D Pritchard, Mr P Murray and Mr P Jackson. Mr P Murray was appointed Director of Eraring Energy from 1 September 2006. Mr P Jackson was appointed Managing Director of Eraring Energy from 11 September 2006, after having been appointed Acting Managing Director from 26 June 2006.

Mr RM Bunyon, Dr MJ Vertigan and Mr P Jackson were also Directors of Eraring Energy's wholly owned subsidiary Pacific Western Pty Limited at financial year end. Mr P Jackson was appointed Director of Pacific Western Pty Limited from 15 August 2006. Mr G Grove-White was a Director of Pacific Western Pty Limited until 15 August 2006.

### b) Key Management Personnel Remuneration

Key management personnel includes Directors and members of the Executive.

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Short-term employee benefits | **2,366** | 1,980 | **2,366** | 1,980 |
| Post-employment benefits | **425** | 227 | **425** | 227 |
| Other long-term benefits | **142** | 119 | **142** | 119 |
| | **2,933** | 2,326 | **2,933** | 2,326 |

No additional remuneration is paid to key management personnel in relation to Pacific Western Pty Limited. No additional remuneration is paid to the Managing Director for being an Executive Director.

### c) Related Party Transactions

Transactions and outstanding balances between Eraring Energy and its wholly owned subsidiary, Pacific Western Pty Limited, are conducted on normal commercial terms, and are detailed in the following table:

| | Expenses charged to related party | Interest paid to related party | Amounts owed to related party |
|---|---|---|---|
| | $'000 | $'000 | $'000 |
| **2007** | **-** | **16** | **383** |
| 2006 | 7 | 50 | 626 |

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **$'000** | $'000 | **$'000** | $'000 |
| **NOTE 28 REMUNERATION TO EXTERNAL AUDITORS** | | | | |
| Remuneration paid or payable for audit of the financial report | **221** | 230 | **214** | 223 |

## NOTE 29 EXEMPTIONS

The financial statements have been prepared in accordance with the requirements of Part 3 of the Public Finance and Audit Act 1983 and the Public Finance and Audit Regulation 2005, except that the following exemptions have been granted by the Treasurer:

Exemption from reporting on and against detailed budgets.
Exemption from providing a narrative summary review of operations.
Exemption from reporting on management and activities.
Exemption from reporting details of research and development expenditure.
Exemption from reporting human resource details.
Exemption from reporting details of expenditure on consultants.
Exemption from reporting details of land disposals.
Exemption from reporting details of consumer complaints.
Exemptions from reporting details relating to the performance in paying accounts, and the time for payment of accounts.
Exemption from reporting on risk management and insurance activities.
Exemption from reporting detailed disclosure of controlled entities.
Exemptions from reporting details of investment performance and liability management performance.

## NOTE 30 EVENTS OCCURRING AFTER BALANCE DATE

### Parent Entity

**Forward Electricity Prices**

As at 31st August 2007, the net negative mark to market had reduced to $338 million, which is 26% of the market value at 30 June 2007, due to the significant reduction in forward prices since balance date. The volatility of electricity prices may also impact non-current asset values for property, plant and equipment (see Note 14).

### Pacific Western Pty Limited

In July 2007, the Board of Directors of Pacific Western Pty Limited resolved to voluntarily wind-up the company. Liquidators McGrathNicol have been appointed.

**End of the financial statements audited by the Auditor-General**

For the year ended 30th June, 2007

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

1. The Financial Statements exhibit a true and fair view of the financial position, financial performance and cash flows of Eraring Energy as at 30th June 2007.
2. The Financial Statements are a general purpose financial report which has been prepared in accordance with applicable Australian Accounting Standards and other mandatory professional reporting requirements, the provisions of the State Owned Corporations Act 1989, Part 3 of the Public Finance and Audit Act 1983, the Public Finance and Audit Regulation 2005 and Treasurer's Directions, except where the New South Wales Treasurer's exemption has been granted.
3. At the date of this statement, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
4. We are not aware of any circumstances at the date of this declaration that would render any particulars included in this financial report to be misleading or inaccurate.

Dated at Sydney this 18th day of September 2007.

**RM Bunyon**

Chairman

**PG Jackson**

Managing Director

For the year ended 30th June, 2007

GPO Box 12
Sydney NSW 2001

To Members of the New South Wales Parliament

I have audited the accompanying financial report of Eraring Energy (the Corporation), and Eraring Energy and its controlled entity (the consolidated entity), which comprises the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. The consolidated entity comprises the Corporation and the entities it controlled at the year's end or from time to time during the financial year.

**Auditor's Opinion**

In my opinion, the financial report:

- presents fairly, in all material respects, the financial position of the Corporation and the consolidated entity as of 30 June 2007, and of their financial performance and their cash flows for the year then ended in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations)
- is in accordance with section 41B of the *Public Finance and Audit Act 1983* (the PF&A Act) and the Public Finance and Audit Regulation 2005
- also complies with International Financial Reporting Standards as disclosed in Note 1 (b).

**Directors' Responsibility for the Financial Report**

The directors are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the PF&A Act. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1 (b), the directors also state, in accordance with Accounting Standard AASB 101 'Presentation of Financial Statements', that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

**Auditor's Responsibility**

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

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

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

My opinion does not provide assurance:

- about the future viability of the Corporation or consolidated entity,
- that they have carried out their activities effectively, efficiently and economically, or
- about the effectiveness of their internal controls.

**Independence**

In conducting this audit, the Audit Office has complied with the independence requirements of the Australian Auditing Standards and other relevant ethical requirements. The PF&A Act further promotes independence by:

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

Peter Achterstraat

**Peter Achterstraat**
Auditor-General

SYDNEY
18 September 2007

For the year ended 30th June, 2007

The Directors present their report together with the financial statements of Pacific Western Pty Limited for the period 1 July 2006 to 30 June 2007 and the auditor's report thereon.

**Directors**

The Directors in office at the date of this report are Ross Murdoch Bunyon, Michael John Vertigan and Peter Gregory Jackson. Directors Bunyon and Vertigan held office for the whole of the financial year. Director Jackson was appointed as a Director on 15th August 2006. Gerry Grove-White resigned as a Director on the 15th August 2006.

**Principal Activities**

The company is no longer a trading entity following termination of the contract with Verve, formerly Western Power, on the 24th March 2005 for the operation and maintenance of Collie Power Station.

**Financial Performance**

Pacific Western made an operating net loss before tax of $3,666,293 and an operating net loss after tax of $2,566,405. The contract performance over the life of the contract significantly exceeded budget expectations.

**Dividends**

A dividend of $700,000 has been recommended from retained earnings at the 30th June 2007.

**Directors' Benefits**

During the financial year no Director of the company has received or become entitled to receive any benefit by reason of a contract made by the company with the Director or with a firm of which the Director is a member, or with a company in which the Director has substantial financial interest.

**Current Position**

On the 23rd May 2007, the voting shareholders of Eraring Energy approved the wind up of Pacific Western Pty Limited. It is intended to appoint a liquidator and wind up the company during 2007/08.

The dispute with Verve, formerly Western Power, was resolved during the financial year.

**Auditors Independence Declaration**

The Auditors Independence Declaration, required under Corporations Act 2001, is included on the following page.

Dated at Sydney this 26th day of July 2007.

Signed in accordance with a resolution of the Directors:

**RM Bunyon**
Chairman

**MJ Vertigan**
Director

AUDITOR-GENERAL
NEW SOUTH WALES

GPO Box 12
Sydney NSW 2001

To the Directors

Pacific Western Pty Limited

**Auditor's Independence Declaration**

As auditor for the audit of Pacific Western Pty Limited for the year ended 30 June 2007, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- The independence requirements of the *Corporations Act 2001* in relation to the audit, and
- Any applicable code of professional conduct in relation to the audit.

M Abood

**M P Abood CPA**
Director, Financial Audit Services

26 July 2007
SYDNEY

For the year ended 30th June, 2007

In the opinion of the Directors of Pacific Western Pty Limited:

1. The financial statements exhibit a true and fair view of the financial position, financial performance and cash flows of Pacific Western Pty Limited as at 30th June 2007.
2. At the date of this statement, there are reasonable grounds to believe that the company, with the support of its parent entity Eraring Energy, will be able to pay its debts as and when they become due and payable.
3. The financial statements have been made out in accordance with the Corporations Act 2001.
4. The financial statements of the company have been made out in accordance with applicable accounting standards, interpretations and authoritative pronouncements of the Australian Accounting Standards Board.
5. The financial statements have been prepared in accordance with the provisions of the Public Finance and Audit Act, 1983 and the Public Finance and Audit Regulation, 2005.

Dated at Sydney this 26th day of July 2007.

**RM Bunyon**
Chairman

**MJ Vertigan**
Director

For the year ended 30th June, 2007

| | Note | **2007** | 2006 |
|---|---|---|---|
| | | **$** | $ |
| Other revenue | 2 | **19,751** | 78,596 |
| Employee benefits expense | | **-** | (40,403) |
| Finance costs | | **(651)** | (475) |
| Other expenses | | **(3,685,393)** | (211,013) |
| **Profit (loss) before income tax** | 3 | **(3,666,293)** | (173,295) |
| Income tax revenue (expense) | 4 | **1,099,888** | (58,844) |
| **Net profit (loss) after tax for the year** | 8 | **(2,566,405)** | (232,139) |

The above income statement should be read in conjunction with the accompanying notes

## Pacific Western Pty Limited **Balance Sheet**

As at 30th June, 2007

| | Note | **2007** | 2006 |
|---|---|---|---|
| | | **$** | $ |
| **Current Assets** | | | |
| Cash and cash equivalents | 5 | **346,112** | 80,265 |
| Receivables | 6 | **384,153** | 3,344,895 |
| **Total Current Assets** | | **730,265** | 3,425,160 |
| **Total Assets** | | **730,265** | 3,425,160 |
| **Current Liabilities** | | | |
| Payables | 7 | - | 128,490 |
| Provisions | 8 | **700,000** | - |
| **Total Current Liabilities** | | **700,000** | 128,490 |
| **Total Liabilities** | | **700,000** | 128,490 |
| **Net Assets** | | **30,265** | 3,296,670 |
| **Equity** | | | |
| Contributed equity | 9 | **1** | 1 |
| Retained profits | 9 | **30,264** | 3,296,669 |
| **Total Equity** | | **30,265** | 3,296,670 |

The above balance sheet should be read in conjunction with the accompanying notes

For the year ended 30th June, 2007

| | Note | 2007 $ | 2006 $ |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash received in the course of operations | | **478** | 27,307 |
| Interest and bill discount received | | **18,981** | 53,309 |
| Cash paid in the course of operations | | **(1,475,840)** | (308,696) |
| GST refunded (paid) | | **379,618** | (582,389) |
| Interest and other finance costs paid | | **(651)** | (475) |
| Income tax paid | | **-** | (446,093) |
| **Net cash inflow (outflow) from operating activities** | 5 | **(1,077,414)** | (1,257,037) |
| **Cash flows from investing activities** | | | |
| Refund of investments | | **626,000** | 1,298,522 |
| Proceeds from sale of equipment | | **-** | 182 |
| **Net cash inflow (outflow) from investing activities** | | **626,000** | 1,298,704 |
| **Cash flows from financing activities** | | | |
| Proceeds from borrowings | | **717,261** | - |
| **Net cash inflow (outflow) from financing activities** | | **717,261** | - |
| Net increase (decrease) in cash and cash equivalents | | **265,847** | 41,667 |
| Cash and cash equivalents at the beginning of the financial year | | **80,265** | 38,598 |
| **Cash and cash equivalents at the end of the financial year** | 5 | **346,112** | 80,265 |

The above cash flow statement should be read in conjunction with the accompanying notes

## Pacific Western Pty Limited Statement of Changes in Equity

For the year ended 30th June, 2007

| | Note | 2007 $ | 2006 $ |
|---|---|---|---|
| Total equity at the beginning of the financial year | 9 | **3,296,670** | 3,528,809 |
| **Net income recognised directly in equity** | | **-** | - |
| **Profit (loss) after tax for the year** | | **(2,566,405)** | (232,139) |
| **Total recognised income and expense for the year** | | **(2,566,405)** | (232,139) |
| Dividends provided for or paid | | **(700,000)** | - |
| **Total equity at the end of the financial year** | 9 | **30,265** | 3,296,670 |

The above statement of changes in equity should be read in conjunction with the accompanying notes

## CORPORATE INFORMATION

The financial report of Pacific Western Pty Limited for the year ended 30 June 2007 was authorised for issue in accordance with a resolution of the Directors on 26th July 2007.

Pacific Western Pty Limited was established as a for-profit entity.

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of Preparation

The financial report is a general purpose financial report prepared in accordance with the provisions of the Public Finance and Audit Act, 1983 and Public Finance and Audit Regulation, 2005, Australian Accounting Standards, and the requirements of the State Owned Corporations Act, 1989.

The financial report has been prepared on the basis of historical cost. Cost is based on the fair values of the consideration given in exchange for assets. The accounting policies have been consistently applied by each entity in the consolidated entity.

Pacific Western has ceased trading. The financial report has been prepared on a going concern basis, which presumes the realisation of assets and discharge of liabilities in the normal course of business for the foreseeable future. The preparation of these accounts on an ongoing basis has not produced results which are materially different to that of preparing them on an alternative basis, ie. on a liquidation basis.

### (b) Statement of Compliance

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

### (c) Revenue Recognition

Revenues are recognised at fair value of the consideration receivable net of the amount of Goods and Service Tax payable to the taxation authority.

### (d) Payables

Liabilities are recognised for amounts to be paid in the future for goods and services received. Trade accounts payable are normally settled within 30 days. Payables in the balance sheet represent the principal amounts outstanding at balance date plus any accrued interest.

### (e) Receivables

Trade accounts receivable, amounts due from related parties and other receivables represent the principal amounts due at balance date plus, where applicable, accrued interest and less any unearned income and provisions for doubtful accounts. Trade debtors are generally settled within 30 days.

### (f) Income Tax

Eraring Energy and its wholly-owned entities have formed a tax-consolidated group with effect from 1 July 2006 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Eraring Energy.

The head entity, in conjunction with other members of the tax-consolidated group, has entered into a tax funding arrangement which sets out the funding obligations of members of the tax-consolidated group in respect of tax amounts. The tax funding arrangement require payments to/from the head entity equal to the current tax liability (asset) assumed by the head entity and any tax-loss deferred tax asset assumed by the head entity, resulting in the head entity recognising an inter-entity receivable (payable) equal in amount to the tax liability (asset) assumed. The inter-entity receivable (payable) are due and payable on demand, or otherwise agreed between members of the tax-consolidated group.

The head entity in the tax-consolidated group must recognise the current and deferred tax amounts (assets, liabilities, expenses and revenues) relating to transactions, events and balances of the wholly-owned subsidiaries in the tax-consolidated group. Pacific Western recognises the income tax revenue (expense) resulting from the inter-entity receivable (payable) arising from the tax funding arrangement.

### (g) New Accounting Standards

Certain new accounting standards have been published that are not mandatory for 30 June 2007 reporting periods. Pacific Western has not early adopted these standards, and it's assessment of the impact of these new standards is set out below:

**AASB 7 *Financial Instruments: Disclosures* and AASB 2005-10 *Amendments to Australian Accounting Standards* [AASB 1, AASB 4, AASB 101, AASB 114, AASB 117, AASB 132, AASB 133, AASB 139, AASB 1023 and AASB 1038]**

AASB 7 and AASB 2005-10 are applicable to annual reporting periods beginning on or after 1 January 2007. Application of the standards will not affect any of the amounts recognised in the financial statements.

**AASB 2007-1 *Amendments to Australian Accounting Standards arising from* AASB Interpretation 11 [AASB 2]**

AASB 2007-1 applies to annual reporting periods beginning on or after 1 March 2007. This standard does not impact Pacific Western, as it does not make share-based payments to directors or officers.

For the year ended 30th June, 2007

**AASB 2007-3 *Amendments to Australian Accounting Standards arising from* AASB 8 [AASB 5, AASB 6, AASB 102, AASB 107, AASB 119, AASB 127, AASB 134, AASB 136, AASB 1023 and AASB 1038]**

AASB 2007-3 applies to annual reporting periods beginning on or after 1 January 2009. This standard makes amendments to several standards relating to segment reporting, which is not applicable to Pacific Western.

**AASB 2007-4 *Amendments to Australian Accounting Standards arising from* ED 151 *and Other Amendments* [AASB 1, AASB 2, AASB 3, AASB 4, AASB 5, AASB 6, AASB 7, AASB 102, AASB 107, AASB 108, AASB 110, AASB 112, AASB 114, AASB 116, AASB 117, AASB 118, AASB 119, AASB 120, AASB 121, AASB 127, AASB 128, AASB 129, AASB 130, AASB 131, AASB 132, AASB 133, AASB 134, AASB 136, AASB 137, AASB 138, AASB 139, AASB 141, AASB 1023 and AASB 1038]**

AASB 2007-4 applies to annual reporting periods beginning on or after 1 July 2007. This standard amends a variety of standards, so as to include options currently available under IFRS. These changes are not expected to have an impact on the financial statements of Pacific Western.

## NOTE 2 REVENUE

| | **2007 $** | 2006 $ |
|---|---|---|
| **Other revenue** | | |
| Interest income | **19,751** | 53,309 |
| Miscellaneous | **-** | 25,105 |
| Proceeds from sale of property, plant & equipment | **-** | 182 |
| **Total revenue** | **19,751** | 78,596 |

## NOTE 3 EXPENSES

| | | |
|---|---|---|
| **Profit (loss) before income tax includes the following specific expenses:** | | |
| Legal fees | **287,976** | 193,496 |
| Finance costs | **651** | 475 |
| Damages paid to Verve, formerly Western Power | **3,380,453** | - |

## NOTE 4 INCOME TAX

| | 2007 $ | 2006 $ |
|---|---|---|
| ***Major components of tax expense (revenue) include:*** | | |
| **Income Statement** | | |
| ***Current income tax*** | | |
| Current tax expense (revenue) relating to current tax losses transferred to the head entity of the tax-consolidated group | **(878,456)** | - |
| Adjustment in respect of current income tax of previous years | **-** | 10,719 |
| ***Deferred income tax*** | | |
| Deferred tax expense relating to the origination and reversal of temporary differences | **-** | 48,125 |
| Deferred tax expense (revenue) relating to the non-recognition of temporary differences transferred to the head entity of the tax-consolidated group | **(221,432)** | - |
| Income tax expense (revenue) reported on the income statement | **(1,099,888)** | 58,844 |
| **Explanation of the relationship between tax expense (revenue) and accounting profit (loss)** | | |
| Accounting profit (loss) | **(3,666,293)** | (173,295) |
| Income tax at the statutory income tax rate of 30% | **(1,099,888)** | (51,988) |
| Expenditure not allowable for income tax purposes | **-** | 86,029 |
| Clearance of deferred tax balances | **-** | 683 |
| Adjustment in respect of current income tax of previous years | **-** | 10,719 |
| Tax loss derecognised | **-** | 13,401 |
| Tax expense (revenue) reported in the income statement | **(1,099,888)** | 58,844 |

| | **Balance Sheet** | | **Recognised in Income** | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **$** | $ | **$** | $ |
| ***The amount of the deferred tax assets and liabilities recognised in the balance sheet and the resultant impact on income tax expense*** | | | | |
| ***Deferred income tax assets*** | | | | |
| Employee leave entitlements | - | - | - | (16,189) |
| Provision for voluntary redundancies | - | - | - | (26,581) |
| Miscellaneous expenditure | - | - | - | (5,355) |
| Gross deferred income tax assets | - | - | - | - |
| Deferred income tax charge | | | - | (48,125) |

**Unrecognised deferred tax assets**

Deferred tax assets have not been recognised in respect of the following items:

| | 2007 | 2006 |
|---|---|---|
| Tax losses | **-** | 13,401 |

Deferred tax assets have not been recognised as benefits are not available, subsequent to the decision to tax-consolidate with the head entity.

For the year ended 30th June, 2007

## NOTE 5 CASH AND CASH EQUIVALENTS

| | **2007** | 2006 |
|---|---|---|
| | **$** | $ |
| Cash at bank and on hand | **346,112** | 80,265 |
| Reconciliation of profit (loss) from ordinary activities after income tax expense to net cash provided by operating activities: | | |
| Profit (loss) from ordinary activities after income tax expense | **(2,566,405)** | (232,139) |
| Add/(less): Non-cash items | | |
| Proceeds from sale of non-current assets | **-** | (182) |
| Increase/(decrease) in income tax payable | **-** | (435,373) |
| Net cash provided by operating activities before changes in assets and liabilities | **(2,566,405)** | (667,694) |
| Net changes in assets and liabilities during the financial year: | | |
| (Increase)/decrease in receivables | **1,617,481** | 17,338 |
| (Increase)/decrease in future income tax benefit | **-** | 48,125 |
| Increase/(decrease) in payables and borrowings | **(128,490)** | (512,239) |
| Increase/(decrease) in other liabilities | **-** | (142,567) |
| Net cash provided by/(used in) operating activities | **(1,077,414)** | (1,257,037) |

For the purposes of the Cash Flow Statement, cash includes cash on hand and on deposit at bank, net of outstanding bank overdrafts. It also includes investments as part of the daily cash management function.

## NOTE 6 RECEIVABLES

| | | |
|---|---|---|
| Trade receivables | **-** | 2,718,417 |
| Other receivables | **1,525** | 478 |
| Amounts owing from Eraring Energy | **382,628** | 626,000 |
| | **384,153** | 3,344,895 |

## NOTE 7 PAYABLES

| | | |
|---|---|---|
| Trade payables | **-** | 128,490 |

## NOTE 8 PROVISIONS

| | | |
|---|---|---|
| Dividend | **700,000** | - |

**Reconciliation**

Reconciliation of the carrying amount of the dividend provision is provided for the current financial year below:

| | |
|---|---|
| Balance @ 1 July 2006 | - |
| Additional provision recognised | 700,000 |
| Balance @ 30 June 2007 | 700,000 |

## NOTE 9 CONTRIBUTED EQUITY, RESERVES AND RETAINED PROFITS

| | **2007** **$** | 2006 $ |
|---|---|---|
| Contributed equity | **1** | 1 |
| Retained profits | **30,264** | 3,296,669 |
| | **30,265** | 3,296,670 |
| **Movements in Retained Profits** | | |
| Opening balance | **3,296,669** | 3,528,808 |
| Net loss after tax | **(2,566,405)** | (232,139) |
| Dividends provided | **(700,000)** | - |
| | **30,264** | 3,296,669 |

## NOTE 10 FINANCIAL INSTRUMENTS

All financial instruments are accounted for at net fair value unless otherwise stated.

**a) Interest Rate Risk**

Interest rate risk is the risk that the value of the financial instrument used will fluctuate due to changes in the market interest rates resulting in an adverse financial effect.

| | Floating Interest Rate $ | Fixed Interest Rate Maturing In 1 Year or less $ | 1 to 5 years $ | Over 5 years $ | Non-Interest Bearing $ | Total Carrying Amount $ | Weighted Average Effective Interest Rate pa% |
|---|---|---|---|---|---|---|---|
| **2007** | | | | | | | |
| **Financial Assets** | | | | | | | |
| Cash | 346,112 | - | - | - | - | 346,112 | 6.12% |
| Receivables | - | - | - | - | 384,153 | 384,153 | - |
| Total Financial Assets | 346,112 | - | - | - | 384,153 | 730,265 | - |
| **Financial Liabilities** | | | | | | | |
| Other | - | - | - | - | 700,000 | 700,000 | - |
| Total Financial Liabilities | - | - | - | - | 700,000 | 700,000 | - |
| **2006** | | | | | | | |
| **Financial Assets** | | | | | | | |
| Cash | 80,265 | - | - | - | - | 80,265 | 5.49% |
| Receivables | 626,478 | - | - | - | 2,718,417 | 3,344,895 | - |
| Total Financial Assets | 706,743 | - | - | - | 2,718,417 | 3,425,160 | - |
| **Financial Liabilities** | | | | | | | |
| Payables | - | - | - | - | 128,490 | 128,490 | - |
| Total Financial Liabilities | - | - | - | - | 128,490 | 128,490 | - |

## NOTE 10 FINANCIAL INSTRUMENTS (CONTINUED)

### b) Credit Risk - Recognised Financial Instruments

Credit risk is the risk of financial loss arising from another party to a contract or financial position failing to discharge a financial obligation thereunder. Pacific Western's maximum exposure to credit risk is represented by the carrying amount of the financial assets included in the Balance Sheet.

| | Government $ | Banks $ | Others $ | Total $ |
|---|---|---|---|---|
| **2007** | | | | |
| **Financial Assets** | | | | |
| Cash | - | 346,112 | - | 346,112 |
| Receivables | 383,383 | 770 | - | 384,153 |
| Total Financial Assets | 383,383 | 346,882 | - | 730,265 |
| **2006** | | | | |
| **Financial Assets** | | | | |
| Cash | - | 80,265 | - | 80,265 |
| Receivables | 3,344,895 | - | - | 3,344,895 |
| Total Financial Assets | 3,344,895 | 80,265 | - | 3,425,160 |

### c) Net Fair Value

The aggregate net fair value of financial assets and financial liabilities approximate the values recognised in the Balance Sheet.

## NOTE 11 RELATED PARTY DISCLOSURES

### a) Key Management Personnel

The Directors of the entity during the financial year were:

Mr RM Bunyon
Dr MJ Vertigan
Mr P Jackson (from 15th August 2006)
Mr G Grove-White (to 15th August 2006)

The above Directors are also Directors of the parent entity. No additional remuneration is paid for being a Director of Pacific Western Pty Limited.

No Director has declared the receipt of, or an entitlement to receive, during or since the financial year, a benefit as a result of a contract between Pacific Western Pty Limited and a Director, an entity of which a Director is a member or an entity in which a Director has a substantial financial interest.

### b) Ultimate Parent Entity

The ultimate parent entity at reporting date is Eraring Energy.

### c) Related Party Transactions

The following table provides details of transactions that were entered into with related parties:

| | Expenses charged by related party $ | Interest revenue from related party $ | Amounts owed by related party $ |
|---|---|---|---|
| **2007** | **-** | **16,490** | **382,628** |
| 2006 | 6,762 | 49,613 | 626,000 |

## NOTE 12 REMUNERATION TO EXTERNAL AUDITORS

| | **2007** **$** | 2006 $ |
|---|---|---|
| Remuneration paid or payable for audit of the financial report | **7,400** | 7,000 |

**End of the financial statements audited by the Auditor-General**

AUDITOR-GENERAL NEW SOUTH WALES

GPO Box 12
Sydney NSW 2001

**Independent Auditor's Report**
**Pacific Western Pty Limited**

To Members of the New South Wales Parliament and Members of Pacific Western Pty Limited

I have audited the accompanying financial report of Pacific Western Pty Limited (the Company), which comprises the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

**Auditor's Opinion**

In my opinion, the financial report of the Company:

- is in accordance with the *Corporations Act 2001,* including:
  - – giving a true and fair view of the Company's financial position as at 30 June 2007 and of its performance for the year ended on that date; and
  - – complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001
- is in accordance with section 41B of the Public Finance and Audit Act 1983 (the PF&A Act) and the Public Finance and Audit Regulation 2005.
- also complies with International Financial Reporting Standards as disclosed in Note 1 (B).

**Directors' Responsibility for the Financial Report**

The directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations), the PF&A Act and the *Corporations Act 2001.* This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1(B), the director's also state, in accordance with Accounting Standard AASB 101 'Presentation of Financial Statements', that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

**Auditor's Responsibility**

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

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

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

My opinion does *not* provide assurance:

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

In conducting this audit, the Audit Office has complied with the independence requirements of the *Corporations Act 2001.* The PF&A Act further promotes independence by:

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

M Abood

**M P Abood CPA**
Director, Financial Audit Services

SYDNEY
26 July 2007

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