

Financial Overview

Statement of Corporate Intent

The Statement of Corporate Intent (SCI) is the agreement between the Board of EnergyAustralia and its voting shareholders. The voting shareholders are the NSW Treasurer and the Special Minister of State. The SCI outlines EnergyAustralia's commitment to meeting the objectives of our shareholders, to add value to the business and provide commercial rates of return.

EnergyAustralia exceeded all SCI Performance Targets for 1998/99:

	SCI Target	1998/99 Result
Return on Equity (after tax)	9.2%	11.2%
Return on Assets ¹	10.4%	10.9%
Gearing	45.6%	44.4%
Operating Profit After Tax	\$145m	\$181m
Distributions to Government:		
Income Tax Payable	\$89m	\$87m
Dividend	\$137m	\$139m
Total	\$226m	\$226m

¹ Return on Assets = EBIT/Average Total Assets (Net Fixed Assets plus Total Current Assets)

A Positive Economic Performance

- Total electricity sales volumes and total revenue exceeded the Statement of Corporate Intent by 5% and 3% respectively.
- Revenue from operating activities other than electricity sales grew by \$85m (32%) over 1997/98 levels.
- An Operating Profit after tax of \$181m was \$36m (25%) higher than target in the Statement of Corporate Intent.
- Distributions to Government of \$226m were in line with the SCI target.
- Income from investments grew by \$4m (28%) over 1997/98 levels.

The 1998/99 results build upon the excellent financial performance of EnergyAustralia in recent years. The reform in the electricity industry has seen a dramatic shift in industry returns, as competition drives down prices to customers in the competitive segments and regulatory reform is driving down real prices for all the community. EnergyAustralia has responded to the challenge and continues to exceed targets and earn commercial rates of return for its shareholders.

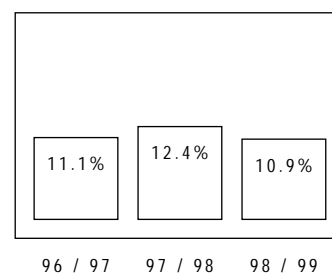
Next Year's Outlook

The 1999/00 Group Business Plan builds on EnergyAustralia becoming the leading multi-utility, with the following key targets:

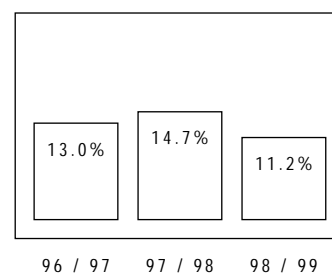
- Continue to be number one in electricity retail in Australia.
- Grow market share in the contestable retail segment.
- Diversification into gas, adding to our portfolio of electricity and telecommunications interests.
- Improve the regulated business performance.
- Implement the next five year Distribution Use of System price determination, due in November 1999.

1999 – 2000 Budget	\$M
Income	1,981.5
Operating Expenditure	1,575.6
Operating Profit (before tax and abnormals)	311.4
Capital Expenditure	217.2

Return on Net Operating Assets



Return on Equity Performance



EnergyAustralia at a Glance

EnergyAustralia is a NSW Government owned company and is the largest electricity distributor and retailer in Australia.

	1998/99	1997/98
Total Assets	\$3,788m	\$3,746m
Long – Term Debt	\$1,132m	\$1,006m
Shareholder's Equity	\$1,623m	\$1,580m
Operations:		
Electricity through the franchise network(GWh)	23,064	22,067
Number of customers	1,383,616	1,366,348
Annual Revenue	\$1,870m	\$1,882m
Number of Employees	3,111	3,016

Revenue

EnergyAustralia is committed to its vision of being the leading multi-utility in the Asia-Pacific region and is focused on growth and profitability.

In an environment of new competition in our markets, characterised by falling prices, EnergyAustralia has maintained revenue in the following ways:

- Revenue from operating activities of \$1,847m was achieved, a \$10m increase over 1997/98. Revenue from electricity sales fell by less than 5% over 1997/98 levels, caused by lower prices to our largest customers. Revenue from operating activities other than electricity sales grew by \$85m (32%) over 1997/98 levels.
- Compared to the SCI target, revenue from electricity sales was \$50m higher than target, representing 5% higher volume and 3% higher revenue.

Profitability

An Operating Profit before tax and abnormals of \$298m was achieved this year, \$8m (3%) lower than in 1997/98. This represents a remarkable \$43m (17%) improvement over the SCI target for the year. The higher revenue from electricity sales contributed to the performance.

Cash Flow

Cash flow from operations increased in 1998/99 by \$33m (an 8% increase) to \$431m. EnergyAustralia is increasing the investment in system assets to meet customer needs for growth and to improve reliability and as a result the cash required for capital purchases rose by 11% from \$174m to \$193m. During the year EnergyAustralia made investments of \$21m in PowerTel.

EnergyAustralia's asset portfolio management achieved investment income of \$17m, an increase of \$4m (28%) over 1997/98.

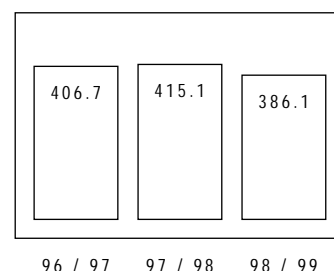
No additional borrowings were required in 1998/99 and gearing fell from 45.2% to 44.4%. Active management of debt allowed EnergyAustralia to reduce interest expense by \$18m (15%) to \$105m and to improve Earnings Protection (Times Interest Cover) from 3.4 in 1997/98 to 3.7 in 1998/99.

Social Program Activities

During the year, EnergyAustralia carried out non-commercial social program activities at the direction of the NSW Government and received full reimbursement through the 1998/99 State Budget for all costs incurred. The total reimbursement of \$28.5 million relates to the following activities:

- Provision of rebates to pensioners and low income households (\$25.4 m).
- Medical rebates for life support systems (\$0.6 m).
- The Electricity Payment Assistance Scheme (\$2.5 m).

Earnings Before Interest and Tax



Millions of dollars

Directors' Report

The Board of Directors are pleased to submit the Directors' report on the Financial Statements for the Corporation and its controlled entities for the year ended 30 June 1999.

The Board

The State Owned Corporations Act 1989 provides for up to seven Directors to be appointed to the Board of EnergyAustralia. There are currently six Directors including a Director nominated by the NSW Labour Council and an Executive Director, the Managing Director.

With the exception of the Managing Director, the Directors are appointed for a three-year term and may be considered for re-appointment beyond this term. The Board of EnergyAustralia is accountable to the voting shareholders being the NSW Treasurer and Special Minister of State. The remuneration of the non-executive Directors is determined by the voting shareholders and paid for by EnergyAustralia.

The Board meets regularly and performs the following functions:

- endorses the overall strategic direction;
- approves the annual business plan and incorporated budgets;
- approves delegations and powers of attorney to ensure the effective management of the organisation;
- approves major items of expenditure in accordance with the schedule of delegations; and
- reviews management performance.

The Directors

The Directors holding office at the date of this report are:

Mr Michael Lambert

BEC, MEC

A non-executive Director since November 1998. Chairman of the Board's Capital Investment and Utilisation Committee and member of the Board's Audit and Compliance Committee. Executive Director of ABN AMRO and former Secretary of the NSW Treasury. Experience in corporate finance, electricity sector reform and NSW rail sector reform.

Mr Bruce Hogan

BEC (Hons)

A non-executive Director since November 1997. Chairman of the Board's Risk Management Committee and member of the Board's Human Resources Committee. A Director of Coles Myer Ltd and Chairman of Coles Myer Superannuation Fund, Chairman of Adelaide Casino, Director of GIO Australia Holdings Ltd, St Vincents Hospital and NSW Treasury Corporation.

Ms Belinda Hutchinson

BEC, FCA

A non-executive Director since November 1997. Chairman of the Board's Audit and Compliance Committee, member of the Board's Risk Management Committee. A Director of TAB Ltd, Crane Group Ltd, QBE Insurance Group Ltd and Snowy Hydro Trading Pty Ltd, a consultant to Macquarie Bank and a member of the State Library of NSW Council.

Mr Paul Broad

BComm (Hons), MComm

Appointed Managing Director from September 1997.

Member of the Board's Audit and Compliance Committee, Human Resources Committee, Risk Management Committee and Capital Investment and Utilisation Committee. A Director of DownTown Utilities, PowerTel and the Hunter Valley Research Foundation. Experience in the Commonwealth Treasury, Industry Assistance Commission and Australian Water Resources Council. Former Managing Director of Sydney Water Corporation and the Hunter Water Corporation.

Mr John Conde AO, Chairman

BSc, BE (Hons), MBA

A non-executive Director since November 1997. Member of the Board's Audit and Compliance Committee, Human Resources Committee and Capital Investment and Utilisation Committee. A Director of DownTown Utilities, Chairman and Managing Director of Broadcast Investments, Chairman of Radio 2UE, Chairman of MBF, Director of BHP and Chairman of the Australian Technology Park.

Mr John Robertson

A non-executive Director since March 1998.

Chairman of the Board's Human Resources Committee and member of the Board's Capital Investment and Utilisation Committee. Assistant Secretary of the Labour Council of New South Wales specialising in employment relations and industrial law. A Director of 2KY, the Building and Constructions Industry's Long Service Payments Corporation Committee. Member of the Board of Governors of the Australian Tax Research Foundation.

Directors' Report

Corporate Governance

EnergyAustralia's Directors have implemented practices which continually seek to achieve the highest standard of corporate governance. The corporate governance practices were enhanced during the year when Directors reviewed the composition and responsibilities of Committees of the Board. The following changes were implemented as a result of that review:

- the role of the Audit Committee was expanded to include review of the compliance framework and was re-named as the Audit and Compliance Committee;
- three new committees were formed: Risk Management, Human Resources and Capital Investment and Utilisation.

A brief description of the responsibilities of each Committee follows:

Audit and Compliance Committee

The objectives and responsibilities of the Committee are to:

- ensure the effectiveness of the internal and external audit functions;
- oversight of compliance with statutory responsibilities relating to financial disclosure;
- review the adequacy of risk management systems and the internal controls instituted;
- review compliance with relevant government regulations;
- review and monitor the propriety of all related party transactions; and
- assess the performance of financial management.

Risk Management Committee

The Committee oversees operations in relation to energy trading, credit management, corporate treasury and pricing. The duties of the Committee are to:

- review and approve risk management policies and procedures;
- review trading strategy and its impact on risk management;
- review and approve delegations;
- review the adequacy of the internal controls instituted; and
- review compliance with the risk management framework.

Capital Investment and Utilisation Committee

The objectives of this Committee are to review strategies, policies and practices of EnergyAustralia, in relation to the capital program strategy and planning effective utilisation of the asset base. The duties of the Committee are to:

- review the process for the formulation of the capital strategy and its linkage to the overall corporate planning strategy;
- review the process for evaluation and prioritisation of major capital projects;
- review the process for implementing major capital projects and the adequacy of capital expenditure controls;
- consider post implementation reviews of completed major capital projects; and
- review the approach to the planned maintenance and utilisation of major assets.

Human Resources Committee

The primary objectives of the Human Resources Committee are to:

- review, analyse and report on relevant employee issues to the Board of Directors;
- ensure that the strategic Human Resource direction aligns with the overall business direction and future needs of the organisation; and
- review progress of implementation of the Human Resources Strategic Plan.

Board and Committee Meetings 1/7/98 to 30/6/99

Board of Directors' Meetings	Number Attended	Number Eligible to Attend	Audit and Compliance #	Board Committee Meetings		
				Human Resources +	Risk Management +	Capital Investment and Utilisation +
John C. Conde AO (Chairman)	13	(13)	5(6)	2(2)	*	1(1)
Paul A. Broad (Managing Director)	13	(13)	6(6)	2(2)	2(2)	1(1)
Bruce Hogan	13	(13)	4(5)	1(1)	2(2)	*
Belinda Hutchinson	13	(13)	6(6)	*	2(2)	*
Michael Lambert	4	(7)	0(1)	1(1)	*	1(1)
John Robertson	8	(13)	1(1)	*	*	1(1)

* Not a Committee member

Membership of the Committee changed in February 1999

+ Committee(s) formed in February 1999

Business Risk Management and Internal Control Framework

Within EnergyAustralia, Risk Management principles apply to every facet of the operations of the business. Using business plans, broad areas of risk have been identified and are monitored at the Business Unit level. Each Business Unit is responsible for the detailed assessment of their risks within these broad risk areas, including determining the consequences and likelihood of events occurring and the development of strategies to address their identified risks.

Additionally a Strategic Business Risk Assessment Workshop is conducted with the Executive Team to identify the significant risks to the business from a corporate perspective. Accountability and responsibility is assigned for managing these risks with regular reporting on the management of these risks to the Executive.

Key risk management strategies will:

- manage the risks involved in wholesale energy trading;
- ensure Y2K readiness;
- ensure the safety of our people and the community we serve;
- ensure the Sydney 2000 Olympic and Paralympic Games lights stay on; and
- manage risks of the regulatory environment.

A comprehensive Internal Audit program ensures that significant organisational risks are independently assessed and the audit plan ensures all high risk operations are audited annually, with medium and low risks reviewed every two and three years respectively.

Dividend

The Directors recommend that a total dividend of \$139m for the year ended 30 June 1999 be paid.

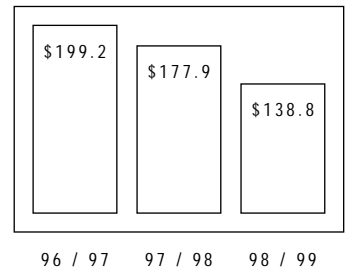
Licence Compliance

EnergyAustralia operates within a statutory and regulatory framework that provides clear commercial objectives, targets and accountabilities arising from its Distribution and Retail Licences and Statement of Corporate Intent.

We implemented a compliance management system during the 1998/1999 year specifically focused on operational licence compliance.

EnergyAustralia submitted to the Minister for Energy and the Ministry of Energy and Utilities both a Retail Supplier's and an Electricity Distributor's Licence Condition Compliance Annual Report for 1998/1999. These reports provide details of our performance against licence conditions, plans and requirements. The reports indicated that EnergyAustralia fully complied with all the conditions of both licences.

Dividend provided for



Millions of dollars

Directors' Report

Review of Operations

State of Affairs

In the opinion of the Directors, there were no significant changes in the state of affairs of the economic entity that occurred during the year ended 30 June 1999 not otherwise disclosed in this report or the financial statements.

Directors' interests and benefits

No Director has an interest in the share capital of the companies within the Chief Entity. Since the beginning of the year ended 30 June 1999, no Director has received, or become entitled to receive, any benefit (other than a benefit included in the total amount of remuneration) by reason of a contract made by the company, a controlled entity or a related body corporate with a Director or a firm of which the Director is a member.

Indemnities and Insurance

All Directors of the Corporation, its Secretary and executive officers are entitled to be indemnified, under Article 28 of the Corporations Constitution, to the maximum extent permitted by law unless the liability arises out of conduct involving a lack of good faith.

Since 1 July 1998, no amounts were paid under this indemnity agreement.

The Corporation has paid insurance premiums in respect of Directors' and Officers' liability insurance relating to the current and former officers of the Corporation and its controlled entities.

Since 1 July 1998, there have been no claims on Directors' and Officers' liability insurance.

Events subsequent to balance date

Since 30 June 1999, the Directors are not aware of any matter or circumstance not otherwise dealt with in the report or financial statements that has significantly or may significantly affect the operations of the economic entity, the results of those operations or the state of affairs of the economic entity in subsequent financial years.

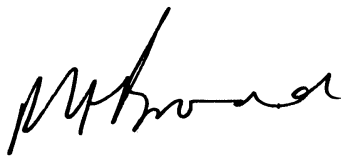
Roundings

EnergyAustralia is exempt from clause 12 of the Public Finance and Audit (General) Regulation 1995. Accordingly, the amounts shown in the financial statements have been rounded off to the nearest tenth of a million dollars unless specifically stated to be otherwise.

Signed in accordance with a resolution of the Directors.



John C. Conde AO
Director



Paul A. Broad
Director

Sydney – 13 October 1999

Profit and Loss Accounts

For the year ended 30 June 1999

	Notes	Consolidated		EnergyAustralia Entity	
		1999 \$M	1998 \$M	1999 \$M	1998 \$M
Operating revenue	2(a)	<u>1,870.0</u>	<u>1,882.1</u>	<u>1,869.8</u>	<u>1,873.9</u>
Operating profit before abnormal items and income tax	2(b)	<u>298.4</u>	<u>306.1</u>	<u>298.9</u>	<u>309.7</u>
Abnormal items	3	<u>(13.3)</u>	<u>54.3</u>	<u>(14.5)</u>	<u>49.3</u>
Operating profit before income tax		<u>285.1</u>	<u>360.4</u>	<u>284.4</u>	<u>359.0</u>
Income tax attributable to operating profit	1(e),4	<u>103.7</u>	<u>128.2</u>	<u>103.7</u>	<u>128.2</u>
Operating profit after tax		<u>181.4</u>	<u>232.2</u>	<u>180.7</u>	<u>230.8</u>
Outside equity interest in operating loss	23	<u>0.1</u>	<u>-</u>	<u>-</u>	<u>-</u>
Operating profit after tax attributable to members of EnergyAustralia		<u>181.5</u>	<u>232.2</u>	<u>180.7</u>	<u>230.8</u>
Retained earnings at the beginning of the financial year		<u>47.9</u>	<u>(6.4)</u>	<u>52.9</u>	<u>-</u>
Total available for appropriation		<u>229.4</u>	<u>225.8</u>	<u>233.6</u>	<u>230.8</u>
Dividend provided for		<u>138.8</u>	<u>177.9</u>	<u>138.8</u>	<u>177.9</u>
Retained earnings at the end of the financial year		<u>90.6</u>	<u>47.9</u>	<u>94.8</u>	<u>52.9</u>

The above profit and loss accounts should be read in conjunction with the accompanying notes.

Beginning of Financial Statements.

Balance Sheets

As at 30 June 1999

	Notes	Consolidated		EnergyAustralia Entity	
		1999 \$M	1998 \$M	1999 \$M	1998 \$M
Current assets					
Cash and deposits	1(s), 20	2.4	0.1	2.3	0.1
Receivables	1(j), 1(p), 5(a), 10	402.2	404.7	406.5	408.4
Investments	1(r), 1(s), 5(b), 10, 20	318.7	281.4	318.7	281.4
Inventories	1(i), 5(c)	24.7	25.9	24.7	25.9
Other	1(l), 5(d)	78.5	95.5	78.5	95.5
Total current assets		826.5	807.6	830.7	811.3
Non-current assets					
Investments	1(r), 6(a), 10	62.0	40.9	62.0	40.9
Property, plant and equipment	1(f), 1(g), 6(b)	2,826.4	2,821.5	2,826.4	2,821.4
Other	1(e), 6(c)	73.4	76.1	73.4	76.1
Total non-current assets		2,961.8	2,938.5	2,961.8	2,938.4
Total assets		3,788.3	3,746.1	3,792.5	3,749.7
Current liabilities					
Creditors and borrowings	1(o), 1(r), 1(s), 7(a), 9, 10, 20	348.4	469.3	348.3	467.9
Deposits	1(v)	21.8	20.4	21.8	20.4
Provisions	1(k), 1(l), 1(m), 5(d), 7(b)	346.9	359.2	346.9	359.2
Total current liabilities		717.1	848.9	717.0	847.5
Non-current liabilities					
Creditors and borrowings	8(a), 9, 10	1,132.4	1,006.2	1,132.4	1,006.2
Deposits	1(v)	14.9	32.0	14.9	32.0
Provisions	1(e), 1(k), 1(m), 8(b)	301.3	279.0	301.3	279.0
Total non-current liabilities		1,448.6	1,317.2	1,448.6	1,317.2
Total liabilities		2,165.7	2,166.1	2,165.6	2,164.7
Net assets		1,622.6	1,580.0	1,626.9	1,585.0
Shareholders' equity					
Parent entity interest					
Share capital	1(q), 11(b)	1,532.1	-	1,532.1	-
Retained earnings		90.6	47.9	94.8	52.9
Reserves	1(f), 11(a)	-	1,532.1	-	1,532.1
Equity attributable to members of EnergyAustralia		1,622.7	1,580.0	1,626.9	1,585.0
Outside equity Interest in controlled entity	23	(0.1)	-	-	-
Total shareholders' equity		1,622.6	1,580.0	1,626.9	1,585.0

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

Statement of Cash Flows

For the year ended 30 June 1999

The Statement of Cash Flows and its notes apply to both EnergyAustralia Entity and the Group Consolidated

	Notes	1999 \$M	1998 \$M
Cash flows from operating activities			
Receipts from customers		1,864.9	1,864.6
Operating related payments to suppliers and employees		(1,223.7)	(1,251.8)
Interest received		16.4	12.0
Interest paid		(110.6)	(109.8)
Electricity distributor's levy paid		(43.0)	(52.9)
Income tax equivalent paid		(72.7)	(64.0)
Net cash inflow from operating activities	19	<u>431.3</u>	<u>398.1</u>
Cash flows from investing activities			
Net sales / (purchases) of investments		(18.3)	4.6
Proceeds from sale of property, plant and equipment		6.0	31.7
Purchases of property, plant and equipment		(192.7)	(173.5)
Net cash outflow from investing activities		<u>(205.0)</u>	<u>(137.2)</u>
Cash flows from financing activities			
Proceeds from borrowings		-	21.1
Repayment of lease liabilities		-	(0.2)
Dividend paid		(177.9)	(187.4)
Net cash outflow from financing activities		<u>(177.9)</u>	<u>(166.5)</u>
Net increase / (decrease) in cash held		48.4	94.4
Cash at the beginning of the financial year	1(s), 20	<u>272.7</u>	<u>178.3</u>
Cash at the end of the financial year	1(s), 20	<u>321.1</u>	<u>272.7</u>

The above statement of cash flows should be read in conjunction with the accompanying notes.

1. Statement of Significant Accounting Policies

EnergyAustralia is a NSW statutory state owned corporation established on 1 March 1996 by the Energy Services Corporations Act 1995.

The significant policies which have been adopted in the preparation of these financial statements are detailed below.

General accounting principles

a) Basis for preparation

The financial statements are a general purpose financial report which has been prepared in accordance with applicable Australian Accounting Standards, the requirements of Part 3 of the Public Finance and Audit Act 1983 and the Public Finance and Audit (General) Regulation 1995, other authoritative pronouncements of the Australian Accounting Standards Board and the Public Sector Accounting Standards Board and Urgent Issues Group Consensus Views. Although the following exemptions have been granted by the NSW Treasurer to allow disclosure on a basis broadly consistent with that required by the Corporations Law, EnergyAustralia has not taken advantage of the exemptions granted for item (3).

- 1) Exemption from preparing manufacturing and trading statements.
- 2) Exemption from reporting amounts set aside, for renewal or replacement of fixed assets.
- 3) Exemption from reporting amounts set aside, to any provision for known commitments.
- 4) Exemption from reporting amounts appropriated for repayment of loans, advances, debentures and deposits.
- 5) Exemption from reporting material items of income and expenditure on a program or activity basis in respect of commercially sensitive information.
- 6) Exemption from reporting details of non-current assets for which the carrying value exceeds replacement costs.

The accounts have been prepared on the basis of accrual accounting under the historical cost convention, except for certain assets which, as noted, are at valuation.

b) Reporting period and comparatives

The financial statements cover the financial performance of EnergyAustralia and its entities for the period 1 July 1998 to 30 June 1999 and the financial position as at 30 June 1999. The comparative figures cover 1 July 1997 to 30 June 1998 and the financial position as at 30 June 1998. Comparative information is reclassified where appropriate to enhance comparability.

Summary of accounting policies

c) Principles of consolidation

The financial statements of EnergyAustralia and its controlled entities are consolidated in accordance with Australian Accounting Standard AAS24, Consolidated Financial Reports.

The consolidated accounts of the EnergyAustralia Group include the assets and liabilities of EnergyAustralia and the entities it controlled at the end of the financial year and the results of EnergyAustralia and the entities it controlled during the year ended 30 June 1999. The controlled entities are listed in note 18.

The effects of all transactions between entities in the EnergyAustralia Group and inter-entity balances have been eliminated in full in preparing the consolidated financial statements.

Where control of an entity is obtained during a financial year, its results are included in the consolidated profit and loss account from the date on which control commences. Where control of an entity ceases during a financial year its results are included for that part of the year during which control existed.

1. Statement of Significant Accounting Policies Continued

d) Rounding of amounts

EnergyAustralia is exempt from Clause 12 of the Public Finance and Audit (General) Regulation 1995. The amounts shown in the accounts have been rounded to the nearest tenth of a million dollars.

e) Tax effect accounting

EnergyAustralia is exempt from Federal Government taxation. However, pursuant to the *State Owned Corporations Act 1989*, EnergyAustralia is subject to the NSW Treasury's tax equivalents regime. The income tax equivalents regime is based on the Federal *Income Tax Assessment Act*.

Tax effect accounting procedures are followed whereby the income tax expense, calculated in accordance with the provisions of the Equivalents Manual, in the profit and loss account is matched with the accounting profit after allowing for permanent differences. The future tax benefits relating to tax losses are carried forward as an asset where the benefit can be regarded as being virtually certain of realisation. Income tax on net cumulative timing differences is set aside to the deferred income tax and future income tax benefit accounts at the rates which are expected to apply when those timing differences reverse.

f) Property, plant and equipment and works-in-progress

The *Policy Guidelines for the Valuation of Network Assets of Electricity Network Businesses* were developed by industry regulators and NSW Treasury and issued as a NSW Treasury technical paper.

The Guidelines developed Optimised Depreciated Replacement Cost (ODRC) as the method of valuing network assets for the electricity transmission and distribution industries.

The Guidelines were used in the electricity supply industry corporatisation process as the basis upon which the network assets of the newly corporatised entities were valued. Consequently, the opening value of the network assets of EnergyAustralia as at 1 March 1996 reflects the valuation principles embodied in the above document.

Refer to note 6(b) for the basis of valuation of land and buildings and other assets.

The cost of fixed assets constructed by EnergyAustralia includes the cost of materials, direct labour and a proportion of overhead is allocated on the basis of labour hours.

Property, plant and equipment are revalued in line with NSW Treasury Accounting Policy for Revaluation of Non-Current Physical Assets which states that assets should be revalued once every five years. Revaluation increments are credited directly to the asset revaluation reserve.

Potential capital gains tax is not taken into account in determining revaluation amounts unless there is an intention to sell the assets concerned.

Revaluations do not result in the carrying value of land or buildings exceeding their recoverable amount.

g) Depreciation

Depreciation is calculated on a straight line basis to write off the net cost or revalued amount of each item of property, plant and equipment (excluding land) over its expected useful life. System assets are depreciated in accordance with the *Policy Guidelines for the Valuation of Network Assets of Electricity Network Businesses* (see note 1 (f)).

The expected useful lives are as follows:

Buildings	40 years
Network system assets	20 – 60 years
Plant and equipment	4 – 10 years

h) Leased assets

Operating lease payments are representative of the pattern of benefits derived from the leased assets and accordingly they are charged to the Profit and Loss Accounts in the periods in which they are incurred.

i) Inventories

Inventories have been valued at the lower of cost and net realisable value. Cost is determined using the average purchase price of each item. In the case of manufactured goods, costs include direct labour, materials and a portion of variable overhead which is allocated on the basis of labour hours.

j) Receivables and revenue recognition

i) Trade debtors

Trade debtors are recognised for the major business activities as follows:

Electricity – a sale is recorded when the electricity consumption of franchise or contestable customers is read and an invoice generated.

Network Charges – following the reading of the customers meter an out-of-area retailer is invoiced for the use of the network. Revenue is accrued for the consumption that is not invoiced at month end.

Electrical systems construction and maintenance (non-electric debt) – customers are invoiced for various activities such as repairs to the network, relocation of network assets and damage to the network. An invoice is raised once there has been agreement for the work to be performed or the person liable for the repairs has been identified.

All trade debtors are recognised at the amounts receivable as they are due for settlement no more than 30 days from the date of invoice for non-electric debt and 16 days for electric debt.

The collection of trade debts is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off. A provision for doubtful debts is raised where some doubt as to the collection exists.

ii) Accrued sales / accrued income from unread meters

A calculation of the amount of electricity consumed and read, but not billed by balance date is to be included in the revenue for the year. In addition, a calculation of the amount of electricity consumed but not read by balance date is also to be included in the revenue for the year. The calculations are in accordance with the guidelines issued by the NSW Department of Energy, *Code of Accounting Practice and Financial Reporting of Electricity Distributors in NSW*, issued April 1995.

1. Statement of Significant Accounting Policies Continued

k) Employees' entitlements

All liabilities for employees' entitlements that are expected to be paid for services provided by employees to balance date are fully provided for in the financial statements.

Liabilities for wages and salaries and annual leave are recognised and are measured at current pay rates in respect of employees' services up to the reporting date.

Provisions have been made for employees' retirement entitlements (including long service leave, untaken sick leave due on retirement and supplementary superannuation benefits) and for untaken annual leave. The liability for employees' retirement entitlements is reassessed by the NSW Government Actuary every three years.

l) Superannuation

In 1996-97 EnergyAustralia contributed to three defined benefits schemes, namely the State Authorities Superannuation Scheme (SASS), the State Authorities Non-Contributory Superannuation Scheme (SANCCS) and the State Superannuation Fund (SSF). On 1 July 1997 employees' benefits were transferred from these superannuation schemes

to three divisions of the Energy Industries Superannuation Schemes Pty Ltd (EISS).

The classification of the superannuation schemes within the EISS is as follows:

SASS – Division B
SANCCS – Division C
SSF – Division D

EnergyAustralia's contributions are based on a full funding multiple calculated by the Schemes' Actuary every three years. After deducting the stake (i.e. the amount funded) in each fund as at 30 June from the relevant gross liability, the difference is brought to account in the Balance Sheet as either a liability or an asset.

The Schemes' Actuary review in June 1998, undertaken on its behalf by William M. Mercer Pty Ltd, established EnergyAustralia's net surplus for superannuation as at 30 June 1998 as \$73.8 million. The Schemes' Actuary has advised of a further assessment in June 1999, which revised EnergyAustralia's net surplus for superannuation as at 30 June 1999, to \$67.0 million. Consequently the Profit and Loss Account recognises the difference between the net surplus recognised in 1998-99 and the net surplus advised by the Schemes' Actuary as at 30 June 1998.

Actuarial assumptions advised for divisions B,C and D of EISS are:

Investment return

1999/2000	7.00%
2000/2001	7.00%
Thereafter	7.00%

Salary growth rate

1999/2000	4.00%
2000/2001	5.00%
Thereafter	5.00%

Consumer price index

1999/2000	2.5%
2000/2001	3.25%
Thereafter	3.25%

m) Workers' compensation insurance

EnergyAustralia is a self-insurer through its insurance provision for workers' compensation and meets all liabilities under the *Workers' Compensation Act*.

During 1998/99, a consulting actuary undertook the annual investigation of EnergyAustralia's estimated liability for workers' compensation as at 30 June 1999. The liability is measured as the present value of future payments and as at 30 June 1999, was estimated to be \$20.2 million (\$25.4 million in 1998).

n) Contribution for capital works

This represents sums contributed by customers and developers, mainly towards the capital cost of undergrounding overhead mains. The total included in revenue for the year ended 30 June 1999 amounted to \$24.9 million (\$9.4 million in 1998).

Cash capital contributions have been reported in order to comply with UIG Abstract 17, Developer and Customer Contributions in Price Regulated Industries. Cash capital contributions for 1998/99 have been initially recorded as a liability. Once the network asset is completed or modified as outlined in the terms of the contract, the contribution amount is transferred to revenue.

o) Trade and other creditors

These amounts represent liabilities for electricity, goods and services provided to the Corporation prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

p) Social programs

Pensioner rebates are funded by the NSW Government, however, the costs for the six months ended 30 June 1999 have not been reimbursed by the Government as at reporting date, hence an accrual of the income from reimbursement has been provided in the accounts.

q) Share capital

EnergyAustralia was corporatised on 1 March 1996 with issued capital of two \$1 shares. These shares were issued to EnergyAustralia's shareholding Ministers, the Treasurer and the Minister for Police. In pursuance of the State Owned Corporations Act 1989, a transfer of the shareholding from the Minister for Police to the Special Minister of State has been made on 8 June 1999. The \$2 share capital has been rounded to zero in the Balance Sheet.

r) Financial instruments

EnergyAustralia's primary objective in the management of its investments and borrowings is to optimise economic returns for given risk levels. These risk levels have been defined in terms of the modified duration of the respective portfolios managed and have been set relative to appropriate benchmarks independently defined by major financial institutions.

In order that EnergyAustralia's portfolios are aligned with these benchmarks, financial instruments of varying maturities are bought (redeemed) and sold (issued). Whilst market valuations of these portfolios are assessed internally for risk management purposes, they are not brought to account. Realised gains and losses on assets sold and debt redeemed are recognised on realisation.

The difference between the face value and the capital value of all financial instruments acquired at inception is amortised over the life of the specific instrument. Interest associated with these instruments is brought to account on an accruals basis.

1. Statement of Significant Accounting Policies Continued

r) Financial instruments continued

EnergyAustralia utilises financial instruments to hedge its debt portfolios. The gains and losses on derivatives used as hedges are accounted for on the same basis as the underlying physical exposures they are hedging. Accordingly, hedge gains and losses are included in the profit and loss account at the same time as the gains and losses arising on the related physical exposures are recognised in the profit and loss account.

EnergyAustralia is a participant in the wholesale electricity market. Market volatility is managed by entering into commodity based contracts to hedge against movements in electricity pool prices. The gains or losses are brought to account on realisation and are reflected in the financial statements as an element of electricity purchase costs. The industry views these arrangements as commodity contracts which are excluded from the disclosure requirements of AAS 33 "Presentation and Disclosure of Financial Instruments".

Derivatives are not used for speculative purposes.

s) Cash

For purposes of the statement of cash flows, cash includes deposits at call which are readily convertible to cash on hand and which are used in the cash management function on a day-to-day basis, net of outstanding bank overdrafts (refer note 20).

t) Year 2000

EnergyAustralia is managing an extensive program to minimise the risk of potential adverse impacts on EnergyAustralia's business of any computer and other systems failures that may arise with date changes on and beyond the year 2000.

As at 30 June 1999, the Corporation is not aware of any reason why the program is not achievable.

The Corporation's operations may be affected by the ability of a third party service provider to manage the date change. Therefore there can be no assurance that the effect of a date change will not materially affect the Corporation's operations and financial results.

Expenditure including external consulting fees and other external costs, except those of a capital nature, which is incurred to make internal use computer software compatible with the year 2000 is expensed as it occurs.

u) Segment reporting

EnergyAustralia operates predominantly in one industry segment, that being the distribution of energy, and within one geographical sector, Australia.

v) Deposits

Deposits represent liabilities for customer and contractors' deposits which can be refunded at any time after the end of the financial year. The amount projected to be refunded in the succeeding financial year is shown as current and the remainder of the liability as non-current.

	Consolidated		EnergyAustralia Entity	
	1999	1998	1999	1998
	\$M	\$M	\$M	\$M
2. Operating Revenue and Expenses				
a) Revenue				
Revenue from operating activities				
Metered sales of electricity	1,502.8	1,574.9	1,502.8	1,566.5
Public lighting energy sales	5.3	5.3	5.3	5.3
Accrued sales	(9.3)	8.6	(9.3)	8.1
Estimated revenue on unread meters	(4.3)	(19.7)	(4.3)	(19.7)
External use of system charge	189.1	145.2	189.1	145.2
Public lighting	23.5	23.4	23.5	23.4
Capital contributions	24.9	9.4	24.9	9.4
Recoverable works	25.9	19.3	25.9	19.3
Other	89.2	70.8	89.0	71.5
	1,847.1	1,837.2	1,846.9	1,829.0
Revenue from outside operating activities				
Investment income	16.9	13.2	16.9	13.2
Proceeds from sale of fixed assets	6.0	31.7	6.0	31.7
	1,870.0	1,882.1	1,869.8	1,873.9
b) Operating profit				
Operating profit before abnormal items and income tax is arrived at after crediting and charging the following specific items:				
Credits				
Interest revenue	16.1	12.3	16.1	12.3
Net gain on disposal of investments	0.8	0.9	0.8	0.9
Charges				
Borrowing costs				
Interest and finance charges paid / payable	104.6	122.2	104.6	122.2
Borrowing costs expensed	104.6	122.2	104.6	122.2
Net loss on disposal of property, plant and equipment	8.9	0.8	8.9	0.8
Depreciation				
Buildings	3.3	3.1	3.3	3.1
System assets	138.1	149.5	138.1	149.5
Plant and equipment	31.5	17.3	31.5	17.3
Total depreciation	172.9	169.9	172.9	169.9
Other charges against assets				
Bad and doubtful debts – trade debtors	10.4	6.4	10.4	6.4
Other provisions				
Employee entitlements	15.8	16.4	15.8	16.4
Untaken annual leave	0.8	1.6	0.8	1.6
Insurance	1.7	7.0	1.7	7.0
Total other provisions	18.3	25.0	18.3	25.0
Electricity distributor's levy	50.9	46.1	50.9	46.1
Defined benefit superannuation expense	2.5	15.1	2.5	15.1
Rental expense relating to operating leases	8.7	12.0	8.7	12.0

	Consolidated		EnergyAustralia Entity	
	1999 \$M	1998 \$M	1999 \$M	1998 \$M
3. Abnormal Items				
Items credited as revenue				
Prepaid superannuation for defined benefits schemes (note 5(d))	-	56.5	-	56.5
Items debited as expense				
Unfunded superannuation for defined benefits schemes (note 5(d))	-	(2.2)	-	(2.2)
Year 2000 costs	(13.3)	-	(13.3)	-
Other	-	-	(1.2)	(5.0)
	<u>(13.3)</u>	<u>54.3</u>	<u>(14.5)</u>	<u>49.3</u>
Applicable income tax benefit / (expense) on abnormal items	<u>4.8</u>	<u>(19.5)</u>	<u>4.8</u>	<u>(19.5)</u>
Abnormal items after income tax	<u>(8.5)</u>	<u>34.8</u>	<u>(9.7)</u>	<u>29.8</u>

4. Income Tax

a) Prima facie income tax equivalent expense calculated at 36% on the operating profit after abnormal items	102.6	129.7	102.4	129.4
Add / (less) tax effect of permanent differences:				
Non-deductible items	1.8	1.9	1.6	1.0
Building amortisation	(0.8)	(0.7)	(0.8)	(0.7)
Utilisation of group losses	-	-	-	(0.6)
Amount under / (over) provided for prior year	0.1	(2.7)	0.1	(2.7)
Income tax expense on operating profit before abnormal income tax items	103.7	128.2	103.3	126.4
Abnormal income tax items	-	-	0.4	1.8
Income tax expense on operating profit after abnormal income tax items	103.7	<u>128.2</u>	103.7	<u>128.2</u>
b) Income tax expense comprises amounts set aside as				
Provision for deferred tax liability	13.7	48.0	13.7	48.0
Provision for current income tax	87.2	73.7	87.2	73.7
Future income tax benefit	2.8	6.5	2.8	6.5
	<u>103.7</u>	<u>128.2</u>	<u>103.7</u>	<u>128.2</u>
Future income tax benefit not taken into account				
Tax losses carried forward	1.7	1.4		

	Consolidated		EnergyAustralia Entity	
	1999 \$M	1998 \$M	1999 \$M	1998 \$M
5. Current Assets				
a) Receivables				
Trade debtors	217.3	206.8	221.6	210.5
Less: provision for doubtful debts	<u>(3.8)</u>	<u>(4.4)</u>	<u>(3.8)</u>	<u>(4.4)</u>
	213.5	202.4	217.8	206.1
Accrued sales – contestable customers	30.9	40.2	30.9	40.2
Accrued income from unread meters	<u>157.8</u>	<u>162.1</u>	<u>157.8</u>	<u>162.1</u>
	<u>402.2</u>	<u>404.7</u>	<u>406.5</u>	<u>408.4</u>
b) Investments				
Government and public sector securities	–	1.8	–	1.8
Money market securities and deposits	<u>318.7</u>	<u>279.6</u>	<u>318.7</u>	<u>279.6</u>
	<u>318.7</u>	<u>281.4</u>	<u>318.7</u>	<u>281.4</u>
c) Inventories				
Work in progress – at cost	0.5	0.3	0.5	0.3
Stores and materials				
– at cost	21.0	21.9	21.0	21.9
– at net realisable value	<u>3.2</u>	<u>3.7</u>	<u>3.2</u>	<u>3.7</u>
	<u>24.7</u>	<u>25.9</u>	<u>24.7</u>	<u>25.9</u>
d) Other				
Prepayments	11.5	18.1	11.5	18.1
Prepaid superannuation contribution	<u>67.0</u>	<u>77.4</u>	<u>67.0</u>	<u>77.4</u>
	<u>78.5</u>	<u>95.5</u>	<u>78.5</u>	<u>95.5</u>

EnergyAustralia and its controlled entities contribute to the following NSW superannuation schemes: Divisions A,B,C and D of the Energy Industries Superannuation Scheme Pty Ltd (EISS).

With the exception of Division A of EISS, these schemes provide defined benefits based on years of service and salary. For 30 June 1999, the gross prepayment and liability of these schemes have been calculated by the Schemes' Actuary and have been brought to account in the balance sheet as either an asset or a liability.

6. Non-Current Assets

a) Investments

	Consolidated		EnergyAustralia Entity	
	1999	1998	1999	1998
	\$M	\$M	\$M	\$M
Government and public sector securities	20.6	26.8	20.6	26.8
Private sector securities	20.4	14.1	20.4	14.1
Share investment in other corporation	21.0	–	21.0	–
	<u>62.0</u>	<u>40.9</u>	<u>62.0</u>	<u>40.9</u>

b) Property, plant and equipment

Land and buildings (1)

Land	82.3	84.1	82.3	84.1
Buildings	110.6	106.2	110.6	106.2
Less: accumulated depreciation	(9.0)	(5.7)	(9.0)	(5.7)
Construction in progress	7.2	10.9	7.2	10.9
	<u>191.1</u>	<u>195.5</u>	<u>191.1</u>	<u>195.5</u>

System assets (2)

In service	2,637.6	2,452.7	2,637.6	2,452.7
Less: accumulated depreciation	(452.9)	(315.4)	(452.9)	(315.4)
System land	142.7	143.1	142.7	143.1
Construction in progress	155.2	191.6	155.2	191.6
	<u>2,482.6</u>	<u>2,472.0</u>	<u>2,482.6</u>	<u>2,472.0</u>

Other assets (3)

In service	248.7	152.4	248.7	152.3
Less: accumulated depreciation	(108.6)	(76.7)	(108.6)	(76.7)
Construction in progress	12.6	78.3	12.6	78.3
	<u>152.7</u>	<u>154.0</u>	<u>152.7</u>	<u>153.9</u>

Net property, plant and equipment

	<u>2,826.4</u>	<u>2,821.5</u>	<u>2,826.4</u>	<u>2,821.4</u>
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- 1) Market valuations for properties are based on independent external consultants' valuation where available. In the absence of independent valuation, properties are valued at Directors' valuation.
- 2) System assets are valued at acquisition cost on corporatisation. ODRC valuation at 29 February 1996 was used for this purpose (see note 1(f)).
- 3) Assets other than system assets and land and buildings are valued at original capital cost.

c) Other

Future income tax benefit				
Timing differences	73.4	76.1	73.4	76.1
	<u>73.4</u>	<u>76.1</u>	<u>73.4</u>	<u>76.1</u>

	Consolidated		EnergyAustralia Entity	
	1999	1998	1999	1998
	\$M	\$M	\$M	\$M

7. Current Liabilities

a) Creditors and borrowings

Bank overdraft	-	8.8	-	8.8
Trade creditors	184.4	170.3	184.3	168.9
Loans (note 9)	164.0	290.2	164.0	290.2
	348.4	469.3	348.3	467.9

b) Provisions

Employees' retirement entitlements	23.0	26.0	23.0	26.0
Untaken annual leave	20.4	19.6	20.4	19.6
Insurance	5.3	9.8	5.3	9.8
Restructure	16.9	25.8	16.9	25.8
Annual dividend	139.1	178.2	139.1	178.2
Income tax	44.7	30.1	44.7	30.1
Unfunded superannuation (note 5(d))	-	3.6	-	3.6
Other	97.5	66.1	97.5	66.1
	346.9	359.2	346.9	359.2

8. Non-Current Liabilities

a) Creditors and borrowings

Loans (note 9)	1,132.4	1,006.2	1,132.4	1,006.2
	1,132.4	1,006.2	1,132.4	1,006.2

b) Provisions

Employees' retirement entitlements	112.9	103.9	112.9	103.9
Insurance	16.0	16.4	16.0	16.4
Deferred income tax	172.4	158.7	172.4	158.7
	301.3	279.0	301.3	279.0

9. Loan Liability – Debt Maturity Analysis

Debts payable:

Not later than one year	532.3	290.2	532.3	290.2
Later than one, not later than two years	2.2	332.9	2.2	332.9
Later than two, not later than five years	448.3	287.4	448.3	287.4
Later than five years	313.6	385.9	313.6	385.9
Total loan debt (1)	1,296.4	1,296.4	1,296.4	1,296.4
Less: amount shown as current liability (note 7(a)) (2)	164.0	290.2	164.0	290.2
Non-current loan debt (note 8(a))	1,132.4	1,006.2	1,132.4	1,006.2

- 1) Loan debt is accounted for at book value.
- 2) Loan debt shown as current liability is nominally due for repayment within twelve months. However due to the availability of rollover facilities and the liquidity of the underlying debt instruments, EnergyAustralia may not necessarily need to repay these loans within twelve months.

10. Financial Instruments

a) Interest rate risk exposure

Exposures arise predominantly from assets and liabilities bearing variable interest rates as the corporation intends to hold fixed rate assets and liabilities to maturity.

The corporation's exposure to interest rate risk and the effective weighted average interest rate for each class of financial assets and financial liabilities are set out below:

1999	Fixed interest maturing in					Total \$M
	Floating interest rate \$M	1 year or less \$M	1 to 5 years \$M	More than 5 years \$M	Non-interest bearing \$M	
Financial assets						
Cash and deposits					2.4	2.4
Receivables (note 5)					402.2	402.2
Investments (notes 5,6)	315.7	3.0	39.1	1.9	21.0	380.7
	<u>315.7</u>	<u>3.0</u>	<u>39.1</u>	<u>1.9</u>	<u>425.6</u>	<u>785.3</u>
Financial futures (1)	-	-	-	-		
Weighted average interest rate	4.93%	6.99%	5.45%	5.57%		
Financial liabilities						
Bank overdrafts (note 7)						
Trade and other creditors (note 7)					184.4	184.4
Deposits					36.7	36.7
Borrowings (notes 7,8,9)	163.4	368.9	450.5	313.6		1,296.4
	<u>163.4</u>	<u>368.9</u>	<u>450.5</u>	<u>313.6</u>	<u>221.1</u>	<u>1,517.5</u>
Financial futures (1)	91.9	-	(74.6)	8.3		
Weighted average interest rate	4.94%	5.49%	7.01%	7.22%		
Net financial assets / (liabilities)	<u>152.3</u>	<u>(365.9)</u>	<u>(411.4)</u>	<u>(311.7)</u>	<u>204.5</u>	<u>(732.2)</u>

1998

Fixed interest maturing in

	Floating interest rate \$M	1 year or less \$M	1 to 5 years \$M	More than 5 years \$M	Non-interest bearing \$M	Total \$M
Financial assets						
Cash and deposits					0.1	0.1
Receivables (note 5)					404.7	404.7
Investments (notes 5,6)	<u>279.6</u>	<u>1.8</u>	<u>40.9</u>	<u>-</u>	<u>-</u>	<u>322.3</u>
	<u>279.6</u>	<u>1.8</u>	<u>40.9</u>	<u>-</u>	<u>404.8</u>	<u>727.1</u>
Financial futures (1)	-	-	-	-		
Weighted average interest rate	5.17%	6.47%	6.56%			
Financial liabilities						
Bank overdrafts (note 7)	8.8					8.8
Trade and other creditors (note 7)					170.3	170.3
Deposits					52.4	52.4
Borrowings (notes 7,8,9)	<u>287.6</u>	<u>2.6</u>	<u>620.3</u>	<u>385.9</u>	<u>-</u>	<u>1,296.4</u>
	<u>296.4</u>	<u>2.6</u>	<u>620.3</u>	<u>385.9</u>	<u>222.7</u>	<u>1,527.9</u>
Financial futures (1)	-	-	-	-		
Weighted average interest rate	5.01%	8.71%	6.40%	8.32%		
Net financial assets / (liabilities)	<u>(16.8)</u>	<u>(0.8)</u>	<u>(579.4)</u>	<u>(385.9)</u>	<u>182.1</u>	<u>(800.8)</u>

(1) Financial futures are represented in terms of capital values associated with the underlying contract yields.

1999
\$M

1998
\$M

Reconciliation of net financial assets to net assets

Net financial assets as above	(732.2)	(800.8)
Non-financial assets and liabilities:		
Inventories	24.7	25.9
Property, plant and equipment (note 6)	2,826.4	2,821.5
Other assets (notes 5,6)	151.9	171.6
Provisions (note 7,8)	(648.2)	(638.2)
Net assets per balance sheet	<u>1,622.6</u>	<u>1,580.0</u>

10. Financial Instruments Continued

b) Off – balance sheet financial instruments

Foreign currency exposure

The Corporation enters foreign currency contracts for the supply of parts and equipment. Gains and losses are brought to account on a basis consistent with the underlying foreign physical asset or liability.

At balance date the details of the outstanding contracts are:

	1999		1998	
	Sell Aust dollars \$M	Average exchange rate	Sell Aust dollars \$M	Average exchange rate
Buy United States Dollars	0.8	0.6421	1.3	0.6530
Buy Swedish Krona	-	-	0.1	5.1610
Buy German Deutschmarks	-	-	0.4	1.1615
Buy French Francs	-	-	0.3	3.8961
Buy Great Britain Pounds	-	-	0.2	0.3991

As these contracts are hedging anticipated future purchases, any unrealised gains and losses on the contracts, together with the cost of the contracts, are deferred and will be recognised in the measurement of the underlying transaction.

As at 30 June 1999 the Corporation's foreign exchange position gave rise to an unrealised loss of \$0.02 million (\$0.1 million gain in 1998).

c) Net fair values

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

	1999		1998	
	Carrying amount \$M	Net fair value \$M	Carrying amount \$M	Net fair value \$M
On - balance sheet financial instruments				
Financial assets				
Investments:				
Money market securities and deposits	318.7	318.7	279.6	279.6
Government and public sector securities	20.6	20.2	28.6	28.9
Private sector securities not quoted on stock exchange	20.4	20.0	14.1	14.5
Share investment in other corporation	21.0	21.0	-	-
Cash and deposits	2.4	2.4	0.1	0.1
Receivables	402.2	402.2	404.7	404.7
	<u>785.3</u>	<u>784.5</u>	<u>727.1</u>	<u>727.8</u>
Financial liabilities				
Borrowings (notes 7,8,9)	1,296.4	1,322.7	1,296.4	1,365.8
Deposits	36.7	36.7	52.4	52.4
Other liabilities	184.4	184.4	179.1	179.1
	<u>1,517.5</u>	<u>1,543.8</u>	<u>1,527.9</u>	<u>1,597.3</u>
Off – balance sheet financial instruments				
Financial assets				
Forward exchange contracts	-	-	-	0.1
Financial liabilities				
Financial futures	-	0.3	-	-

d) Credit risk exposures

The credit risk on financial assets of the Corporation which have been recognised on the balance sheet, other than investments, is generally the carrying amount, net of any provisions for doubtful debts.

The Corporation minimises concentrations of credit risk by undertaking transactions with a large number of customers and is not materially exposed to any individual customer.

Consolidated		EnergyAustralia Entity	
1999	1998	1999	1998
\$M	\$M	\$M	\$M

11. Reserves and Share Capital

a) Share premium account

Movements during the period:

Balance at the beginning of the period	1,532.1	1,532.1	1,532.1	1,532.1
Transfer to share capital	(1,532.1)	-	(1,532.1)	-
Balance at the end of the period	-	1,532.1	-	1,532.1

b) Share Capital

Issued and paid up capital

2 ordinary shares of \$1 each, fully paid

Transfer from share premium account

Total share capital

	-	-	-	-
	1,532.1	-	1,532.1	-
	1,532.1	-	1,532.1	-

Consequent upon an amendment to the Corporations Law, which abolished par value shares, and in accordance with best practice, the amount standing to the credit of the Share Premium Account at 1 July 1998 was deemed to become Share Capital.

Consolidated		EnergyAustralia Entity	
1999	1998	1999	1998

12. Directors' Remuneration

The numbers of parent entity Directors whose income from the parent entity or related parties was within the specified bands are as follows:

\$10,000 – \$19,999		4		4
\$20,000 – \$29,999	1	3	1	3
\$30,000 – \$39,999		1		1
\$40,000 – \$49,999	3	1	3	1
\$60,000 – \$69,999		1		1
\$70,000 – \$79,999	1		1	
\$270,000 – \$279,999		1 #		1 #
\$390,000 – \$399,999	1		1	

Represents part of financial year.

Directors' income includes salaries, superannuation and any other benefits paid to Directors who are full time employees of the parent entity.

	Consolidated		EnergyAustralia Entity	
	1999	1998	1999	1998
	\$M	\$M	\$M	\$M

12. Directors' Remuneration Continued

Total income paid or payable, or otherwise made available, to all Directors of the parent entity from the parent entity of any related party.

0.7 0.6

Total income paid or payable, or otherwise made available, to all Directors of each entity in the economic entity from the parent entity or any related party.

0.7 0.6

13. Auditor's Remuneration

Amounts received, or due and receivable for audit services provided by the Audit Office of NSW

0.3 0.3 **0.3** 0.3

14. Related Party Transactions

a) Directors

The Directors of EnergyAustralia during the financial year were:

John Conde AO (Chairman)
 Paul Broad (Managing Director)
 Bruce Hogan
 Belinda Hutchinson
 Michael Lambert ¹
 John Robertson

¹ Appointed as a Director on 10 November 1998.

Remuneration received or receivable by Directors of each entity are disclosed in note 12.

Other transactions

During the financial year, EnergyAustralia entered into the following transactions with its Director-related entities:

- EnergyAustralia paid \$44,103 to Zenith Media for advertising on Radio 2UE.
 Mr. Conde is the Chairman of 2UE.

Except as disclosed above, the Directors of EnergyAustralia are also Directors of other companies which have transactions with EnergyAustralia during the financial year. These Directors do not have control or significant influence on the financial and/or operating policies of either these companies or EnergyAustralia in their dealings with one another. As such, these companies are not Director-related entities for the purpose of the disclosure requirements of Accounting Standard AAS 22: Related Party Disclosure.

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

b) Wholly owned group

The Group includes a consolidation of the entities as detailed in note 18.

Details of dealings with entities in the wholly owned group are as follows:

Loans

During the year ended 30 June 1999 EnergyAustralia provided funding to the controlled entities to enable them to meet their commitments but did not receive any repayments from them. It is expected that this funding will continue in 1999-2000.

Other transactions

During the financial year, EnergyAustralia entered into a number of transactions with all controlled entities within the Group. These transactions have been categorised as follows:

Services provided by EnergyAustralia

- accounting services
- supply and/or rental of premises
- inter-company funding
- information technology services
- administrative and other services

No services were provided to EnergyAustralia by any of the controlled entities.

EnergyAustralia has also provided the necessary cash facilities for each of the controlled entities, with respect to external transactions which, were not settled by the controlled entity.

1999	1998
\$M	\$M

15. Contingent Liabilities

Guarantees issued by financial institutions:

Bank guarantees provided in the normal course of business,
in lieu of retention and security deposits

3.6	11.4
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Letters of credit established for the purchase of capital equipment

-	-
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Guarantees provided to regulatory and statutory authorities

109.3	<u>149.2</u>
112.9	<u>160.6</u>

EnergyAustralia has fully indemnified the issuing financial institutions in the unlikely event these guarantees are called on.

	Consolidated		EnergyAustralia Entity	
	1999 \$M	1998 \$M	1999 \$M	1998 \$M
16. Commitments for Expenditure				
a) Capital commitments				
Total capital expenditure contracted for at balance date but not provided for in the accounts:				
Not later than one year	6.7	6.0	6.7	6.0
Later than one year but not later than 2 years	-	-	-	-
Later than 2 years but not later than 5 years	-	-	-	-
Later than 5 years	-	-	-	-
	<u>6.7</u>	<u>6.0</u>	<u>6.7</u>	<u>6.0</u>
b) Lease commitments				
Total lease expenditure contracted for at balance date but not provided for in the accounts:				
Not later than one year	9.5	6.2	9.5	6.2
Later than one year but not later than 2 years	7.1	4.0	7.1	3.9
Later than 2 years but not later than 5 years	8.9	4.8	8.9	4.8
Later than 5 years	1.7	-	1.7	-
	<u>27.2</u>	<u>15.0</u>	<u>27.2</u>	<u>14.9</u>
Representing:				
Cancellable operating leases	14.9	8.5	14.9	8.4
Non-cancellable operating leases	12.3	6.5	12.3	6.5
	<u>27.2</u>	<u>15.0</u>	<u>27.2</u>	<u>14.9</u>
c) Other commitments				
Total other expenditure contracted for at balance date but not provided for in the accounts:				
Not later than one year	13.9	16.9	13.9	16.9
Later than one year but not later than 2 years	12.7	11.7	12.7	11.7
Later than 2 years but not later than 5 years	17.8	26.5	17.8	26.5
Later than 5 years	-	-	-	-
	<u>44.4</u>	<u>55.1</u>	<u>44.4</u>	<u>55.1</u>

17. External Consultants

The total amount paid to or accrued for consultants during the year ended 30 June 1999 was \$3.0 million (\$4.7 million in 1998).

18. Controlled Entities

- a) The Group includes a consolidation of the following controlled entities, all of which were incorporated in Australia:

Energygen Pty Limited
Energy Management International Pty Limited
EnergyAustralia Enterprises Pty Limited
Energy Australia Venture Holdings Pty Limited
Energy Australia Pty Limited
DownTown Utilities Pty Limited

- b) The following is a comparison of key figures for EnergyAustralia and its controlled entities.

	Total revenue		Profit / (loss) before tax		Total assets as at	
	1999 \$M	1998 \$M	1999 \$M	1998 \$M	30/6/99 \$M	30/6/98 \$M
EnergyAustralia	1,869.8	1,873.9	284.4	359.0	3,792.5	3,749.7
Energygen Pty Ltd	-	-	- #	- #	- #	- #
Energy Management International Pty Ltd	0.7	- #	(0.4)	(1.4)	- #	- #
EnergyAustralia Enterprises Pty Ltd	-	0.1	-	2.7	- #	- #
Energy Australia Venture Holdings Pty Ltd	-	-	- #	- #	- #	- #
Energy Australia Pty Ltd	-	8.8	1.1	- #	- #	2.3
DownTown Utilities Pty Ltd	0.6	-	- #	-	0.3	-

Amounts reduced to zero as a result of rounding to nearest \$0.1 million (see note 1(d)).

EnergyAustralia will provide whatever financial support or assistance, if any, to ensure that each subsidiary is able to satisfy any debts or liabilities.

	1999 \$M	1998 \$M
19. Reconciliation of Operating Profit After Tax to Net Cash Inflow from Operating Activities		
Operating profit after tax	181.4	232.2
Add / (less):		
Depreciation	172.9	169.9
Amortisation of unrealised capital (debt)	(13.6)	8.8
Amortisation of unrealised capital (investments)	0.6	0.6
Provision for doubtful debts	(0.6)	3.3
(Profit) / loss on sale of fixed assets	8.9	0.8
(Profit) / loss on sale of investments	(0.8)	(0.9)
Changes in assets and liabilities		
(Increase) / decrease in estimated revenue from unread meters	4.3	19.7
(Increase) / decrease in accrued sales	9.3	(8.6)
(Increase) / decrease in other accrued income	(10.5)	(30.9)
(Increase) / decrease in operating related inventories	1.2	(7.9)
(Increase) / decrease in prepaid operating expenditure	6.6	(7.3)
Increase / (decrease) in accrued operating expenditure	25.1	12.2
Increase / (decrease) in provision for income tax payable	14.6	9.6
Increase / (decrease) in provision for deferred income tax	13.7	48.1
(Increase) / decrease in prepaid superannuation	10.4	(56.5)
Increase / (decrease) in other provisions	20.8	2.1
(Increase) / decrease in future income tax benefit	2.7	8.5
Increase / (decrease) in customer security deposits	(15.7)	(5.6)
Net cash inflow from operating activities	431.3	398.1

20. Components of Cash

Cash on hand	0.1	0.1
Cash at bank	2.3	-
Bank overdraft (note 7(a))	-	(8.8)
Short term investments (note 5(b))	318.7	281.4
Balance per statement of cash flows	321.1	272.7

1999	1998
\$M	\$M

21. Non-Cash Financing and Investing Activities

There were no non-cash financing and investing activities undertaken during the year ended 30 June 1999.

22. Financing Facilities

Financing facilities of a \$10 million bank overdraft limit and a \$20 million short term accommodation from NSW Treasury Corporation were available but unused during the year ended 30 June 1999.

23. Outside Equity Interest in Controlled Entity

Interest in:

Share capital

Accumulated loss

- #	-
(0.1)	-
<u>(0.1)</u>	<u>-</u>

Amount reduced to zero as a result of rounding to nearest \$0.1 million (see note 1(d))

Directors' Declaration – EnergyAustralia

Pursuant to Section 41C of the Public Finance and Audit Act, 1983, we state that in the opinion of the Directors of EnergyAustralia:

- a) the accompanying consolidated financial statements and notes comprise a general purpose financial report which has been prepared in accordance with the applicable Australian Accounting Standards, the State Owned Corporations Act, 1989, the Public Finance and Audit Act, 1983, and the Public Finance and Audit (General) regulation, 1995, mandatory professional reporting requirements and give a true and fair view of the EnergyAustralia Group financial position as at 30 June 1999 and its performance for the year ended on that date;
- b) at the date of this statement, there are reasonable grounds to believe that the EnergyAustralia Group will be able to pay its debts as and when they become due and payable;
- c) we are not aware of any circumstances at the date of this declaration that would render any particulars included in the financial report to be misleading or inaccurate.

This declaration is made in accordance with a resolution of the Directors.



John C. Conde AO
Chairman



Paul A. Broad
Managing Director

Sydney – 13 October 1999

Independent Audit Report



To Members of the New South Wales Parliament and Members of EnergyAustralia

Scope

I have audited the accounts of EnergyAustralia for the year ended 30 June 1999. The financial report includes the consolidated accounts of the economic entity comprising EnergyAustralia and the entities it controlled at the year's end or from time to time during the financial year. The members of the Board of EnergyAustralia are responsible for the financial report consisting of the accompanying balance sheets, profit and loss statements and statements of cash flows, together with the notes thereto, and the information contained therein. My responsibility is to express an opinion on the financial report to Members of the New South Wales Parliament and Members of EnergyAustralia, based on my audit as required by Section 24A of the *State Owned Corporations Act 1989* and Sections 34 and 41C(1) of the *Public Finance and Audit Act 1983*.

My audit has been conducted in accordance with statutory requirements and Australian Auditing Standards to provide reasonable assurance as to whether the financial report is free of material misstatement. My procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion as to whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements and statutory requirements so as to present a view which is consistent with my understanding of EnergyAustralia's and the economic entity's financial position, the results of their operations and their cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

In my opinion, the financial report of EnergyAustralia complies with statutory requirements and presents fairly in accordance with applicable Accounting Standards and other mandatory professional reporting requirements the financial position of EnergyAustralia and the economic entity as at 30 June 1999 and the results of their operations and their cash flows for the year then ended.

Inherent uncertainty regarding year 2000 compliance

Without qualification to the opinion expressed above, attention is drawn to the following matter. As indicated in Note 1(t) to the financial report, EnergyAustralia is investigating if and to what extent the date change from 1999 to 2000 may affect its activities. EnergyAustralia has established a program to overcome the impact of the transition to the year 2000 on EnergyAustralia. The Corporation is not aware of any reason why the program is not achievable. EnergyAustralia's activities may also be affected by the ability of third parties dealing with EnergyAustralia to also manage the effect of the year 2000 date change. Therefore there can be no assurance that the effect of the date change will not materially affect EnergyAustralia's operation and financial result. My audit report for the year ended 30 June 1998 carried a similar emphasis of matter.

A handwritten signature in black ink that reads "R C Henderson".

R C Henderson, FCA
Director of Audit

(duly authorised by the Auditor-General of
New South Wales under Section 41C (1A) of the Act)
Sydney - 19 October 1999

End of Financial Statements.