

# Financial results

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## Statements of Financial Performance

For the year ended 30 June 2004

\$ millions	Notes	Consolidated Entity		EnergyAustralia	
		2004	2003	2004	2003
<b>Revenue from ordinary activities</b>	2	2,558.7	2,431.5	2,558.7	2,431.5
Expenses from ordinary activities, excluding borrowing costs expense	3	2,132.4	2,054.8	2,132.4	2,054.7
Borrowing costs expense	3	169.8	172.0	169.8	172.0
<b>Profit from ordinary activities before income tax expense</b>	3	256.5	204.7	256.5	204.8
Income tax expense relating to ordinary activities	4	78.9	79.1	78.9	79.1
<b>Net profit</b>		177.6	125.6	177.6	125.7
Net loss attributable to outside equity interest	9(e)	- #	- #	-	-
<b>Net profit attributable to members of EnergyAustralia</b>	9(d)	177.6	125.6	177.6	125.7
Net increase in asset revaluation reserve	9(c)	-	65.3	-	65.3
<b>Total revenues, expenses and valuation adjustments attributable to members of EnergyAustralia recognised directly in equity</b>		-	65.3	-	65.3
<b>Total changes in equity other than those resulting from transactions with owners as owners</b>		177.6	190.9	177.6	191.0
Retained earnings at the beginning of the financial year		383.5	361.6	387.7	365.7
Add: Transfer from asset revaluation reserve		2.4	2.7	2.4	2.7
Add: Net profit attributable to members of EnergyAustralia		177.6	125.6	177.6	125.7
Less: Dividend provided for the financial year		(163.5)	(106.4)	(163.5)	(106.4)
Retained earnings at the end of the financial year		400.0	383.5	404.2	387.7

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

The above statements of financial performance should be read in conjunction with the accompanying notes.

## Statements of Financial Position

As at 30 June 2004

\$ millions	Notes	Consolidated Entity		EnergyAustralia	
		2004	2003	2004	2003
<b>Current assets</b>					
Cash assets	5(a), 10	42.3	25.9	42.3	25.9
Receivables	5(b), 10	506.3	454.1	510.8	458.5
Inventories	5(c)	24.2	25.4	24.2	25.4
Other	5(d)	109.6	27.5	109.6	27.5
<b>Total current assets</b>		682.4	532.9	686.9	537.3
<b>Non-current assets</b>					
Financial assets	6(a), 10	-	11.9	-	11.9
Property, plant and equipment	6(b)	4,851.4	4,706.0	4,851.4	4,706.0
Deferred tax assets	4(b), 6(c)	96.9	90.4	96.9	90.4
Other	6(d)	12.7	-	12.7	-
<b>Total non-current assets</b>		4,961.0	4,808.3	4,961.0	4,808.3
<b>Total assets</b>		5,643.4	5,341.2	5,647.9	5,345.6
<b>Current liabilities</b>					
Payables	7(a), 10	337.3	247.3	337.3	247.2
Interest bearing liabilities	5(a), 7(b), 10	607.8	525.9	607.8	525.9
Deposits	10	20.5	15.6	20.5	15.6
Current tax liabilities	4(b), 7(c)	12.2	25.0	12.2	25.0
Provisions	7(d)	273.5	211.4	273.5	211.4
<b>Total current liabilities</b>		1,251.3	1,025.2	1,251.3	1,025.1
<b>Non-current liabilities</b>					
Interest bearing liabilities	8(a), 10	1,793.4	1,750.5	1,793.4	1,750.5
Deposits	10	12.9	11.6	12.9	11.6
Deferred tax liabilities	4(b), 8(b)	241.0	220.6	241.0	220.6
Provisions	8(c)	176.4	179.0	176.4	179.0
<b>Total non-current liabilities</b>		2,223.7	2,161.7	2,223.7	2,161.7
<b>Total liabilities</b>		3,475.0	3,186.9	3,475.0	3,186.8
<b>Net assets</b>		2,168.4	2,154.3	2,172.9	2,158.8
<b>Equity</b>					
Parent entity interest					
Contributed equity	9(a), 9(b)	402.1	402.1	402.1	402.1
Reserves	9(c)	1,366.6	1,369.0	1,366.6	1,369.0
Retained earnings	9(d)	400.0	383.5	404.2	387.7
<b>Total parent entity interest</b>		2,168.7	2,154.6	2,172.9	2,158.8
Outside equity interest in controlled entity	9(e)	(0.3)	(0.3)	-	-
<b>Total equity</b>		2,168.4	2,154.3	2,172.9	2,158.8

The above statements of financial position should be read in conjunction with the accompanying notes.

# Statement of Cash Flows

For the year ended 30 June 2004

The Statement of Cash Flows and its Notes apply to both EnergyAustralia and the Consolidated Entity.

\$ millions	Notes	2004	2003
<b>Cash Flows from operating activities</b>			
Receipts from customers		2,664.2	2,538.4
Operating related payments to suppliers and employees		(2,099.6)	(1,978.5)
Interest received		0.6	1.0
Interest paid		(168.2)	(164.4)
Income tax equivalent paid		(77.8)	(76.0)
<b>Net cash inflow from operating activities</b>	18	319.2	320.5
<b>Cash Flows from investing activities</b>			
Proceeds from sale of investments		12.1	–
Proceeds from sale of property, plant and equipment		6.2	35.8
Payments for property, plant and equipment		(343.3)	(300.4)
<b>Net cash outflow from investing activities</b>		(325.0)	(264.6)
<b>Cash Flows from financing activities</b>			
Proceeds from borrowings		124.0	–
Repayment of borrowings		–	(3.3)
Dividend paid		(106.4)	(47.5)
<b>Net cash inflow / (outflow) from financing activities</b>		17.6	(50.8)
<b>Net increase in cash held</b>		11.8	5.1
Cash at the beginning of the financial year	1(s), 5(a)	23.8	18.7
<b>Cash at the end of the financial year</b>	1(s), 5(a)	35.6	23.8

The above statement of Cash Flows should be read in conjunction with the accompanying notes.

## 1. Summary of significant accounting policies

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

### (a) Basis for preparation

This general purpose financial report has been prepared in accordance with applicable Australian Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board, the requirements of the *Public Finance and Audit Act 1983*, the *Public Finance and Audit Regulation 2000*, and the *State Owned Corporations Act 1989*. 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 Act 2001*, 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 under the historical cost convention, except for certain assets which, as noted, are at valuation. Unless otherwise stated, the accounting policies adopted are consistent with those of the previous year.

### (b) Change in accounting policies

The EnergyAustralia Group has changed its accounting policy with regard to direct customer acquisition costs from 1 July 2003. Prior to 1 July 2003, all direct customer acquisition costs (\$4.9 million) were expensed as incurred.

As a result of this change in accounting policy, gross direct customer acquisition costs of \$19.0 million have been deferred to the Statements of Financial Position with \$6.3 million being expensed to the profit and loss for the current year to 30 June 2004.

### (c) Principles of consolidation

The consolidated financial statements of the EnergyAustralia Group incorporate 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 2004. The controlled entities are listed in Note 17. 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 statement of financial performance 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.

### (d) Rounding of amounts

The EnergyAustralia Group is exempt from Clause 12 of the Public Finance and Audit Regulation 2000. The amounts shown in the accounts have been rounded to the nearest tenth of a million dollars.

### (e) Tax effect accounting

From 1 July 2001, the EnergyAustralia Group became subject to the National Tax Equivalent Regime which reflects Federal Income Tax Acts.

Tax effect accounting procedures are followed whereby the income tax expense, calculated in accordance with the provisions of the National Tax Equivalent Regime, in the Statements of Financial Performance is matched with the accounting profit after allowing for permanent differences. Income tax on cumulative timing differences is set aside to the deferred income tax or future income tax benefit accounts at the rates which are expected to apply when those timing differences reverse. The future tax benefit relating to tax losses is not carried forward as an asset unless the benefit is virtually certain of realisation.

### (f) Property, plant & equipment and construction in progress

- (i) *System property, plant & equipment and non system land and buildings*

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. System assets have been valued at the lower of the ODRC or recoverable amount.

Non system land and buildings are valued at fair value of the asset.

Revaluation increments are credited directly to the asset revaluation reserve, except that, to the extent that an increment reverses a revaluation decrement in respect of that class of asset previously recognised as an expense in net profit or loss, the increment is recognised immediately as revenue in net profit or loss. Revaluation decrements are recognised immediately as expenses in net profit or loss, except that, to the extent that a credit balance exists in the asset revaluation reserve in respect of the same class of assets, they are debited directly to the asset revaluation reserve. Revaluation increments and decrements are offset against one another within a class of non-current assets, but not otherwise.

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

Gains and losses on disposal of revalued assets are included in the Statements of Financial Performance for the year. Any related revaluation increments in the asset revaluation reserve upon disposal are transferred to the Statements of Financial Performance.

(ii) *Other property, plant & equipment*

Other property, plant & equipment assets are recorded initially at cost in the *Statements of Financial Position* and are depreciated as outlined in Note 1(g) (deemed to be fair value in accordance with NSW Treasury Accounting Policy 'Valuation of Physical Non-Current Assets at Fair Value' as there is no material difference between the two).

(iii) *Valuation*

Property, plant & equipment were revalued in line with NSW Treasury Accounting Policy for Revaluation of Non-Current Physical Assets which stated that assets should be revalued once every five years. A revaluation of the network system assets was undertaken during 2000-2001 in accordance with the revaluation methodology applied by Arthur Andersen / Worley / GHD as at 30 June 1998. All network assets were revalued at ODRC. The ODRC values were indexed through to 30 June 2000 using the Australian Bureau of Statistics CPI figures for Sydney. This resulted in a material increase in the carrying value of the asset base.

Non-system land and buildings were revalued during 2002/2003 to reflect fair value in accordance with Australian Accounting Standard AASB 1041 *Revaluation of Non-current Assets* and *NSW Treasury Accounting Policy Valuation of Physical Non-current Assets at Fair Value* (May 2003). Independent valuers, Preston Rowe Paterson (PRP) were engaged to value these assets. The 2004 valuations are assessed at fair value based upon market indices provided by Preston Rowe Paterson NSW Pty Limited. No change was made to the carrying value as the indices had an immaterial effect on fair value.

(iv) *Acquisitions of assets*

Property, plant & equipment assets purchased below \$500, are expensed as acquired. The cost of property, plant & equipment constructed by the EnergyAustralia Group includes the cost of material, direct labour and a proportion of overhead is allocated on the basis of labour hours.

**(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.

The expected useful lives are as follows:

- Buildings 40 years
- System assets 7 – 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 Statements of Financial Performance in the periods in which they are incurred. The EnergyAustralia Group had not entered into any finance leases as at reporting date.

**(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 stock for internal use, 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 are 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 on average of no more than 18 days from the date of invoice for both electric and non-electric debt.

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

(ii) *Accrued sales of electricity*

A calculation of the amount of electricity consumed but not billed by balance date adjusted for lost factors, is included in the revenue for the year.

(iii) *Other debtors*

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

**(k) Employee benefits**

All liabilities for employee benefits that are expected to be paid for services provided by employees to balance date are fully provided for in the financial report.

Liabilities for wages and salaries, annual leave and any other employee benefits expected to be settled within 12 months of the reporting date, are recognised in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-preserved sick leave are recognised when the leave is taken and measured at the rates paid or payable.

Provisions have been made for employee retirement benefits (including long service leave, preserved sick leave due on retirement and supplementary superannuation benefits). The liability for employee retirement benefits is actuarially assessed when required or at least every three years. The liability has again been reassessed at 30 June 2004 using the same formula as provided by the NSW Government Actuary in 2003 (see Note 21).

**(l) Superannuation**

In 1996/1997 the EnergyAustralia Group contributed to three defined benefits schemes, namely the State Authorities Superannuation Scheme (SASS), the State Authorities Non-Contributory Superannuation Scheme (SANCS) and the State Superannuation Scheme (SSS). On 1 July 1997 the bulk of employees' benefits was transferred from these superannuation schemes to three divisions of the Energy Industries Superannuation Scheme (EISS) as follows (six employees remain as members of SASS, SANCS and SSS as at 30 June 2004):

- SASS – Division B
- SANCS – Division C
- SSS – Division D

The EnergyAustralia Group's contributions are based on a full funding multiple calculated by the Scheme's Actuary. 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 Statements of Financial Position as either a liability or an asset.

The Scheme's Actuary review in June 2004 established the EnergyAustralia Group's net surplus for superannuation as at 30 June 2004 as \$26.9 million (\$11.7 million in 2003). Consequently the Statements of Financial Performance recognise the difference between the net surplus recognised in 2003/2004 and the net surplus as advised by the Scheme's Actuary as at 30 June 2003 (see Notes 3(b),22).

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

%	2003/2004	Thereafter
Investment return	13.6	7.5
Salary growth rate	4.0	4.0
Consumer price index	2.5	2.5

**Actuarial assumptions advised for SASS, SANCS and SSS are:**

%	2003/2004 & Thereafter
Investment return	7.0
Salary growth rate	4.0
Consumer price index	2.5

**(m) Workers' compensation insurance**

The EnergyAustralia Group is a self-insurer through its insurance provision for workers' compensation and meets all liabilities under the Workers' Compensation legislation in NSW and other States.

During 2003/2004, a consulting actuary, David A. Zaman, undertook the annual investigation of the EnergyAustralia Group's estimated liability for workers' compensation as at 30 June 2004. The liability is measured as the present value of future payments and as at 30 June 2004, was estimated to be \$13.0 million (\$12.9 million in 2003). This includes the liability for dust related diseases which is estimated at \$1.0 million (\$1.0 million in 2003).

**(n) Contribution for capital works**

This represents sums contributed by customers and developers, mainly towards the capital cost of electricity connections. Cash and non-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 2003/2004 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, and the asset is recognised at fair value.

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

**(o) Trade and other creditors**

These amounts represent liabilities for electricity, goods and services provided to the EnergyAustralia Group 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 not all of the costs for the year ended 30 June 2004 have 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. EnergyAustralia's shareholding Ministers are the Treasurer and the Special Minister of State. The \$2 share capital has been rounded to zero in the Statements of Financial Position.

**(r) Financial instruments**

The EnergyAustralia Group enters into foreign exchange contracts to hedge anticipated purchase commitments for the supply of parts and equipment which are denominated in foreign currencies. Gains or losses on the hedge arising up to the date of the anticipated purchase, together with any costs arising at the time of entering into the hedge, are deferred and included in the measurement of the anticipated purchase when the purchase has occurred as designated. Any gains or losses on the hedge transaction after that date are included in the Statements of Financial Performance.

The EnergyAustralia Group is a participant in the wholesale energy market. Market volatility is managed by entering into commodity based contracts (swaps and options) to hedge against movements in spot prices. Energy trading activities are conducted in accordance with Board approved policies. Hedge contracts are brought to account when realised on an accrual basis whilst segregated trading contracts are accounted for on a mark to market basis.

The EnergyAustralia Group'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 the EnergyAustralia Group's portfolios are aligned with these benchmarks, financial instruments of varying maturities are bought (redeemed) and sold (issued) by NSW Treasury Corporation (T-Corp). 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.

T-Corp utilises financial instruments to hedge the EnergyAustralia Group's 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 Statements of Financial Performance at the same time as the gains and losses arising on the related physical exposures are recognised in the Statements of Financial Performance (see Note 10).

**(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 overdraft and short term accommodation from NSW Treasury Corporation (T-Corp) (see Note 5(a)).

**(t) 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.

**(u) General Insurance**

The EnergyAustralia Group purchases insurance from the commercial insurance market. An actuarial assessment has been performed by David A. Zaman as at 30 June 2004 which has determined the EnergyAustralia Group's estimated exposure to outstanding public liability claims left by the default of HIH. The EnergyAustralia Group recognises a liability for these outstanding claims, and allows for both unpaid reported claims and incurred but not reported claims. Alternative insurance arrangements are in place.

**(v) Dividends**

Provision is made for the amount of any dividend determined by the Directors on or before the end of the financial year but not distributed at balance date. The dividend has regard to the annual performance agreement (Statement of Corporate Intent) with NSW Treasury.

**(w) Network revenue over-recovery**

A provision was maintained since 1997-1998 to cumulatively record the difference between the EnergyAustralia Group's Aggregated Annual Revenue Requirement in each year and the Network Revenue collected during that year, which has been exhausted as at 30 June 2004.

**(x) Investments**

Investments in listed securities are carried at the lower of cost and recoverable amount.

Controlled entities are accounted for in the consolidated financial statements as set out in Note 1(c).

**(y) Interest bearing liabilities**

Loans are carried at their current capital value which is their face value, adjusted for any unamortised discount or premium attached to the loans. Interest is accrued over the period it becomes due and is recorded as part of other creditors.

**(z) Borrowing costs**

Borrowing costs are recognised as expenses in the period in which they are incurred and include:

- interest on overdrafts and short-term and long-term borrowings, including amounts paid or received on interest rate swaps;
- amortisation of discounts or premiums relating to borrowings;
- amortisation of ancillary costs incurred in connection with the arrangement of borrowings; and
- a government loan guarantee fee assessed by NSW Treasury.

Loan debt shown as current liability is nominally due for repayment within twelve months. However due to the availability of roll-over facilities and the liquidity of the underlying debt instruments, the EnergyAustralia Group may not necessarily need to repay these loans within twelve months.

**(aa) Greenhouse Legislation**

*The Commonwealth Renewable Energy (Electricity) Act 2000* imposes on electricity retailers, the obligation to 'surrender' sufficient certificates each year to meet the Commonwealth Government's strategy to lift Australia's use of electricity generated from renewable sources. This imposes an obligation on the EnergyAustralia Group to purchase Renewable Energy Certificates (RECs) and surrender them to the Office of the Renewable Energy Regulator in discharge of the EnergyAustralia Group's renewable energy obligations.

*The NSW Electricity Supply Amendment (Greenhouse Gas Emission Reduction) Act 2002* imposes on electricity retailers, the obligation to 'surrender' sufficient certificates each year to satisfy the State Government's strategy to reduce greenhouse gas per capita emissions from electricity purchases. This imposes an obligation upon the EnergyAustralia Group to purchase NSW Greenhouse Abatement Certificates (NGACs) and surrender them to the Independent Pricing and Regulatory Tribunal (IPART) in discharge of the EnergyAustralia Group's greenhouse gas emission reduction obligations.

All purchases of certificates are accounted for as an asset at cost. The surrender of these certificates will be recognised in the underlying purchase commitment as an element of electricity purchase costs.

## 2. Revenue

\$ millions	Consolidated Entity		EnergyAustralia	
	2004	2003	2004	2003
<b>Revenue from operating activities</b>				
Sale and Delivery of Energy	2,346.3	2,151.0	2,346.3	2,151.0
Public lighting system charge	23.0	22.6	23.0	22.6
Capital contributions (1)	37.8	50.7	37.8	50.7
Recoverable works	7.8	12.5	7.8	12.5
Community service obligations refunds from Government	35.1	35.5	35.1	35.5
Other	89.0	131.8	89.0	131.8
	2,539.0	2,404.1	2,539.0	2,404.1
<b>Revenue from outside the operating activities</b>				
Investment income	0.6	1.3	0.6	1.3
Proceeds from sale of property, plant and equipment	7.0	26.1	7.0	26.1
Proceeds from sale of investments	12.1	-	12.1	-
	19.7	27.4	19.7	27.4
<b>Total revenue from ordinary activities</b>	2,558.7	2,431.5	2,558.7	2,431.5

(1) Capital contributions

\$ millions	Consolidated Entity		EnergyAustralia	
	2004	2003	2004	2003
Gross capital contributions	15.7	33.4	15.7	33.4
Contribution of assets	22.1	33.4	22.1	33.4
Reversal of prior period capital contributions	-	(16.1)	-	(16.1)
	37.8	50.7	37.8	50.7

### 3. Profit from ordinary activities

	Consolidated Entity		EnergyAustralia	
	2004	2003	2004	2003
\$ millions				
<b>(a) Net gains and expenses</b>				
Profit from ordinary activities before income tax				
expense includes the following specific net gains and expenses:				
<b>Net gains</b>				
Interest revenue	0.6	1.3	0.6	1.3
Net gain on disposal of investments	0.2	–	0.2	–
<b>Expenses</b>				
<b>Expenses from ordinary activities, excluding borrowing costs expense</b>				
Distribution of energy	2,132.4	2,054.8	2,132.4	2,054.7
These expenses include the following:				
Depreciation				
Buildings	6.3	6.2	6.3	6.2
System assets	170.4	162.4	170.4	162.4
Plant and equipment	49.3	65.2	49.3	65.2
Total depreciation	226.0	233.8	226.0	233.8
Amortisation				
Customer Acquisitions	6.3	–	6.3	–
Bad debts				
Bad and doubtful debts – trade debtors	5.5	19.1	5.5	19.1
Net loss on disposal of property, plant and equipment	5.0	3.2	5.0	3.2
Rental expense relating to operating leases	13.5	14.5	13.5	14.5
Superannuation contributions	25.3	23.3	25.3	23.3
<b>Borrowing costs expense</b>				
Interest and finance charges paid / payable	169.8	172.0	169.8	172.0
<b>(b) Individually significant items</b>				
<b>Gains</b>				
Decrease in provisions for revenue over-recovery (Note 7(d))	64.0	66.5	64.0	66.5
Increase in prepaid superannuation for defined benefits (Notes 5(d), 7(d), 22)	15.2	–	15.2	–
<b>Expenses</b>				
Decrease in prepaid superannuation for defined benefits (Notes 5(d), 7(d), 22)	–	20.4	–	20.4

#### (c) Revision of accounting estimates

During the year the estimated total useful lives of certain items of plant and equipment were revised. The net effect of the changes in the current financial year was a decrease in depreciation expense of \$10.5 million.

During the year the estimated provision for doubtful debts was reassessed. The net effect of the changes in the current financial year was a decrease in doubtful debts expense of \$1.4 million.

### 4. Income tax

	Consolidated Entity		EnergyAustralia	
	2004	2003	2004	2003
\$ millions				
<b>(a) Prima facie income tax equivalent expense calculated at 30% (30% in 2002/2003) on profit from ordinary activities</b>	76.9	61.4	76.9	61.4
Add / (less) tax effect of permanent differences:				
Prepaid superannuation not deductible / (assessable)	(4.5)	6.0	(4.5)	6.0
Depreciation not deductible	8.0	7.8	8.0	7.8
Reversal of prior period capital contributions	–	4.8	–	4.8
Div 43 special building allowance	(0.9)	(0.8)	(0.9)	(0.8)
(Profit) / loss on disposable non-depreciable assets	0.3	–	0.3	–
Other non-deductible / assessable items	0.1	0.4	0.1	0.4
Amount under / (over) provided for prior year	(1.0)	(0.5)	(1.0)	(0.5)
<b>Income tax expense on profit from ordinary activities</b>	78.9	79.1	78.9	79.1
<b>(b) Income tax expense comprises amounts set aside as:</b>				
Provision for deferred tax liabilities	(20.4)	(15.6)	(20.4)	(15.6)
Provision for current income tax	(65.0)	(66.4)	(65.0)	(66.4)
Future income tax benefit	6.5	2.9	6.5	2.9
	78.9	79.1	78.9	79.1
<b>(c) Future income tax benefit not taken into account</b>				
Tax losses carried forward	1.3	1.3	–	–

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

- the EnergyAustralia Group derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised, or
- the losses are transferred to an eligible entity in the EnergyAustralia Group, and
- the relevant company and / or the EnergyAustralia Group continues to comply with the conditions for deductibility imposed by the law, and
- no changes in tax legislation adversely affect the relevant company and / or the EnergyAustralia Group in realising the benefit.

## 5. Current assets

	Consolidated Entity		EnergyAustralia	
	2004	2003	2004	2003
\$ millions				
<b>(a) Cash assets</b>				
Cash on hand	0.1	0.1	0.1	0.1
Money market securities and deposits	42.2	25.8	42.2	25.8
	<b>42.3</b>	<b>25.9</b>	<b>42.3</b>	<b>25.9</b>
The above figures are reconciled to cash at the end of the financial year as shown in the statement of Cash Flows as follows:				
Balance as above	42.3	25.9		
Bank overdraft (Note 7(b))	(6.7)	(2.1)		
Balance per consolidated statement of Cash Flows	<b>35.6</b>	<b>23.8</b>		
<b>(b) Receivables</b>				
Trade debtors	175.4	168.9	179.9	173.5
Less: provision for doubtful debts	(12.4)	(13.8)	(12.4)	(13.8)
	163.0	155.1	167.5	159.7
Accrued sales of energy	343.3	299.0	343.3	299.0
	506.3	454.1	510.8	458.7
<b>(c) Inventories</b>				
Work in progress				
● at cost	0.3	0.2	0.3	0.2
Stores and materials				
● at cost	22.9	24.2	22.9	24.2
● at net realisable value	1.0	1.0	1.0	1.0
	24.2	25.4	24.2	25.4
<b>(d) Other</b>				
Prepayments	14.4	5.1	14.4	5.1
Prepaid superannuation contribution (Note 22) (2)	27.2	12.1	27.2	12.1
Other current assets	27.1	10.3	27.1	10.3
Deferred costs	40.9	–	40.9	–
	109.6	27.5	109.6	27.5

(2) The EnergyAustralia Group contribute to Divisions A,B,C and D of the Energy Industries Superannuation Scheme (EISS).

With the exception of Division A, EISS provides defined benefits based on years of service and salary. For 30 June 2004, the gross prepayment and liability of the Scheme have been calculated by the Scheme's Actuary and have been brought to account in the Statements of Financial Position as either an asset or a liability.

## 6. Non-current assets

	Consolidated Entity		EnergyAustralia	
	2004	2003	2004	2003
\$ millions				
<b>(a) Financial Assets</b>				
<b>Investments</b>				
Share investment in other corporations (3)	–	11.9	– #	11.9
(3) The EnergyAustralia Group disposed 100% of its investment in PowerTel during 2003/2004 for \$12.1 million and earned a profit of \$0.2 million.				
# Amount reduced to zero as a result of rounding to nearest \$0.1 million (see Note 1(d)).				
<b>(b) Property, plant and equipment</b>				
<b>Land and buildings (4)</b>				
Freehold land	93.9	93.9	93.9	93.9
Buildings	168.8	159.1	168.8	159.1
Less: accumulated depreciation	(12.6)	(6.3)	(12.6)	(6.3)
Construction in progress	3.6	8.1	3.6	8.1
	253.7	254.8	253.7	254.8
<b>System assets (5)</b>				
In service	4,474.1	4,171.0	4,474.1	4,171.0
Less: accumulated depreciation	(678.2)	(509.8)	(678.2)	(509.8)
System land	423.3	413.6	423.3	413.6
Construction in progress	195.2	190.1	195.2	190.1
	4,414.4	4,264.9	4,414.4	4,264.9
<b>Other assets (6)</b>				
In service	482.9	447.7	482.9	447.7
Less: accumulated depreciation	(312.5)	(275.3)	(312.5)	(275.3)
Construction in progress	12.9	13.9	12.9	13.9
	183.3	186.3	183.3	186.3
<b>Net property, plant and equipment</b>	<b>4,851.4</b>	<b>4,706.0</b>	<b>4,851.4</b>	<b>4,706.0</b>

(4) The basis for valuation of land and buildings is fair value (see Note 1(f)).

(5) System assets are valued at ODRC (deemed to be fair value in accordance with NSW Treasury Accounting Policy 'Valuation of Physical Non-Current Assets at Fair Value' as there is no material difference between the two) (see Note 1(f)).

(6) Assets other than system assets and land and buildings are valued at depreciated historical cost (deemed to be fair value in accordance with the above policy as there is no material difference between the two) (see Note 1(f)).

## Reconciliations

Reconciliations of the carrying amount of each class of property, plant and equipment at the beginning and end of the current financial year are set out below:

	Carrying Amount at Start of Year	Additions	Transfers	Disposals	Revaluation Increments (Note 9(c))	Depreciation (Note 3(a))	Carrying Amount at End of Year
\$ millions							
<b>Consolidated Entity – 2004</b>							
Freehold land	93.9	–	–	–	–	–	93.9
Buildings	152.8	9.7	–	–	–	(6.3)	156.2
System land	413.6	11.2	(0.2)	(1.3)	–	–	423.3
System assets – in service	3,661.1	314.7	0.2	(8.5)	–	(171.6)	3,795.9
Other assets – in service	172.5	48.3	–	(2.3)	–	(48.1)	170.4
Total construction in progress	212.1	(0.4)	–	–	–	–	211.7
	4,706.0	383.5	–	(12.1)	–	(226.0)	4,851.4
<b>EnergyAustralia – 2004</b>							
Freehold land	93.9	–	–	–	–	–	93.9
Buildings	152.8	9.7	–	–	–	(6.3)	156.2
System land	413.6	11.2	(0.2)	(1.3)	–	–	423.3
System assets – in service	3,661.1	314.7	0.2	(8.5)	–	(171.6)	3,795.9
Other assets – in service	172.5	48.3	–	(2.3)	–	(48.1)	170.4
Total construction in progress	212.1	(0.4)	–	–	–	–	211.7
	4,706.0	383.5	–	(12.1)	–	(226.0)	4,851.4

	Consolidated Entity		EnergyAustralia	
\$ millions	2004	2003	2004	2003
<b>(c) Deferred tax assets</b>				
Future income tax benefit (Note 4)	96.9	90.4	96.9	90.4
<b>(d) Other</b>				
Customer Acquisitions	19.0	–	19.0	–
Less: accumulated amortisation	(6.3)	–	(6.3)	–
	12.7	–	12.7	–

## 7. Current liabilities

	Consolidated Entity		EnergyAustralia	
\$ millions	2004	2003	2004	2003
<b>(a) Payables</b>				
Trade creditors	337.3	247.3	337.3	247.2
<b>(b) Interest bearing liabilities</b>				
Bank overdraft (Note 5(a))	6.7	2.1	6.7	2.1
Loans	601.1	523.8	601.1	523.8
	607.8	525.9	607.8	525.9
<b>(c) Current tax liabilities</b>				
Income tax (Note 4)	12.2	25.0	12.2	25.0
<b>(d) Provisions</b>				
Employee benefits (Note 21)	40.4	34.4	40.4	34.4
Insurance	3.4	4.2	3.4	4.2
Dividends (Note 9(d))	163.5	106.4	163.5	106.4
Unfunded superannuation (Notes 5(d), 22)	0.3	0.4	0.3	0.4
Network revenue over-recovery	–	64.0	–	64.0
Deferred revenue	52.3	–	52.3	–
Other	13.6	2.0	13.6	2.0
	273.5	211.4	273.5	211.4

## 8. Non-current liabilities

	Consolidated Entity		EnergyAustralia	
\$ millions	2004	2003	2004	2003
<b>(a) Interest bearing liabilities</b>				
Loans due between one to five years	661.1	906.4	661.1	906.4
Loans due after five years	1,132.3	844.1	1,132.3	844.1
	1,793.4	1,750.5	1,793.4	1,750.5
<b>(b) Deferred tax liabilities</b>				
Provision for deferred income tax (Note 4)	241.0	220.6	241.0	220.6
<b>(c) Provisions</b>				
Employee benefits (Note 21)	161.6	160.6	161.6	160.6
Insurance	12.3	13.2	12.3	13.2
Other	2.5	5.2	2.5	5.2
	176.4	179.0	176.4	179.0

### Movements in provisions

Movements in each class of provision during the financial year, other than employee benefits, are set out below:

	Carrying Amount at Start of Year	Increase / (Decrease)	Payments	Carrying Amount at End of Year
\$ millions				
<b>Consolidated Entity – 2004</b>				
Insurance	17.4	2.8	(4.5)	15.7
Dividends (Note 9(d))	106.4	163.5	(106.4)	163.5
Unfunded superannuation (Notes 5(d), 22)	0.4	(0.1)	–	0.3
Network revenue over-recovery	64.0	(64.0)	–	–
Deferred revenue	–	52.3	–	52.3
Other	7.2	12.4	(3.5)	16.1
	195.4	166.9	(114.4)	247.9
<b>EnergyAustralia – 2004</b>				
Insurance	17.4	2.8	(4.5)	15.7
Dividends (Note 9(d))	106.4	163.5	(106.4)	163.5
Unfunded superannuation (Notes 5(d), 22)	0.4	(0.1)	–	0.3
Network revenue over-recovery	64.0	(64.0)	–	–
Deferred revenue	–	52.3	–	52.3
Other	7.2	12.4	(3.5)	16.1
	195.4	166.9	(114.4)	247.9

## 9. Equity

	Consolidated Entity		EnergyAustralia	
	2004	2003	2004	2003
\$ millions				
<b>(a) Share capital</b>				
Issued and paid up capital				
2 ordinary shares of \$1 each, fully paid	- #	- #	- #	- #
# Amount reduced to zero as a result of rounding to nearest \$0.1 million (see Note 1(d)).				
<b>(b) Contributed Equity</b>				
Closing Balance	402.1	402.1	402.1	402.1
<b>(c) Reserves</b>				
<b>Asset revaluation reserve (7)</b>				
Opening balance	1,369.0	1,306.4	1,369.0	1,306.4
Increment on revaluation of property, plant and equipment during the year	-	65.3	-	65.3
Transfer to retained earnings	(2.4)	(2.7)	(2.4)	(2.7)
Closing balance	1,366.6	1,369.0	1,366.6	1,369.0
(7) The asset revaluation reserve is used to record increments and decrements on the revaluation of non-current assets (see Notes 1(f) and 6(b)).				
<b>(d) Retained earnings</b>				
Retained earnings at the beginning of the financial year	383.5	361.6	387.7	365.7
Net profit attributable to members of EnergyAustralia	177.6	125.6	177.6	125.7
Dividend provided for the financial year	(163.5)	(106.4)	(163.5)	(106.4)
Transfer from asset revaluation reserve	2.4	2.7	2.4	2.7
Retained earnings at the end of the financial year	400.0	383.5	404.2	387.7
<b>(e) Outside equity interest in controlled entity</b>				
Interest in:				
Share capital	- #	- #		
Accumulated loss	(0.3)	(0.3)		
	(0.3)	(0.3)		

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

## 10. Financial Instruments

### (a) Foreign exchange risk

The EnergyAustralia Group enters into foreign exchange contracts to hedge anticipated commitments for the supply of parts and equipment which are denominated in foreign currencies. 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:

	Sell Australian Dollars		Average Exchange Rate	
	2004	2003	2004	2003
\$ millions				
Buy United States Dollars	1.4	-	0.6175	-

As these contracts are hedging anticipated future capital 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 2004 the EnergyAustralia Group's foreign exchange position did not give rise to any unrealised losses (nil in 2003).

### (b) Interest rate risk

Interest rate risk is managed with the assistance of interest rate swaps and futures transactions. All derivatives are managed through T-Corp in accordance with Board policies and can only be used for hedging, and not speculative purposes. These are used for the purpose of managing interest rate exposures associated with external debt raised.

### Swaps

The EnergyAustralia Group has been advised by T-Corp that the risk position in the swaps as at 30 June 2004 was part of a strategic position in which it was originally believed that rates would rise in the two to three year maturity band.

### Futures

The futures contracts were entered into to hedge slight mismatches between structure of the actual physical debt portfolio and the benchmark portfolio.

### Interest rate risk exposures

Exposures arise predominantly from assets and liabilities bearing variable interest rates as the EnergyAustralia Group intends to hold fixed rate assets and liabilities to maturity. The EnergyAustralia Group'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:

	Weighted Average Interest Rate (8)	Floating Interest Rate	Fixed interest maturing in			Non-Interest Bearing	Total
			1 Year or Less	1 to 5 Years	More Than 5 Years		
\$ millions							
<b>2004</b>							
<b>Financial assets</b>							
Cash assets (Note 5(a))	5.2%	42.2	-	-	-	0.1	42.3
Receivables (Note 5(b))		-	-	-	-	506.3	506.3
Financial assets (Note 6(a))		-	-	-	-	-	-
		42.2	-	-	-	506.4	548.6
<b>Financial liabilities</b>							
Bank overdraft (Note 7(b))	5.0%	6.7	-	-	-	-	6.7
Loans (Notes 7(b), 8(a))	6.3%	105.2	603.5	553.5	1,132.3	-	2,394.5
Trade creditors (Note 7(a))		-	-	-	-	337.3	337.3
Deposits		-	-	-	-	33.4	33.4
Interest rate swaps (9)		(44.0)	-	44.0	-	-	-
Futures (9)		-	-	-	-	-	-
		67.9	603.5	597.5	1,132.3	370.7	2,771.9
Net financial assets / (liabilities)		(25.7)	(603.5)	(597.5)	(1,132.3)	135.7	(2,223.3)
<b>2003</b>							
<b>Financial assets</b>							
Cash assets (Note 5(a))	4.7%	25.8	-	-	-	0.1	25.9
Receivables (Note 5(b))		-	-	-	-	454.1	454.1
Financial assets (Note 6(a))		-	-	-	-	11.9	11.9
		25.8	-	-	-	466.1	491.9
<b>Financial liabilities</b>							
Bank overdraft (Note 7(b))	4.3%	2.1	-	-	-	-	2.1
Loans (Notes 7(b), 8(a))	6.5%	255.9	525.5	648.8	844.1	-	2,274.3
Trade creditors (Note 7(a))		-	-	-	-	247.3	247.3
Deposits		-	-	-	-	27.2	27.2
Interest rate swaps (9)		(146.4)	-	146.4	-	-	-
Futures (9)		(74.2)	50.0	13.0	11.2	-	-
		37.4	575.5	808.2	855.3	274.5	2,550.9
Net financial assets / (liabilities)		(11.6)	(575.5)	(808.2)	(855.3)	191.6	(2,059.0)

(8) After incorporating the effect of interest rate swaps.

(9) Notional principal amounts.

\$ millions	Consolidated Entity	
	2004	2003
<b>Reconciliation of net financial assets to net assets</b>		
Net financial assets as above	(2,223.3)	(2,059.0)
Non-financial assets and liabilities		
Inventories note 5(c))	24.2	25.4
Property, plant and equipment (Note 6(b))	4,851.4	4,706.0
Other current assets (Note 5(d))	109.6	27.5
Other non-current assets	12.7	–
Deferred tax assets (Note 6(c))	96.9	90.4
Tax liabilities (Notes 7(c), 8(b))	(253.2)	(245.6)
Provisions (Notes 7(d), 8(c))	(449.9)	(390.4)
Net assets per statements of financial position	2,168.4	2,154.3

#### (c) Energy price risk

##### Recognised energy derivative instruments (Segregated trading contracts)

Segregated trading contracts are initially accounted for at cost and subsequently unrealised gains and losses for commodity based trading contracts are marked to market and recognised on a monthly basis. Realised gains or losses are recognised when the derivative contracts are settled. The terms of these contracts are generally for no more than 5 years.

##### Unrecognised energy derivative instruments (Hedge contracts)

The EnergyAustralia Group enters into hedging contracts to hedge against movements in spot prices in the National Electricity Market (NEM) and the Victorian gas market, operated by VENCorp, for anticipated purchase commitments of energy. The EnergyAustralia Group uses a combination of swap and option contracts transacted with generators and other market participants in its hedging strategy. The terms of these contracts are generally for no more than 10 years. As these contracts are hedging anticipated future purchases, any realised gains and losses on the contracts will be recognised in the measurement of the underlying purchase commitment as an element of electricity purchase costs. The remaining terms and face value of the EnergyAustralia Group's outstanding hedging contracts at the reporting date are detailed in the following table:

\$ millions	Consolidated Entity	
	2004	2003
<b>Face Value</b>		
<b>Energy Derivatives</b>		
Not longer than one year	733.7	1,065.0
Longer than one year	2,130.3	1,384.6

#### (d) Net fair values of financial assets and liabilities

##### Valuation approach

The net fair value of cash and cash equivalents and non-interest bearing monetary financial assets and financial liabilities of the EnergyAustralia Group approximates their carrying amounts.

Equity investments traded on organised markets have been valued by reference to market prices prevailing at balance date.

For energy derivatives, market price valuations are not readily available for the type of highly sculpted or exotic or large volume contracts held by the EnergyAustralia Group, therefore net fair value has been calculated based on readily available market price estimates which are usually quoted for small vanilla contracts.

The net fair value of financial assets or financial liabilities arising from interest rate swap agreements has been determined as the carrying amount, which represents the amount currently receivable or payable at the reporting date, and the present value of the estimated future cash flows which have not been recognised as an asset or a liability.

For forward exchange contracts, the net fair value is taken to be the unrealised gain or loss at balance date calculated by reference to the current forward rates for contracts with similar maturity profiles.

#### Net fair values

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

\$ millions	Consolidated Entity			
	Carrying Amount	Net Fair Value	Carrying Amount	Net Fair Value
	2004		2003	
<b>Recognised financial instruments</b>				
<b>Financial assets</b>				
Cash	0.1	0.1	0.1	0.1
Deposits	42.2	42.2	25.8	25.8
Receivables	506.3	506.3	454.1	454.1
Share investment in other corporations	–	–	11.9	16.2
	<b>548.6</b>	<b>548.6</b>	<b>491.9</b>	<b>496.2</b>
<b>Financial liabilities</b>				
Trade creditors	337.3	337.3	247.3	247.3
Bank overdraft	6.7	6.7	2.1	2.1
Loans	2,394.5	2,419.5	2,274.3	2,410.7
Deposits	33.4	33.4	27.2	27.2
	2,771.9	2,796.9	2,550.9	2,687.3
<b>Unrecognised financial instruments</b>				
<b>Financial assets</b>				
Energy derivatives	–	30.4	–	14.8
<b>Financial liabilities</b>				
Interest rate swaps	–	0.1	–	2.5
Energy derivatives	–	13.5	–	72.5
	–	13.6	–	75.0

#### (e) Credit risk exposures

The credit risk on financial assets, excluding investments, of the EnergyAustralia Group which have been recognised in the Statements of Financial Position, is generally the carrying amount, net of any provisions for doubtful debts. The EnergyAustralia Group minimises concentrations of credit risk by undertaking transactions with a large number of customers and is not materially exposed to any individual customer.

Interest rate swaps are subject to credit risk in relation to the relevant counter-parties, which are principally large banks. The credit risk on swap contracts is limited to the net amount to be received from counter-parties on contracts that are favourable to the EnergyAustralia Group. As at 30 June 2004 the EnergyAustralia Group's swap position did not give rise to any favourable contracts (nil in 2003).

Exposure to fluctuations in the wholesale price of energy is mitigated by entering into derivative transactions with approved counter-parties for the purpose of hedging the purchase cost of energy. By entering into these arrangements the EnergyAustralia Group is exposed to credit related losses in the event of non-performance by counter-parties to these derivative instruments.

The EnergyAustralia Group's credit risk is minimised as it transacts predominantly with other Government owned corporations in the energy industry. Where a counter-party is a non-Government owned corporation its creditworthiness is established in accordance with the EnergyAustralia Group's risk management policies. At balance date the maximum credit exposure resulting from energy derivatives, excluding realised gains and losses not yet settled, amounted to \$30.4 million (\$14.8 million in 2003), with the only significant concentration of credit risk being with a Government owned entity in New South Wales.

## 11. Remuneration of Directors

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

	2004	2003
\$30,000 – \$39,999	–	1
\$50,000 – \$59,999	–	1
\$60,000 – \$69,999	4	3
\$110,000 – \$119,999	1	1
\$480,000 – \$489,999	–	1
\$510,000 – \$519,999 (10)	1	–

(10) Excludes bonus paid (\$79,819 for 2003 and \$72,228 for 2002).

\$ millions	Consolidated Entity		EnergyAustralia	
	2004	2003	2004	2003
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	1.0	0.9		
Total income paid or payable, or otherwise made available, to all Directors of the parent entity from the parent entity or any related party			1.0	0.9

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

## 12. Remuneration of Auditors

\$ millions	Consolidated Entity		EnergyAustralia	
	2004	2003	2004	2003
Amounts paid and payable for audit services provided by the Audit Office of NSW	0.4	0.3	0.4	0.3

## 13. Related party transactions

### (a) Directors

The Directors of EnergyAustralia during the financial year were:

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

Remuneration received or receivable by Directors of each entity are disclosed in Note 11.

### Other transactions

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

- EnergyAustralia paid \$118,350 to the Sydney Symphony in accordance with a sponsorship agreement. Mr Conde is a Director of Sydney Symphony.
- EnergyAustralia paid \$11,000 to the Asthma Foundation as part of a sponsorship arrangement. Mr Conde is Chairman of the Asthma NSW Corporate Advisory Committee.
- EnergyAustralia provided assistance through value in kind in the amount of \$131,386 to Youth off the Streets. This assistance included the production of collection envelopes which were inserted within all EnergyAustralia bills. Mr Broad is a Director of Youth off the Streets.

The Directors of EnergyAustralia are also Directors of other companies which may have had transactions with EnergyAustralia during the financial year. With respect to any such transaction, no Director has declared that he / she has control or significant influence on the financial and / or operating policies of those companies in their dealings with EnergyAustralia.

All transactions are conducted on an arms 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 17. Details of dealings with entities in the wholly owned group are as follows:

### Loans

During the year ended 30 June 2004 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 2004/2005.

### 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 / 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.

## 14. Contingent liabilities

	Consolidated Entity		EnergyAustralia	
	2004	2003	2004	2003
\$ millions				
<b>Guarantees issued by financial institutions (11)</b>				
Bank guarantees provided in the normal course of business, in lieu of retention and security deposits	2.4	1.1	2.4	1.1
Guarantees provided to regulatory and statutory authorities	281.1	328.0	281.1	328.0
	283.5	329.1	283.5	329.1

(11) The EnergyAustralia Group has fully indemnified the issuing financial institutions in the unlikely event these guarantees are called on.

## 15. Commitments for expenditure

	Consolidated Entity		EnergyAustralia	
	2004	2003	2004	2003
\$ millions				
<b>(a) Capital commitments</b>				
Commitments for the acquisition of plant and equipment contracted for at the reporting date but not recognised as liabilities, payable:				
Within one year (12)	40.5	12.9	40.5	12.9
Later than one year but not later than 5 years	-	-	-	-
Later than 5 years	-	-	-	-
	40.5	12.9	40.5	12.9

(12) The commitments include capital expenditure commitments relating to the acquisition of system assets.

	Consolidated Entity		EnergyAustralia	
	2004	2003	2004	2003
\$ millions				
<b>(b) Lease commitments</b>				
Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities, payable:				
Within one year	11.9	12.2	11.9	12.2
Later than one year but not later than 5 years	25.1	26.0	25.1	26.0
Later than 5 years	84.7	74.5	84.7	74.5
	121.7	112.7	121.7	112.7
Representing:				
Cancellable operating leases	-	-	-	-
Non-cancellable operating leases	121.7	112.7	121.7	112.7
	121.7	112.7	121.7	112.7
<b>(c) Other commitments</b>				
Commitments in relation to operating expenditure contracted for at the reporting date but not recognised as liabilities, payable:				
Within one year	34.2	14.3	34.2	14.3
Later than one year but not later than 5 years	22.4	19.0	22.4	19.0
Later than 5 years	- #	-	- #	-
	56.6	33.3	56.6	33.3

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

## 16. External consultants

The total amount paid to or accrued for consultants during the year ended 30 June 2004 was \$1.1 million (\$2.1 million in 2003).

## 17. Controlled entities

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

**Energy Management International 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 30 June	
	2004	2003	2004	2003	2004	2003
\$ millions						
EnergyAustralia	2,558.7	2,431.5	256.5	204.8	5,647.9	5,345.6
Energy Management International Pty Ltd	-	-	- #	- #	-	- #
Energy Australia Pty Ltd	-	-	- #	-	- #	- #
Downtown Utilities Pty Ltd	- #	- #	- #	(0.1)	- #	- #

# Amount 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.

## 18. Reconciliation of net profit to net cash inflow from operating activities

	Consolidated Entity	
	2004	2003
\$ millions		
<b>Net Profit</b>	177.6	125.6
<b>Add / (less) non-cash items:</b>		
Depreciation	232.3	233.8
Amortisation of unrealised capital (debt)	(3.7)	(3.6)
Provision for doubtful debts	(1.4)	6.3
(Profit) / loss on sale of fixed assets	5.0	3.2
(Profit) / loss on sale of investments	(0.2)	-
<b>Changes in assets and liabilities:</b>		
(Increase) / decrease in accrued sales of energy	(44.3)	11.2
(Increase) / decrease in other accrued income	(6.5)	70.4
(Increase) / decrease in operating related inventories	1.2	1.0
(Increase) / decrease in future income tax benefit	(6.5)	(2.9)
(Increase) / decrease in prepaid operating expenditure	(86.0)	(9.3)
(Increase) / decrease in prepaid superannuation	(15.1)	20.0
Increase / (decrease) in accrued operating expenditure	50.6	(76.9)
Increase / (decrease) in provision for income tax payable	(12.8)	(9.7)
Increase / (decrease) in provision for deferred income tax	20.4	15.7
Increase / (decrease) in other provisions	2.4	(63.1)
Increase / (decrease) in customer security deposits	6.2	(1.2)
<b>Net cash inflow from operating activities</b>	319.2	320.5

## 19. Non-cash financing and investing activities

There were no non-cash financing and investing activities undertaken during the year ended 30 June 2004.

## 20. Financing facilities

Financing facilities of a \$2 million bank overdraft limit and a \$200 million short term accommodation from NSW Treasury Corporation were available but not fully utilised as at 30 June 2004 (see Note 5(a)).

## 21. Employee benefits

	Consolidated Entity		EnergyAustralia	
	2004	2003	2004	2003
\$ millions				
<b>Aggregate liability for employee benefits, including on-costs:</b>				
Trade creditors – current (Note 7(a))	12.0	9.1	12.0	9.1
Provision – current (Note 7(d))	40.4	34.4	40.4	34.4
Provision – non-current (Note 8(c))	161.6	160.6	161.6	160.6
	214.0	204.1	214.0	204.1

## 22. Superannuation (Notes 5(d), 7(d))

	EISS Pool B Fund		Other Funds	Total Funds
\$ millions				
<b>Consolidated Entity – 2004</b>				
Assets		272.6	0.4	273.0
Past Service Liabilities		(245.4)	(0.7)	(246.1)
Surplus		27.2	(0.3)	26.9
Vested benefits		185.0		
<b>EnergyAustralia – 2004</b>				
Assets		272.6	0.4	273.0
Past Service Liabilities		(245.4)	(0.7)	(246.1)
Surplus		27.2	(0.3)	26.9
Vested benefits		185.0		
<b>Consolidated Entity – 2003</b>				
Assets		236.8	0.5	237.3
Past Service Liabilities		(224.7)	(0.9)	(225.6)
Surplus		12.1	(0.4)	11.7
Vested benefits		153.2		
<b>EnergyAustralia – 2003</b>				
Assets		236.8	0.5	237.3
Past Service Liabilities		(224.7)	(0.9)	(225.6)
Surplus		12.1	(0.4)	11.7
Vested benefits		153.2		

## 23. Segment information

### Accounting policies

Segment information is prepared in conformity with the accounting policies of the EnergyAustralia Group as disclosed in Note 1 and Australian Accounting Standard AASB 1005 *Segment Reporting*.

Segment revenues, expenses, assets and liabilities are those that are directly attributable to that segment, and also include any portion that can be allocated to that segment on a reasonable basis. Segment assets and liabilities include that which is used by that segment and includes allocations. Assets and liabilities attributable to that segment were allocated using appropriate drivers as a reasonable estimate. Segment assets exclude income tax assets and financing assets, and segment liabilities exclude income tax liabilities, dividend provision, borrowings, bank overdraft and other financing liabilities.

### Business segments

The EnergyAustralia Group operates in the Energy Segment. This involves the distribution and retailing of electricity and retailing of gas. Revenue is earned from sales to both franchise and contestable customers as well as from electricity retailers for the use of its electricity network.

### Geographical segments

The EnergyAustralia Group operates in one geographical segment, being Australia, predominantly NSW.

	Energy	Other	Inter-Segment Eliminations	Consolidated Entity
\$ millions				
<b>2004</b>				
Sales to external customers	2,373.0	88.0	–	2,461.0
Inter-segment sales	0.2	–	(0.2)	–
Total sales revenue	2,373.2	88.0	(0.2)	2,461.0
Other revenue	85.0	–	–	85.0
Total segment revenue	2,458.2	88.0	(0.2)	2,546.0
Segment result	404.1	21.4	–	425.5
Excluded revenue less excluded expenses – interest and net gain on sale of investment				(169.0)
Profit from ordinary activities before income tax expense				256.5
Income tax expense				(78.9)
Net Profit				177.6
Segment assets	5,409.8	94.0	–	5,503.8
Excluded assets				139.6
Total assets				5,643.4
Segment liabilities	555.0	102.0	–	657.0
Excluded liabilities				2,818.0
Total liabilities				3,475.0
Acquisition of PPE, intangibles and other non-current assets	379.2	4.3	–	383.5
Depreciation and amortisation expense	228.9	3.4	–	232.3

## 23. Segment information continued

	Energy	Other	Inter-Segment Eliminations	Consolidated Entity
\$ millions				
<b>2003</b>				
Sales to external customers	2,178.0	139.7	–	2,317.7
Inter-segment sales	0.2	–	(0.2)	–
Total sales revenue	2,178.2	139.7	(0.2)	2,317.7
Other revenue	111.7	0.8	–	112.5
Total segment revenue	2,289.9	140.5	(0.2)	2,430.2
Segment result	380.3	(4.9)	–	375.4
Excluded revenue less excluded expenses – interest				(170.7)
Profit from ordinary activities before income tax expense				204.7
Income tax expense				(79.1)
Net Profit				125.6
Segment assets	5,194.8	55.7	–	5,250.5
Excluded assets				90.7
Total assets				5,341.2
Segment liabilities	505.7	52.8	–	558.5
Excluded liabilities				2,628.4
Total liabilities				3,186.9
Acquisition of PPE, intangibles and other non-current assets	367.1	2.7	–	369.8
Depreciation and amortisation expense	228.9	4.9	–	233.8

### Reconciliation of segment revenue to the consolidated entity revenue

	Consolidated Entity	
\$ millions	2004	2003
Total segment revenue	2,546.0	2,430.2
Add investment revenue and proceeds from sale of investments	12.7	1.3
Revenue from ordinary activities	2,558.7	2,431.5
<b>Secondary reporting – geographical segments</b>		
Revenue by location of customers	2,546.0	2,430.2
Carrying amounts of segment assets by location	5,643.4	5,341.2
Acquisition of PPE, intangibles and other non-current segment assets	383.5	369.8

## 24. Adoption of International Financial Reporting Standards

The EnergyAustralia Group will apply the Australian Equivalents to International Financial Reporting Standards (AIFRS) from the reporting period beginning 1 July 2005. The EnergyAustralia Group is managing the transition to the new standards by allocating internal resources and engaging consultants to analyse the pending standards and Urgent Issues Group Abstracts to identify key areas regarding policies, procedures, systems and financial impacts affected by the transition. The EnergyAustralia Group's IFRS Steering Committee is overseeing the transition and monitors progress against the plan.

The following phases that need to be undertaken have been identified:

- (1) *Assess phase*: Which primarily involved an analysis of IFRS requirements compared to the EnergyAustralia Group's current accounting policies.
- (2) *Design phase*: Detailed analysis of the potential differences, development of revised accounting policies to comply with IFRS, development of models to perform IFRS calculations (eg impairment) and development of new systems and processes to comply with IFRS requirements.
- (3) *Implement phase*: Implementation of the new policies, procedures and models.

To date, the EnergyAustralia Group has completed the first phase and is currently working through phase 2 and 3.

The EnergyAustralia Group has identified a number of significant impacts that will arise from adopting AIFRS. Some impacts arise because AIFRS requirements are different from existing AASB requirements. Other impacts could arise from options in AIFRS. To ensure consistency at the whole of government level, NSW Treasury has advised the EnergyAustralia Group of options it is likely to mandate, and will confirm these during 2004/05. This disclosure reflects these likely mandates.

The EnergyAustralia Group's accounting policies may also be affected by a proposed standard designed to harmonise accounting standards with Government Finance Statistics (GFS). This standard is likely to change the impact of AIFRS and significantly affect the presentation of the income statement. However, the impact is uncertain, because it depends on when this standard is finalised and whether it can be adopted in 2005/06.

Based on current information, the following key differences in accounting policies are expected to arise from adopting AIFRS:

- AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* requires retrospective application of the new AIFRS from 1 July 2004, with limited exemptions. Similarly, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* requires voluntary changes in accounting policy and correction of errors to be accounted for retrospectively by restating comparatives and adjusting the opening balance of retained earnings. This differs from current Australian requirements, because such changes must be recognised in the current period through profit or loss, unless a new standard mandates otherwise.
- AASB 110 *Events after the Balance Sheet Date* is not expected to impact on dividend recognition as the signing of the Statement of Corporate Intent before the reporting date to which it relates, "authorises" the dividend and any change in the amount of the dividend after the reporting date constitutes an "adjusting event after the reporting date". However, the amount of the dividend may be affected by other AIFRS, such as AASB 139 *Financial Instruments: Recognition and Measurement* and AASB 119 *Employee Benefits* (refer below) as these standards may impact on retained earnings (on first adoption) and the amount and volatility of profit / loss.
- AASB 112 *Income Taxes* requires a balance sheet approach where the entity must identify differences between the accounting and tax value of assets and liabilities. The previous approach was to account for tax by adjusting accounting profit for temporary and permanent differences to derive taxable income. The AASB 112 approach may alter the quantum of tax assets and liabilities recognised.
- AASB 116 *Property, Plant and Equipment* requires the cost and fair value of property, plant and equipment to be increased to include restoration costs, where restoration provisions are recognised under AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*. The EnergyAustralia Group will have to account for asset revaluation increments and decrements on an individual asset basis, rather than on a class basis. This change may decrease retained earnings.
- AASB 119 *Employee Benefits* requires the defined benefit obligation to be discounted using the government bond rate as at each reporting date rather than the long-term expected rate of return on plan assets. This will increase the amount and the future volatility of the superannuation liability / prepaid position and the volatility of the employee benefit expense.
- The current AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance* spreads income recognition over the period necessary to match related costs. The EnergyAustralia Group will either apply the current AASB 120 or early adopt a revised AASB 120, based on the grant requirements in AASB 141 *Agriculture*, likely to require income recognition when conditions are satisfied.
- AASB 136 *Impairment of Assets* requires an entity to assess at each reporting date whether there is any indication that an asset (or cash generating unit) is impaired and if such indication exists, the entity must estimate the recoverable amount. The EnergyAustralia group has started to review the impact that this standard may have on the financial results.
- AASB 139 *Financial Instruments: Recognition and Measurement* results in the recognition of financial instruments that were previously off balance sheet, including derivatives. The standard adopts a mixed measurement model and requires financial instruments held for trading and available for sale to be measured at fair value and valuation changes to be recognised in profit or loss or equity, respectively. Currently, hedge contracts are brought to account when realised on an accruals basis whilst segregated trading contracts are accounted for on a mark-to-market basis. This may increase the volatility of the operating result and balance sheet. The standard also includes stricter rules for the adoption of hedge accounting, and where these are not satisfied, movements in fair value will impact the income statement.

It should be noted that no comparatives will be required for financial instruments on transition and the opening balance sheet adjustments will be reflected in retained earnings at 1 July 2005.

- AASB 140 *Investment Property* requires investment property to be measured at cost or fair value. NSW Treasury is likely to mandate the adoption of fair value. In contrast to current treatment as an asset classified within property, plant and equipment, investment property recognised at fair value is not depreciated and changes in fair value are recognised in the income statement.

## Directors' declaration

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 Regulation 2000*, mandatory professional reporting requirements and give a true and fair view of the EnergyAustralia Group's financial position as at 30 June 2004 and its financial 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; and
- (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 Conde AO**  
Chairman



**Paul Broad**  
Managing Director

Sydney  
8 September 2004



GPO BOX 12  
SYDNEY NSW 2001

### INDEPENDENT AUDIT REPORT

#### ENERGYAUSTRALIA

To Members of the New South Wales Parliament

#### Audit Opinion

In my opinion, the financial report of EnergyAustralia:

- (a) presents fairly the Corporation's and the consolidated entity's financial position as at 30 June 2004 and its financial performance and cash flows for the year ended on that date, in accordance with applicable Accounting Standards and other mandatory professional reporting requirements in Australia, and
- (b) complies with section 41B of the *Public Finance and Audit Act 1983* (the Act).

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

#### The Board's Role

The financial report is the responsibility of the members of the Board of EnergyAustralia. It consists of the statements of financial position, the statements of financial performance, the statements of cash flows and the accompanying notes for EnergyAustralia and the consolidated entity. The consolidated entity comprises EnergyAustralia and the entities controlled at the year's end or during the financial year.

#### The Auditor's Role and the Audit Scope

As required by the Act, I carried out an independent audit to enable me to express an opinion on the financial report. My audit provides *reasonable assurance* to Members of the New South Wales Parliament that the financial report is free of *material* misstatement.

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

- evaluated the accounting policies and significant accounting estimates used by the Board in preparing the financial report, and
- examined a sample of the evidence that supports the amounts and other disclosures in the financial report.

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

My opinion does *not* provide assurance:

- about the future viability of EnergyAustralia or its controlled entities,
- that they have carried out their activities effectively, efficiently and economically, or
- about the effectiveness of its internal controls.

#### Audit Independence

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

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



**L I White FCA**  
Assistant Auditor-General  
Sydney, 13 September 2004