

# Outlook

## The future

Much of our success in 2003-2004 and beyond will depend on the IPART determination on network pricing for the regulatory period 2004-2009. In anticipation of a favourable outcome, Integral Energy has again planned for success on three key strategies, underpinned by strategic initiatives:

### **Building value in the network**

Vision: Customers in Integral Energy's region should, on average, receive comparable service standards to customers in like situations within Australia.

Strategic initiatives designed to achieve this vision are:

- Improving the performance of poor performing supply lines.
- Reducing the number and duration of planned outages.
- Addressing the issues that cause lost customer minutes.
- Reducing the susceptibility of the network during major storm events.
- Improving response times to reduce duration of outages.
- Encouraging demand-side management initiatives.
- Implementing a program to identify and prioritise asset renewal.

### **Maximising the contribution from the Retail business**

Vision: All Integral Energy retail customers will have their electricity provided by a responsive retailer.

Strategic initiatives designed to achieve this vision are:

- Identifying profitable customers.
- Meeting customer needs in a way that increases profitability.
- Managing retail risk.

### **Ensuring strategic support systems are in place**

Strategic initiatives designed to achieve this are:

- Implementing leadership, reward and recognition, competency based progression, and flexible workplace initiatives.
- Integrating safety into business and management processes.
- Implementing appropriate property disposal and maintenance programs for head office and field support locations.
- Adopting more responsive and effective processes to meet the needs of the business
- Establishing cost controlled IT&T operations, and introducing new systems and technologies where appropriate.
- Implementing measures to manage business risk.

Integral Energy's planning over the past few years has focussed on building a solid business foundation from which the organisation can leverage for success. Future planning will embrace 'sustainability' as a means of success, through active scanning of industry and market trends from a financial, social and environmental perspective. The goal is to ensure new strategies and business activities achieve the balance of objectives required for long term success for all stakeholders.

The overall aim is to move the organisation closer to achieving its vision: to be Australia's leading energy business. It also assists in fulfilling our mission: to be a successful energy corporation, with a long-term focus on being a best practice asset manager and competing in profitable energy markets.

# Corporate Plan 2003-2004

## Key performance indicators

	Key performance indicator	Measure	Target
<b>Financial</b>	EBITDA	\$m	\$305m
	Compliance to budget	%	100%
<b>Building value in the Network</b>	Reliability	Minutes lost per customer	149 mins
	Capital investment program compliance	%	100%
	Capital budget compliance	%	100%
<b>Maximising the contribution from the Retail business</b>	Budgeted contribution from Retail	\$m	\$65m
<b>Strategic support programs</b>	Level of staff safety	Accident Frequency Rate (DIFR)	< 8.0
		Accident Severity Rate (DISR)	< 75
			< 2.5
	Lost time due to sickness	%	
	Performance appraisals completed for all staff	%	100%
	Customer satisfaction*	%	60%
	Environmental incidents	Number of serious Incidents	< 2

\* Customer satisfaction is defined by an aggregation of performance (excellent or very good) in areas such as reliability, phone service, a helpful attitude on the part of staff, and following up on requests.

# Management Discussion and Analysis

## Overview

Each financial year, as part of its obligations as a State-owned corporation, Integral Energy is required to submit a Statement of Corporate Intent (SCI) to its two voting shareholders, the NSW Treasurer and the Special Minister of State. The SCI sets out key policies, performance targets and business directions that have been agreed by the Board of Integral Energy and its shareholders.

## Summary

The SCI states the nature and scope of the main commercial activities of Integral Energy, the strategic direction of the organisation, the organisation's commitment to network service quality and the capital program for the period of the agreement.

Integral Energy's capital program constitutes two broad areas:

- establishment and replacement of system assets pertaining to the electricity network; and,
- establishment and replacement of non-system assets including land, buildings, vehicles and information technology.
- Capital expenditure is reviewed in terms of growth, renewal and regulatory compliance, with due consideration of the impact of the investment on our customers, our business and our shareholders.

In addition, the SCI includes details of:

- the objectives of the organisation;
- performance targets/projections for the years to 2006-2007;
- social programs and non-commercial activities; and,
- asset and liability management procedures (including energy trading risk management).

Integral Energy's performance against the 2002-2003 SCI financial targets is summarised below.

## Revenue

Revenues from ordinary activities of \$1,219m were slightly higher than the previous year's revenue of \$1,157m. Total electricity sales increased by \$49.4m or 6%, and external Network revenue from "use of system charge" increased by \$16.2m or 12%. Revenue from other activities was maintained at previous year's levels.

## Net profit

Integral Energy recorded a net profit before tax of \$76.9m, which represents a decrease of \$22.1m or 22% from the previous year. Budgeted net profit before tax for the year was \$52m.

Expenses from ordinary activities (including amounts set aside to provisions) increased by \$76.6m due to increased costs of operations in line with increased sales, increased labour costs, and an increase in the self insurance provision. Profit was again impacted by a loss in value of superannuation investments due to overseas influences, and the requirement for employers to top up the scheme.

Interest expense increased by \$2.8m or 3%, while depreciation and amortisation increased by \$4.7m or 4%.

## Shareholder return

Integral Energy is committed to delivering commercial returns to its shareholder, the NSW Government.

The Directors declared a first and final dividend of \$43m. Dividends declared and paid in relation to the previous financial year included a special dividend of \$80m. Excluding the 2001-2002 special dividend, the 2002-03 dividend represents an increase of \$32.4m, and is \$6.6m higher than budget.

The dividend payment is equivalent to 100% of net operating profit after income tax, including capital contributions. The dividend distribution methodology has changed from the 2001-2002 financial year, which calculated the dividend distribution as 85% of profit before income tax expense (excluding capital contributions) less income tax paid.

### Balance sheet

Working capital as at the end of June 2003 decreased \$130.8m, primarily due to \$94.2m of debt maturity moving from long term to current and investments decreasing by \$124m, offset in part by a reduced provision for dividend and a reduced provision for income tax payable. Receivables increased by \$18m, while creditors increased by \$11.1m.

The written down value of property, plant and equipment increased by \$94.1m, with \$26.1m of this increase attributable to the revaluation of land and buildings on 30 June 2003.

Non current liabilities decreased by \$70.9m, with the movement of debt from long term to current being the major driver.

### Cash flows

Cash flows from operations totalled \$129.2m, representing a \$86.3m (or 40%) decrease on the previous year. Increased payments in the course of operations and increased income taxes paid were the main contributors to the decline in cash flows from operations.

Interest payments during the year totalled \$86.1m, an increase of \$4.1m (or 5%).

Net cash used in investing activities totalled \$157.1m, a slight increase of \$2.5m reflecting capital expenditure levels similar to that of the previous financial year.

Net cash used in financing activities totalled \$97m, an increase of \$55.5m primarily due to payment of the 2001-2002 dividend.

The net decrease in cash held over the 2002-2003 financial year was \$124.9m.

At the end of June, the Corporation had unused credit facilities of \$97m.

### Capital expenditure

Capital expenditure for the year was \$161.8m, consistent with the level of capital spend during the previous financial year. The 2002-2003 financial year has seen a continued increase in delivery capability, with a \$10.8m increase in capital expenditure on network assets.

The capital program is underpinned by Integral Energy's Strategic Asset Management Plan (SAMP). The SAMP reflects plans and strategies which are aligned to customer and technical drivers, improve long-term network asset values, and derive optimal returns to the shareholder. The SAMP sets priorities and summarises the investment required in the network in order to maintain ongoing capability of the network consistent with a "best in class" network asset manager.

### Subsidiary companies

#### Integral Energy Gas Pty. Limited

As at 30 June 2002, the natural gas customer base and network assets of Integral Energy Gas Pty. Limited were sold to ActewAGL. Remaining assets and liabilities were transferred to Integral Energy Australia during the 2002-2003 financial year.

#### Infomet Pty. Limited

The introduction of contestability for all customers within New South Wales and Victoria had a significant impact on Infomet Pty. Limited, diminishing the commercial reasons for maintaining Infomet Pty. Limited as a separate legal entity. The financial performance and commercial environment of Infomet Pty. Limited were not consistent with the objectives for operating a subsidiary business, and Infomet Pty. Limited was integrated into Integral Energy Australia effective 1 July 2002.

Application for voluntary deregistration of Integral Energy Gas Pty. Limited and Infomet Pty. Limited was approved by the Australian Securities and Investments Commission on 6 May 2003. The Australian Securities and Investments Commission (ASIC) published a notice of the proposed deregistrations in the Australian Government Gazette on 26 June 2003. On 26 August 2003, the Australian Securities and Investments Commission deregistered Integral Energy Gas Pty. Limited and Infomet Pty. Limited.

### Credit rating

Standard & Poor's maintained Integral Energy Australia's credit rating at AA for long-term corporate credit, and maintained A-1+ for the short-term rating. Both ratings continue to reflect NSW Government ownership of Integral Energy Australia.