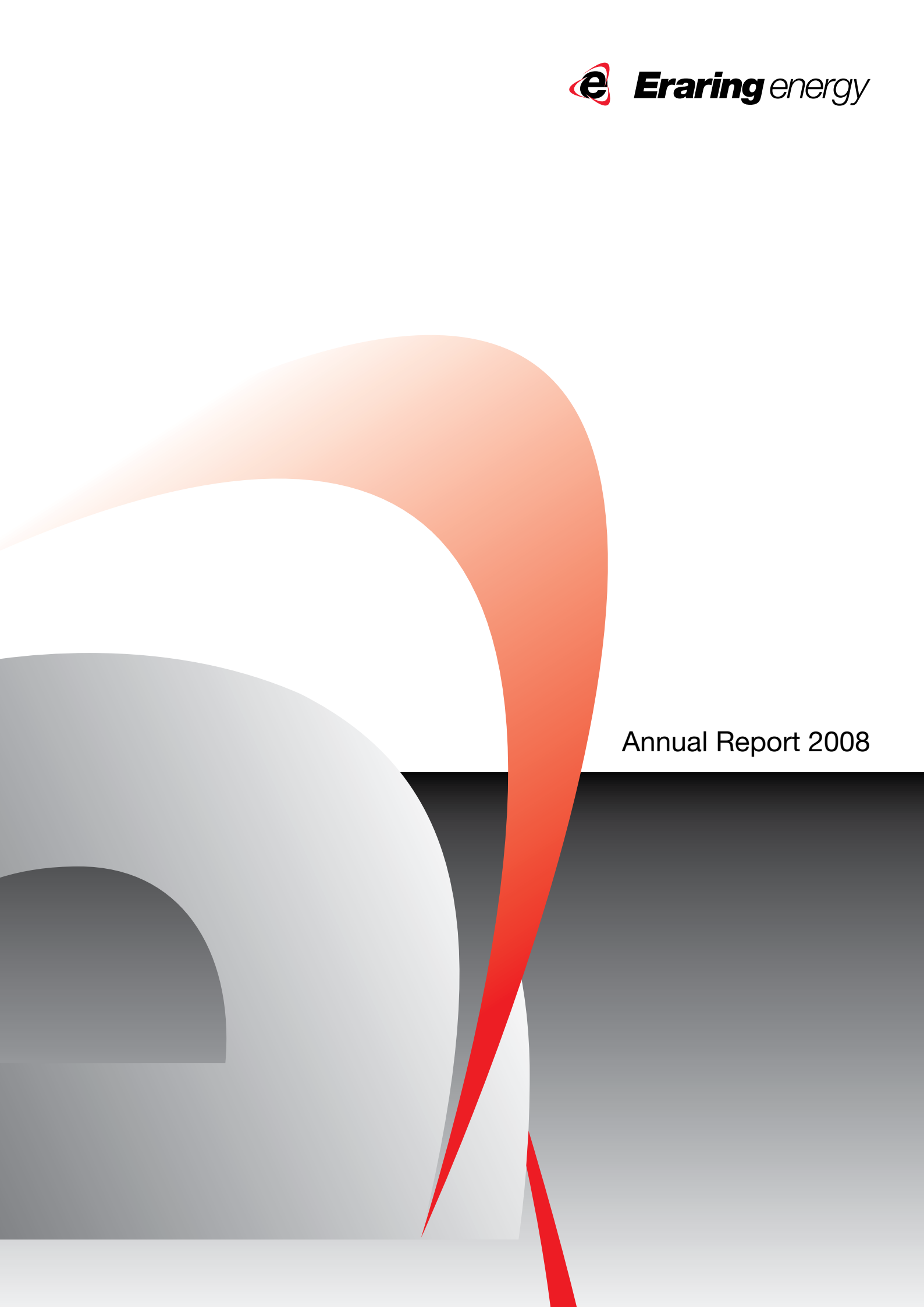




Annual Report 2008

The Hon. Eric Roozendaal MLC

Treasurer

Level 36

Governor Macquarie Tower

1 Farrer Place

Sydney NSW 2000

The Hon. Joseph Tripodi MP

Minister for Finance

Minister for Infrastructure

Minister for Regulatory Reform

Minister for Ports and Waterways

Level 31

Governor Macquarie Tower

1 Farrer Place

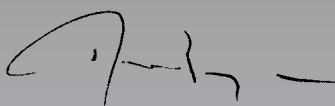
Sydney NSW 2000

Dear Shareholders

On behalf of the Board, we have pleasure in submitting the Eraring Energy Annual Report and Financial Statements for the year ended 30 June 2008.

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

It is submitted for presentation to both houses of Parliament.



R M Bunyon, AM

Chairman



Peter Jackson

Managing Director

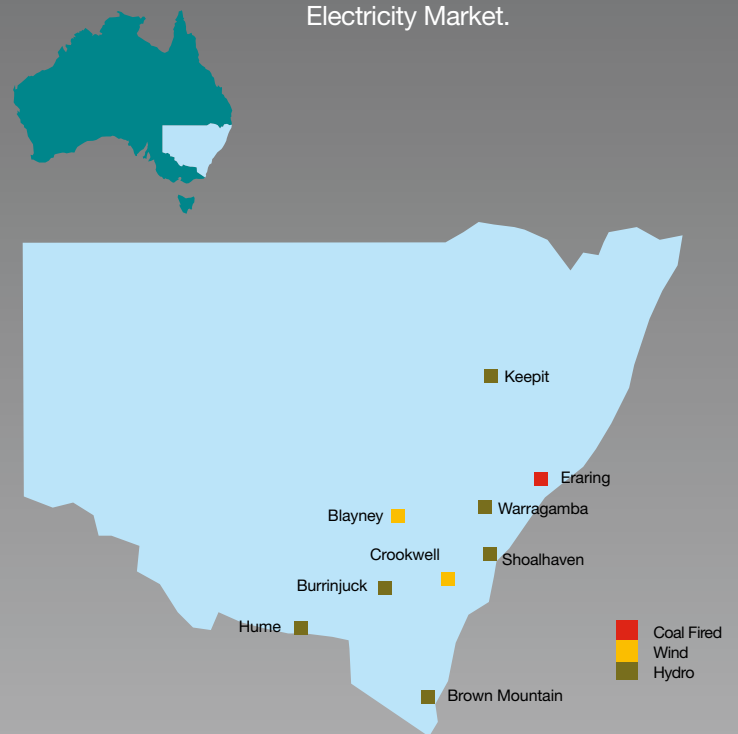
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Eraring Energy is a state-owned corporation established on 2 August 2000 under the State Owned Corporations Act 1989, the Energy Services Corporation Act 1995 and Energy Services Corporation (Eraring Energy) Regulation 2000.

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

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

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



Generating Asset	Unit(s) size	Capacity (MW)	Fuel Source
Eraring Power Station	4 x 660 MW	2,640	Black Coal
Gas Turbine	1 x 40 MW	40	Diesel
Shoalhaven Scheme – Bendeela Station	2 x 40 MW	80	Hydro/Pumped Storage
Shoalhaven Scheme – Kangaroo Valley Station	2 x 80 MW	160	Hydro/Pumped Storage
Hume Power Station	2 x 29 MW	58	Hydro
Warragamba Power Station	1 x 50 MW	50	Hydro
Burrinjuck Power Station	1 x 16 MW 2 x 5.6 MW	27	Hydro
Keepit Power Station	1 x 6.5 MW	7	Hydro
Brown Mountain Power Station	1 x 1 MW 1 x 4.35 MW	5	Hydro
Blayney Wind Farm	15 x 660 KW	10	Wind
Crookwell Wind Farm	8 x 600 KW	5	Wind

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

OBJECTIVES

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

- a) to be a successful business and, to this end; to operate at least as efficiently as any comparable business, and to maximise the net worth of the State’s investment in it;
- b) to exhibit a sense of social responsibility by having regard to the interests of the community in which it operates;
- c) where Eraring Energy’s activities affect the environment, to conduct its operations in compliance with the principles of ecologically sustainable development contained in Section 6 (2) of the Protection of the Environment Administration Act 1991; and
- d) to exhibit a sense of responsibility towards regional development and decentralisation in the way it operates.

Each of the principle objectives is of equal importance.

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

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

NON EXECUTIVE DIRECTORS

Ross Bunyon, AM

Chairman and Director

BComm (UNSW), CIE Aust
Director/Consultant

Appointed 21 July 2000 continuing with
reappointment to 30 June 2009

Beverley Hoskinson-Green

Director

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

Appointed 21 July 2000 continuing with
reappointment to 30 June 2008

Reappointed to 30 June 2010

Peter Murray, OAM

Director

GAICD

General Secretary, Construction,
Forestry, Mining and Energy Union
(Unions NSW nominee)

Appointed 1 September 2006 to
31 August 2008

Michael Nugent

Director

FCPA

Director

Appointed 1 July 2001 continuing with
reappointment to 30 June 2010

Resigned 29th August 2008

Dean Pritchard

Director

BE, FIE Aust, CP Eng, FAICD

Director

Appointed 22 August 2001 continuing
with reappointment to 30 June 2010

Michael Vertigan, AC

Director

BEc (Hons) Tasmania, PhD California,
FAICD

Director/Consultant

Appointed 21 July 2000 continuing with
reappointment to 30 June 2008

Reappointed to 30 June 2010

EXECUTIVE DIRECTOR

Peter Jackson

Managing Director

BSc, BE, MEM GAICD

Appointed 11 September 2006

Rochelle Reynolds

Company Secretary

LLB, BCom, Grad Dip CSP

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

Philip Russell appointed Acting
Company Secretary for period
17 April 2007 to 3 December 2007



I am pleased to report that Eraring Energy has posted yet another strong trading performance. This year's result continues the organisation's excellent financial and business performance. Eraring Energy has continued its focus on infrastructure investment and on improving safety performance during the reporting period. The external environment continues to provide a number of challenges, including reduced spot market prices and regulatory changes.

Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) from underlying operations was \$270.2 million. This strong performance is supported by a record Gross Margin result.

This continued record performance has been achieved in a market that has seen average spot price fall 40% from the drought induced highs of the previous period and conservative bidding behaviour of competitors in response to, among other factors, the significantly negative Electricity Tariff Equalisation Fund (ETEF) balance.

The reporting period saw significant activity regarding energy industry policy developments at both State and Federal levels.

The Federal Government's Emission Trading Scheme (ETS) design was progressed, with the February 2008 release of the States and Territories Garnaut Climate Change Review interim report and the release of the Federal Government's Green Paper. Both reports indicate a preference for no price caps on emissions and very limited permit allocations to generators. These themes present a challenge to electricity generators, with various industry studies suggesting an inability to fully pass through the increased costs to customers. Eraring Energy has previously demonstrated industry leadership in successfully trading challenging inherited positions and looks forward to repeating this performance in the future ETS regime.

Eraring Energy celebrated significant milestones through the year, with the Shoalhaven Hydro Scheme's 30th anniversary and Hume Hydro Station's 50th anniversary. These events serve to underline the long term nature of the industry, and our staff's expertise and commitment to cost effective maintenance and continual renewal of our assets. Current renewal projects include the 4x720 MW upgrade of

Eraring Power Station; creation of an 820ML cooling water attemperation reservoir to extend summer peaking operation; and life extension of the Eraring Power Station coal combustion product system - all of which gained development approval and/or commenced works in the period.

Other than super critical stations, Eraring Power Station is the most energy efficient coal fired power station in Australia.

Occupational Health and Safety has been an enduring focus of both the Board and staff of Eraring Energy, and this was rewarded with the posting, in January 2008, of a record low Lost Time Injury (LTI) rate of 1 injury per 1,000,000 hours worked. The Board and I congratulate staff on this important achievement.

Our focus this year will be on cost reduction, efficiency improvements and delivery on major capital projects.

Further, on behalf of the Board, I acknowledge the widespread commitment of all members of the Eraring Energy team to achieving our leadership goals and thank them for their contribution to another exceptional year.

Ross Bunyon, AM
Chairman



Eraring Energy staff have again provided a year of exceptional performance that has seen historic milestones and record financial performance blend with the preparation for future major capital works.

Eraring Energy posted an EBITDA of \$270.2 million – 30% higher than the average of the previous four years. This was achieved in an electricity market that was challenging for generators, with coal prices at industry highs and the average Spot Price falling 40% from the drought induced extreme of the previous period. This result is a credit to our Trading and Production groups.

Occupational Health and Safety has been a constant priority since the inception of Eraring Energy, and this year has seen further commitment and improvements. The Eraring Energy position that “Nothing is so important that it can’t be done safely” led to a renewed focus on our three safety pillars of “Safe People” – our behaviour based safety program saw a record number of peer-on-peer observations in the month of June; “Safe Plant” – over 230 Safety Work Orders were completed in the year; and “Safe Systems” – including the completion of our plant isolation lock-out system at Eraring Power Station, which provides greater worker safety when maintaining our plant and equipment.

Eraring Energy continued to pursue development opportunities that deliver value to the people of NSW. The most significant of these, an increase in the capacity of Eraring Power Station by 240 MW, demonstrates Eraring Energy's innovative engineering capabilities and includes the installation of advanced

burners to reduce NOx emissions. Planning approval was received in June 2008, with works planned to commence in 2008/09. Associated construction has already commenced on the creation of a Cooling Water Attenuation Reservoir that will increase Eraring Power Station's contribution to meeting NSW supply security.

Other major developments include achievement of planning approval for the extension and redesign of the ash disposal process, which will support plant life extension at Eraring Power Station. Further, a 40 MW rated Emergency Black Start Gas Turbine was successfully installed and commissioned, thus providing quick re-start capability in the event of a system wide blackout. Investigations are being conducted into sourcing gas as the preferred fuel. A new centralised Control Centre was created for our Hydro and Wind stations, which are dispersed across NSW. Studies were also conducted into mini hydro opportunities at a number of our existing hydro power station locations. Eraring Energy also extended its Mallee tree plantations, which act as carbon sinks, through the period. Investment in carbon capture and storage research continued, with completion this period of desk top studies into potential sites and exploratory drilling planned for 2008/09, in association with a NSW Working Group.

In 2008, Eraring Energy continued to achieve environmental performance “beyond compliance”, with maintenance of the ISO14001 accredited management systems; re-establishment of native flora areas in partnership with the Koompahtoo Local Aboriginal Land Council; and completion of ecological studies on the thermal impacts of cooling water discharge. Eraring Energy pursues an open and honest involvement with its local communities through its quarterly Community Forum, where key issues that impact the local community are discussed.

Eraring Energy continued to see a changing of the guard as our experienced staff retire and hand on their skills and experience to the growing number of new recruits. The efforts of these and all our staff members are acknowledged as we reflect on the accomplishments of the year and look forward to new prospects ahead.

Peter Jackson
Managing Director

Highlights 07/08

- EBITDA of \$270.2 million - consistent with the record 2006/07 result
- Return on assets was 7.3%
- Building assets to meet future demand:
 - Commissioning of the Emergency Black Start Gas Turbine at Eraring Power Station in March 2008
 - Approval for Eraring Power Station capacity upgrade to 4 x 720 MW
- 17,283 GWh of electrical energy generated by Eraring Power Station
- \$3.2 million upgrade of the Ellipse Enterprise Resource Planning System



Eraring Power Station



Blayney Wind Farm



Brown Mountain Power Station



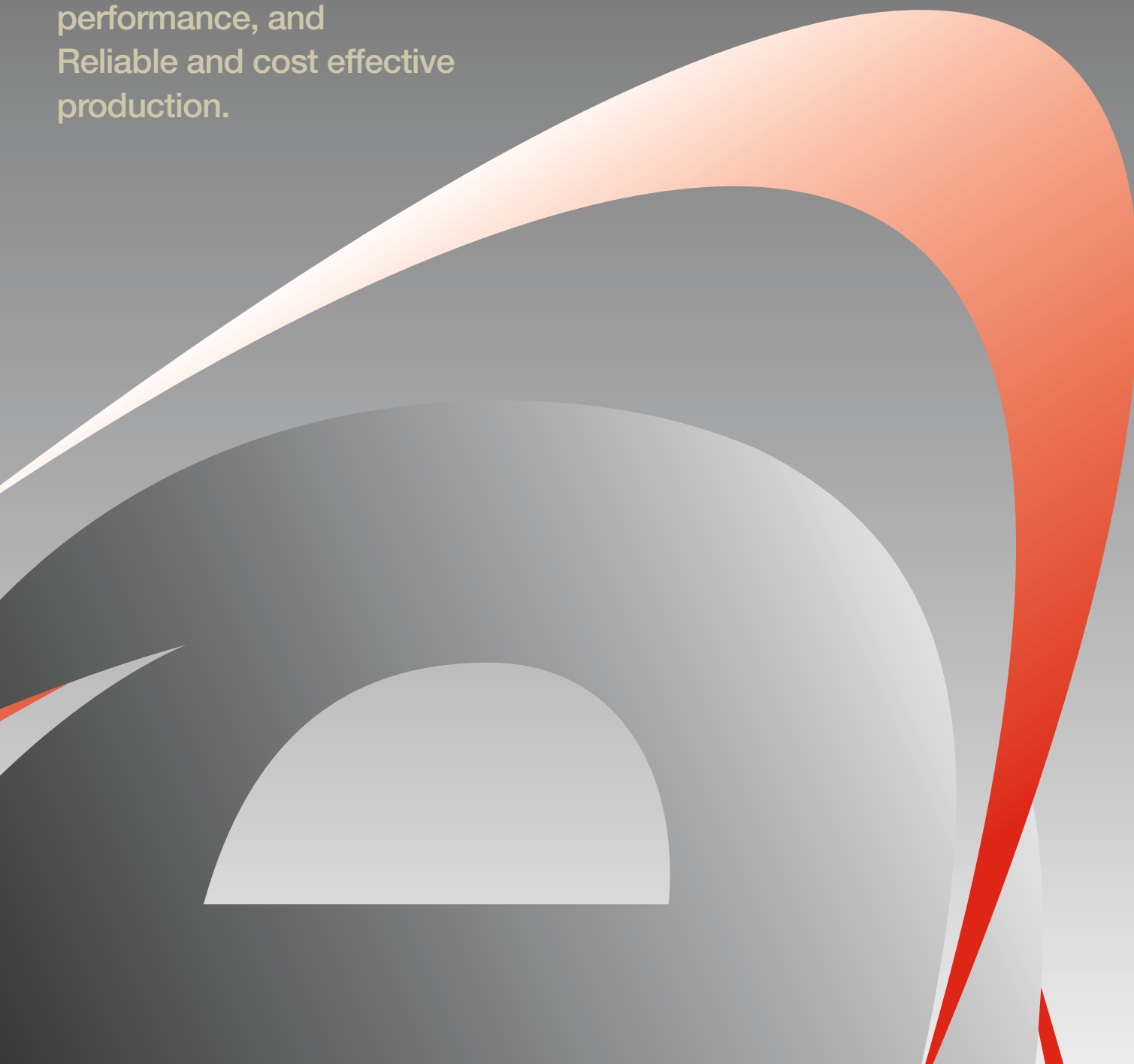
Eraring Power Station Plant Control Room

- Installation of the Kangaroo Valley Power Station 24 hour Control Centre
- Record level of megalitres of water pumped from Shoalhaven Scheme into the Sydney catchment
- Environmental accreditation ISO14001 maintained for all generating sites
- New plant isolation system fully implemented at Eraring Power Station
- Employee engagement measured as 12% above industry average and recognised within benchmark model's 'Best Employer Zone'
- Record levels of participation in OHS activities



Economic Performance

Strong financial returns,
Successful trading
performance, and
Reliable and cost effective
production.



FINANCIAL OVERVIEW

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

Eraring Energy delivered an Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) of \$270.2 million, with a return of \$164.2 million to our shareholder, the New South Wales Government. Successful financial performance is essential to a sustainable future for Eraring Energy and also contributes to the State Government's capacity to provide public services and social programs to the people of New South Wales.

Capital Expenditure

Eraring Power Station's capital expenditure program in 2007/08 of \$55 million related to the upgrade and maintenance of existing assets to provide improved efficiency and availability.

Major projects included:

- The installation and commissioning of the Emergency Black Start Gas Turbine at Eraring Power Station in March 2008;
- Eraring Power Station Upgrade to 4 x 720 MW Units – contracts have been let for the upgrade of the existing turbine units, the installation of a Coal Combustion Product facility, and the construction of a cooling water attemperation reservoir;
- The \$3.2 million upgrade of the Ellipse Enterprise Resource Planning System; and
- The \$1 million installation of the Kangaroo Valley Power Station Control Centre.

Group Financial Performance Indicators

		03/04	04/05	05/06	06/07	07/08
Electricity Sales	\$m	548.9	578.4	629.8	816.1	730.6
EBITDA from normal operations	\$m	157.2	181.4	182.4	272.4	270.2
Normal Profit Before Tax [#]	\$m	87.0	107.1	97.1	187.7	157.9
Capital Expenditure	\$m	33.0	44.5	36.3	38.0	55.0
Financial Distributions [*]	\$m	94.0	121.3	102.7	198.5	164.2
Return on Equity	%	6.1	6.9	11.0	34.6	8.3
Return on Assets	%	7.3	8.0	7.1	6.9	7.3

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

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

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

Eraring Energy achieved an EBITDA of \$270.2 million, similar to the previous years' result.

Revenue and Materials and Cost of Purchases

Sales revenue including ETEF from ordinary activities in 2007/08 was \$730.6 million, down 10% from record levels of the previous year due to lower spot electricity prices. Eraring Energy generation levels were on par with the record levels of 2006/07. Likewise, raw materials and the cost of purchases in the market of \$350.4 million were 20% lower than the previous year, again driven mainly by the electricity market.

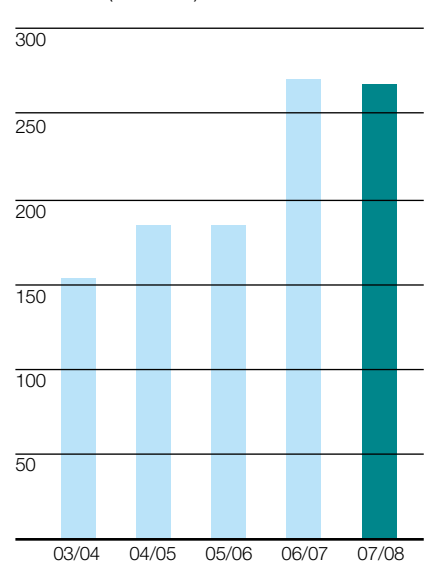
Insurance Provision

There has been a decrease to the net provision and increase to profit of \$7.1 million due to actuarial assessment of future claims liability for workers compensation and dust diseases obligations. The dust diseases obligations are managed by Eraring Energy on behalf of the shareholder as a community service obligation.

Superannuation Defined Benefit Scheme Provision

Actuarial assessments resulted in a decrease in net assets and decrease to profit of \$14.2 million, predominantly due to lower fund earnings.

EBITDA (\$ Million)



Non-Current Asset Revaluation and Fair Value Derivative Movements

The non-current asset valuation at 30 June 2008 increased by \$317 million having regard for the discounted cash flow of expected future revenue and cost streams over the life of the business.

The mark to market (M to M) or fair value of electricity derivatives at 30 June 2008 was negative \$122 million, a reduction of \$1,200 million from the previous year following the changed contract portfolio and reduction in forward electricity prices from the drought induced peak in June 2007.

Debt Management

In 2007/08 financial liabilities were managed to minimise risk against volatility in financial markets, protect the value of Eraring Energy's equity and minimise the cost of these liabilities. As at 30 June 2008, Eraring Energy had total debt of \$374 million (market value) with approved facilities in place of \$842 million.

Shareholder Return

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

Total financial distributions to the shareholder of \$164.2 million include dividend, tax equivalent and loan guarantee payments. In addition, a return of equity payment of \$73.4 million was made to the shareholder.

Controlled Entities

On 28 July 2008, Pacific Western Pty Limited was deregistered following voluntary liquidation.

Departures from Financial SCI Targets

Eraring Energy exceeded all financial targets agreed with Government in the 2007/08 Statement of Corporate Intent (SCI). The targets excluded the impacts of fair value electricity derivative movements. The positive and negative explanations leading to the out-performance relate to:

- ETEF refunds offsetting lower spot prices;
- Lower financing costs due to lower debt levels;
- Positive actuarial adjustments to the insurance provision;
- Lower operating expenses due to the deferral of outage works into 2008/09; and
- Negative fund earnings driving negative actuarial adjustments for defined benefit superannuation schemes.

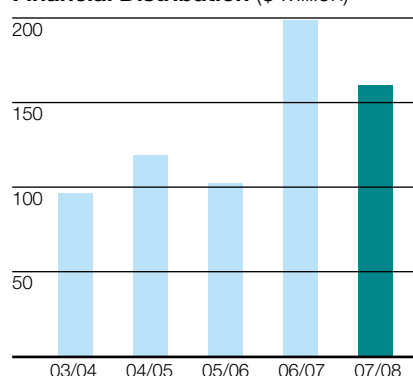
ENERGY TRADING

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

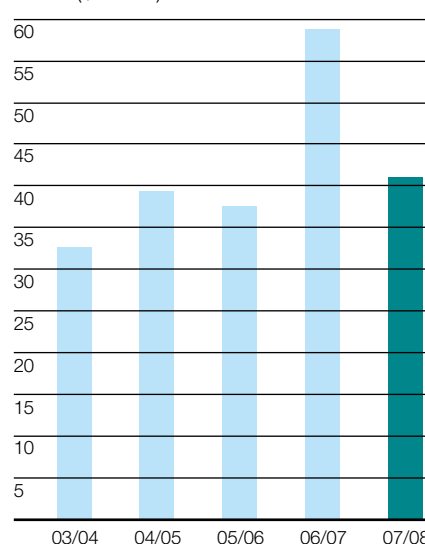
The foundation of the solid electricity spot market has been the drought induced water shortages impacting generation capacity across the National Electricity Market.

Unusually there was minimal high price events in NSW in 2007/08. This was largely driven by the financial obligations of the NSW state-owned generators to the Electricity Tariff Equalisation Fund. The Electricity Tariff Equalisation Fund was implemented by the NSW Government as a measure to enable the NSW state-owned retailers to protect households from extreme electricity price rises. Due to the impacts of the drought the National Electricity Market was in an extreme electricity price scenario. The Electricity Tariff Equalisation Fund worked such that the NSW state-owned generators bore the risk of the extreme electricity prices rather than households.

Financial Distribution (\$ Million)



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



Due to good summer rains in south east Queensland and progress on the construction of the Western Corridor Recycled Water Project, which is now providing recycled water to Tarong Power Station, the drought risk in the electricity market is much subdued. Conversely the Snowy Mountains Hydro Electric Scheme and the Hydro Tasmania Electric Scheme are still severely drought affected.

The outlook for electricity prices continues to be extremely uncertain. The Federal Government intends to introduce an Emissions Trading Scheme on 1 July 2010. Carbon price expectations remain uncertain though the first ever forward trade of Australian Emissions Trading Units occurred during the year at \$19/tCO₂. The degree of carbon price pass through to electricity price will have a major impact on the future profitability of Eraring Energy.

In addition to carbon uncertainty, rising global demand for new generation plant is causing material escalation in the capital costs for new generation. As an existing generator, this provides significant upside to Eraring Energy.

ERARING PLANT

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

Coal Supplies

Eraring Power Station receives black coal supplies by road, rail and overland conveyors from local and distant coal mines. A total of 7,563,273 tonnes was delivered with consumption amounting to 6,811,403 tonnes in 2007/08.

Performance

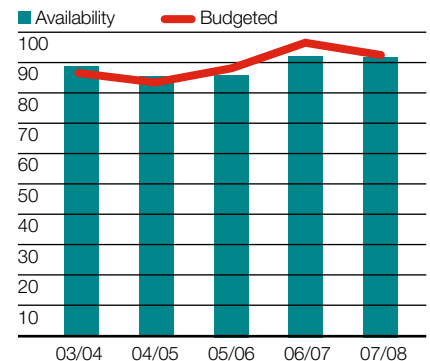
Eraring Power Station generated a total of 17,283 GWh of electrical energy for the year ending 30 June 2008 and recorded an availability factor of 92.5%.

Not including new technology super critical stations, Eraring Power Station is the most energy efficient coal fired power station of its generation in Australia.

Building Value in Assets

Unit 2 was taken out of service during September and October 2007 for a planned Co-ordinated Maintenance Outage Program (CMOP). Programmed works included inspection, testing and refurbishment of boiler and turbine components and concluded with a boiler chemical clean to remove scale build ups and enable more efficient heat transfer.

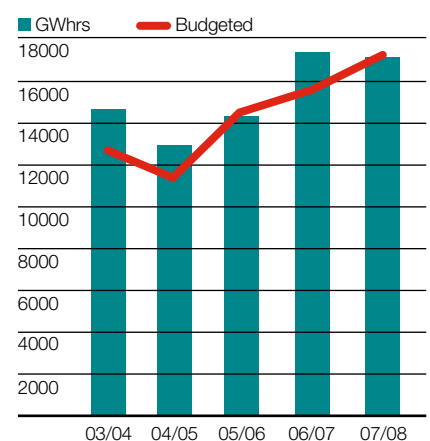
Availability (%)



2007/08 Operational Performance

Eraring Power Station	17,283 GWh
Capacity Factor	74.5%
Availability Factor	92.5%
Equivalent Forced Outage Factor	2.9%
Output Factor	80.1%
Thermal Efficiency Generated	37.9%
Unit Trips	6
Coal Consumed	6811 kT

Energy Generated (GWh)



PLANT MANAGEMENT

Dry Ash Hoppers

Replacement dry ash hoppers will be installed during the upgrade outages starting in 2009. Benefits of the dry ash hopper system include boiler efficiency improvement, crushing of the ash before entering the sluiceway minimising ash spills, elimination of salt water in the boilers, and better air sealing of the furnace with significantly reduced maintenance.

Cooranbong Conveyor Upgrade

Due to proposed closure of Newstan and Awaba mine sites, it is proposed that the majority of local supplies will be from Mandalong mine via the Cooranbong conveyor. To achieve this, the Cooranbong conveyor needs to be upgraded from 800 tph to 1000 tph. The upgrades involve making the Cooranbong conveyor belt operate at a faster speed, including a larger vibratory feeder and associated chutes at the tail end and at the head end a new gearbox, coupling, brake thruster and head pulley. The upgrades will be completed by December 2008.

Water Reclamation Plant Upgrade

Eraring Power Station recycles secondary treated effluent from Dora Creek sewerage treatment works into high quality process water. Consultants have been engaged to review the performance of the Water Reclamation Plant and provide advice on recycled water capacity upgrade options. Increased output options indicate varying costs of between \$3.8 million and \$6.2 million.

Turbine Auxiliaries

The 'D' station air compressor was replaced during 2007 and it is planned to replace the 'B' station air compressor in late 2008. The new compressors have a higher capacity and station compressed air requirements will be achieved with fewer compressors in service, resulting in increased reliability and lower auxiliary energy usage.

The existing station hydrogen plant will be decommissioned within two years and a design for the new plant will be completed in early 2009, with the new plant to be constructed in early 2010. The new plant will incorporate state of the art technology and greatly reduced maintenance cost and lower risk to personnel and plant.

The Auxiliary Cooling Water towers are planned to be completely replaced during the upgrade outages.

Electrical Assets

An excitation transformer overhaul program was completed for all units during 2007/08. A major rebuild program commenced for Cooling Water pump motors, including new motor stators. The refurbishment program was initiated due to excessive capital cost for motor replacements.

Civil Works

Ash Dam dust suppression works have been initiated by working with external experts in irrigation and eco-friendly chemical systems.

Bush fire and access trails have been upgraded with more works to be undertaken.

Tilt meters have been installed on the cooling water inlet canal retaining walls ahead of the power station upgrade project to gain some data for trending history. Major repairs to building roofs and wall sheeting were carried out during the year and more will be done over the coming years.

Emergency Black Start Gas Turbine Generator

The first synchronisation of the Emergency Black Start Gas Turbine to the grid occurred on 7 February 2008. Successful NEMMCO compliance testing involving a partial black start test and award of Practical Completion to the gas turbine occurred on 15 March 2008. Independent noise, emissions and odour testing was conducted during May 2008.

Department of Environment and Climate Change Operating Licence No. 1429 provides for up to 200 hours per year operation of the gas turbine on distillate fuel during high price events and unlimited operation in a black start scenario. A study of gas fuel supply options is being conducted.

Eraring Power Station Capacity Upgrade

Approval for the capacity increase and performance improvements at Eraring Power Station was granted in June 2008.

Key components of the works are;

- Replacement/upgrade of primarily turbine and boiler components such that the nominal capacity of each unit is increased from 660 MW to 720 MW;
- Construction and operation of an 820 ML cooling water attenuation reservoir with associated infrastructure to manage cooling water exit temperatures. The reservoir will be completed by August 2009;
- A contract was awarded in June 2008 for boiler modelling and design with boiler tube material orders and finalisation of a boiler supply and install contract due in October 2008;
- A performance based specification for the replacement of the existing boiler burners with low NOx burners was advertised in May 2008 and placement of an order is anticipated in September 2008; and
- Balance of plant studies have been undertaken with some 35 major engineering studies being completed across all areas of ancillary works including steam feed pump turbine condensers, generator transformer oil coolers, and auxiliary air fans.

The first unit will be upgraded and available for operation by December 2009 with the remaining units completed at six monthly intervals.

Coal Combustion Product Project

An alternative dense phase system for coal combustion product (CCP) or ash disposal is being constructed at Eraring Power Station. The CCP project received concept approval from the Department of Planning on 14 December 2006. This approval requires Eraring Energy to pursue a target of 80% recycling of ash by the end of 2015. Final project approval was granted on 29 April 2008.

The program of works will commence with the installation of new fly ash storage facilities, followed by pumping facilities, fly ash pneumatic transfer system, associated air compressors and control room. The initial works will be completed by May 2009 and all units will be connected by December 2009.

This system of transporting and storing combustion products was necessitated by the fact that the volume available in the existing storage dam will be exhausted within the next five years.

Geosequestration in NSW

Eraring Energy has been working with the other NSW state owned generators to determine geosequestration potential in NSW. Stage 1 of the project is complete, with investigations carried out into geosequestration potential in the Darling Basin, the potential for Coal Seam Geosequestration in the Gunnedah Basin, CO₂ compression and pipeline design, and legal issues surrounding the transport and storage of CO₂.

The NSW generators are now working within the NSW Clean Coal Technologies Working Group to progress Stage 2 of the project by funding the drilling and coring of boreholes.

If suitable porous and permeable rock and a suitable impervious rock are found, further drilling will be carried out.

The Working Group is made up of the NSW generators, the Department of Water and Environment, the Department of Primary Industries and other industry partners. The Working Group's long term plan includes the construction of a carbon capture demonstration plant at a NSW power station and the trial sequestration of up to 100 kt of CO₂.

Eraring Energy's Green Strategy

Eraring Energy is facing the issue of balancing the rising customer demand for energy with the immediate need to minimise the significant environmental, social and economic impacts of climate change. Eraring Energy has adopted measures for CO₂ reduction through carbon sequestration with Mallee tree plantations and improving energy efficiencies with unit upgrades.

Eraring Energy has invested in 1,100 hectares of Mallee plantations utilising the services of CO₂ Australia and is expanding the plantation size to 1,600 hectares in 2008/09.

The expanded 1,600 hectares of Mallee plantations will sequester approximately 1.2 million tonnes of carbon dioxide over the next 30 years.

HYDRO AND WIND POWER STATIONS

There were two significant milestones for the Hydro and Wind Business Unit during the year. The first was the 30th Anniversary of the commissioning of the Shoalhaven Hydro/Pumped Storage Stations celebrated in October 2007 and the second was a celebration in November 2007 of the 50th Anniversary of the commissioning of Hume Power Station.

Two safety initiatives commenced during the year being the implementation of the BSafe behavioural based safety program for Hydro and Wind staff, and the establishment of a Working Party for the design and development of a plant isolation lockout system to be implemented at all Hydro and Wind sites during the coming year.

The operations of Hydro and Wind continued to be affected by the prevailing drought conditions across NSW. Those sites most affected by the drought this year have been Hume and Keepit, both of which had the lowest generation figures on record since Eraring Energy was formed. Hume Power Station's low generation figures have impacted substantially on Hydro and Wind's total generation as it is the largest site reliant on irrigation releases from State Water Corporation dams. Conversely, Brown Mountain Power Station produced its best generation figures since 2001/02.

The trend towards increased pumping from the Shoalhaven Scheme on behalf of Sydney Catchment Authority continued with a new record of 199,190 ML of water being pumped into the Sydney catchment during this financial year. This represents 42% of water consumed by the population of Sydney.

The Crookwell and Blayney Wind Farms produced marginally more green energy than last financial year. Blayney Wind Farm has suffered a number of type fault gearbox failures over the year with a resultant decrease in availability from the previous year. Crookwell Wind Farm availability was slightly higher than last year.

Wind Farm Availability

Location	%
Blayney	75.7%
Crookwell	94.8%

SIGNIFICANT PLANT WORK AND IMPROVEMENTS

Shoalhaven

As part of the mid life plant refurbishment strategy for the Shoalhaven, Bendeela Unit 2 refurbishment was successfully completed this year. The work is expected to extend the life of the unit for a further 20 years without the need for major mechanical works in that period.

A life extension study by a specialist Hydro consultant has recently been completed for Kangaroo Valley Units 3 and 4. The ensuing report recommends progressive refurbishment of each unit over a five year period commencing in 2008/09. It is also intended to commission a study to determine possible efficiency gains for the Kangaroo Valley generators during the next financial year. Any economically viable improvements will be considered for inclusion during the refurbishment program.

Hydro and Wind Generation (MWh)

	02/03	03/04	04/05	05/06	06/07	07/08
HYDRO						
Brown Mountain	2,609	3,855	2,320	5,759	5,314	12,396
Burrinjuck	20,763	12,940	27,267	36,000	8,440	15,612
Hume	87,524	146,643	149,290	208,495	51,309	41,672
Keepit	15,339	1,011	4,348	6,600	2,331	784
Shoalhaven	46,609	5,706	18,537	52,089	46,428	21,855
Warragamba	--	--	--	--	--	--
Subtotal (Hydro)	172,844	170,155	201,762	308,943	113,822	92,319
WIND						
Blayney Wind Farm	22,507	19,652	19,669	18,519	15,898	15,751
Crookwell Wind Farm	8,527	7,582	8,214	7,444	8,335	8,564
Subtotal (Wind)	31,034	27,234	27,883	25,963	24,233	24,315

The design of new control hardware and software to allow control and or monitoring of all the Hydro sites was largely completed in 2007/08, with the only site left to be cutover being Brown Mountain scheduled to be completed in August 2008. The original TransGrid control equipment has been decommissioned and removed.

A significant contract to allow replacement of the unit electrical protection relays for all four units at Shoalhaven has been let and design of the equipment in consultation with TransGrid is underway. The work is planned to occur over a two year period with work commencing at Bendeela in early 2009.

A revised Asset Management Strategy is being drafted for the Shoalhaven Pump and Power Stations and a detailed five year outage program is being developed to reflect the strategy.

Keepit

A specification to repaint the penstock and refurbish the main inlet valve has been advertised with the view to work being completed in late 2008.

Water and Land Agreements

Over the past 12 months negotiations have been underway to formalise land lease agreements and negotiate water operating agreements with the State Water Corporation for Keepit and Hume Power Stations. This includes formalising areas of land to be leased, operating responsibilities for both parties and dispute resolution. These agreements are expected to be finalised in the coming year.

Negotiations are almost complete on a new operating agreement with Sydney Catchment Authority for Shoalhaven and Warragamba sites. The Shoalhaven agreement will reflect the rights and obligations that each party has in respect of the bulk water transfer and pump storage operation of the plant.

Feasibility Studies for Mini Hydros

Initial studies have been commissioned for mini hydro units to be located at Burrinjuck and Warragamba sites utilising daily environmental flows which are not adequate to operate the existing installed generators. A study will also be completed to determine the viability of installing a similar small generator for the Hume Power Station site.

Environmental Performance

Positive industry leadership,
Successful seed propagation project, and
Land Management Plan upgrade

ENVIRONMENTAL PERFORMANCE

Introduction

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

Strategies

Industry leadership in environmental management is a key objective for Eraring Energy. The organisation's approach is based on processes of continual improvement by integrating the Environmental Management System (EMS) compliant to ISO14001 and the Business Planning cycle with our commitment to leadership in environmental excellence.

Eraring Energy strives to be regarded as a positive industry leader both locally and nationally and seeks to demonstrate its commitment by taking a leading position on practical responses to impacts on the environment.

Incidents and Complaints

There were two externally reportable incidents in 2007.

- On 8 and 9 June 2007 after heavy rainfall the Ash Dam Toe Drains water system overflowed and discharged to Crooked Creek following a power failure to the return water pumps. No environmental harm eventuated from this incident.
- On 30 December 2007 a complaint was received of discoloured foam at the CW outlet canal. Upon investigation no excess foam or odour was found.

ISO14001 Accreditation

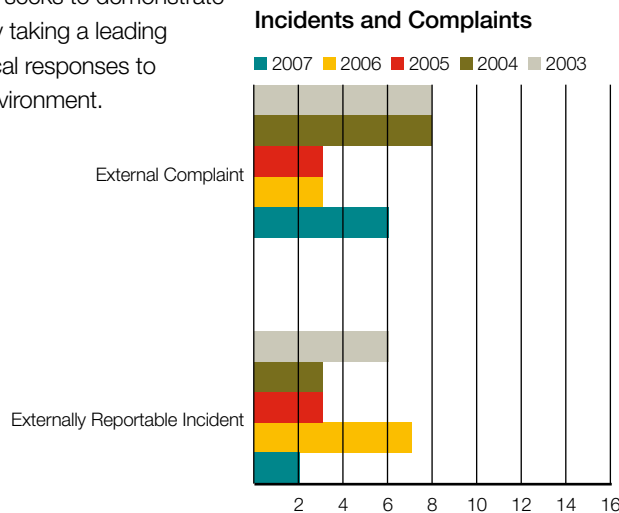
In 2007, Eraring Energy successfully maintained its ISO14001 accreditation for all generating sites.

Eraring Energy was able to demonstrate continual improvement in the management of environmental issues by the ongoing development and implementation of the EMS database.

This database contains the register of environment risks associated with the organisation's operations and the development of new major projects such as the Emergency Black Start Gas Turbine, coal combustion product and unit capacity upgrade.

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

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



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

Auditing

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

Eraring Energy maintained its extensive internal and external audit program in 2007. These audits identified some areas for environmental improvement. Eraring Energy incorporates the audit recommendations into action plans and the progress of these plans is routinely reviewed by senior management committees.

In 2007/08, Eraring Energy completed Due Diligence audits on major projects of coal combustion product removal, Emergency Black Start Gas Turbine and unit capacity upgrade projects.

Additionally, gap analysis audits were performed on Eraring Energy's compliance to the National Greenhouse Energy Reporting Regulation and the operation and management of the Mallee Biosequestration project.

Land Management

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

The LMP applies to Eraring Power Station and associated buffer lands and contains an area of approximately 750 hectares.

The LMP has been developed in accordance with legislation to manage environmental issues in areas of biodiversity, heritage, weeds, feral animals, bush fire, major projects, surface water, ground water, revegetation and remediation. The LMP has been updated in 2007/08 to reflect the changing land management issues associated with the future projects being planned and implemented for the power station.

The LMP is reviewed at the completion of the financial year to assess progress against identified key performance indicators.

The review details projects undertaken using Geographic Information System based images, which show work undertaken such as weed eradication, during the reporting period.

Key outcomes of the review include:

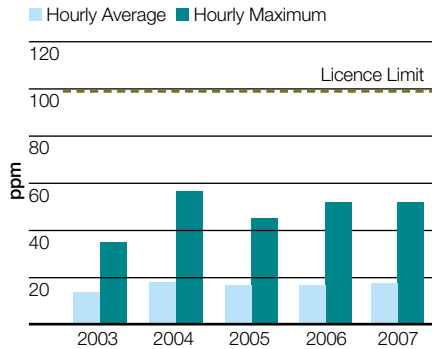
- Flora survey, classification and mapping;
- Monitoring of translocated threatened species flora;
- Targeted fauna surveys were undertaken on the Cooling Water Attenuation Reservoir area;
- 19.6 hectares of native vegetation was planted using 35,000 tubestock from propagated plants from seed collected on site;
- 180 hectares of buffer land had weed control management strategies employed to remove noxious and environmental weeds; and
- Vertebrate pest control strategies and programs have reduced rabbit populations and wild dogs by 40% in 2007/08.

Emissions to Air

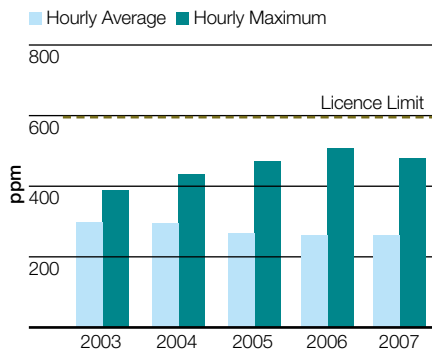
In the 2007 licence reporting period all air emissions from Eraring Power Station were below licence limits specified in the site operating licence.

Eraring Energy reports annually to the Department of Environment and Climate Change (DECC) on emission amounts.

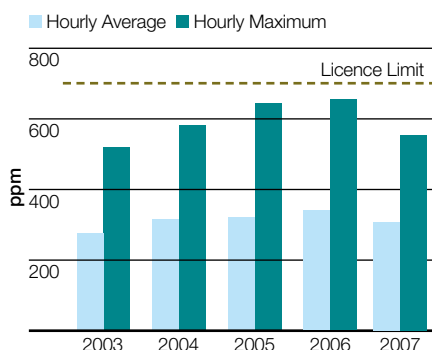
Particulate Emissions



SO₂ Emissions



NO_x Emissions



Heritage Management

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

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

Waste Reduction and Purchasing Policy (WRAPP)

The WRAPP covers all areas of Eraring Energy, from purchasing through to disposal.

Eraring Energy actively continues to publicise the importance of waste reduction and recycling through the initiatives of the Waste Management Committee. This Committee has achieved many improvements in various fields, including: site energy savings, biofuel investigations and usage and waste oil reconciliation practices.

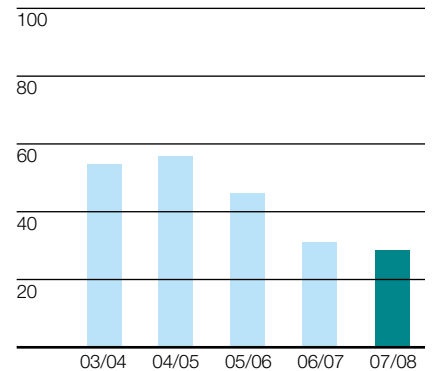
The focus of waste management in 2007/08 has been the minimising of plant water losses by improvement in operational practices and elimination of system leaks.

Major Recycling

Ash

Ash is one of the major by-products produced by coal-fired power stations and what was once a waste product is now a valuable resource. Eraring Energy is an industry leader in ash recycling. In 2007/08, 479,000 tonnes of ash from Eraring Power Station was reused, which represents almost 30% of the ash produced. The tonnage of ash reused is less than previous years due to reduced demand in traditional markets such as freeway extensions and new housing projects in Sydney.

Ash Reuse



Effluent

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

Reclaimed water provides the majority of the power station's water needs and in 2007/08, 48% of water usage was obtained from reclaimed water. The power station uses around five million litres of water everyday, so the use of recycled effluent saves precious domestic water resources for other consumers.

Environment Products

Eraring Energy created 26,635 Renewable Energy Certificates (RECs) in the calendar year 2007, and surrendered 11,349 RECs to back pumping liabilities at Shoalhaven. The remaining RECs were transferred to Trading counterparties under the relevant contract obligations.

Eraring Energy created 68,296 Greenhouse Gas Abatement Certificates (GACs) in the calendar year 2007 from improvement in plant efficiency at Eraring Power Station. In addition it acquired 22,000 forestry GACs from Forest NSW.

Significant Environment Issues and Achievements

These include:

- Seed propagation and planting by the Koompahtoo Local Aboriginal Land Council to remediate/revegetate the Eraring Power Station Ash Dam area;
- Development and implementation of a total waste management and disposal system for Eraring Power Station;
- Management of environmental Issues associated with the implementation of major projects at Eraring Power Station;
- Development of an Environment Compliance Manual to identify and manage regulatory issues associated with Eraring Energy operations; and
- Completion of ecological studies and submission to DECC on the thermal impacts of cooling water discharge into Lake Macquarie required under Eraring Power Station Operating Licence 1429 Variation.

Social Performance

Safety remains a core value of the organisation,

Continued focus on development of our people, and

Building partnerships with local communities



PEOPLE

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

In August 2007 in recognition of the changing nature of our industry and following consultation with employees our new vision was introduced:

“By developing and involving our people, Eraring Energy will be a leader in a changing energy environment”.

Employees are kept informed of any potential changes through briefings from the Managing Director, a dedicated site on our Corporate Intranet and an ongoing question and answer facility.

Eraring Energy provides many opportunities for staff to become involved and have input into business planning, workplace changes and improvements through a wide range of consultative processes.

Focus on the Future Forums were conducted to bring together younger and newer employees to discuss what they like about the organisation and what aspects they might like to see changed. This series of forums has provided an insight into what engages, motivates and retains this segment of our workforce. Some actions resulting from these forums include the piloting of a formal mentoring program, training for new and potential team leaders, the review and improvement of our employee induction and probation processes and the development of a leave without pay procedure and reward and recognition procedure.

The level of engagement of employees was measured during the period using the Hewitt & Associates Engagement Survey. The survey found that 67% of employees are engaged and this score puts Eraring Energy in Hewitt's range of high performing organisations. This result was also 12% above the Hewitt electricity industry average engagement score. The survey results were particularly strong in the area of health and safety with 92% of staff agreeing and/or strongly agreeing that they feel workplace safety is considered important at Eraring Energy. All employees participated in survey debriefing sessions and contributed to ideas for action plans relating to the survey results.

Eraring Energy's demographic profile continues to change. Currently 22% of employees have less than five years service and over 27% of employees are aged less than 40 years with the average age of employees now being 45.

It was anticipated that recruitment activity which had been increasing by 50% each year would continue, however the anticipated increase in 2007 did not occur and to date in 2008 there has been minimal recruitment activity. This can be attributed to some uncertainty around industry restructuring.

Eraring Energy continues to focus on developing our people through a range of custom designed in-house personal development programs (including Certificate IV in Business - Front Line Management and a Diploma of Business) and targeted external courses and training. The benefits of employees receiving personal development include but are not limited to personal growth, career advancement, increased job satisfaction and variety and improving contacts within and external to the organisation. The Team Development Program was revised during the period to provide greater choice and ownership for teams of the development activities they undertake.

CODE OF CONDUCT

The Eraring Energy Code of Conduct objectives are to ensure:

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

Refresher education and training of the Code of Conduct has continued during the period with a focus on benefits and gifts and conflict of interest.

DISABILITY ACTION PLAN

Eraring Energy has developed a revised Disability Action Plan. The Workforce Diversity/EEO Report in this document includes actions and outcomes that relate to meeting the needs of EEO Group members including people with a disability.

ETHNIC AFFAIRS PRIORITY STATEMENT

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

The Workforce Diversity/EEO Report in this document includes actions and outcomes that relate to meeting the needs of EEO Group members including people from culturally diverse backgrounds.

In 2008/09 Eraring Energy's Ethnic Affairs Priority Statement will be reviewed.

WORKFORCE DIVERSITY/EEO REPORT

Introduction

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

Planning Outcome Achievements

EEO related data has been collected for 42% of staff.

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

Code of Conduct briefings were conducted during the period and included information relating to Workforce Diversity/EEO, the grievance handling process and where further information can be accessed.

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

- Six monthly small group staff briefings with the Managing Director;
- Site Consultative Committee Meetings, Team Meetings, and Tool Box Talks;
- Consultations with random samples of staff relating to specific initiatives via focus groups, surveys, and feedback workshops;
- Consultative forums relating to employee classifications and demographic groupings;
- An employee engagement survey was undertaken in July 2007 and included specific questions relating to equity, harassment and discrimination. The results of these areas of the survey were explored with a cross representation of employees. The results and discussions have provided input into the development of the Workforce Diversity and EEO education that will be provided to all staff during the next reporting period; and
- EEO Contact Officer refresher training was conducted during 2007/08.

Action and Program Outcome Achievements

Diversity considerations continue to be incorporated into all aspects of mainstream training.

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

Assistance was provided to a number of staff with a disability, including the purchase of specialised computer screens, visual aids, seating, and aids to improve mobility and access.

The Eraring Plant Access to Apparatus Rules were rewritten using plain English and a visitor site induction video was revised and reproduced in Korean during the period.

All people related policies and procedures were reviewed during the period including the Workforce Diversity Policy and Procedure and Grievance Handling and Complaint Resolution Procedure.

Sixteen men and one woman were recruited during the period with 100% responding to the EEO data request form.

Twenty men and one woman left the organisation during the period. Of the twenty one separations, four employees had identified as being from a Racial, Ethnic, Ethno-Religious Minority Group, two whose language first spoken as a child was not English, three with a disability and three with a disability requiring workplace adjustment.

Key Initiatives

1 July 2008 - 30 June 2009

The following activities are planned for the next reporting period:

- Workforce Diversity/EEO education sessions for Managers, Team Leaders and all staff will be completed by October 2008;

- Continue to reinforce, communicate and educate our people on the value, benefits and business outcomes to be realised by respecting and increasing the diversity of our workplace; and
- Diversity considerations will be included in the review of our leadership development framework and recruitment/selection assessment methods and tools.

Trends in the Representation of EEO Groups¹

EEO Group	% of Total Staff ² NSW Government Public Sector Benchmark or Target				
	2005	2006	2007	2008	
Women	50%	9%	9%	10%	10%
Aboriginal people and Torres Strait Islanders	2%	.3%	.6%	.5%	.6%
People whose first language was not English	20%	6%	6%	7%	5%
People with a disability	12%	8%	7%	7%	6%
People with a disability requiring work-related adjustment	7%	3.6%	3.6%	3.1%	2.6%

Trends in the Distribution of EEO Groups

EEO Group	Distribution Index ³ NSW Government Public Sector Benchmark or Target				
	2005	2006	2007	2008	
Women	100	99	99	99	99
Aboriginal people and Torres Strait Islanders	100	n/a	n/a	n/a	n/a
People whose first language was not English	100	115	115	114	n/a
People with a disability	100	100	100	103	103
People with a disability requiring work-related adjustment	100	n/a	n/a	n/a	n/a

¹Staff numbers are as at 30 June

²Excludes casual staff

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

OCCUPATIONAL HEALTH AND SAFETY (OHS)

The health, safety and welfare of Eraring Energy employees and contractors remains a core value of the organisation.

During 2007/08 Eraring Energy has updated its approach to OHS by establishing three pillars around which its OHS program will be based. These pillars are:

- Safe People;
- Safe Plant; and
- Safe Systems.

This direction recognises the work that has been done to create a positive safety culture in the organisation and the opportunity this presents to increase the focus on further improving the OHS management systems. It will also allow a focus on moving plant safety improvement strategies further up the Hierarchy of Control.

The organisation continued to encourage participation of employees and contractors in OHS activities with the focus on people, plant and systems allowing them to contribute where they could add most value to health and safety improvement activities.

Safe People

Employees and contractors have made a significant contribution to further improving Eraring Energy's OHS performance during this financial year.

They have been active in the OHS Committee and sub committees, the behavioural safety program BSafe and networking activities with other organisations.

The Eraring Power Station OHS Committee and sub committees continue to be strongly supported. They have been involved in a range of activities during the year including:

- Introduction of the plant isolation lockout system;
- Health Expo for employees;
- Improvements to the Emergency Response Plan;
- Plant improvements;
- Management of Safety Work Order system; and
- Campaign to reduce summer injury rates.

The Hydro and Wind OHS Committee continued to be very active throughout 2007/08 focusing on Hydro and Wind specific issues including height safety and lone workers procedures. The Hydro and Wind Business Unit conducted their first Safety Development Day to determine activities to improve their OHS performance during 2008/09. A Working Party was established to develop a Hydro and Wind specific version of the Access to Apparatus Rules. Hydro and Wind employees also became actively involved in BSafe.

The BSafe Program achieved new records in participation levels and number of observations completed. A record of 401 observations were completed in June 2008, compared to 243 the record for 2006/07.

Manager and Team Leader Toolbox Talk Audits commenced to encourage workplace discussions about job safety. These are being tracked as an additional performance indicator.

The Fitness for Work Program involving daily testing of all employees and contractors for impairment commenced at all Eraring Energy sites.

Aubrey Daniels, an American behavioural safety expert, presented to managers, team leaders and team members on the importance of positively reinforcing safe behaviour in the workplace.

Physical Demands analyses were completed for all positions within Eraring Energy.

Safe Plant

A range of plant improvements were carried out during the year to improve plant safety. These included:

- Conveyor modifications to reduce coal spillage and the need to shovel coal spills;
- Boiler access platforms to facilitate clinker removal;
- Coal feeder modifications to reduce manual handling;
- A wide range of new platforms to improve plant access;
- Upgrade of Dangerous Goods Depots to comply with the new Regulation; and
- Relocation of the Chemical Injection Plant.

Plant safety improvements continued with 232 Safety Work Orders being completed in the financial year.

Safe Systems

Safety Systems have been reviewed and enhanced during the year.

Eraring Power Station's OHS Management System was rewritten to align with the requirements of AS4801 – OHS Management Systems, the new WorkCover Self Insurer's Model and the National Audit Tool (NAT).

Eraring Energy’s audit activities for the year utilised internal and external auditors to determine the level of system implementation, adherence and compliance with the requirements of AS4801 and the NAT in preparation for the AS 4801 three yearly re-certification audit and the WorkCover Self Insurer’s Audit.

2007/08 has seen Eraring Power Station maintain its certification to the AS4801-OHS Management System, with one surveillance audit and a re-certification audit being completed by an external organisation.

An external auditor provider Det Norske Veritas, an international risk management specialist, conducted two Gap Analyses against the requirements of the new WorkCover Self Insurance Model and the NAT at Eraring Power Station. Audits were also carried out at all Eraring Energy operated power stations.

Five internal audit teams consisting of volunteer employees audited nine safety standards in 2007/08.

Eraring Power Station’s new plant isolation lockout system was fully implemented during the year and is operating successfully. A Working Party has been established within the Hydro and Wind Business Unit to develop an appropriate plant isolation lockout system for their environment.

The rewrite of the Eraring Plant Access to Apparatus Rules in a plain English format, with accommodation for the lockout system was completed.

The Emergency Response Scenarios associated with the Eraring Plant Emergency Response Plan were reviewed and updated with the assistance of the NSW Fire Brigade.

Work commenced on updating the Hydro and Wind Emergency Response Plan and on developing emergency response scenarios for all sites within that Business Unit.

An Evacuation Exercise was conducted at Eraring Power Station to test the Emergency Response Plan. A number of improvement opportunities identified during the exercise were implemented.

Eraring Energy representatives and major contractors participated in an OHS Review Day where Eraring Energy and contractor representatives made presentations on their performance for 2007 and their plans for safety improvement for 2008.

Substantial work has been done by the Eraring Plant Asset Group to enhance existing systems including risk management requirements and procedures.

OHS Performance

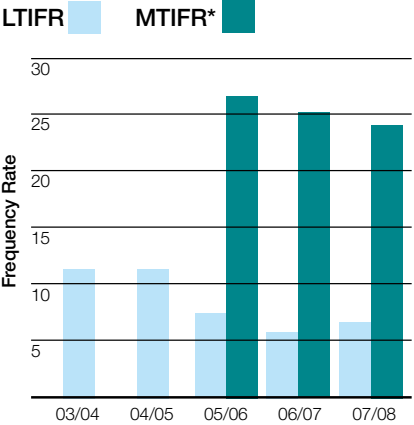
Due to the reduction in Lost Time Injuries (LTI) over the past five years, the decision was made to improve the injury/illness performance indicator to also focus on Medical Treatment Injury Frequency Rates (MTI FR).

The Lost Time Injury Frequency Rate (LTIFR - number of LTI's per million hours worked) for 2007/08 was seven. This was made up of four contractors and three employee lost time injuries.

The Medical Treatment Injury Frequency Rate (MTIFR - number of MTI's per million hours worked) for 2007/08 was 24. This was made up of 12 contractor MTI's and 13 employee MTI's.

Lost Time Injury Frequency Rate (LTIFR)

Medical Treatment Injury Frequency Rate (MTIFR)



	03/04	04/05	05/06	06/07	07/08
LTIFR	11	11	8	6	7
MTIFR			27	25	24

Financial year
*Commenced reporting in 05/06

COMMUNITY

Eraring Energy is a supporter of community and charitable organisations, with a key focus on building partnerships with the communities in regional areas throughout New South Wales that are associated with the operations of the business.

This includes support of community events; consultative mechanisms such as our Community Forum; contributing to environmental initiatives; and enabling learning and development programs. Eraring Energy staff are encouraged and congratulated for their contribution to a range of community activities.

Eraring Energy provided a total of \$87,490 in general community based sponsorships and donations during the year.

Corporate Sponsorship Support

In recognition of the ongoing strong commitment of Eraring Energy people to safety, CanTeen and the Westpac Rescue Helicopter Service, continue to be worthy recipients of sponsor support via the Safety Performance Reward Program. Based on safety performance goals achieved by both Eraring Energy and contractor staff at Eraring Power Station, \$20,200 was accrued in corporate support to be shared by both organisations in 2007/08. Since the inception of the Program in July 2003, over \$92,000 has been attained, as at end June 2008, in support of these organisations.

Eraring Energy is also a Major Sponsor of the Hunter Valley Research Foundation, with an annual donation of \$5,273 to this prestigious organisation.

Eraring Energy participated as a Bronze Level Partner of the NSW Government Sustainability Green Globes Awards 2008. The Awards bring together people who are leading the way through water, waste and energy savings projects, and broader sustainability initiatives.

Marine turtles sometimes enter the station's cooling water canals and are captured and released at ocean beaches. The presentation of a water heater for installation in the pool at the turtle enclosure at Taronga Zoo was another key corporate sponsor support initiative.

The Lake Macquarie Business Centre, located at Gateshead, NSW, was the recipient of a \$5,000 sponsorship grant. The Centre provides an environment that supports start-up business and encourages the development of sustainable business enterprises in the Lake Macquarie area. The grant was allocated towards the introduction of a telecommunication support facility, branded as 'My Virtual Office' that enables an immediate contact point, provided by the Centre, for customers of small businesses.

At the Shoalhaven Hydro/Pumped Storage Scheme, Eraring Energy provided corporate support to the Kangaroo Valley Volunteer Rural Fire Brigade for the upgrade of the Brigade's headquarters, and to the Kangaroo Valley Pioneer Museum Settlement Trust for the 'George Walker Suspension Bridge' restoration project.

Eraring Energy was also able to provide support to the Morisset and Toronto Meals on Wheels; Royal Volunteer Coastal Patrol; Dora Creek Rural Fire Brigade; Morisset and Lake Macquarie Agricultural Association; Lake Macquarie Art Lovers Movement; Morisset Fire Brigade; the Catalina Flying Memorial Ltd; and Careflight.

Community Events

Eraring Energy was a key sponsor of the Southlake Business Excellence Awards, 2007; the Rathmines Catalina Festival 2007; Lake Macquarie City Council Australia Day Celebrations 2008; the Toronto Heritage Afloat Festival 2008; the Crookwell Country Weekend Festival 2008; and the Morisset Community Festival Day 2008.

Other community events supported by Eraring Energy included the Christmas Carols celebrations held in the respective communities of Rathmines, Wangi Wangi, Toronto, and Morisset; the Heritage College Country Fair and Fun Day; the Christmas Party for Special Children held in Albury, NSW; and the Dobell Festival of Art and Craft 2008 held in Rathmines, NSW.

Charitable Support

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

Staff have been generous to a range of organisations through active participation in fund raising activities and their financial support via payroll deductions. Their contributions have been enhanced by additional Eraring Energy corporate donations. These organisations include the NSW Cancer Council; Camp Quality; the John Hunter Children's Hospital; the Westpac Rescue Helicopter Service; the Smith Family; the Royal North Shore Hospital Bill Walsh Cancer Research Fund; the 30th Salvation Army Annual Toy Run; and the Royal Institute for Deaf and Blind Children.

Based on the staff response rate achieved for the Employee Engagement Survey in July 2007, and by way of thank-you to staff, a donation of \$2,850 was made to the Sydney Children's Hospital.

Eraring Energy staff were again generous in their continued annual support of the Barnardos Australia "Star of Wonder Christmas Gift Appeal" 2007.

Community Forum

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

Since commencing in December 2002, the Community Forum continues to be a key ongoing mechanism for Eraring Energy to engage in consultation with the representatives of community based groups. The Forum demonstrates a commitment to productive discussions and open lines of communication.

The Forum provides an opportunity for presentation of information on key business strategies, such as plant upgrade planning, and to provide inspection tours of various aspects of plant operation.

Environmental Initiatives and Support

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

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

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

Based on an annual sponsor support commitment, Eraring Energy provided a sponsor donation of \$2,250 each to Marks Point Public School and to Dora Creek & District Workers Club, in recognition of each organisation hosting an ambient air monitoring station at their respective grounds.

Eraring Energy was a corporate sponsor of a book publication 'Sustainable Nation – Managing Australia's Future', copies of which were distributed to schools in regional areas throughout New South Wales associated with business operations.

Environmental management and compliance within Eraring Energy has been enhanced by upgrades to the external web-site and internal Intranet site.

Learning Initiatives

Eraring Energy is proud to support learning initiatives and development of infrastructure facilities at primary, secondary and tertiary levels.

This includes sponsor support as diverse as the Gifted and Talented Students Program at Morisset High School; a Junior Waterwatch Kit for Eraring Public School; infrastructure improvements at West Wallsend Public School, Nowra Christian School, Arcadia Vale Public School, Rathmines Public School, Brightwaters Christian College, and St Josephs Primary School, Kilaben Bay; Achievement Awards at Morisset High School; Gosford High School's participation in the National Final Gold Science and Engineering Challenge; and the Habitat for Wildlife Program undertaken by the Avondale School in conjunction with the Community Environment Network.

Eraring Energy employs 23 apprentices based at Eraring Power Station, Hume Power Station, and Kangaroo Valley Power Station. High standards of on-the-job performance and academic attainment are being achieved in electrical, mechanical, boiler-making and motor mechanic trades skills.

In 2008, Eraring Energy became involved in the School Based Apprenticeships and Traineeships (SBAT) Program, in conjunction with Wyong High School. Two Year 11/12 students have been indentured under a two-year traineeship in electro technology, combining formal training that contributes to their HSC, and on-the-job training at Eraring Power Station. The SBAT Program has proved highly successful and will be extended in 2009.

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

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

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

Shoalhaven Scheme 30th Anniversary Celebration

On Saturday, 16 October 2007, a function was held at Kangaroo Valley Power Station to celebrate the 30th Anniversary of the opening of the Shoalhaven Scheme. Guests enjoyed a buffet luncheon, family entertainment, and a tour of the station plant.

The Shoalhaven Scheme was developed to augment the water supplies to the Sydney and Wollongong areas and also to supply peak demand electricity.

The Scheme was a joint undertaking by the then Metropolitan Water Sewerage and Drainage Board and the Electricity Commission of NSW. Construction was started in 1971, with completion and the official opening taking place in September 1977.

The Shoalhaven Scheme consists of the Kangaroo Valley Power Station with two 80 MW units and Bendeela Station with two 40 MW units. The stations have been operated and maintained by Eraring Energy since August 2000.

Hume Power Station 50th Anniversary Celebration

On Thursday, 29 November 2007, a function was held at Lake Hume Resort, Albury to celebrate the 50th Anniversary of the commissioning of Hume Power Station. Guests included current and past employees and community representatives.

Planning for the station was commenced by the Electricity Commission of NSW in the early 1950's, with the output of the station to be equally shared between New South Wales and Victoria. Commissioned in 1957, the station initially had two 25 MW units, with each unit subsequently upgraded from 25 MW to 29 MW in 2000.

The station is linked into the high voltage grid by a 132 kV transmission line to Albury substation in NSW and by 66 kV transmission line to Wodonga in Victoria.

The station has been operated and maintained by Eraring Energy since August 2000.

Social Programs

Eraring Energy has not been involved in any social programs as defined in the Annual Reports (Statutory Bodies) Regulation 2000 for reporting period 2007/08.

Funds Granted to Non Government Organisations

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

Of the total sponsorship and donation funds allocated by Eraring Energy, more than 45 non-government organisations and community groups benefited during 2007/08, totalling approximately \$61,500.

Governance



THE MANAGEMENT OF MATERIAL BUSINESS RISK

Risk Management

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

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

In line with Eraring Energy's risk management framework, the risk management process starts and ends with Eraring Energy's people who assess identified risks and prepare action plans to mitigate risks to an acceptable level.

The Executive Risk Management Committee monitors the status of mitigating actions for the identified and emerging business risks and provides assurance to the Board Risk Committee by reporting on all business risks and presenting on selected material business risks at each meeting.

Each Business Unit includes risks within their Business Unit Plan and on a monthly basis the Executive monitor progress of actions to mitigate risks through the monthly business reports.

The process of continuous feedback at different stages promotes a transparent and learning environment to manage risks.

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

During the year under review, Internal Audit assessed compliance with Eraring Energy's risk management framework.

Internal Audit

An annual risk-based Audit Plan is prepared using the results of the risk assessment process. The Executive Audit Committee reviews and endorses the Annual Audit Plan, which is approved by the Board Audit Committee.

The Executive and Board Audit Committee monitor progress of the Audit plan.

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

Insurance

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

Insurance renewals are completed annually which includes a review of the liability exposure, deductibles and to determine the optimum levels of insurance cover required based on the organisation's risk appetite.

Fraud Prevention

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

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

Incident Reporting

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

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

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

Information Management

The full integration of the Eraring Energy Intranet with the Electronic Document Management System (TRIM) has provided staff with improved communication processes, a single source for current corporate policies and procedures, and a streamlined process for the publication of corporate information.

The sound administrative framework for information management established over the past three years supports a scaleable business process and provides Eraring Energy with the ability to efficiently integrate changed business functions into that framework.

THE BOARD

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

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

The role of the Board is to:

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

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

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

Board Membership

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

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

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

Remuneration of Directors

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

Changes in Board Membership

The appointment of Directors, Beverley Hoskinson-Green and Michael Vertigan expired on 30 June 2008, and they were reappointed for a further two years.

Michael Nugent resigned as Director on 29 August 2008.

BOARD COMMITTEES

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

Audit Committee

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

- Financial reporting processes;
- Systems for internal control and management of financial risks;
- Processes for monitoring of compliance with legislation and regulation, and internal controls;
- Audit scopes, outcomes and actions; and
- Performance of auditors.

Risk Committee

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

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

Environment and Safety Committee

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

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

Human Resource and Remuneration Committee

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

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

Conflict of Interest

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

(Note 26 to the accounts details related parties' transactions.)

Board Evaluation

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

MEETINGS OF THE BOARD

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

	Attended	Eligible Meetings
Board		
Ross Bunyon (Chairman)	11	11
Beverley Hoskinson-Green	10	11
Peter Murray	10	11
Michael Nugent	11	11
Dean Pritchard	11	11
Michael Vertigan	11	11
Peter Jackson	11	11
Audit		
Michael Vertigan (Committee Chair)	6	6
Ross Bunyon	5	6
Michael Nugent	6	6
Human Resources and Remuneration		
Beverley Hoskinson-Green (Committee Chair)	4	4
Ross Bunyon	4	4
Dean Pritchard	4	4
Environment and Safety		
Dean Pritchard (Committee Chair)	4	4
Beverley Hoskinson-Green	4	4
Michael Nugent	4	4
Risk		
Michael Nugent (Committee Chair)	4	4
Dean Pritchard	4	4
Michael Vertigan	4	4

Executive Committee members



Peter Jackson

Stephan Boras

Wayne Winterbine

Philip Russell

Shaun Edwards

John Kennedy

Rochelle Reynolds

Mark Edwards

EXECUTIVE MANAGEMENT

Organisation Structure

Voting Shareholders

The Hon. Eric Roozendaal MLC
The Hon. Joseph Tripodi MP

Board of Directors

Chairman – Ross Bunyon, AM

Managing Director

Peter Jackson

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

EXECUTIVE COMMITTEES

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

Executive Committee

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

MEMBERS

- Managing Director
Peter Jackson
- General Manager Strategy and Trading
Stephan Boras
- General Manager Eraring Plant
Wayne Winterbine
- General Manager Finance
Philip Russell
- General Manager People
Shaun Edwards
- General Manager Hydro and Wind
John Kennedy
- Company Secretary
Rochelle Reynolds
- IT and Telecommunications Manager
Mark Edwards

Executive Environmental Committee

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

MEMBERS

- Managing Director
Peter Jackson
- General Manager Eraring Plant
Wayne Winterbine
- Company Secretary
Rochelle Reynolds
- General Manager Hydro and Wind
John Kennedy
- Environment Manager
Neil Williams
- Acting Manager Energy Derivatives
Gregory Wong
- Efficiency Engineer
Nicole Haigh

Energy Trading Risk Management Committee

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

MEMBERS

- Managing Director
Peter Jackson
- General Manager Strategy and Trading
Stephan Boras
- General Manager Finance
Philip Russell
- General Manager Eraring Plant
Wayne Winterbine
- General Manager Hydro and Wind
John Kennedy
- Company Secretary
Rochelle Reynolds

Executive Safety Committee

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

MEMBERS

Managing Director

Peter Jackson

General Manager Eraring Plant

Wayne Winterbine

General Manager People

Shaun Edwards

General Manager Hydro and Wind

John Kennedy

Asset Manager

Kate Coates

Operations Manager

Neil Morris

Major Projects Manager

Peter Harvey

Administration Manager

Antony Cotic

Occupational Health and

Safety Manager

Steve Gambrell

Resource Manager

Jeff Hogan

Chairperson Eraring Occupational Health and Safety Committee

Keith McBurney

Chairperson Hydro and Wind Safety Committee

Adam Jackson

Shift Manager on Duty

Team Leaders

Executive Audit Committee

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

MEMBERS

Managing Director

Peter Jackson

Company Secretary

Rochelle Reynolds

General Manager Finance

Philip Russell

General Manager Strategy and Trading

Stephan Boras

General Manager Eraring Plant

Wayne Winterbine

General Manager Hydro and Wind

John Kennedy

General Manager People

Shaun Edwards

IT and Telecommunications Manager

Mark Edwards

Business Risk and Assurance Manager

Julian Gaillard

Executive Risk Committee

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

MEMBERS

Managing Director

Peter Jackson

Company Secretary

Rochelle Reynolds

General Manager Finance

Philip Russell

General Manager Strategy and Trading

Stephan Boras

General Manager Eraring Plant

Wayne Winterbine

General Manager Hydro and Wind

John Kennedy

General Manager People

Shaun Edwards

IT and Telecommunications Manager

Mark Edwards

Business Risk and Assurance Manager

Julian Gaillard

EXECUTIVE MANAGEMENT REMUNERATION AND PERFORMANCE

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

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

Position/Name (Time in Position)	Qualifications	Remuneration Paid to 30/6/08	Performance Payment	Individual Performance Statement
Managing Director Peter Jackson (All of Year)	B.Sc. B.E., M.E.M. GAICD	\$363,041	\$74,375 *	Assessed by the Board against business plan targets including financial performance, strategic advice and strategy implementation, stakeholder relationships, safety and environmental performance.
General Manager Strategy and Trading Stephan Boras (All of Year)	Degree in Business Administration (Hamburg), MAICD	\$281,896	\$64,779 *	Assessed by the Managing Director against business plan targets including market strategy, trading performance, coal purchases and other performance targets
General Manager Finance Philip Russell (All of Year)	Comm.Acct. Cert. Dip. Chartered Sec. FCPA, FCIS, GAICD, MFTA, MCIPS	\$240,475	\$51,161 *	Assessed by the Managing Director against business plan targets including financial management and projects, stakeholder relationships and other performance targets.
General Manager Eraring Plant Wayne Winterbine (All of Year)	B.E.Elec GAICD	\$233,383	\$47,813 *	Assessed by the Managing Director against business plan targets including plant performance, financial management, safety, environment and other performance targets.

* Amount shown relates to performance payments for 2006/07 made in 2007/08. Determinations under this policy for 2007/08 will be concluded in 2008/09 and reported in the 2008/09 annual report.

EXECUTIVE AND SENIOR OFFICERS PROFILE

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

	As at 30/6/07	As at 30/6/08
Number of Executive Officers with remuneration equal to or exceeding equivalent of SES Level 1 at 30 June 2008	16	19
Number of the above positions filled by women	2	2

REGULATORY COMPLIANCE

Exemptions from Reporting

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

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

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

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

Further exemptions were approved subject to specific conditions:

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

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

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

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

CREDIT CARD CERTIFICATION

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

COST OF ANNUAL REPORT

Eraring Energy has produced 200 copies of the Annual Report in printed format at a total cost of \$21,500.

Eraring Energy's Annual Report is available on-line at www.eraring-energy.com.au.

FREEDOM OF INFORMATION

During 2007/08 Eraring Energy received one Freedom of Information application. This request was not granted. No further action was required.

This year:

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

In 2006/07 Eraring Energy received one Freedom of Information application which was granted in full.

OVERSEAS VISITS

During 2007/08 the following officers travelled overseas.

Name/Designation	Date of Travel	Destination	Reason for Travel
Joanne Golding Corporate Information Manager	31/8/2007 – 13/9/2007	Auckland, Wellington	Attend TRIM User Forum Conference and Records Management Association of Australasia Conference
Christopher Brucki Boiler Team Leader	19/1/2008 – 1/2/2008	Rome & Beijing	Inspect design works and installation of dry ash hopper technology
Wayne Winterbine General Manager Eraring Plant	26/2/2008 – 2/3/2008	Hanover	Attend international generation benchmarking consortium conference

LEGAL CHANGE

The regulatory environment in which participants in the National Electricity Market operate has continued to evolve. The Australian Energy Market Commission has made further significant changes to the National Electricity Rules this year. Eraring Energy will continue a watching brief in relation to Greenhouse issues, including the proposed National Greenhouse Energy Reporting System and the proposed Australian Emissions Trading Scheme.

New legislation has been introduced to deal with anti-money laundering and counter-terrorism funding in Australia, (the Anti-Money Laundering and Counter-Terrorism Financing Act 2006). Eraring Energy has implemented an AML/CTF Compliance program to assist with the identification, management and mitigation of money laundering and financing.

PROMOTION

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

- Annual Reports
- Statement of Corporate Intent
- Community and Environmental Reports
- Elements of Environmental Excellence
- Waste and Reduction Purchasing Plan
- Environmental Policy
- Code of Conduct
- Health and Safety Policy
- Brochures – Environmental
Eraring Power Station
- Fact Sheets – Cooling Water
Emissions
Land Management
Bushfire Management
Turtles
Taprogge Balls
Foam
Shoalhaven Scheme

PACIFIC WESTERN

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

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

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

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

In accordance with the provisions of the Public Finance and Audit Act 1983, the Treasurer approved extending the reporting period and exempted Pacific Western Pty Limited from preparing financial statements for 2007/08 and 2008/09.

Pacific Western was deregistered on 28 July 2008.

The Board

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

Board Membership

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

Ross Bunyon, Chairman
Michael Vertigan, Director
Peter Jackson, Director
Rochelle Reynolds, Company Secretary
Philip Russell, Company Secretary

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

Remuneration of Directors

No remuneration is currently paid to Directors of Pacific Western.

Meetings of the Board

Directors	Attended	Held
Ross Bunyon	1	1
Michael Vertigan	1	1
Peter Jackson	1	1

Financial Performance

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40 Eraring Energy and its Controlled Entity **Income Statement**

For the year ended 30th June, 2008

	Note	Consolidated		Parent Entity	
		2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Revenue	2	730,583	816,114	730,583	816,114
Other income, excluding fair value movements in financial instruments	2	4,548	5,904	5,277	5,900
Finance costs	3	(19,528)	(14,663)	(19,528)	(14,678)
Other expenses, excluding actuarial superannuation gains/(losses) and insurance provision gains/(losses)		(557,745)	(619,620)	(557,745)	(615,935)
Profit before income tax, actuarial superannuation gains/(losses), financial instrument fair value movements and insurance provision gains/(losses)		157,858	187,735	158,587	191,401
Income tax on profit before actuarial superannuation gains/(losses), financial instrument fair value movements and insurance provision gains/(losses)	4	(47,700)	(56,156)	(47,699)	(57,256)
Profit after tax on underlying operations and before superannuation gains/(losses), financial instrument fair value movements and insurance provision gains/(losses)		110,158	131,579	110,888	134,145
Superannuation actuarial gains/(losses)	2/3	(14,152)	17,341	(14,152)	17,341
Gains/(losses) on fair value movement in financial instruments	2/3	(2,893)	4,871	(2,893)	4,871
Insurance provision gains/(losses)	2/3	7,143	(2,075)	7,143	(2,075)
Income tax on superannuation actuarial gains/(losses), financial instrument fair value movements and insurance provision gains/(losses)	4	2,971	(6,041)	2,971	(6,041)
Net profit for the period	20	103,227	145,675	103,957	148,241

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

As at 30th June, 2008

		Consolidated		Parent Entity	
	Note	2008	2007	2008	2007
		\$'000	\$'000	\$'000	\$'000
Current Assets					
Cash and cash equivalents	5	3,656	2,990	3,656	2,644
Receivables	6	76,273	466,879	76,273	466,878
Inventories	7	51,067	18,388	51,067	18,388
Electricity derivatives	9	-	43,949	-	43,949
Assets held for sale	10	-	2,586	-	2,586
Other current assets	11	5,375	17,818	5,375	17,818
Total Current Assets		136,371	552,610	136,371	552,263
Non-Current Assets					
Intangible assets	8	10,403	7,747	10,403	7,747
Property, plant and equipment	13	2,229,786	1,948,328	2,229,786	1,948,328
Investment properties	14	10,225	7,586	10,225	7,586
Deferred tax assets	4	52,743	405,299	52,743	405,299
Electricity derivatives	9	-	37	-	37
Total Non-Current Assets		2,303,157	2,368,997	2,303,157	2,368,997
Total Assets		2,439,528	2,921,607	2,439,528	2,921,260
Current Liabilities					
Payables	15	61,765	405,341	61,765	405,341
Interest bearing liabilities	16	17,400	76,800	17,400	77,183
Current tax liabilities	4	11,174	37,358	11,174	37,358
Provisions	17	134,968	151,289	134,968	150,589
Electricity and foreign exchange derivatives	18	93,292	967,769	93,292	967,769
Other current liabilities	19	1,686	-	1,686	-
Total Current Liabilities		320,285	1,638,557	320,285	1,638,240
Non-Current Liabilities					
Interest bearing liabilities	16	356,677	218,066	356,677	218,066
Deferred tax liabilities	4	360,195	270,608	360,195	270,608
Provisions	17	18,135	26,598	18,135	26,598
Electricity and foreign exchange derivatives	18	45,127	387,774	45,127	387,774
Total Non-Current Liabilities		780,134	903,046	780,134	903,046
Total Liabilities		1,100,419	2,541,603	1,100,419	2,541,286
Net Assets		1,339,109	380,004	1,339,109	379,974
Equity					
Contributed equity	20	573,081	646,481	573,081	646,481
Reserves	20	723,588	(320,284)	723,588	(320,284)
Retained profits	20	42,440	53,807	42,440	53,777
Total Parent Entity Interest		1,339,109	380,004	1,339,109	379,974
Total Equity		1,339,109	380,004	1,339,109	379,974

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

42 Eraring Energy and its Controlled Entity **Cash Flow Statement**

For the year ended 30th June, 2008

	Note	Consolidated		Parent Entity	
		2008	2007	2008	2007
		\$'000	\$'000	\$'000	\$'000
		Inflows (Outflows)	Inflows (Outflows)	Inflows (Outflows)	Inflows (Outflows)
Cash flows from operating activities					
Cash received in the course of operations		1,242,244	513,703	1,242,627	513,703
Interest and bill discount received		458	2,505	456	2,502
Cash paid in the course of operations		(903,667)	(255,160)	(903,667)	(253,684)
GST refunded		(64,417)	(33,776)	(64,418)	(34,156)
Interest and other finance costs paid		(18,336)	(16,101)	(18,336)	(16,117)
Dividend received		-	-	349	-
Income tax paid		(76,143)	(43,463)	(76,143)	(43,463)
Net cash inflow from operating activities	5	180,139	167,708	180,868	168,785
Cash flows from investing activities					
Proceeds from sale of equipment		414	512	414	512
(Purchases of) / proceeds from sale of investments		(53)	670	(53)	670
Payments for property, plant & equipment		(54,907)	(27,707)	(54,907)	(27,707)
Net cash (outflow) from investing activities		(54,546)	(26,525)	(54,546)	(26,525)
Cash flows from financing activities					
Proceeds from borrowings		332,789	554,579	332,789	554,579
Repayment of borrowings		(325,585)	(654,031)	(325,585)	(654,031)
(Repayment) / borrowing of loan by related parties		-	-	(383)	(1,343)
Dividend paid		(132,131)	(41,320)	(132,131)	(41,320)
Net cash (outflow) from financing activities		(124,927)	(140,772)	(125,310)	(142,115)
Net increase / (decrease) in cash and cash equivalents		666	411	1,012	145
Cash and cash equivalents at the beginning of the financial year		2,990	2,579	2,644	2,499
Cash and cash equivalents at the end of the financial year	5	3,656	2,990	3,656	2,644

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

For the year ended 30th June, 2008

	Note	Consolidated		Parent Entity	
		2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Total equity at the beginning of the financial year		380,004	909,235	379,974	905,939
Effect of prior period adjustments					
Electricity derivatives valuation method		-	103,789	-	103,789
Insurance provision settlement method		-	14,200	-	14,200
Related tax effect		-	(35,396)	-	(35,396)
Total restated equity at the beginning of the financial year		380,004	991,828	379,974	988,532
Net asset revaluation increment		220,651	412,945	220,651	412,945
Adjustment on initial and subsequent adoption of AASB139 net of tax, to: Hedging reserve	20	823,221	(854,313)	823,221	(854,313)
Net income recognised directly in equity		1,043,872	(441,368)	1,043,872	(441,368)
Profit after tax for the year		103,227	145,675	103,957	148,241
Total recognised income and expense for the year		1,147,099	(295,693)	1,147,829	(293,127)
Dividends provided for		(114,594)	(132,131)	(115,294)	(131,431)
Equity repayment		(73,400)	(184,000)	(73,400)	(184,000)
		(187,994)	(316,131)	(188,694)	(315,431)
Total equity at the end of the financial year	20	1,339,109	380,004	1,339,109	379,974

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

For the year ended 30th June, 2008

CORPORATE INFORMATION

The financial report of Eraring Energy for the year ended 30 June 2008 was authorised for issue in accordance with a resolution of the Directors on 16th September 2008.

Eraring Energy is a for-profit entity.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**(a) Basis of Preparation**

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

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

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

(b) Statement of Compliance

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

(c) Basis of Consolidation

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

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

(d) Property, Plant and Equipment

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

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

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

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

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

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

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

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

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

For the year ended 30th June, 2008

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

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

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

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

(e) Depreciation of Property, Plant and Equipment

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

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

Component parts of power stations may have different asset lives.

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

(f) Intangible Assets

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

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

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

(g) Foreign Currency Translation

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

Eraring will seek to qualify forward foreign exchange contracts as cash flow hedges with the movement of the hedging instrument to be recognised directly in equity. For forward foreign exchange contracts not qualifying as hedges, any movement will be taken to the income statement.

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

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

(h) Liability Management

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

(i) Borrowing Costs

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

(j) Discount and Premium on Loans

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

(k) Revenue Recognition

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

For the year ended 30th June, 2008

Sale of Electricity

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

Sale of Non-Current Assets

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

Interest Revenue

Interest revenue is recognised as it accrues.

(l) Segment Reporting

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

(m) Inventories

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

(n) Leases

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

(o) Insurance

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

(p) Income Tax

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

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

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

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

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

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

The head entity, in conjunction with the other member of the tax-consolidated group, has entered into a tax funding arrangement which sets out the funding obligations of members of the tax-consolidated group in respect of tax amounts. The tax funding arrangements require payments to/from the head entity equal to the current tax liability (asset) assumed by the head entity and any tax-loss deferred tax asset assumed by the head entity, resulting in the head entity

recognising an inter-entity receivable (payable) equal in amount to the tax liability (asset) assumed. The inter-entity receivable (payable) are due and payable on demand, or otherwise agreed between members of the tax-consolidated group.

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

(q) Employee Benefits

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

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

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

(r) Leasehold Improvements

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

(s) Payables

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

For the year ended 30th June, 2008

(t) Rounding of Amounts

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

(u) Receivables

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

(v) Investment Property

Investment properties comprise freehold land determined as surplus to business needs. Investment properties are recognised at fair value. An external independent valuer, having appropriate recognised professional qualification and recent experience in the category of property being valued, will undertake an independent valuation at least every five years.

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

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

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

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

(w) Assets Held for Sale

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

(x) New Accounting Standards

Australian Accounting Standards that have recently been issued or amended, but are not yet effective, have not been adopted for the 30 June 2008 financial year. A summary follows:

AASB 101 Presentation of Financial Statements

This standard applies to reporting periods beginning on or after 1 January 2009 and amends the disclosure requirements of financial statements.

AASB 123 Borrowing Costs

This standard applies to reporting periods beginning on or after 1 January 2009 and is not expected to have an impact on Eraring Energy.

AASB 127 Consolidated and Separate Financial Statements

Amendments to this standard apply to reporting periods beginning on or after 1 July 2009, which are not expected to have an impact on Eraring Energy.

(y) Comparative Restatements

The comparative information contained in these financial statements relating to the year ended 30 June 2007 has been adjusted.

Sales Revenue

Contributions made to the Electricity Tariff Equalisation Fund were previously accounted for as an expense in the Income Statement. In 2008 and subsequent years, such contributions/refunds will be accounted for as a reduction/increase in sales revenue. This accounting treatment properly reflects the nature of the transaction, ie. a contribution or receipt to adjust sales revenue depending on pool prices. This basis of presentation has been used in amending the comparative figures for 2007, with the restatement being a reduction to both operating expenses and sales revenue of \$32,617,247.

Employee Benefits

Long-term employee benefits were previously treated as a current liability in the Balance Sheet. In 2008 and subsequent years, the conditional component of long-term employee benefits will be treated as a non-current liability. This basis of presentation has been used in amending the comparative figures for 2007, with the restatement being a transfer from current provisions to non-current provisions of \$423,356 in the Balance Sheet.

For the year ended 30th June, 2008

	Consolidated		Parent Entity	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
NOTE 2. REVENUE				
From continuing operations				
Sales revenue				
Electricity sales	714,472	848,731	714,472	848,731
Electricity Tariff Equalisation Fund	16,111	(32,617)	16,111	(32,617)
	730,583	816,114	730,583	816,114
Other income				
Interest received	458	2,883	456	2,879
Community Service Obligation - NSW Treasury	75	70	75	70
Miscellaneous	4,010	2,947	4,010	2,947
Net gain on disposal of assets	5	4	5	4
Dividend received from subsidiary	-	-	731	-
	4,548	5,904	5,277	5,900
Defined benefits superannuation income	-	17,341	-	17,341
Fair value movement in electricity derivatives - revenue	-	4,871	-	4,871
Insurance provision adjustment income	7,143	-	7,143	-
Total revenue	742,274	844,230	743,003	844,226

NOTE 3. EXPENSES

Profit before income tax includes the following specific expenses:
Depreciation:

Buildings	695	750	695	750
Plant and equipment	89,841	66,841	89,841	66,841
Leasehold improvements	70	78	70	78
Depreciated value of assets written off	343	318	343	318

Amortisation:

Intangibles	1,845	1,992	1,845	1,992
	92,794	69,979	92,794	69,979

Finance costs:

Interest and finance charges paid/payable	21,440	15,505	21,440	15,520
Interest capitalised	(1,912)	(842)	(1,912)	(842)
	19,528	14,663	19,528	14,678

Operating lease rentals:

Minimum lease payments	573	471	573	471
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Defined benefits superannuation expense	14,152	-	14,152	-
Insurance provision adjustment expense	-	2,075	-	2,075
Fair value movement in electricity derivatives - expense	2,893	-	2,893	-
Consultants	1,501	324	1,501	324

Employee benefits expense	50,861	48,790	50,861	48,790
Raw materials and cost of purchases	350,388	441,255	350,388	441,255

Consultants

Expenditure on consultants totalled \$1,500,618 (2007 - \$323,581). The engagements related to the provision of corporate governance, tax, engineering, accounting and structuring advice.

For the year ended 30th June, 2008

	Consolidated		Parent Entity	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
NOTE 4. INCOME TAX				
Major components of tax expense (income) include:				
Income Statement				
Current income tax				
Current tax expense	49,966	64,909	49,965	64,909
Current tax expense (revenue) relating to current tax losses of subsidiary	-	(879)	-	-
Adjustment in respect of current income tax of previous years	(7)	(15)	(7)	(15)
Deferred income tax				
Tax expense (revenue) relating to the origination and reversal of temporary differences	(5,230)	(1,597)	(5,230)	(1,597)
Tax expense (revenue) relating to the non-recognition of temporary differences	-	(221)	-	-
Income tax expense reported on the income statement	44,729	62,197	44,728	63,297
Explanation of the relationship between tax expense and accounting profit				
Accounting profit	147,956	207,872	148,685	211,538
Income tax at the statutory income tax rate of 30%	44,387	62,361	44,606	63,461
Expenditure not allowable for income tax purposes	14	12	14	12
Expenditure deductible for income tax purposes	-	(168)	(220)	(168)
Change in unrecognised temporary differences	328	-	328	-
Adjustment in respect of current income tax of previous years	-	(8)	-	(8)
Tax expense reported in the income statement	44,729	62,197	44,728	63,297
Deferred tax recognised directly in equity				
Relating to fair value of electricity derivatives	(352,809)	366,134	(352,809)	366,134
Relating to revaluation of property, plant and equipment	(94,929)	(176,977)	(94,929)	(176,977)
	(447,738)	189,157	(447,738)	189,157
Current tax liabilities				
Income tax payable	11,174	37,358	11,174	37,358

For the year ended 30th June, 2008

Balance Sheet		Recognised in Income		Recognised in Equity	
2008	2007	2008	2007	2008	2007
\$'000	\$'000	\$'000	\$'000	\$'000	\$'000

NOTE 4. INCOME TAX (CONTINUED)

The amount of the deferred tax assets and liabilities recognised in the balance sheet and the resultant impact on income tax expense

Parent Entity**Deferred income tax liabilities**

Property, plant and equipment	(338,646)	(255,183)	11,466	5,297	(94,929)	(175,094)
Fuel purchases	(14,822)	(5,060)	(9,762)	1,929	-	-
Insurance recoveries	(297)	(703)	407	353	-	-
Accrued interest income	(21)	(113)	92	(94)	-	-
Capitalised interest	(1,878)	(1,359)	(519)	(204)	-	-
Investment properties	(2,867)	(2,851)	(16)	(968)	-	(1,883)
Recognition of NGACs *	(514)	(511)	(3)	(511)	-	-
Bank futures	(63)	-	(63)	-	-	-
Employer superannuation receivable	(1,087)	(4,828)	3,740	(4,828)	-	-
Gross deferred income tax liabilities	(360,195)	(270,608)				
Deferred income tax charge			5,342	974	(94,929)	(176,977)

*New South Wales Greenhouse Abatement Certificates

Deferred income tax assets

Employee leave entitlements	5,625	5,296	329	390	-	-
Employer superannuation liabilities	506	-	506	(375)	-	-
Insurance provision	2,655	3,790	(1,135)	313	-	-
Other labour entitlements	316	282	34	(16)	-	-
Provision for doubtful debts	5	39	(34)	4	-	-
Business development costs	1,141	1,131	9	527	-	-
Fair value assessment of electricity derivatives	41,526	393,467	868	(1,461)	(352,809)	366,134
Accrued land tax expenditure	91	-	91	-	-	-
Software expenditure	32	32	-	(3)	-	-
Low value asset pool	36	26	10	8	-	-
Litigation settlement expenditure	649	287	362	287	-	-
Electricity futures	(5)	728	(733)	728	-	-
Subsidiary tax losses	166	221	(55)	221	-	-
Gross deferred income tax assets	52,743	405,299				
Deferred income tax charge			252	623	(352,809)	366,134

For the year ended 30th June, 2008

	Consolidated		Parent Entity	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
NOTE 5. CASH AND CASH EQUIVALENTS				
Cash at bank and on hand	3,656	2,990	3,656	2,644
Reconciliation of profit from ordinary activities after income tax expense to net cash provided by operating activities:				
Profit from ordinary activities after income tax expense	103,227	145,675	103,957	148,241
Add/(less):				
(Profit)/loss on repayment of borrowings	(1,586)	(21)	(1,586)	(21)
Amortisation of fixed interest borrowings	192	(2,214)	192	(2,214)
Provision for doubtful debts	(113)	12	(113)	12
(Profit)/loss on sale of property, plant and equipment	(5)	(4)	(5)	(4)
Add/(less): Non-cash items				
Depreciation	90,606	67,669	90,606	67,669
Amortisation of intangibles	1,845	1,992	1,845	1,992
Depreciation on assets written off and sold	343	318	343	318
Asset revaluation - land	(1,425)	(3,226)	(1,425)	(3,226)
Movement on derivative contracts	2,893	(4,871)	2,893	(4,871)
Increase/(decrease) in income tax payable	(31,414)	19,835	(31,414)	19,835
Increase/(decrease) in accrued interest expense	2,586	780	2,586	780
Net cash provided by operating activities before changes in assets and liabilities	167,149	225,945	167,879	228,511
Net changes in assets and liabilities during the financial year:				
(Increase)/decrease in receivables	233	1,380	232	(238)
(Increase)/decrease in other debtors	389,280	(393,734)	389,280	(393,734)
(Increase)/decrease in inventories	(32,679)	5,771	(32,679)	5,771
(Increase)/decrease in other assets	9,147	(13,896)	9,147	(13,896)
Increase/(decrease) in payables and borrowings	(916)	(138)	(916)	(9)
Increase/(decrease) in other liabilities	(352,075)	342,380	(352,075)	342,380
Net cash provided by operating activities	180,139	167,708	180,868	168,785

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

NOTE 6. RECEIVABLES

Trade receivables	72,974	463,350	72,974	463,350
Provision for doubtful receivables	(18)	(130)	(18)	(130)
	72,956	463,220	72,956	463,220
Insurance recoveries	990	2,345	990	2,345
Other receivables	1,645	781	1,645	780
Prepayments	682	533	682	533
	76,273	466,879	76,273	466,878

Other Receivables

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

For the year ended 30th June, 2008

	2008 \$'000	2007 \$'000
NOTE 6. RECEIVABLES (CONTINUED)		
Insurance Recoveries		
Parent Entity		
As at 1 July	2,345	3,520
Additional recoveries recognised / (written back) (see Note 17)	(221)	1,019
Recoveries received	(1,134)	(2,194)
As at 30 June	990	2,345

	Consolidated		Parent Entity	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
NOTE 7. INVENTORIES				
Stores and materials	1,660	1,521	1,660	1,521
Coal stocks	48,172	16,213	48,172	16,213
Oil stocks	1,235	654	1,235	654
	51,067	18,388	51,067	18,388

Inventory Write-Downs

Write-downs of inventories recognised as an expense during the year amounted to \$530,379 (2007 - \$1,050,345).

NOTE 8. INTANGIBLE ASSETS

Intangible assets comprise computer software costs and carbon sequestration rights.

For the year ended 30 June 2008, computer software costs are capitalised at cost. Software assets have been assessed as having a finite life and are amortised using the straight line method over the expected useful life. The useful life of computer software assets varies from 2 to 5 years.

No revaluation or impairment loss was recognised during the 2008 financial year.

Carbon sequestration rights accrue from plantations of Mallee trees. Expenditure has been incurred in the plantation of trees where Eraring Energy will receive future NGACs. Amortisation will occur over a 30 year period commencing on the production of NGACs. Costs will be amortised on a pro-rata basis, based on the expected number of NGACs registered each year.

	Carbon Sequestration \$'000	Computer Software \$'000	Total \$'000
Parent Entity			
Year ended 30 June 2008			
As at 1 July 2007, net of accumulated amortisation	4,140	3,607	7,747
Additions	278	4,223	4,501
Amortisation	(8)	(1,837)	(1,845)
As at 30 June 2008, net of accumulated amortisation	4,410	5,993	10,403
As at 1 July 2007			
Cost (gross carrying amount)	4,140	13,865	18,005
Accumulated amortisation and impairment	-	(10,258)	(10,258)
As at 1 July 2007, net of accumulated amortisation	4,140	3,607	7,747
As at 30 June 2008			
Cost (gross carrying amount)	4,418	18,088	22,506
Accumulated amortisation and impairment	(8)	(12,095)	(12,103)
As at 30 June 2008, net of accumulated amortisation	4,410	5,993	10,403

Net Carrying Amount

Included in intangibles as at 30 June 2008 is an amount of \$321,261 (2007 - \$1,738,677) relating to work in progress expenditure.

For the year ended 30th June, 2008

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

	Consolidated		Parent Entity	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
NOTE 9. ELECTRICITY DERIVATIVES - ASSETS				
Current asset - electricity derivatives	-	43,949	-	43,949
Non-current asset - electricity derivatives	-	37	-	37
	-	43,986	-	43,986

NOTE 10. ASSETS HELD FOR SALE

As at 1 July	2,586	-	2,586	-
Transfer (to)/from investment properties	(2,586)	2,639	(2,586)	2,639
Less: Cost to sell the assets	-	(53)	-	(53)
As at 30 June	-	2,586	-	2,586

Assets Held for Sale

Following the decision to delay the immediate sale of surplus property, these properties are being transferred to Investment Properties (refer Note 14).

NOTE 11. OTHER CURRENT ASSETS

New South Wales Greenhouse Abatement Certificates	1,751	1,728	1,751	1,728
Superannuation - overfunded position (see Note 24)	3,624	16,090	3,624	16,090
	5,375	17,818	5,375	17,818

New South Wales Greenhouse Abatement Certificates

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

For the year ended 30th June, 2008

	Consolidated		Parent Entity	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
Shares in controlled entities	-	-	-	.001

NOTE 12. SHARES IN CONTROLLED ENTITIES**Unlisted Shares in Controlled Entity**

Pacific Western Pty Ltd is being liquidated, with Eraring Energy's one \$1.00 ordinary share being cancelled during the financial year.

	Freehold Land	Power Station Building	Other Buildings	Plant & Equipment Power Stn	Plant & Equipment Other	Leasehold Improve- ment	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000

NOTE 13. PROPERTY, PLANT AND EQUIPMENT**Parent Entity 2008**

As at 1 July 2007,

net of accumulated depreciation	32,162	19,632	787	1,885,375	10,009	363	1,948,328
Additions	302	876	34	44,216	4,819	159	50,406
Parent plant spares transfer	-	-	-	4,962	-	-	4,962
Capital spares transfer	-	-	-	862	-	-	862
Revaluation	(750)	5,016	-	202,841	-	-	207,107
Impairment	-	(3,794)	-	113,273	-	-	109,479
Disposals	-	(60)	-	(281)	(411)	-	(752)
Depreciation charge for the year	-	(668)	(27)	(87,692)	(2,149)	(70)	(90,606)
Balance @ 30 June 2008	31,714	21,002	794	2,163,556	12,268	452	2,229,786

As at 1 July 2007

Cost or fair value	32,162	61,014	896	3,508,168	16,727	770	3,619,737
Accumulated depreciation	-	(5,529)	(109)	(418,943)	(6,718)	(407)	(431,706)
Accumulated impairment	-	(35,853)	-	(1,203,850)	-	-	(1,239,703)
Net carrying amount	32,162	19,632	787	1,885,375	10,009	363	1,948,328

As at 30 June 2008

Cost or fair value	31,714	68,747	930	3,851,880	20,418	929	3,974,618
Accumulated depreciation	-	(8,098)	(136)	(597,748)	(8,150)	(477)	(614,609)
Accumulated impairment	-	(39,647)	-	(1,090,576)	-	-	(1,130,223)
Net carrying amount	31,714	21,002	794	2,163,556	12,268	452	2,229,786

For the year ended 30th June, 2008

	Freehold Land \$'000	Power Station Building \$'000	Other Buildings \$'000	Plant & Equipment Power Stn \$'000	Plant & Equipment Other \$'000	Leasehold Improve- ment \$'000	Total \$'000
NOTE 13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)							
Parent Entity 2007							
As at 1 July 2006,							
net of accumulated depreciation	32,863	20,850	1,097	1,333,490	5,262	371	1,393,933
Additions	54	1,080	28	25,259	7,355	70	33,846
Parent plant spares transfer	-	-	-	5,243	-	-	5,243
Capital spares transfer	-	-	-	279	-	-	279
Revaluation	5,645	34,342	(306)	1,789,944	-	-	1,829,625
Impairment	-	(35,853)	-	(1,203,850)	-	-	(1,239,703)
Transfers to investment properties and assets held for sale	(6,400)	-	-	-	-	-	(6,400)
Disposals	-	(69)	-	(248)	(509)	-	(826)
Depreciation charge for the year	-	(718)	(32)	(64,742)	(2,099)	(78)	(67,669)
Balance @ 30 June 2007	32,162	19,632	787	1,885,375	10,009	363	1,948,328
As at 1 July 2006							
Cost or fair value	32,863	22,245	1,219	1,450,509	10,593	699	1,518,128
Accumulated depreciation/impairment	-	(1,395)	(122)	(117,019)	(5,331)	(328)	(124,195)
Net carrying amount	32,863	20,850	1,097	1,333,490	5,262	371	1,393,933
As at 30 June 2007							
Cost or fair value	32,162	61,014	896	3,500,208	16,727	770	3,611,777
Accumulated depreciation/impairment	-	(41,382)	(109)	(1,614,833)	(6,718)	(407)	(1,663,449)
Net carrying amount	32,162	19,632	787	1,885,375	10,009	363	1,948,328

Valuation of Power Station Equipment and Power Station Buildings

The classes of power station equipment and associated building assets are measured on a fair value basis. An independent review of the written down optimised replacement value of the Eraring power station and hydro and wind assets was conducted by Rodney Hyman Asset Services as at 30 June 2007. This review has been used as the basis for the written down optimised replacement value as at 30 June 2008, adjusted for remaining useful life, CPI and foreign exchange movements. The revaluation resulted in an increase to the power station building and plant and equipment power station classes of \$207 million. Revaluation in 2007 resulted in an increase of \$1,830 million.

The discounted cash flow valuation (DCF) was conducted effective at 30 June 2008 using existing contracts and estimates for future contracts and spot referencing external forward curves for sales revenue together with 2008/09 SCI 10 year forecasts as at 31 March 2008 and internal models. Eraring has forecast the impact of the proposed Carbon Pollution Reduction Scheme commencing in 2010/11 into the DCF asset valuation. The written down optimised replacement value exceeded the DCF value, and in accordance with Australian Accounting Standards, the DCF value was used. In 2008, Eraring reversed \$109 million of impairment losses previously charged to the Asset Revaluation Reserve.

Eraring Energy's pre-tax weighted average cost of capital was applied in the value in use calculation, the same as last year.

The gross replacement cost for power stations plant and equipment at 30 June 2008 was \$6,859.7 million and accumulated depreciation was \$3,664.6 million. This does not include amounts for work in progress and capital spares which are included in the fair value of power stations plant and equipment of \$3,254.1 million.

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

For the year ended 30th June, 2008

NOTE 13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**Valuation of Land**

The class of land assets are measured at fair value. No land valuation was conducted in 2008. The valuation conducted in 2007 resulted in an increase in land values of \$5.6 million.

Valuation of Other Buildings

The class of other buildings are measured at fair value. No valuation was conducted in 2008. The valuation conducted in 2007 resulted in a decrease in value of \$0.3 million.

Impairment of Other Property, Plant and Equipment

Blayney and Crookwell windfarm cash generating units are recorded at fair value using the discounted cash flow method as this value is lower than the written down optimised replacement value. A review conducted by Rodney Hyman Asset Services as at 30 June 2007 has been used as the basis for the written down optimised replacement value as at 30 June 2008, adjusted for remaining useful life and CPI movements. As the discounted cash flow for 30 June 2008 is higher than the carrying value, a reversal of a prior period impairment loss of \$157,000 has been recognised in the income statement. The total impairment loss recognised this year is \$1.3 million (2007 - \$6.4 million impairment loss).

If property, plant and equipment were measured using the cost model the carrying amounts would be as follows:

	Freehold Land \$'000	Power Station Building \$'000	Other Buildings \$'000	Plant & Equipment Power Stn \$'000	Plant & Equipment Other \$'000	Leasehold Improve- ment \$'000	Total \$'000
Parent Entity 2008							
Cost	2,798	15,731	1,862	1,416,808	20,418	929	1,458,546
Accumulated depreciation	-	(3,381)	(362)	(375,220)	(8,149)	(477)	(387,589)
Net carrying amount	2,798	12,350	1,500	1,041,588	12,269	452	1,070,957
Parent Entity 2007							
Cost	2,496	14,914	1,828	1,367,001	16,727	770	1,403,736
Accumulated depreciation	-	(2,915)	(312)	(315,894)	(6,718)	(407)	(326,246)
Net carrying amount	2,496	11,999	1,516	1,051,107	10,009	363	1,077,490

Net Carrying Amount

Included in plant and equipment as at 30 June is an amount of \$42,732,672 (2007 - \$31,304,712) relating to work in progress expenditure.

NOTE 14. INVESTMENT PROPERTIES

	Consolidated		Parent Entity	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Investment properties	10,225	7,586	10,225	7,586
Reconciliation				
As at 1 July	7,586	-	7,586	-
Acquisitions	-	546	-	546
Transfer from property, plant and equipment	-	6,400	-	6,400
Net gain / (loss) from fair value adjustments	53	3,279	53	3,279
Transfer (to) / from assets held for sale	2,586	(2,639)	2,586	(2,639)
As at 30 June	10,225	7,586	10,225	7,586

For the year ended 30th June, 2008

NOTE 14. INVESTMENT PROPERTIES (CONTINUED)

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

A gain of \$52,778 has been recognised in the Income Statement arising from the fair value measurement of property transferred from Assets Held for Sale.

	Consolidated		Parent Entity	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
NOTE 15. PAYABLES				
Trade payables	32,633	38,802	32,633	38,802
Other payables	29,132	366,539	29,132	366,539
	61,765	405,341	61,765	405,341

NOTE 16. INTEREST BEARING LIABILITIES

Borrowings	374,077	294,866	374,077	294,866
Loan from Pacific Western	-	-	-	383
	374,077	294,866	374,077	295,249

Current Borrowings

Short term loans - face value

17,400

17,400

Non-Current Borrowings

Non-current borrowings

368,187

Premium on domestic loans issued by NSW Tcorp

(11,510)

356,677

Total Debt and Maturity Analysis

Total debt outstanding at 30 June 2008, and maturity pattern is:

Up to one year

17,400

Over one and up to two years

31,655

Over two and up to five years

135,924

Over five years

189,098

Total

374,077

Finance Facilities Available

Bank overdraft

2,000

NSW Treasury Corporation loans and come and go

840,000

Total

842,000

Finance Facilities Used as at 30 June 2008

NSW Treasury Corporation loans and come and go

374,077

Total

374,077

Eraring Energy also utilises TCorp facilities for contingent liabilities associated with dust disease liabilities (\$21,000,000) and letters of credit for futures transactions (\$5,000,000), Commonwealth Bank of Australia facilities for intra day cash management (real time gross settlements - \$20,000,000) and credit card facilities (\$1,250,000) as approved by the Treasurer of NSW under Public Authorities Finance Act legislation. With the exception of the Commonwealth Bank of Australia facilities, all new borrowings are arranged through TCorp.

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

Capital Restructure

Eraring Energy repaid capital of \$73,400,000 in June 2008 to the Shareholder via a non cash equity to debt swap.

For the year ended 30th June, 2008

		Consolidated		Parent Entity	
		2008	2007	2008	2007
		\$'000	\$'000	\$'000	\$'000
NOTE 17. PROVISIONS					
Current					
Dividend	(see Note 23)	114,594	132,131	114,594	131,431
Employee entitlements	(see Note 24)	18,214	17,228	18,214	17,228
Insurances		2,160	1,930	2,160	1,930
		134,968	151,289	134,968	150,589
Non-current					
Employee entitlements	(see Note 24)	535	423	535	423
Insurances		17,600	26,175	17,600	26,175
		18,135	26,598	18,135	26,598
Total		153,103	177,887	153,103	177,187

Reconciliations

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

	Current		Non-current	Total
	Dividend	Insurances	Insurances	
	\$'000	\$'000	\$'000	\$'000
Parent Entity 2008				
Balance @ 01 July 2007	131,431	1,930	26,175	159,536
Additional provisions recognised / (written back)	115,294	-	(7,008)	108,286
Provision payments	(132,131)	(1,337)	-	(133,468)
Current v non-current transfer	-	1,567	(1,567)	-
Balance @ 30 June 2008	114,594	2,160	17,600	134,354
Consolidated Entity 2008				
Balance @ 01 July 2007	132,131	1,930	26,175	160,236
Additional provisions recognised / (written back)	114,594	-	(7,008)	107,586
Provision payments	(132,131)	(1,337)	-	(133,468)
Current v non-current transfer	-	1,567	(1,567)	-
Balance @ 30 June 2008	114,594	2,160	17,600	134,354

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

Former decommissioned Power Stations of the former Electricity Commission;

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

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

The total insurance provision is made up of a provision for current workers compensation and dust diseases claims liability at \$2,320,000 (2007 - \$3,725,000) which is the minimum amount certified by the actuary in accordance with Clause 3.3 (a) (iv) of the Self Insurer licence provisions. The remaining net balance of the insurance provision is \$16,450,000 (2007 - \$22,035,000) and represents future dust diseases claims liability, net of third party recoveries. The insurance provision includes a provision for \$18,270,000 (2007 - \$24,450,000) which relates to other than Eraring Energy employees and contractors. Eraring Energy has created an asset in these financial statements for anticipated insurance recoveries from third parties where matters have already been settled and recovery virtually certain. The value of this asset is \$990,000 (2007 - \$2,345,000), and is in accordance with independent actuarial advice. These recoveries relate to settled claims under previous legislation. Legislation which came into force on 1st July 2005 requires the joining of co-defendants at inception and allocation of liability.

The actuarial assessment is based on estimates of future claims (based on past experience), forecast cost of claims and annual year on year increases, all of which impact on the assessed liability. Changes to these recovery estimates could impact future provisions. A 0.5% change in the rate used to discount future liabilities to present value, would result in a change of around \$0.8 million.

For the year ended 30th June, 2008

	Consolidated		Parent Entity	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
NOTE 18. ELECTRICITY AND FOREIGN EXCHANGE DERIVATIVES - LIABILITIES				
Current liability - electricity and foreign exchange derivatives (see Note 25f)	93,292	967,769	93,292	967,769
Non-current liability - electricity and foreign exchange derivatives (see Note 25f)	45,127	387,774	45,127	387,774
	138,419	1,355,543	138,419	1,355,543
NOTE 19. OTHER CURRENT LIABILITIES				
Superannuation - underfunded liability (see Note 24)	1,686	-	1,686	-
NOTE 20. CONTRIBUTED EQUITY, RESERVES AND RETAINED PROFITS				
Contributed equity	573,081	646,481	573,081	646,481
Reserves	723,588	(320,284)	723,588	(320,284)
Retained profits	42,440	53,807	42,440	53,777
	1,339,109	380,004	1,339,109	379,974
Movements in Contributed Equity				
Opening balance	646,481	830,481	646,481	830,481
NSW Treasury equity for debt swap	(73,400)	(184,000)	(73,400)	(184,000)
	573,081	646,481	573,081	646,481
Movements in Reserves				
Movements in Asset Revaluation Reserve				
Opening balance	597,982	185,037	597,982	185,037
Asset revaluation increment, net of tax	220,651	412,945	220,651	412,945
	818,633	597,982	818,633	597,982
Movements in Hedging Reserve				
Opening balance	(918,266)	(63,953)	(918,266)	(63,953)
Net gains / (losses) on cash flow hedges, net of tax	823,221	(854,313)	823,221	(854,313)
	(95,045)	(918,266)	(95,045)	(918,266)
Reserves Balance				
Asset revaluation reserve	818,633	597,982	818,633	597,982
Hedging reserve	(95,045)	(918,266)	(95,045)	(918,266)
	723,588	(320,284)	723,588	(320,284)
Movements in Retained Profits				
Opening balance	53,807	40,263	53,777	36,967
Net profit after tax	103,227	145,675	103,957	148,241
Dividends (see Note 23)	(114,594)	(132,131)	(115,294)	(131,431)
	42,440	53,807	42,440	53,777

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

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

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

For the year ended 30th June, 2008

	Consolidated		Parent Entity	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
NOTE 21. COMMITMENTS				
Capital commitments payable:				
Within one year	143,606	11,794	143,606	11,794
Later than one year but not later than five years	99,805	-	99,805	-
	243,411	11,794	243,411	11,794
Operating lease rentals payable:				
Within one year	673	530	673	530
Later than one year but not later than five years	685	961	685	961
Later than five years	2,210	-	2,210	-
	3,568	1,491	3,568	1,491
Operating expenditure commitments payable:				
Within one year	40,411	23,474	40,411	23,474
Later than one year but not later than five years	33,543	13,326	33,543	13,326
	73,954	36,800	73,954	36,800

Eraring Energy expects to receive input tax credits from the Australian Taxation Office totalling \$29,175,776 (2007 - \$4,769,484) for Goods and Services Tax paid with these commitments.

Operating Leases

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

NOTE 22. CONTINGENT LIABILITIES

The arbitrated dispute with a contractor for work performed at Burrinjuck was determined and paid in the financial year. A dispute still exists over the settlement of legal costs with the matter expected to be resolved in the next financial year.

NOTE 23. DIVIDENDS

In accordance with the share dividends scheme determined by the voting shareholders, and as required by the Energy Services Corporation Act, 1995 and State Owned Corporations Act, 1989, the Board has provided for a consolidated dividend payment of \$114,594,329 (2007 - \$132,130,838). This will be paid during the course of the 2008/09 financial year and is represented by the balance of the provision (see Note 17). The dividend provision has been increased by the amount of \$241,309 (2007 - \$551,846) for net recoveries for worker's compensation and dust disease Court determinations for other than Eraring Energy employees. This liability was transferred from the NSW Government to Eraring Energy on corporatisation with agreement for the matter to be treated as a community service obligation and the net of payments less recoveries deducted from dividends.

NOTE 24. EMPLOYEE ENTITLEMENTS**Provision for employee entitlements**

Current	(see Note 17)	18,214	17,228	18,214	17,228
Non-current	(see Note 17)	535	423	535	423
		18,749	17,651	18,749	17,651

Defined benefits superannuation balance

Superannuation - overfunded asset	(see Note 11)	3,624	16,090	3,624	16,090
Superannuation - underfunded (liability)	(see Note 19)	(1,686)	-	(1,686)	-
		1,938	16,090	1,938	16,090

For the year ended 30th June, 2008

	Consolidated		Parent Entity	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000

NOTE 24. EMPLOYEE ENTITLEMENTS (CONTINUED)**Long Service Leave**

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

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

Superannuation

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

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

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

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

	SASS	SANCS	SSS	Total
	\$'000	\$'000	\$'000	\$'000
Superannuation position as at 30 June 2008				
Reconciliation of the assets and liabilities recognised in the balance sheet				
Present value of partly funded defined benefits obligations	40,273	9,133	112,541	161,947
Fair value of fund assets	(42,241)	(10,789)	(110,855)	(163,885)
Net (asset)/liability recognised in the balance sheet	(1,968)	(1,656)	1,686	(1,938)
Reconciliation of the present value of the defined benefit obligation				
Present value of partly funded defined benefit obligations at the start of the year	38,198	8,651	108,755	155,604
Current service cost	1,094	468	1,246	2,808
Interest cost	2,380	530	6,873	9,783
Contributions by fund participants	605	-	1,368	1,973
Actuarial (gains)/losses	(712)	163	(2,439)	(2,988)
Benefits paid	(1,292)	(679)	(3,262)	(5,233)
Present value of partly funded defined benefit obligations at the end of the year	40,273	9,133	112,541	161,947
Reconciliation of the fair value of fund assets				
Fair value of fund assets at the start of the year	43,583	11,693	117,805	173,081
Expected return on fund assets	3,330	921	9,167	13,418
Actuarial gains/(losses)	(5,235)	(1,660)	(16,237)	(23,132)
Employer contributions	1,250	514	2,014	3,778
Contributions by fund participants	605	-	1,368	1,973
Benefits paid	(1,292)	(679)	(3,262)	(5,233)
Fair value of fund assets at the end of the year	42,241	10,789	110,855	163,885

For the year ended 30th June, 2008

	SASS \$'000	SANCS \$'000	SSS \$'000	Total \$'000
NOTE 24. EMPLOYEE ENTITLEMENTS (CONTINUED)				
Expense/(income) recognised in income statement				
Components recognised in income statement				
Current service cost	1,094	468	1,246	2,808
Interest cost	2,380	530	6,873	9,783
Expected return on fund assets (net of expenses)	(3,330)	(921)	(9,167)	(13,418)
Actuarial (gains)/losses recognised in year	4,524	1,822	13,798	20,144
Movement in adjustment for limitation on net asset	(427)	(241)	(718)	(1,386)
Expense/(income) recognised	4,241	1,658	12,032	17,931
Actual return on plan assets				
Actual return on plan assets	(2,861)	(739)	(7,813)	(11,413)
Historical information				
Present value of defined benefit obligation	40,273	9,133	112,541	161,947
Fair value of fund assets	(42,241)	(10,789)	(110,855)	(163,885)
(Surplus)/deficit in fund	(1,968)	(1,656)	1,686	(1,938)
Experience adjustment - fund liabilities	(712)	163	(2,439)	(2,988)
Experience adjustment - fund assets	5,235	1,660	16,237	23,132
Expected contributions				
Expected employer contributions	1,150	529	2,189	3,868
Member numbers				
Contributors	132	239	107	
Deferred benefits	-	-	4	
Pensioners	2	-	65	
Pensioners fully commuted	-	-	6	
Superannuation position as at 30 June 2007				
Reconciliation of the assets and liabilities recognised in the balance sheet				
Present value of partly funded defined benefits obligations	38,198	8,652	108,755	155,605
Fair value of fund assets	(43,583)	(11,693)	(117,805)	(173,081)
Adjustment for limitation on net asset	427	240	719	1,386
Net (asset)/liability recognised in the balance sheet	(4,958)	(2,801)	(8,331)	(16,090)
Reconciliation of the present value of the defined benefit obligation				
Present value of partly funded defined benefit obligations at the start of the year	33,970	8,684	109,292	151,946
Current service cost	1,058	496	1,466	3,020
Interest cost	1,975	492	6,426	8,893
Contributions by fund participants	540	-	1,539	2,079
Actuarial (gains)/losses	1,219	(171)	(7,296)	(6,248)
Benefits paid	(564)	(849)	(2,672)	(4,085)
Present value of partly funded defined benefit obligations at the end of the year	38,198	8,652	108,755	155,605
Reconciliation of the fair value of fund assets				
Fair value of fund assets at the start of the year	36,624	10,533	103,539	150,696
Expected return on fund assets	2,784	794	7,933	11,511
Actuarial gains/(losses)	3,144	666	5,013	8,823
Employer contributions	1,056	549	2,453	4,058
Contributions by fund participants	540	-	1,539	2,079
Benefits paid	(565)	(849)	(2,672)	(4,086)
Fair value of fund assets at the end of the year	43,583	11,693	117,805	173,081

For the year ended 30th June, 2008

	SASS \$'000	SANCS \$'000	SSS \$'000	Total \$'000
NOTE 24. EMPLOYEE ENTITLEMENTS (CONTINUED)				
Expense/(income) recognised in income statement				
Components recognised in income statement				
Current service cost	1,058	496	1,466	3,020
Interest cost	1,975	492	6,426	8,893
Expected return on fund assets (net of expenses)	(2,784)	(794)	(7,933)	(11,511)
Actuarial (gains)/losses recognised in year	(1,925)	(837)	(12,309)	(15,071)
Movement in adjustment for limitation on net asset	427	241	718	1,386
Expense/(income) recognised	(1,249)	(402)	(11,632)	(13,283)
Actual return on plan assets				
Actual return on plan assets	5,337	1,460	14,915	21,712
Historical information				
Present value of defined benefit obligation	38,198	8,652	108,755	155,605
Fair value of fund assets	(43,583)	(11,693)	(117,805)	(173,081)
(Surplus)/deficit in fund	(5,385)	(3,041)	(9,050)	(17,476)
Experience adjustment - fund liabilities	1,219	(171)	(7,296)	(6,248)
Experience adjustment - fund assets	(3,144)	(666)	(5,013)	(8,823)
Expected contributions				
Expected employer contributions	1,025	540	2,462	4,027
Member numbers				
Contributors	132	249	117	
Deferred benefits	-	-	4	
Pensioners	2	-	54	
Pensioners fully commuted	-	-	6	

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

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

Expected rate of return on assets

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

Principal actuarial assumptions at the reporting date	2008	2007
Expected return on assets backing current pension liabilities	8.3%	7.6%
Expected return on assets backing other liabilities	7.3%	7.6%
Expected salary increases	3.5%	4.0%
Expected rate of CPI increase	2.5%	2.5%
Discount rate	6.6%	6.4%

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

Fund assets

The percentage invested in each asset class at the balance sheet date are:	2008	2007
Australian equities	31.6%	33.6%
Overseas equities	25.4%	26.5%
Australian fixed interest securities	7.4%	6.8%
Overseas fixed interest securities	7.5%	6.4%
Property	11.0%	10.1%
Cash	6.1%	9.8%
Other	11.0%	6.8%

For the year ended 30th June, 2008

	SASS \$'000	SANCS \$'000	SSS \$'000	Total \$'000
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NOTE 24. EMPLOYEE ENTITLEMENTS (CONTINUED)**Arrangements for employer contributions for funding**

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

Financial position as at 30 June 2008

Accrued benefits	40,155	9,175	103,769	153,099
Net market value of fund assets	(42,241)	(10,789)	(110,855)	(163,885)
Net (surplus)/deficit	(2,086)	(1,614)	(7,086)	(10,786)

Financial position as at 30 June 2007

Accrued benefits	37,660	8,567	98,228	144,455
Net market value of fund assets	(43,583)	(11,693)	(117,805)	(173,081)
Net (surplus)/deficit	(5,923)	(3,126)	(19,577)	(28,626)

Recommended contributions rates for the entity are:

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

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

The economic assumptions adopted for the last actuarial review of the Fund were:

	June 2008
Expected rate of return on fund assets backing current pension liabilities	7.7%
Expected rate of return on fund assets backing other liabilities	7.0%
Expected salary increase rate	4.0%
Expected rate of CPI increase	2.5%

Nature of asset/liability

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

Valuation method

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

NOTE 25. FINANCIAL INSTRUMENTS

The consolidated entity's financial instruments are outlined below. These financial instruments arise directly from the consolidated entity's operations or are required to finance the consolidated entity's operations. The consolidated entity does not enter into or trade financial instruments, including derivative financial instruments for speculative purposes.

The Board, the Board Audit Committee and the Energy Trading Risk Management Committee (ETRMC) has overall responsibility for the establishment and oversight of risk management and reviews and agrees policies for managing each of these risks. Risk management policies are established to identify and analyse the risks faced by the consolidated entity, to set risk limits and controls and to monitor risks. Compliance with policies is reviewed by the ETRMC on a continuous basis.

For the year ended 30th June, 2008

			Carrying Amount 2008 \$'000	Carrying Amount 2007 \$'000
	Note	Category		

NOTE 25. FINANCIAL INSTRUMENTS (CONTINUED)**a) Financial Instrument Categories****Financial Assets**

Cash and cash equivalents	5	Not applicable	3,656	2,644
Trade receivables	6	Loans and receivables at amortised cost	72,974	463,350
Electricity derivative - non designated	9	Fair value through profit & loss - held for trading	-	43,986

Financial Liabilities

Borrowings	16	Financial liabilities at amortised cost	374,077	294,866
Accounts payable	15	Financial liabilities at amortised cost	55,624	364,594
Electricity derivative - designated (CFH)	18	Derivative instruments in designated hedge accounting relationship - fair value deferred in equity	119,377	1,311,809
Electricity derivative - non designated	18	Fair value through profit & loss - held for trading	2,641	43,734
Forward foreign exchange contract (CFH)	25	Derivative instruments in designated hedge accounting relationship - fair value deferred in equity	16,400	-

CFH = Cash flow hedge

b) Credit Risk

Credit risk arises when there is the possibility of the consolidated entity's debtors defaulting on their contractual obligations, resulting in a financial loss. The maximum exposure to credit risk is generally represented by the carrying amount of the financial assets (net of any allowance for impairment).

Credit risk arises from the financial assets of the consolidated entity, including receivables, deposits and derivative transactions that are used in risk mitigation strategies. Following Board approved policy, exposure limits are applied to each respective counterparty. This is done by reference to an acceptable public credit rating assigned by an approved credit rating agency, or in the absence of an acceptable public rating, by assessing internally the credit rating of that counterparty using a methodology consistent with the approach of an approved credit rating agency. Credit limits and exposures are monitored regularly with the three greatest exposures reported monthly to the Board. It is preferred policy to seek an ISDA master agreement with all trading counterparts, and when necessary, the ISDA may require a Bank Guarantee or other acceptable security exercisable in the State of New South Wales.

As the consolidated entity is a generator in the National Electricity Market (NEM), all electricity counterparties have to adhere to strict prudential guidelines including settlement of derivative transactions in accordance with the NEMMCO timetable. As a result the consolidated entity's exposure to financial assets that are past due are insignificant, and there are no debtors which are currently past due. There is an amount held in doubtful debts with the reconciliation shown below.

For the year ended 30th June, 2008

	Government \$'000	Banks \$'000	Others \$'000	Total \$'000
NOTE 25. FINANCIAL INSTRUMENTS (CONTINUED)				
Financial Assets				
Parent Entity 2008				
Cash	-	3,656	-	3,656
Trade Receivables	72,906	-	1,709	74,615
Other	-	-	4	4
Total Financial Assets	72,906	3,656	1,713	78,275
Parent Entity 2007				
Cash	-	2,644	-	2,644
Trade Receivables	430,433	-	33,694	464,127
Derivatives	11,777	9,801	20,668	42,246
Other	-	-	4	4
Total Financial Assets	442,210	12,445	54,366	509,021
Consolidated 2007				
Cash	-	2,990	-	2,990
Trade Receivables	430,816	1	33,694	464,511
Derivatives	11,777	9,801	20,668	42,246
Other	-	-	4	4
Total Financial Assets	442,593	12,792	54,366	509,751
		Carrying Amount 2008 \$'000	Carrying Amount 2007 \$'000	
Doubtful Debts Reconciliation				
As at 1 July		130	118	
Provision adjustment		(112)	12	
As at 30 June		18	130	

c) Liquidity Risk

Liquidity risk is the risk that the consolidated entity will be unable to meet its payment obligations when they fall due. The consolidated entity continuously manages risk through monitoring future cash flows and maturities planning to ensure adequate holding of liquid assets. The objective is to maintain a balance between continuity of funding and flexibility through the use of overdrafts, loans and New South Wales TCorp agreed facilities.

During the current and prior years, there were no defaults or breaches on any loans payable. No assets have been pledged as collateral. The consolidated entity's exposure to liquidity risk is deemed insignificant based on prior periods data and current assessment of risk.

The liabilities are recognised for amounts due to be paid in the future for goods and services received, whether or not invoiced. Amounts owing to suppliers are settled in accordance with the consolidated entity's accounting policies.

For the year ended 30th June, 2008

NOTE 25. FINANCIAL INSTRUMENTS (CONTINUED)

	Floating Interest Rate \$'000	Fixed Interest Rate 1 Year or less \$'000	Maturing In 1 to 5 years \$'000	Over 5 years \$'000	Non- Interest Bearing \$'000	Nominal Amount* \$'000	Weighted Average Effective Interest Rate pa %
Financial Liabilities							
Parent Entity 2008							
Accounts Payable	-	-	-	-	55,624	55,624	-
Derivatives	-	4,162	15,866	-	122,018	142,046	-
Debt	17,400	21,706	234,025	234,433	-	507,564	5.58%
Other	-	-	-	-	114,594	114,594	-
Total Financial Liabilities	17,400	25,868	249,891	234,433	292,236	819,828	-
Parent Entity 2007							
Accounts Payable	-	-	-	-	364,594	364,594	-
Derivatives	-	5	-	-	1,355,538	1,355,543	-
Debt	35,500	57,047	165,038	117,282	-	374,867	5.64%
Other	-	-	-	-	131,431	131,431	-
Total Financial Liabilities	35,500	57,052	165,038	117,282	1,851,563	2,226,435	-
Consolidated 2007							
Accounts Payable	-	-	-	-	364,594	364,594	-
Derivatives	-	5	-	-	1,355,538	1,355,543	-
Debt	35,500	57,047	165,038	117,282	-	374,867	5.64%
Other	-	-	-	-	132,131	132,131	-
Total Financial Liabilities	35,500	57,052	165,038	117,282	1,852,263	2,227,135	-

*The amounts disclosed are the contractual undiscounted cash flows of each class of financial liabilities, therefore the amounts disclosed may not reconcile to the balance sheet.

d) Market Risk

The consolidated entity's activities expose it to a variety of market risks including interest rate risk, foreign exchange risk and price risk. The consolidated entity's overall risk management programme focuses on the unpredictability of financial and commodity markets and seeks to minimise potential adverse effects on the consolidated entity's financial performance.

Risk management for both interest rate risk and foreign exchange risk are undertaken by the Treasury section, while price risk is monitored by the Trading risk management team. Both risk management functions operate under policies and procedures approved by the Board, Board Risk Committee and both report weekly to the Energy Trading Risk Management Committee (ETRMC). The Treasury Risk Management Committee (TRMC) meet monthly to review interest rate and foreign exchange risks.

(i) Interest Rate Risk

Exposure to interest rate risk arises primarily through the consolidated entity's interest bearing liabilities. This risk is minimised by undertaking mainly fixed rate borrowings with NSW TCorp. The consolidated entity does not account for any fixed rate financial instruments at fair value through profit or loss or as available for sale. Therefore for these financial instruments a change in interest rates would not affect profit and loss or equity. A reasonable possible change of +/- 1% is used, consistent with current trends in interest rates. The consolidated entity's exposure to interest rate risk is set out below, which includes sensitivities in cash balances and short term borrowings. The TRMC meet with TCorp on a quarterly basis to review risk and performance.

For the year ended 30th June, 2008

NOTE 25. FINANCIAL INSTRUMENTS (CONTINUED)

Interest Rate Sensitivity	2008	2008	2007	2007
	Equity	Post Tax P & L	Equity	Post Tax P & L
	\$'000	\$'000	\$'000	\$'000
	+ / - 1%	+ / - 1%	+ / - 1%	+ / - 1%
Interest rates	-	25	-	327

(ii) Foreign Exchange Risk

In the normal course of business, the consolidated entity enters into contracts for the purchase of goods or services from overseas which are settled in the suppliers currency. Under Board approval, the consolidated entity hedges specific commitments by use of forward foreign exchange contracts. The contracts are timed to mature when settlement of the goods and services are due, and any gain or loss realised being included in the measurement of the purchase price. At balance date the consolidated entity had 17 (2007 - 1) forward foreign exchange contracts as detailed:

	Contracts	2008	Principal Amount \$'000 AUD	Contracts	2007	Principal Amount \$'000 AUD
		Average Exchange Rate			Average Exchange Rate	
United States Dollar Buy duration greater than one year	-	-	-	1	0.843	1,457
Korean Won Buy less than one year	4	771.7	18,211	-	-	-
Korean Won Buy greater than one year	13	731.5	59,045	-	-	-

The contracts as at 30 June 2008 are showing an unrealised loss of \$16,400,485 (2007 - \$4,170 loss).

Foreign Exchange Sensitivity	2008	2008	2007	2007
	Equity	Post Tax P & L	Equity	Post Tax P & L
	\$'000	\$'000	\$'000	\$'000
	+ 10%	- 10%	+ 10%	- 10%
Foreign exchange rates gains / (losses)	(4,751)	5,807	(92)	113

Due to the immaterial nature of the foreign exchange exposures last financial year, hedge accounting treatment was not sought. Due to the material numbers this financial year the foreign exchange contracts were designated as cash flow hedges.

(iii) Price Risk

The consolidated entity is a generator in the National Electricity Market (NEM) and is subsequently exposed to price risk due to the movement in the electricity price. To manage its commodity price risk the consolidated entity utilises a range of electricity derivatives including fixed priced swaps, futures and options. The consolidated entity adheres strictly to trading limits that are maintained in the risk management policies and procedures, all trades are reported weekly to the ETRMC.

The following table outlines the impact of the increase / decrease of the forward price curve on the consolidated entity's pre-tax profit for the year and its impact on equity. The sensitivity analysis is based on reasonable possible changes in the electricity forward curve over a financial year. This data represents what is presented in monthly management reports to the Board. All other variables other than the electricity forward curve are held constant in the analysis.

Electricity Derivatives Fair Values Price Sensitivity

Electricity derivatives	2008	2008	2007	2007
	\$'000	\$'000	\$'000	\$'000
	+ / - \$5	+ / - \$10	+ / - \$5	+ / - \$10
Equity contracts	53,947	107,894	114,766	229,532
Other (through Income Statement)	990	1,979	1,301	2,601
	54,937	109,873	116,067	232,133

For the year ended 30th June, 2008

NOTE 25. FINANCIAL INSTRUMENTS (CONTINUED)**Fair Value**

The financial assets and financial liabilities of the consolidated entity are recorded at fair value except as disclosed in the following table:

	Carrying Amount 2008 \$'000	Fair Value 2008 \$'000	Carrying Amount 2007 \$'000	Fair Value 2007 \$'000
Parent Entity				
Semi-Government Bonds	374,077	368,158	294,866	289,992

The consolidated entity values its electricity derivative contracts as required under AASB139. The consolidated entity uses the Sydney Futures Exchange (SFE) as the basis of the Forward Price Curve (FPC) for the purpose of determining fair value. The electricity derivatives will incorporate the time value of money, by reference to the Reserve Bank of Australia Commonwealth Government bond rates. Option instruments will be valued using Financial Engineering Associates (FEA) option pricing models. The inputs to the FEA models will be estimated from a combination of historical and current market data using FEA utilities.

The consolidated entity uses TCorp as debt managers. TCorp uses derivatives, primarily interest rate futures, to establish short-term (tactical) and longer term (strategic) positions within agreed tolerance limits, in the management of the debt portfolio. TCorp determine the fair value of exchange traded futures by direct reference to the last settlement price at the balance date on the Sydney Futures Exchange.

The consolidated entity executes all instruments at fair value and therefore has no significant day one gains or losses on any financial instruments.

TCorp Futures Contracts

	2008 \$'000	2007 \$'000
Futures gains / (losses)	211	23

The futures gain or loss represents the unrealised gains / loss position recorded in interest expense.

The consolidated entity uses TCorp to transact all foreign exchange transactions and provide monthly valuations. The foreign currency transactions are initially translated into Australian currency at the rate of exchange at the date of the transaction. At year end, foreign currency monetary items are translated to Australian currency at the spot exchange rate current at that date. Cash flows are net present valued at the appropriate rate, currency and term for each contract. Bloomberg have confirmed the source of the exchange rate is the Bloomberg Composite Rate (CMP).

f) Hedge Accounting

The consolidated entity will seek to qualify forward foreign exchange contracts, and electricity derivative contracts as cash flow hedges with the movement of the hedging instrument to be recognised directly in equity. For those derivatives that do not qualify for hedge accounting the movement is recognised in the profit and loss. Any deferred gains or losses will be included in the measurement of the purchase or sale when it takes place. In the event of the early termination of a foreign currency hedge of an anticipated purchase or sale of goods and services, the deferred gains and losses that arose on the hedging instrument prior to its termination are: deferred and included in the measurement of the purchase or sale when it takes place, where the anticipated transaction is still expected to occur; or recognised in the income statement at the date of termination, if the anticipated transaction is no longer expected to occur.

When the consolidated entity enters into derivative contracts that have any optionality then these contracts do not qualify for hedge accounting and are fair valued and any movements are taken to the profit and loss.

The first table is the maturity structure of cash flow hedges. During the financial year there were no forecast transactions for which hedge accounting had previously been used, but which is no longer to occur. The second table is a reconciliation of the cash flow hedges equity movements for the year. There were no amounts recognised in profit and loss for any movements on cash flow hedges for the financial year.

For the year ended 30th June, 2008

Fair Value and Maturity Structure of Cash Flow Hedges As at 30 June 2008	Total \$'000	2008/09 \$'000	2009/10 \$'000	2010/11 \$'000	2011/12 \$'000
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NOTE 25. FINANCIAL INSTRUMENTS (CONTINUED)

Electricity derivatives	(119,377)	(88,946)	(27,787)	(2,645)	-
Foreign exchange	(16,400)	(3,846)	(7,185)	(5,111)	(259)
	(135,777)	(92,792)	(34,972)	(7,756)	(259)

Financial Year End 2007/08 AASB 139 Equity Reconciliation (Cash Flow Hedges)	Gross Amounts \$'000	Net of Tax \$'000
As at 1 July	(1,311,809)	(918,266)
a) Matured during period matched to P & L (electricity sales)	925,595	647,917
b) Mark to market movements in existing contracts (electricity sales)	266,837	186,786
c) Mark to market of newly written contracts (foreign exchange contracts)	(16,400)	(11,480)
As at 30 June	(135,777)	(95,044)

Note - the above positions are net of asset and liability positions

Fair Value and Maturity Structure of Cash Flow Hedges As at 30 June 2007	Total \$'000	2007/08 \$'000	2008/09 \$'000	2009/10 \$'000	2010/11 \$'000
Electricity derivatives	(1,311,809)	(925,595)	(338,691)	(46,736)	(788)
Foreign exchange	-	-	-	-	-
	(1,311,809)	(925,595)	(338,691)	(46,736)	(788)

Financial Year End 2006/07 AASB 139 Equity Reconciliation (Cash Flow Hedges)	Gross Amounts \$'000	Net of Tax \$'000
As at 1 July	(91,362)	(63,953)
a) Matured during period matched to P & L (electricity sales)	56,477	39,534
b) Mark to market movements in existing contracts (electricity sales)	(779,859)	(545,901)
c) Mark to market of newly written contracts (electricity sales)	(497,065)	(347,946)
As at 30 June	(1,311,809)	(918,266)

Note - the above positions are net of asset and liability positions

NOTE 26. RELATED PARTY DISCLOSURES**a) Directors and Director-Related Entities**

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

The Directors of Eraring Energy at financial year end were Mr RM Bunyon AM, Ms BA Hoskinson-Green, Dr MJ Vertigan AC, Mr M Nugent, Mr D Pritchard, Mr P Murray and Mr PG Jackson. All Directors were in office for the whole financial year.

For the year ended 30th June, 2008

	Consolidated		Parent Entity	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
NOTE 26. RELATED PARTY DISCLOSURES (CONTINUED)				
b) Key Management Personnel Remuneration				
Key management personnel includes Directors and members of the Executive.				
Short-term employee benefits	2,447	2,366	2,447	2,366
Post-employment benefits	191	180	191	180
Other long-term benefits	124	118	124	118
	2,762	2,664	2,762	2,664

No additional remuneration is paid to the Managing Director for being an Executive Director.

c) Related Party Transactions

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

	Expenses charged to related party	Interest paid to related party	Amounts owed to related party
	\$'000	\$'000	\$'000
2008	-	-	-
2007	-	16	383

NOTE 27. REMUNERATION TO EXTERNAL AUDITORS

	Consolidated		Parent Entity	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
Remuneration paid or payable for audit of the financial report	244	221	244	214

NOTE 28. EXEMPTIONS

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

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

For the year ended 30th June, 2008

NOTE 29 . EVENTS OCCURRING AFTER BALANCE DATE

Parent Entity

As at the end of August 2008, the negative mark to market of electricity and foreign exchange derivatives had reduced to \$71 million from negative \$138 million at 30th June 2008 (see Note 18) due mainly to the change in forward prices since balance date.

A capital repayment of \$130.6 million will be made to the Shareholder during 2008/09 in accordance with the agreed Statement of Corporate Intent.

Subsequent to year end, Eraring Energy formed two new subsidiaries. On 1 August 2008, following receipt of a Ministerial Direction issued under section 20P of the State Owned Corporations Act 1989 (NSW) and the approval of the voting shareholders under section 20Y of the State Owned Corporations Act 1989 (NSW), one of these subsidiaries acquired the electricity retailing operations of Integral Energy. Agreements to effect the integration arrangement between Eraring Energy and Integral Energy were made. On 1 September 2008, Eraring Energy received a policy instruction from NSW Treasury to terminate the integration arrangement with Integral Energy with effect from 1 August 2008. This places Eraring Energy in the position it would have been in had the arrangements not been executed. The other subsidiary has not commenced operations.

Pacific Western Pty Limited

On the 28th July 2008, Pacific Western Pty Limited was de-registered following voluntary liquidation.

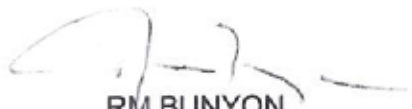
End of the financial statements audited by the Auditor-General

STATEMENT BY MEMBERS OF THE BOARD
FOR THE YEAR ENDED 30th JUNE 2008

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

1. The financial statements exhibit a true and fair view of the financial position, financial performance and cash flows of Eraring Energy as at 30 June 2008.
2. The financial statements are a general purpose financial report which has been prepared in accordance with applicable Australian Accounting Standards including Australian Accounting Interpretations, the provisions of the State Owned Corporations Act 1989, Part 3 of the Public Finance and Audit Act 1983, the Public Finance and Audit Regulation 2005 and Treasurer's Directions, except where the New South Wales Treasurer's exemption has been granted.
3. At the date of this statement, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
4. We are not aware of any circumstances at the date of this declaration that would render any particulars included in the financial report to be misleading or inaccurate.

Dated at Sydney this 16th day of September 2008.



RM BUNYON
CHAIRMAN



PG JACKSON
MANAGING DIRECTOR

For the year ended 30th June, 2008

GPO BOX 12
Sydney NSW 2001**INDEPENDENT AUDITOR'S REPORT****Eraring Energy and controlled entities**

To Members of the New South Wales Parliament

I have audited the accompanying financial report of Eraring Energy (the Corporation), and the Corporation and controlled entities (the consolidated entity), which comprises the balance sheet as at 30 June 2008, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. The consolidated entity comprises the Corporation and the entities it controlled at the year's end or from time to time during the financial year.

Auditor's Opinion

In my opinion, the financial report:

- presents fairly, in all material respects, the financial position of the Corporation and the consolidated entity as of 30 June 2008, and of their financial performance and their cash flows for the year then ended in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations)
- is in accordance with section 41B of the *Public Finance and Audit Act 1983* (the PF&A Act) and the Public Finance and Audit Regulation 2005
- also complies with International Financial Reporting Standards as disclosed in Note 1(b).

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

Significant uncertainty regarding the effect of changes in forecast cash flows

Without qualification to the opinion expressed above, I draw attention to Note 13 to the financial statements. The carrying value of the Corporation's power station equipment and buildings is determined using estimated discounted cash flows. These estimations are subject to volatility, particularly from the potential impacts of the Federal Government's proposed Carbon Pollution Reduction Scheme (the Scheme). The ultimate extent of the impact of the Scheme cannot presently be determined and this creates a significant uncertainty as to whether the estimated discounted cash flows referred to above will be realised.

Directors' Responsibility for the Financial Report

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

Auditor's Responsibility

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

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

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

My opinion does *not* provide assurance:

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

Independence

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

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



Peter Achterstraat
Auditor-General

16 September 2008
SYDNEY

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