

commitment experience success people environment professional safety growth market reliable

Annual Report 2006



Eraring energy

The Hon. Michael Costa MLC
Treasurer

The Hon. John Della Bosca MLC
Minister for Commerce

Level 33
1 Farrer Place
Governor Macquarie Tower
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 2006.

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.



Ross Bunyon
Chairman



Peter Jackson
Managing Director

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Eraring Energy is a state-owned corporation (SOC) established on 2nd 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 10 power stations, with total capacity of over 3,000 Megawatts (MW), with Eraring Power Station being the largest at 2,640MW. Eraring Energy supplies approximately 8% of the energy requirement of the National Electricity Market.



Generating Asset	Unit(s) size	Capacity (MW)	Fuel Source
Eraring Power Station	4 x 660MW	2,640	Black Coal
Shoalhaven Scheme – Bendeela Station	2 x 40MW	80	Hydro/Pumped Storage
Shoalhaven Scheme – Kangaroo Valley Station	2 x 80MW	160	Hydro/Pumped Storage
Hume Power Station	2 x 29MW	58	Hydro
Warragamba Power Station	1 x 50MW	50	Hydro
Burrinjuck Power Station	1 x 16MW 2 x 6MW	28	Hydro
Keepit Power Station	1 x 6MW	7	Hydro
Brown Mountain Power Station	2 x 1MW 2 x 0.75MW 1 x 0.5MW	4	Hydro
Blayney Wind Farm	15 x 660KW	10	Wind
Crookwell Wind Farm	8 x 600KW	5	Wind

OBJECTIVES

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

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

Each of the principal objectives is of equal importance.

VISION

By developing and growing its people, Eraring Energy will become the leading Electricity Company in Australia.

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

- **People Development and Growth**
Eraring Energy's key pillars of, shaping our culture, developing our people, and rewarding and recognising our people, 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.
- **Innovation and Leading Industry Development**
We will take a position of innovation leadership in all areas of our business. This includes being recognised as key influencers in the development of the regulatory environment; developing an innovative portfolio of trading products that maximises commercial return within board approved risk management policy; and focus on risk balanced, operational cost management.

■ Greenhouse Response

In response to ongoing community, Government and regulatory debate, Eraring Energy has committed to taking a leadership role in reducing CO₂, including operating and trading its existing renewable assets to maximum benefit.

■ Community and the Environment

Eraring Energy will seek to be regarded as a positive industry leader by our local communities. In particular, we will seek to demonstrate our commitment by taking a leading position on practical responses to our impact on the environment.

NON-EXECUTIVE DIRECTORS

Ross Bunyon
Chairman and Director

BComm (UNSW), CIE Aust.
Director

Appointed 21 July 2000 continuing
with reappointment to 30 June 2006

Reappointed 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

John Maitland
Director

National Secretary, Construction,
Forestry, Mining and Energy Union

Appointed 21 July 2000 to
22 March 2006

Michael Nugent
Director

F CPA

Director

Appointed 1 July 2001 continuing
with reappointment to 30 June 2007

Dean Pritchard
Director

BE, FIE Aust, CP Eng, FAICD

Director

Appointed 22 August 2001 continuing
with reappointment to 30 June 2007

Michael Vertigan
Director

AC, BEc (Hons) Tasmania, PhD
California, FAICD

Director/Consultant

Appointed 21 July 2000 continuing
with reappointment to 30 June 2008

EXECUTIVE DIRECTOR

Gerry Grove-White
Managing Director

BSc (MechEngr) Hons,
Chartered Engineer MI MechE,
Cert Diploma in Accountancy
and Finance

Appointed Managing Director
2 January 2001
Resigned 23 June 2006

Peter Jackson
Managing Director

BSc, BE, MEM, GAICD

Acting from 24 June 2006
Appointed 11 September 2006

Rochelle Reynolds
Company Secretary

LLB, BCom, Grad Dip CSP

Appointed Company Secretary
1 October 2004

Eraring Energy has posted another record performance. This year's result surpasses last year's record which means the organisation has posted a profit increase every year since its inception in 2000.

Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) were \$182.4 million, which was some 30% above budget and consolidated robust performance results from 2005. Across a range of financial measures, Eraring Energy's position continues to strengthen.

The commendable performance history of Eraring Energy is a direct result of the quality of our people at all levels and outstanding leadership from the senior executive team. At the head of this team from our inception has been Managing Director, Gerry Grove-White, who resigned at the end of the current reporting period to take up a senior energy position on the sub continent.

On behalf of our shareholder and all Eraring Energy people I wish him every success and happiness in his new position and thank him for his commitment to making Eraring Energy a leading and world class energy services company. It is a tribute to Gerry's leadership, management skills and indeed his humanity that he leaves in place a management team that has the capability to maintain the pace of achievement and success across all facets of the business.

In a similar vein I would like to acknowledge the retirement of foundation Director John Maitland whose knowledge, experience and wise counsel have contributed markedly to the success of this organisation.

Aside from the very strong bottom line a highlight of the year was the successful completion of the modernisation of the Eraring Power Station control room systems, which has spanned two reporting periods. This project has been implemented without any incidents or problems, a major achievement given the size and complexity of the undertaking.

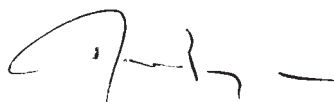
Approval was sought from the Department of Planning during the year for a significant extension of the Eraring power station ash dam and a new gas turbine generator was purchased to provide 'black start' capability for northern and central New South Wales.

Intensive feasibility studies and planning commenced for the upgrade of all four Eraring Power Station generating units to 750MW each.

On the other side of the ledger it is necessary to note that our safety performance figures for the year do not necessarily reflect the enormous effort and investment the organisation has made in totally eliminating work place injuries.

There can be no question the organisation's attitude to safety is among best of class and that we have built a culture where work safety is the paramount consideration in any operation. Nonetheless the Board is resolute in its determination to ensure our people at every level continue to be empowered to take whatever initiatives are necessary to realise our goal of a zero injury work place. Anything less is second best and not acceptable.

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



Ross Bunyon
Chairman

Recording our fifth consecutive profit increase is a result of which all Eraring Energy people can be proud.

It is worth noting that this record result was posted against the background of a very high workload of our main asset, Eraring Power Station, due to an extensive planned outage schedule. This was a necessary part of the installation of a new state of the art control room infrastructure. It is one of the most significant upgrade projects in the station's history and has delivered a range of operational efficiencies. All four units are now controlled from the one centralised control room via screen based controls.

The fact that this project was delivered on time and within budget, and satisfied our very demanding quality criteria, is a credit to everyone associated with the project, both from within the organisation and our external contractors.

The outage program also delivered an increased overload capability to 700MW, significantly enhancing Eraring Energy's capability and flexibility in the market.

It is pleasing to note that this year's hydro output was well up on last year, particularly from Hume and Burrinjuck, despite the continuation of the drought. Our Shoalhaven Scheme also made a major contribution to maintaining Sydney's water supply by regular pumping of water from Tallowa Dam into the Sydney water supply system. Also, a new unit at Brown Mountain hydro station was commissioned, which will assist the regulation of water flows to Bega Valley farmers.

In the area of work practices and safety the organisation has adopted the recommendations of the Eraring Best Practice Working Group into plant isolation and the Eraring Occupational Health and Safety Committee continued to be both energetic and professional in instilling a pro-active approach to the issue of work place safety.

I believe it is fair to say this year's safety numbers even with a third reduction in lost time injuries do not give a true indication of the tremendous gains that have been made in this vital area. It is one that will always be the first priority of the organisation and one to which yet further resources will be allocated in the quest to achieve, and then maintain, our goal zero injuries.

There has been excellent progress towards delivering the vision of industry leadership through the growth and development of our people. 25% of staff have now participated in the Eraring "Leaders Program" which continues to be rated as a very positive learning experience by participants.

The succession plan now includes a comprehensive program of apprenticeships, traineeships, operator training programs and personal development plans to ensure Eraring Energy is well positioned for the increasing retirement rate of staff.

On the energy trading front the Eraring Energy team, which enjoys a reputation as market leaders, had another successful year, capitalising on opportunities presented in the market. They also made a valuable contribution to the ongoing development of the regulatory framework both for the market and, potentially for emissions trading. In respect of the latter Eraring Energy placed a contract for 1000 hectares of Mallee Gum planting to act as a carbon sink.

At the community level the Eraring Energy Community Forum continued to provide a vehicle for a meaningful dialogue with the power stations host communities and I am pleased to report that it is now also chaired by a community representative.

Finally, thank you and congratulations to our people for a job well done, again.



Peter Jackson
Managing Director

Eraring Energy has posted another record performance. This year's result surpasses last year's record which means the organisation has posted a profit increase every year since its inception in 2000.

- > Increased EBITDA of \$182.4 million – fifth consecutive year of growth
- > Return on equity was approximately 11% – up on last year
- > Strong energy trading result with electricity sales revenue up 8.8%
- > Successfully completed the final stage of a major multi-year program to upgrade the unit control systems at Eraring Power Station
- > Overload capacity of three units upgraded from 680 to 700MW with remaining unit scheduled for first half of 2007
- > Eraring Energy's Shoalhaven Hydro Scheme contributed significantly to Sydney water supply by regularly pumping water from Tallowa Dam into the Sydney water supply system
- > A new 4.2MW unit commissioned at the Brown Mountain Hydro Station
- > Commenced feasibility study into major project to upgrade all units at Eraring Power Station to 750MW capacity

Economic Performance

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

FINANCIAL OVERVIEW

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

Continued improvement in financial performance stands out from an impressive list of highlights for the year. Eraring Energy delivered an increasing Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) of \$182.4 million, with an excellent return of \$102.7 million to our Shareholders. Successful financial performance is essential to a sustainable future for Eraring Energy and contributes to the State Government's capacity to provide public services and social programs to the people of New South Wales.

The introduction of Australian Equivalent to International Financial Reporting Standards (AEIFRS) has had a major impact on Eraring Energy's balance sheet from transitional accounting adjustments on 1 July 2005 and on the 2005/06 operating result.

Capital Expenditure

Eraring Energy's capital program relates to the upgrade and refurbishment of existing assets to provide improved efficiency and availability, reduced future operating and maintenance costs and some minor capacity increase.

Group Financial Performance Indicators

		01/02	02/03	03/04	04/05	05/06
Electricity Sales	\$m	473.6	535.5	548.9	578.4	629.8
EBITDA from normal operations	\$m	97.9	110.1	157.2	181.4	182.4
Normal Profit Before Tax [#]	\$m	59.6	67.2	87.0	107.1	97.1
Capital Expenditure	\$m	21.7	21.5	33.0	44.5	36.3
Financial Distributions*	\$m	50.1	56.4	94.0	121.3	102.7
Return on Equity	%	2.9	3.7	6.1	6.9	11.0
Return on Assets	%	4.2	4.7	7.3	8.0	7.1

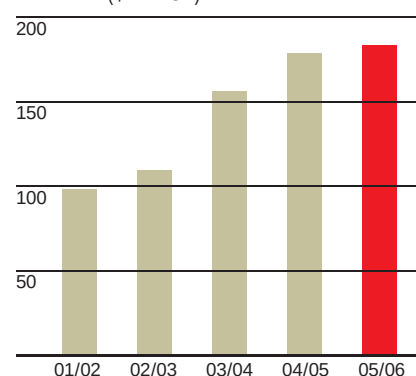
[#] Excludes fair value movements in electricity derivatives, superannuation and insurance provision movements.

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

Major projects include:

- Black Start Gas Turbine purchase that will enable a restart of the existing 660MW units in a "system black" situation. The gas turbine is due to be operational towards the end of next financial year.
- Integrated Controls and Monitoring System (ICMS). Eraring Energy has completed the replacement of ICMS on all four of its Eraring Power Station Units, with one system replacement occurring in 2005/06 financial year.
- Installation of an additional 4MW micro-hydro unit at Brown Mountain coinciding with the retirement of some smaller units.

EBITDA (\$ Million)



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

Eraring Energy achieved an EBITDA of \$182.4 million, representing an increase of \$1 million on the previous years' result.

Revenue

Sales revenue from ordinary activities of \$630 million was 8.8% higher than in the previous year, being predominantly driven by improved contract sales prices and supported by spot sales revenue on a small number of peak trading days.

Insurance Provision

Reduction to the provision and increase to profit of \$28.0 million due mainly to actuary assessed future claims experience and removal of prudential margins.

Superannuation

Actuarial assessments resulted in a reduction to net liabilities and increase to profit of \$23.4 million mainly due to fund earnings and an increase to the Government bond rate.

Depreciation and Amortisation

Depreciation and amortisation increase of \$14.6 million or 21.0% was driven by an increased capital program in recent years, a reassessment of Eraring Power Station asset lives and revaluations of non-current assets at 30 June 2005.

Impact of Australian Equivalent to International Financial Reporting Standards (AEIFRS)

Initial accounting adjustments on 1 July 2005 under AEIFRS resulted in a negative impact on the balance sheet of \$263 million. The major impacts resulted from:

- Bringing to account the market value of all financial instruments;
- De-recognition of future insurance recoveries;
- Increased superannuation liabilities due to the adoption of a government bond rate rather than the fund earnings rate to discount to present value future liabilities; and
- Income tax effect entries on the above together with balance sheet movements.

Debt Management

In 2005/06 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 2006, Eraring Energy had total debt of \$212 million (market value) with approved facilities in place of \$472 million.

Shareholder Return

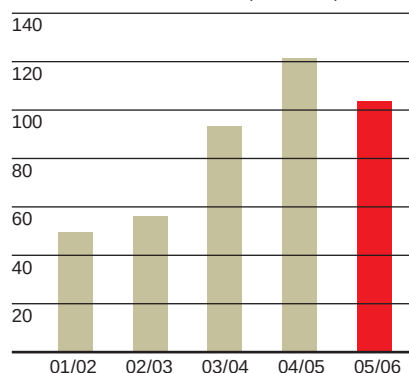
Eraring Energy is committed to delivering sustainable and reliable returns to its Shareholder, the NSW Government. The share dividend scheme requires financial distributions of 100% of pre-tax profits from underlying operations plus or minus superannuation movements and community service obligations. The distribution excludes non-cash fair value electricity derivatives and insurance provision movements for dust diseases. For 2005/06, the actuarial assessed superannuation movements were excluded.

Total financial distributions to Shareholders includes dividend, tax equivalent and loan guarantee payments. In addition a return of equity payment of \$49 million was made to the Shareholders.

Controlled Entities

Pacific Western Pty Limited is a wholly owned subsidiary of Eraring Energy. The Pacific Western contract for the operation and maintenance of Collie Power Station was terminated on 24 March 2005. Western Power has claimed costs for the early termination of the contract which Pacific Western is disputing. The matter is currently being litigated in the Supreme Court of Western Australia. (Operations of the Company have been included in the Financial Statements forming part of the Annual Report.)

Financial Distribution (\$ Million)



Departures from Financial SCI Targets

Eraring Energy exceeded all financial targets agreed with Government in the 2005/06 Statement of Corporate Intent (SCI). The targets excluded the impacts of fair value electricity derivative movements. The major explanations for the out-performance relate to:

- Higher average realised sales prices driven by an improving contract book and a small number of price spikes;
- Lower financing costs due to lower debt levels which resulted mainly from better gross margin performance and lower capital and operating expenditure;
- Positive actuarial adjustments for the insurance provision for dust diseases and defined benefit superannuation schemes; and
- Lower operating materials and expenses due to delays to certain projects and cost containment.

ENERGY TRADING

Strong Trading Performance

Energy Trading is a core business activity of Eraring Energy that produces the majority of the organisation's income. Hence, the profitability of the organisation is very strongly dependent on Energy Trading's performance.

The Energy Trading team's "front office" manages the organisation's contract portfolio in the electricity derivatives market, daily bidding and rebidding in the spot electricity and ancillary services markets in the National Electricity Market, and manages coal contracts including procurement and deliveries. The "middle office" manages energy trading risk, forecasting and modelling, business operations and information technology systems for energy trading, and market development issues.

Energy Trading achieved another very successful trading performance, in a very competitive market for generators, with record import from Queensland, and the added constraint imposed by having a major unit outage for control system upgrade.

Effective Electricity Derivatives Performance and Counterparty Relationship Management Strategies
Derivative contracts provide revenue certainty to the organisation and this is used widely to hedge Eraring Energy's generation output. Derivative contracts are traded under ISDA Master Agreements that have been executed with a wide range of market participants. The Electricity Derivative team has a strong business relationship with most counterparties and brokers that are active in this market.

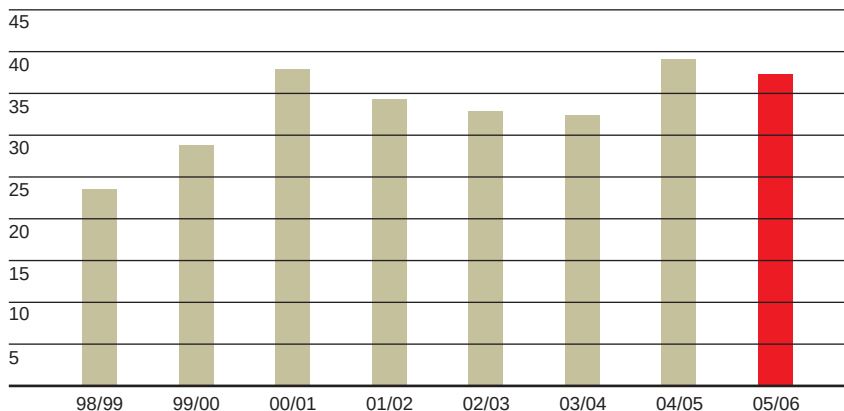
In order to minimise risks from derivative transactions, regulatory risk and risk of inability to send out energy, are two important issues that continue to be promulgated with trading counterparties with the view to incorporating premiums for carrying such risks or of passing through such risks.

Spot Trading

The average spot price in the NEM showed a small decline compared to the record price achieved last year.

Compared with other markets, the electricity market is unique in that there is a need to balance supply and demand at each instant in time. The variations in demand due to weather, or in supply due to unplanned unit outages or transmission constraints, compounded by the bidding profile of generators, contribute to the significant price volatility that is a feature of the electricity spot market.

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



Fuel Cost Containment

Fuel delivery and stockpile management is an important aspect that is continually monitored and managed to maintain stockpile within Board approved limits. This is a challenging task, being subject to external events such as production issues at the mines and generation levels subject to vagaries of the spot market.

Strong Risk Management Framework

With the risks inherent in any derivative trading activity, risk management principles govern the Energy Trading activities at Eraring Energy. There continues to be a rigorous energy trading risk management framework in place, incorporating the Energy Trading Risk Management Committee with the oversight of all key Energy Trading risk issues. As well, the Energy Trading Risk Management Policy was reviewed during the year and approved by the Board. External audit reviews of various elements of risk management continue to give a very high rating in this area.

Regulatory Compliance

Eraring Energy fosters a strong compliance culture in the organisation. Training or refresher training in Trade Practices and Corporations laws are undertaken routinely. There was a major review of compliance with the National Electricity Rules (Rules) that culminated in development of work practices to minimise risk of breaches to the Rules. In particular, there was much detailed attention given to the process of rebidding activity in order to ensure compliance with the Rules in this area.

Eraring Energy obtained its Australian Financial Services Licence on 1 July 2005 and this was the first year of operation under the new licensing regime.

Changing Market Structure

Following the commissioning of Bass Link (an undersea DC link) connecting Tasmania and mainland, Tasmania has now been fully integrated in the National Electricity Market.

This was also the first full year of operation under the new National Electricity Rules (replacing the old National Electricity Code). These new Rules have force of law and now carry substantial penalties for certain breaches.

In addition, there is an increased focus on technical compliance by generators in order to ensure that generators can meet appropriate technical standards to minimise risk of blackout. The dispatch non-conformance regime has been tightened with automation of alarms and notices of non-conformance.

Further to these major changes, there continues to be a number of issues before the Ministerial Council of Energy (MCE) and Council of Australian Governments (COAG) to further the market reform process to improve efficiency and transparency in the market.

PRODUCTION

Eraring Energy manages a diverse set of generating assets located throughout NSW. The capacity of these facilities ranges from the 2,640MW coal fired Eraring Power Station on Lake Macquarie, down to the newly commissioned 4MW Brown Mountain Hydro Power Station near Bega. Their combined generating capacity is 3,042MW. These power stations produce electricity from energy supplied by coal combustion, wind, water catchment schemes and pumped water storage.

Coal Supplies

Eraring Power Station receives black coal supplies by road, rail and overland conveyors from local and distant coal mines. A total of 5,814,641 tonnes was delivered with consumption amounting to 5,773,001 tonnes in 2005/06.

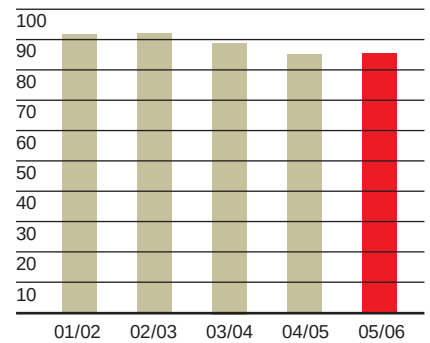
2005/2006 Operational Performance

Hydro and Wind	335GWh
Eraring Power Station	14,216GWh
Capacity Factor	61.5%
Availability Factor	86.9%
Equivalent Forced Outage Factor	3.03%
Output Factor	70.6%
Thermal Efficiency Generated	37.9%
Unit Trips	10
Coal Consumed	5773kT

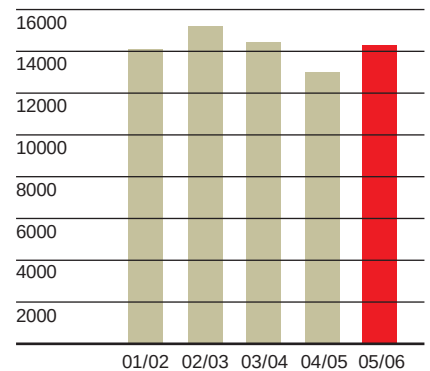
Performance

Eraring Energy generated a total of 14,551GWh of electrical energy for the year ending 30 June 2006, which was a 12% increase from the previous year. Eraring Power Station recorded an availability factor of 86.9% compared to a target of 88.2%. This below target availability was affected by an Equivalent Forced Outage Factor (EFOF) of 3.03% compared to a target of 2.0%. Plant improvement projects that will increase thermal efficiency and reduce environmental impact will continue to be investigated at Eraring Power Station for implementation.

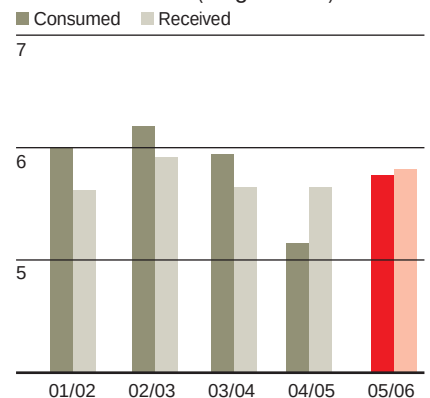
Availability (%)



Energy Generated (GWh)



Coal Consumed (Megatonnes)



Hydro and Wind Generation (MWh)

	00/01	01/02	02/03	03/04	04/05	05/06
Hydro						
Brown Mountain	9,496	17,006	2,609	3,855	2,320	5,759
Burrinjuck	–	2,421	20,763	12,940	27,267	36,000
Hume	259,295	174,007	87,524	146,643	149,290	208,495
Keepit	9,143	13,786	15,339	1,011	4,348	6,600
Shoalhaven	99,470	60,136	46,609	5,706	18,537	52,089
Warragamba	–	–	–	–	–	–
Subtotal (Hydro)	377,404	267,356	172,844	170,155	201,762	308,943
Wind						
Blayney Wind Farm	14,511	19,854	22,507	19,652	19,669	18,519
Crookwell Wind Farm	8,631	7,923	8,527	7,582	8,214	7,444
Subtotal (Wind)	23,142	27,777	31,034	27,234	27,883	25,963

Hydro and Wind Power Stations

Improved storage levels within our Hydro facilities resulted in increased generation to that of recent years. The start reliability of Shoalhaven continued to be world class with 97.8% reliability throughout the year. As a pump storage operation, the Shoalhaven Scheme continued to provide supplementary water to the Sydney water supply system. 145,323 ML of water were transferred in the 2005/06 financial year.

The upgrade project at Brown Mountain was successfully completed with the new 4.2MW hydro plant coming on line in February 2006. Wind farms at Blayney and Crookwell continued to generate green energy with 25,963MWh being produced.

Wind Farm	Availability
Blayney	88%
Crookwell	89%

Brown Mountain

The \$5.8 million upgrade of Brown Mountain hydro power station has been completed. The new 4.2MW hydro electric unit was available for local operation in February 2006 with the remaining parts of the upgrade being completed in May 2006. The new unit exceeded its capability during performance testing. An existing 0.75MW unit (Unit 3) has been fully automated and now has the ability to generate power from either Rutherford Creek Weir or Cochrane Dam.

The 33kV switchyard was decommissioned as a result of the project. Additional work was carried out to remove the redundant transformers from both the 33kV and existing 66kV switchyards. The completion of the new 66kV switchyard also allowed the existing 66kV switchyard at Brown Mountain to be transferred to Country Energy.

The new screen based control system provides fail safe operation to both units. There is also the capability to monitor and operate the station from a remote location. Both units have various modes of control operation including timed start/stop operation.

Building Value in Assets

Completion of ICMS Upgrade

Eraring Energy's control system upgrade project was completed during the 2005/06 financial year. The original analog control system on the last unit, Unit 3, was replaced with the latest generation Yokogawa Centum CS 3000 Integrated Control and Monitoring System (ICMS). All units upgraded with the ICMS have provided improvements in market response, thermal efficiency, availability and reliability. Unit 3 was de-synchronised on Friday, 30 September 2005 and contract works were conducted for a period of ten weeks. ICMS commissioning carried through to the end of January 2006, enabling full commercial operation. This unit was synchronised for the first time on Tuesday, 13 December 2005. During the course of the outage, substantial work was performed on the main turbine, boiler, condensers, and the unit control system. Main turbine HP and LP rotors were removed for inspection and partial blade replacement. Main condenser tubes underwent eddy-current testing to identify the most corroded tubes which were subsequently replaced. ICMS upgrade included the replacement of 17 Field Control Stations and the commissioning of 10,000 plant field inputs. These Field Control Stations process the control and indication signals between the control room and the individual plant field devices. Coal Plant along with Ash and Dust operation will be converted to be operational with the new Centum CS 3000 Integrated Control and Monitoring System (ICMS). This will be completed by the end of 2006.

Unit 1 was de-synchronised on Wednesday, 31 August 2005 to commence the high pressure turbine inner casing replacement outage and was resynchronised on Friday, 21 October 2005. Inspections of boiler, fans, heaters, circulating water pipework and associated turbine plant were carried out with repairs where necessary.

Black Start Gas Turbine Generator

In April 2006 the Board approved the purchase of a refurbished 40MW black start gas turbine generator. The unit will be shipped to Eraring Power Station in early 2007 and will be commissioned in July that year. Once operational the unit will be fuelled by distillate oil from the station's existing fuel tanks, but will also be capable of using natural gas or coal mine methane if sufficient quantities are available. The unit will permit restart of Eraring Power Station units in the event of loss of the NSW power system, and earn NEMMCO contract revenue for station black start capability. Though of relatively small capacity, the unit will also provide significant additional station security in periods where electricity supply is in shortfall. The Department of Planning approval process for the project is expected to be complete by September 2006.

The fire protection system at the Eraring Power Station has been upgraded with approximately 60 CCTV cameras now installed.

Future challenges

Ash Dam Extension

The planning process for the extension of the Eraring Power Station ash dam commenced during the beginning of the reporting period. This culminated in the public exhibition of the environmental assessment process in May 2006. Design work on the new plant system and negotiations to purchase the additional land required have continued in parallel to the statutory process. A dense phase pumping system has been selected as the best method of ash disposal. All approvals for the project are expected to be gained before the end of 2006 with the plant scheduled to commence operation in the first half of 2008.

Generating Unit Upgrade

Feasibility studies were commenced at the end of 2005 into the viability of upgrading the 4 x 660MW generating units at Eraring Power Station to 4 x 750MW. These studies are expected to be completed by late 2006. If the project is viable, a Development Consent will be sought to allow letting of contracts by mid 2007. This will allow sufficient manufacture and delivery times for new major components such as turbine rotors. It is expected that the upgrade will occur over a three year period from the beginning of 2009 to the end of 2011.

Environmental Performance



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 environmental policy.

It is important that Eraring Energy manage and operate its assets in an environmentally responsible manner while delivering an essential service to the people of New South Wales.

Industry leadership in Environmental Management is a key objective for Eraring Energy. The organisation's approach is based on processes of continual improvement by integrating our Environmental Management System compliant to ISO14001:2004 with our business planning cycle.

Incidents & complaints

There were three externally reportable incidents in 2005:

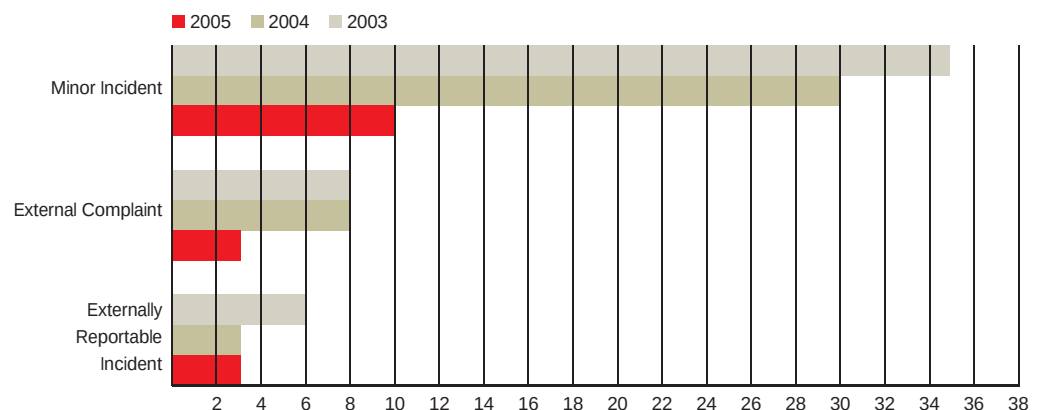
- In April 2005, during a routine inspection, an elevated number of Taprogge balls (small foam balls used to clean the inside of the power stations condensers) were collected along the foreshore of Myuna Bay. An investigation by Eraring Energy's environmental team resulted in the implementation of a number of initiatives to prevent further escape of this material. Subsequent routine inspections have confirmed these improvements have been successful.
- In May 2005 a breach of the Water Management Licence occurred at Shoalhaven when pumping of water was carried out following an elevated Blue Green Algae result at Bendeela camping area sampling location. The incident occurred due to anomalies with the versions of the Sydney Catchment Authority (SCA) and Eraring Energy licences

regarding the inclusion of this sampling location. Pumping ceased immediately Eraring Energy was aware of the conditions. Samples taken in the following days were within licence limits confirming there was no environmental harm as a result of this incident.

- In July 2005 a high oil in water reading was obtained for the transformer yard sump licence discharge point at Hume Power Station. The sampler did not observe any free oil in the sample which would be expected at the reported level. Samples taken since this time have been low and there had been no incidents of oil loss or machinery refills which could account for the elevated reading.

There were also three complaints received in 2005. Two referred to noise generated from work during an outage at Eraring Power Station and the third related to the Myuna Bay incident outlined above.

Incidents and Complaints



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

ISO14001 Accreditation

In 2005/06 Eraring Energy successfully managed an upgrading of the Environmental Management System (EMS) for the organisation to ISO14001:2004. Organisations certified to the previous ISO14001:1996 standard were required to update to the new standard by 15 May 2006 to maintain their certified status.

Organisations are required to demonstrate continual environmental improvements as part of their ISO 14001 certification. In order to meet this obligation, Eraring Energy has developed an EMS database that contains a register of the environmental risks associated with the organisations operations.

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

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

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

Through a process of continual improvement the EMS database has been expanded to:

- Include reviews of environmental risks and implementation of projects to manage assessed risks;
- Focus on potential impacts of new legislation and compliance; and
- Strengthen the audit timetable to include internal audit reviews.

Auditing

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

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

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

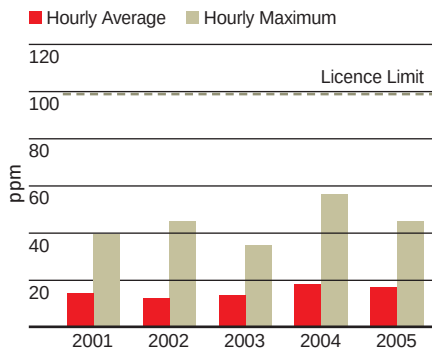
Significant Environmental Issues and Achievements

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

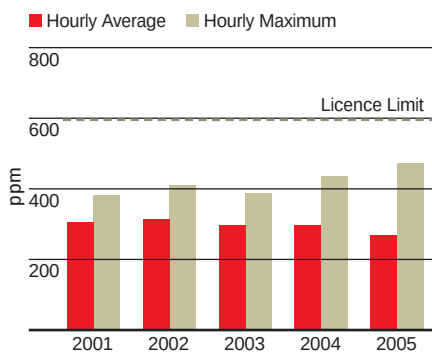
- Ash dam extension;
- 750MW upgrade;
- Black start gas turbine; and
- Contaminated water system upgrade.

The first three projects are detailed in other areas of this report. The contaminated water system has had some significant modifications in 2005/06 and future work is planned for 2006/07. These modifications are designed to improve the capability of the contaminated water system to cope with large rainfall storm events.

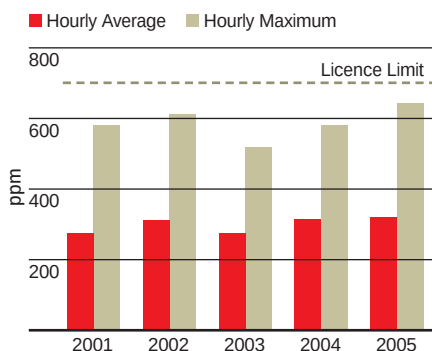
Particulate Emissions



SO₂ Emissions



NO_x Emissions



Emissions to air

In the 2005 licence reporting period, all air emissions from Eraring Power Station were below the limits specified in the Environment Protection Licence. Emissions of carbon dioxide and sulphur dioxide were lower in 2005 than in the previous two years, while nitrogen oxides and particulate emissions were slightly higher on an hourly average basis.

Training

Eraring Power Station has developed 15 individual competency based environmental training modules. Each employee receives training in nominated modules relevant to their position and responsibility. To date more than 85% of employees have received environmental training.

Land Management

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

The plan has been developed in accordance with legislation, and policies to manage environmental issues in areas of biodiversity (flora and fauna), heritage, weeds, feral animals, bush fire, the ash dam and environmental remediation.

A weed management plan for Brown Mountain will be implemented in late 2006 and will identify species and proposed schedule of works.

Biodiversity

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

A number of programs were undertaken in 2005/06 to eradicate feral pests at Eraring Power Station which included:

- Rabbit baiting;
- Indian Myna trapping; and
- Wild dog baiting.

Each of these programs were undertaken by licensed contractors using approved methods and poisons. In all cases this work is undertaken in the most humane means possible.

Weeds

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

- Pampas grass eradication at the ash dam;
- Lantana removal; and
- Weed spraying.

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

Bushfire Management

A Bushfire Management Plan which has been in operation since 2003 at Eraring Power Station expired in June 2006. A new plan is being developed in 2006 with community consultation and input. The plan will describe a schedule of activities to be performed which include:

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

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

A schedule for controlled burns for the latter part of 2006 has been submitted to the Rural Fire Service for their approval.

Heritage Management

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

- Brown Mountain has been 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 the organisation, from purchasing through to disposal.

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

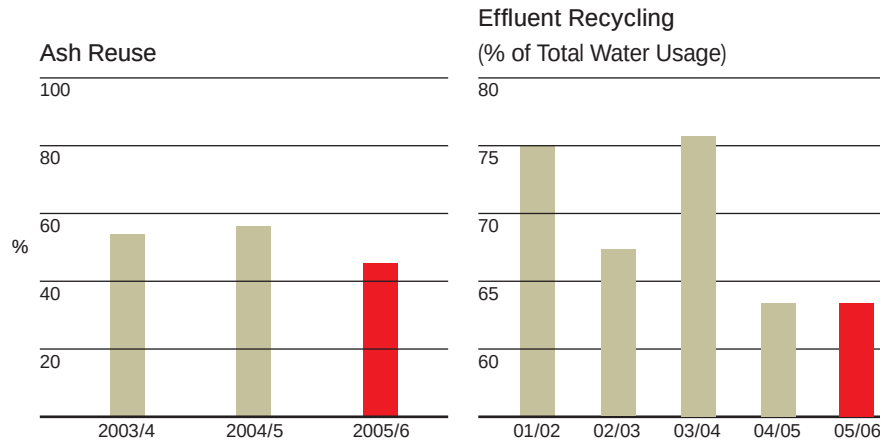
Initiatives undertaken by Eraring Energy include:

- Ash reuse;
- Effluent reuse;
- Batteries disposed in an environmentally safe manner;
- Toner cartridge recycling;
- Paper recycling;
- Aluminium can recycling; and
- Metals recycling.

In the past year worm farms have been introduced at the canteen to reduce the level of organic waste that would normally be placed into landfill.

The WMC Committee is investigating ways of recycling oil that is used at the power station. Currently this oil is sent to a recycling agent who sells it as furnace fuel.

The WRAPP return was completed and submitted to Resource NSW in September 2005.



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 2005/06, 595,000 tonnes of ash from Eraring Power Station was reused, which represents 44.5% of the ash produced.

Ash reuse decreased in 2005/06 due to decreasing demand in the construction industry.

Eraring Energy is a member of the Ash Development Association of Australia (ADAA), which is an organisation that investigates potential market opportunities and technologies for ash reuse.

Effluent

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

Reclaimed water provides the majority of the station's water needs and in 2005/06, 63% of the station water usage was reclaimed water. The power station uses around four million litres of water every day, so the use of recycled effluent saves precious water resources for other consumers.

Environmental Products

Eraring Energy created 26,925 Renewable Energy Certificates (REC) in the calendar year 2005, and surrendered 6,175 RECs for its obligations. The remaining RECs were transferred to trading counterparties under the relevant contract obligations.

Eraring Energy created 72,120 Greenhouse Gas Abatement Certificates (GAC) in the calendar year 2005 from improvement in plant efficiency at Eraring Power Station. In addition it acquired 47,300 GACs from carbon sequestration.

Social Performance

Strong commitment of Eraring Energy people to safety in the workplace. Continued focus on growth and development of people. Active contributor to regional communities throughout NSW.

PEOPLE

Progress towards delivering the vision of industry leadership through the growth and development of our people has progressed through three main areas:

1. Shaping our Culture

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

Achievements Include:

- Our third Culture Survey in five years provided further confirmation of what we are doing well and the areas which require further attention. Actions resulting from the survey include making improvements to communication and information sharing mechanisms through consultative committees, our employee newsletter "Connections", and various feedback and information sessions and updates. Accessible information for staff on workforce and succession planning and development opportunities have also been improved.
- A number of employees from all classifications and levels within the organisation have volunteered to benchmark Eraring Energy against best practice within Australia and overseas. Following these exercises, employees have been the advocates for implementing change and innovative solutions that align with Eraring Energy's culture and values.
- As anticipated retirements have begun to increase so has internal and external recruitment activity. As a result promotions and opportunities for growth and development are higher than ever before. The significant number of applications we continue to receive

for some of our externally advertised positions provides an indication that Eraring Energy is an attractive employment option.

2. Developing our People

To further enhance the processes to 'develop and grow' employees, considerable work has been done in developing a Competency Model for the organisation. The competency model will assist in aligning learning into the business by establishing the competencies required by each role, and providing a consistent framework on which to base personal development, training and development, workforce and succession planning, and recruitment processes.

Achievements include:

- An increase in the number of teams participating in Team Development days and positive feedback on the benefits realised;
- An increase in the number of internally trained OH&S auditors;
- Over 25% of employees from all areas, levels and locations have now participated in our custom designed Leaders Program. The program has been externally aligned to a Diploma of Business and participants can be assessed for this qualification after completing the Leaders program;
- Over 50 employees have completed the in-house Certificate IV Frontline Management Program since its introduction 4 years ago;
- Our Achievement Through People Program continues to provide individually tailored coaching and mentoring in addition to facilitated group workshops;
- We have record numbers of people undertaking tertiary studies which Eraring Energy supports with course fee reimbursement, study and examination leave;

- The number of participants in our apprenticeship, engineering scholarships and administration traineeship programs continue to grow as we plan and prepare for current and future entry level opportunities;
- Technical, safety and personal development training continued with employees participating in training related to occupational health and safety, environment, power station operations and PC applications;
- Programs for new Assistant Power Plant Operators, new Assistant Coal Plant Operators and acting Team Leaders have been completed during the period to facilitate workforce planning and succession plans; and
- Motor vehicle and motor cycle driver awareness, emergency co-ordination, incident management and power plant familiarisation training are examples of training offered during the period.

3. Reward & Recognition

Eraring Energy has implemented reward and recognition systems at organisation, team and individual levels that encourage excellence in contributing to the business.

A milestone achieved during the year was the Employees Consent Award being renegotiated for a three year period.

Initiatives promoted and supported during the year include the introduction of specific team budgets for reward and recognition celebrations and the availability of team building events.

Additionally, established initiatives such as the length of service awards, community and charity support schemes, voucher schemes and an annual corporate gift from the Board continue to be well received.

At the close of the reporting period 2005/06 staff numbers were 379.5 Full Time Equivalent (FTE), compared to 368 (FTE) at the close of 2004/05.

Code of Conduct

The Eraring Energy Code of Conduct objectives are to ensure:

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

Disability Action Plan

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

Ethnic Affairs Priority Statement

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

During the period a review was undertaken of the profile of communities in the Lake Macquarie local Government area relating to the planning and environmental assessment of a proposed upgrade to Eraring Power Station. The review resulted in contact with the Aboriginal Lands Council and subsequent consultation with local aboriginal community representatives.

A revision of the Eraring Energy Induction video commenced during the period. The review process will include possible expansion of voice over languages depending on need.

A review of Eraring Energy's Ethnic Affairs Priority Statement commenced and will be completed and communicated during 2006.

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

Workforce Diversity Report

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 91% 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 and committees.
- There were a number of opportunities for staff to have their views heard and addressed during the period including:
 - Six monthly small group staff briefings with the Managing Director,
 - Monthly Site Consultative Committee Meetings, Team Meetings and Tool Box Talks, and
 - Culture Survey Feedback sessions for all staff. Consultations with staff on a proposed Fitness for Work program.
- The Eraring Energy 2005 Culture Survey included questions relating to equity, harassment and discrimination in the workplace. The results have initiated a number of planned actions that are included in the outcome, program achievements and 2006/07 planned activities sections of this report.

Action Outcome Achievements

- Eraring Energy continued education and training relating to the Eraring Energy Code of Conduct.
- Diversity and equity principles and practices are incorporated into recruitment, promotion, training and development processes and opportunities. Feedback from our last culture survey has resulted in:
 - A review of our recruitment procedure to include an Expressions of Interest process. This will when possible, provide eligible employees with the

opportunity to indicate their interest for placement into special project roles, coverage for extended absences and some training schools, - The inclusion of a career development discussion section on the form that guides an individual's development plan discussion with their team leader, - Posters promoting diversity and how to stop harassment and discrimination were distributed and displayed throughout all work locations, workshops and offices, - Education relating to EEO, harassment, discrimination and bullying has been incorporated into the induction of new employees, and - Business Plans were audited for compliance with strategies and accountabilities relating to the Eraring Energy Workforce Diversity Management Plan.	Program Outcome Achievements ■ The Eraring Energy culture survey results were reviewed with a focus on questions relating to equity, harassment and discrimination in the workplace. These results will form the basis for ongoing review and measurement in the future. ■ Twenty-one people were recruited during the period with 100% responding to the EEO data request form. Of the twenty-one, seventeen were male and four were female. One new recruit identified as being an Aboriginal & Torres Strait Islander and one as a person with a disability. ■ Nine men and one woman left the organisation during the period. Of the ten separations, one employee had identified as being from a racial, ethnic, ethno-religious minority group and one as a person with a disability. ■ Twenty-six internal promotional appointments occurred, five of which were women.	Key Initiatives 1 July 2006 – 30 June 2007 The following activities are planned for the next reporting period ■ Complete review of the Eraring Energy Workforce Diversity Management Plan. ■ Complete training for new contact officers and commence six monthly meetings for Contact Officers. ■ Continue to reinforce, communicate and educate our people on the value, benefits and business outcomes to be realised by respecting and increasing the diversity of our workplace. ■ Refresher training relating to equity, diversity, harassment and discrimination for managers, team leaders and staff.
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A. Trends in the Representation of EEO Groups¹

EEO Group	NSW Government Public Sector Benchmark or Target % of Total Staff ²	2003	2004	2005	2006
Women	50%	9%	9%	9%	9%
Aboriginal people and Torres Strait Islanders	2%		0.3%	0.3%	0.6%
People whose first language was not English	20%	7%	6%	6%	6%
People with a disability	12%	9%	8%	8%	7%
People with a disability requiring work-related adjustment	7%	4%	3.6%	3.6%	3.6%

B. Trends in the Distribution of EEO Groups

EEO Group	NSW Government Public Sector Benchmark or Target Distribution Index ³	2003 ⁴	2004	2005	2006
Women	100	97	99	99	99
Aboriginal people and Torres Strait Islanders	100	n/a	n/a	n/a	n/a
People whose first language was not English	100	112	115	115	115
People with a disability	100	100	100	100	100
People with a disability requiring work-related adjustment	100	n/a	n/a	n/a	n/a

1. Staff numbers are as at 30 June. 2. Excludes casual staff. 3. A Distribution Index of 100 indicates that the centre of the distribution of the EEO group across salary levels is equivalent to that of other staff. Values less than 100 mean that the EEO group tends to be more concentrated at lower salary levels than is the case for other staff. The more pronounced this tendency is, the lower the index will be. In some cases the index may be more than 100, indicating that the EEO group is less concentrated at lower salary levels. The Distribution Index is automatically calculated by the software provided by ODEOPE. 4. The Distribution Index is not calculated where EEO group or non-EEO group numbers are less than 20.

OCCUPATIONAL HEALTH AND SAFETY (OHS)

Of all the issues Eraring Energy is required to deal with, none is considered more important than ensuring the health and safety of employees, contractors and visitors.

Work has continued throughout this financial year to further improve and refine the organisation's approach.

Activities over the previous four years focused on establishing systems and programs to position Eraring Energy to achieve its aim of creating work related injury or illness free workplaces and to achieve leadership in OHS.

Work in the past 12 months has focused on refining these systems, increasing participation in OHS activities and on improving compliance with the systems that have been established.

Benchmarking has been used as a tool to compare Eraring Energy's performance to other companies in a number of key areas.

The OHS Management System
Audits have increasingly been used to identify improvement opportunities in the systems that have been developed. Recommendations from the audits have led to system refinements and to changes in the way activities are carried out.

Audits against the requirements of the WorkCover Self Insurer's Model and Eraring Energy's documented systems have been carried out by an external auditor and by trained employee auditors. These audits were conducted at Eraring Power Station and within the two Hydro Power Station regions.

Eraring Power Station has also successfully undergone two verification audits against the requirements of AS 4801 – OHS Management Systems.

A compliance audit was carried out during the year to confirm that Eraring Energy met the requirements of the NSW OHS Act and Regulation.

All major contractors carrying out work at Eraring Power Station were audited by an external auditor employed by Eraring Energy to confirm compliance with their OHS Management Plans.

Work commenced on the development of an integrated OHS risk management approach at Eraring Power Station that will eventually bring all OHS risks together and improve their overall management.

Work practice risk reviews were carried out at all hydro and wind locations and these were recorded in the Hydro Risk Register. Height safety was identified as an improvement opportunity for the group in these reviews and considerable work has been done to enhance height safety management across the group.

The Plant Isolation Benchmarking Committee recommended a number of enhancements to Eraring Energy's existing plant isolation system including the implementation of a full lockout system and changes to the work planning process.

A review of the Access to Apparatus Rules led to the decision to rewrite the rules in 'Plain English' to increase the accessibility of information contained in the rules to users. The rewrite has commenced and will be completed by the end of 2006.

A Fitness For Work Benchmarking Group was established to consider how impairment due to fatigue, stress, illness and alcohol and other drugs could be managed. The committee's focus was to prevent impairment associated with these issues impacting on the health and safety of people working at Eraring Energy locations.

The organisation will implement a Fitness for Work program over the coming year.

A Health Assessment Working Party was established to consider how the organisation can ensure that people's individual differences are considered when they are allocated to a task. This will help to manage the risk of people being injured while undertaking unsuitable tasks.

A Contractor Management Benchmarking Committee was established to review Eraring Energy's approach. The committee has a strong safety focus and will compare Eraring Energy's performance in this area against a number of companies locally and internationally.

An Influenza Pandemic Working Party has met regularly throughout the year to monitor the possibility of a pandemic and to develop a response for the organisation.

An OHS responsibilities Matrix was established to bring together all of the OHS responsibilities for a position. This information will be used as part of the selection process for positions and to ensure that appropriate training is provided. It may also lead to changes to role requirements.

A full scale emergency exercise involving NSW Fire Brigade and Police was conducted to test Eraring Power Station's Emergency Services Plan.

Employee and Contractor Participation in OHS Activities
Participation in OHS activities by employees and contractors continues to be a critical part of Eraring Energy's strategy. This focus is designed to assist the organisation to achieve its long term goal of creating a culture of "safety mindfulness".

The Eraring Power Station OHS Committee and Sub Committees have operated throughout the year and have contributed to OHS audits, the establishment of a prioritisation system for all OHS improvements identified, increased focus on health and fitness for employees and contractors and the promotion of OHS initiatives.

The Hydro and Wind Group OHS Committee has contributed to OHS improvements across their group with considerable work done to identify OHS work practice risks, improve height safety and update their Access to Apparatus Rules to reflect the conditions that prevail at their locations.

The OHS Development Program for 2005 – “From Compliance to Leadership” examined how the organisation could move from a focus on complying with the requirements of OHS legislation and OHS Management Systems to achieving industry leadership in OHS. Participants included OHS Committee members, Bsafe (the behavioural safety program) facilitators, Plant Isolation Benchmarking Committee and Fitness for Work Committee members.

Bsafe continued to make a positive contribution to OHS at Eraring Power Station. A record number of observations (147) were carried out in June 2006 with record individual (42%) and team participation rates (72%) occurring in that month.

Observations have led to plant improvements and system enhancements which have enabled changes to individual's behaviour.

Networking with other organisations who have behavioural safety programs created the opportunity for Eraring Energy employees to share OHS experiences.

A pilot program for team based OHS performance indicators was established within the maintenance teams at Eraring Power Station. The program required the teams to identify and manage OHS issues that are specific to their workplace.

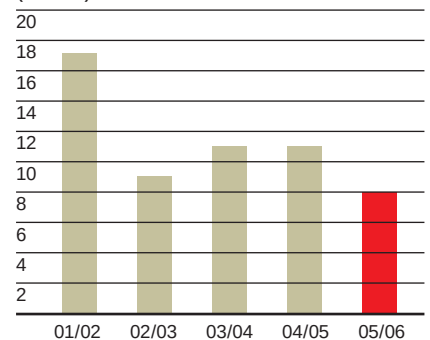
Occupational health activities focused on improving the health and wellbeing of employees. The activities included: stress in the workplace workshops; health screenings for employees; employee fitness programs; and voluntary flu injections.

Contractors have participated in all OHS Committee activities and Bsafe. Eraring Energy funded an OHS Consultant to assist the organisation's major contractor review and improve its OHS Management System. The consultant worked with Eraring Energy employees to develop and deliver OHS training to the contractors' supervisors.

OHS Performance

There were nine lost time injuries reported during the year. There were four involving employees and five involving contractors. The lost time injury frequency rate was eight, an improvement of three from the previous year.

Lost Time Injury Frequency Rate (LTIFR)



COMMUNITY

Eraring Energy is proud to be an active supporter and corporate partner to communities in regional areas throughout New South Wales associated with our business operation. This includes community events; consultative mechanisms such as our Community Forum; support for environmental initiatives; and the encouragement and support of learning initiatives. We are also proud to acknowledge the contribution of people to a range of causes which make a difference for many people in the community.

Eraring Energy provided a total of \$52,192 in community based sponsorships and donations during the year.

Community Events

Eraring Energy was a key sponsor of the Lake Macquarie City Council Australia Day Celebrations 2006; the Crookwell Country Weekend Festival 2006; and the Morisset Community Festival Day 2006. Other community events supported by Eraring Energy included the Heritage College Country Fair and Fun Day; the Christmas Party for Special Children held in Albury, NSW; Christmas Carols events in the communities of Rathmines, Wangi Wangi and Dora Creek; the Swansea "Summer Fun Fest" Community Program; Lake Macquarie Heritage Afloat Festival held in Toronto, NSW; and the Dobell Festival of Art 2006.

Charitable Support

The continued demonstration of a strong commitment by Eraring Energy people to safety in the workplace has enhanced the ongoing Safety Performance Reward Program in support of both the Hunter and New England regionally-based Westpac Rescue Helicopter Service, and the nationally based CanTeen organisation. This program is based on staff achieving safety performance targets each month. In recognition of employee performance outcomes, a total of \$18,000 was achieved for the 12 month period to July 2006, to be allocated equally between the two organisations.

Eraring Energy people have also been generous by actively supporting and making contributions to the Cancer Council "Australia's Biggest Morning Tea", which was also matched by an equal corporate donation.

Eraring Energy also provided an additional amount of \$5,000 in support of the commitment of staff contributions to various charitable organisations via payroll deductions. This amount was distributed to Camp Quality; John Hunter Children's Hospital; the Smith Family; Westpac Rescue Helicopter Service; and the Bill Walsh Cancer Research Fund.

Eraring Energy people were generous in their support of the Barnardos Star of Wonder Christmas Gift Appeal 2005, which followed equally generous support of this Appeal in the previous two years.

Eraring Energy was pleased to be a corporate supporter of the Wesley Newcastle City Mission Christmas Appeal 2005.

Community Forum

The Eraring Energy Community Forum, based at Eraring Power Station, consists of recognised representatives from invited member groups and is committed to productive discussions and actions.

Meetings were held on a three-monthly basis with a primary focus on the exchange of information on environmental issues and the encouragement of dialogue and feedback. During the year, a workshop was held to re-clarify the purpose of the Forum and to establish a statement of shared values and ground rules.

The purpose of the Eraring Energy Community Forum is to enable Eraring Energy and local community groups to:

- Engage in open, meaningful, productive discussion; and
- Work together on issues affecting the local physical and social environment.

Forum members have agreed to uphold the values and ground rules adopted at this workshop. Regular review of the effectiveness of these values and ground rules will be a feature of future Forum meetings.

The publication of the Community and Environment Report 2005 was an opportunity to provide and communicate the environmental performance of the organisation and our contribution and interaction with local communities. The discussions with the Community Forum have resulted in a number of positive outcomes, including the development of the Community and Environment Report.

The Report was widely distributed to community groups, schools, universities and both private business and government organisations.

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

Environmental Support

Eraring Energy has continued as a key partner supporter of the Lake Macquarie Environment Research Grants for 2005/06, coordinated by the Lake Macquarie City Council, and is pleased to be a member of the Lake Macquarie Environment Research Grants Committee.

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

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

Corporate sponsorship was provided for the 2005 Wetlands Innovation Series Forum held in September 2005 at The Wetlands Centre, Newcastle, and the NSW Coastal Conference held in Narooma in November 2005.

Corporate sponsorship was also provided to the Lake Macquarie City Council's L.T. Creek Project.

People from the local Koompahtoo Aboriginal Land Council have been employed by Eraring Energy to perform lake foreshore inspections on a weekly basis. Yunaga Mine Service (Wonnarua People) in conjunction with local

Koompahtoo people are developing an Ash Dam Rehabilitation plan for Eraring Power Station.

Learning Initiatives

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

Support for individual school programs has been provided to a number of schools in the Lake Macquarie region and at Kangaroo Valley, including the Gifted and Talented Students Program at Morisset High School.

Eraring Energy is participating in the EXIST (Excellence in Science and Technology) Project in partnership with the primary schools in the area bounded by Wangi Wangi, Cooranbong and Wyee and also Morisset High School. The project is part of a major federally-funded initiative to enhance science, technology and mathematics education and promote innovation in schools.

Eraring Energy employs 21 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.

Eraring Energy is also a Trainee Host Employer for seven young persons undertaking traineeships in Business Administration, Human Resources, Finance, Material Management, and Purchasing and Contract Administration. The ongoing participation and commitment to the Traineeship program was recognised at the Regional Hunter-V-Tec Awards, with Eraring Energy receiving the Host Trainee Employer of the Year 2005 Award.

A key ongoing initiative is the corporate sponsorship, in conjunction with the University of Newcastle, of the University

of Newcastle Industry Scholarship Scheme (UNISS). Four engineering students are sponsored through this UNISS program.

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

Site facilities adjacent to Eraring Power Station have been made available to local schools and athletic associations to conduct athletic, cross country and softball events. Local community groups have also been provided with access to the facilities of the Lake Macquarie Training Centre to undertake meetings and educational activities.

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 fund raising activities.

More than 36 organisations and community groups benefited from donations and sponsorships from Eraring Energy totalling approximately \$34,000 during the year.

Commitment to Training and Development

Energy Trading Group had significant participation in industry workshops, seminars and conferences. The Energy Trading Business Unit commitment is to ensure that all Energy Trading staff meet at least the minimum training requirement to maintain their AFMA accreditation. This reflects the importance given by Eraring Energy to ensuring that staff remain up to date with industry developments and practices.

Governance

THE MANAGEMENT OF SIGNIFICANT BUSINESS RISK

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

The risk management process starts and ends with Eraring Energy's people who internally "workshop" risks to ensure accurate identification and management of all issues. The outcomes of the risk management process is "stress tested" through a central Executive Risk Management Committee and monitored, measured and reported through a "risk focused" internal audit program. This process will be overviewed by the newly established Board Risk Committee. Feedback, at all these different stages, is continuous, which allows Eraring Energy to manage risk in a transparent and learning environment.

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

At a business operational level risk management is a key business focus. In the Production Business Unit a comprehensive asset management strategy is developed for the Eraring Power Station and the Wind and Hydro assets. Similarly risk management principles govern the operation of the Trading Business Unit.

Insurance

Eraring Energy's continual focus on risk management has resulted in more favourable insurance premiums being negotiated and purchased. This year Eraring Energy has managed to achieve a favourable result and continues to work on mitigating its risks.

Information Management

Recorded business information is a strategic and operational asset for any business. The proper creation, capture, management and disposal of information improves accessibility of up to date information that the business can trust and rely upon reducing risks in the decision making process.

Eraring Energy, in 2005/06, implemented an Electronic Document and Records Management System (EDRMS) across all business units, focusing on the management of corporate records – regardless of format.

The EDRMS has introduced to Eraring Energy the concept of a centralised repository for the management of these corporate records which will also serve as the repository for the publication of electronic documents via its intranet site. As such, a project deliverable associated with the EDRMS implementation involved transitioning of all corporate records from existing storage areas into the new EDRMS.

Fraud Prevention

Eraring Energy is committed to and places a high priority on fraud prevention and 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 was developed in 2004 with access provided to all staff. 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, a near miss in the following categories:

- Health and Safety;
- AFSL;
- Environment;
- Security;
- National Electricity Law/Rules compliance;
- Asset damage and Loss;
- Production;
- Other compliance eg Trade Practices Act etc; and
- ETRM 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.

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 within all applicable legislation but also in an ethical manner.

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

Board Membership

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

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

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

Remuneration of Directors

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

Changes in Board Membership

The appointment of the Chairman, Ross Bunyon expired on 30 June 2006 and he was reappointed for a further three years.

The appointment of Director, John Maitland expired on 22 March 2006.

BOARD COMMITTEES

Until 20 April 2006, the Board had established four standing committees, outlined below.

Up to 20 April 2006

Audit and Risk Management Committee

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

- Overall risk management framework;
- Financial reporting processes;
- Systems for internal control and management of financial risks;
- Processes for monitoring compliance with legislation and regulation, Eraring Energy's Code of Conduct and fraud prevention;
- Audit outcomes and actions; and
- Performance of auditors.

The Committee is also responsible for recommending the appointment of auditors.

Environment Committee

Assists and supports the Board in fulfilling its oversight responsibilities in the management of environmental issues, risks and incidents. This Committee meets quarterly to provide advice on environmental performance by:

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

Remuneration Committee

This Committee meets at least annually to provide advice to the Board on:

- Executive remuneration structures of the Managing Director and executives who report directly to him;
- Framework for at-risk payments and executive senior staff remuneration; and
- Appointment of Managing Director and reporting executives and monitoring their performance.

Human Resources and Safety Committee

This Committee meets quarterly to assist the Board on:

- Ensuring an appropriately skilled workforce is available by succession plan strategies for staff other than the Managing Director and reporting executives;
- Strategies for ensuring the health and safety of employees and contractors; and
- Productivity matters.

From 20 April 2006

The Board reviewed its Committee structure to ensure that the structure reflected best practice. On 20 April 2006 the Board resolved that the Committee structure be amended. The new Committee structure is outlined below.

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 unit 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 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 35 to the accounts details related parties' transactions.)

Meetings of the Board

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

A Attended E Eligible Meetings

	A	E		A	E
Board			Audit		
Ross Bunyon	12	13	(1st meeting held 16/5/2006)		
Beverley Hoskinson-Green	12	13	Michael Vertigan	1	1
John Maitland	5	10	Ross Bunyon	1	1
Michael Nugent	13	13	Michael Nugent	1	1
Dean Pritchard	13	13			
Michael Vertigan	12	13	Human Resource and Remuneration		
Gerry Grove-White	13	13	(1st meeting held 20/6/2006)		
Audit and Risk Management			Beverley Hoskinson-Green	1	1
(final meeting held 15/3/2006)			Ross Bunyon	1	1
Michael Vertigan	5	5	Dean Pritchard	1	1
Ross Bunyon	5	5			
Michael Nugent	5	5	Environment and Safety		
Environment			(1st meeting held 20/6/2006)		
(final meeting held 15/3/2006)			Dean Pritchard	1	1
Beverley Hoskinson-Green	3	3	Beverley Hoskinson-Green	1	1
John Maitland	0	3	Michael Nugent	1	1
Michael Nugent	3	3			
Remuneration			Board Risk Management		
(final meeting held 20/4/2006)			Michael Nugent		
Ross Bunyon	3	3	Dean Pritchard		
Beverley Hoskinson-Green	3	3	Michael Vertigan		
Dean Pritchard	3	3			
Human Resource and Safety			The inaugural meeting of the Board Risk		
(final meeting held 21/2/2006)			Management committee is scheduled		
Dean Pritchard	3	3	for the next reporting period.		
Ross Bunyon	3	3			
John Maitland	2	3			

EXECUTIVE MANAGEMENT

Organisation Structure

Voting Shareholders

The Hon. Michael Costa MLC
The Hon. John Della Bosca MLC

Board of Directors

Chairman – Ross Bunyon

Managing Director

Gerry Grove-White – Resigned 23/6/06
Peter Jackson – Acting from 24/6/06
Appointed 11/9/06

General Manager Production

Peter Jackson
Wayne Winterbine –
Acting from 24/6/06

General Manager Trading

Stephan Boras

General Manager Finance

Philip Russell

General Manager People

Shaun Edwards

Company Secretary

Rochelle Reynolds

Business Risk &

Assurance Manager

Anne-Marie Akle –
Resigned 30/6/06

IT & Telecommunications Manager

Mark Edwards

EXECUTIVE COMMITTEES

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

Executive Committee

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

Members

Managing Director
Gerry Grove-White – resigned 23/6/06
Peter Jackson – acting from 24/6/06
appointed 11/9/06

General Manager Trading
Stephan Boras

General Manager Production
Peter Jackson
Wayne Winterbine – acting from 24/6/06

General Manager Finance
Philip Russell

General Manager People
Shaun Edwards

Company Secretary
Rochelle Reynolds

Business Risk and Assurance Manager
Anne-Marie Akle – resigned 30/6/06

IT & Telecommunications Manager
Mark Edwards

Environmental Committee

Generally meets quarterly 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
Gerry Grove-White – resigned 23/6/06
Peter Jackson – acting from 24/6/06
appointed 11/9/06

General Manager Production
Peter Jackson
Wayne Winterbine –
acting from 24/6/06

Company Secretary
Rochelle Reynolds

Hydro & Wind Manager
Peter Harvey

Environment Team Leader
Neil Williams

Manager Energy Derivatives
Alistair Webb

Energy Trading Risk Management Committee

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

Members

Managing Director
Gerry Grove-White – resigned 23/6/06
Peter Jackson – acting from 24/6/06
appointed 11/9/06

General Manager Trading
Stephan Boras

General Manager Finance
Philip Russell

General Manager Production
Peter Jackson
Wayne Winterbine – acting from 24/6/06

Business Risk and Assurance Manager
Anne-Marie Akle – resigned 30/6/06

Company Secretary
Rochelle Reynolds – appointed 1/8/06

Executive Safety Committee

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

Members

Managing Director
Gerry Grove-White – resigned 23/6/06
Peter Jackson – acting from 24/6/06
appointed 11/9/06

General Manager Production
Peter Jackson
Wayne Winterbine – acting from 24/6/06

General Manager People
Shaun Edwards

Asset Manager
Wayne Winterbine

Operations Manager
John Kennedy

Hydro & Wind Manager
Peter Harvey

Project Manager
George Wells

Commercial Manager
David Woodroof

Occupational Health & Safety Manager
Steve Gambrell

Resources Manager
Kate Coates

Chairperson Eraring Occupational Health & Safety Committee
Christopher Brucki

Chairperson Hydro & Wind Safety Committee
Adam Jackson

Shift Manager on Duty

Team Leaders

EXECUTIVE MANAGEMENT REMUNERATION AND PERFORMANCE

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

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

Position/Name (Time in Position)	Qualifications	Paid to 30/6/06	Performance Payment	Individual Performance Statement
Managing Director Gerry Grove-White (Resigned 23/06/2006)	BSc (Mech Engr)Hons, Chartered Engineer MI Mech.E, Cert. Diploma in Accountancy & Finance	\$366,349	\$94,299*	Assessed by the Board against business plan targets including financial performance, strategic advice and strategy implementation, stakeholder relationships, safety and environmental performance.
General Manager Trading Stephan Boras (All of Year)	Degree in Business Administration (Hamburg), MAICD	\$249,115	\$67,957*	Assessed by the Managing Director against business plan targets including market strategy, trading performance, coal purchases and other performance targets.
General Manager Production Peter Jackson (All of Year)	BSc. BE, MEM GAICD	\$245,099	\$63,089*	Assessed by the Managing Director against business plan targets including plant performance, financial management, safety, environment and other performance targets.
General Manager Finance Philip Russell (All of Year)	Comm.Acct. Cert. Dip. Chartered Sec. FCPA, FCIS, GAICD, MFTA, AFAIPMM	\$209,008	\$53,799*	Assessed by the Managing Director against business plan targets including financial management and projects, stakeholder relationships and other performance targets.

* Amount shown relates to performance payments for 2004/05 made in 2005/06. Determinations under this policy for 2005/06 will be concluded in 2006/07 and reported in the 2006/07 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 30/6/05	As at 30/6/06
Number of Executive Officers with remuneration equal to or exceeding equivalent of SES Level 1 at 30 June 2006	27	23
Number of the above positions filled by women	2	2
Total package remuneration for the period	\$5,087,709	\$6,681,980

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.

The Board

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

Board Membership

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

Ross Bunyon, Chairman

John Maitland, Director –
Ceased 22 March 2006

Michael Vertigan, Director

Gerry Grove-White, Director –
Resigned 23 June 2006

Brian Todd, Commercial
Manager/Secretary –
Ceased 14 July 2005

Rochelle Reynolds, Secretary –
Appointed 6 July 2005

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

Remuneration of Directors

No remuneration is currently paid to Directors of Pacific Western.

Changes in Board Membership

John Maitland ceased as a Director on 23 March 2006. Brian Todd ceased as Commercial Manager/Secretary on 14 July 2005. Rochelle Reynolds was appointed Secretary on 6 July 2005

Meetings of the Board

A Attended E Eligible Meetings

	A	E
Directors		
Ross Bunyon	2	2
John Maitland	1	2
Michael Vertigan	2	2
Gerry Grove-White	2	2

Executive Management

Commercial Manager/Secretary
Brian Todd – ceased 14 July 2005

Secretary

Rochelle Reynolds – appointed
6 July 2005

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; and
- 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; and
- Risk Management and Insurance Activities.

Further exemptions were approved subject to specific conditions:

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

Human Resources Disclosure of 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.

Cost of Annual Report

Eraring Energy has produced 350 copies of the annual report in printed format and 50 copies in CD format at a total cost of \$25,000. Eraring Energy's annual report is available on-line at www.eraring-energy.com.au.

Freedom of Information

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

In the 2004/05 period Eraring Energy received one Freedom of Information application.

Legal Change

The regulatory environment in which participants in the National Electricity Market operate continues to change, with the formation of the Australian Energy Regulator and the Australian Energy Market Commission. In addition, the revised National Electricity Law applied from 1 July 2005, replacing the old National Electricity Law, Regulations and Code. There have also been changes to Environmental Law with increased penalties.

Eraring Energy obtained its Australian Financial Services Licence with effect from 1 July 2005, and is subject to relevant provisions of Corporation Law.

Eraring Energy has been active in both the debate of the proposed changes and the implementation of appropriate education and compliance strategies.

Promotion

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

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

OVERSEAS VISITS

During 2005/06 the following officers travelled overseas.

Name/Designation	Dates Travelled	Destination	Purpose
Jeff Hogan Senior Technician Michael Mortiss ICMS Project Manager	05/08/05 – 16/08/05	Singapore and Tokyo	Yokogawa factory inspection.
Rochelle Reynolds Company Secretary	29/08/05 – 02/09/05	France	INSEAD Management Training Course (Part 2).
Kate Coates Resource Manager Steve Gambrell OHS Manager	07/09/05 – 18/09/05	Mumbai and Singapore	Review safety, outage management and maintenance methods at overseas power stations.
Ian O'Brien Boilers Team Leader	10/09/05 – 21/09/05	USA	Attend EPRI Fall 2005 Generation Program Advisory Meetings and visit Electric Utilities to discuss technical information exchanges.
Garry Riley Senior Technician John Kennedy Operations Manager	21/11/05 – 27/11/05	Bangkok and Thailand	Attendance at Yokogawa Systems and Product Users Conference.
Peter Lyons Plant Owner	27/11/05 – 3/12/05	Tokyo	Attendance at K-Tech Turbine Engineering Course held by Yokohama.
Dennis Nightingale Plant Owner Stephen Wheeler Operations Engineer	04/12/05 – 09/12/05	Dubai	Due diligence checks and arrange purchase of gas turbine generator.
Ross Dumbrell Turbines Team Leader	25/02/06 – 04/03/06	Tokyo	Attendance at the Toshiba Generator Engineering Course held in Yokohama.
Michael Cooper Hydro Wind Operations Engineer Iain Kennedy Hydro Maintenance Officer	30/04/06 – 03/05/06	New Zealand	Attendance at Australasian Hydro Power Conference.
Mark Wyburn Chemist	16/06/06 – 23/06/06	Canada	Attendance at 8th Annual Electric Power Research Institute Conference.
Mark Coleman Asset Plant Owner	19/06/06 – 24/06/06	Singapore	Attend training conference relating to the purchase of two new Comp-Air Cooper Turbo Air Compressors for Eraring Power Station.
Peter Jackson General Manager Production	27/06/06 – 29/06/06	New Zealand	Address the Maintenance Benchmarking Forum IMRt.

Financial Statements

The background of the page features a complex, abstract design. It consists of several overlapping, curved, light-colored bands that sweep across the page from the bottom left towards the top right. Overlaid on these bands is a fine, light-colored grid of intersecting lines, creating a subtle, textured effect. The overall color palette is a range of muted, earthy tones, including various shades of beige, taupe, and light brown.

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42 Eraring Energy Income Statement

For the year ended 30th June, 2006

		Consolidated		Parent Entity	
	Note	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Revenues from continuing operations	2	632,702	595,034	632,680	584,484
Fair value movement in electricity derivatives		43,817	–	43,817	–
Insurance provision movements		28,013	2,634	28,013	2,634
Defined benefits superannuation revenue		23,385	–	23,385	–
Total revenue		727,917	597,668	727,895	587,118
Raw materials and purchases of electricity		(348,643)	(304,121)	(348,643)	(303,203)
Employee benefits expense		(45,810)	(44,489)	(45,770)	(41,692)
Depreciation and amortisation expense		(69,046)	(54,455)	(69,046)	(54,265)
Finance costs		(15,718)	(11,282)	(15,768)	(11,282)
Other expenses		(56,518)	(71,701)	(56,313)	(67,391)
Defined benefits superannuation expense		–	(9,701)	–	(9,701)
Profit before income tax	3	192,182	101,919	192,355	99,584
Income tax expense	4	(57,693)	(31,317)	(57,634)	(29,797)
Net profit for the period	27	134,489	70,602	134,721	69,787

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

As at 30th June, 2006

		Consolidated		Parent Entity	
	Note	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Current Assets					
Cash and cash equivalents	5	2,579	441	2,499	402
Receivables	6	76,671	54,491	73,952	51,755
Investments	7	670	1,925	670	1,925
Inventories	8	24,159	44,202	24,159	44,202
Intangible assets	9	6,133	5,222	6,133	5,222
Electricity derivatives	10	6,826	–	6,826	–
Other current assets	11	4,503	205	4,503	205
Total Current Assets		121,541	106,486	118,742	103,711
Non-Current Assets					
Receivables	12	–	573	–	573
Property, plant and equipment	14	1,393,933	1,421,435	1,393,933	1,421,435
Deferred tax assets	15	77,604	32,029	77,604	31,981
Electricity derivatives	16	4,207	–	4,207	–
Total Non-Current Assets		1,475,744	1,454,037	1,475,744	1,453,989
Total Assets		1,597,285	1,560,523	1,594,486	1,557,700
Current Liabilities					
Payables	17	44,724	58,152	44,596	57,510
Interest bearing liabilities	18	17,340	62,823	17,966	64,748
Current tax liabilities	19	20,692	8,139	20,692	7,704
Provisions	20	61,134	103,737	61,134	103,595
Electricity derivatives	21	147,700	–	147,700	–
Other current liabilities	22	5,753	24,841	5,753	24,841
Total Current Liabilities		297,343	257,692	297,841	258,398
Non-Current Liabilities					
Interest bearing liabilities	23	195,214	102,113	195,214	102,113
Deferred tax liabilities	24	94,605	102,819	94,605	102,819
Provisions	25	37,784	62,321	37,784	62,321
Electricity derivatives	26	63,103	–	63,103	–
Total Non-Current Liabilities		390,706	267,253	390,706	267,253
Total Liabilities		688,049	524,945	688,547	525,651
Net Assets		909,236	1,035,578	905,939	1,032,049
Equity					
Contributed equity	27	766,528	879,481	766,528	879,481
Reserves	27	185,037	185,037	185,037	185,037
Retained profits	27	(42,329)	(28,940)	(45,626)	(32,469)
Total Parent Entity Interest		909,236	1,035,578	905,939	1,032,049
Total Equity		909,236	1,035,578	905,939	1,032,049

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

44 Eraring Energy Cash Flow Statement

For the year ended 30th June, 2006

	Note	Consolidated		Parent Entity	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
		Inflows (Outflows)	Inflows (Outflows)	Inflows (Outflows)	Inflows (Outflows)
Cash flows from operating activities					
Cash received in the course of operations		717,947	661,945	717,920	642,998
Interest and bill discount received		173	187	170	204
Cash paid in the course of operations		(527,984)	(470,068)	(527,674)	(459,227)
GST refunded		(23,218)	(26,339)	(22,636)	(26,339)
Interest and other finance costs paid		(16,453)	(12,549)	(16,503)	(12,438)
Dividend received		–	–	–	2,714
Income tax paid		(25,853)	(26,022)	(25,407)	(25,690)
Net cash inflow from operating activities	5	124,612	127,154	125,870	122,222
Cash flows from investing activities					
Proceeds from sale of equipment		576	609	576	573
(Purchases of) proceeds from sale of investments		1,255	(1,925)	1,255	(1,925)
Payments for property, plant & equipment		(43,078)	(53,673)	(43,078)	(53,649)
Net cash (outflow) from investing activities		(41,247)	(54,989)	(41,247)	(55,001)
Cash flows from financing activities					
Proceeds from borrowings		700,269	632,957	700,269	631,157
Repayment of borrowings		(699,169)	(647,857)	(699,169)	(643,057)
Repayment of advance to related parties		–	3,112	–	3,112
(Repayment) borrowing of loan by related parties		–	–	(1,299)	1,925
Dividend paid		(82,327)	(60,064)	(82,327)	(60,064)
Net cash (outflow) from financing activities		(81,227)	(71,852)	(82,526)	(66,927)
Net increase (decrease) in cash and cash equivalents		2,138	313	2,097	294
Cash and cash equivalents at the beginning of the financial year		441	128	402	108
Cash and cash equivalents at the end of the financial year	5	2,579	441	2,499	402

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

For the year ended 30th June, 2006

	Note	Consolidated		Parent Entity	
		2006	2005	2006	2005
		\$'000	\$'000	\$'000	\$'000
Asset revaluation increment		–	49,979	–	49,979
Adjustment on adoption of AASB139 net of tax, to:					
Retained earnings		(106,558)	–	(106,558)	–
Contributed equity		(63,953)	–	(63,953)	–
Adjustment on adoption of AASB112 net of tax, to:					
Retained earnings		–	9,687	–	9,687
Reserves		–	(14,993)	–	(14,993)
Net income recognised directly in equity		(170,511)	44,673	(170,511)	44,673
Profit for the year		134,489	70,602	134,721	69,787
Total recognised income and expense for the year		(36,022)	115,275	(35,790)	114,460

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

CORPORATE INFORMATION

The financial report of Eraring Energy for the year ended 30 June 2006 was authorised for issue in accordance with a resolution of the directors on 19th September 2006.

Eraring Energy is a for-profit entity.

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

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

The financial report has been prepared on the basis of historical cost except for property, plant and equipment 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). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

This is the first general purpose financial report prepared based on AIFRS and comparatives for the year ended 30 June 2005 have been restated accordingly

except for the adoption of AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement*. NSW Treasury has mandated the exemption under AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* from having to apply AASB 132 and AASB 139 to the comparative period. Reconciliations of AIFRS equity and profit for 30 June 2005 to the balances reported in the 30 June 2005 financial report and at transition to AIFRS are detailed in note 39.

(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 Ltd.

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

Eraring Energy guarantees the performance of Pacific Western.

(d) Property, Plant and Equipment

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

The fair value of non-current assets is determined in accordance with AASB116 *Property, Plant and Equipment*, AASB136 *Impairment of Assets* and

NSW Treasury Accounting policy on *Valuation of Physical Non-Current Assets at Fair Value*.

Fair value is determined using the lower of the depreciated optimised replacement cost and market selling price or value in use. The value in use is the net cash flows arising from its continued use and subsequent disposal, discounted to present value using Eraring Energy's weighted average cost of capital. The valuation methodology uses a discounted cash flow of the forecast spot price of electricity.

The discounted cash flow valuation was conducted effective at 30th June 2006 using 2006/07 SCI 10 year forecasts as at 31st January 2006 together with 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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In addition, any accumulated depreciation as at revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

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.

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

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

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

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

(e) Depreciation of Property, Plant and Equipment

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

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

Component parts of power stations may have different asset lives.

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

(f) Intangible Assets

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

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

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

(g) Foreign Currency Translation

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

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

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

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

(h) Interest Rate Contracts

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

(i) Derivative Financial Instruments

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

Derivatives will be classified as either "held for trading" or designated as effective hedging instruments. Eraring Energy hedges its physical generation output to ensure revenue certainty. It does not have a proprietary trading book and any "held for trading" contracts are the result of hedge ineffectiveness. Eraring will seek to qualify most electricity derivatives as cash flow hedges, where the gain or loss on the effective portion of the hedging instrument is recognised directly in equity and any ineffective portion through the income statement. Derivatives that are designated as "held for trading" will be fair valued ie. changes in fair value recognised in the income statement. To qualify for hedge accounting Eraring designates the derivative contracts within the guidelines of AASB139 and performs initial prospective testing and annual retrospective and prospective effectiveness testing.

(j) Liability Management

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

(k) Borrowing Costs

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

(l) Discount and Premium on Loans

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

(m) Revenue Recognition

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

Sale of Electricity

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

Sale of Non-Current Assets

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

Interest Revenue

Interest revenue is recognised as it accrues.

(n) Segment Reporting

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

(o) Inventories

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

(p) Leases

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

(q) Insurance

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(r) Income Tax**

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 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.

(s) Employee Benefits

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

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

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

(t) Leasehold Improvements

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

(u) Payables

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

(v) Rounding of Amounts

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

(w) Receivables

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

(x) New Accounting Standards

Certain new accounting standards have been published that are not mandatory for 30 June 2006 reporting periods.

Eraring Energy has not early adopted these standards, and its assessment of the impact of these new standards is set out below:

AASB 7 Financial Instruments: Disclosures and *AASB 2005-10 Amendments to Australian Accounting Standards* [AASB 1, AASB 4, AASB 101, AASB 114, AASB 117, AASB 132, AASB 133, AASB 139, AASB 1023 and AASB 1038] AASB 7 and AASB 2005-10 are applicable to annual reporting periods beginning on or after 1 January 2007. Application of the standards will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to Eraring Energy's financial instruments.

AASB 119 Employee Benefits

AASB 119 is applicable to annual reporting periods beginning on or after 1 January 2006. The new Standard provides alternative options for the recognition of defined benefits superannuation actuarial gains or losses, both of which have been excluded by NSW Treasury in its indicative mandates. Therefore it will not impact the financial statements.

AASB 2004-3 Amendments to Australian Accounting Standards [AASB 1, AASB 101 and AASB 124]

AASB 2004-3 is applicable to annual reporting periods beginning on or after 1 January 2006, and deals mainly with the amendments to AASB 119 discussed above, and hence will not impact the financial statements.

AASB 2005-1 Amendments to Australian Accounting Standards [AASB 139]

AASB 2005-1 is applicable to annual reporting periods beginning on or after 1 January 2006. This Standard amends the hedge accounting requirements in relation to foreign currency intra-group forecast transactions, and will not impact on the financial statements.

AASB 2005-5 Amendments to Australian Accounting Standards [AASB 1 and AASB 139]

AASB 2005-5 is applicable for annual reporting periods beginning on or after 1 January 2006. This Standard further changes AASB 139, but is not expected to have a material impact on Eraring Energy's financial statements.

AASB 2005-9 Amendments to Australian Accounting Standards [AASB 4, AASB 1023, AASB 132 and AASB 139]

AASB 2005-9 is applicable for annual reporting periods beginning on or after 1 January 2006. This Standard deals with the accounting treatment of financial guarantee contracts and will have no impact on the financial statements.

AASB 2006-1 Amendments to Australian Accounting Standards [AASB 121]

AASB 2006-1 is applicable to annual reporting periods ending on or after 31 December 2006. Eraring Energy does not have any monetary items forming part of a net investment in a foreign operation. The amendment to AASB 121 will therefore have no impact on the financial statements.

For the year ended 30th June, 2006

	Consolidated		Parent Entity	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
NOTE 2. TOTAL REVENUE				
From continuing operations				
Sales revenue				
Electricity sales	629,794	578,472	629,794	578,472
Services rendered	–	13,168	–	–
Other revenue				
Rentals	50	51	50	51
Interest received	173	158	170	106
Interest received from Pacific Western	–	–	–	70
Dividends received relating to last year	–	–	–	545
Dividends received relating to this year	–	–	–	2,169
CSO NSW Treasury	60	89	60	89
Miscellaneous	2,625	3,087	2,606	2,982
Net gain on disposal of assets	–	9	–	–
Total revenue from continuing operations	632,702	595,034	632,680	584,484
Defined benefits superannuation revenue	23,385	–	23,385	–
Fair value movement in electricity derivatives	43,817	–	43,817	–
Insurance provision movements and surplus recoveries	28,013	2,634	28,013	2,634
Total revenue	727,917	597,668	727,895	587,118
NOTE 3. EXPENSES				
Profit before income tax includes the following specific expenses:				
Depreciation:				
Buildings	735	657	735	657
Plant and equipment	63,296	53,187	63,296	52,997
Leasehold improvements	66	66	66	66
Depreciated value of assets written off	2,139	545	2,139	545
Amortisation:				
Intangibles	2,810	–	2,810	–
	69,046	54,455	69,046	54,265
Finance costs:				
Interest and finance charges paid/payable	16,159	11,922	16,209	11,922
Interest capitalised	(441)	(640)	(441)	(640)
	15,718	11,282	15,768	11,282
Operating lease rentals:				
Minimum lease payments	400	536	400	479
Defined benefits superannuation expense	–	9,701	–	9,701
Consultants	155	359	155	259

Consultants

Expenditure on consultants totalled \$154,969 (2005 – \$359,148). The parent entity's engagements related to the provision of tax and accounting advice particularly relating to the adoption of International Accounting Standards, and the provision of corporate governance advice.

For the year ended 30th June, 2006

	Consolidated		Parent Entity	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
NOTE 4. INCOME TAX				
<i>Major components of tax expense (income) include:</i>				
Income Statement				
<i>Current income tax</i>				
Current tax expense	38,394	22,737	38,394	21,217
Adjustment in respect of current income tax of previous years	11	(68)	–	(68)
<i>Deferred income tax</i>				
Tax expense relating to the origination and reversal of temporary differences	19,288	8,648	19,240	8,648
Income tax expense reported on the income statement	57,693	31,317	57,634	29,797
Explanation of the relationship between tax expense and accounting profit				
Accounting profit	192,182	101,919	192,355	99,584
Income tax at the statutory income tax rate of 30%	57,655	30,576	57,706	29,875
Expenditure not allowable for income tax purposes	109	809	23	(10)
Expenditure deductible for income tax purposes	(95)	–	(95)	–
Adjustment in respect of current income tax of previous years	11	(68)	–	(68)
Tax loss derecognised	13	–	–	–
Tax expense reported in the income statement	57,693	31,317	57,634	29,797
<i>Deferred tax recognised directly in equity</i>				
Relating to fair value of electricity derivatives	73,076	–	73,076	–
Relating to revaluation of property, plant and equipment	–	(14,994)	–	(14,994)
	73,076	(14,994)	73,076	(14,994)

For the year ended 30th June, 2006

	Balance Sheet		Recognised in Income		Recognised in Equity	
	2006	2005	2006	2005	2006	2005
	\$'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	(85,386)	(87,787)	2,401	(5,933)	–	(14,994)
Fuel purchases	(6,989)	(12,959)	5,970	(5,468)	–	–
Insurance recoveries	(1,056)	(1,005)	(51)	976	–	–
Accrued interest income	(19)	–	(19)	–	–	–
Capitalised interest	(1,155)	(1,068)	(87)	(150)	–	–
Gross deferred income tax liabilities	(94,605)	(102,819)				
Deferred income tax charge			8,214	(10,575)	–	(14,994)

Deferred income tax assets

Employee leave entitlements	4,905	4,675	229	169	–	–
Employer superannuation liabilities	375	7,390	(7,016)	2,970	–	–
Insurance provision	11,403	19,255	(7,852)	(1,145)	–	–
Voluntary redundancies	–	–	–	(185)	–	–
Staff at-risk bonuses	298	257	40	22	–	–
Provision for doubtful debts	35	39	(4)	(6)	–	–
Business development costs	604	292	313	134	–	–
Fair value assessment of electricity derivatives	59,931	–	(13,145)	–	73,076	–
Software expenditure	35	58	(22)	(34)	–	–
Low value asset pool	18	15	3	1	–	–
Gross deferred income tax assets	77,604	31,981				
Deferred income tax charge			(27,454)	1,926	73,076	–

Consolidated Entity*Deferred income tax liabilities*

Property, plant and equipment	(85,386)	(87,787)	2,401	(5,933)	–	(14,994)
Fuel purchases	(6,989)	(12,959)	5,970	(5,468)	–	–
Insurance recoveries	(1,056)	(1,005)	(51)	976	–	–
Accrued interest income	(19)	–	(19)	–	–	–
Capitalised interest	(1,155)	(1,068)	(87)	(150)	–	–
Gross deferred income tax liabilities	(94,605)	(102,819)				
Deferred income tax charge			8,214	(10,575)	–	(14,994)

Deferred income tax assets

Employee leave entitlements	4,905	4,691	213	(4)	–	–
Employer superannuation liabilities	375	7,390	(7,016)	2,970	–	–
Insurance provision	11,403	19,255	(7,852)	(1,145)	–	–
Voluntary redundancies	–	27	(27)	(517)	–	–
Staff at-risk bonuses	298	257	40	22	–	–
Provision for doubtful debts	35	39	(4)	(6)	–	–
Business development costs	604	292	313	134	–	–
Fair value assessment of electricity derivatives	59,931	–	(13,145)	–	73,076	–
Software expenditure	35	58	(22)	(40)	–	–
Low value asset pool	18	15	3	1	–	–
Strategic spares expenditure	–	–	–	(6)	–	–
Miscellaneous expenditure	–	5	(5)	(4)	–	–
Gross deferred income tax assets	77,604	32,029				
Deferred income tax charge			(27,502)	1,405	73,076	–

2006
\$'000

2005
\$'000

Unrecognised deferred tax assets

Pacific Western tax losses	13	–
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For the year ended 30th June, 2006

	Consolidated		Parent Entity	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
NOTE 5. CURRENT ASSETS – CASH AND CASH EQUIVALENTS				
Cash at bank and on hand	2,579	441	2,499	402
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	134,489	70,602	134,721	69,787
Add/(less):				
(Profit)/loss on repayment of borrowings	(4)	14	(4)	14
Amortisation of fixed interest borrowings	(2,478)	(1,179)	(2,478)	(1,179)
Provision for doubtful debts	(12)	(20)	(12)	(20)
(Profit)/loss on sale of property, plant and equipment	48	68	48	59
Add/(less): Non-cash items				
Depreciation	64,097	54,455	64,097	54,265
Amortisation of intangibles	2,810	–	2,810	–
AIFRS adjustments	(63,444)	9,527	(63,444)	9,527
Depreciation on assets written off and sold	2,139	715	2,139	545
Movement on derivative contracts	(43,817)	–	(43,817)	–
Increase/(decrease) in income tax payable	31,791	9,029	32,226	8,362
Increase/(decrease) in accrued interest expense	1,721	(1,268)	1,721	(1,156)
Net cash provided by operating activities before changes in assets and liabilities	127,340	141,943	128,007	140,204
Net changes in assets and liabilities during the financial year:				
(Increase)/decrease in receivables	25	(2,373)	25	7
(Increase)/decrease in other debtors	(21,545)	1,864	(21,545)	1,750
(Increase)/decrease in inventories	20,043	(12,778)	20,043	(18,145)
(Increase)/decrease in other assets	34,277	(284)	34,212	(804)
Increase/(decrease) in payables and borrowings	(490)	(1,732)	22	–
Increase/(decrease) in other liabilities	(35,038)	514	(34,894)	(790)
Net cash provided by operating activities	124,612	127,154	125,870	122,222

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. CURRENT ASSETS – RECEIVABLES

Trade receivables	72,219	50,676	69,501	47,957
Provision for doubtful receivables	(118)	(130)	(118)	(130)
	72,101	50,546	69,383	47,827
Insurance recoveries	3,520	2,777	3,520	2,777
Other receivables	659	683	658	683
Prepayments	391	485	391	468
	76,671	54,491	73,952	51,755

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, 2006

	Consolidated		Parent Entity	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000

NOTE 7. CURRENT ASSETS – INVESTMENTS

Investments	670	1,925	670	1,925
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NOTE 8. CURRENT ASSETS – INVENTORIES

Stores and materials	862	1,005	862	1,005
Coal stocks	22,285	42,047	22,285	42,047
Oil stocks	1,012	1,150	1,012	1,150
	24,159	44,202	24,159	44,202

Inventory Write-Downs

Write-downs of inventories recognised as an expense during the year amounted to \$202,792 (2005 – \$2,013,748).

NOTE 9. CURRENT ASSETS – INTANGIBLE ASSETS

For the year ended 30 June 2006, 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.

Eraring Energy has invested in a carbon sequestration program to remedy pollution from greenhouse gas emissions with the establishment of mallee eucalypt plantations. Eraring will be entitled to Natural Greenhouse Abatement Certificates (NGACs) resulting from the program. Eraring will participate in the program for a period of 30 years. Cost will be amortised on a pro-rata basis based on the expected number of NGACs registered each year.

No revaluation or impairment loss was recognised during the 2006 financial year.

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

Net Carrying Amount

Included in computer software as at 30 June is an amount of \$338,253 (2005 – \$1,417,277) relating to work in progress expenditure.

For the year ended 30th June, 2006

	Carbon Sequestration \$'000	Parent Entity Computer Software \$'000	Total \$'000
NOTE 9. CURRENT ASSETS – INTANGIBLE ASSETS (CONTINUED)			
Year ended 30 June 2005			
As at 1 July 2004, net of accumulated amortisation	–	6,964	6,964
Additions	–	1,113	1,113
Amortisation	–	(2,854)	(2,854)
As at 30 June 2005, net of accumulated amortisation	–	5,223	5,223
As at 1 July 2004			
Cost (gross carrying amount)	–	9,566	9,566
Accumulated amortisation and impairment	–	(2,603)	(2,603)
As at 1 July 2004, net of accumulated amortisation	–	6,963	6,963
As at 30 June 2005			
Cost (gross carrying amount)	–	10,680	10,680
Accumulated amortisation and impairment	–	(5,457)	(5,457)
As at 30 June 2005, net of accumulated amortisation	–	5,223	5,223

	Consolidated		Parent Entity	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000

NOTE 10. CURRENT ASSETS – ELECTRICITY DERIVATIVES

Electricity derivatives	6,826	–	6,826	–
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NOTE 11. CURRENT ASSETS – OTHER CURRENT ASSETS

Superannuation – overfunded position	(see Note 34)	4,503	205	4,503	205
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NOTE 12. NON-CURRENT ASSETS – RECEIVABLES

Insurance recoveries	(see Note 25)	–	573	–	573
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NOTE 13. NON-CURRENT ASSETS – OTHER FINANCIAL ASSETS

Shares in controlled entities	–	–	.001	.001
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Unlisted Shares in Controlled Entity

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

For the year ended 30th June, 2006

	Freehold Land \$'000	Power Station Building \$'000	Other Buildings \$'000	Plant & Equipment Power Stn \$'000	Plant & Equipment Other \$'000	Leasehold Improve- ment \$'000	Total \$'000
NOTE 14. NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT							
Parent Entity 2006							
As at 1 July 2005,							
net of accumulated depreciation	32,830	21,324	1,127	1,361,083	4,634	437	1,421,435
Additions	33	231	–	29,301	3,004	–	32,569
Parent plant spares transfer	–	–	–	6,066	–	–	6,066
Capital spares transfer	–	–	–	723	–	–	723
Disposals	–	–	–	–	(626)	–	(626)
Depreciation charge for the year	–	(705)	(30)	(63,683)	(1,750)	(66)	(66,234)
Balance @ 30 June 2006	32,863	20,850	1,097	1,333,490	5,262	371	1,393,933
As at 1 July 2005							
Cost or fair value	32,830	21,324	1,219	1,370,728	8,759	699	1,435,559
Accumulated depreciation/impairment	–	–	(91)	(9,645)	(4,125)	(263)	(14,124)
Net carrying amount	32,830	21,324	1,128	1,361,083	4,634	436	1,421,435
As at 30 June 2006							
Cost or fair value	32,863	21,554	1,219	1,403,900	10,593	699	1,470,828
Accumulated depreciation/impairment	–	(704)	(122)	(70,409)	(5,331)	(329)	(76,895)
Net carrying amount	32,863	20,850	1,097	1,333,491	5,262	370	1,393,933
Parent Entity 2005							
As at 1 July 2004,							
net of accumulated depreciation	32,790	19,904	1,158	1,313,298	4,119	503	1,371,772
Additions	40	86	–	40,716	2,543	–	43,385
Parent plant spares transfer	–	–	–	8,126	–	–	8,126
Capital spares transfer	–	–	–	1,024	–	–	1,024
Disposals	–	–	–	(520)	(656)	–	(1,176)
Revaluations	–	1,960	–	48,019	–	–	49,979
Impairment	–	–	–	(263)	–	–	(263)
Depreciation charge for the year	–	(626)	(31)	(49,317)	(1,372)	(66)	(51,412)
Balance @ 30 June 2005	32,830	21,324	1,127	1,361,083	4,634	437	1,421,435
As at 1 July 2004							
Cost or fair value	32,790	19,904	1,219	1,318,560	7,608	699	1,380,780
Accumulated depreciation/impairment	–	–	(61)	(5,262)	(3,489)	(197)	(9,009)
Net carrying amount	32,790	19,904	1,158	1,313,298	4,119	502	1,371,771
As at 30 June 2005							
Cost or fair value	32,830	21,324	1,219	1,370,728	8,759	699	1,435,559
Accumulated depreciation/impairment	–	–	(91)	(9,645)	(4,125)	(263)	(14,124)
Net carrying amount	32,830	21,324	1,128	1,361,083	4,634	436	1,421,435

NOTE 14. NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**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 replacement value of the Eraring power station and hydro and wind assets was conducted by Rodney Hyman Asset Services as at 30th June 2005 and 30th June 2004 respectively.

A valuation exercise was undertaken to the power station equipment and associated building asset classes during the year. No revaluation was recognised this financial year (2005 – \$49.9 million revaluation increment) due to the value in use valuation effective 30th June 2006 being within materiality provisions of the current carrying value.

The discounted cash flow valuation was conducted effective at 30th June 2006 using 2006/07 SCI 10 year forecasts as at 31st January 2006 together with assumptions for the remaining residual lives of generating plant.

There was no change to Eraring Energy's weighted average cost of capital applied in the value in use calculation.

The discounted cash flow valuation of property, plant and equipment uses a number of estimates which are subject to volatility in competitive energy and coal markets. The most vulnerable are forecasting long term electricity and coal prices and production levels in an environment of predicting the timing of new entrants, technology improvements, the regulatory regime including a potential greenhouse impost on generators, general competitive bidding behaviour as well as world energy prices. The consequences of these factors in particular may cause future asset values to materially change. Eraring uses its internal weighted average cost of capital to discount future revenue and cost streams to present value. A 0.5% change in the weighted average cost of capital alters asset values by around \$40 million.

Valuation of Land

The class of land assets are measured at fair value. An independent review of the market fair value of Eraring Energy land was conducted by BEM Property Consultants and Valuers at 1st July 2003. A valuation exercise was not undertaken during the year.

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 2006							
Cost	2,565	13,903	1,800	1,336,486	10,593	700	1,366,047
Accumulated depreciation	–	(2,448)	(266)	(253,242)	(5,331)	(329)	(261,616)
Net carrying amount	2,565	11,455	1,534	1,083,244	5,262	371	1,104,431
Parent Entity 2005							
Cost	2,532	13,846	1,800	1,301,637	8,759	700	1,329,274
Accumulated depreciation	–	(1,997)	(221)	(204,829)	(4,125)	(263)	(211,435)
Net carrying amount	2,532	11,849	1,579	1,096,808	4,634	437	1,117,839

Net Carrying Amount

Included in plant and equipment as at 30 June is an amount of \$22,055,373 (2005 – \$20,447,725) relating to work in progress expenditure.

Impairment Loss

There was no impairment loss for the current financial year (2005 – \$263,214 loss).

For the year ended 30th June, 2006

		Consolidated		Parent Entity	
		2006	2005	2006	2005
		\$'000	\$'000	\$'000	\$'000
NOTE 15. NON-CURRENT ASSETS – DEFERRED TAX ASSETS					
Deferred tax assets		77,604	32,029	77,604	31,981
NOTE 16. NON-CURRENT ASSETS – ELECTRICITY DERIVATIVES					
Electricity derivatives		4,207	–	4,207	–
NOTE 17. CURRENT LIABILITIES – PAYABLES					
Trade payables		18,040	30,759	17,912	30,117
Other payables		26,684	27,393	26,684	27,393
		44,724	58,152	44,596	57,510
NOTE 18. CURRENT LIABILITIES – INTEREST BEARING LIABILITIES					
Borrowings		17,340	62,823	17,340	62,823
Loan from Pacific Western		–	–	626	1,925
		17,340	62,823	17,966	64,748
Current Borrowings					
Short term loans – face value	17,340				
	17,340				
NOTE 19. CURRENT LIABILITIES – CURRENT TAX LIABILITIES					
Income tax		20,692	8,139	20,692	7,704
NOTE 20. CURRENT LIABILITIES – PROVISIONS					
Dividend	(see Note 31)	41,320	82,327	41,320	82,327
Employee entitlements	(see Note 34)	16,348	15,641	16,348	15,587
Redundancy		–	88	–	–
Insurances	(see Note 25)	3,466	5,681	3,466	5,681
		61,134	103,737	61,134	103,595
Reconciliation of provision classes – see Note 25					
NOTE 21. CURRENT LIABILITIES – ELECTRICITY DERIVATIVES					
Electricity derivatives		147,700	–	147,700	–
NOTE 22. CURRENT LIABILITIES – OTHER CURRENT LIABILITIES					
Superannuation – underfunded liability	(see Note 34)	5,753	24,841	5,753	24,841

For the year ended 30th June, 2006

		Consolidated		Parent Entity	
		2006	2005	2006	2005
		\$'000	\$'000	\$'000	\$'000
NOTE 23. NON-CURRENT LIABILITIES – INTEREST BEARING LIABILITIES					
Borrowings		195,214	102,113	195,214	102,113
Non-Current Borrowings					
Non-current borrowings	190,948				
Premium on domestic loans issued by NSW Tcorp	4,266				
	<u>195,214</u>				
Total Debt					
Current	(see Note 18)	17,340			
Non-current		<u>195,214</u>			
		<u>212,554</u>			
Total Debt and Maturity Analysis					
Total debt outstanding at 30th June 2006, and maturity pattern is:					
Up to one year	17,340				
Over two and up to five years	95,477				
Over five years	<u>99,737</u>				
Total	<u>212,554</u>				
Finance Facilities Available					
Bank overdraft	2,000				
NSW Treasury Corporation loans and come and go	<u>470,000</u>				
Total	<u>472,000</u>				
Finance Facilities Used as at 30 June 2006					
NSW Treasury Corporation loans and come and go	<u>212,554</u>				
Total	<u>212,554</u>				

Eraring Energy also utilises the Commonwealth Bank of Australia facilities for intra day cash management (real time gross settlements – \$20,000,000) and credit card facilities (\$1,000,000) as approved by the Governor under Public Authorities Finance Act legislation. Eraring Energy also utilises the facility with NSW Treasury Corporation for contingent liabilities associated with dust disease liabilities (\$20,000,000). With the exception of the Commonwealth Bank of Australia facilities, all new borrowings are arranged through NSW Treasury Corporation.

The come and go facility of \$30,000,000 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 \$49 million in August 2005 via a non cash equity to debt swap.

For the year ended 30th June, 2006

	Consolidated		Parent Entity	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000

NOTE 24. NON-CURRENT LIABILITIES – DEFERRED TAX LIABILITIES

Deferred tax liabilities	94,605	102,819	94,605	102,819
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NOTE 25. NON-CURRENT LIABILITIES – PROVISIONS

Insurance	37,784	62,321	37,784	62,321
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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:

	Dividend \$'000	Current Redundancy \$'000	Insurances \$'000	Non-current Insurances \$'000	Total \$'000
Parent Entity 2006					
Balance @ 1 July 2005	82,327	–	5,681	62,321	150,329
Additional provisions recognised/(derecognised)	41,320	–	–	(23,129)	18,191
Provision payments	(82,327)	–	(3,623)	–	(85,950)
Current v non-current transfer	–	–	1,408	(1,408)	–
Balance @ 30 June 2006	41,320	–	3,466	37,784	82,570
Consolidated Entity 2006					
Balance @ 1 July 2005	82,327	88	5,681	62,321	150,417
Additional provisions recognised/(derecognised)	41,320	–	–	(23,129)	18,191
Provision payments	(82,327)	(88)	(3,623)	–	(86,038)
Current v non-current transfer	–	–	1,408	(1,408)	–
Balance @ 30 June 2006	41,320	–	3,466	37,784	82,570

	Consolidated		Parent Entity	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000

Insurances**Provision**

Current	(see Note 20)	3,466	5,681	3,466	5,681
Non-current	(see Note 25)	37,784	62,321	37,784	62,321
		41,250	68,002	41,250	68,002

Recoveries

Current	(see Note 6)	3,520	2,777	3,520	2,777
Non-current	(see Note 12)	–	573	–	573
		3,520	3,350	3,520	3,350

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.

For the year ended 30th June, 2006

NOTE 25. NON-CURRENT LIABILITIES – PROVISIONS (CONTINUED)

The total insurance provision is made up of a provision for current workers compensation and dust diseases claims liability at \$3,240,000 (2005 – \$3,820,000) 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 balance of the insurance provision is \$38,010,000 (2005 – \$64,182,225) and represents future dust diseases claims liability. The insurance provision includes a provision for \$39,920,000 (2005 – \$66,392,225) 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 \$3,520,000 (2005 – \$3,350,000), and is in accordance with independent actuarial advice. Anticipated future recoveries that are considered probable but not virtually certain are disclosed as a contingent asset (refer Note 32).

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 \$0.9 million.

	Consolidated		Parent Entity	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
NOTE 26. NON-CURRENT LIABILITIES – ELECTRICITY DERIVATIVES				
Electricity derivatives	63,103	–	63,103	–
NOTE 27. CONTRIBUTED EQUITY, RESERVES AND RETAINED PROFITS				
Contributed equity	766,528	879,481	766,528	879,481
Reserves	185,037	185,037	185,037	185,037
Retained profits	(42,329)	(28,940)	(45,626)	(32,469)
	909,236	1,035,578	905,939	1,032,049
Movements in Contributed Equity				
Opening balance	879,481	895,481	879,481	895,481
NSW Treasury debt for equity swap	(49,000)	(16,000)	(49,000)	(16,000)
Net income recognised directly in contributed equity	(63,953)	–	(63,953)	–
	766,528	879,481	766,528	879,481
Movements in Asset Revaluation Reserve				
Opening balance	185,037	150,051	185,037	150,051
Asset revaluation increment	–	49,979	–	49,979
Tax effect adjustment	–	(14,993)	–	(14,993)
	185,037	185,037	185,037	185,037
Movements in Retained Profits				
Opening balance	(28,940)	(35,555)	(32,469)	(37,724)
Net profit after tax	134,489	70,602	134,721	69,787
Dividends (see Note 31)	(41,320)	(82,872)	(41,320)	(82,872)
Prior year dividend elimination (see Note 31)	–	545	–	–
Effects of valuing assets individually rather than by class	–	2,829	–	2,829
Tax effect adjustment	–	15,511	–	15,511
AIFRS Derivatives transition adjustments	(106,558)	–	(106,558)	–
	(42,329)	(28,940)	(45,626)	(32,469)

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.

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

For the year ended 30th June, 2006

	Consolidated		Parent Entity	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000

NOTE 28. CAPITAL EXPENDITURE COMMITMENTS

Capital commitments payable:

Within one year	22,124	20,969	22,124	20,969
Later than one year but not later than five years	902	3,080	902	3,080
	23,026	24,049	23,026	24,049

Eraring Energy expects to receive input tax credits from the Australian Taxation Office totalling \$2,093,221 (2005 – \$2,186,310) for Goods and Services Tax paid with these commitments.

NOTE 29. LEASE COMMITMENTS

Operating lease rentals payable:

Within one year	432	183	432	140
Later than one year but not later than five years	831	10	831	–
	1,263	193	1,263	140

Operating Leases

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

Eraring Energy expects to receive input tax credits from the Australian Taxation Office totalling \$114,759 (2005 – \$12,676) for Goods and Services Tax paid with these commitments.

NOTE 30. OPERATING EXPENDITURE COMMITMENTS

Operating expenditure commitments payable:

Within one year	19,258	19,996	19,258	19,996
Later than one year but not later than five years	13,998	14,509	13,998	14,509
Later than five years	–	2,475	–	2,475
	33,256	36,980	33,256	36,980

Eraring Energy expects to receive input tax credits from the Australian Taxation Office totalling \$3,023,250 (2005 – \$3,361,800) for Goods and Services Tax paid with these commitments.

NOTE 31. 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 \$41,320,295 (2005 – \$82,326,803). This will be paid during the course of the 2006/07 financial year and is represented by the balance of the provision (see Note 20). The dividend provision has been increased by the amount of \$2,047,067 (2005 – \$2,198,289) 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 32. CONTINGENT ASSETS AND LIABILITIES**Contingent Assets**

Eraring Energy has a contingent asset of \$14,100,000 for probable future insurance recoveries relating to claims provided for in its insurance provision.

Contingent Liabilities**Parent Entity**

Eraring Energy has received a claim for additional costs from a contractor for work performed at Burrinjuck in the order of \$14 million. Eraring Energy is contesting the quantum of the claim and its own assessment is under \$1 million which has been provided for in its accounts. The dispute is currently in arbitration.

An unspecified claim for damages has been lodged in Court arising from alleged soil contamination to a neighbouring property at Eraring Power Station. Eraring Energy has lodged a defence to the claim.

Pacific Western

Western Power has submitted a claim under the contract for loss and/or damages incurred as a direct consequence of the early termination of the contract by Pacific Western. Western Power has assessed the claim at \$3.9 million and is withholding payment of sums due to Pacific Western of \$2.7 million (the amount of trade receivables) pending resolution of the claim. Pacific Western has disputed the validity of the claim and the withholding of payments. A summary judgement application is currently before the Supreme Court of Western Australia.

NOTE 33. FINANCIAL INSTRUMENTS

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

Forward Foreign Exchange Contracts

In the normal course of business, Eraring Energy enters into contracts required for goods or services from overseas which are settled in the suppliers currency. Under Board approval, Eraring Energy hedges specific commitments by use of forward foreign exchange contracts. The contracts are timed to mature when settlement of the goods and services are due, and any gain or loss realised being included in the measurement of the purchase price. At balance date Eraring Energy had 3 (2005 – 2) forward foreign exchange contracts as detailed below:

	Contracts	2006 Average Exchange Rate	Principal Amount AUD	Contracts	2005 Average Exchange Rate	Principal Amount AUD
Japanese Yen duration less than one year	–	–	–	2	73.48	1,539,350
United States Dollar duration greater than one year	3	0.727	10,139,507	–	–	–

The contracts as at 30 June 2006 are showing an unrealised loss of \$141,024 (2005 – \$193,148 loss).

For the year ended 30th June, 2006

NOTE 33. FINANCIAL INSTRUMENTS (CONTINUED)**a) Interest Rate Risk**

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

	Floating Interest Rate \$'000	Fixed Interest Rate 1 Year or less \$'000	1 to 5 years \$'000	Maturing In Over 5 years \$'000	Non- Interest Bearing \$'000	Total Carrying Amount \$'000	Weighted Average Effective Interest Rate pa %
Parent Entity 2006							
Financial Assets							
Cash	2,018	–	–	–	481	2,499	5.30%
Trade Receivables	–	–	–	–	70,155	70,155	–
Derivatives	–	–	–	–	11,034	11,034	–
Deposits	670	–	–	–	–	670	5.49%
Other	–	–	–	–	4	4	–
Total Financial Assets	2,688	–	–	–	81,674	84,362	–
Financial Liabilities							
Accounts Payable	–	–	–	–	40,246	40,246	–
Derivatives	–	–	–	–	210,803	210,803	–
Debt	–	17,340	95,477	99,737	–	212,554	5.42%
Other	–	–	–	–	41,320	41,320	–
Total Financial Liabilities	–	17,340	95,477	99,737	292,369	504,923	–
Consolidated Entity 2006							
Financial Assets							
Cash	2,098	–	–	–	481	2,579	5.30%
Trade Receivables	–	–	–	–	72,874	72,874	–
Derivatives	–	–	–	–	11,034	11,034	–
Deposits	670	–	–	–	–	670	5.49%
Other	–	–	–	–	4	4	–
Total Financial Assets	2,768	–	–	–	84,393	87,161	–
Financial Liabilities							
Accounts Payable	–	–	–	–	40,374	40,374	–
Derivatives	–	–	–	–	210,803	210,803	–
Debt	–	17,340	95,477	99,737	–	212,554	5.42%
Other	–	–	–	–	41,320	41,320	–
Total Financial Liabilities	–	17,340	95,477	99,737	292,497	505,051	–
Parent Entity 2005							
Financial Assets							
Cash	402	–	–	–	–	402	3.66%
Trade Receivables	–	–	–	–	48,636	48,636	–
Deposits	1,925	–	–	–	–	1,925	5.45%
Other	–	–	–	–	5	5	–
Total Financial Assets	2,327	–	–	–	48,641	50,968	–
Financial Liabilities							
Accounts Payable	–	–	–	–	59,423	59,423	–
Debt	27,900	34,923	33,457	68,656	–	164,936	5.38%
Other	–	–	–	–	82,574	82,574	–
Total Financial Liabilities	27,900	34,923	33,457	68,656	141,997	306,933	–

For the year ended 30th June, 2006

	Floating Interest Rate \$'000	Fixed Interest 1 Year or less \$'000	Interest Rate 1 to 5 years \$'000	Maturing In Over 5 years \$'000	Non- Interest Bearing \$'000	Total Carrying Amount \$'000	Weighted Average Effective Interest Rate pa %
NOTE 33. FINANCIAL INSTRUMENTS (CONTINUED)							
Consolidated 2005							
Financial Assets							
Cash	441	–	–	–	–	441	3.66%
Trade Receivables	–	–	–	–	51,354	51,354	–
Deposits	1,925	–	–	–	–	1,925	5.45%
Other	–	–	–	–	5	5	–
Total Financial Assets	2,366	–	–	–	51,359	53,725	–
Financial Liabilities							
Accounts Payable	–	–	–	–	60,064	60,064	–
Debt	27,900	34,923	33,457	68,656	–	164,936	5.38%
Other	–	–	–	–	82,574	82,574	–
Total Financial Liabilities	27,900	34,923	33,457	68,656	142,638	307,574	–

b) Credit Risk – Recognised Financial Instruments

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

Electricity Hedging Contracts

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

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

For the year ended 30th June, 2006

	Government \$'000	Banks \$'000	Others \$'000	Total \$'000
NOTE 33. FINANCIAL INSTRUMENTS (CONTINUED)				
Parent Entity 2005				
Financial Assets				
Cash	–	402	–	402
Trade Receivables	37,805	–	10,831	48,636
Deposits	1,925	–	–	1,925
Other	–	–	5	5
Total Financial Assets	39,730	402	10,836	50,968

Consolidated 2005				
Financial Assets				
Cash	–	441	–	441
Trade Receivables	40,523	–	10,831	51,354
Deposits	1,925	–	–	1,925
Other	–	–	5	5
Total Financial Assets	42,448	441	10,836	53,725

c) Net Fair Value

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

	Total Carrying Amount \$'000	Aggregate Net Fair Value \$'000
Parent Entity 2006		
Semi-Government Bonds	212,554	211,873
Consolidated 2006		
Semi-Government Bonds	212,554	211,873
Parent Entity 2005		
Semi-Government Bonds	164,936	167,945
Consolidated 2005		
Semi-Government Bonds	164,936	167,945

d) Electricity Derivatives Disclosure Note

	2006 Face Value \$'000	2005 Face Value \$'000
Electricity Hedging Contracts		
Duration less than one year	484,707	393,058
Duration later than one year but not later than five years	523,996	637,827
Duration later than five years	–	3,906
	1,008,703	1,034,791
Electricity Derivatives Fair Values		
Current asset	6,826	
Non-current asset	4,207	
Current liability	(147,700)	
Non-current liability	(63,103)	
	(199,770)	

NOTE 33. FINANCIAL INSTRUMENTS (CONTINUED)

The contracts as at the 30th June 2006 have a net mark to market value of negative \$200 million (2005 – negative \$202 million).

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

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

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

		Consolidated		Parent Entity	
		2006	2005	2006	2005
		\$'000	\$'000	\$'000	\$'000
NOTE 34. EMPLOYEE ENTITLEMENTS					
Provision for employee entitlements					
Current	(see Note 20)	16,348	15,641	16,348	15,587
Defined benefits superannuation balance					
Superannuation – overfunded asset	(see Note 11)	4,503	205	4,503	205
Superannuation – underfunded (liability)	(see Note 22)	(5,753)	(24,841)	(5,753)	(24,841)
		(1,250)	(24,636)	(1,250)	(24,636)

Long Service Leave

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

Consumer price index	3.0%
Investment return	5.9%
Salary increase	4.5%

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.

For the year ended 30th June, 2006

	SASS \$'000	SANCS \$'000	SSS \$'000	Total \$'000
NOTE 34. EMPLOYEE ENTITLEMENTS (CONTINUED)				
Superannuation position as at 30 June 2006				
Reconciliation of the assets and liabilities recognised in the balance sheet				
Present value of defined benefit obligations	33,971	8,684	109,292	151,947
Fair value of plan assets	(36,624)	(10,533)	(103,539)	(150,696)
Net (asset)/liability to be disclosed in the balance sheet	(2,653)	(1,849)	5,753	1,251
Movement in net liability/asset recognised in the balance sheet				
Net (asset)/liability at the start of the year	738	(205)	24,103	24,636
Net (revenue) expense recognised in the income statement	(2,474)	(957)	(15,781)	(19,212)
Contributions	(917)	(687)	(2,569)	(4,173)
Net (asset)/liability to be disclosed in the balance sheet	(2,653)	(1,849)	5,753	1,251
Total expense (revenue) recognised in the income statement				
Current service cost	1,140	497	2,046	3,683
Interest on obligation	1,891	428	6,264	8,583
Expected return on plan assets	(2,371)	(660)	(6,573)	(9,604)
Net actuarial losses (gains) recognised in year	(3,134)	(1,222)	(17,518)	(21,874)
Total expense (revenue) included in income statement	(2,474)	(957)	(15,781)	(19,212)
Actual return on plan assets	4,829	1,424	13,438	19,691
Member numbers				
Contributors	131	263	132	
Deferred benefits	-	-	4	
Pensioners	2	-	39	
Pensioners fully commuted	-	-	4	
Superannuation position as at 30 June 2005				
Reconciliation of the assets and liabilities recognised in the balance sheet				
Present value of defined benefit obligations	31,956	8,523	110,133	150,612
Fair value of plan assets	(31,218)	(8,728)	(86,030)	(125,976)
Net (asset)/liability to be disclosed in the balance sheet	738	(205)	24,103	24,636
Movement in net liability/asset recognised in the balance sheet				
Net (asset)/liability at the start of the year	313	(189)	14,611	14,735
Net (revenue) expense recognised in the income statement	1,486	481	11,396	13,363
Contributions	(1,061)	(497)	(1,904)	(3,462)
Net (asset)/liability to be disclosed in the balance sheet	738	(205)	24,103	24,636
Total expense (revenue) recognised in the income statement				
Current service cost	1,093	456	1,809	3,358
Interest on obligation	1,762	421	5,497	7,680
Expected return on plan assets	(2,009)	(544)	(5,368)	(7,921)
Net actuarial losses (gains) recognised in year	640	148	9,458	10,246
Total expense (revenue) included in income statement	1,486	481	11,396	13,363
Actual return on plan assets	3,549	970	9,586	14,105
Member numbers				
Contributors	132	267	135	
Deferred benefits	-	-	4	
Pensioners	1	-	34	
Pensioners fully commuted	-	-	5	

For the year ended 30th June, 2006

NOTE 34. EMPLOYEE ENTITLEMENTS (CONTINUED)

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.

Principal actuarial assumptions at the reporting date

Discount rate at 30 June	5.9%
Expected return on plan assets at 30 June	7.6%
Expected salary increases	4.0%pa to 2008; 3.5% pa thereafter
Expected rate of CPI increase	2.5%

Arrangements for employer contributions for funding

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

	SASS \$'000	SANCS \$'000	SSS \$'000	Total \$'000
Financial position as at 30 June 2006				
Accrued benefits	32,351	8,245	91,791	132,387
Net market value of fund assets	(36,624)	(10,533)	(103,538)	(150,695)
Net (surplus)/deficit	(4,273)	(2,288)	(11,747)	(18,308)
Financial position as at 30 June 2005				
Accrued benefits	28,532	7,453	82,548	118,533
Net market value of fund assets	(31,218)	(8,728)	(86,030)	(125,976)
Net (surplus)/deficit	(2,686)	(1,275)	(3,482)	(7,443)
	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:

	2006	2005
Expected rate of return on fund assets	7.3%	7.0%
Expected salary increase rate	4.0%	4.0%
Expected rate of CPI increase	2.5%	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 35. RELATED PARTIES

No Director or key management personnel has declared the receipt of, or an entitlement to receive, during or since the financial year, a benefit as a result of a contract between Eraring Energy and the individual, an entity of which a Director or key management personnel is a member or an entity in which a Director or key management personnel has a substantial financial interest.

Transactions and outstanding balances between Eraring Energy and its wholly owned subsidiary, Pacific Western Pty Ltd, are conducted on normal commercial terms, and are not material.

For the year ended 30th June, 2006

NOTE 36. DIRECTORS**Terms and Remuneration of Directors**

Eraring Energy pays all remuneration of non-executive directors which is set by the voting shareholders. No additional remuneration is paid to the Managing Director for being an executive director.

Name & Position	Appointed	Qualifications
Non-Executive Directors		
Mr RM Bunyon * Chairman and Director	21st July 2000 to 30th June 2006 Reappointed to 30th June 2009	BComm (UNSW), CIE Aust Director
Ms BA Hoskinson-Green Director	21st July 2000 to 30th June 2005 Reappointed to 30th June 2008	LLB (UNSW), LL.M (Harvard) Solicitor/Director, Suzie Broome & Company Pty Limited, Strata Lawyers
Mr J Maitland * Director	21st July 2000 to 22nd March 2006	National Secretary, Construction, Forestry, Mining & Energy Union
Dr MJ Vertigan * Director	21st July 2000 to 30th June 2005 Reappointed to 30th June 2008	AC, B.Ec (Hons) Tasmania PhD California, FAICD Director
Mr M Nugent Director	1st July 2001 to 30th June 2004 Reappointed to 30th June 2007	FCPA Director
Mr D Pritchard Director	22nd August 2001 to 30th June 2004 Reappointed to 30th June 2007	BE, FIE Aust, CP Eng, FAICD Director
Executive Director		
Mr G Grove-White * Managing Director	2nd January 2001 to 26th June 2006	BSc (MechEngr) Hons, Chartered Engineer MI Mech E, Cert Diploma in Accountancy and Finance
Mr P Jackson Acting Managing Director	26th June 2006	BSc, BE, MEM GAICD

* These directors of Eraring Energy were also directors of Pacific Western Pty Ltd during 2005/06. No additional remuneration is paid to these directors for undertaking their Pacific Western directorship.

	Parent Entity	
	2006	2005
	\$'000	\$'000
Income paid or payable, or otherwise made available, to directors in connection with the management of the affairs of the entity	829	799
Superannuation benefits payable	75	83
Total remuneration payable to directors	904	882
The number of directors whose total income from the entity was within the following bands are as follows:		
40,000 – 49,999	1	–
60,000 – 69,999	2	5
70,000 – 79,999	2	–
110,000 – 119,999	1	1
430,000 – 439,999	–	1
460,000 – 469,999	1	–

For the year ended 30th June, 2006

	Consolidated		Parent Entity	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000

NOTE 37. REMUNERATION TO EXTERNAL AUDITORS

Remuneration paid or payable for audit of the financial report	218	206	211	188
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NOTE 38. 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.

	Consolidated		Parent Entity	
	30 June	1 July	30 June	1 July
	2005	2004	2005	2004
Note	\$'000 **	\$'000 *	\$'000 **	\$'000 *

NOTE 39. IMPACTS OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

Reconciliation of total equity under previous AGAAP to that under AIFRS

Total equity under previous AGAAP		1,157,423	1,125,904	1,153,894	1,123,735
Adjustments to accumulated funds					
Effects of valuing assets individually rather than by class	1	(2,927)	(2,664)	(2,927)	(2,664)
Derecognition of insurance receivables	2	(31,366)	(34,000)	(31,366)	(34,000)
Defined benefit superannuation adjustment for change in discount rate	3	(32,078)	(15,926)	(32,078)	(15,926)
Tax effect adjustment	4	20,901	9,370	20,901	9,370
Adjustments to other reserves					
Effect of valuing assets individually rather than by class	1	2,927	2,664	2,927	2,664
Tax effect adjustment	4	(79,302)	(66,718)	(79,302)	(66,718)
Total equity under AIFRS		1,035,578	1,018,630	1,032,049	1,016,461

* adjustments as at the date of transition

** cumulative adjustments as at date of transition plus the year ended 30 June 2005

Excludes the impacts of electricity derivatives which were recognised on Balance Sheet on 1st July 2005, due to mandated exemptions from NSW Treasury.

For the year ended 30th June, 2006

	Notes	Parent Entity 2006 \$'000	2005 \$'000
NOTE 39. IMPACTS OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)			
Reconciliation of profit after tax under previous AGAAP to that under AIFRS			
Net profit after tax under previous AGAAP		80,129	79,314
Write-back of Asset Revaluation Reserve decrements	1	(263)	(263)
Insurance recovery income	2	2,634	2,634
Defined benefit superannuation	3	(16,152)	(16,152)
Income tax expense	4	4,254	4,254
Net profit after tax under AIFRS		70,602	69,787

Notes to tables above

1. AASB116 *Property, Plant and Equipment* require for-profit entities to recognise revaluation increments and decrements on an individual asset basis, rather than a class basis. This change will decrease accumulated funds and increase the asset revaluation reserve.
2. AASB137 *Provisions, Contingent Assets & Contingent Liabilities* prevents the recognition of an asset for reimbursements receivable associated with a provision liability unless the recovery is virtually certain. Under AGAAP, the test was less stringent and allowed recognition of the asset if recovery was probable. This change will decrease both accumulated funds and the asset.
3. AASB119 *Employee Benefits* requires the defined benefit superannuation obligation to be discounted using the government bond rate as at each reporting date, rather than the long-term expected rate of return on plan assets. This will decrease Eraring Energy's superannuation asset (overfunded position), and will result in the creation of a superannuation liability. The quantum of the superannuation expense is also changed.
4. AASB112 *Income Taxes* uses a balance sheet approach which requires the differences between the accounting and tax value of assets and liabilities to be recognised as deferred tax assets or liabilities. AGAAP uses an operating statement method that accounts for tax by adjusting accounting profit for temporary and permanent differences to derive taxable income. The AASB112 approach alters the quantum and timing of tax assets and liabilities recognised. In particular, the balance sheet approach results in the recognition of a deferred tax liability in relation to revalued assets that are generally not recognised under AGAAP. This also changes the quantum and timing of the tax expense.

NOTE 40. EVENTS OCCURRING AFTER BALANCE DATE

Agreement was reached for Eraring Energy to repay capital of \$184 million at a time to be determined during the 2006/07 financial year via a non cash equity to debt swap.

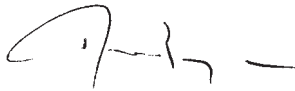
End of the financial statements audited by the Auditor-General

For the year ended 30th June, 2006

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

1. The Financial Statements exhibit a true and fair view of the financial position, financial performance and cash flows of Eraring Energy as at 30th June 2006.
2. The Financial Statements are a general purpose financial report which has been prepared in accordance with applicable Australian Accounting Standards and other mandatory professional reporting requirements, the provisions of the State Owned Corporations Act 1989, Part 3 of the Public Finance and Audit Act 1983, the Public Finance and Audit Regulation 2005 and Treasurer's Directions, except where the Treasurer's exemption has been granted.
3. At the date of this statement, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
4. We are not aware of any circumstances at the date of this declaration that would render any particulars included in this financial report to be misleading or inaccurate.

Dated at Sydney this 19th day of September 2006.



RM Bunyon
Chairman



P Jackson
Managing Director



GPO Box 12
Sydney NSW 2001

To Members of the New South Wales Parliament

Audit Opinion

In my opinion, the financial report of Eraring Energy (the Corporation):

- presents fairly the Corporation's and the consolidated entity's (defined below) financial position as at 30 June 2006 and their performance for the year ended on that date, in accordance with Accounting Standards and other mandatory financial reporting requirements in Australia, and
- complies with section 41B of the *Public Finance and Audit Act 1983* (the Act) and the *Public Finance and Audit Regulation 2005*.

Scope

The Financial Report and Board Responsibility

The financial report comprises the balance sheets, income statements, statements of changes in equity, cash flow statements and accompanying notes to the financial statements for the Corporation and consolidated entity, for the year ended 30 June 2006. The consolidated entity comprises the Corporation and the entity it controlled during the financial year.

The members of the Board of the Corporation are responsible for the preparation and true and fair presentation of the financial report in accordance with the Act. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit Approach

I conducted an independent audit in order to express an opinion on the financial report. My audit provides *reasonable assurance* to Members of the New South Wales Parliament that the financial report is free of *material* misstatement.

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

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

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

My opinion does *not* provide assurance:

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

Audit Independence

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

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

A T Whitfield FCA
Acting Auditor-General

Sydney
19 September 2006

The Directors present their report together with the financial statements of Pacific Western Pty Ltd for the period 1 July 2005 to 30 June 2006 and the auditor's report thereon.

Directors

The Directors in office at the date of this report are Ross Murdoch Bunyon, Michael John Vertigan and Peter Jackson.

Directors Bunyon, Vertigan and Gerry Grove-White held office for the whole of the financial year. John Maitland resigned as a Director on the 22nd March 2006. Gerry Grove-White resigned as a director on the 15th August 2006. Peter Jackson was appointed as a Director on the 15th August 2006.

Principal Activities

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

Financial Performance

Pacific Western made an operating net loss before tax of \$173,295 and an operating net loss after tax of \$232,139.

Dividends

No dividend has been recommended from retained earnings at the 30th June 2006 pending dispute resolution with Western Power.

Directors' Benefits

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

Likely Developments

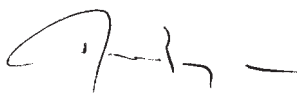
Dispute resolution has commenced with Western Power over their claim for additional costs associated with the early termination of the contract. Pacific Western disagrees with the basis and quantum of the claim. A summary judgement application is currently before the Supreme Court of Western Australia.

Auditors Independence Declaration

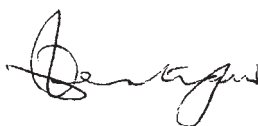
The Auditors Independence Declaration, required under Corporations Act 2001, is included on the following page.

Dated at Sydney this 19th day of September 2006

Signed in accordance with a resolution of the Directors:



RM Bunyon
Chairman



MJ Vertigan
Director

For the year ended 30th June, 2006



GPO Box 12
Sydney NSW 2001

To the Directors
Pacific Western Pty Limited

Auditor's Independent Declaration

As auditor for the audit of Pacific Western Pty Limited for the year ended 30 June 2006, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

A handwritten signature in cursive script, appearing to read "M P Abood".

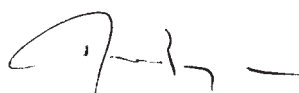
M P Abood CPA
Director, Financial Audit Services

Sydney
19 September 2006

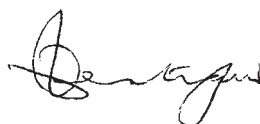
In the opinion of the Directors of Pacific Western Pty Ltd:

1. The financial statements exhibit a true and fair view of the financial position, financial performance and cash flows of Pacific Western Pty Ltd as at 30th June 2006.
2. At the date of this statement, there are reasonable grounds to believe that the company, with the support of its parent entity Eraring Energy, will be able to pay its debts as and when they become due and payable.
3. The financial statements have been made out in accordance with the Corporations Act 2001.
4. The financial statements of the company have been made out in accordance with applicable accounting standards, authoritative pronouncements of the Australian Accounting Standards Board and Urgent Issues Group Interpretations.
5. The financial statements have been prepared in accordance with the provisions of the Public Finance and Audit Act, 1983 and the Public Finance and Audit Regulation, 2005.

Dated at Sydney this 19th day of September 2006.



RM Bunyon
Chairman



MJ Vertigan
Director

78 Pacific Western Pty Limited Income Statement

For the year ended 30th June, 2006

	Note	2006 \$	2005 \$
Revenues from rendering services	2(a)	–	13,162,865
Other revenues	2(b)	78,596	234,980
Materials and consumables used		–	(917,986)
Employee benefits expense		(40,403)	(2,796,847)
Depreciation and amortisation expense		–	(189,675)
Finance costs		(475)	(69,864)
Other expenses		(211,013)	(4,374,193)
Profit (loss) before income tax	3	(173,295)	5,049,280
Income tax expense	4	(58,844)	(1,520,472)
Net profit (loss) after tax for the year	11	(232,139)	3,528,808

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

Pacific Western Pty Limited Balance Sheet

For the year ended 30th June, 2006

	Note	2006 \$	2005 \$
Current Assets			
Cash and cash equivalents	5	80,265	38,598
Receivables	6	3,344,895	4,660,755
Total Current Assets		3,425,160	4,699,353
Non-Current Assets			
Deferred tax assets	7	–	48,125
Total Non-Current Assets		–	48,125
Total Assets		3,425,160	4,747,478
Current Liabilities			
Payables	8	128,490	640,729
Current tax liabilities	9	–	435,374
Provisions	10	–	142,566
Total Current Liabilities		128,490	1,218,669
Total Liabilities		128,490	1,218,669
Net Assets		3,296,670	3,528,809
Equity			
Contributed equity	11	1	1
Retained profits	11	3,296,669	3,528,808
Total Equity		3,296,670	3,528,809

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

For the year ended 30th June, 2006

	Note	2006 \$	2005 \$
Cash flows from operating activities			
Cash received in the course of operations		27,307	18,947,042
Interest and bill discount received		53,309	53,243
Cash paid in the course of operations		(308,696)	(12,766,293)
GST refunded (paid)		(582,389)	–
Interest and other finance costs paid		(475)	(181,447)
Income tax paid		(446,093)	(332,039)
Net cash inflow (outflow) from operating activities	5	(1,257,037)	5,720,506
Cash flows from investing activities			
Refund of investments		1,298,522	–
Proceeds from sale of equipment		182	36,000
Payments for property, plant & equipment		–	(23,541)
Net cash inflow (outflow) from investing activities		1,298,704	12,459
Cash flows from financing activities			
Proceeds from borrowings		–	1,800,000
Repayment of borrowings		–	(4,800,000)
Dividend paid		–	(2,713,985)
Net cash inflow (outflow) from financing activities		–	(5,713,985)
Net increase (decrease) in cash and cash equivalents		41,667	18,980
Cash and cash equivalents at the beginning of the financial year		38,598	19,618
Cash and cash equivalents at the end of the financial year	5	80,265	38,598

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

Statement in Changes in Equity Pacific Western Pty Limited

For the year ended 30th June, 2006

	2006 \$	2005 \$
Net income recognised directly in equity	–	–
Profit (loss) after tax for the year	(232,139)	3,528,808
Total recognised income and expense for the year	(232,139)	3,528,808

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

For the year ended 30th June, 2006

CORPORATE INFORMATION

The financial report of Pacific Western Pty Ltd for the year ended 30 June 2006 was authorised for issue in accordance with a resolution of the directors on 19th September 2006.

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

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

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

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

(b) Statement of Compliance

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

(c) Liability Management

Loans are carried at their principal amounts which represent the present value of future cash flows associated with servicing the debt. Interest is accrued over the period it becomes due and is recorded as part of interest bearing liabilities.

(d) Revenue Recognition

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

(e) 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.

(f) 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.

(g) Income Tax

Tax losses do not expire under current legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the entity can utilise the benefits from.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(h) New Accounting Standards**

Certain new accounting standards have been published that are not mandatory for 30 June 2006 reporting periods.

Pacific Western has not early adopted these standards, and its assessment of the impact of these new standards is set out below:

AASB 7 Financial Instruments: Disclosures and *AASB 2005-10 Amendments to Australian Accounting Standards* [AASB 1, AASB 4, AASB 101, AASB 114, AASB 117, AASB 132, AASB 133, AASB 139, AASB 1023 and AASB 1038] AASB 7 and AASB 2005-10 are applicable to annual reporting periods beginning on or after 1 January 2007. Application of the standards will not affect any of the amounts recognised in the financial statements.

AASB 119 Employee Benefits

AASB 119 is applicable to annual reporting periods beginning on or after 1 January 2006. The new Standard provides alternative options for the recognition of defined benefits superannuation actuarial gains or losses, both of which have been excluded by NSW Treasury in its indicative mandates. Therefore it will not impact the financial statements.

AASB 2004-3 Amendments to Australian Accounting Standards [AASB 1, AASB 101 and AASB 124] AASB 2004-3 is applicable to annual reporting periods beginning on or after 1 January 2006, and deals mainly with the amendments to AASB 119 discussed above, and hence will not impact the financial statements.

AASB 2005-1 Amendments to Australian Accounting Standards [AASB 139] AASB 2005-1 is applicable to annual reporting periods beginning on or after 1 January 2006. This Standard amends the hedge accounting requirements in relation to foreign currency intra-group forecast transactions, and will not impact on the financial statements.

AASB 2005-5 Amendments to Australian Accounting Standards [AASB 1 and AASB 139]

AASB 2005-5 is applicable for annual reporting periods beginning on or after 1 January 2006. This Standard further changes AASB 139, and will not have an impact on the financial statements.

AASB 2005-9 Amendments to Australian Accounting Standards [AASB 4, AASB 1023, AASB 132 and AASB 139]

AASB 2005-9 is applicable for annual reporting periods beginning on or after 1 January 2006. This Standard deals with the accounting treatment of financial guarantee contracts and will have no impact on the financial statements.

AASB 2006-1 Amendments to Australian Accounting Standards [AASB 121] AASB 2006-1 is applicable to annual reporting periods ending on or after 31 December 2006. Pacific Western does not have any monetary items forming part of a net investment in a foreign operation. The amendment to AASB 121 will therefore have no impact on the financial statements.

For the year ended 30th June, 2006

	2006 \$	2005 \$
NOTE 2. REVENUE FROM CONTINUING OPERATIONS		
(a) Sales revenue		
Services rendered	–	13,162,865
	–	13,162,865
(b) Other revenue		
Interest received	53,309	53,243
Miscellaneous	25,106	3,926
Proceeds from sale of property, plant & equipment	182	177,811
	78,596	234,980
Total revenue	78,596	13,397,845

NOTE 3. EXPENSES

Profit/(loss) before income tax includes the following specific expenses:

Contractor costs	–	2,408,045
Legal fees	193,496	100,272
Finance costs	475	69,864
Depreciation:		
Plant and equipment	–	189,675

NOTE 4. INCOME TAX*Major components of tax expense (income) include:***Income Statement***Current income tax*

Current tax expense	–	996,919
Adjustment in respect of current income tax of previous years	10,719	3,161

Deferred income tax

Tax expense relating to the origination and reversal of temporary differences	48,125	520,392
Income tax expense reported on the income statement	58,844	1,520,472

Explanation of the relationship between tax expense and accounting profit

Accounting profit (loss)	(173,295)	5,049,280
Income tax at the statutory income tax rate of 30%	(51,988)	1,514,784
Expenditure not allowable for income tax purposes	86,029	2,527
Clearance of deferred tax balances	683	–
Adjustment in respect of current income tax of previous years	10,719	3,161
Tax loss derecognised	13,401	–
Tax expense reported in the income statement	58,844	1,520,472

	Balance Sheet		Recognised in Income	
	2006 \$	2005 \$	2006 \$	2005 \$

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

Employee leave entitlements	–	16,189	(16,189)	(173,134)
Software expenditure	–	–	–	(5,566)
Strategic spares expenditure	–	–	–	(5,700)
Provision for voluntary redundancies	–	26,581	(26,581)	(332,341)
Miscellaneous expenditure	–	5,355	(5,355)	(3,651)
Gross deferred income tax assets	–	48,125	–	–
Deferred income tax charge			(48,125)	(520,392)

For the year ended 30th June, 2006

	2006	2005
	\$	\$

NOTE 4. INCOME TAX (CONTINUED)

Unrecognised deferred tax assets

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

Tax losses	13,401	–
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NOTE 5. CURRENT ASSETS – CASH AND CASH EQUIVALENTS

Cash at bank and on hand	80,265	38,598
Reconciliation of profit from ordinary activities after income tax expense to net cash provided by operating activities:		
Profit (loss) from ordinary activities after income tax expense	(232,139)	3,528,808
Add/(less): Non-cash items		
Depreciation	–	189,675
Depreciation on assets written off	–	169,008
Proceeds from sale of non-current assets	(182)	(36,000)
Increase/(decrease) in income tax payable	(435,373)	668,042
Increase/(decrease) in accrued interest expense	–	(111,583)
Net cash provided by operating activities before changes in assets and liabilities	(667,694)	4,407,950
Net changes in assets and liabilities during the financial year:		
(Increase)/decrease in receivables	–	(2,380,114)
(Increase)/decrease in other assets	17,338	114,165
(Increase)/decrease in inventories	–	5,367,262
(Increase)/decrease in future income tax benefit	48,125	520,391
Increase/(decrease) in payables and borrowings	(512,239)	(1,732,035)
Increase/(decrease) in other liabilities	(142,567)	(577,113)
Net cash provided by/(used in) operating activities	(1,257,037)	5,720,506

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. CURRENT ASSETS – RECEIVABLES

Trade receivables	2,718,417	2,718,417
Other receivables	626,478	1,925,000
Prepayments	–	17,338
	3,344,895	4,660,755

Other Receivables

These amounts generally arise from transactions outside the usual operating activities of the entity. 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, 2006

	2006 \$	2005 \$
NOTE 7. NON-CURRENT ASSETS – DEFERRED TAX ASSETS		
Future income tax benefit	–	48,125
NOTE 8. CURRENT LIABILITIES – PAYABLES		
Trade payables	128,490	640,729
NOTE 9. CURRENT LIABILITIES – CURRENT TAX LIABILITIES		
Income tax	–	435,374
NOTE 10. CURRENT LIABILITIES – PROVISIONS		
Employee entitlements	–	53,963
Redundancy	–	88,603
	–	142,566

Reconciliations

Reconciliations of the carrying amounts of each class of provision at the end of the current financial year are set out below:

	Employee Entitlements	Redundancy	Total
Balance @ 1 July 2005	53,963	88,603	142,566
Additional provisions recognised	–	–	–
Provision payments	(53,963)	(88,603)	(142,566)
Balance @ 30 June 2006	–	–	–
		2006 \$	2005 \$

NOTE 11. CONTRIBUTED EQUITY, RESERVES AND RETAINED PROFITS

Contributed equity	1	1
Retained profits	3,296,669	3,528,808
	3,296,670	3,528,809
Movements in Retained Profits		
Opening balance	3,528,808	2,169,080
Net profit (loss) after tax	(232,139)	3,528,808
Dividends	–	(2,169,080)
	3,296,669	3,528,808

NOTE 12. CONTINGENT LIABILITIES

Western Power has submitted a claim under the contract for loss and/or damages incurred as a direct consequence of the early termination of the contract by Pacific Western. Western Power has assessed the claim at \$3.9 million and is withholding payment of sums due to Pacific Western of \$2.7 million (the amount of the trade receivables) pending resolution on of the claim. Pacific Western has disputed the validity of the claim and the withholding of payments. A summary judgement application is currently before the Supreme Court of Western Australia.

For the year ended 30th June, 2006

NOTE 13. FINANCIAL INSTRUMENTS

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

a) Interest Rate Risk

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

	Floating Interest Rate \$	Fixed Interest Rate 1 Year or less \$	Maturing In 1 to 5 years \$	Over 5 years \$	Non- Interest Bearing \$	Total Carrying Amount \$	Weighted Average Effective Interest Rate pa %
2006							
Financial Assets							
Cash	80,265	–	–	–	–	80,265	5.49%
Trade Receivables	626,478	–	–	–	2,718,417	3,344,895	–
Total Financial Assets	706,743	–	–	–	2,718,417	3,425,160	–
Financial Liabilities							
Trade Payables	–	–	–	–	128,490	128,490	–
Total Financial Liabilities	–	–	–	–	128,490	128,490	–
2005							
Financial Assets							
Cash	38,598	–	–	–	–	38,598	3.66%
Trade Receivables	1,925,000	–	–	–	2,718,417	4,643,417	–
Total Financial Assets	1,963,598	–	–	–	2,718,417	4,682,015	–
Financial Liabilities							
Trade Payables	–	–	–	–	640,730	640,730	–
Total Financial Liabilities	–	–	–	–	640,730	640,730	–

b) Credit Risk – Recognised Financial Instruments

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

	Government \$	Banks \$	Others \$	Total \$
2006				
Financial Assets				
Cash	–	80,265	–	80,265
Trade Receivables	3,344,895	–	–	3,344,895
Total Financial Assets	3,344,895	80,265	–	3,425,160
2005				
Financial Assets				
Cash	–	38,598	–	38,598
Trade Receivables	4,643,417	–	–	4,643,417
Total Financial Assets	4,643,417	38,598	–	4,682,015

c) Net Fair Value

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

For the year ended 30th June, 2006

NOTE 14. RELATED PARTIES

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

Loans to parent entity

During the 2006 financial year, Eraring Energy repaid \$1,299,000 of its loan from Pacific Western, leaving the balance of the loan at \$626,000 as at year end.

NOTE 15. DIRECTORS**Terms of Directors**

The names of each person holding the position of Director of the company during the financial year are detailed below. All of the persons detailed below were also Directors during the year ended 30th June 2005.

Name & Position	Appointed	Qualifications
Non-Executive Directors		
Mr RM Bunyon Chairman and Director	6th September 2000	Bcomm (UNSW), CIE Aust Director
Mr J Maitland Director	6th September 2000 to 22nd March 2006	National Secretary, Construction, Forestry, Mining & Energy Union
Dr MJ Vertigan Director	6th September 2000	B.Ec (Hons) Tasmania, PhD California FAICD Director
Executive Director		
Mr G Grove-White Managing Director	19th February 2001	BSc (MechEngr) Hons, Chartered Engineer, MI Mech E, Cert Diploma in Accountancy and Finance
		2006 \$
		2005 \$

NOTE 16. REMUNERATION TO EXTERNAL AUDITORS

Remuneration paid or payable for audit of the financial report	7,000	17,850
	30 June 2005 \$	1 July 2004 \$

NOTE 17. IMPACTS OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS**Reconciliation of total equity under previous AGAAP to that under AIFRS**

Total equity under previous AGAAP	3,528,809	2,169,081
Total equity under AIFRS	3,528,809	2,169,081

Reconciliation of profit after tax under previous AGAAP to that under AIFRS

Net profit after tax under previous AGAAP	3,528,808
Net profit after tax under AIFRS	3,528,808

End of the financial statements audited by the Auditor-General



GPO Box 12
Sydney NSW 2001

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

Audit Opinion

In my opinion, the financial report of Pacific Western Limited (the Company) is in accordance with:

- the *Corporations Act 2001*, including:
 - giving a true and fair view of the Company's financial position as at 30 June 2006 and its performance for the year ended on that date, and
 - complying with Accounting Standards in Australia and the *Corporations Regulations 2001*,
- other mandatory financial reporting requirements in Australia, and,
- section 41B of the *Public Finance and Audit Act 1983* (the PF&A Act) and the *Public Finance and Audit Regulation 2005*.

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

Scope

The Financial Report and Directors' Responsibility

The financial report comprises the balance sheet, income statement, statement of changes in equity, cash flow statement and accompanying notes to the financial statements and directors' declaration for the Company, for the year ended 30 June 2006.

The directors of the Company are responsible for the preparation and true and fair presentation of the financial report in accordance with both the PF&A Act and the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit Approach

I conducted an independent audit in order to express an opinion on the financial report. My audit provides *reasonable assurance* to Members of the New South Wales Parliament and the members of the Company that the financial report is free of *material* misstatement.

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

- assessed the appropriateness of the accounting policies and disclosures used and reasonableness of significant accounting estimates made by the directors in preparing the financial report, and
- examined a sample of evidence that supports the amounts and disclosures in the financial report.

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

My opinion does *not* provide assurance:

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

Audit Independence

The Audit Office complies with all applicable independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*. The PF&A Act further promotes independence by:

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

M P Abood CPA
Director, Financial Audit Services

Sydney
19 September 2006

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Eraring energy