

COUNTRY ENERGY ANNUAL REPORT 2005-2006

INVESTMENT GROWTH PERFORMANCE

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CHAIRMAN AND MANAGING DIRECTOR'S REPORT

Country Energy intends to be Australia's leading utility business, and the year just passed has seen us take big steps further down the track to achieving our goal.

First, we continue to invest.

We invested \$260 million in the safety and reliability of our network. We invested more resources than ever before in the skills, the health and the safety of our employees. We invested in the community by employing 115 young and mature apprentices this year – the latest of the 500 apprenticeships we've created in the last five years. We invested hundreds of thousands of dollars in diverse, responsive and creative community sponsorships. We invested in the future by helping our customers use less energy.

Second, we continue to grow.

We grew by cementing our merger with Australian Inland, adding 20,000 electricity customers and 10,000 water and sewerage customers to our base – making us a genuine multi-utility, supplying electricity, gas, internet services and now water. We grew by recruiting many thousands of new customers in the competitive and profitable Victorian household energy market, and business energy markets across eastern Australia. We grew our sales of accredited renewable energy by 58 per cent in the year.

Third, and most importantly, we continue to perform.

We performed by increasing our earnings before interest and tax by 65.1 per cent on last year's result. We performed by reducing our lost time injury frequency rate from 11.6 to 6.7 – our lowest ever. We performed by achieving a customer satisfaction score of 86 per cent – meaning that almost nine in 10 customers surveyed said our service meets or exceeds their expectation of an excellent service provider.

Our investment and growth are means to an end – and that end is our performance in the eyes of our customers, shareholders and employees. They rightly expect us to provide safe, reliable and affordable energy services, to be a successful business, and to provide opportunities for personal and community growth.

Put simply, our customers, our shareholders and our employees expect Country Energy to be Australia's leading utility business.

Knowing whether Country Energy is 'on track' means measuring our performance against the targets that we believe will see us become Australia's leading utility business. We are proud to report Country Energy's achievements in meeting these challenges in 2005–2006, as well as future goals.

Finally, we wish to acknowledge the fact that these achievements are the result of the work and commitment of our employees. We sincerely thank all employees, and our fellow directors, for their tremendous efforts and successes in the past year.

Barbara Ward
Chairman of the Board

Craig Murray
Managing Director



*Project management and copywriting by Shannon Minnis, Country Energy
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Country Energy serves more than 1,500 communities across country and coastal New South Wales.

Our people are local, involved in local activities, concerned for the community at large.

Put simply, our customers, our shareholders and our employees expect Country Energy to be Australia's leading utility business.

COUNTRY ENERGY AT A GLANCE

Country Energy is a leading Australian energy services corporation owned by the New South Wales Government, with over 3,600 employees serving more than 870,000 customers.

Country Energy manages Australia's largest energy supply network across 95 per cent of New South Wales' land mass and offers retail electricity in five states and territories.

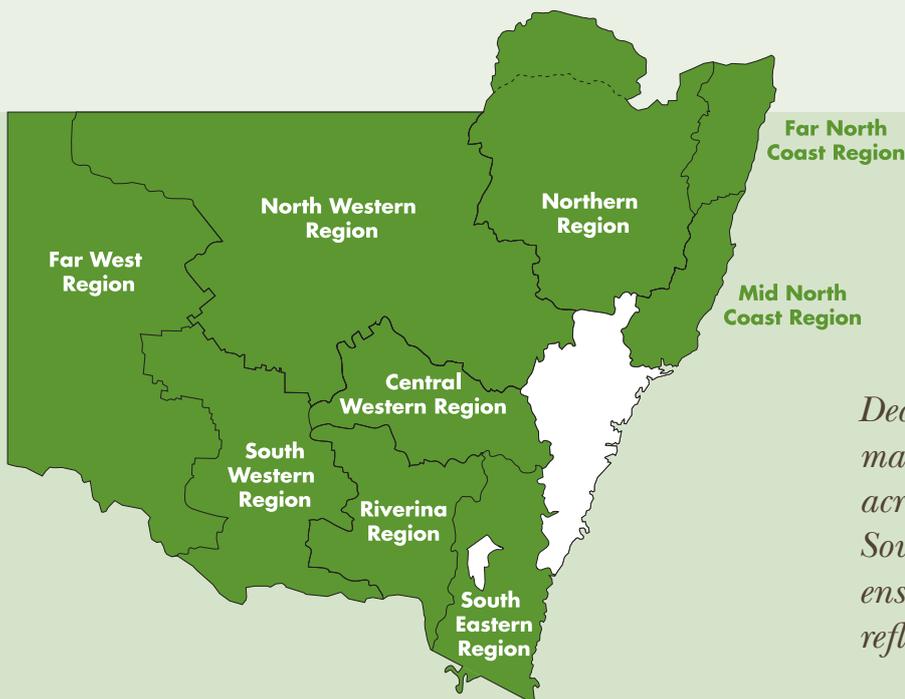
Our product range includes bottled gas, internet services and energy efficiency advice. We also provide reticulated natural gas to 24,200 customers in southern New South Wales and water and sewerage services to 10,000 customers in far west New South Wales.

Retail operations in five states and territories.

If we can measure it we can manage it

Our Strategy Statement communicates our goals, values and priorities and translates to a set of measurable objectives that are contained in a 'corporate dashboard'. The corporate dashboard contains key performance indicators (KPIs) across four key business perspectives – financial performance, customer satisfaction, business effectiveness and organisational health.

Our strategic planning framework links back to business unit budgets, which in turn build to an annual Statement of Corporate Intent – the corporate performance agreement with our shareholders. This alignment is critical to business success.



Decentralised regional management structure across 95 per cent of New South Wales' land mass ensures business decisions reflect local priorities.

Our approach to corporate governance, strategic planning and performance management provides the direction for our employees to drive strong business outcomes.

<p>COUNTRY ENERGY WANTS TO BE AUSTRALIA'S LEADING UTILITY BUSINESS</p> <p>This will be achieved by becoming:</p> <p>In such a way that values:</p> <p>Our priorities for 2006-2007 will be:</p> <p>This will be measured in the areas of:</p>	STRATEGY STATEMENT 2005-2006 – 2007-2008		
	<ul style="list-style-type: none"> • A leader in safety • A successful national retailer • A valued part of the community • A reputable water supplier 	<ul style="list-style-type: none"> • The best network manager • An employer of choice • A responsible environmental manager 	
	<ul style="list-style-type: none"> • Safety • Excellence 	<ul style="list-style-type: none"> • Accountability • Teamwork 	<ul style="list-style-type: none"> • Fun • Enthusiasm
	<ul style="list-style-type: none"> • Safety • Customer Service • Network Management 	<ul style="list-style-type: none"> • Business Performance • Employee Development 	
	<ul style="list-style-type: none"> • Financial Performance • Customer Satisfaction 	<ul style="list-style-type: none"> • Business Effectiveness • Organisational Health 	

Backing strategic intent with corporate resources

Country Energy's Corporate Strategy group was formed in November 2005 to increase the focus on forward planning and to allocate dedicated resources to major corporate strategic initiatives.

The role of Corporate Strategy is not to centralise decision making – it is to ensure strategic alignment across the business. A key function of the Corporate Strategy group is effective research and analysis covering industry and policy development.

We communicate business direction through our Strategy Statement.





Country Energy has created over 500 new apprenticeships since it was formed in 2001, offering career opportunities to people living in regional communities across 95 per cent of New South Wales.

2005–2006 WHAT DID WE ACHIEVE?

ACHIEVEMENTS	OUR MEASURES (KPIs)
Successful merger with Australian Inland, cementing Country Energy as operator of Australia's largest energy supply network, and adding water and sewerage services to our operations	Business effectiveness
Purchased 40,000 megawatt hours (MWh) of clean, green renewable energy, more than 20 per cent above the minimum requirement of the National Green Power scheme	Customer satisfaction/business effectiveness
Significant increase in sales of our accredited Green Power product countrygreen [®] energy – 58 per cent on last year	Customer satisfaction/business effectiveness
Country Water brand launched in March, to reflect our focus on the water business	Customer satisfaction/business effectiveness
Resolved 95.38 per cent of retail customer complaints at the first point of contact	Customer satisfaction/business effectiveness
Added to our suite of renewable energy sources by signing long-term power purchase agreements with Wonthaggi Wind Farm	Customer satisfaction/business effectiveness
Committed \$1.9 million in community sponsorship initiatives across country and coastal communities	Customer satisfaction
Opened nine new customer and field service centres in the year, returning local services to country and coastal communities	Customer satisfaction
Achieved an 86 per cent overall customer satisfaction rating – an encouraging increase on the previous year	Customer satisfaction
Assisted over 2,500 customers stay connected through our industry-leading customer hardship program, <i>Country Support</i>	Financial performance/customer satisfaction/business effectiveness
Earnings before interest and tax \$117.6 million favourable to budget	Financial performance
Return on assets of 10.1 per cent (normalised)	Financial performance
Annual revenue of \$1.979 billion placing Country Energy amongst Australia's top 150 companies by revenue	Financial performance
Became the first electricity distributor in Australia to be recognised as a corporate leader in Indigenous Employment by signing a Memorandum of Understanding (MoU) with the Australian Government's Department of Employment and Workplace Relations (DEWR)	Organisational health
Lost Time Injury Frequency Rate of 6.7 – our lowest on record	Organisational health
Record apprentice intake of 115 recruits based in country and coastal communities across the State	Organisational health
More than 350 of our employees graduated from frontline management programs	Organisational health
Over 400 employees recognised for their years of service to Country Energy in our Service Milestone Awards	Organisational health

A LEADER IN SAFETY

Country Energy's number one priority is the safety and well-being of our employees and the public. Our aim is to integrate health and safety into all that we do.

Reflecting on Safety

It is with great sorrow that we report the loss of Darryl Eason, an electrical technician from Gilgandra, who received fatal injuries from a workplace accident on 14 March 2006.

Following an internal investigation into the tragedy, and reinforcing our strong commitment to employee safety, a series of actions were implemented to enhance Country Energy's safety management system and further safeguard the lives and well-being of our employees, with the strong support of the Board's Safety and Environment Committee, including:

- 1 The establishment of a dedicated team of four safety audit professionals reporting directly to the Chief Safety Officer. They will conduct random workplace and worksite audits across Country Energy and recommend corrective actions to the local management and Regional Safety Coordinators. These audit findings and corrective actions will also be reported to the relevant Group General Manager by the Chief Safety Officer.
- 2 A training DVD was produced to reinforce and demonstrate safe work methods. The DVD will become a key part of the safety induction for all new employees.
- 3 Safety workshops will be arranged for all employees in late 2006 to view the DVD and to discuss opportunities for safety improvement. Local action plans will be put in place that will be reported through the Corporate Safety Improvement Plan in the 'corporate dashboard'. The Union representatives will also be involved in these workshops.
- 4 All members of Country Energy's management have completed the following training with the intention of facilitating their regular involvement in workplace/worksite operations, including:
 - Hazard Identification, Risk Assessment and Control (HIRAC) procedure training and competency assessment
 - OHS WorkCover General Induction (Green Card) for Construction Worktraining and certification
 - Resuscitation training and competency assessment.
- 5 There have been significant changes to the severity and form of disciplinary action taken against any employees (this includes all supervisors and managers) who breach safety procedures.

Safety initiatives

Nine critical safety processes were identified during the year, and a comprehensive review undertaken. They included:

- Emergency Preparedness – *Completed*
- Manual Handling – *Comprehensive program developed*
- Working at Heights – *Implementation plan developed*
- Working in a Noisy Environment – *Implementation plan developed*
- Working in Confined Spaces – *Implementation plan developed*
- Working With and Using Electricity – *Implementation plan developed*
- Working With and Using Gas – *Many improvements implemented with continuous improvement through 2006–2007*
- Working With Dangerous Goods and Hazardous Substances – *Implementation plan developed*
- Working With Plant – *Implementation plan developed.*



Safety scorecard

The safety initiatives, plans and projects implemented since mid 2004–2005 have resulted in significant gains and this trend is expected to continue in 2006–2007.

With the merger of Australian Inland and Country Energy the combined total of Lost Time Injuries (LTIs) for 2004–2005 was 75, decreasing to 49 in 2005–2006, despite an increase in employee numbers.

Country Energy's Lost Time Injury Frequency Rate (LTIFR) in 2004–2005 was 11.6, reducing in 2005–2006 to 6.7 – our lowest on record.

Our Injury Severity Index (ISI) in 2004–2005 was 131.3, reducing to 69 for 2005–2006 – again, our lowest on record.

Medically Treated Injuries (MTIs) – including Australian Inland figures – increased to 239 in 2005–2006. The upward trend in the number of MTIs can be attributed to early intervention in the management of injuries, with employees encouraged to seek medical attention more readily. This proactive approach to injury management has resulted in inflated MTI statistics. MTIs include the number of medical consultations (not just medical treatment) and therefore do not reflect injury severity. The use of this measure has been reviewed for 2006–2007 to allow for our proactive approach to injury management.



MEASURE	2003–2004	2004–2005	2005–2006	Target 2006–2007
LTI	70	75	49	30
LTIFR	11.7	11.6	6.7	4.0
ISI	151.0	131.3	69	40.0

The trend and target

PERIOD	LTIFR	ISI	LTIs
JULY 2005	11.6	131.3	75
	↓	↓	↓
JUNE 2006	6.7	69	49
JUNE 2006 TARGET	5	50	36

It's been a busy and productive year for improvements to safety. Our lost time injury frequency rate and injury severity index continue to improve, our average time lost has improved and our Workers Compensation claims costs have decreased.

A LEADER IN SAFETY

Workers compensation

Processes have been refined with more Works Improvement Notices (WINs), our corrective action system, being raised to more closely align with the actual claims that are made.

Our transition to Employers Mutual (as our Workers Compensation insurer) has been very positive and increased contact with injured workers acknowledged as an important feature of the injury prevention and management process.

Costs in relation to claims have been contained within a similar range as last year. Our average cost of claims remains about half of the median costs incurred by the WorkCover Scheme overall, being \$6,800 compared to \$3,600.

THE FUTURE: 2006–2007 WILL SEE THE RESULTS OF THESE INVESTIGATIONS IMPLEMENTED WITH IMPROVEMENTS SUGGESTED TO AND BY THE HEALTH AND SAFETY REGIONAL IMPROVEMENT GROUPS (HASRIGS).

Public safety

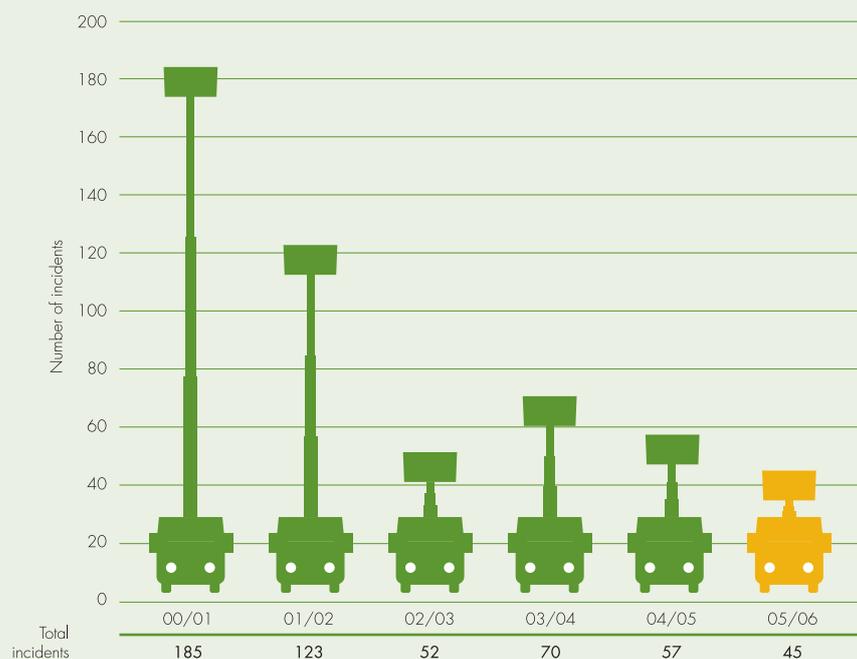
Considering the vast and unique nature of our network, we developed a strategy that provides effective communication to a diverse audience, identifying and addressing the key areas that pose an electrical safety hazard.

Our Public Electrical Safety Awareness Plan delivers results in the reduction of reportable incidents (notifiable to the Department of Energy, Utilities and Sustainability (DEUS)) involving the public and our network. The number is currently at its lowest number for the past five years, despite a significant increase in agricultural activity across regional New South Wales.

The Public Safety Team were involved in the following safety initiatives:

- Provided direct face to face electrical safety awareness sessions to over 3,000 people in at risk groups
- Attended 11 industry and agricultural field days, numerous local shows and field days, including one at Broken Hill for the first time
- Prepared and presented a cohesive suite of brochures and fact sheets to at risk groups
- Showcased our Public Electrical Safety Awareness Plan to Queensland WorkCover, as an industry benchmark

Public safety incidents



The strategy of identifying at risk groups and educating and assisting them to solve their electrical safety issues has been the main contributing factor in the decline of incidents.

- Targeted specific at risk groups, such as cotton and grain harvesting, to coincide with the high risk seasons for these groups
- Provided in excess of 2,000 electrical safety packs to businesses – raising awareness of potential safety hazards.



The team instituted a quarterly follow-up survey to determine the success of the awareness sessions. The sessions delivered have been well received and have achieved a greater than 80 per cent retention rate among participants.

Powerful Health

Powerful Health, a health promotion program launched in March 2005, saw over 50 per cent of Country Energy employees in 2005–2006 participating in one of the following activities:

- Healthy Helper network
- Influenza vaccination
- Skin cancer screening
- Fitness assessments
- Corporate subsidy
- Switch on to Health program
- Communication strategies.

Healthy Helper network

A network of local employees, 'Healthy Helpers', was developed to assist in the dissemination of information about Powerful Health, and encourage activities at a local level. There are currently 179 'Healthy Helpers' throughout Country Energy (4.7 per cent of total employees).

FUTURE GOAL: INCREASE NUMBER OF HEALTHY HELPERS TO 6 PER CENT OF EMPLOYEES WITHIN EACH REGION DURING 2006–2007.

Influenza vaccination

As part of the Powerful Health program, a subsidy was provided for the cost of the influenza vaccine. On-site vaccinations were conducted for a number of larger sites within Country Energy.

Total No of Country Energy vaccinations 2005–2006	622 employees
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FUTURE GOAL: CONTINUE TO PROMOTE ON-SITE BULK FLU VACCINATIONS WITH THE AIM OF DECREASING INCIDENCE OF SICK LEAVE FOR THOSE SITES BY 5 PER CENT OVER THE JUNE TO AUGUST 2006 PERIOD.

Skin cancer screening

Both field and office based employees were able to undergo skin cancer screening with a recommended clinic or medical practitioner with costs subsidised by Country Energy.

Total No of Country Energy skin cancer screenings 2005–2006	302 employees
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FUTURE GOAL: CONTINUE TO PROMOTE SKIN CANCER SCREENING AS A PREVENTATIVE MEASURE, WITH THE AIM OF REDUCING SKIN CANCER WORKERS COMPENSATION RISK DURING 2006–2007 BY FIVE PER CENT.

A LEADER IN SAFETY

Fitness assessments

Voluntary fitness assessments were conducted with 1,184 Country Energy employees participating between September and November 2005.

Total No of Country Energy fitness assessment participants 2005	1,184 employees
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FUTURE GOALS: TO IMPLEMENT STRATEGIES DURING 2006–2007 TO ADDRESS THE MAJOR HEALTH ISSUES IDENTIFIED IN THE FITNESS ASSESSMENTS – AEROBIC FITNESS, BODY FAT, ABDOMINAL STRENGTH, AND SHOULDER FLEXIBILITY.

TO CONDUCT INITIAL PLANNING FOR THE IMPLEMENTATION OF A COMPREHENSIVE OCCUPATIONAL STRESS MANAGEMENT PROGRAM WITHIN COUNTRY ENERGY.

Corporate subsidy

During 2005–2006 all employees were offered a \$99 subsidy to spend on a range of approved health and fitness activities to encourage an increase in their physical activity levels and improve overall health.

Total No of Country Energy corporate subsidy participants 2005–2006	1,065 employees
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FUTURE GOALS: INCREASE PARTICIPATION RATE IN CORPORATE SUBSIDY SCHEME TO 50 PER CENT OF EMPLOYEES AND ACHIEVE A FIVE PER CENT REDUCTION IN INJURY RATES AND ABSENTEEISM IN HIGH SUBSIDY USAGE AREAS IN 2006–2007.

Switch on to Health program

The Switch on to Health program is a participation prize scheme which commenced on 1 January 2006 and is due to continue until December 2006, aimed at increasing activity levels amongst Country Energy employees.



FUTURE GOAL: MAINTAIN THE SWITCH ON TO HEALTH PROGRAM UNTIL DECEMBER 2006, AS A STRATEGY FOR INCREASING ACTIVITY LEVELS AMONG COUNTRY ENERGY EMPLOYEES.

Communication strategies

In response to health issues identified as a concern to Country Energy employees, information sheets were sent to the Healthy Helper networks throughout 2005–2006 to distribute or display in locations throughout their work areas.

FUTURE GOAL: CONTINUE TO PROVIDE INTERESTING AND RELEVANT HEALTH INFORMATION TO ALL EMPLOYEES DURING 2006–2007, THROUGH A RANGE OF COMMUNICATION MEDIA.

POWERFUL HEALTH OVERALL FUTURE GOALS 2006–2007: ACHIEVE 100 PER CENT EMPLOYEE AWARENESS OF THE POWERFUL HEALTH PROGRAM.

ACHIEVE 80 PER CENT EMPLOYEE PARTICIPATION IN AT LEAST ONE PROGRAM ACTIVITY DURING 2006–2007.



ESS2006

energy safety solutions

hosted by 

Country Energy hosted the popular Energy Industry Safety Field Days, **Energy Safety Solutions 2006**, with the two day event held at Dubbo in June hailed a great success.

The field days, held in conjunction with the Industry Safety Steering Committee of NSW (convened by the NSW Department of Energy, Utilities and Sustainability), offer an opportunity for people associated with these industries to attend seminars and demonstrations, review new technology and equipment, and test themselves in the very popular safety competitions.

The field days were highlighted with record participant and exhibitor attendances, and a very successful inaugural Water Safety Workshop.

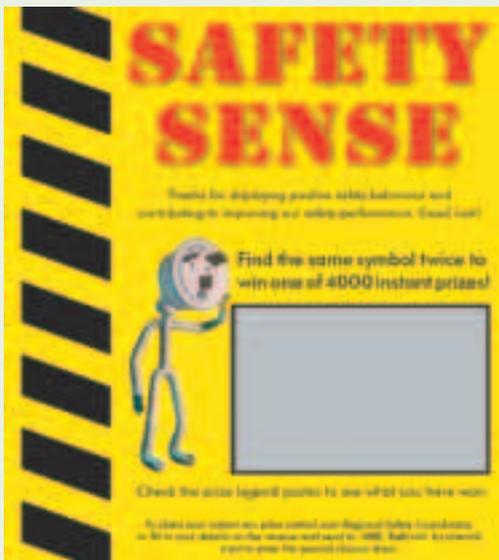
We attracted over 1,100 participants this year, from as far afield as Western Australia, and a record number of exhibitors showcasing new technology and equipment used across our industry.

We were also successful in expanding the scope of the field days to incorporate the water industry. The industry looks forward to seeing this initiative developed in future field days in recognition of the similarities between the energy and water industries.

Country Energy had outstanding success in the safety competitions this year, with our teams achieving places in the top three of every team based competition run over the two days. This shows the depth of talent and dedication of our employees, but more importantly, it reflects the strong culture of safety and learning we foster in our employees.

Country Energy highlights were achieving First Place in the Apprentice Hazard Identification & Risk Assessment, First Place in the First Aid (Day One), First Place in the Fire Management Skills (Day Two), Second Place in the Lineworker Hazard Identification & Risk Assessment, and Third Place in the Zone Substation Hazard Identification & Risk Assessment.

The real success of ESS2006 was in the focus we bring to safety as the number one priority in our industries and provides a positive influence in building a strong safety focus back in the workplace.



Health Services

The Health Services team underwent significant expansion during 2005–2006, with the employment of two additional occupational therapists, boosting numbers to seven across Country Energy.

During 2005–2006, the occupational therapy team has played an increasingly effective role in injury prevention and management through:

- Proactive early intervention of injured workers and sick leave case management
- Injury risk identification
- Use of task analysis and design guidelines for injury prevention
- Contribution to public seminars
- Development of injury prevention guidance material
- Management of the manual handling and Powerful Health projects.

FUTURE GOALS: FOR THE OCCUPATIONAL THERAPIST IN EACH REGION TO BECOME INCREASINGLY INVOLVED IN THE STRATEGIC INJURY PREVENTION AND MANAGEMENT PLANNING FOR THEIR AREA, IN CONSULTATION WITH BUSINESS UNIT MANAGERS.

TO CONDUCT THE INITIAL PROGRAM PLANNING STAGES FOR AN OCCUPATIONAL STRESS MANAGEMENT PROGRAM FOR COUNTRY ENERGY.

A LEADER IN SAFETY

Safety committees

Participation from Country Energy's Safety Committee members has been enthusiastic and positive. The foundation of the committee structure is the Health and Safety Regional Improvement Groups (HASRIGs). These regionally based groups are focused on quick and effective outcomes and resolutions to their safety needs.

With dedicated committee members providing an effective consultation mechanism, these new committees have helped to provide a renewed focus and ownership of health and safety within Country Energy.

The HASRIGs allow all local safety issues to be consolidated and handled within each region. The OHSCC ensures consistency and assists with any outstanding regional issues. The PHSSG guarantees executive commitment to safety, and will ensure all safety issues are dealt with effectively.



2005-2006 OUTCOMES: OUR REGIONALLY BASED INTERNAL AUDIT TEAM HAVE CONDUCTED 191 SAFETY PROCESS AUDITS DURING THE YEAR, RESULTING IN AN AVERAGE COMPLIANCE SCORE OF 92 PER CENT AGAINST OUR TARGET OF 95 PER CENT.



In the coming year Country Energy will initiate a new safety incentive program, the '100% club', aimed at building on the foundations already laid and drive forward improvement in our safety culture by challenging all employees to 'step up' and take ownership of safety related issues.



Occupational Health and Safety Management System

Our Occupational Health and Safety Management System (OHSMS) is a corporate guideline, to provide a foundation upon which policy initiatives are implemented and health and safety strategic objectives are achieved. It follows, and provides a framework to promote, continuous improvement and a quality approach to health and safety performance.

During the year, an independent certification audit of our OHSMS was conducted by NCS International Pty Ltd. This audit resulted in us achieving certification to AS/NZS Standard 4801:2001 Occupational Health and Safety Management Systems for all of our nine regions.

Safety Sense

The Safety Sense Incentive program was an innovative and flexible tool which helped in the assessment and development of our safety culture.

The program enabled supervisors to talk to their teams about safety, as well as recognise, reward and reinforce sound safety behaviours. Safety Sense game cards (or 'scratchies') were allocated to teams of employees and individuals who demonstrated positive safety behaviours, and allowed them the chance to win a modest prize.

The program was targeted at all employees across the organisation and the most commonly demonstrated behaviours were:

- Displaying a positive behaviour and attitude towards safety
- Appropriate use of all personal protective equipment (PPE)/control measures
- Proactive in identifying and addressing safety issues.

The program highlighted a sound foundation for a safe work culture within Country Energy, which has seen our LTIFR drop during the six months of the program. This, combined with 40 per cent of game cards being allocated by people other than the employee's direct supervisor, demonstrates our increased awareness of safety issues.

This program was successful in changing many employees' perception of safety by rewarding employees who demonstrated a safe and responsible approach to their day-to-day work.

An employee survey indicated that:

- 71 per cent of employees actively tried to display a positive safety behaviour
- 83 per cent of those employees received a game card
- 100 per cent of employees surveyed had the reason the game card was allocated explained to them.

The safety incentive program has:

- Improved our safety performance
- Promoted the alignment of Country Energy's values with desired safety behaviours
- Reinforced employees' day-to-day priorities on safety
- Encouraged open discussion and positive feedback on safety performance
- Identified and recognised positive safety performance and behaviours
- Translated our organisational vision and goals into terms that genuinely engage all employees
- Created an environment where employees are recognised for their contribution to the organisation in terms that are personally meaningful.



Country Energy's Board and executive team regularly meet in different locations across the state and meet with local employees and stakeholders, placing them in the best position to make decisions that support regional communities.

A SUCCESSFUL NATIONAL RETAILER

Country Energy not only manages Australia's largest energy supply network but is also a successful national retailer of electricity, natural and bottled gas and internet services, serving more than 870,000 customers in five states and territories.

Country Energy also supplies water and sewerage services to 10,000 customers in Far West New South Wales.

The delivery of excellent customer service is recognised as being a key contributor to achieving our goal of becoming Australia's leading utility business. We further recognise that great internal customer service is essential in providing excellent external customer service.

Make them a fan!

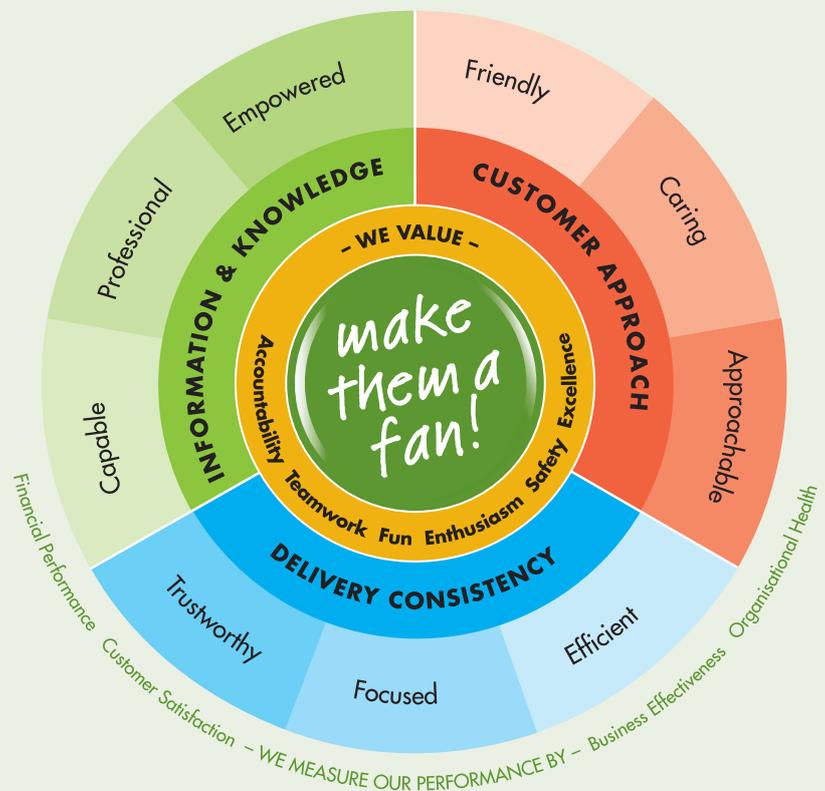
During the 2005–2006 year, an organisational strategy was developed to drive excellent internal and external customer service across Country Energy. Our customer service strategy's goal is to 'make our customers a fan'.

Country Energy's customer satisfaction research identified the three key contributors to making customers a fan:

- Our customer approach (being caring, friendly and trustworthy)
- Our information and knowledge (having capable, informed and empowered employees)
- Delivery consistency (being professional, responsive and efficient in our dealings).

To keep these messages top-of-mind, we developed Country Energy's Customer Satisfaction model. To be truly successful in delivering excellent internal and external customer service we need to focus on all three segments of the model as we go about our daily activities, as less than this will not achieve our goal of making our customers a fan!

Customer service strategy wheel



FUTURE GOALS:

- THE DELIVERY, ADOPTION AND IMPLEMENTATION OF THE STRATEGY TO IMPROVE OUR CUSTOMERS' EXPERIENCE
- IMPLEMENTATION OF A FRONTLINE INFORMATION MANAGEMENT SYSTEM THAT ENSURES OUR PEOPLE HAVE THE INFORMATION THEY NEED AT THEIR FINGERTIPS
- DEVELOPING SMARTER TRAINING SOLUTIONS THAT BALANCE MAINTAINING EXCELLENT SERVICE DELIVERY WITH ON-GOING LEARNING NEEDS.

Customer satisfaction

We received an overall customer satisfaction rating of 86 per cent with the number of customers surveyed saying we meet or exceed their expectations of an excellent service provider.

The following percentages of customers agreed that Country Energy employees were professional (82 per cent), courteous, friendly and helpful (83 per cent), and have adequate local knowledge (76 per cent).

Target:	85 per cent
Outcome:	86 per cent

A SUCCESSFUL NATIONAL RETAILER

Call centres

Our call centres have significantly improved internal industry benchmarking results over the last 12 months. In the majority of the benchmarking reports, our Customer Service Advisors met and surpassed industry standards on soft skills and product knowledge.

The number of calls answered by our call centre general enquiries line, **13 23 56**, during the year was 980,218.

Target Service Level:	70 per cent of calls answered within 20 seconds
Outcome Service Level:	76 per cent of calls answered within 20 seconds

First Contact Complaint Completion program

In December 2004, we introduced the First Contact Complaint Completion program – an initiative to resolve customer complaints at the first point of contact with our organisation.

Since its implementation we have increased our frontline complaint resolution from just above 80 per cent to over 95 per cent.

By utilising the experience and knowledge of our frontline employees we resolved 95.38 per cent of contacts regarding retail matters during the first contact for the financial year.

Our approach to complaints management also focuses on empowering our people to make decisions. We measure our success by the average time it takes to resolve complaints.

Target	average days to resolve – four days
Outcome	target exceeded for all 12 months

FUTURE GOAL: MAINTAINING FOUR AVERAGE DAYS TO RESOLVE.

THE FUTURE OF CUSTOMER SERVICE: ENGAGEMENT WITH THE CONCEPTS AND MESSAGES DELIVERED WITHIN THE MAKE THEM A FAN STRATEGY, PLUS IMPROVEMENT IN PROCESSES IMPACTING CUSTOMER SERVICE, WILL CONTRIBUTE TO RISING CUSTOMER SATISFACTION.

Energy Accounts Payment Assistance program (EAPA)

Due to the partnership between Country Energy and the Department of Energy, Utilities and Sustainability (DEUS) over 200 customers have received vouchers from Country Energy to assist in the payment of their energy bills. In conjunction with our Country Support program the scheme enabled customers to become less reliant on financial assistance and more able to meet their energy costs by utilising payment plans.

Easypay

Easypay plans are manually calculated and offer a service for customers to make periodic instalments to cover on-going usage and any outstanding arrears amounts. The plans allow our customers to budget for their energy usage, without concern for the seasonal peaks that can affect energy consumption.

Customers have access to plans that cover one, two and three year terms to assist those experiencing short-term payment difficulties.

FUTURE GOAL: WORK IS BEING COMPLETED TO AUTOMATE THE ABOVE FUNCTION.

Average domestic complaint resolution



■ Actual
■ Target

Price and equity

In July 2005, we introduced a regulated retail price change for all electricity, natural gas and water customers. All electricity and gas changes were within specific limits set by the New South Wales pricing regulator, the Independent Pricing and Regulatory Tribunal (IPART). Water changes were approved by the Minister for Water Utilities.

We also continued a program to introduce a uniform price list for all new connections. This is part of a long-term plan to consolidate 'inherited' prices, ensuring an equitable pricing structure for all customers.

Residential customer growth

Our success in the Victorian and South Australian markets continues, adding more than five per cent to Country Energy's total number of customers through an on-going focus on our systems, products and services.

Despite increasing competition, acquisitions for the year remained strong and included a major telecommunications company transferring 430 sites. New pricing products were introduced specifically for corporate groups allowing cost reflective pricing and variable contract terms.

Commercial and industrial customer growth

Our retail expertise extends beyond the residential and small to medium enterprise (SME) sectors to commercial and industrial sectors.

Our contestable 'blue-chip' customer base continued to expand with great year-end results exceeding load and gross margin targets.

Country Energy's major customers include:

Accor Asia Pacific	Westlink (M7)
CSIRO	Defence Department
Sydney Markets Limited	PBL (Hoyts)
University of Adelaide	Perilya Broken Hill Limited
Sydney Opera House	Victorian Government
Rural Press	



A SUCCESSFUL NATIONAL RETAILER

Commercial and industrial customer satisfaction

- Surveys indicate that 84 per cent of our commercial and industrial customers were 'satisfied' or 'very satisfied' with Country Energy's service when last surveyed in March 2006
- Meanwhile, 79 per cent of customers said Country Energy was 'easy to do business with', a 10 per cent increase on the previous quarter.

FUTURE GOALS: ACHIEVE 75 PER CENT CUSTOMER SATISFACTION AND A 80 PER CENT RATING FOR 'EASE OF DOING BUSINESS'.

New partnership with LGSA

Country Energy celebrated the signing of a new three-year Memorandum of Understanding (MoU) with the Local Government and Shires Association of New South Wales (LGSA) in June, which will help foster discussion about important community issues, such as regional development.

The flagship offers a range of opportunities for Country Energy and local councils to work closely together and capitalise on their strong synergies.

Across all facets of our business, Country Energy is working with local councils to improve local infrastructure, invest in new gas developments, trial emerging technology, manage energy and water resources more efficiently and provide forums to discuss sustainability, cultural and environmental endeavours.

FUTURE GOALS: CREATE MAXIMUM OPPORTUNITIES FOR COUNTRY ENERGY TO: SERVICE LOCAL COUNCILS ACROSS NEW SOUTH WALES; PROVIDE VALUE ADDED PRODUCTS AND SERVICES; HELP REDUCE ENERGY AND WATER CONSUMPTION; AND IMPROVE COUNCILS' BOTTOM LINES.

CEinternet

CEinternet continues to grow in a highly contestable ISP marketplace. With more than 400 competitors in New South Wales alone, customers are continuing to choose the known customer service attributes of Country Energy over those of our competitors.

Recent wins

- New customer sign-ups for the financial year increasing by 160 per cent on 2004-2005
- Development of 'Member to Member' benefit program with the Dubbo Regional Development Corporation
- Successful merger of Australia Inland ISP - PproNet customers onto our CEinternet product range
- Launch of St Patrick's Race Club website (Broken Hill) (www.stpatricks.org.au)
- Launch of 12/24 month contract 'Get your internet where you get your electricity' campaign for ADSL Broadband increasing our share in the broadband market.

FUTURE GOALS:

- CONTINUE GROWTH IN ADSL BROADBAND CHANNEL
- DEVELOP VOICE OVER INTERNET PROTOCOL (VOIP) FOR SMALL AND MEDIUM SIZE BUSINESSES
- CONTINUE EXPANSION OF CEINTERNET RESELLER CHANNEL
- INCREASE MARKET SHARE IN COUNTRY ENERGY FOOTPRINT WITH BUNDLED INTERNET, GAS AND ENERGY OFFERS TO COUNTER MULTI-PRODUCT BUNDLED OFFERS FROM COMPETITORS
- INCORPORATE CEINTERNET BILLING INTO COUNTRY ENERGY MULTI PRODUCT BILLING.



Celebrating the signing of Country Energy's partnership with the LGSA. Back L-R: Country Energy's Group General Manager Retail, John Adams and Managing Director, Craig Murray. Front L-R: Local Shires Association President Col Sullivan and Local Government Association President Genia McCaffrey.

www.countryenergy.com.au

Our website has been very successful with the number of visits steadily increasing. Storm tracker function remains the most visited area of the website. The Energy Wise Calculator which has been cited as a benchmark for the industry was upgraded to include water, being renamed the Efficiency Calculator, covering both energy and water usage within the standard household.

FUTURE GOALS: OUR WEBSITE WILL BE REDEVELOPED IN THE NEXT YEAR TO ENHANCE FUNCTIONALITY FOR CUSTOMERS AND INFORMATION WILL BE TAILORED TO LOCAL REGIONS.

LPG gas

Dual fuel promotions have also meant that our LPG gas customer base continues to grow with over 40 per cent growth in customer numbers.

Making an informed decision

Recognising that the competitive landscape is changing within New South Wales, we have educated customers about making an informed decision regarding their electricity retailer.

Combining press, radio and direct mail, key messages to customers have

Natural gas and electricity – together at last in Tamworth

- Identifying an opportunity to introduce natural gas to Tamworth residents for the first time, Country Energy leveraged the expansion of the natural gas pipeline from Dubbo to Tamworth to promote the convenience of natural gas for cooking and heating for both residential and business customers
- Working with local businesses, Country Energy has secured much of the base natural gas load within the town
- Residents of Tamworth will start to enjoy the benefits of natural gas from August 2006
- This is another way that Country Energy shows its commitment to regional communities
- This project paves the way for reticulation to Mudgee and Gunnedah in 2008–2009
- The project also demonstrates our desire to be a key player in infrastructure development in country and coastal New South Wales and to providing dual fuels to customers
- Employment opportunities increased, with additional jobs created for door-to-door consultants drawn from the local area.

included 'know who you are talking to' by sighting identification, 'make an informed decision' by calling Country Energy for a comparison, and 'know your rights' which advises customers of their right to cancel without penalty during the cooling-off period.

Educating customers has resulted in an increased number of calls to Country Energy's call centre and mass market sales centre, with many

customers choosing to formalise their agreement with Country Energy by signing a contract.

Direct debit

Country Energy customers continue to discover the convenience of paying their bills by direct debit. Once set-up, direct debit customers are able to let their electricity bills virtually take care of themselves, with payments deducted direct from their bank, building society or credit union account.

We recently promoted the benefits of direct debit through Countryways, Country Energy's customer newsletter. Each customer had the opportunity to choose direct debit for their chance to win a new Toyota Yaris. The lucky winner was Mr Robert Laidlaw of Landsdowne, on the New South Wales Mid North Coast.

Direct debit is another way in which Country Energy strives to improve business efficiency and improve the cost-to-serve customers.

Some things just go together

Cementing our position as a provider of dual fuel – electricity and natural gas and LPG – we continued to highlight the convenience of getting both services from Country Energy.

Through the successful 'some things just go together' campaign, country and coastal customers were reminded that gas and electricity from Country Energy is as natural as other everyday household items that 'go together', like a knife and fork.

We have also conducted a number of direct mail campaigns for both natural gas and LPG to continue to grow the number of dual fuel customers.



A SUCCESSFUL NATIONAL RETAILER

SES UPS and stand-by generation

The New South Wales State Emergency Service (SES) has continued to utilise the engineering expertise of our **energy answers** team, with the installation of uninterruptible power supplies (UPS) and upgrade of stand-by generation units in command centres throughout New South Wales.

The rollout of the replacement stand-by generation units was partnered by **energy answers'** stand-by generation supplier, Cummins Diesel, who custom manufactured the units to Country Energy's specifications.

CSIRO partnership

energy answers has provided Power Factor Correction (PFC) solutions to large CSIRO facilities over the past year.

A major upgrade of the power conditioning at the CSIRO's laboratory facilities at Clayton in Victoria was completed in January and new PFC equipment was designed and manufactured in June 2006 for installation and commissioning at a CSIRO site in early July 2006.

Remote control monitoring systems

energy answers has joined with Monitoring Concepts in the promotion of a 'Minder' monitoring and control system.

The system uses SMS technology in the remote programming and operation of suitable plant and equipment.

We are currently working with a number of local councils in adapting the technology to remotely control irrigation, lighting and pumping systems at sporting facilities, public recreation areas and pumping stations.



Energy auditing

Our specialist energy efficiency team, **energy answers** has continued to help thousands of businesses across a diverse range of industries in Queensland, New South Wales, the ACT, Victoria and South Australia – ranging from local councils, SES, TAFE campuses and industrial sites to large residential complexes, shopping centres and hospitals.

The need for an increased focus on energy audits and demand site abatement was highlighted in a Country Energy-commissioned research study into the energy and water management measures of 153 New South Wales local councils and shires.

The 2005 benchmarking study revealed that one in five councils is highly active in energy and water management and a quarter of participating councils have an energy management plan. The 2006 study will be completed in October.

TARGET: PROVIDE COMPETITIVE WHOLESALE TRANSFER PRICE TO THE CONTESTABLE RETAIL BUSINESS TO GROW PROFITABLE GROSS MARGIN.

OUTCOME: RETAIL GROSS MARGIN IMPROVED OVER PREVIOUS YEAR.

THE FUTURE: CONTINUE TO PROVIDE A COMPETITIVE TRANSFER PRICE TO THE RETAIL BUSINESS FOR CONTESTABLE CUSTOMERS.

Billing

For the financial year we issued 3.36 million invoices, while receiving approximately \$2.2 billion in payments.

Opportunities for system enhancements within our Customer Information System (CIS) were identified during 2005–2006, which will improve billing and customer transfer efficiencies. These enhancements will be implemented during the 2006–2007 year. This will further support our ability to acquire and retain customers in the competitive market.

As we strive to continuously improve our service, we proactively sought feedback from our customers on our residential bill format. The new format was introduced in June 2005 and has been well received.

In December 2005, we successfully completed the migration of Far West customer information into our CIS, enabling billing for all Country Energy customers to be completed from the one system. We now bill LPG, natural gas, water and electricity from our CIS, which promotes interactive customer service.



Country Energy has nine regional management teams to make local decisions based on their first-hand knowledge of the needs of the 1,500 plus local communities we support.

THE BEST NETWORK MANAGER

The best network manager

To be Australia's leading utility business, Country Energy will strive to effectively manage our network through sound investment, strategic planning and delivering quality infrastructure improvements and maintenance programs.

There has been strong performance across our distribution area and on average, a safe and reliable energy supply has been delivered to our customers 99.97 per cent of the time.

Our aim is to further improve this result by significant investment in network infrastructure to ensure we continue to deliver safe and reliable electricity, gas and water services to our customers.

Network investment

We are investing \$1.2 billion (\$1,200 million) in our electricity network and associated services from 2004 to 2009 and will now spend another \$500 million over the next three years to improve supply reliability.

More than \$260 million was spent on the network during 2005–2006. Network improvement projects included the construction of new zone substations, upgrade of strategic powerlines and installation of leading edge technology in our system control centres to enhance electricity supply reliability and cater for future load growth.

We plan to deliver network services of the highest standard.



MAJOR NETWORK PROJECTS COMMENCED OR COMPLETED DURING THE YEAR

New Coffs Harbour to Woolgoolga subtransmission line

New subtransmission feeder at Martins Creek

New Cudgen zone substation

New subtransmission feeder to Grafton South zone substation

New Goulburn subtransmission line

New Griffith zone substation and subtransmission lines

New Oxley Vale zone substation

New Goddards Lane zone substation

New Lennox Heads zone substation

Upgrade to Terranorra bulk supply point

New Cooperook zone substation

New Hammond Avenue zone substation

New Ballina zone substation

Upgrade to Goondiwindi zone substation and new 132 kilovolt feeder from Queensland

Stage one of upgrade to Nana Glen zone substation

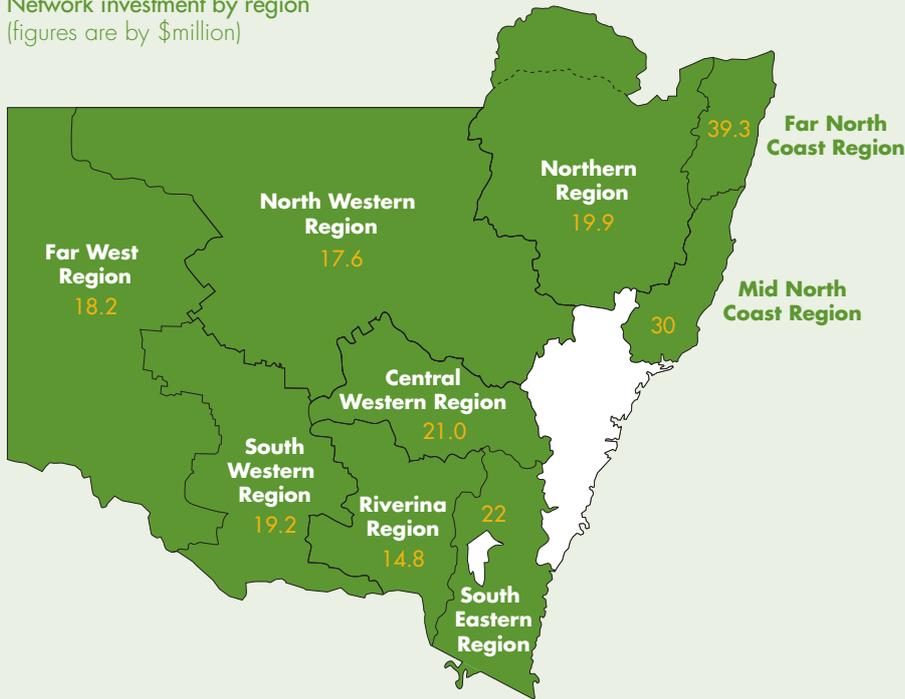
Upgrade to Raglan zone substation with three new feeders

Upgrade to Burran Junction zone substation

Upgrade to South West Rocks zone substation

Upgrade to Clearwater zone substation with additional transformer and capacitor bank

Network investment by region
(figures are by \$million)



Investing in skills and experience

The expansion of our network investment program has resulted in the need for additional employees and we commenced a recruitment program during the year to find approximately 120 new employees in field and engineering design roles.

Employee training and development has also been a focus with the establishment of 19 trainee technical officer roles across the organisation undertaking the Diploma or Advanced Diploma course that has been established in partnership with TAFE.

An additional three graduate engineers and one cadet engineer were engaged to continue our program of developing the high level skills needed to manage our network into the future.

THE FUTURE: ESTABLISHED AS PART OF AN OVERALL STRATEGY TO ADDRESS THE CURRENT AND FUTURE ENGINEERING SKILLS SHORTAGE, IN 2006-2007 COUNTRY ENERGY WILL OFFER FOUR ENGINEERING SCHOLARSHIPS FOR SCHOOL

LEAVERS, APPOINT TWO GRADUATE ELECTRICAL ENGINEERS AND EXPAND THE TRAINEE TECHNICAL OFFICER PROGRAM. FOR THE FIRST TIME COUNTRY ENERGY WILL ALSO BE OFFERING AN OPPORTUNITY FOR 20 EXISTING EMPLOYEES TO UNDERTAKE STUDIES FOR THE ELECTRICAL ENGINEERING DIPLOMA.

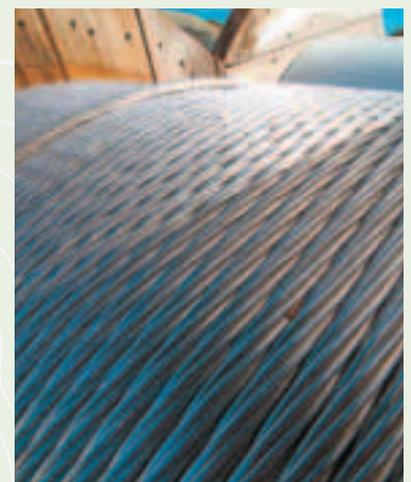
Enhancing services

Country Energy is committed to providing first class network services, fault and emergency response, and to preserving the long-term value, efficiency and viability of our electricity network. This is demonstrated by our strong commitment to the strategic placement of local field service centres in the communities across our footprint area which ensures optimum customer service and network service delivery.

The core of our network service delivery strategy is to maximise the technical and financial performance of the network for all stakeholders and to consistently provide customers with high quality, safe and reliable network services, at a cost effective price, whilst preserving the value of network assets. It is important to the network business to maximise customer satisfaction by balancing service levels with costs. This may involve exploring non-traditional means of service provision, such as demand management and distributed generation services.

We understand that our customers and communities have increasing expectations in terms of electricity reliability and quality and we are focused on ensuring that reliability and quality of supply in our regions is best practice for a rural overhead power network.

Country Energy is also working with the Department of Energy Utilities and Sustainability (DEUS) to ensure that new reliability performance conditions deliver the intended benefits to customers and stakeholders.



THE BEST NETWORK MANAGER

New reliability performance conditions

The Minister for Energy introduced new licence conditions on 1 August 2005. The licence conditions placed new obligations on Country Energy for minimum and average reliability standards by feeder type, and minimum network design criteria. The licence conditions also specify new customer service standards that will require Country Energy to make payments to customers who experience more than a certain duration or number of interruptions in any single financial year.

Supply reliability

The new licence conditions have established minimum levels of performance for Country Energy for our three feeder class types of Urban, Rural Short and Rural Long. These levels cover both average minutes off supply per customer and the average number of interruptions per customer. For the 2005–2006 reporting year Country Energy has had better than targeted performance in each of these categories.

Supply reliability



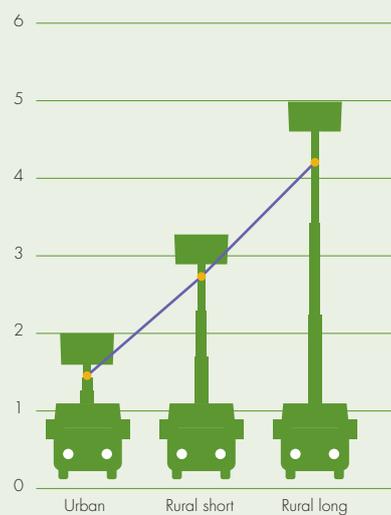
■ Target (minutes off per customer)
■ Outcome (minutes off per customer)

Supply interruptions update

Our supply interruptions group answered up to 800 calls on a normal day with an average 17 seconds taken to answer calls received by our **13 20 80** supply interruption hotline. This number increases significantly during storm and bushfire season. Storm activity in our Far North Coast region on 5 December 2005 resulted in the busiest day for our supply interruptions team with 17,844 calls each answered within 142 seconds.

To assist service to customers, during busy times most callers will be answered by the IVR (interactive voice recorder) where they can listen to a recorded message about electricity supply information in their locality.

ACHIEVEMENTS: EMPLOYED AN ADDITIONAL 15 FULL-TIME CALL CENTRE EMPLOYEES DURING THE YEAR TO CONTINUE IMPROVEMENTS TO SERVICE LEVELS, IN PARTICULAR ENHANCING CUSTOMER ENQUIRY RESPONSE TIMES.



■ Target (average number of interruptions per customer)
■ Outcome (average number of interruptions per customer)

A virtual system

During the year we made significant inroads to completing a major three-year project – virtual operations service centre (VOSC) – to manage our entire network remotely from our operation service centres.

We commenced deployment of a computerised Telecommunications User Interface Console (TUIC) in our operation service centres (OSCs) at Queanbeyan, Bathurst and Port Macquarie. When complete, the solution will integrate radio and telephone communications into a single user interface enabling OSC employees to monitor and use a selection of radio channels and telephone lines in communicating with field employees across Country Energy.

When completed in 2007, the new virtual system will link our Energy Network Management and Control (ENMAC) distribution management system that includes modules for call taking, fault analysis, dispatch and network control with other business systems to provide accurate and timely data for customer service, field operations, response management and regulatory reporting.

The VOSC will bring a wide range of customer and organisational benefits. These include greater efficiencies and improvements to safety, response times, system planning and communications regarding network conditions at any time.



Energy efficiency

Country Energy is committed to considering energy efficiency initiatives as an alternative to distribution network extension or augmentation.

Our process ensures that all major sub-transmission projects are assessed in line with the Demand Management Code (Electricity Supply Act 1995) to determine whether cost effective demand management initiatives could be sourced which would defer proposed extension or augmentation of the network.

Network wide energy efficiency approaches include reconductoring programs to reduce network losses, promotion of demand based tariffs such as time of use, facilitation of energy efficiency audits, bulk power factor correction and load control systems. Over 30 per cent of residential energy is controlled and this provides system demand reductions in the order of 20 per cent plus greater flexibility in system operation.

In addition to these general strategies we also seek initiatives which can be applied to address specific network constraints or customer groups. The most significant opportunities are associated with embedded generation from local gas fields or major pipelines and biomass generation from agricultural processes or domestic waste.

The combined effect of the above strategies in 2005–2006 was to reduce the demand on Country Energy's network by an amount equivalent to the peak demand of a town with a population of around 10,000 people. These strategies also reduced greenhouse gas emissions by 20,000 tonnes and saved around \$20 million in capital investment and operating costs into the future.

THE BEST NETWORK MANAGER

Improvements to works planning and scheduling

To improve management of our expanding capital works program we have invested in a number of works planning and scheduling programs throughout the year.

Here is a snapshot:

- Established a project management team and centralised office to support and manage large and complex projects through employee and system development and the implementation of procedures
- A new works scheduling program – Redback – commenced in the year and is nearing completion. The online program has been designed to improve the management of field work including resources, capital works and pre-planned maintenance.

The overall process improvements include:

- A single, standardised process for all regions
- Coordinated workflow
- Streamlined stores requests
- Role clarity
- Consistent work programs
- A more structured approach to scheduling resources in Field Service Centres
- Greater visibility of projects and progress.

These improvements will have significant financial and practical benefits, by ensuring employees have a clear understanding of priorities and work schedules in daily operations.

Managing our assets

During the year, gathering of network asset data continued to be a focus with functionality upgrades and significant data volumes being added to the Works and Asset Management System (WASP) and the Smallworld Geographical Information System (GIS).

Here are some of our achievements:

- Efficiency improved with the transfer of zone substation asset, maintenance and protection relay data from a number of different systems into one, secure, corporate system, which is accessible across the business
 - Data from handheld asset inspection equipment continued to provide an effective method of collecting information which is transferred to WASP via an automated upload process. Mapping information collected by Asset Inspectors was also uploaded into the Smallworld GIS
 - A connection between WASP and Peoplesoft's scheduling module was completed to allow scheduling of work generated from WASP, including asset inspection, system extension and augmentation and system maintenance
 - Significant asset data was also added to the Smallworld GIS to provide a geographical representation of asset data held in WASP, including adding bush-fire risk rating information
- Upgrades of the Smallworld GIS have also captured premise to substation data that is required for the effective planning of scheduled outages and providing information to customers during unplanned outages
 - Increased awareness of important maintenance practices through improved auditing pole inspection processes across the regions and conducting targeted mentoring and training of asset inspectors.



Vegetation management

A crucial role in providing a safe and reliable power supply across country and coastal New South Wales is managing vegetation near powerlines to ensure employee and public safety is maintained whilst minimising environmental impact.

Country Energy's Vegetation Management Plan, Trees for Life, promotes best practice in the maintenance of vegetation near powerlines.

In 2005–2006, maintenance expenditure associated with the clearing of vegetation across the network was increased to enhance asset management and reduce the impact of vegetation related supply interruptions.

Over the next three years additional funding will be provided to improve supply reliability through more effective vegetation management programs.

THE FUTURE: COUNTRY ENERGY WILL EMPLOY A FURTHER SEVEN VEGETATION CONTROL OFFICERS IN THE COASTAL REGIONS, AND ESTABLISH NEW VEGETATION GROUND-LINE CREWS IN TARGETED AREAS. OUR OBJECTIVE IS TO DELIVER LONG-TERM VALUE THROUGH PROACTIVE MAINTENANCE OF ESTABLISHED CLEARINGS. ADDITIONALLY, INCREASED SERVICES BY OUR CURRENT VEGETATION CONTRACTORS WILL PROVIDE A SIGNIFICANT BOOST TO LOCAL BUSINESS THROUGHOUT THE REGIONS.

Fleet initiatives

A major highlight for the year was the introduction of a new maintenance program designed to improve the standard of specialised heavy fleet. The program involves the use of a specialist contractor to perform quarterly inspections and coordinate the necessary repairs in conjunction with Country Energy's Heavy Fleet team. The impact of this initiative has improved downtime and the detection of potential safety hazards.

Another highlight was the \$31 million invested in fleet to ensure that Country Energy has access to plant and vehicles that contain the latest in technology. Emphasis is also placed on providing the latest safety advancements in new vehicle acquisitions as well as supporting new initiatives to reduce the impact of greenhouse gas emissions.

Reporting systems have been improved enabling effective monitoring of critical areas, including vehicle utilisation, CO₂ emissions and fuel consumption.

New policies introduced during the year included vehicle selection, safety accessories, heavy fleet inspections, salary packaging and private use.

THE FUTURE: IN PARTNERSHIP WITH THE FLEET MANAGEMENT COMPANY, LEASEPLAN, REPORTING STANDARDS WILL BE FURTHER IMPROVED AND WILL INVOLVE THE PROVISION OF PERFORMANCE INDICATORS DIRECTLY TO FLEET USERS.

Country Energy's Vegetation Management Plan, Trees for Life, promotes best practice in the maintenance of vegetation near powerlines.



THE BEST NETWORK MANAGER

Gas networks

More than 24,000 domestic, industrial, commercial and contract customers are connected to our gas networks. The connection time frame for new customers is a key performance indicator and our performance was within the targeted range set at the beginning of the financial year.

Transportation of natural gas through Country Energy gas networks was nearly 12 per cent higher than forecast, significantly improving one of our key performance indicators.

We implemented an incentive scheme to increase the uptake of natural gas via new connections and existing gas households installing additional appliances. This scheme has proved to be a very effective method of growing the gas load and a payback of less than two years on investment will be achieved.

The Wagga Access Arrangement was approved by the Independent Pricing and Regulatory Tribunal (IPART) and commenced on 1 January 2006 with the new Access Arrangement in force until 30 June 2010.

Throughout the year a number of meetings were held with shire councils and major customers to discuss the feasibility of supplying natural gas to their towns or businesses.

A Gas Transportation Agreement was signed with TruEnergy providing them access to our network in Wagga Wagga.

Security

Good security management is fundamental in protecting Country Energy's business viability.

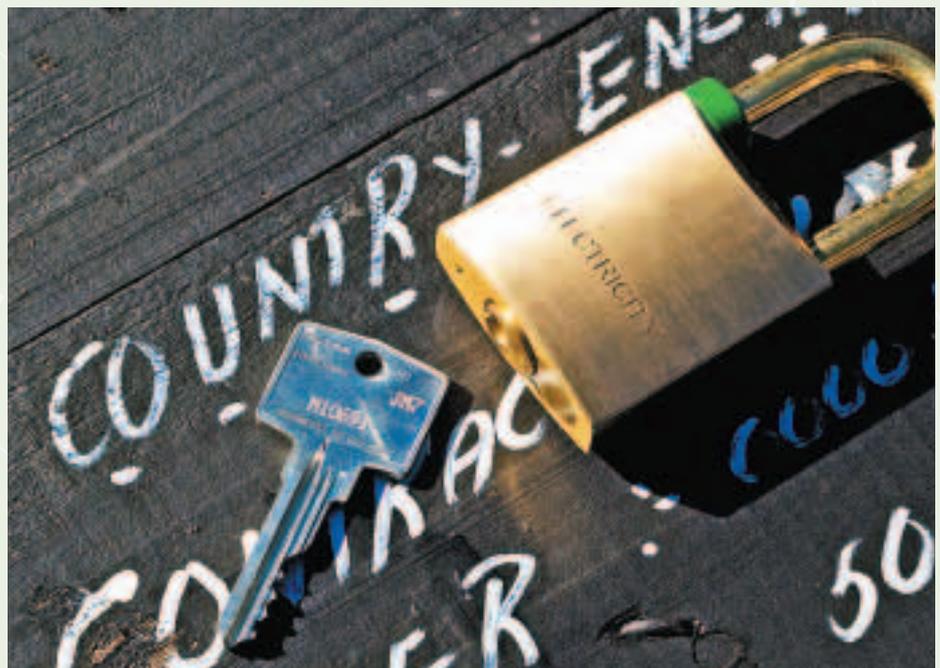
On-going development of our business continuity management capability saw the development of detailed business continuity plans in the areas of Information Services, Water and Accounts Payable. Our corporate crisis management and recovery program was reviewed to ensure we respond effectively in the event of a crisis.

Our peak security group continued to develop and review security management plans for our most critical assets as well as overseeing progress towards certification against Australian Standard 7799 – Information Security Management.

An emergency response framework was developed which included a number of emergency management guidelines being added to our policy library.

Country Energy achieved certification against internationally recognised standard for Information Security Management AS/NZS 7799 at the Queanbeyan data centre.

THE FUTURE: FULL CERTIFICATION OF ALL COUNTRY ENERGY CORPORATE DATA SYSTEMS AGAINST AUSTRALIAN STANDARD 7799, ON-GOING REVIEW AND REFINEMENT OF BUSINESS CONTINUITY PLANNING RESPONSE CAPABILITY, AND REVIEW OF THE SECURITY MANAGEMENT FRAMEWORK.





Country Energy's employee numbers have grown from 2,500 five years ago to around 3,600 today – providing long-term employment in local communities which strengthens regional centres.



A REPUTABLE WATER SUPPLIER



Following the merger with Australian Inland on 1 July 2005 acquiring water and sewerage services in areas of the state's Far West we gave our water business a new identity, officially launching Country Water in March 2006.

The transition to Country Water consolidates the water division as an important part of Country Energy's core business.

Country Water is an area of specialisation and opportunity for Country Energy. Water supply involves unique challenges, especially in the Far West. Country Water plans to deliver on a five-year \$36 million infrastructure upgrade program, and having a separate brand for the water business will help us capitalise on this.

Country Water is not a separate company but an operating division of Country Energy. The new brand is about helping customers to easily recognise the services that the water business offers.

About Country Water

Country Water is part of Country Energy's Networks and Infrastructure division and provides water supply services to over 20,000 people in Broken Hill, Menindee, Sunset Strip and Silverton. Sewerage services are also provided to Broken Hill.

- The service area is the most arid in the state and experiences extreme climatic variations including more frequent drought than coastal areas. Eight years in 10, town water supply is dependent on water sourced from the Darling River and pumped through 130 kilometres of pipeline to Broken Hill

- These unique operational circumstances combined with drought conditions may cause water quality problems in the raw water that Country Water must treat.

Country Water is an end water user and is licensed to extract nearly 10 gegalitres* of water per year from the Menindee Lakes Scheme on the Darling River.

Three other water sources which are managed by Country Water include:

- Stephen's Creek, capacity 18,000 ML
- Umberumberka, capacity 9,000 ML
- Imperial Lake (emergency water supply) capacity 900 ML.

Our commitment to enhancing water and sewerage services is clear

During the year we invested over \$3 million in our water and sewerage infrastructure as part of our five-year \$36 million infrastructure investment program of water treatment plant upgrades, replacing pipelines, preventative maintenance programs, plant and equipment.

Projects commenced or completed during the year as part of our commitment to deliver safe and reliable water include:

- Replacement of the Rocla Main – the main pipeline which transfers water from Stephen's Creek reservoir to the Mica Street Treatment Plant
- South Water Main upgrade
- Relining of Wyman Street Water Service Reservoir
- Water Treatment and Pumping Station Works
- Various Water Management projects

- Water Reticulation and Construction projects
- Mica Street Water Treatment Plant Replacement program
- Workshop and Sewer projects
- Warren Street Sewage Pumping Station replacement.

Initiatives planned to commence in the 2006–2007 financial year include:

- New community water Demand Management program
- Develop pilot plant for the Mica Street Water Treatment Plant upgrade
- Menindee Fluoridation project
- Weed Management Strategy
- Extensive scheduled network investment program
- Construction of South Main upgrade.



* 1 Gegalitre = 1,000 Megalitres = 1,000,000 kilolitres = 1,000,000,000 litres.



Planning for the future

We are also renewing our workforce to ensure we have the skills to maintain the water and sewerage network into the future. During the year, Country Water recruited five new and four existing employees as apprentices and trainees. An exciting new recruit was the water business' first ever female apprentice, indigenous employee Joanne Wheeler, who is undertaking an electrical apprenticeship in Broken Hill.

The accolades flood in

During the year Country Water celebrated the win of the Water Environment Merit Award (WEMA) for an innovative water education Sustainable Schools environmental program.

The Sustainable Schools program began in 2004 in partnership with the Department of Education and Training with a qualified teacher delivering the program in eight Broken Hill schools. The program was such a success that we continued the program into 2005, employing the teacher to facilitate the program.

The program is all about educating a new generation of water users and achieving sustainable and tangible water savings, with the whole community now finding more ways to use water efficiently and adopting these ideas at school and at home.

The program focused on educating students about the cost-effective common sense approaches that can reduce water consumption, water bills and help drought-stricken communities.

The award was presented by the Australian Water Association in recognition of the program's success in educating teachers, students and local communities about water conservation and sustainability.

The program was also highly commended in the:

- Education and Awareness Award category of the Seventh Annual Green Globe Awards, which recognises environmental projects that reduce water and electricity waste
- Tidy Towns 'Tony McGrane Civic Partnership Award', which recognises groups or individuals, who succeed in making improvements to their communities through the creation of sustainable partnerships.



Country Water's commitment to providing safe and secure drinking water

Country Water has adopted the *Australian Drinking Water Guidelines 2004* as the standard for drinking water we supply to our customers.

In July 2005, the Country Energy Board endorsed the Drinking Water Policy.

Report card for Country Water

As part of our responsiveness to customer feedback and the implementation of our Drinking Water Policy, we launched the Country Water Drinking Water Quality Report.

The report confirms our commitment to regularly monitor the quality of drinking water, consistent with the *Australian Drinking Water Guidelines*, informing customers of water quality standards on a regular basis.

The quality of the water Country Water produces is assessed and evaluated against Australian health and aesthetic standards, and those results are now shared openly with customers.



Demand management initiatives

Country Water is continually looking for ways to develop and provide innovative water solutions for our customers. Water conservation is an essential component of this strategy, which seeks to make optimum use of existing water resources.

A REPUTABLE WATER SUPPLIER

Country Water is helping customers use their water and sewerage services more efficiently to reduce consumption and costs in the following ways:

- Efficiency Calculator – an online water efficiency calculator that can calculate the amount of water consumed by individual appliances, rooms or the whole house and provides simple, low-cost water saving tips
- Customer Education – through brochures and attendance at community forums
- Sponsorship of Water Wise Gardening Course
- Sustainable Schools program – innovative education program
- Community Water Grant Application Assistance – offers assistance to community and government organisations in writing funding submissions.

Broken Hill Water Wise education project

Country Water and Broken Hill City Council, with the financial support of the New South Wales Environmental Trust, are leading an initiative to change the way water is used in the city's parks, schools, sporting grounds and in public and private gardens.

Broken Hill City Council, with the support of Country Water, secured an Environmental Trust community education grant of \$83,820 to support a water management education program.

The project aims to reduce water consumption in participating organisations including schools, businesses, public parks, sporting fields and private gardens. Environmental outcomes will include reduced water consumption, reduction in siltation following heavy rainfall and lower lead levels, particularly in children, by reducing bare dirt surfaces in private and public spaces.

The project involves:

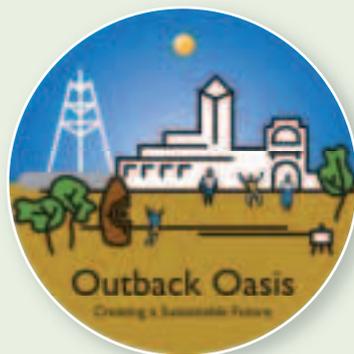
- Developing educational resources and training for grounds people, providing the skills and knowledge to be more efficient and effective irrigators
- Developing public demonstration sites to illustrate affordable and environmentally water wise ways to manage arid urban landscapes
- Accompanying resources include a comprehensive Water Wise Manual for professional grounds people, a public water wise brochure, posters and media releases to raise the project's profile and reach.

Response to the Water Wise Workshop held in June 2006 for parks and garden workers has been very positive. This unique initiative is proactive in addressing a very important water issue in the Far West and targets practical benefits for the Broken Hill community.

Outback Oasis – Creating a Sustainable Future

The program commenced in November 2005 and is being delivered free of charge to around 200 small businesses in Broken Hill. Country Energy and the Department of State and Regional Development have employed Village Green Environmental Solutions to deliver the program over a 12-month period.

The program was launched by the Minister for Regional Development, the Hon David Campbell, on 9 February 2006.



Business owners enrolled in the program will work with Village Green to:

- Improve business planning and business operations
- Audit business operations and resource use in their premises
- Identify potential ways to save energy and water, and to reduce the amount of waste products in their business
- Implement innovative, cost effective energy and water conservation measures
- Develop long-term, sustainable business plans to assist in better managing business operations.

In addition, businesses will be provided with support for 12 months, with regular auditing and reporting to track progress over that period.

Outback Oasis – Creating a Sustainable Future is expected to deliver a range of benefits to Broken Hill business owners and the wider community, including:

- Increased awareness of business sustainability issues
- Improved business planning
- Water consumption reductions
- Energy consumption reductions
- Waste to landfill reductions.

Country Energy operates Australia's largest energy supply network across 95 per cent of New South Wales' land mass.



A VALUED PART OF THE COMMUNITY



Country Energy is committed to supplying energy and water services required for the growth of communities across country and coastal New South Wales. We have developed a business structure and culture specifically designed to meet the needs of the communities we serve.

During the year, we facilitated regional growth and development through specific strategies, which included:

Employment

Since 2001, we have created more than 500 new apprenticeships, providing long-term career opportunities and allowing employees to remain in their local area. The year also saw us grow and continue to be one of the largest regional employers with over 3,600 employees in 141 customer and field service centres, nine regional offices and four business centres in Sydney, Melbourne, Brisbane and Newcastle.

Returning services to the bush

Since 2001, we have opened over 40 new customer and field service centres across country and coastal New South Wales. In an era when major business has deserted the bush, we are reversing this trend by strengthening our presence in country and coastal towns. We're bringing back to the country service levels that the bush is famous for – local, friendly, face to face service.

- New field service centres that were completed during the year include Mudgee, Molong, Tuncurry and Nambucca Heads
- Two regional offices that underwent major refurbishment were Albury and Port Macquarie
- New customer service centres were opened in Balranald, Wentworth, Deniliquin, Albury and Griffith.

Regionally based management teams

From our first day of operation, we have demonstrated our commitment to country and coastal communities throughout New South Wales. In a deliberate strategy to ensure that decision making is focused on regional needs and priorities, regional management teams were appointed to work from decentralised locations across our distribution area.

The merger of Australian Inland with Country Energy during the financial year saw the creation of our ninth regionally based management team in the Far West region.

Community consultation

An important part of our community focus has been building strong relationships with key stakeholders by sharing information about our business and customer needs. Our unique Rural Advisory Group, Regional Advisory Boards, and Customer Council are a key part of this success. Our Board and executive regularly hold meetings at different country and coastal communities throughout the year, to experience first-hand how our business is run.

We also work closely with local, state and national media, local government and Members of Parliament to help us keep in touch with customer and stakeholder concerns.

Country Energy is not a company that sits apart from the community – we live, play, work and invest in the communities we serve.

Countryways

The Countryways newsletter is at the core of our customer relationship program and is included in all residential bill statements. So far, 46,000 product and service offers have been taken up by our customers. Each issue of Countryways contains energy efficient information safety tips and water saving ideas, including exclusive offers for Country Energy customers.



Country Support

Our hardship program, Country Support, has continued to help customers in need. The program has reduced disconnections for non-payment in regional, rural and coastal New South Wales by more than 50 per cent (from around 9,000 in 2001 to less than 4,000 in 2005–2006), ensuring access to a secure energy supply for those customers experiencing financial hardship.

Tailoring individual plans to each customer, over 7,000 families and businesses have gained assistance since Country Support was introduced, with approximately 2,500 customers benefiting from the service in the past 12 months.

Country Energy has formed established program partners with a number of Community Welfare Organisations (CWOs) including St Vincent De Paul, the Salvation Army, St David's Care and Creditline, offering reciprocal referral services to assist people experiencing hardship to access available support services.

In response to customer need, Country Support has developed further links with organisations such as Family Support, Tenancy Advice and Aboriginal Housing services to assist our customers.

Following a very successful trial, Country Support is the only industry based hardship program accredited by the Department of Energy Utilities and Sustainability (DEUS) to distribute Energy Accounts Payment Assistance (EAPA).

FUTURE GOALS: CONSTANT WORK IS OCCURRING TO ENSURE THAT THE PROGRAM IS THE MOST PROACTIVE, FLEXIBLE AND COMPREHENSIVE WITHIN THE INDUSTRY. WITH THAT IN MIND COUNTRY SUPPORT IS NOW LOOKING TO ASSIST COUNTRY WATER BY DEVELOPING AND IMPLEMENTING A WATER CUSTOMER PROGRAM.

Satisfied communities

EWON consultations

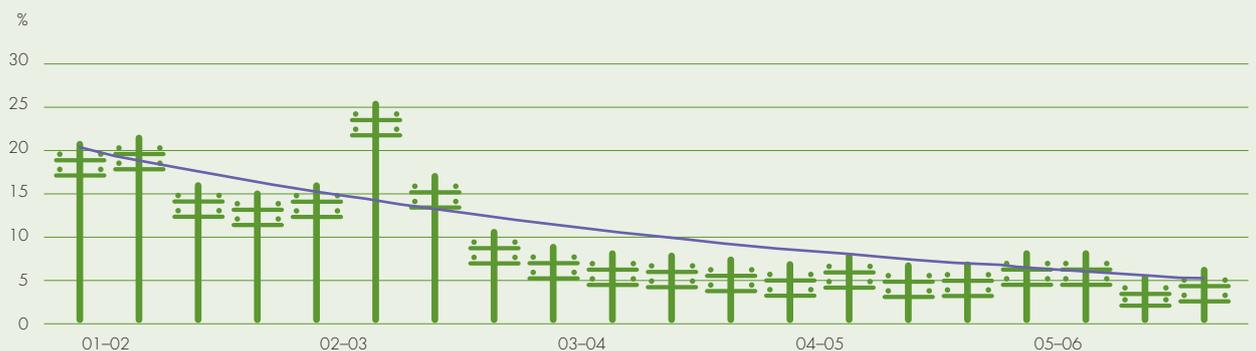
The success of our First Call Complaint Completion (FCCC), Country Support and community consultation programs is evident in the reduced number of customers who escalated their complaint to the New South Wales Energy and Water Ombudsman (EWON).

A Country Energy record was set with customer consultations made with EWON decreasing by more than 12 per cent, from 610 in 2004–2005 to 535 in 2005–2006, and notably none of these progressed to dispute status.

Only seven per cent of all consultations dealt with by EWON related to Country Energy, down from 7.32 per cent from the previous year and well under our 25 per cent market share.

We are helping create a stable workforce interested in working in regional New South Wales in the long term.

NSW Energy Ombudsman – Country Energy case share trend



A VALUED PART OF THE COMMUNITY

As part of our on-going relationship, EWON representatives visited our Far West region in October 2005. The week-long visit included introductions to our field and customer service centres, the region's extensive rural network, water and sewerage treatment plants and reservoirs, as well as other sites that make our Far West operations unique.

The Energy and Water Ombudsman, Clare Petre, also attended the launch of Country Energy's customer service strategy – Make them a fan. Held at Dubbo in March 2006, the Ombudsman spoke to around 90 of Country Energy's customer service managers and team leaders in support of the initiative.



Community engagement

A community engagement survey was conducted quarterly to establish how Country Energy is viewed by local business, mayors and community representatives. They are asked to score Country Energy on customer service, partnering, reputation, citizenship, our product and corporate capability.

Target	90 per cent
Outcome	95 per cent

THE FUTURE: AN ENHANCEMENT TO THE SURVEY IS THE EXPANSION OF THE SAMPLE SIZE, GIVING US FEEDBACK FROM OTHER PERSPECTIVES WITHIN LOCAL COMMUNITIES INCLUDING CHAMBER OF COMMERCE AND LOCAL GOVERNMENT COUNCILLORS.

Corporate reputation – a trusted brand

Customer perception of Country Energy's reputation continues to grow as we continue to enjoy 100 per cent prompted brand awareness across our network. Unprompted brand awareness rose to 82 per cent from 74 per cent last quarter.

We continue to be recognised as a leading brand in the market with above average 'brand associations' and 'brand awareness' associating Country Energy with being responsive to customer needs, environmentally conscious, easy to do business with, safe work practices and a trusted brand.

Innovation

We are always on the lookout for new technologies that can deliver real benefits to our customers and the communities we work in.

Initiatives commenced or completed during the financial year include:

Grapefrost prevention project

An Australian first, this joint venture between Country Energy, the University of New England, Peterson Wines and Devi Heating Systems is a three-year pilot, which has the potential to benefit not only the grape industry, but other crops which are prone to frost damage.

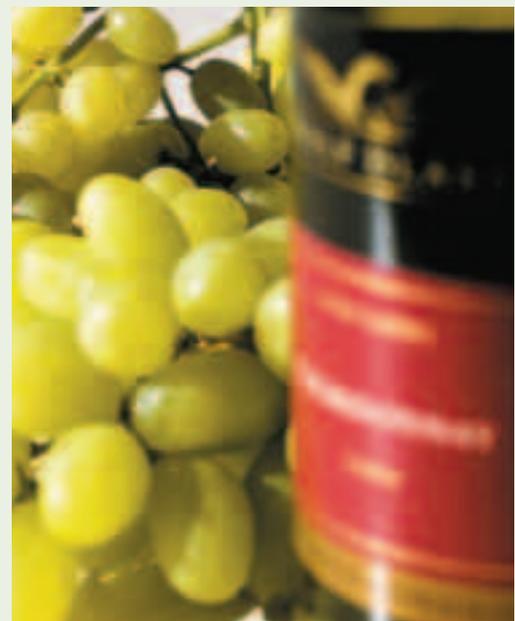
The project, on two one-hectare blocks of cold climate white grape varieties at Peterson's vineyard at Armidale, has installed monitoring sensors and heating equipment on grape vine trellis so that the vines receive small blasts of heat when frosts are detected.

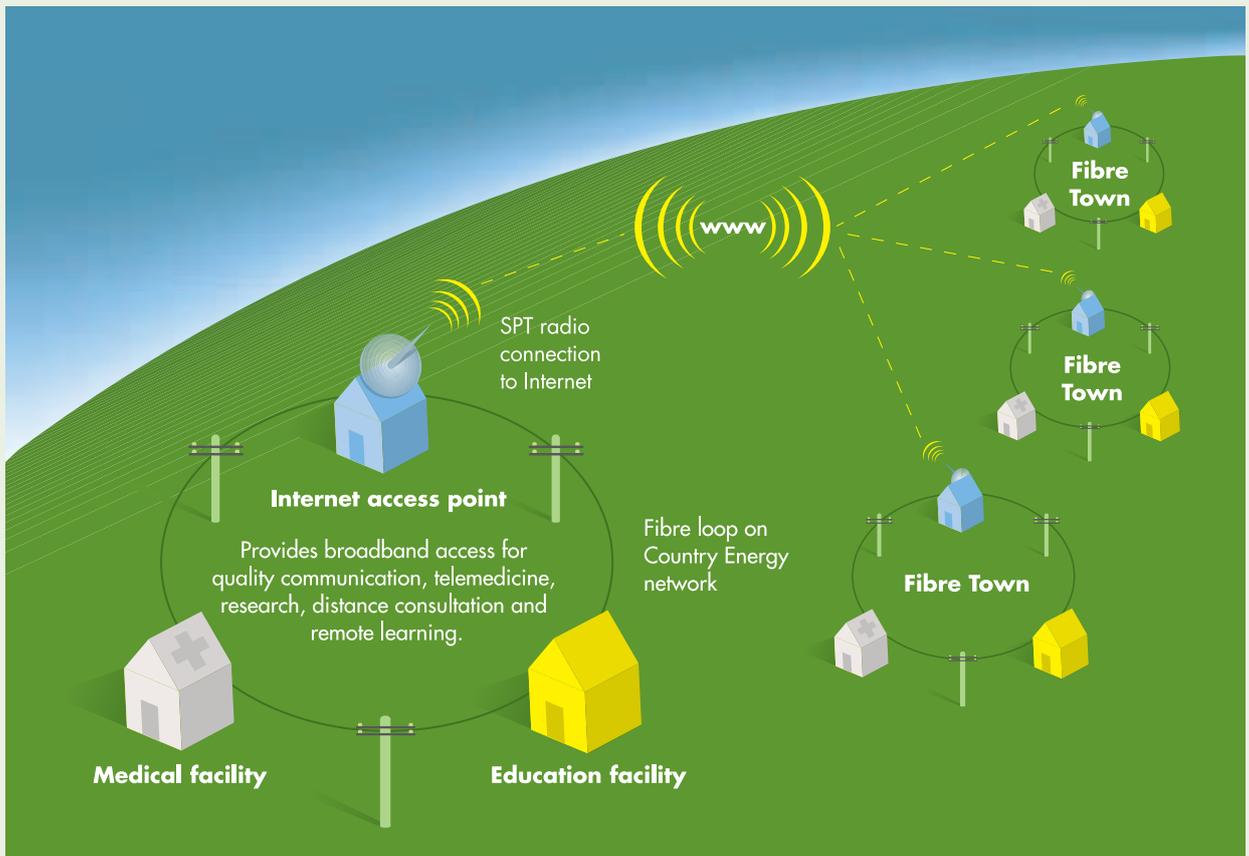
Traditional management methods include blowing smoke over the grapes, using fans to blow frost away, and spraying water over the grapes to stop frost settling. These methods are all expensive, labour-intensive and use large amounts of water and/or energy.

The use of automatic sensors to detect frost, and trigger heat blasts when required, is expected to provide more targeted and efficient protection from weather conditions which can change quickly.

Australia produces more than two million tonnes of wine grapes a year, with exports worth \$2.7 billion and up to a quarter of the cool-climate crop is lost due to frost damage.

If the trial is successful, commercialisation of the product may be developed. This will not only result in a boost for regional development and the wine grape industry, but its expansion into areas previously considered too frost prone, gives farmers more control and security.





Fibre Towns

Fibre optic cable has now been deployed in 18 regional centres under the Fibre Towns initiative. This joint project between Country Energy and Soul Pattinson Telemedia (SPT) utilises electricity infrastructure to carry fibre optic cable networks to communities across New South Wales.

Commencing in April 2004, the communities involved in the Fibre Towns project are Armidale, Moree, Albury, Port Macquarie, Wagga Wagga, Griffith, Dubbo, Orange, Bathurst, Grafton, Lismore, Coffs Harbour, Bega, Goulburn, Taree and Broken Hill.

Country Energy provided the infrastructure and installed the fibre on existing power poles, while SPT will service customers once they are connected to the network. The installation costs for the project were funded through a contribution from the Federal National Communications Fund, secured through the NSW Office of the Chief Information Officer, and state funds.

The project will initially link health and education facilities with high-speed data exchange and internet access. Improved patient care is to be among the project's expected benefits, resulting from giving health specialists faster access to worldwide medical research resources and 'telemedicine'.

Community sponsorship

Building stronger links with the community and encouraging regional development continued to underpin our approach to our \$1.9 million sponsorship program in 2005–2006.

Environmental, social, sporting, educational, research, arts and cultural events and organisations benefited from our community sponsorship program this year. This investment reflects our commitment to actively supporting the regional centres across our business area.

A VALUED PART OF THE COMMUNITY

During the financial year we provided both financial and 'in kind' support to a number of initiatives. Here is a snapshot:

- The \$35,000 Country Energy Art Prize for Landscape Painting is growing in popularity and stature each year, with a record number of entries in 2005 and a well-received CountryScapes exhibition at Parliament House in Sydney. The prize supports regional art galleries and artists and the 2005 art prize was hosted by Grafton Regional Art Gallery
- For the third year running the hugely successful Country Energy Proms on Tour, presented by the Sydney Opera House, played to large crowds. In May 2006, tour one saw shows across the Mid North Coast, Far North Coast and Northern regions – bringing an otherwise out-of-reach experience to kids in the bush. Tours two and three will be held in late 2006 and are shaping up to be big hits, this year's performances are of Strings & Things
- In 2005, Country Energy sponsored the Premier's Teacher Scholarships for the first time. We provided support in the area of Indigenous education through two \$10,000 scholarships for teachers who are involved in aspects of Indigenous education. Country Energy is providing one \$10,000 scholarship in 2006
- Country Energy again sponsored Murrumbateman Field Days, promoting the new initiative – the Country Energy Kitchen. We attracted some of the best chefs from restaurants in the Canberra region and this year our focus was on customer service, energy efficiency, safety and combined gas and electricity
- The Country Energy Water Safety program – a partnership with Surf Life Saving New South Wales – took place for the second year in late 2005, visiting schools on the Far North Coast, Northern region and the Far West. Over 6,000 children participated in the program which taught them basic water safety at the beach and around inland rivers and dams
- An initiative of the Bathurst Memorial Entertainment Centre, Catapult 2005, is a unique regional youth arts festival with a national profile. Some of the finest established performers in Australia appeared alongside young performers from the region and beyond, with circus and physical theatre the theme for 2005
- Country Energy provided financial support towards an educational music development scholarship as part of the 16th Bellingen Jazz and Blues Festival, held in Bellingen from 19 to 21 August 2005. The scholarship is part of the Festival's commitment to involve and contribute to the local community
- We also helped out with chick banding at Johns River. Country Energy provided an elevated work platform to enable ecologist Greg Clancy to band one-month-old osprey chicks. The exercise will help experts obtain more data on the expansion or contraction of osprey populations in the Mid North Coast region

1. L-R Premier's Teacher Scholarships winner Vincent Severino, Nicky Hotham (Country Energy), Premier Morris Iemma, scholarship winner Arleen Packer, Ms Linda Burney (Parliamentary Secretary, assisting the Minister for Education and Training) and Natalie Dowle (Country Energy).



2. Children enjoying the Country Energy Proms on Tour concert series presented by the Sydney Opera House.



- Country Energy replaced a power pole previously installed as a nesting platform for a pair of osprey in Harrington Waters Estate on the Mid North Coast. The new pole created a higher platform to encourage the birds to nest and breed this season
- Country Energy has been a long time supporter of Keep Australia Beautiful. In 2005, we supported the Tidy Towns and the Clean Beach Challenge programs, both with the Country Energy Bush Spirit Award. These awards are focused on rewarding towns that have overcome hardships. In 2006, Country Energy is continuing to support the Tidy Towns program
- First held as a series of drought relief concerts, the Sydney Symphony regional tours have been a key sponsorship for a number of years. To support local communities, this year the tour visited places such as Armidale, Bathurst and Coffs Harbour, with the fundraising concert held in Broken Hill

- The 2006 Outback Science & Engineering Challenge is a joint program conducted by the University of Newcastle and the local community aimed at inspiring young people to consider a career in the sciences, engineering or other technology related areas. Over 220 children converged on Cobar in March to take part in the challenge, with school teams from across the region spending two days solving science and engineering problems and having a lot of fun along the way
- The Dubbo City Council Waste to Art program involves communities across regional New South Wales from Bathurst to Broken Hill. This is an innovative way of promoting the 'Reduce, Reuse and Recycle' concept, changing attitudes about 'rubbish' and fostering artistic creativity

- Country Energy provided assistance with landscaping, fauna habitat and developing walking trails in Tenterfield Park. The park is one of the oldest and largest public parks in the Tenterfield shire. The aim of the project is to make the park a focal point for local woodland flora and fauna and to provide an attractive natural setting for visitors, who may leave the area with a greater appreciation of our natural environment
- We also assisted the Broken Hill Race Course trust with their sun smart initiative. The main part of the program was to fully cover part of the site with sun shades with the obvious benefits for all patrons.

3. Country Energy's sponsorship program has encouraged breeding and assisted research of the endangered osprey species.



4. Chefs cooking with gas in the Country Energy Kitchen at the Murrumbateman Field Days.



AN EMPLOYER OF CHOICE

Our success is driven by the hard work and commitment of our employees in delivering exceptional customer service.

Hard work and determination is not enough to achieve our ambition of being Australia's leading utility business, so we set our sights on building a solid foundation for our future success. By matching the values and expectations of our people, we are also working towards becoming an employer of choice.

Corporate leader

In December 2005, we became the first electricity distributor in Australia to be recognised as a Corporate Leader for Indigenous Employment.

We signed a Memorandum of Understanding with the Federal Government's Department of Employment and Workplace Relations (DEWR), confirming our commitment to the recruitment, training and retention of Indigenous employees.

It also recognises the success of our Indigenous Employment program which was developed in 2002 following a strategic decision to create an organisation that reflects the cultural diversity and values of our customer base.

Indigenous Apprenticeship program

To support our on-going commitment we have embarked on an innovative program in partnership with DEWR which will focus on recruiting Indigenous apprentices and trainees.

The program is central to Country Energy's strategy of becoming an employer of choice and will create career opportunities for Indigenous people in their local communities.

Country Energy understands that the additional support provided to Indigenous apprentices through mentoring, tuition and the on-going support and encouragement provided by team leaders is a major component in our retention strategy. Improved retention rates highlight the success of our recruitment strategy, which aims to employ Indigenous apprentices in their local area so that they have family support and existing social contacts.



PROGRAMS IN DEVELOPMENTAL STAGES FOR THE 2006-2007 FINANCIAL YEAR INCLUDE:

The employment of 50 Indigenous Electrical Lineworker apprentices in three stages. Country Energy has in excess of 20 dedicated workplace trainers that will provide the training centre and field based tuition and assessment for the apprentices

A dedicated Indigenous Apprentice Training Coordinator will ensure that the program is actively implemented and monitored

A pilot program employing 11 Indigenous Vegetation Controllers will start at the end of August 2006 targeting the North Coast. The successful applicants will undertake a Certificate II Powerline Clearance Traineeship

Development of an Indigenous Employment Strategy is underway aligning to Country Energy business strategies and values

An expansion of our mentoring program is underway, eventually having mentors located across our service area

Expressions of interest to current Indigenous employees for the development of an 'Indigenous Employee Network'. This network will have annual meetings to discuss workplace issues and career development.

Record apprentice intake

Employing new apprentices, trainees and employees is part of our long-term plan to strengthen our workforce and improve service levels across the state. During the year we recruited 115 new electrical and water apprentices and trainees, pushing the number of apprenticeships created since 2001 to over 500.

Of this, 88 were new employees and 27 existing employees who were given the opportunity to undergo an apprenticeship program in the following occupational areas:

- Distribution Powerline Workers
- System Electricians
- Communication Technicians
- Cable Jointers
- Water Operations.

The positions are based in various locations right across our footprint area from Broken Hill in the west to Coffs Harbour in the east, Tweed Heads in the north and Bombala in the south.

We take into account the needs of the local community in developing and retaining skills to help grow and service regional areas. We provide new recruits with the skills and training to establish a foundation for long-term employment and career development in their local community.

In order to provide more industry specific and useful training programs, we were registered as a Training Organisation in May 2006 by the New South Wales Vocational Education Training Advisory Board (VETAB). This ensures that any training programs delivered by Country Energy are quality assured and any qualification issued by Country Energy under our scope of registration is recognised throughout Australia and New Zealand.

THE FUTURE: RECRUIT 80 NEW APPRENTICES IN THE 2007 INTAKE, PLUS 50 INDIGENOUS APPRENTICE POSITIONS OVER THE NEXT TWO YEARS.

Our apprentices

Water	9
Service Delivery – South Western	12
Service Delivery – South Eastern	35
Service Delivery – Riverina	29
Service Delivery – Northern	32
Service Delivery – North Western	44
Service Delivery – Mid North Coast	34
Service Delivery – Far West	20
Service Delivery – Far North Coast	32
Service Delivery – Central Western	28
Communications	4
Networks	22

Apprentices employed in 2005–2006

Water	5
Service Delivery – South Western	10
Service Delivery – South Eastern	13
Service Delivery – Riverina	7
Service Delivery – Northern	11
Service Delivery – North Western	15
Service Delivery – Mid North Coast	14
Service Delivery – Far West	3
Service Delivery – Far North Coast	11
Service Delivery – Central Western	14
Communications	1
Networks	11

Currently, nine per cent of our apprentices are of Indigenous descent, and over the next two years we plan to increase that number to approximately 16 per cent.



AN EMPLOYER OF CHOICE

Engineering the future

In addition to our successful apprentice program Country Energy commenced a Trainee Technical Officer program in 2006, with 19 participants currently undertaking this four-year program.

We also continue to develop and expand our Engineering Development Program with the appointment of three Graduate Engineers and one Cadet Engineer during the year.

THE FUTURE: DURING 2006–2007 COUNTRY ENERGY WILL OFFER FOUR ENGINEERING SCHOLARSHIPS FOR SCHOOL LEAVERS, APPOINT TWO GRADUATE ELECTRICAL ENGINEERS AND EXPAND THE TRAINEE TECHNICAL OFFICER PROGRAM.

A COUNTRY ENERGY FIRST – WE WILL CREATE AN OPPORTUNITY FOR 20 EXISTING EMPLOYEES TO UNDERTAKE STUDIES FOR THE ELECTRICAL ENGINEERING DIPLOMA.

Cultural awareness

To raise awareness of the cultural differences between Indigenous and non-Indigenous employees, we developed an Indigenous Awareness program as part of our highly successful Powerful Staff cultural change initiative.

The aim of the program is to encourage non-Indigenous employee acceptance and understanding of the cultural diversity in the workplace. Through this program, employees are encouraged to discuss Indigenous history, its culture, issues and hopes for the future.

Thirty-two sessions were conducted in 21 different centres across the state over a period of four months. Outcomes of the sessions were met with a very positive response from Indigenous and non-Indigenous employees.

Incentives to keep skills in the bush

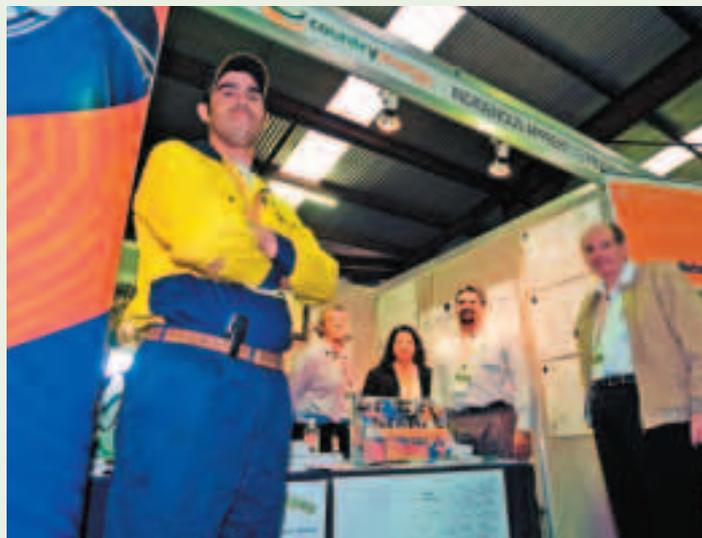
Country Energy launched an exciting employee support initiative during the year, the Remote Area Policy, for our employees living in designated remote areas.

During the past three years, 16 employees have moved away from remote locations and there are currently 16 vacant positions in the designated remote areas.

It is vitally important for workforce planning to encourage people to live and work in these areas and this initiative rewards our experienced employees and assists in retaining important skills in our outback communities.

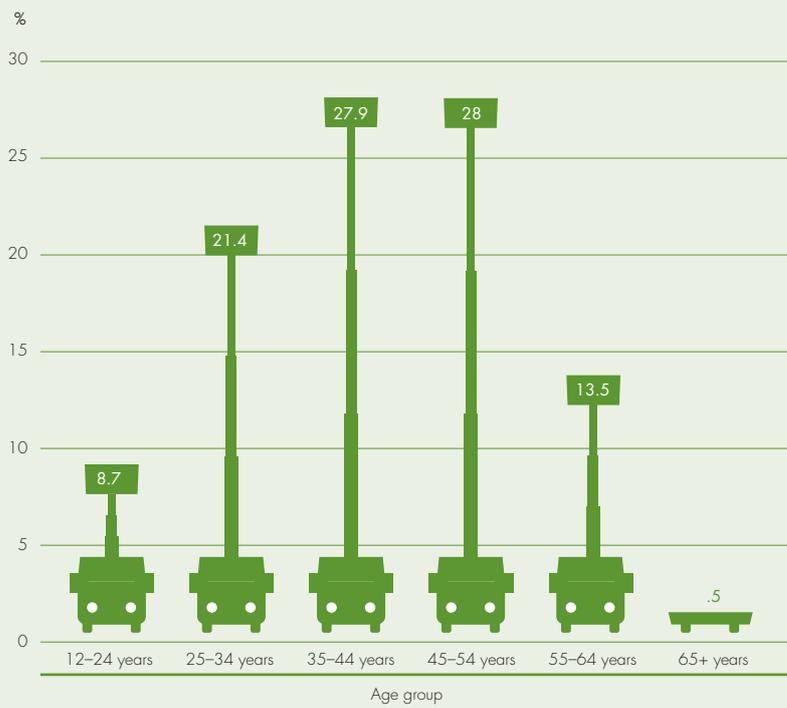
Employees who work and reside in remote locations are now eligible for cash payments that recognise years of service, additional leave and more flexible time-in-lieu arrangements. The Remote Area Policy is the culmination of more than 12 months' work by our Human Resources team, together with input from other business units and industry unions.

We developed an Indigenous Awareness program as part of our highly successful Powerful Staff cultural change initiative.





Country Energy employee age distribution

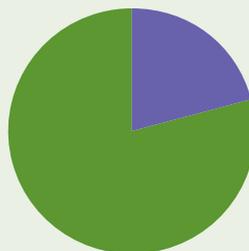


Country Energy workforce by employment status



Employment Status	Percentage (%)
Full-time	94.1
Part-time	5.5
Casual	0.4

Country Energy workforce by gender



Gender	Percentage (%)
Male	79
Female	21

AN EMPLOYER OF CHOICE

Trends in the representation of EEO groups

EEO GROUP	BENCHMARK OR TARGET	PERCENTAGE OF TOTAL WORKFORCE			
		2003	2004	2005	2006
Women	50%	21%	21%	21%	21%
Aboriginal people and Torres Strait Islanders	2%	2.7%	1.2%	3.4%	2.6%
People whose first language was not English	20%	1%	n/a	1%	1%
People with a disability	12%	5%	5%	8%	10%
People with a disability requiring work-related adjustment	7%	0.5%	1.3%	2.5%	2.4%

Trends in the distribution of EEO groups

EEO GROUP	BENCHMARK OR TARGET	DISTRIBUTION INDEX			
		2003	2004	2005	2006
Women	100	80	73	75	79
Aboriginal people and Torres Strait Islanders	100	61	72	67	91
People whose first language was not English	100	100	n/a	n/a	104
People with a disability	100	106	107	107	104
People with a disability requiring work-related adjustment	100	n/a	104	103	98



We continued to introduce additional initiatives to meet the needs of our diverse customer and employee base.

Notes:

1. Employee numbers are as at 30 June 2006.
2. Excludes casual employees.
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.
5. Data is compiled from information volunteered by employees.

Equal employment opportunities

Our commitment to creating a workforce that reflects the cultural and gender diversity of our customer base is formalised in our Equal Employment Opportunity (EEO) Plan, which also incorporates people with a disability and our Ethnic Affairs Priority Statement for 2004 to 2009.

Ethnic Affairs Priority Statement

We continued to introduce initiatives to meet the needs of our diverse customer and employee base and promote the principles contained in our Ethnic Affairs Priority Statement for 2004 to 2009.

During the year initiatives included:

- Rollout of a company wide Indigenous Awareness program
- Interpreter services for Arabic, Chinese, Vietnamese, Italian, Greek and Spanish for customers calling **13 14 50**
- Country Support hardship assistance program
- Continuance of unique customer advisory groups.

Employee Assistance program

Our Employee Assistance program provides face to face and telephone assistance in resolving work related and personal problems, which may impact on employees' quality of life and their safety and work performance.

The free, independent and professional counselling and support service was attended by 166 employees or their immediate families in 2005-2006 compared with 135 for the previous year.

Induction program

Country Energy's Corporate Induction program was revised during the year and runs on a fortnightly basis, consisting of two days initial training for all employees. The program includes areas such as safety, health, environment, security, policies, employee handbook and customer service.

Employee Assistance program



AN EMPLOYER OF CHOICE

Service Milestone Awards

More than 400 long-standing Country Energy employees across New South Wales were presented with Service Milestone Awards during the year.

Country Energy's Service Milestone Awards recognise employees who reach milestones of 10 to 45 years service and are a way of recognising the contribution that our people make to the company. This year we celebrated our first employee to reach 50 years of service, Pat McDonald, who is based at Port Macquarie.

Employees are the backbone of our business – the accumulated knowledge and experience of Country Energy's employees are evident in the quality of the network and customer service levels provided.



Pat McDonald from Port Macquarie is Country Energy's longest serving employee (50 years).

Opinions count – organisational health

Our fourth employee survey was successfully run in November 2005. The results were very pleasing with an increase in our organisational health score to 3 from 2.96 (out of a possible 4).

A positive upward trend continued with the percentage of surveys completed increasing from 62 per cent to 72 per cent. Divisional groups have now analysed the results with improvements being implemented across the business to continue our drive to become an employer of choice.

The survey covers areas such as:

- Skills development
- Safety
- Freedom from harassment and discrimination
- Environmental responsibility
- Change management
- Internal recruitment processes
- Exposure to senior executives
- Consistency of team leadership
- Level of positive feedback.

THE FUTURE: CONTINUE TO IMPLEMENT LOCAL ACTION PLANS TO ADDRESS ISSUES IDENTIFIED IN SURVEY AND REACH THE 'BEST RESULT' SURVEY BENCHMARK OF 3.4.

MAINTAIN FOCUS OF DIVISIONAL QUESTIONING TO IMPLEMENT CHANGES WHICH WILL CONTINUE TO IMPROVE OUR ORGANISATIONAL HEALTH.

IMPROVE OUR EMPLOYEE ENGAGEMENT SCORE OF 66 PER CENT FROM LAST YEAR IN THE HEWITT BEST EMPLOYERS IN AUSTRALIA AND NEW ZEALAND SURVEY AND CONTINUE TO BE RECOGNISED IN THE HEWITT BEST EMPLOYER ZONE.

Powerful Staff

Senior Development program

Country Energy's Senior Development program is just one of many ways that we are developing future leaders. Six internal employees and two external applicants were successful in securing a place in the program this year which will give them practical senior management experience in several roles over a three-year period.

Team Leader Development program

An innovative Team Leader Development program commenced during the year with an aim to equip team leaders with the skills to develop and maintain high performing teams. The program also helps to address the important issue of succession planning so teams are well equipped to meet future needs.

During October and November, our Culture, Strategy and Learning Division ran a pilot program of seven Team Leader Development (TLD) workshops.

The program and the 150 participating team leaders and managers were strongly supported by regional general managers and other senior managers who attended.

The initial focus of the program was our Service Delivery team leaders who have varied roles from technical knowledge and managing people to financial and computer skills to ensure that jobs are completed efficiently and within budget.

It also aims to give our team leaders greater understanding of the entire business culture and the practical steps Country Energy is taking to become Australia's leading utility. Follow-up workshops are conducted on a variety of topics including conflict resolution and information sessions.

THE FUTURE: ROLL OUT THE PROGRAM TO ALL TEAM LEADERS ACROSS THE BUSINESS.

Frontline Management graduates 2005

We sponsor this program annually to give employees from a range of backgrounds, locations and disciplines better career opportunities and the skills needed to understand and deal with broader management issues.

Congratulations to the record 350-plus Country Energy employees who graduated from our Frontline Management program diploma and certificate courses in November.



Powerful Knowledge

Mature worker retention strategies form a key part of Country Energy's overall Workforce Plan.

In June, we commenced an innovative succession planning initiative – Powerful Knowledge – involving the management and transfer of mature workers' specialist knowledge.

Six of our key Technical Officers approaching retirement commenced the Powerful Knowledge pilot program in June and will attend a number of workshops and presentations over several months.

During the program, critical aspects of their extensive technical knowledge, experiences and business relationships will be developed into knowledge profiles for each role.

The knowledge profiles will then be integrated into a number of other succession planning and mentoring initiatives as part of our broader workforce development.

The Powerful Knowledge program not only reduces the loss of corporate knowledge and expertise due to retirements, but most importantly, allows us to formally recognise and celebrate the extensive service and contribution of our most experienced employees.

Powerful tools

Empowering employees by providing them with the right communication tools and resources continues to be a vehicle to help us become an employer of choice.

Two major projects were undertaken and delivered during the year. The first was a complete revamp of our intranet service, Countrynet, which now provides a 'one stop shop' for business news and information.

The second was the transformation of our quarterly employee newsletter, Cross Country, into a fresh newspaper format which is delivered to all employees electronically through Countrynet as well as in newspaper format to our field service centres.

Other powerful tools to keep our employees informed and enable them to have a say in Country Energy's future include:

- Monthly team briefs, followed by team meetings
- Regular performance coaching
- Weekly newsletter
- High performance culture initiative which incorporates our team leader and senior management development programs
- Our corporate dashboard which drives and tracks outcomes, encourages group involvement and helps employees understand business objectives.

Workplace relations

A range of new tools are being put in place to help foster effective work relations between Country Energy's various stakeholders and regulatory bodies, including management, employees, unions, government agencies and tribunals, these include:

- Communications and education strategy, including our web page
- Learning and Development programs
- Consultancy services to the business.

The 2005–2007 Country Energy Award has been ratified and fully implemented prior to the target dates. A number of enterprise agreements and policies have been negotiated and implemented. On-going changes to Federal Industrial Relations Legislation and its implications for Country Energy are monitored by the Board and executive.

The Australian Inland (AI) Award fell due on 31 December 2005. Country Energy paid an interim increase of 4.6 per cent plus 1 per cent superannuation. Work on the AI Award and its relationship to the Country Energy Award will occur in the second half of 2006.

No time was lost due to industrial disputes during the year.

The image features a warm, golden-hued landscape, likely a field or farm, with a wooden fence running diagonally across the foreground. The background is a soft, hazy expanse of land. In the top right corner, there is a faint, white outline of a map of Australia, with a dashed line indicating a specific location or route. The overall atmosphere is serene and rural.

As one of the nation's leading energy services corporations, Country Energy also takes very seriously our responsibility to support growth and development in the 1,500 plus communities we serve from Bega to Tweed Heads, west to Broken Hill and south to the River Murray.

A RESPONSIBLE ENVIRONMENTAL MANAGER

From relocating osprey nests on power poles and planting trees with community groups to trialling hybrid vehicles and landmark greenhouse gas abatement deals, Country Energy is involved in a range of environmental initiatives.

Our energy conservation and environmental protection initiatives go beyond legal and regulatory obligations, towards a position of industry leadership, because leading the way in environmental sustainability and social responsibility makes good business sense.

Two of our immediate challenges are energy efficiency and the search for alternative energy sources. We have enlarged our suite of energy efficiency initiatives, delivering tangible environmental, social and financial benefits.

Environmental management – not just a statement.

Our environmental policy

Country Energy is Australia's largest regional utility business. As an environmentally conscious and responsible company we are committed to caring for and protecting our natural environment.

Our aim is to integrate responsible environmental management into all that we do.

To demonstrate our commitment to the environment, we will:

- Strive for an incident-free workplace and continually improve the ways we care for the environment
- Identify, assess and control significant environmental aspects arising from our activities, products and services
- Comply with relevant legislation, regulations, standards, codes and licences
- Ensure our people have the knowledge and skills they need to undertake their work in an environmentally responsible manner
- Require our people, and visitors, to abide by all environment policies, procedures and other requirements

- Engage in effective consultation and open communication about environmental issues
- Conduct incident investigations fairly, with a focus on implementing preventative actions
- Continually measure and improve our environmental management programs and practices
- Consult with regulators, local communities and stakeholders to regularly review and improve our environmental objectives and targets
- Secure renewable energy from greenhouse friendly sources to address the environmental impacts of electricity generation.

This policy applies to all employees, agents and contractors of Country Energy and to any person or organisation that acts for or represents it.



A RESPONSIBLE ENVIRONMENTAL MANAGER

Meeting renewable energy and greenhouse gas reduction targets

Across Country Energy we are tackling the challenge of securing new renewable energy and greenhouse friendly supplies to ensure that we meet a range of regulatory and legislative requirements. In addition, Country Energy is being proactive in securing Green Power rights to sell **countrygreen**[®] energy to our customers who choose to be 'green' and help the environment.

Current legislation aims to develop additional sources of renewable energy generation, reduce emissions of greenhouse gases and ensure that renewable energy sources are ecologically sustainable. To that extent Country Energy has developed a management framework to ensure measures are in place and targets are achieved for green compliance.

Country Energy met Federal Government renewable energy targets, New South Wales and Australian Capital Territory Government greenhouse gas abatement targets, Queensland Government's 13 per cent Gas Scheme targets and the National Green Power Accreditation Program requirements this year.

Country Energy's key strategies to meet the above green targets include the following:

- Continue to actively monitor and report our expected position against the target on a monthly basis to the Country Energy executive
- Facilitate the development of renewable energy and greenhouse gas abatement projects that result in the creation of economically priced green certificates
- Negotiate Power Purchase Agreements (PPAs) that deliver to Country Energy economically priced green certificates associated with compliance
- Contribute to policy formulation procedures at all levels through regular liaison with relevant regulatory bodies.

Opportunities to leverage regional development and obtain embedded generation advantages for our network assets and operations are also strong drivers aligned with this strategy.

Country Energy is continually reviewing and updating its approach to best reflect the needs of its stakeholders and to take advantage of available opportunities.

** Includes Renewable Energy Certificates (RECs) surrendered by Australian Inland Energy.*

Commercial partnerships

We continue to turn green energy into a commercial reality, by working with developers to secure new energy supplies that deliver environmental and regional sustainability benefits.

The key criteria for potential partners are appropriate technologies, expertise and financial capabilities.

Our increasing involvement in projects such as these are helping to establish the infrastructure needed to support future industry growth across country and coastal New South Wales, as well as enhancing employment opportunities and energy utility services in regional communities.



We will continue to actively pursue and facilitate the development of new renewable energy projects.

Examples include:

Arrow Energy

A power purchase agreement (PPA) has been negotiated with Arrow Energy as a gas fuelled generating source to support our growing retail sales in Queensland and the mandatory level of Gas Electricity Certificates (GEC) required under the Queensland Government's 13 per cent Gas Scheme.

Bathurst landfill feasibility study

A detailed feasibility study at Bathurst Waste Management Facility is focused on developing landfill gas identification, capture, extraction and a renewable energy generation facility, which will help turn household waste into green energy.

Current estimates indicate the facility could have the potential to generate 4,200 megawatt hours per annum – enough energy to power approximately 500 homes. The estimated greenhouse gas reduction is around 20,000 tonnes per annum, equivalent to removing more than 4,000 cars from the road.

Country Energy and Bathurst Regional Council have joined forces to support the innovative project, which aims to extract methane gas and convert it into green energy, displacing energy generated from non-renewable sources.

Waste Management Pacific (WMP) was selected to undertake the feasibility study, having completed similar studies and delivered commercially viable landfill gas generation projects on a world wide basis.

If successful, the project has the potential to significantly benefit the environment and the community. Up to 15 local jobs would be created during construction and two part-time positions once operational. The facility would also help reduce greenhouse gas emissions, improve local infrastructure and enhance safety and landfill site management.

Based on current information, the generation facility could be operational by March 2007.

Strategic Well Location Process

Country Energy and the Bathurst Regional Council previously joined forces to support a research project that developed a new technology known as the Strategic Well Location Process (SWLP). This technology is owned and patented by Renewable Australia and exclusively licensed to Country Energy.

The previous SWLP trial suggested its use may help to reduce the costs of identifying, capturing and extracting methane gas from small regional New South Wales landfill sites.

During the current detailed feasibility process, the consortium will benchmark the SWLP technology against current practice to quantify its commercial impacts. Renewable Australia – with the assistance of Country Energy and WMP has received a \$70,000 grant under the Australian Government's Renewable Energy Development Initiative (REDI) scheme to benchmark the technology.

A RESPONSIBLE ENVIRONMENTAL MANAGER

Boost to green energy portfolio

We are always on the lookout for new sources of generation and exploring creative ways of obtaining trading certificates.

We buy as much renewable energy as possible from local sources and currently use energy produced by:

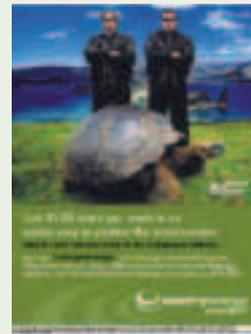
NAME OF RENEWABLE GENERATOR	TECHNOLOGY	LOCATION	STATE
Western Plains Zoo Solar Farm	Solar	Dubbo	NSW
Queanbeyan Solar Farm	Solar	Queanbeyan	NSW
Blayney Wind Farm	Wind	Blayney	NSW
Crookwell Wind Farm	Wind	Crookwell	NSW
Earthpower	Anaerobic Digester	Camellia	NSW
The Drop	Hydro	Berrigan	NSW
Dungog	Hydro	Hunter	NSW
Lake Bonney Wind Farm	Wind	Lake Bonney	SA
Wonthaggi Wind Farm	Wind	Wonthaggi	VIC
Rochdale Shire Landfill	Waste Landfill Gas	Rochdale	QLD
Ipswich Shire Landfill	Waste Landfill Gas	Ipswich	QLD
Lucas Heights Landfill	Hydro	Yass	NSW
Broadwater Sugar Mill	Biomass	Ballina	NSW
Condong Sugar Mill	Biomass	Murwillumbah	NSW
Wyangala Dam	Hydro	Wyangala	NSW

countrygreen® energy – securing the environment

Since November 2004, countrygreen® energy customer numbers have grown by 500 per cent, a figure that continues to rise each month.

For just a \$1.50 extra per week (including GST), countrygreen® energy customers can purchase Government approved Green Power, sourced from the sun, wind, hydro and biomass.

Country Energy's growth in Green Power can be attributed to the outstanding efforts of call centre and customer service centre employees.



FUTURE GOALS: 100% GROWTH IN COUNTRYGREEN® ENERGY CUSTOMERS IN 2006–2007.

Wonthaggi Wind Farm on Victoria's south coast became an addition to Country Energy's range of renewable energy sources, following the signing of a 10-year agreement in January 2006 which will see us buy the electricity generated by the new facility.

The project will help us meet our renewable energy targets and the growing demand for countrygreen® energy. It also means we will save around 28,000 tonnes of greenhouse gas emissions every year – that's equal to taking 7,000 cars off the road.



Being countrygreen®

We 'lead by example' by purchasing 100 per cent green energy for more than 280 sites across our business.

Under the Australian Building Greenhouse Rating (ABGR) Scheme, eight of these sites were awarded five-star greenhouse ratings during the year – Dubbo Regional Office, Bathurst Regional Office, Orange Field Service Centre, Port Macquarie Call Centre, Port Macquarie Control Room, Port Macquarie Regional Office, Queanbeyan Regional Office and Wagga Wagga Field Service Centre.

This green focus reflected the efforts of our property team and local employees to use energy more efficiently.

In conjunction with our **energy answers** business, our property team has been conducting building audits to measure energy consumption patterns and introducing appropriate energy efficiency solutions, such as sensor lights and appliance timers.

Many local worksites have also been involved in the 'Switch Off' campaign, which encourages employees to turn off lights and air conditioning when not required.

During the year a promotion was conducted throughout our field service centres to offer practical ideas and incentives to improve their energy efficiency.

Through buying energy from renewable energy sources and improving energy efficiency we all play a part in reducing the impact of our energy consumption on the environment.

Energy efficiency – save money, help the environment

We are enlarging our suite of demand management initiatives, delivering tangible environmental, social and financial benefits. These initiatives include:

Gas turbine generators

To help the power grid meet the load at peak times Country Energy is registering the Broken Hill gas turbine generators with NEMMCO. The generators will supplement the electricity supply to the grid during periods of supply shortfall, in addition to their normal stand-by network support role for Broken Hill.

countrygreen® town

We launched the trial of an exciting new program in Bathurst aimed at reducing customers' energy costs whilst also reducing greenhouse gas emissions.

The **countrygreen®** program is Country Energy's consolidated environmental and energy efficiency program aimed at addressing energy consumption and greenhouse gas emissions by customers, local government, businesses and local communities. Through the program, we will develop and implement energy efficiency initiatives to maximise the demand reduction in a specific community.

Using the results of the trial in Bathurst, the **countrygreen®** town model could be replicated in other communities across country and coastal New South Wales.

The project was a partnership with Bathurst Regional Council and as part of the **countrygreen®** town initiative, launched the **countrygreen®** town energy wise tool kit, containing a compact fluorescent light (CFL) and AAA-rated showerhead, giveaway scheme to participating residents. The tool kit aims to promote energy and water efficiency and create NSW Greenhouse Abatement Certificates (NGACs).



Making our business countrygreen® involves being innovative and looking outside the square to manage demand and develop alternative energy sources.

A RESPONSIBLE ENVIRONMENTAL MANAGER

Country Energy powers energy research – energy efficiency research scholarship

As part of our on-going commitment to research and development, Country Energy has joined with Charles Sturt University (CSU) to establish a PhD Scholarship to examine the key issues of energy efficiency and demand management in regional areas.

The scholarship, which is being run through the School of Marketing and Management at the University's Bathurst campus, was won by Jodie Kleinschafer.

The PhD Scholarship continues a long-standing relationship between Country Energy and CSU, and Jodie's work in this important field will assist Country Energy to better plan and assess innovative demand management options.



Country Energy's Home Energy Efficiency Trial (HEET)

Smart metering as a potential tool for delivering energy efficiency outcomes has come to the fore of the Australian energy industry, with the Council of Australian Governments (COAG) committing to a smart meter rollout from 2007.

Country Energy's Australian first smart metering project continued during 2005–2006, attracting widespread interest from customers, stakeholders and regulatory bodies.

The Home Energy Efficiency Trial (HEET) project involves 150 residential customers in Queanbeyan and Jerrabomberra. Customers have been provided with smart metering equipment, including an in-house display unit. The display gives real time information about electricity use and cost, with customers encouraged to adjust their electricity use to take advantage of cheaper pricing.

This landmark project has shown that customers will respond to pricing signals, with the majority of participants either adjusting their consumption to outside of peak periods or reducing their overall consumption.

The project was awarded a NSW Government Green Globe Award for Best Practice in Energy Efficiency and was also Highly Commended in the NSW Premier's Awards for Excellence.

Customer feedback continues to be strong, with participants now rating their energy efficiency awareness as high. The project will conclude in December 2006.

Sub surface irrigation systems
energy answers is Country Energy's specialist business unit which provides energy and water management solutions to a diverse range of industries. It expanded its range of products and services during 2005–2006, introducing a unique, Australian-patented underground irrigation system that uses capillary action to deliver water to the root zone.

The system uses up to 60 per cent less water than current drip irrigation systems, and is 80 per cent more effective than overhead systems such as sprinklers. Many customers, particularly rural and regional councils, are now enjoying reduced water consumption as well as reduced exposure to vandalism, with the irrigation system buried safely underground.

Energy Savings Action Plans

energy answers has been proactive in tendering to assist both existing and potential customers in managing their responsibilities to complete Energy Savings Action Plans, as mandated in the New South Wales Government's Energy Savings Order 2005.

Local government and large commercial and industrial customers have engaged **energy answers** to partner them in meeting their Energy Savings Action Plan obligations.

Solar pool heating for councils

energy answers used the expertise of heat pump manufacturer Aquaheat in responding to increasing interest from local councils regarding swimming pool heating to allow for year-round use.

energy answers is presently investigating the supply and installation of a spa pool and purpose-built pumping and heat exchange equipment at an artesian fed swimming complex in New South Wales.

Several successful installations have already occurred in Nambucca Heads and Coffs Harbour.

Australian Greenhouse Building Rating (AGBR) accreditation

energy answers now has the expertise to provide accreditation for the AGBR accreditation to assess buildings and benchmark their greenhouse performance.

The scheme rates buildings from one to five stars, with five stars representing exceptional greenhouse performance. Current market best practice in Australia is three stars.



Green Fleet

Our Fleet team is on a drive to reduce fuel consumption and protect the environment. Initiatives include:

- Increased focus on LPG and hybrid vehicles
- Policy changes to purchase more fuel efficient and environmentally friendly vehicles
- Trialling of vehicle fuel saving devices (e.g. fuel additives and catalysts).

The focus on fuel efficient vehicles has continued and there are now 212 LPG vehicles in the fleet which is an increase of 20 vehicles over the previous year. A new initiative was introduced to remove underutilised vehicles from the fleet and replace larger vehicles with more fuel efficient units. In total 78 underutilised vehicles were sold or reallocated while 73 vehicles were replaced with more fuel efficient models.

An additional 508,074 litres of fuel was used during the year, which is an increase of 5.6 per cent, however, when factoring in an increase in fleet size by 6.35 per cent it is an indication that strategies to alter the profile of the fleet have had a positive effect on overall consumption.

OUTCOME: CO₂ EMISSIONS FOR 2005–2006 WERE 836 TONNES BELOW THE TARGET SET.

THE FUTURE: CONTINUE TO COME UNDER OUR ANNUAL TARGET OF 25,320 TONNES OF CO₂ EMISSIONS THROUGH STRATEGIES SUCH AS THE PROMOTION OF LPG AND 4 CYLINDER.

Efficiency Calculator

Our Energy Wise Calculator has become the Efficiency Calculator, as it now covers both energy and water usage within the average household.

The service can help people change the way they use energy and water in their homes and is smart enough to generate advice based on an individual's input. Essentially, it helps customers calculate energy and water consumed by individual appliances, rooms or a whole house, and provides simple, low-cost saving tips.

In addition to being promoted at field days and in marketing material, the calculator is used by call centre and customer service centre teams when dealing with account enquiries, and is available to customers in many customer service centres and on our website.

Environmental management System (EMS)

Our Environmental Management System has improved with a full review of all environmental operational control procedures, including:

Waste management

Our employees and contractors are provided information regarding the preferred legal, safe and environmentally acceptable means of waste management and guidance on waste classification.

Country Energy's main aims in relation to the management of waste are to:

- Reduce the overall waste volume generated
- Recycle appropriate wastes
- Reduce the volume of waste disposed of to landfill.

Working towards these aims will assist Country Energy in complying with legislative requirements and will promote environmental and financial benefit.

THE FUTURE: CONDUCT SURVEY OF ALL COUNTRY ENERGY ACTIVITIES AND CLASSIFY WASTES IN ACCORDANCE WITH REQUIREMENTS.

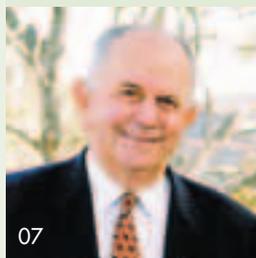
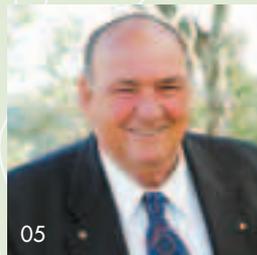
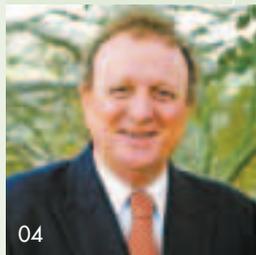
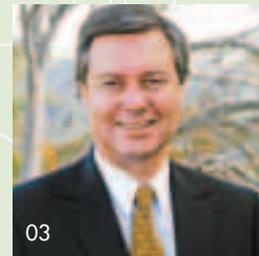
Environmental Impact Assessment

The purpose of the procedure is to outline the environmental impact assessment and approval process that Country Energy is required to follow for new developments and certain alteration and 'maintenance works' required for existing developments in New South Wales under the Environmental Planning and Assessment Act 1979.

Our regionally based internal audit team have conducted 178 environmental process audits during the year resulting in an average compliance score of 87 per cent against our corporate dashboard target of 95 per cent.

THE FUTURE: COMPREHENSIVE TRAINING PACKAGE DEVELOPED AND IS BEING ROLLED OUT TO ALL APPLICABLE EMPLOYEES AND CONTRACTORS.

OUR BOARD



The Country Energy Board is responsible to the voting shareholders for the performance and overall governance of the company.

Their responsibilities include but are not limited to:

- Setting the strategic direction of the business
- Approving and monitoring the progress of major capital expenditure
- Approving and monitoring the financial performance of the business
- Ensuring compliance with relevant Government policies.

01 Barbara Ward

B.Ec., M.Pol. Econ

Chairman since 6 June 2001

Member of Audit and Risk Committee, Chairman, EMMLINK Pty Limited, Chairman, Country Energy Gas Pty Limited

02 Craig Murray

Managing Director since 8 June 2001

Member of Safety and Environment Committee, Director, EMMLINK Pty Limited, Director, Country Energy Gas Pty Limited

03 The Hon Michael Lee

B.Sc., BE (Hons), FIE Aust.

Director since 1 March 2002

Member of Safety and Environment Committee

04 Greg McLean

Director since 30 April 2002

Member of Safety and Environment Committee

05 Tim Sullivan OAM

Director since 6 June 2001

Chairman of Safety and Environment Committee

06 Rowena Sylvester

B Bus.

Director since 1 March 2002

Chairman of Audit and Risk Committee

07 John Wearne AM

Director since 6 June 2001, Term completed 28 February 2006,

Member of Audit and Risk Committee

OUR EXECUTIVE



- 01 Craig Murray – Managing Director**
Member of the Board of Directors
Leadership, strategy, business performance, corporate values, shareholder and stakeholder relations
- 02 John Adams – Group General Manager Retail**
Dip. (Elect Eng), B Bus., FIE Aust.
Retail business management, sales and marketing, national and residential sales, retail pricing and product development
- 03 Terri Benson – Group General Manager Corporate Services**
B Bus., CPA
Organisational development, regulatory affairs, gas networks, safety and environment
- 04 Justin De Lorenzo – Group General Manager Finance and Business Development**
B Com, ACA, ASIA
Finance, credit control, energy trading, financial management and accounting, risk management and insurance, business development and treasury
- 05 Bill Frewen – Group General Manager External Relations**
BA LLB
Corporate strategy, internal and external communications, customer and government relations, legal services, renewables and environmental development
- 06 Gary Humphreys – Group General Manager Corporate Operations**
Corporate marketing, property and fleet management, security, customer services, call centres, billing, supply chain and corporate performance management
- 07 Terry Miller – Group General Manager Service Delivery**
BE, MBA, CP Eng, MIE Aust., FAICD
Service delivery, regional management, field services, community relations
- 08 Ken Stonestreet – Group General Manager Networks and Infrastructure**
BE (Hons), CP Eng
Network asset management, strategy and policy, system operations, information technology and water services
- 09 Peter Johnson – Company Secretary (appointed during the year)**
B Bus., ACIS
Corporate governance and services to the Board

CORPORATE GOVERNANCE

Establishment

Country Energy is a statutory State Owned Corporation (SOC) under the *State Owned Corporations Act 1989*, established by the *Energy Services Corporations Act 1995*. Under this Act, the principal objectives of Country Energy are:

- (a) to be a successful business and, to this end:
 - (i) operate at least as efficiently as any comparable businesses,
 - (ii) maximise the net worth of the State's investment in it,
 - (iii) exhibit a sense of social responsibility by having regard to the interests of the community in which it operates,
- (b) to protect the environment by conducting 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*,
- (c) to exhibit a sense of responsibility towards regional development and decentralisation in the way in which it operates,
- (d) to operate efficient, safe and reliable facilities for the distribution of electricity and other forms of energy,
- (e) to be an efficient and responsible supplier of electricity and other forms of energy and of services relating to the use and conservation of electricity and other forms of energy,
- (f) to be a successful participant in the wholesale and retail markets for electricity and other forms of energy and for services relating to the use and conservation of electricity and other forms of energy.

A statutory SOC is declared to be an excluded matter for the purposes of section 5F of the *Corporations Act 2001* (Cth) in relation to the whole of the Corporations Law

other than certain provisions relating to financial products, or as may be otherwise declared, in the Regulations under the *State Owned Corporations Act 1989*.

Shareholders

In accordance with the provisions of the *State Owned Corporations Act 1989* and the *Energy Services Corporations Act 1995*, Country Energy has two shareholders each holding one share of \$1. The shareholders in 2005–2006 were the Treasurer of New South Wales and the Minister for Finance. Shares in an energy services corporation may not be sold or otherwise disposed of, except to eligible ministers.

Constitution

Country Energy's constitution comprises a Memorandum and Articles of Association which address areas normally covered within a Corporations Law company, including the administration of shares, general meetings, directors, chief executive officer, remuneration, meeting and administrative procedures, company secretary, dividends and indemnities of directors and officers.

Country Energy Board

The *Energy Services Corporations Act 1995* provides that the Board consists of:

- The chief executive officer, and
- One director, to be appointed by the voting shareholders on the recommendation of a selection committee nominated by the portfolio minister and the Labor Council of New South Wales, and
- At least two and not more than five other directors to be appointed by the voting shareholders at their discretion.

One of the directors referred to in the last point is appointed by the voting shareholders as chairperson of the Board.

The voting shareholders have appointed five independent non-executive directors for fixed period, renewable terms, as shown in the following table.

The Board is accountable to the voting shareholders in the manner set out in Part 4 of the *State Owned Corporations Act 1989* and in Country Energy's Constitution.

DIRECTOR	CURRENT APPOINTMENT	BOARD	AUDIT & RISK COMMITTEE	SAFETY & ENVIRONMENT COMMITTEE
Barbara Ward	1 March 06 to 28 February 09	Non-executive, Chairman	Member	–
Craig Murray	Concurrent with appointment as Managing Director	Executive, Managing Director	–	Member
The Hon Michael Lee	1 March 05 to 28 February 07	Non-executive	–	Member
Greg McLean	1 June 06 to 31 May 08	Non-executive, Unions NSW nominee	–	Member
Tim Sullivan OAM	1 March 06 to 31 August 07	Non-executive	–	Chairman
Rowena Sylvester	1 March 05 to 28 February 07	Non-executive	Chairman	–
John Wearne AM	1 March 05 to 28 February 06	Non-executive	Member	–

Directors' interests

Directors are required to disclose any material contract or relationship with Country Energy and to disclose all companies or other organisations with which they are professionally involved. Details of directors' interests are maintained by the company secretary in a register which is included in the agenda of every Board meeting. The constitution provides for procedures to be followed in the event of a conflict or a perceived conflict arising between a director's interest and a matter before the Board.

Board performance review

Country Energy's Board conducts periodic reviews of its performance by means of an internal survey.

These reviews seek to identify where improvements can be made and assess the quality, timeliness and effectiveness of information made available to directors.

Non-management meetings

The non-executive directors meet at least once a year without management in a forum intended to allow for open discussion on Board and management performance. This is in addition to the consideration of the performance and remuneration of the managing director, which is conducted by the Board in the absence of the managing director.

Directors' remuneration

Directors' remuneration is determined by the New South Wales Government and is currently in the form of a cash stipend without 'at risk' elements or non-cash emoluments.

Country Energy makes payments to the directors in accordance with these directions under the framework of the organisation's normal payroll system. Out of pocket expenses related to attendance at meetings are reimbursed.

Indemnities

Under the *State Owned Corporations Act 1989*, state owned corporations are able to indemnify their directors and officers against certain liabilities incurred in the course of their employment. The indemnity cannot be used without the approval of the voting shareholders.

Currently, all Country Energy non-executive directors, the managing director and other officers fitting the criteria detailed in the Treasury Policy (TPPO3-6), have been issued with a Deed of Indemnity in the form approved by shareholders.

The Deed of Indemnity provides cover against the following types of liability:

- Civil liability, but only if such liability is, or was, incurred by the indemnified party in his or her capacity as an officer acting in good faith
- Costs and expenses incurred by the indemnified party in defending proceedings, whether civil or criminal, in which judgement is, or was, given in favour of the indemnified party, or in which the indemnified party was acquitted
- Costs and expenses in connection with any application in relation to a proceeding in which a court grants or granted relief to the indemnified party.

Country Energy also purchases insurance cover for directors' and officers' liability and professional indemnity.

Board committees

Audit and Risk Committee

The primary objective of the Committee is to assist the Board of Directors in fulfilling its responsibilities relating to accounting and reporting practices of the company and each of its subsidiaries. In addition, the Committee will:

- Advise and report to the Board in relation to risk management policy and strategy, debt management policy and strategy, licence and legal compliance policy and strategy
- Oversee, co-ordinate and appraise the quality of the audits conducted both by the company's external and internal auditors
- Maintain, by scheduling regular meetings, open lines of communications among the Board, the internal and external auditors to exchange views and information, as well as confirm their respective authority and responsibilities
- Serve as an independent and objective party to review the financial information submitted by management to the Board for issue to shareholders, regulatory authorities and the general public
- Review the adequacy of the reporting and accounting controls of the company
- Review its Terms of Reference and performance against the Terms of Reference on an annual basis.

Safety and Environment Committee

The primary objective of the Committee is to assist the Board of Directors in fulfilling its responsibilities relating to OHS&E practices of the company and each of its subsidiaries. In addition, the Committee will advise and report to the Board on policy, strategy, initiatives and achievements, in relation to:

- The safety of staff, public, contractors, and accredited service providers in any area of relevance to Country Energy's activities, where reasonably under the control of Country Energy
- The impact of Country Energy's activities on the environment, and the achievement of ecologically sustainable development, and
- Any other matter considered by the Committee to be of relevance to the Committee's objectives.

CORPORATE GOVERNANCE

Delegations to management

A comprehensive set of delegations has been issued to the managing director, including the power to sub-delegate, to allow management to conduct the business of the corporation. Notwithstanding these delegations, specific rules have been put in place in critical areas such as energy trading, retail sales and environmental determinations to ensure the Board is directly involved in decisions above predetermined thresholds.

Directors' attendance at meetings

DIRECTOR	BOARD MEETINGS		COMMITTEE MEETINGS	
	ELIGIBLE	ATTENDED	ELIGIBLE	ATTENDED
Barbara Ward	11	11	4	3
Craig Murray	11	11	3	3
The Hon Michael Lee	11	11	3	2
Greg Mclean	11	11	3	3
Tim Sullivan OAM	11	11	3	3
Rowena Sylvester	11	11	4	4
John Wearne AM	7	7	2	2

Executive remuneration

At the end of 2005–2006, Country Energy employed 59 executive officers with total remuneration packages equal to or exceeding the New South Wales Senior Executive Service Level 1, including six females.

These executive officers received a total remuneration package equal to or exceeding New South Wales Senior Executive Service Level 5.

- Managing Director, Craig Murray \$545,000
- Group General Manager Networks and Infrastructure, Ken Stonestreet \$333,500
- Group General Manager Finance and Business Development, Justin De Lorenzo \$325,000
- Group General Manager Retail, John Adams \$313,000
- Group General Manager Service Delivery, Terry Miller \$310,000
- Group General Manager Corporate Services, Terri Benson \$285,000
- Group General Manager Corporate Operations, Garry Humphreys \$272,500
- Group General Manager External Relations, Bill Frewen \$266,000

All executives are subject to formal annual performance assessments based on clear accountabilities contained in written performance agreements. All of the executives listed above met or exceeded their performance criteria in 2005–2006.

The executive remuneration policy for the 2005–2006 year excludes bonus and 'at risk' payments. No bonus payments were paid to any employee in relation to this reporting year.

Ethical standards

Our Board has adopted policies addressing the Country Energy Code of Conduct, conflicts of interest, gifts, protected disclosures, privacy and other ethical standards. These policies apply equally to the Board, management, employees and contractors.

Code of Conduct

Country Energy has developed a Directors' Code of Conduct and Board Charter. These documents form part of Country Energy's corporate governance manual. Other documents included in the governance manual include Directors' Induction Kit and Committee Terms of Reference. The Code of Conduct and Board Charter were presented and approved at the June 2006 Board meeting.

Legislative changes

As a New South Wales State Owned Corporation, Country Energy is generally subject to the same statutory and legal requirements as other businesses, with the notable exception of the *Corporations Act 2001* (Cth). The following are the main legislative and regulatory changes made during the reporting period that impact on Country Energy.

National regulatory changes

On 1 July 2005, the roles and functions of the National Electricity Code Administrator were replaced by the Australian Energy Regulator (AER) and the Australian Energy Market Commission (AEMC). The AER is responsible for the economic regulation of the wholesale electricity market and electricity transmission networks in the national electricity market, and the enforcement of the new National Electricity Law and National Electricity Rules. The AEMC is responsible for rule making and the development of the energy market.

Commonwealth

Australian Energy Market Regulations 2005 (Cth)

The *Australian Energy Market Regulations 2005* (Cth), which were made under the *Australian Energy Market Act 2004* (Cth), specify that the new National Electricity Law (as amended by the *National Electricity (South Australia) (New National Electricity Law) Amendment Act 2005* (SA)) is the applicable Commonwealth law in relation to existing access undertakings which have been submitted to the Australian Competition and Consumer Commission.

Energy Efficiency Opportunities Act 2006 (Cth)

The *Energy Efficiency Opportunities Act 2006* (Cth) encourages more efficient use of energy by large energy using businesses.

Energy Legislation Amendment Act 2006 (Cth)

The *Energy Legislation Amendment Act 2006* (Cth), which amends the *Gas Pipelines Access (Commonwealth) Act 1998* (Cth), inserts provisions governing the conferral of functions or powers, or the imposition of duties, on the relevant Commonwealth Minister for the purposes of the gas pipelines access legislation of a State or Territory.

Renewable Energy (Electricity) Amendment Regulations 2006 (Cth)

The *Renewable Energy (Electricity) Amendment Regulations 2006* (Cth), which amends the *Renewable Energy (Electricity) Regulations 2001* (Cth), update the list of equipment that is eligible for renewable energy certificates.

Australian Capital Territory

Utilities (Electricity Transmission) Regulation 2006 (ACT)

The *Utilities (Electricity Transmission) Regulation 2006* (ACT), which was made under the *Utilities Act 2000* (ACT), enables the Government to impose minimum standards of reliability for electricity transmission service upon the electricity transmission network

owned and operated by TransGrid in the Australian Capital Territory.

New South Wales

Electricity Supply (General) Amendment (Large Customers) Regulation 2005 (NSW)

The *Electricity Supply (General) Amendment (Large Customers) Regulation 2005* (NSW), which amends the *Electricity Supply (General) Regulation 2001* (NSW), takes account of changes to the definition of a 'large customer' to include a 'related entity of a customer' in the *Electricity Supply Act 1995* (NSW).

Electricity Safety (Electrical Installations) Regulation 2005 (NSW)

The *Electricity Safety (Electrical Installations) Regulation 2005* (NSW), which was made under the *Electricity Safety Act 1945* (NSW), deals with compliance of installation work with AS/NZS 3000:2000.

Electricity Supply (Safety and Network Management) Amendment Regulation 2005 (NSW)

The *Electricity Supply (Safety and Network Management) Amendment Regulation 2005* (NSW), which was made under the *Electricity Supply Act 1995* (NSW), ensures that Distribution Network Service Providers comply with any requirements imposed by the conditions attached to their Distribution Network Service Provider's licence.

Electricity Supply Amendment (Protection of Electricity Works) Act 2006 (NSW)

The *Electricity Supply Amendment (Protection of Electricity Works) Act 2006* (NSW), which amends the *Electricity Supply Act 1995* (NSW), protects the presence and operation of certain electricity works. The Act clarifies the power of electricity network operators to remove dangerous structures or objects from an area in which an electricity works is situated and also stipulates when compensation is payable to the owner of the removed structure or object.

Electricity (Consumer Safety) Regulation 2006 (NSW)

The *Electricity (Consumer Safety) Regulation 2006* (NSW), which amends the *Electricity (Consumer Safety) Act 2004* (NSW), makes provisions in respect of the maintenance of electrical installations; makes provisions in respect of reporting serious electrical accidents and established the Electrical Equipment Safety Advisory Committee.

Electricity Safety (Equipment Efficiency) Amendment Regulation 2006 (NSW)

The *Electricity Safety (Equipment Efficiency) Amendment Regulation 2006* (NSW), which amends the *Electricity Safety (Equipment Efficiency) Regulation 1999* (NSW), alters restrictions on using energy efficiency labels and ensures water storage heaters comply with Australian and New Zealand energy efficiency standards.

Drug Misuse and Trafficking Amendment (Hydroponic Cultivation) Act 2006 (NSW)

The *Drug Misuse and Trafficking Amendment (Hydroponic Cultivation) Act 2006* (NSW), which amends the *Electricity Supply Act 1995* (NSW), increases the maximum penalties for offences relating to theft of electricity, interference with electricity works and meters, and unauthorised connections or alterations.

Queensland

Electrical Safety and Another Regulation Amendment Regulation 2005 (Qld)

The *Electrical Safety and Another Regulation Amendment Regulation 2005* (Qld), which amends the *Electrical Safety Regulation 2002* (Qld), prescribes the circumstances when electrical work may be carried out in an exclusion zone; clarifies the obligations of an employer or a self employed person in relation to the tagging of specified electrical equipment; and authorises an electrical distribution entity to isolate powerlines from sources of electricity in certain emergencies.

CORPORATE GOVERNANCE

Energy Legislation Amendment Act 2005 (Qld)

The *Energy Legislation Amendment Act 2005 (Qld)*, which amends the *Electricity – National Scheme (Queensland) Act 1997 (Qld)*, enables section 112A of the Act (clearing native vegetation for operating works on freehold land) to also apply to distribution entities.

South Australia

Gas Pipelines Access (South Australia) (Greenfields Pipeline Incentives) Amendment Act 2006 (SA)

The *Gas Pipelines Access (South Australia) (Greenfields Pipeline Incentives) Amendment Act 2006 (SA)*, which amends the *Gas Pipelines Access (South Australia) Act 1997 (SA)*, outlines matters and procedures relating to: the national gas objective; pipeline coverage criteria; binding no-coverage determinations; National Competition Council investigations and recommendations; price regulation exemptions; and termination of the incentives. The amending Act also extends the Governor's regulation-making powers to update the definition of 'civil penalty provision'.

Victoria

Energy Safe Victoria Act 2005 (Vic)

The *Energy Safe Victoria Act 2005 (Vic)* establishes Energy Safe Victoria (ESV) and provides the powers and functions of ESV, including transferring the powers, rights and obligations of the Office of the Chief Electrical Inspector and the Office of Gas Safety to ESV.

Electricity Safety (Equipment Efficiency) (Amendment) Regulations 2005 (Vic) and Electricity Safety (Equipment Efficiency) (Amendment) Regulations 2006 (Vic).

These amending Regulations, which amend the *Electricity Safety (Equipment Efficiency) Regulations 1999 (Vic)*, prescribe further minimum standards of energy efficiency and performance.

Electricity Safety (Network Assets) (Amendment) Regulations 2005 (Vic)

The *Electricity Safety (Network Assets) (Amendment) Regulations 2005 (Vic)* makes miscellaneous amendments to improve the operation of the *Electricity Safety (Network Assets) Regulations 1999 (Vic)*.

Energy Legislation (Miscellaneous Amendments) Act 2006

The *Energy Legislation (Miscellaneous Amendments) Act 2006* amends various gas and electricity legislation in relation to the supplier of last resort provision.

Risk management

Country Energy employs appropriate controls to manage risks, with commitment firmly in place at Board level in conjunction with the non-executive audit and risk committee.

Our approach to risk management is based on Australian Standard AS/NZS 4360. With the help of divisional risk coordinators and specialised software, we manage risk at both strategic and operational levels.

Each year our executive reviews strategic risks to ensure that appropriate mitigation strategies are in place.

Since 2005, individual risk plans addressing key business risks have been developed. The objective of each plan is to reduce risk exposure over time, by implementing agreed mitigation strategies.

Internal audit

Our internal audit plan addresses areas of known business risk including those identified by the annual executive risk review. Key reviews included energy trading, security and safety, along with post-implementation reviews involving information and management systems.

Country Energy requires all officers to act with integrity and to safeguard public resources for which they are responsible. To minimise fraud, our Code of Conduct details the principles of behaviour expected of all officers. Controls and monitoring practices reduce the opportunity and incentive to commit fraud, and minimise the consequences in the event of an occurrence. Protected Disclosure procedures allow those wishing to disclose fraudulent activity to do so without fear of reprisal.

Insurance against risk

Country Energy's insurance (brokered by Aon Risk Services) covers public and product liability as well as directors' and officers' policies. Energy Australia and Integral Energy are co-members of the scheme. We are also part of the statutory schemes for Workers Compensation in New South Wales, Victoria and Queensland.

Separate policies (brokered by Marsh Pty Ltd) cover the following insurance categories: industrial special risks, motor vehicle comprehensive, motor vehicle comprehensive third party, fidelity guarantee, environmental, marine hull, contract works, marine transit and personal accident/travel.

Judicial decisions

Country Energy was prosecuted by WorkCover NSW under section 8(1) of the *Occupational Health and Safety Act (NSW) 2000* in relation to the fatality of Brian Edwin Goss on 27 August 2003. Country Energy pleaded guilty. A judgment was handed down on 3 February 2006 (*Inspector Ken Evans v Country Energy [2006] NSWIR Comm 29*).

In its decision, the Court took into account a number of subjective factors including Country Energy being regarded as a good industrial citizen with its own extensive system of occupational health and safety. The penalty imposed was \$145,000 plus costs.

Controlled entities

EMMLINK Pty Limited (ACN 085 123 468)

A wholly-owned subsidiary of Country Energy established in 1998 to undertake the DirectLink project, a 50/50 joint venture between EMMLINK Pty Limited and Hydro Quebec International Australia. DirectLink is a 180 MW interconnector between the NSW and Queensland electricity regions.

DirectLink was officially converted from a market network service to a prescribed (regulated) network service in March 2006 following approval from the Australian Energy Regulator (AER).

Country Energy Gas Pty Limited (formerly Great Southern Energy Gas Networks Pty Limited) (ACN 083 199 839)

A wholly-owned subsidiary of Country Energy established in 1997 by Great Southern Energy to distribute gas in Wagga Wagga and surrounding areas.

Northpower Energy Services Pty Limited (ACN 075 619 895)

A wholly-owned non-operating subsidiary of Country Energy.

Land disposal

Four items of property were disposed of this year, with a combined value of \$153,000. All were considered surplus to our operations and the proceeds were used to fund capital works projects.

Access to documents relating to the disposal of land can be obtained under the Freedom of Information Act.

Consultants

The total amount spent on consultants during the year ended 30 June 2006 was \$1,997,984.31.

Of the total amount spent on consultants, \$964,654.06 was capitalised and \$1,033,330.25 expensed.

The main purpose of the engagements was to provide business, financial or legal advice.

Freedom of information

During the year, nine applications were received under the *Freedom of Information Act 1989* (FOI Act).

Applications granted in full	5
Applications partially granted	1
Applications denied	1
Applications where no documents held	2

There was one internal review held during the 2004–2005 financial year, resulting in a partially granted application.

There was no involvement by the Ombudsman or the Administrative Decisions Tribunal in relation to any requests under the FOI Act.

No major issues arose in relation to Country Energy's annual reporting compliance under the FOI Act.

Credit rating

During the 2005–2006 year Country Energy engaged Fitch Ratings to provide its public credit rating, which reflects the implicit support of the NSW Government. As at 30 June 2006, Fitch Ratings have assigned Country Energy a public rating of AA. The AA rating denotes a very high credit quality and is in line with the previous rating assigned by Standard & Poor's.

CORPORATE GOVERNANCE

Summary of overseas travel for the year ended 30 June 2006

PURPOSE OF TRAVEL	NAMES OF EMPLOYEES	ORGANISATION VISITED	CITIES	COUNTRY	DATES
Meet with information service providers	Patrick Cooper	NZ Post Office, Oracle, Manukau City Council, Air New Zealand	Auckland, Wellington	New Zealand	16–19 May 2006
Meet with information service providers	Ben De Gabriel	Peace Software	Auckland	New Zealand	19 June 2005–2 July 2006
Meet with information service providers	Rochelle Coughlan	Peace Software	Auckland	New Zealand	10–24 June 2006
Meet with communications technology providers and suppliers of heavy plant	Craig Murray, James Abercromby, Gary Humphreys, Justin De Lorenzo	Toyota Aichi & Mitsubishi Electric Corporation	Tokyo	Japan	7–12 November 2005
Meet with electricity infrastructure supplier	Craig Murray, James Abercromby, Paul Brazier, Ken Stonestreet	ABB	Hanoi, Bangkok	Vietnam, Thailand	23–28 April 2006
Meet with communications technology providers	Geoff Fietz	Mitsubishi Electric Corporation	Madrid	Spain	22–25 October 2005
Attend and present at conference	Geoff Fietz	Various broadband technology developers	Lisbon	Portugal	26 October–2 November 2005
Meet with information service providers	Philip Rout	Peace Software	Auckland	New Zealand	5–28 July 2005 9–19 August 2005 7–30 September 2005
Meet with electricity infrastructure supplier	Dennis Stanley	ABB	Stockholm	Sweden	5–11 December 2005
Meet with information service providers	Robert Cook	Enermet	Auckland	New Zealand	13–17 February 2006
Meet with communications technology providers, retail advisers and insurers	John Adams	Mitsubishi Electric Corporation, KPMG, Datamonitor and various insurers	London, Zurich, Bangkok	United Kingdom, Switzerland, Thailand	15–25 July 2005
Meet with insurers	Justin De Lorenzo	Various insurers	New York, Bermuda, London, Zurich, Bangkok	USA, Bermuda, UK, Switzerland, Thailand	9–26 July 2005
Attend advanced management training program	Terri Benson	Harvard Business School	Boston	USA	9 September–7 November 2005
Attend and speak at EEANZ Conference	Ben Hamilton	Electric Energy Association of New Zealand Annual Conference	Auckland	New Zealand	16–18 June 2006



Spanning some of the country's most diverse terrain – from mountains to deserts and snowfields, with climates ranging from snow to extreme heat.

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INDEPENDENT AUDIT REPORT



GPO BOX 11
Sydney NSW 2001

INDEPENDENT AUDIT REPORT COUNTRY ENERGY

To Members of the New South Wales Parliament

Audit Opinion

In my opinion, the financial report of Country 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.

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

Scope

The Financial Report and the Directors' 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 entities it controlled during the financial year.

The directors 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 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 directors had not fulfilled their reporting obligations.

My opinion does not provide assurance:

- about the future viability of the Corporation or its controlled entities,
- 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.


S. Henry FCA
Director, Financial Audit Services

SYDNEY
17 October 2006

STATEMENT BY MEMBERS OF THE BOARD

Pursuant to Section 41 of the Public Finance and Audit Act 1983 we state that:

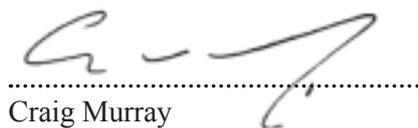
1. The accompanying financial statements are a general purpose financial report which have been prepared in accordance with the Public Finance and Audit Act 1983, the Public Finance and Audit Regulation 2005, the State Owned Corporations Act 1989, applicable Accounting Standards and other mandatory professional reporting requirements.
2. The accompanying financial statements exhibit a true and fair view of the financial position of Country Energy as at 30 June 2006 and of the profit and cash flows of the corporation for the year ended 30 June 2006.
3. At the date of this statement, there are reasonable grounds to believe that Country Energy will be able to pay its debts as and when they become due and payable.
4. We are not aware of any circumstances which would render any particulars included in these statements to be misleading or inaccurate.

Signed in accordance with a resolution of Directors.



Barbara Ward
Chairman

5/10/2006
.....
Dated



Craig Murray
Managing Director

5/10/2006
.....
Dated

INCOME STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2006

	Note	CONSOLIDATED		CORPORATION	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Continuing Operations					
Revenue	2	1,979,077	1,697,577	1,972,157	1,692,404
Finance Revenue		5,946	879	5,944	878
Other Income	2	26,576	815	8,376	815
Expenses excluding Finance Costs and Employer Superannuation Contributions	2	(1,617,265)	(1,440,281)	(1,616,772)	(1,438,783)
Employer Superannuation Contributions	31	1,477	(21,948)	1,477	(21,948)
Finance Costs		(128,053)	(110,781)	(128,053)	(110,781)
Profit from Continuing Operations before Income Tax		267,758	126,261	243,129	122,585
Income Tax Expense	3	(81,723)	(47,858)	(73,975)	(46,330)
Profit from Continuing Operations after Income Tax		186,035	78,403	169,154	76,255
Net Profit Result Attributable to Members of the Parent Entity		186,035	78,403	169,154	76,255

The accompanying notes form part of these Income Statements.

BALANCE SHEETS

AS AT 30 JUNE 2006

	Note	CONSOLIDATED		CORPORATION	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Current Assets					
Cash and Cash Equivalents	6	12,265	1,434	12,254	1,434
Trade and Other Receivables	7	206,826	225,595	210,039	233,388
Estimated Revenue from Unread Meters	1.12.4	236,184	173,146	236,184	173,146
Inventories	9	21,654	19,975	21,654	19,975
Current Tax Assets	4	478	–	478	–
Intangibles – Green Certificates	20	26,243	9,894	26,243	9,894
Derivative Financial Instruments	8.1	100,446	–	100,446	–
Other Assets	12	–	–	113,957	–
Total Current Assets		604,096	430,044	721,255	437,837
Non-Current Assets					
Trade and Other Receivables	7	22,876	25,945	22,876	25,945
Investments in Subsidiary Corporations	10	–	–	36,871	36,871
Available-for-sale investment	10	2,069	–	2,069	–
Other Investments	10	–	2,069	–	2,069
Investment Property	11	2,567	2,567	2,567	2,567
Property, Plant and Equipment	13	2,972,473	2,589,199	2,832,265	2,465,536
Intangible Assets	14	47,924	59,251	33,244	43,339
Deferred Tax Assets	4	74,209	68,360	74,119	68,381
Other Assets	12	1,179	1,370	1,179	115,327
Total Non-Current Assets		3,123,297	2,748,761	3,005,190	2,760,035
TOTAL ASSETS		3,727,393	3,178,805	3,726,445	3,197,872

The accompanying notes form part of these Balance Sheets.

	Note	CONSOLIDATED		CORPORATION	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Current Liabilities					
Trade and Other Payables	16	274,056	255,078	292,500	270,459
Deposits	15	13,308	13,801	13,308	13,801
Interest Bearing Liabilities	17	533,853	539,207	533,853	539,218
Income Tax Payable	4	–	23,348	–	23,348
Provisions – Green Certificates	20	24,961	11,740	24,961	11,740
Provisions	18	233,429	153,068	233,429	153,068
Derivative Financial Instruments	8.2	13,298	–	13,298	–
Other Liabilities	19	10,013	27,255	9,657	25,298
Total Current Liabilities		1,102,918	1,023,497	1,121,006	1,036,932
Non-Current Liabilities					
Interest Bearing Liabilities	17	1,446,978	1,199,710	1,446,978	1,199,710
Deferred Tax Liabilities	4	354,918	307,165	340,827	299,520
Provisions	18	30,386	29,439	30,386	29,439
Other Liabilities	19	1,245	14,465	–	14,465
Total Non-Current Liabilities		1,833,527	1,550,779	1,818,191	1,543,134
TOTAL LIABILITIES		2,936,445	2,574,276	2,939,197	2,580,066
NET ASSETS		790,948	604,529	787,248	617,806
Equity					
Contributed Equity		130,485	95,563	130,485	95,563
Reserves		298,151	276,282	298,054	276,281
Retained Profits		362,312	232,684	358,709	245,962
TOTAL EQUITY		790,948	604,529	787,248	617,806

The accompanying notes form part of these Balance Sheets.

CASH FLOW STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2006

	Note	CONSOLIDATED		CORPORATION	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		1,997,006	1,814,589	1,990,511	1,801,612
Payments to suppliers & employees		(1,613,645)	(1,436,827)	(1,611,385)	(1,429,529)
Interest received		1,382	879	1,380	878
Interest and other costs of finance paid		(135,643)	(121,267)	(135,643)	(121,267)
Income tax paid		(66,306)	(64,860)	(66,306)	(63,332)
NET OPERATING CASH FLOWS	22	182,794	192,514	178,557	188,362
CASH FLOWS FROM INVESTING ACTIVITIES					
Payments for property, plant and equipment	1.14.6	(423,711)	(392,976)	(419,882)	(381,706)
Proceeds from sale of property, plant & equipment		7,047	6,982	7,047	6,982
Purchase of non-current intangible assets		(1,452)	-	(1,044)	(7,119)
Sales of other investments		10,000	-	10,000	-
NET INVESTING CASH FLOWS		(408,116)	(385,994)	(403,879)	(381,843)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from borrowings		255,894	217,742	255,894	217,742
Repayment of borrowings		(227)	(171)	(227)	(171)
Net community service obligations received/(paid)		(308)	344	(308)	344
Cash acquired from merger	30	3,502	-	3,502	-
Dividends paid	5	(18,100)	(29,764)	(18,100)	(29,764)
NET FINANCING CASH FLOWS		240,761	188,151	240,761	188,151
NET INCREASE/(DECREASE) IN CASH HELD		15,439	(5,329)	15,439	(5,330)
Cash at the beginning of the financial year		(3,174)	2,155	(3,185)	2,145
Cash at the end of the financial year	22	12,265	(3,174)	12,254	(3,185)

The accompanying notes form part of these Cash Flow Statements.

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2006

	Note	CONSOLIDATED		CORPORATION	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Opening Balances					
Contributed Equity		95,563	95,563	95,563	95,563
Asset Revaluation Reserve		276,281	252,750	276,281	252,750
Retained Profits		232,684	172,381	245,962	187,807
Total Equity – opening balance		604,528	520,694	617,806	536,120
Movements During the Year					
Contributed Equity					
Contribution by owners	1.6 & 30	34,922	–	34,922	–
Asset Revaluation Reserve					
Revaluation increment on land and buildings	1.14	138	32,230	–	32,230
Tax effect on revaluation increment on land and buildings		(41)	(8,699)	–	(8,699)
Movement in Asset Revaluation Reserve		97	23,531	–	23,531
Hedge Revaluation Reserve					
Transactions resulting from the adoption of AASB 132 and AASB 139 on 1 July 2005	1.8	23,746	–	23,746	–
Losses recognised on hedge instruments		(1,973)	–	(1,973)	–
Movement in Hedge Revaluation Reserve		21,773	–	21,773	–
Retained Profits					
Transactions resulting from the adoption of AASB 132 and AASB 139 on 1 July 2005	1.8	(7,357)	–	(7,357)	–
Retained profits contributed by owner	1.6 & 30	27,706	–	27,706	–
Net Profit From Continuing Operations Attributable to Members of the Parent Entity		186,035	78,403	169,154	76,255
Dividends Provided and Paid	5	(76,756)	(18,100)	(76,756)	(18,100)
Movement in Retained Profits		129,628	60,303	112,747	58,155
Closing Balances					
Contributed Equity		130,485	95,563	130,485	95,563
Asset Revaluation Reserve		276,378	276,281	276,281	276,281
Hedge Revaluation Reserve		21,773	–	21,773	–
Retained Profits		362,312	232,684	358,709	245,962
Total Equity – closing balance		790,948	604,528	787,248	617,806

The Asset Revaluation Reserve comprises increments and decrements resulting from revaluations of land and building \$25.421 million, and system assets \$250.957 million. During the year a transaction was recorded in the Asset Revaluation Reserve of EMLINK Pty Limited (refer note 1.14).

Gains recognised on hedging financial instruments that were recognised directly into the Hedge Revaluation Reserve are \$7.358 million. There were no amounts removed from equity and recorded in the Income Statement.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2006

Note 1 Significant Accounting Policies

The significant policies which have been adopted in the preparation of the financial report are:

1.1 Reporting Entity

Country Energy (the Corporation) was formed on 1 July 2001 by the merger of three NSW electricity distributors. These distributors traded as Advance Energy, Great Southern Energy and NorthPower. On 1 July 2005 a further merger was undertaken between Country Energy and Australian Inland Energy Water Infrastructure (Australian Inland), a New South Wales State Owned Corporation (refer note 1.6).

Country Energy is incorporated under the State Owned Corporations Act 1989. Country Energy's capital comprises two (2) fully paid \$1.00 ordinary shares issued to the Treasurer and another Minister, the Minister for Finance. The \$2.00 share capital has been included in the amount of contributed equity disclosed in the Balance Sheet.

1.2 Financial Reporting Framework

The accompanying statements are a general purpose financial report which has been prepared in accordance with Australian Accounting Standards and the requirements of the Public Finance and Audit Act 1983, the Public Finance and Audit Regulation 2005 and the State Owned Corporations Act 1989. The financial report has been prepared on an accrual accounting and going concern basis.

1.3 Statement of Compliance

The statements are in conformity with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS), other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and Urgent Issues Group Interpretations (UIGs). The Corporation has elected to apply the relief from reporting of the parent, available under AASB 132: *Financial Instruments: Disclosure and Presentation* (refer note 1.8). Consequently in relation to the parent, the financial statements and accompanying notes, do not comply with International Financial Reporting Standards (IFRS). The statements have adopted NSW Treasury's mandates and indicative mandates.

1.4 Principles of Consolidation

The consolidated financial statements of the Corporation include the financial statements of the Corporation, being the parent entity, and its controlled entities. All controlled entities are incorporated in Australia and details of holdings by the parent entity appear in note 28.

The balances and effects of transactions with the controlled entities included in the financial statements have been eliminated.

The controlled entities are EMMLINK Pty Limited, NorthPower Energy Services Pty Limited and Country Energy Gas Pty Limited.

NorthPower Energy Services Pty Limited did not operate during the year.

1.5 Accounting Policies

The preparation of the financial report requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. These accounting policies have been consistently applied in Country Energy.

The accounting policies are consistent with those applied in the previous year, or where appropriate have been amended to conform to AIFRS.

The Corporation's accounting policies may be affected by a proposed standard to harmonise accounting standards with Government Finance Statistics (GFS). However, the impact is uncertain because it depends on when this standard is finalised and when it is adopted.

1.6 Merger With Australian Inland Energy Water Infrastructure

On 1 July 2005 pursuant to section 84 of the Electricity Supply Act 1995, the boundaries of Country Energy were altered to include the distribution district of the former Australian Inland Energy Water Infrastructure.

Also on that date, pursuant to section 14 of the Energy Services Corporations Act 1995, the State Owned Corporation of Australian Inland Energy Water Infrastructure (Australian Inland) was removed from Schedule 5 of the State Owned Corporations Act 1989. This resulted in the dissolution of that corporation. From that date Country Energy replaced Australian Inland as the State Owned Corporation listed as a water supply authority under Part 3 of Schedule 3 of the Water Management Act 2000.

As a result of these administrative changes, on 1 July 2005 the net assets and equity of Country Energy were increased by the amounts of net assets and equity held by Australian Inland on 30 June 2005. The operating activities of Country Energy also increased by a factor equivalent to the sum of the operating activities of Australian Inland.

All assets and liabilities of Australian Inland were readily identifiable and were acquired at their 1 July 2005 carrying values. The net assets of Australian Inland were contributed by the owners and no purchase price was paid by Country Energy. For the purposes of the financial statements these administrative changes are treated as a contribution by owners. The values contributed are disclosed in note 30 and the basis of valuations are disclosed in various notes supporting the financial statements.

Immediately prior to the merger Australian Inland Energy Water Infrastructure and Country Energy were under common control.

1.7 Impacts of Adopting AIFRS

The application of AIFRS has an impact on the financial reports where AIFRS requirements are different from 30 June 2005 AASB (AGAAP) requirements. To ensure consistency at whole of government level, NSW Treasury have mandated a number of accounting policies and options to be applied by NSW public sector entities in their 2005-06 financial report (including the 2004-05 comparatives) and subsequent financial reports.

1.7.1 Impact on the financial reports by changes in accounting policies

The following table and associated reference notes disclose the impacts of the adoption of AIFRS, and includes the financial effects on the Corporation's equity and profit. The table also includes the effects of NSW Treasury's indicative mandates. The values disclosed have been recorded in the financial statements and do not materially differ from the estimates that were disclosed in Note 1 of the 30 June 2005 financial report. There were no impacts on the Corporation's net cash flows. The table does not include the impacts of adopting AASB 132: *Financial Instruments: Disclosure and Presentation*; and AASB 139: *Financial Instruments: Recognition and Measurement*. The effects of these standards are disclosed in note 1.8.1).

1.7.2 Reconciliation of key aggregates:

Reconciliation of equity under AGAAP to equity under AIFRS

	Notes	30 June 2005 \$000	1 July 2004 \$000
Total equity under AGAAP		819,032	723,755
Adjustments to comparatives	1.7.2.12	11,609	–
Adjustments to accumulated funds			
Revaluation of defined benefit superannuation net asset	1.7.2.1	(45,447)	(31,944)
Adjustment for the write back of accumulated depreciation on reclassified property, plant and equipment	1.7.2.2	582	482
Adjustment for goodwill amortisation	1.7.2.3	465	–
Derecognition of capital contributions	1.7.2.4	(36,673)	(31,480)
Recognition of emission rights asset/(liability) – RECs	1.7.2.5	2,564	(1,077)
Recognition of emission rights asset/(liability) – NGACs	1.7.2.5	(4,410)	(146)
Tax effect adjustment for revalued defined benefit superannuation	1.7.2.6	2,947	4,702
Tax effect adjustment for pre June 2002 developer and customer capital contributions	1.7.2.7	(56,525)	(58,955)
Tax effect adjustment on derecognition of capital contributions	1.7.2.8	11,002	9,444
Tax effect adjustment for RECs	1.7.2.9	(769)	323
Tax effect adjustment for NGACs	1.7.2.9	1,323	44
Tax effect adjustment for revalued assets	1.7.2.10	(101,172)	(94,454)
Total equity under AIFRS		604,528	520,694

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2006

Reconciliation of profit under AGAAP to profit under AIFRS

Year Ended 30 June 2005	Notes	\$000
Surplus under AGAAP		98,719
Defined benefit superannuation	1.7.2.1	(16,231)
Reclassification from property, plant & equipment to investments	1.7.2.2	100
Goodwill	1.7.2.3	465
Capital contributions	1.7.2.4	(5,193)
Recognition of intangibles	1.7.2.5	(623)
Tax effect on defined benefits superannuation deficit	1.7.2.6	(1,755)
Tax effect adjustment for pre June 2002 capital contributions	1.7.2.7	2,430
Tax effect on capital contributions income derecognition	1.7.2.8	1,558
Tax effect on intangibles	1.7.2.9	187
Tax effect adjustment for revalued assets	1.7.2.10	1,980
Recognition of devalued assets	1.7.2.11	(3,234)
Profit under AIFRS		78,403

Notes to tables above

1.7.2.1

AASB 119: *Employee Benefits* requires a recalculation of defined benefit scheme assets, based on the government bond rate at each reporting date rather than the long term expected rate of return on the plan assets. The Corporation contributes to four defined benefit plans and the value of the adjustment disclosed in the table represents the aggregate of the recalculated balances. The superannuation position moved from a net asset to a net liability position (refer note 19).

1.7.2.2

On 1 July 2004 the Corporation's interest in a wind farm (refer note 1.13.2) was reclassified from property plant and equipment to non-current investments. Upon adoption on 1 July 2005 of AASB 139: *Financial Instruments: Recognition & Measurement*: the investment was reclassified as an 'available-for-sale financial asset' and was recorded at fair value. The requirement to disclose the asset at fair value results in a write back of accumulated depreciation.

From 1 January 2005 a change in occupancy in a property complex created a reclassification from property, plant and equipment to investment property, in accordance with AASB 140: *Investment Property*.

1.7.2.3

Goodwill is not amortised under AIFRS but is tested for impairment annually. AASB 1: *First-time Adoption of Australian Equivalents to International Reporting Standards* provides that previously amortised goodwill is not recapitalised. The adjustment as at 30 June 2005 reverses the goodwill charge recognised under AGAAP for the year ended 30 June 2005 (refer note 1.15.5).

1.7.2.4

UIG 1017: *Developer & Customer Contributions for Construction in a Price Regulated Market*: requires developer & customer contributions (capital contributions) to be recognised when the asset is completed in accordance with the terms and conditions of the contribution. Contributions of non-current assets in lieu of cash are recognised at fair value. The opening balances have been adjusted to ensure that they represent only revenue receivable (asset) or revenue prepaid (liability), in accordance with the standard.

1.7.2.5

The Corporation generates and purchases emission rights and has recognised its allowance to those rights as intangible assets under AAS138: *Intangible Assets*. The obligation to surrender allowances has been recognised as a liability under AASB 137: *Provisions, Contingent Liabilities and Contingent Assets* (refer note 1.18).

1.7.2.6

A deferred taxation asset arises with the recognition of the net superannuation liability. In this case the Corporation expects that future contributions will be deductible for tax. The \$1.755 million tax effect is calculated at 30% of the reduction in liability.

1.7.2.7

AASB 112: *Income Taxes* requires a Balance Sheet approach to tax effect accounting. The net book value of pre-June 2002 capital contributions of \$196.520 million are considered to have no tax base. On transition to AIFRS, the difference between the accounting base and the tax base will give rise to a deferred tax liability. The liability is estimated to be \$58.955 million at a tax rate of 30%.

1.7.2.8

A deferred taxation asset arises from the derecognition of capital contributions. The tax effect is calculated at 30% of the \$36.673 million deferred income (refer 1.7.2.4).

1.7.2.9

A deferred tax asset arises as there will be a tax deduction for the purchases of RECs and NGACs in the period to 31 December 2004 (refer notes 1.7.2.5 and 1.18).

1.7.2.10

A 1 July 2004 deferred taxation liability arises from the assets revalued by the former distributor Northpower. The liability has been calculated at 30% of the \$313.270 million difference between the tax value and carrying value. A further liability arises during 2005 from the revaluation of land and buildings.

1.7.2.11

A revaluation was recorded on 30 June 2005 which resulted in a revaluation of land and buildings as a class of assets under AGAAP principles. The revaluation was recognised in the asset revaluation reserve. Where assets within the class had their carrying values reduced, the decrements were transferred from the asset revaluation reserve and adjusted against retained earnings, in accordance with AASB 116: *Property, Plant and Equipment*. The adjustment is included in the reconciliation of surplus above, but is excluded from the reconciliation of equity because it represents a movement between classes of equity.

1.7.2.12

Recording errors have been identified and the comparatives have been adjusted. These relate to AGAAP disclosures (refer note 1.26).

1.8 Financial Instruments

In accordance with NSW Treasury's indicative mandates, the Corporation has applied the exemption provided in AASB 1 not to apply the requirements of AASB 132 and AASB 139 for the financial year ended 30 June 2005. As at 30 June 2005 the pre-AIFRS Australian Accounting Standards (AGAAP) were applied to financial instruments. As AIFRS standards were applied from 1 July 2005, none of the information provided in the preceding table includes any impacts for financial instruments. The impact of the adoption of these standards is disclosed in the Statement of Changes in Equity. Any further impacts of these Standards will in part depend on whether the fair value option can or will be mandated consistent with Government Finance Statistics (GFS).

The transition date for adopting the financial instruments standards is 1 July 2005. The adjustments made to retained earnings upon transition are disclosed in the table below:

1.8.1 Transition Adjustments

Adjustments to retained earnings from transition of financial instruments to AIFRS on 1 July 2005

	Notes	\$'000
Recognition of energy purchases swaps	1.8.1.1	1,541
Recognition of energy purchases options	1.8.1.1	1,806
Valuation of interest rate swaps to fair value	1.8.1.2	(17,212)
Adjustment to value of accrued interest relating to on interest rate swaps	1.8.1.3	(143)
Adjustment to unamortised deferred interest on interest rate swaps	1.8.1.4	3,451
Recognition of interest rate futures contracts	1.8.1.5	129
Recognition of foreign exchange contracts	1.8.1.5	(21)
Tax effect on energy purchases derivatives	1.8.1.6	(1,004)
Tax effect on interest rate swaps	1.8.1.7	4,128
Tax effect on futures contracts	1.8.1.8	(38)
Tax effect on foreign exchange contracts		6
Total Decrease in Retained Earnings		(7,357)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2006

Notes to tables on previous page

1.8.1.1

Energy purchase swaps and options are financial instruments which comprise effective and ineffective hedges. These were valued at fair value upon transition at 1 July 2005. In accordance with AASB 139 valuations of effective hedges on transition were recorded in the hedge revaluation reserve, and valuations of ineffective hedges on transition were recorded in retained earnings (refer notes 1.8.2).

1.8.1.2

Interest rate swaps are financial instruments and were deemed ineffective hedges as at 1 July 2005. AASB 139 requires these instruments to be valued at fair value and upon transition changes in value were recorded in retained earnings (refer note 1.8.2).

1.8.1.3

Accrued interest on interest rate swaps was recalculated when swaps were recognised at fair value.

1.8.1.4

Prior to 1 July 2004 Country Energy had undertaken early termination of some interest rate swaps. In accordance with AGAAP-Urgent Issues Group Abstract 29 the deferred interest on those swaps was being amortised over the original life of the swaps. At transition date there existed unamortised balances on these swaps and these balances were recorded in retained earnings.

1.8.1.5

Futures and foreign exchange contracts are financial instruments and were deemed ineffective hedges as at 1 July 2005. AASB 139 requires these instruments to be valued at fair value and upon transition changes in values were recorded in retained earnings (refer note 1.8.2).

1.8.1.6

A deferred tax liability arises as assessable income will be generated when the net gains on energy purchases derivatives are realised.

1.8.1.7

A deferred tax asset arises as a tax deduction will be generated when the loss on swaps is realised.

1.8.1.8

A deferred tax liability arises when assessable income is generated when futures and foreign exchange contracts are realised.

1.8.2 Financial Instruments accounting policies under AIFRS

The following accounting policies have been applied from 1 July 2005.

- Energy trading swaps are derivative financial instruments that exchange floating purchase prices for fixed purchase prices on energy purchases. They are recorded at market value which is based on forward prices supplied by the Australian Financial Markets Association. Unrealised gains and losses on effective derivative financial instruments (hedges) are recorded in the hedge revaluation reserve. Unrealised gains and losses on ineffective derivative financial instruments are recorded in the income statement. All gains and losses upon realisation are recorded in the income statement.
- Energy trading options are derivative financial instruments that deliver a right to buy or sell energy at specified price at a future date. They are recorded at market value which is based on prices obtained from electricity brokers dealing in the market place. Unrealised gains and losses on effective derivative financial instruments (hedges) are recorded in the hedge revaluation reserve. Unrealised gains and losses on ineffective derivative financial instruments are recorded in the income statement. All gains and losses upon realisation are recorded in the income statement.
- Interest rate swaps are instruments that swap fixed and variable interest on borrowings. They are recorded at market value which is based on valuations supplied by the NSW Treasury Corporation (NSW TCorp). The Corporation's swaps are designated as ineffective derivative financial instruments and valuation gains and losses are recorded in the income statement as trading (refer note 2).
- Interest rate futures contracts are derivative financial instrument agreements to borrow at specified rates at a future date. They are recorded at market value which is based on valuations supplied by NSW TCorp. The Corporation's interest rate futures contracts are designated as ineffective derivative financial instruments and valuation gains and losses are recorded in the income statement.
- Electricity futures contracts are derivative financial instrument contracts to buy or sell electricity at specified rates at a future date. They are recorded at market values which are based on prices quoted on the Sydney Futures Exchange. Unrealised gains and losses on effective derivative financial instruments (hedges) are recorded in the hedge revaluation reserve. Unrealised gains and losses on ineffective derivative financial instruments futures are recorded in the income statement. All gains and losses upon realisation are recorded in the income statement.

- Foreign exchange contracts are derivative financial instruments that are recorded at market value which is based on valuations supplied by NSW TCorp. Unrealised gains and losses on effective derivative financial instruments (hedges) are recorded in the hedge revaluation reserve. Unrealised gains and losses on ineffective derivatives are recorded in the income statement. All gains and losses upon realisation are recorded in the income statement. The Corporation engages in very few of these contracts, consequently the application of the policy may be subject to AASB 1031: *Materiality*.

1.8.3 Financial Instruments accounting policies AGAAP

Financial instrument comparative information for the prior year is disclosed based on the AGAAP standards that applied before the introduction of the accounting standards AASB 132 and AASB 139 on 1 July 2005. Consequently the comparative information disclosed in note 23 does not conform to current AIFRS requirements. The AGAAP accounting policies that applied to the comparative values are disclosed as follows:

- Unrealised gains and losses on energy trading derivatives were deferred and recognised in the financial statements when the underlying sales occurred.
- Interest rate swaps on borrowings were recognised upon settlement and the net interest receivable or payable was adjusted to borrowing costs.
- Futures contracts for future movements in interest rates generated margin payments upon inception and call receipts during the period of the contracts. These amounts were adjusted against borrowings costs. Throughout the period of the contracts unrealised gains or losses were not recorded. Upon settlement gains or losses did not occur.
- Unrealised gains and losses on foreign exchange contract hedges, together with the costs of contracts, were recognised in the financial statements when the underlying transaction occurred.

1.9 Cost Measurement

The financial report is prepared on the historical costs basis, modified to be compliant with AIFRS in the cases of:

- assets measured at fair value, being available-for-sale financial assets, financial assets and liabilities at fair value through profit and loss, derivative financial instruments, investment property, and stated classes of property, plant and equipment;
- recognised assets and liabilities that are hedged with fair value hedges, where the carrying values are adjusted to record changes in the fair values attributable to the risks being hedged;
- property, plant and equipment whose cost was deemed to be fair value at the date of transition to AIFRS.

- loans and receivables classified as financial instruments are measured at amortised cost. Generally these are recorded as non-current assets and liabilities in the Balance Sheet and amortisation is applied if material.

1.10 Impairment

In accordance with AASB 136: *Impairment of Assets* and AASB 139, impairment testing is carried out on to ensure that assets are carried at no more than their recoverable amount. Impairment is applied in the following circumstances:

1.10.1 Assessment for Impairment

Assets are assessed for any indicators that impairment may exist. If there is no indication of impairment, impairment testing is not carried out. If there is indication of impairment, the recoverable amount is estimated for the asset, or the cash generating unit group of assets (CGU). If the carrying values exceed the estimated recoverable amount, the assets or CGUs are written down to their recoverable amount. The recoverable amount of an asset is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax weighted average cost of capital (refer note 1.20). For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognised in the income statement.

1.10.2 Impairment Without Assessment

Goodwill acquired in a business combination and intangible assets with indefinite useful lives are tested for impairment annually irrespective of any indication of impairment.

1.10.3 Reversals of Impairment

Impairment losses are reversed when there is an indication that impairment may no longer exist and there has been a change in the estimate used to determine the recoverable amount. An impairment loss is reversed only to the extent the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment had been recognised.

Impairment reversals are not applied to goodwill.

1.11 Recognition of Revenue

Revenue is measured at the fair value of the consideration or contribution received or receivable. Additional comments regarding the accounting policies for the recognition of revenue are discussed below.

Revenue relating to the Corporation's core operations is classified as revenue from the sale and delivery of energy. Revenue from other business activities is classified as other revenue (refer note 2).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2006

1.11.1 Sales revenue

Sales revenue comprises revenue earned (net of returns, discounts and allowances) from the provision of products or services and is recognised when the goods are provided or when the fee in respect of services provided is receivable.

1.11.2 Revenue from unread meters

Revenue from unread meters is calculated at balance date for those customers who, at balance date, did not have their meters read and invoiced. The calculation uses an estimate based on their historical consumption (refer note 1.12.4).

1.11.3 Finance Revenue

The following transactions are recognised as finance revenue and are recorded in the Income Statement.

- Interest realised and unrealised on interest rate futures contracts (refer note 23.2.2).
- Interest received or receivable on futures deposits (refer note 1.12.9).
- Discounts recognised in recording the net present value of future cash flows on provisions.
- Net gains on valuations of interest rate futures that are classified as financial instrument 'loans and receivables'.

1.11.4 Asset sales

Proceeds on the sale of assets are brought to account when control of the asset passes to the buyer. Net gains on the sale of assets are other income in the Income Statement. Net losses on the sale of assets are recognised as expenses in the Income Statement.

1.11.5 Capital contributions

Capital contributions are monies paid by customers, or prospective customers, seeking an augmentation of the electricity and gas distribution systems in circumstances where, in the ordinary course of events, such augmentation would not be undertaken by the Corporation.

Capital contributions are recognised in accordance with UIG 1017 (refer note 1.7.2.4). Capital contributions are recorded as liabilities when they are received for an asset that is not complete ready for use. These liabilities are recognised as revenue upon completion of the asset.

Non-current assets that are contributed to the Corporation by customers, are recorded as capital contributions and are valued at fair value. For the purposes of the Statement of Cash Flows these revenues are not recognised as cash inflows (refer note 1.14.6).

1.11.6 Changes in Valuation of TCorp Investments

All TCorp investments are held in TCorp's Hour-Glass facility (refer note 1.12.2). In accordance with a NSW Treasury mandate, movements in the value of this facility are disclosed as revenue in the Income Statement.

1.12 Valuation of Current Assets

1.12.1 Cash and Cash Equivalents

For the purposes of the Balance Sheet, cash assets include cash on hand and investments at call (refer note 6).

For the purposes of the Cash Flow Statement, cash includes cash assets net of bank overdraft (refer note 22).

1.12.2 Investments

Surplus funds are managed in accordance with the Corporation's investment policy. The objective of the policy is to achieve maximum return within defined risk parameters. Investments are held in a managed portfolio and in the form of a deposit (refer note 23).

• TCorp Investments

Investments held in TCorp Hour-Glass Investment facility are managed and evaluated on a fair value basis in accordance with the Corporation's investment policy. These investments are designated as 'fair value through profit and loss' consistent with AASB 139 and in accordance with a NSW Treasury mandate.

• Other Investments

Investments are held in the form of a deposit as security for margin calls on futures trade transactions. These investments are interest bearing and are measured at fair value.

1.12.3 Receivables

Receivables include trade, other and intercompany debtors, plus prepayments.

• Debtors

Trade, other and intercompany debtors are measured at cost, being the original invoice amount where the effect of discounting is immaterial. Collectability of debt is assessed at balance date in accordance with AASB 139. Allowances for doubtful debts are made after assessing any evidence that trade, other and intercompany debtors are impaired. The allowances are calculated as the difference between the carrying amount of the debtor and the expected future cash flows. The allowances are disclosed in note 7 as provisions for doubtful debts.

• Prepayments

Prepayments are measured at cost and represent prepaid expenses that are expected to be realised within twelve months.

1.12.4 Estimated Revenue from Unread Meters

A current asset is recognised resulting from the estimate made for meters that are unread at balance date (refer note 1.11.2).

1.12.5 Inventories

Inventories have been valued at the lower of cost and net realisable value. Cost is determined using the average purchase price of each item and comprises the cost of purchase including the cost of bringing the inventories to their appropriate location. Net realisable value is the estimated selling price less the estimated cost to sell. The major components of inventories are capital stores and consumables used in the maintenance of the distribution network.

1.12.6 Intangible Assets

Current intangible assets relate to assets acquired from the purchase of renewable energy and are measured at cost (refer note 1.18).

1.12.7 Derivative Assets

Current derivative assets are recognised in the course of energy trading and debt management and are measured at fair value (refer note 1.8.2).

1.12.8 Loans to Subsidiaries

The subsidiaries EMMLINK Pty Limited and Country Energy Gas Pty Limited have borrowings with the parent. These are recorded at cost and are disclosed as current other financial assets in the parent's financial report (refer note 1.16.4).

1.12.9 Interest Rate Futures

The New South Wales Treasury Corporation (TCorp) on behalf of the Corporation transacts all interest rate futures traded on the Sydney Futures Exchange. Where as a result of these transactions, cash is received by TCorp on behalf of the Corporation, the debt is recorded in the Corporation's balance sheet as other assets.

1.13 Valuation of Non-Current Assets

1.13.1 Receivables

Non-current receivables include debtors, prepayments and the balance of overfunded (prepaid) superannuation.

- **Other Debtors**

Other non-current debtors are recognised when the debt due is payable in a period greater than twelve months from balance date. They are carried at amortised cost being the net present value of amounts due when the debt is payable. Collectability of debt is assessed at balance date. A provision for doubtful debts is determined after having considered the ageing of the debt and the credit risk of the debtors. The debts are a mixture of interest bearing and non-interest bearing (refer note 7).

- **Prepayments**

Prepayments are measured at amortised cost and represent payments that are expected to be realised in a period greater than twelve months. Where the amortisation adjustment is not material, amortisation is not recorded (refer note 7).

- **Overfunded superannuation**

Any excess between the market value and accrued benefits of defined benefit superannuation plans are recognised as non-current receivables (refer notes 1.16.6 and 31).

1.13.2 Available-For-Sale Investment

The Corporation has a 20% interest in a wind farm. On 1 January 2005 the interest in the wind farm was reclassified from property, plant and equipment to other investments. On 1 July 2005 the investment was subject to AASB 139 and was reclassified as an available-for-sale investment. At June 2005 the asset was valued by PricewaterhouseCoopers (PWC) using a "Discounted Cash Flow" (DCF) Methodology. The asset is recorded at fair value and is supported by the PWC valuation (refer notes 1.7.2.2 and 10).

Any gains or losses arising from a change in fair value are recognised directly into equity. Upon derecognition of the investment, the cumulative gains or losses recorded in equity are recognised in the Income Statement.

1.13.3 Investment Property

Investment properties are stated at fair value, which have been determined based on valuations performed by Colliers International Consultancy and Valuation Pty Limited (Colliers) as at 30 June 2005. Colliers are registered valuers who hold relevant professional qualifications and recent experience in the category of property being valued. Fair values were determined having regard to recent market transactions for similar properties in the same location as Country Energy's investment properties (refer note 11).

1.13.4 Investments in Subsidiaries

Shares held by the Corporation in its subsidiaries are recorded at cost and are eliminated in the consolidated financial statements.

1.13.5 Leased assets

The Corporation has not entered into any finance leases. Operating leases are not capitalised and rental payments are charged against operating profit in the period in which they are incurred (refer note 24).

1.13.6 Other Assets

Non-current other assets are assets whose economic benefit is expected to be realised in a period greater than twelve months. These include non interest bearing repayable advances made to employees. These advances will be repaid when the employees leave the service of the Corporation. Consequently the repayment dates are not determinable and the asset has not been amortised (refer note 12).

1.14 Valuation of Property, Plant and Equipment

Purchased property, plant and equipment is initially recognised at acquisition costs. The cost of a new asset purchase comprises: its purchase price, including import duties and non-refundable purchase taxes, after deducting

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2006

trade discounts and rebates; any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management; and the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Assets that are constructed by Country Energy (using employees, third party contractors, or a combination of both) are capitalised. These assets are typically network related, but can include the construction of other assets such as leasehold improvements and specialised plant and equipment.

The cost of these assets may include: directly purchased physical assets and associated incidental costs; labour and supervision costs; costs of design and technical assistance; internal and external plant hire costs; transfers from inventories and directly attributable overheads.

All expenditure relating to the replacement of an asset is capitalised to the extent that the asset has reached the end of its useful life or has not reached the end of its useful life but the replacement will result in an increase or improvement to the asset's current service capacity, service quality or useful life.

Property, plant and equipment is assessed annually for impairment. Where impairment exists, the carrying values of the assets are written down to their recoverable amounts. The amount of write down is recorded in the Income Statement except to the extent that an amount of write down can be offset against an amount in the asset revaluation reserve identified for a specific asset. Independent valuations are undertaken at least every five years.

1.14.1 System assets

As at 30 June 2005 the assets were valued by PricewaterhouseCoopers (PWC) using a "Discounted Cash Flow" (DCF) Methodology.

The system assets of Australian Inland were valued as at 30 June 2005 by Carnegie Wylie & Company (CWC) Pty Ltd using a DCF methodology. The carrying values of the assets at 30 June 2005 were supported by the independent valuation. Those carrying values were recorded at 1 July 2005 by Country Energy, as acquisition values (refer notes 1.6 and 30).

The carrying values of assets comprise the independent valuations plus movements from the dates of those valuations, being acquisitions at cost, less disposals and depreciation. The assets are recorded at fair value.

The system assets are combined with other assets to represent a CGU. This CGU is the smallest identifiable group of assets that generate identifiable cash flows.

1.14.2 Land and buildings

The 30 June 2005 land and building asset values of the Corporation were valued by Colliers International Consultancy and Valuation Pty Limited (Colliers) using a "Fair Value" methodology. In determining their valuations Colliers have assumed that the estimated amount that the properties would exchange between a willing buyer and a willing seller reasonably represent fair value. Colliers determined that the fair value was \$88.633 million. In accordance with the Colliers valuation the carrying value of the assets were increased by \$14.658 million on 30 June 2005. The increase was recorded in the asset revaluation reserve.

The carrying values of assets comprise the independent valuations plus movements from the dates of those valuations, being acquisitions at cost, less disposals and depreciation. The assets are recorded at fair value.

1.14.3 Other plant and equipment.

The Corporation's other non-current physical assets comprise of non-specialised assets with short useful lives. Examples are motor vehicles, office equipment and computer equipment. These assets are disclosed at fair value which is equivalent to their depreciated historical cost. For this class of asset depreciated historical cost is an acceptable measure for fair value because the difference between these valuations is unlikely to be material.

The assets acquired from Australian Inland were recorded at fair value.

1.14.4 The assets of EMLINK Pty Limited

All property, plant and equipment assets were of the one class being a transmission interconnection system and are held by DirectLink, an unincorporated joint venture. EMLINK Pty Limited is a joint venture partner and recognises 50% of the value of DirectLink's assets.

In May 2004 the DirectLink joint venturers applied to the Australian Energy Regulator (AER) to be eligible to receive maximum allowable revenue in accordance with the National Electricity Code (NEC). In March 2006 the AER determined that the DirectLink transmission asset will be a prescribed service under the NEC with a regulated asset base of \$116.68 million as at 1 July 2005.

The Directors adopted 50% of this amount as the Corporation's asset value as at 1 July 2005. On this date the carrying amount of the Company's assets were increased by \$18.338 million to \$58.340 million. A previous impairment loss of \$18.200 million was reversed in the Income Statement (refer note 1.10.3). An amount of \$0.138 million was recorded in the asset revaluation reserve. In accordance with AASB 116.35, and consistent with NSW Treasury mandate, the revaluation was restated proportionately against the gross amount and the accumulated depreciation of the asset (refer note 13).

The carrying amounts of assets at 30 June 2006 comprise the revalued asset values at 1 July 2005 plus additions, less depreciation during the year. The assets are recorded at fair value.

These assets are combined with the other assets of EMMLINK Pty Limited to represent a CGU. This CGU is the smallest identifiable group of assets that generate identifiable cash flows.

1.14.5 The assets of Country Energy Gas Pty Limited

The subsidiary's gas system assets were valued during 2004 by Deloitte Corporate Finance Pty Ltd using a DCF methodology. The 30 June 2004 carrying values of the assets were supported by the valuation.

The carrying values of the assets at balance date are comprised of the carrying values at 30 June 2004, plus movements from that date, being acquisitions at cost, less disposals and depreciation. The assets are recorded at fair value.

These assets are combined with the other assets of Country Energy Gas Pty Limited to represent a CGU. This CGU is the smallest identifiable group of assets that generate identifiable cash flows.

1.14.6 Acquisition of Property, Plant and Equipment

The value of assets acquired during the year includes the cost of acquisition, the cost of materials, labour and an appropriate proportion of overheads.

Assets that are contributed by customers are recorded at fair value. In the Statement of Cash Flows the acquisition of these assets are not recognised as purchases of property, plant and equipment (refer note 1.11.5).

1.14.7 Depreciation

The carrying value of property, plant and equipment is net of depreciation where applicable.

Depreciation is calculated for all items of property, plant and equipment, except freehold land, based on the estimated useful remaining life of the asset. The straight line method is used.

Depreciation expense is recognised in the Income Statement. Accumulated depreciation is written back against the asset when the asset is revalued.

The estimated remaining lives to the entity for each class of asset are as follows:

Buildings	40 years
Leasehold improvements	Term of lease
System assets	1 – 50 years
Other assets	1 – 20 years

Upon revaluation, accumulated depreciation of buildings is written back against the gross value of the asset, and accumulated depreciation of other assets is restated proportionately to the gross value.

1.15 Valuation of Intangible assets

Intangible assets, other than goodwill are identifiable non-physical assets that have been acquired or developed by the Corporation. These are recorded at amortised cost (refer note 14). The intangible assets form part of the assets of a number of CGUs.

1.15.1 Franchise and fees

Franchise and alliance fees relate to business undertakings with external parties. The franchise fees have a finite life and are amortised over ten years. They have a remaining life of five years.

1.15.2 Natural Gas Business Licences.

The licences were acquired when the former Great Southern Energy purchased the Natural Gas Business from the Council of the City of Wagga Wagga.

The difference between the cost of the Natural Gas Business and the value of the total assets is the value of the intangible asset, being Distribution and Retail licences.

These licences entitle the Corporation to distribute and retail natural gas within the Wagga Wagga region, as well as to other contestable markets. The licences have been brought to account having regard to the expected net cash flows derived from holding the licences, and are based on an independent valuation, at the time of acquisition, as part of the allocation of the purchase price of the assets acquired. The distribution licence has a definite life and its useful life will be assessed annually in accordance with AASB 138: *Intangible Assets* and the asset will be amortised in accordance with the standard.

The carrying values of Country Energy's Gas business intangible assets are supported by the Deloitte Corporate Finance Pty Ltd DCF valuation as disclosed in note 1.14.5.

The assets have a finite life and are amortised over ten years. The remaining lives of the assets have been assessed at seven years.

1.15.3 Regulatory Pricing Submission

EMMLINK Pty Limited is an equal joint venture partner in an unincorporated joint venture, DirectLink. The joint venturers applied to the Australian Energy Regulator (AER) to be eligible to receive maximum allowable revenue in accordance with the National Electricity Code (NEC) (refer note 1.14.4). EMMLINK Pty Limited has recorded 50% of the cost of preparing the submission as an intangible asset. Amortisation was applied for the first time during the year and the remaining life of the asset has been assessed at five years.

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FOR THE YEAR ENDED 30 JUNE 2006

1.15.4 Computer Software

Computer software development has been reclassified from property plant and equipment to intangible assets in accordance with AASB 138. The assets have a finite life and are amortised over four years. Their remaining lives have been assessed as 2.4 years.

1.15.5 Goodwill

Goodwill was acquired when the former Great Southern Energy Group purchased natural gas assets from the Australian Gas Light Company.

The goodwill represents the excess of the cost of acquisition of the gas network purchased over the fair value of the identifiable net assets acquired. The assets were newly constructed at the time of acquisition. Goodwill is recorded at cost and is tested for impairment annually (refer note 1.7.2.3).

1.16 Liabilities

1.16.1 Payables

Trade and other payables are recognised when the Corporation is obliged to make a future payment for the purchase of goods or services. Payables are recorded at fair value (refer note 16).

1.16.2 Deposits

Deposits are received as security against payment of the Corporation's billing, trading activities or use of the Corporation's assets.

- **Customer and Contractors Deposits**

Customers and contractors pay a security against payment of the Corporation's billing or use of the Corporation's assets. Deposits are repaid when the customer's payment risk is removed or the Corporation's assets cease being used. Deposits are considered at call and are measured at cost and are not amortised.

- **Counterparty Trading Deposits**

Certain counterparties to the Corporation's electricity trading activities pay a deposit as security against their credit risk. Two deposits are held with one being repayable when the counterparty ceases trading with the Corporation. It is not practical to determine that date and as a result the liability has been recorded at cost and has not been amortised. The other deposit is small in value and has not been amortised.

1.16.3 Interest bearing liabilities

All interest bearing loans are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process (refer note 17).

1.16.4 Loans to Subsidiaries

The parent has lent \$57.5 million to EMLINK Pty Limited and \$56.5 million to Country Energy Gas Pty Limited. These loans are payable on demand, however due to a resolution taken by the Board of Country Energy, these loans will not place in jeopardy the solvency of the subsidiaries.

These are recorded at cost and are disclosed as current other assets in the parent's financial report (refer notes 1.12.8 and 12).

1.16.5 Employee benefits

The provision for employee benefits to wages, annual leave, sick leave and long service leave represents the amount which the Corporation has a present obligation to pay resulting from employees' services provided up to balance date.

The amounts provided have been apportioned between current and non-current provisions. The current provisions being that portion which is expected to be paid within the ensuing twelve months or there is an unconditional right to defer settlement of the obligation (refer note 18). Non-current provisions are amounts that are expected to be paid after twelve months and there exists an unconditional right to defer settlement after twelve months.

In calculating wages and annual leave, nominal amounts have been used based on expected future remuneration.

The amounts recognised for sick leave and long service leave are calculated in accordance with Australian Accounting Standard AASB 119: *Employee Benefits*. Sick leave and long service leave were calculated by an independent actuary, Cumpston Sarjeant Pty Ltd. Long service leave has been discounted in accordance with AASB 119 using rates attaching to Commonwealth government securities at balance date.

Employee benefits are recorded in the Balance Sheet as current liabilities where the Corporation has no unconditional right to defer settlement.

1.16.6 Defined Benefit Superannuation Plans

Country Energy contributes to several defined benefit employee superannuation plans. These are the Energy Industries Superannuation Scheme Pty Limited (EISS), State Super (SS) or the Electricity Supply Industry Superannuation Fund (Qld).

Employee contributions to the plans are based on various percentages of employee gross salaries. These percentages are at the employees' discretion. The employer contributions are based on the advice of the plans' actuaries and are generally at a rate of about twice the employees' contributions.

After serving a qualifying period all member employees are entitled to defined benefits on retirement, disability or death. The defined benefits are based on years of service and final average salary.

The plans' accrued benefits are those benefits which the plans are presently obliged to pay to members of the plans at some future date. The plans' assets are those assets held at net market value to satisfy the benefit obligations. Where a plan's net assets exceed the accrued benefits, the difference is recorded as an asset in the Corporation's Balance Sheet (refer note 1.13.1). Where the accrued benefits exceed the net assets, a liability is recorded as an asset in the Corporation's Balance Sheet (refer note 1.16.10). Movements during the period in these Balance Sheet values are recorded in the Income Statement.

The Trustees are responsible for ensuring that the plans are independently valued by suitably qualified valuers (refer note 31). The plans are funded.

1.16.7 Provisions

Liabilities are recorded as provisions, unless stated elsewhere, when there is uncertainty as to the timing or amount of future expenditure required for settlement. Provisions are discounted at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability. Where the discount adjustment is not material, amortisation is not recorded (refer note 18).

1.16.8 Dividends

Dividends are provided for in the Statement of Corporate Intent (SCI) approved by the Corporation and the Shareholders. Where the Statement of Corporate Intent has been signed before balance date, the dividends are deemed appropriately authorised and are recognised as a liability in the Balance Sheet (refer note 18).

1.16.9 Derivative Liabilities

Derivative liabilities are recognised in the course of energy trading and debt management (refer note 1.8.2).

1.16.10 Other liabilities

Other liabilities include financial liabilities relating to the prior year, prepaid revenue and underfunded superannuation liability. The liabilities are classified as current or non-current, according to when their obligation for fulfilment is due.

- **Financial liabilities – prior years**
These are liabilities which include deferred interest on swaps and trading contracts. As a result of adopting AASB 132 and AASB 139 in the current year, these liabilities are no longer recorded.
- **Prepaid revenue**
Prepaid revenue represents capital contribution revenue recorded as a liability in accordance with UIG 1017. The liability will be recorded in the income statement when the constructed asset is completed, which generally occurs within twelve months of receipt of the revenue. The liability is classified as current. It is measured at cost and is not amortised (refer notes 1.7.2.4 and 19).

- **Underfunded superannuation**

A liability is recorded when the accrued benefits of the defined benefits superannuation funds exceed the net assets of the funds (refer note 1.16.6). The liabilities are classified as non-current and are recorded at the value supplied by the actuary. This value is based on a net present value.

1.17 Reserves

Adjustments resulting from the re-measuring of property, plant and equipment are recorded in reserves.

1.17.1 Asset Revaluation Reserve

The asset revaluation reserve is used to record increments and decrements in the fair value of all non-current physical assets.

1.17.2 Hedge Revaluation Reserve

The hedge revaluation reserve is used to record increments and decrements in the fair value of all effective cash flow hedges in accordance with AASB 139 (refer 1.8.2).

1.18 Accounting for Renewable Energy

A number of schemes operate under government legislations or administration. These schemes generate rights and obligations to supply specified targets of renewable energy. The instruments of these schemes are generically described as Green Certificates.

The Corporation generates and purchases these certificates in order to comply with the relevant legislations. Obligations to surrender certificates based on targets are of the nature of provisions and are disclosed in the Balance Sheet as current liabilities. These are recorded at weighted average cost. Rights held, are of the nature of intangible assets and are disclosed in the Balance Sheet as current assets. These are recorded at weighted average cost. The assets and liabilities held under each scheme are acquitted annually. Assets remaining after the acquittal process are expected to be realised within twelve months after the date of acquittal. These assets are not amortised because the amortisation adjustment would not be material.

- **Renewable Energy Certificates (RECS)**
This scheme operates under Federal Government legislation which requires energy retailers to source a target proportion of their electricity purchases from renewable sources. Any excess assets held after acquittal are carried forward to future years.
- **NSW Greenhouse Abatement Certificates (NGACS).**
This scheme operates under NSW legislation and places a liability on energy distributors to reduce greenhouse gas emissions by a specified target. Any excess assets held after annual acquittal are carried forward to future years.

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FOR THE YEAR ENDED 30 JUNE 2006

- **Green Power Rights (GPRS)**

This is a national voluntary scheme administered by the NSW Sustainable Energy Development Authority. The scheme accredits electricity retailers to sell electricity guaranteed to have been sourced from renewable energy. Excess assets held after annual acquittal cannot be carried forward to future years and are recorded in the Income Statement as an expense.

- **Gas Electricity Certificates (GECs)**

This scheme operates under Queensland legislation and places an obligation on the Corporation to purchase specified volumes of electricity from eligible generation sources from within Queensland. Any excess assets held after annual acquittal are carried forward to future years.

Green Certificate assets and liabilities are disclosed in note 20. Their initial recognition is disclosed in note 1.7.2.5.

1.19 Finance Costs

The following transactions are recognised as finance costs. These are recorded in the Income Statement in accordance with NSW Treasury's mandate.

- Interest paid or payable on interest bearing loans.
- Loan guarantee fee paid to the NSW government for the guarantee of loans (refer note 17).
- The amounts of amortisation of discounts and premiums on interest bearing loans (refer note 1.16.3).
- Discounts applied to provisions (refer note 18).
- Discounts applied to financial liabilities.
- Net losses on valuations of interest rate futures classified as financial instrument 'loans and receivables'.

Borrowing costs are not capitalised in accordance with NSW Treasury's mandate.

1.20 Future Cash Flows

Country Energy prepares forecasts covering a ten year period. These forecasts are a component of the Corporation's Statement of Corporate Intent (SCI) which is a ten year business plan prepared by the Corporation's management and approved by its Shareholders. The use of ten years in a business plan is consistent with the business sector that the Corporation operates in.

Where an estimate is made of future cash flows in relation to asset valuation, ten year forecasts from the SCI are extrapolated to produce cash flow projections to the end of the asset's life. The discount rate used is the weighted average cost of capital of the relevant CGU.

1.21 Income Tax

The consolidated group operates within the National Tax Equivalent Regime (INTER) administered by the Australian Taxation Office on behalf of the NSW Government.

Income tax on the profit or loss for the year comprises current and deferred tax. Current tax is the expected tax payable on the taxable income for the year, using tax rates that are applicable at balance date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for:

- Goodwill.
- The initial recognition of assets or liabilities that affect neither accounting or taxable profit.
- Differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates applicable at balance date.

A deferred tax asset is recognised to the extent that it is probable that the future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

1.21.1 Tax Consolidation

Country Energy and its 100% owned subsidiaries are a tax-consolidated group (group). The head entity of the group is Country Energy.

Current tax income and expense, deferred tax liabilities and deferred tax assets arising from temporary differences are recognised in each member of the group's financial statements using the 'separate taxpayer within group' approach. Deferred tax assets and deferred tax liabilities are measured by reference to the carrying amounts of assets and liabilities in the entity's Balance Sheet and their tax values applying under tax consolidation.

Any current tax liabilities/assets and deferred tax assets arising from unused tax losses of a group member are assumed by the head entity of the group. These are recognised as amounts payable/receivable to other group members in conjunction with any tax funding arrangement amounts.

The group members recognise deferred tax assets arising from unused tax losses to the extent that it is probable that the future taxable profits of the group will be available against which the asset can be utilised. A group member assesses the recovery of its unused tax losses and tax credits only in the period in which they arise, and before assumption by the head entity in accordance with AASB 112.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability is recognised by the head entity only.

1.21.2 Tax Funding Arrangements

The head entity in conjunction with other members of the tax-consolidated group, has entered into a tax funding arrangement which sets out the funding obligation of members of the group in respect of tax amounts. The tax funding arrangements require payments to/from the head entity equal to the current tax liability/assets assumed by the head entity and any tax-loss deferred tax asset assumed by the head entity, resulting in the group members recognising an inter-entity payable/receivable equal in amount to the tax liability/asset assumed. The inter-entity payable/receivable balances are at call.

Contributions to fund the current tax liabilities are payables as per the tax funding arrangement and reflect the timing of the head entity's obligation to make payments for tax liabilities to the relevant tax authorities.

1.21.3 Tax Sharing Agreement

The head entity in conjunction with other members of the group, has entered into a tax sharing agreement. The tax sharing agreement provides for the determination of the allocation of income tax liabilities between the group members should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under this agreement is remote.

The Country Energy group has elected to consolidate for NTER purposes as part of a tax sharing arrangement which provides for the allocation of income tax expense and liabilities across the wholly owned subsidiaries and a tax funding agreement which provides intercompany funding to cover current and deferred tax balances contributed by the individual subsidiaries to the head entity.

Tax effect accounting principles are applied to the financial statements in accordance with AASB 112 (refer notes 3 and 4).

1.22 Goods and Services Tax

Revenue, expenses and assets (other than receivables) are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of expense.

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or current liability in the Balance Sheet.

Cash flows are included in the Cash Flow Statement on a gross basis. The GST component of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

1.23 Electricity Purchases

The Corporation purchases electricity in the National Electricity Market for resale to its customers. Changes in the spot market may generate adverse financial effects. In order to minimise the risk, electricity trading positions are hedged. The gains and losses arising from these derivative transactions are brought to account in accordance with the policy disclosed in note 1.8.2.

1.24 Construction Contracts

Profit is recognised on fixed price construction contracts in proportion to the progress on each contract when all of the following conditions are satisfied:

- total contract revenues to be received and the costs to complete the contract can be reliably estimated;
- the stage of contract completion can be reliably determined; and
- the costs attributable to the contract date can be clearly identified and can be compared with prior estimates.

Profit is recognised on cost plus construction contracts in proportion to the progress on each contract when all of the following conditions are satisfied:

- the costs attributable to the contract to date can be clearly identified;
- costs to complete other than those that will be specifically reimbursable under the contract can be reliably estimated; and, where relevant,
- the stage of contract completion can be reliably determined.

Any material losses on construction contracts are brought to account as soon as they are foreseeable.

1.25 Segment Reporting

The Group's primary reporting format is business segments and its secondary format is geographical segment.

The reportable business segment is the Energy segment. This involves the distribution and retailing of electricity and gas.

Business activities within the Corporation that are substantially similar and whose size falls below the thresholds of significance are not separately reportable as business segments. They are combined and reported in aggregate as Other Segments. Business activities whose size falls below the thresholds of significance are dissimilar to the business segments noted above are treated as unallocated. These businesses include the supply and reading of meters, internet provision, energy audits, bottles gas, business support and recoverable works.

The geographic segment is Australia.

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Segment revenues and expenses, assets and liabilities are those that are directly attributable to that segment, and also include any portion that can be allocated to that segment on a reasonable basis.

Segment assets and liabilities include those that are used by that segment and includes allocations of assets and liabilities attributable to that segment using appropriate drivers as a reasonable estimate. Segment assets exclude income tax assets and non-operating assets. Segment liabilities exclude income tax liabilities, dividend provision, borrowings, bank overdraft and non-operating liabilities.

Transfer prices between business segments are at an arm's length basis and are calculated in a similar manner to prices to external customers.

1.26 Comparative Data

Comparatives have been reclassified where necessary to enhance comparability in respect of changes in the current year and to ensure compliance with AIFRS. Where prior year information was not disclosed, or where it is not practical to calculate the information, comparatives have been omitted. Where this has occurred, references have been made accordingly throughout the financial statements.

The Corporation has elected to take the exemption under AASB 1 to apply AASB 132 and AASB 139 only from 1 July 2005. The Corporation has applied previous AGAAP to the comparative information on financial instruments within the scope of AASB 132 and AASB 139. The election is consistent with NSW Treasury's mandate (refer note 1.8).

Recording errors have been identified in the 2005 financial statements. The comparatives have been restated to disclose the financial data as if the errors had not occurred. The restatement has increased the following balances on the comparative balance sheet:

- property, plant and equipment by \$14.674 million (note 13)
- prepaid superannuation \$0.034 million (note 7)
- under funded superannuation \$2.762 million (note 19)
- asset revaluation reserve by \$14.337 million

The restatement has decreased the following balances on the comparative balance sheet:

- investment properties by \$0.337 million
- retained earnings by \$2.728 million

The net effect of these adjustments is an increase of \$11,609 million in equity. This amount is disclosed in the reconciliation in note 1.7.2.

The errors did not impact the income statement or the statement of cash flows.

1.27 Presentation Currency

This financial report is presented in Australian dollars.

1.28 Foreign Currency

Foreign currency transactions are converted to Australian currency at the rates of exchange applicable at the dates of the transactions.

The treatment of foreign currencies that are hedged together with outstanding foreign currency balances is disclosed in note 1.8.2.

1.29 Rounding of Amounts

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

1.30 Early Adoption of Standards

At reporting date a number of Australian Accounting Standards have been issued by the AASB but are not yet operative. These have not been early adopted by the Corporation or its subsidiaries. The following is a list of these Standards and their possible impact on the financial report, if any, in the period of their initial application.

1.30.1 No Impact

The changes in the following standards will have no impact on the financial report upon application.

AASB Standards Affected	AASB Amendments	Application Date of the Standard*	Application Date for the Group*
AASB 1: First Time Adoption of AIFRS	2004-3	1/1/2006	1/7/2006
	2005-5	1/1/2006	1/7/2006
	2005-10	1/1/2007	1/7/2007
AASB 3: Business Combinations	2005-6	1/1/2006	1/7/2006
AASB 101: Presentation of Financial Statements	2004-3	1/1/2006	1/7/2006
	2005-10	1/1/2006	1/7/2006
AASB 114: Segment Reporting	2005-10	1/1/2007	1/7/2007
AASB 117: Leases	2005-10	1/1/2007	1/7/2007
AASB 119: Employee Benefits	New Std	1/1/2006	1/7/2006
AASB 121: The Effects of Changes in Foreign Exchange Rates	2006-1	1/1/2006	1/7/2006
AASB 124: Related Party Disclosures	2004-3	1/1/2006	1/7/2006

* Application date refers to the annual reporting period commencing on or after this date.

1.30.2 Impact Being Evaluated

At the time of this report the Corporation was in the process of evaluating the effect of the changes in the following standards. At the time of this report the impact is not reasonably estimable.

AASB Standards Affected	AASB Amendments	Application Date of the Standard*	Application Date for the Group*
AASB 7: Financial Instruments: Disclosure	New Std	1/1/2007	1/7/2007
	2005-9	1/1/2006	1/7/2006
AASB 132: Financial Instruments: Disclosure and Presentation	2005-10	1/1/2007	1/7/2007
	2005-1	1/1/2006	1/7/2006
AASB 139: Financial Instruments: Recognition and Measurement	2005-5	1/1/2006	1/7/2006
	2005-9	1/1/2006	1/7/2006
	2005-10	1/1/2007	1/7/2007
	2005-10	1/1/2007	1/7/2007

1.30.3 Non Application

The following standards have been issued and have no application to the Corporation or its subsidiaries.

AASB Standards Affected	AASB Amendments	Application Date of the Standard*	Application Date for the Group*
AASB 4: Insurance Contracts	2005-10	1/1/2007	1/7/2007
AASB 133: Earnings per Share	2005-10	1/1/2007	1/1/2007
AASB 1023: General Insurance Contracts	2005-10	1/1/2007	1/1/2007
AASB 1038: Life Insurance Contracts	2005-10	1/1/2007	1/1/2007

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FOR THE YEAR ENDED 30 JUNE 2006

1.31 Exemptions

Exemptions have been granted by the Treasurer under Section 41BA of the Public Finance and Audit Act and Section 15 of the Regulation, so that the financial reporting requirements which apply are broadly consistent with the Corporations Act reporting requirements, given that the entity is competing in the national electricity market.

The following specific disclosures are not required to be made as a result of the exemptions:

Financial Reporting Exemptions

Public Finance and Audit Act – *Format of financial statements*

- Section 41B(c) PF&AA – *Financial Statements*

Schedule 1, Part 1: PF&A Reg – *Notes – Income and expenditure*

- Item 2 – Amounts set aside for renewal or replacement of fixed assets.
- Item 4 – Amounts set aside to any provision for known commitments.
- Item 6 – Amount appropriated for repayment of loans/advances/debentures/deposits.
- Item 13 – Material items of income and expenditure on a program or activity basis.

Schedule 1, Part 3: PF&A Reg – *Notes – Additional information*

- Item 13 – Excess of non-current asset value over replacement cost.

Annual Reporting Exemptions

Budgets	s.7 (1)(a)(iii) ARSBA cl 6 ARSBR
Report of Operations	s.7 (1)(a)(iv) ARSBA
Management & Activities	Schedule 1 ARSBR
Research & Development	Schedule 1 ARSBR
Human Resources	Schedule 1 ARSBR
Consultants	Schedule 1 ARSBR
Land Disposal	Schedule 1 ARSBR
Consumer Response	Schedule 1 ARSBR
Payment of Accounts	Schedule 1 ARSBR
Time for Payment of Accounts	Schedule 1 ARSBR
Report on Risk Management & Insurance Activities	Schedule 1 ARSBR
Disclosure of Controlled Entities	Schedule 1 ARSBR
Investment Management Performance	cl. 13 ARSBR
Liability Management Performance	cl. 12 ARSBR
Financial Statements of Controlled Entities	s.7 (1)(a)(ia) ARSBA

Reference

ARSBA – *Annual Reports (Statutory Bodies) Act 1984*

PF&AA – *Public Finance & Audit Act 1983*

ARSBR – *Annual Reports (Statutory Bodies) Regulation 2005*

PF&A Reg – *Public Finance and Audit Regulation 2005*

Note 2: Components Of Revenue And Expenses

	Note	CONSOLIDATED		CORPORATION	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Revenue from Continuing Operations					
Sale and delivery of energy		1,862,139	1,618,157	1,855,640	1,612,984
Developer and customer contributions	1.11.5	98,606	65,781	98,185	65,781
Rental income on investment properties	1.13.3	206	469	206	469
Change in fair value of TCorp investments		426	–	426	–
Other revenue		17,700	13,170	17,700	13,170
Total Revenues from Continuing Operations		1,979,077	1,697,577	1,972,157	1,692,404
Other Income					
Net gains on disposal of property, plant and equipment		–	815	–	815
Net gains on re-measurement of energy trading derivatives	1.8	3,348	–	3,348	–
Net gains on interest rate swaps	1.8	5,028	–	5,028	–
Reversal of impairment losses	1.10.3	18,200	–	–	–
Total Other Income		26,576	815	8,376	815
Expenses Relating to Continuing Operations					
Cost of sale and delivery of energy		1,596,999	1,420,120	1,596,506	1,418,622
Cost of other revenue		19,856	16,927	19,856	16,927
Net losses on disposal of property, plant and equipment		410	–	410	–
Impairment loss		–	3,234	–	3,234
Total Expenses Relating to Continuing Operations		1,617,265	1,440,281	1,616,772	1,438,783
Components of Finance Revenue and Finance Costs					
Net interest on futures deposits		(4,465)	–	(4,465)	–
Discount on recognition of provision		(525)	–	(525)	–
Other finance revenue		(956)	(879)	(954)	(878)
Total Finance Revenue	1.11.3	(5,946)	(879)	(5,944)	(878)
Interest Expense		128,053	110,781	128,053	110,781
Total Finance Costs	1.19	128,053	110,781	128,053	110,781

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2006

Note 2: Components Of Revenue And Expenses (continued)

	Note	CONSOLIDATED		CORPORATION	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
The Income Statement includes the following items of expense/(income)					
Amounts charged against provisions for employee benefits		52,977	38,973	52,977	38,973
Employee benefits expense (excluding superannuation contributions disclosed on Income Statement)		263,906	210,762	263,906	210,762
Depreciation of property, plant and equipment		132,111	135,546	126,488	131,251
Amortisation of intangible assets		13,736	12,093	12,096	10,674
Consultants expenses (Amounts capitalised \$0.965 million)		1,033	1,309	1,033	1,309
Inventories		23,372	22,781	23,372	22,781
Bad debts expense		3,947	5,334	3,947	5,334
Minimum lease payments on operating leases		7,558	9,496	7,558	9,496
Direct operating expenses that relate to income earning investment property	1.13.3	160	241	160	241
Foreign exchange differences		(21)	–	(21)	–
Research and development expenses		73	148	73	148

Other Business Activities

Country Energy carries out a number of commercial business activities which are incidental to, associated with, or are related to the supply and delivery of energy. Individually these activities are not of significant size, nature or incidence. The aggregate of revenue from these activities of \$21.845 million, including internal sales \$4.448 million, (\$17.940 million in 2005) is included in other revenue. The aggregate of expenses from these activities of \$19.856 million (\$16.926 million in 2005) is included in the cost of other revenue.

Note 3: Income Tax Expense

The major components of income tax expense are:

	Note	CONSOLIDATED		CORPORATION	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Income Statement					
Current income tax					
– Current income tax charge		42,545	37,103	41,089	37,058
– Adjustments in respect of current income tax of previous years		(76)	8,745	57	8,745
Deferred income tax					
– Relating to origination and reversal of temporary differences		39,254	2,010	32,829	527
Income tax expense reported in the income statement		81,723	47,858	73,975	46,330
Statement of Changes in Equity					
Deferred income tax related to items charged or credited directly to equity					
– Net gain on revaluation of land and buildings		–	8,699	–	8,699
– Net gain on revaluation of plant and equipment		41	–	–	–
Income tax expense reported in equity		41	8,699	–	8,699
Reconciliation of tax expense to pre-tax profit					
Profit from Continuing Operations before Income Tax					
		267,758	126,261	243,129	122,585
Income tax at rate of 30% (2005: 30%)					
		80,328	37,878	72,939	36,775
– Adjustment in respect of current income tax of previous years		(76)	8,745	57	8,745
– Expenditure not allowable for income tax purposes		1,471	1,221	979	796
– Other		–	14	–	14
Income tax expense reported in the income statement		81,723	47,858	73,975	46,330

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2006

Note 4: Tax Assets And Liabilities

Note	CONSOLIDATED BALANCE SHEET		CONSOLIDATED INCOME STATEMENT	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Current Tax Asset				
Tax asset	478	-		
Total tax asset	478	-		
Income Tax Payable				
Provision for income tax	-	23,348		
Total Income Tax Payable	-	23,348		
Deferred Tax Liabilities				
Property Plant and Equipment	263,770	258,823	6,660	(391)
Unbilled Income	64,432	47,253	16,365	9,817
Green emission rights	7,872	1,079	4,905	929
Overfunded Superannuation	5,336	10	4,821	-
Application of AASB 139	13,508	-	934	-
Total Deferred Tax Liabilities	354,918	307,165		
Deferred Tax Assets				
Provisions	55,080	50,841	(372)	(6,070)
Green emission rights	7,488	1,648	(3,966)	(1,116)
Deferred interest on swaps	-	1,035	-	194
Tax loss	-	778	-	-
Unearned income	7,571	11,001	3,431	(1,558)
Expenses amortised	81	102	21	23
Underfunded superannuation	-	2,955	3,107	182
Application of AASB 139	3,989	-	3,348	-
Total Deferred Tax Assets	74,209	68,360		
Total Deferred tax income/(expense)			39,254	2,010

Note 5: Dividends

Dividends were paid during the year of \$18.100 million (\$29.764 million in 2005).

A dividend of \$76.756 million has been provided for at balance date (\$18.100 million in 2005).

CORPORATION BALANCE SHEET		CORPORATION INCOME STATEMENT	
2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
478	-		
478	-		
-	23,348		
-	23,348		
249,679	251,178	257	(1,681)
64,432	47,253	16,365	9,817
7,872	1,079	4,905	929
5,336	10	4,821	-
13,508	-	934	-
340,827	299,520		
55,071	50,964	(373)	(6,240)
7,488	1,648	(3,966)	(1,116)
-	1,035	-	194
-	778	-	-
7,571	11,001	3,431	(1,558)
-	-	-	-
-	2,955	3,107	182
3,989	-	3,348	-
74,119	68,381		
		32,829	527

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2006

Note 6: Cash And Cash Equivalents

	Note	CONSOLIDATED		CORPORATION	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Cash and deposits	1.12.1	431	91	420	91
Investments at Call – TCorp	1.12.2	9,697	1,343	9,697	1,343
Investments at Call – Other	1.12.2	2,137	–	2,137	–
Total Cash and Cash Equivalents		12,265	1,434	12,254	1,434

Note 7: Trade And Other Receivables

	Note	CONSOLIDATED		CORPORATION	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Current					
Trade debtors		135,282	113,688	135,083	113,500
Provision for doubtful debts		(4,530)	(3,309)	(4,530)	(3,309)
Trade debtors, net of provision	1.12.3	130,752	110,379	130,553	110,191
Other debtors		69,582	89,130	69,299	88,904
Provision for doubtful debts		(604)	(589)	(604)	(589)
Other debtors, net of provision	1.12.3	68,978	88,541	68,695	88,315
Prepayments		4,778	26,675	4,778	26,675
Deposits on futures trading	1.12.9	2,318	–	2,318	–
Subsidiary debtors		–	–	3,695	8,207
Total Current Trade and Other Receivables		206,826	225,595	210,039	233,388
Non-current					
Other debtors		104	163	104	163
Prepayments		4,983	25,574	4,983	25,574
Over-funded superannuation	1.13.1	17,789	208	17,789	208
Total Non-Current Trade and Other Receivables		22,876	25,945	22,876	25,945

Current other debtors consist of non-energy debtors and accrued revenue. Some debt is interest bearing, however this is not material.

Non-current other debtors consist of non-interest bearing debt with an average maturity of five years.

Note 8: Derivative Financial Instruments

8.1 Derivative Financial Assets – Current

	Note	CONSOLIDATED		CORPORATION	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Energy Trading Derivatives					
Swap Derivatives		39,215	–	39,215	–
Option Derivatives		60,872	–	60,872	–
Futures Derivatives		359	–	359	–
Total Derivative Current Assets	1.8.2	100,446	–	100,446	–

8.2 Derivative Financial Liabilities – Current

	Note	CONSOLIDATED		CORPORATION	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Energy Trading Derivatives					
Swap Derivatives		5,155	–	5,155	–
Option Derivatives		2,055	–	2,055	–
Futures Derivatives		18	–	18	–
Interest Rate Swap Derivatives					
Mark to market of Interest rate swaps		6,070	–	6,070	–
Total Derivative Current Liabilities	1.8.2	13,298	–	13,298	–

Note 9: Inventories

	Note	CONSOLIDATED		CORPORATION	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Inventories – at lower of cost and net realisable value	1.12.5	21,654	19,975	21,654	19,975
Total Inventories		21,654	19,975	21,654	19,975

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2006

Note 10: Investments

	Note	CONSOLIDATED		CORPORATION	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Available-for-sale investments					
Interest in Wind farm		2,069	–	2,069	–
Total Available-for-sale investments	1.13.2	2,069	–	2,069	–
Other Investments					
Interest in Wind farm		–	2,069	–	2,069
Total Other Investments	1.13.2	–	2,069	–	2,069
Investments in Subsidiary Corporations					
Investments in subsidiary corporations		–	–	36,871	36,871
Total Investments in Subsidiary Corporations	1.13.4	–	–	36,871	36,871

Note 11: Investment Property

	Note	CONSOLIDATED		CORPORATION	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Investment Property					
Property held for rental income and capital appreciation	1.13.3	2,567	2,567	2,567	2,567
Total Investment Property		2,567	2,567	2,567	2,567

The investment property was recognised for the first time in the prior year as a result of a reclassification from property, plant and equipment (refer note 13). There were no movements recorded against investment property during the year.

Note 12: Other Assets

	Note	CONSOLIDATED		CORPORATION	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Current					
Loans to subsidiaries	1.16.4	–	–	113,957	–
Total Other Current Assets		–	–	113,957	–
Non-Current					
Other assets	1.13.6	1,179	1,370	1,179	1,370
Loans to subsidiaries		–	–	–	113,957
Total Other Non-Current Assets		1,179	1,370	1,179	115,327

In the prior year statements the loans to the subsidiaries were classified as non-current. In the current year the loans are financial instruments and have been reclassified current (refer note 1.12.8).

Note 13: Property, Plant And Equipment

		CONSOLIDATED		CORPORATION	
	Note	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
SYSTEM ASSETS:					
Opening carrying value					
At fair value		2,843,304	2,551,751	2,700,085	2,412,444
Accumulated depreciation		(548,917)	(457,694)	(529,360)	(442,928)
Net opening carrying value		2,294,387	2,094,057	2,170,725	1,969,516
Movements					
Additions		363,155	292,971	359,324	289,554
Disposals		–	(1,418)	–	(1,418)
Depreciation expense		(88,017)	(91,223)	(82,394)	(86,928)
Revaluation – gross		22,124	–	–	–
Revaluation – accumulated depreciation	1.14.4	(3,786)	–	–	–
Assets contributed by owner	1.6				
– at fair value		52,261	–	52,261	–
– accumulated depreciation		(15,216)	–	(15,216)	–
Net movements		330,521	200,330	313,975	201,208
Closing carrying value					
At fair value		3,280,844	2,843,304	3,111,670	2,700,084
Accumulated depreciation		(655,936)	(548,917)	(626,970)	(529,360)
Net closing carrying value		2,624,908	2,294,387	2,484,700	2,170,724
LAND AND BUILDINGS					
Opening carrying value					
At fair value		107,296	78,971	107,296	78,971
Accumulated depreciation		(761)	(8,630)	(761)	(8,630)
Net opening carrying value		106,535	70,341	106,535	70,341
Movements					
Additions		27,837	13,047	27,837	13,047
Reclassification to investment property		–	(2,567)	–	(2,567)
Revaluation – net		–	28,995	–	28,995
Disposals		(7)	(526)	(7)	(526)
Depreciation expense		(1,704)	(2,755)	(1,704)	(2,755)
Assets contributed by owner	1.6				
– at fair value		6,440	–	6,440	–
– accumulated depreciation		(1,668)	–	(1,668)	–
Net movements		30,898	36,194	30,898	36,194
Closing carrying value					
At fair value		141,566	107,296	141,566	107,296
Accumulated depreciation		(4,133)	(761)	(4,133)	(761)
Net closing carrying value		137,433	106,535	137,433	106,535

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2006

Note 13: Property, Plant And Equipment (continued)

	Note	CONSOLIDATED		CORPORATION	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
PLANT AND EQUIPMENT					
Opening carrying value					
At fair value		422,053	353,938	422,053	353,938
Accumulated depreciation		(233,776)	(197,743)	(233,776)	(197,743)
Net opening carrying value		188,277	156,195	188,277	156,195
Movements					
Additions		65,473	79,082	65,473	79,082
Disposals		(7,450)	(5,434)	(7,450)	(5,434)
Depreciation expense		(41,062)	(41,566)	(41,062)	(41,566)
Assets contributed by owner	1.6				
– at fair value		15,443	–	15,443	–
– accumulated depreciation		(10,549)	–	(10,549)	–
Net movements		21,855	32,082	21,855	32,082
Closing carrying value					
At fair value		488,301	422,053	488,301	422,053
Accumulated depreciation		(278,169)	(233,776)	(278,169)	(233,776)
Net closing carrying value		210,132	188,277	210,132	188,277
Net Carrying Value of Property, Plant and Equipment		2,972,473	2,589,199	2,832,265	2,465,536

Note 14: Non-current Intangible Assets

	Note	CONSOLIDATED		CORPORATION	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
FRANCHISE SETUP FEES					
Opening carrying value					
At cost		76	76	76	76
Accumulated amortisation		(38)	(30)	(38)	(30)
		38	46	38	46
Movements					
Amortisation expense		(8)	(8)	(8)	(8)
Closing carrying value					
At cost		76	76	76	76
Accumulated amortisation		(46)	(38)	(46)	(38)
Net closing carrying value	1.15.1	30	38	30	38
NATURAL GAS DISTRIBUTOR AND RETAIL LICENCES					
Opening carrying value					
At cost		24,740	24,740	10,552	10,552
Accumulated amortisation		(4,949)	(2,474)	(2,111)	(1,055)
		19,791	22,266	8,441	9,497
Movements					
Amortisation expense		(2,474)	(2,475)	(1,055)	(1,056)
Closing carrying value					
At cost		24,740	24,740	10,552	10,552
Accumulated amortisation		(7,423)	(4,949)	(3,166)	(2,111)
Net closing carrying value	1.15.2	17,317	19,791	7,386	8,441
REGULATORY PRICING SUBMISSION					
Opening carrying value					
At cost		919	185	–	–
Movements					
Additions		408	734	–	–
Amortisation expense		(221)	–	–	–
Net movements		187	734	–	–
Closing carrying value					
At cost		1,327	919	–	–
Accumulated amortisation		(221)	–	–	–
Net closing carrying value	1.15.3	1,106	919	–	–

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2006

Note 14: Non-current Intangible Assets (continued)

	Note	CONSOLIDATED		CORPORATION	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
IT SOFTWARE					
Opening carrying value					
At cost		66,001	58,882	66,001	58,882
Accumulated amortisation		(31,141)	(21,531)	(31,141)	(21,531)
		34,860	37,351	34,860	37,351
Movements					
Additions		1,044	7,119	1,044	7,119
Amortisation expense		(11,033)	(9,610)	(11,033)	(9,610)
Assets contributed by owner					
– at cost		3,472	–	3,472	–
– accumulated depreciation		(2,515)	–	(2,515)	–
Net movements		(9,032)	(2,491)	(9,032)	(2,491)
Closing carrying value					
At cost		70,517	66,001	70,517	66,001
Accumulated amortisation		(44,689)	(31,141)	(44,689)	(31,141)
Net closing carrying value	1.15.4	25,828	34,860	25,828	34,860
Goodwill closing carrying amount	1.15.5	3,643	3,643	–	–
Total Non-Current Intangible Assets		47,924	59,251	33,244	43,339

Impairment testing of goodwill

Goodwill is recorded in the Balance Sheet of the subsidiary Country Energy Gas Pty Limited (refer note 1.15.5). The assets of the subsidiary form a CGU (refer note 1.14.5).

The recoverable amount of the CGU has been determined by a value in use calculation. The cash flow projections are based on a twenty year financial budget with a discount rate of 9.3% (refer note 1.20).

Note 15: Deposits

	Note	CONSOLIDATED		CORPORATION	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Current					
Electricity Customers		12,245	12,747	12,245	12,747
Contractors and Others		51	11	51	11
Energy Trading Counterparties		1,012	1,043	1,012	1,043
Total Current Deposits	1.16.2	13,308	13,801	13,308	13,801

In the prior year financial statements deposits from energy trading counterparties were included with contractors' deposits. In the current year counterparty deposits have been disclosed separately and the comparatives have been reclassified accordingly.

Note 16: Trade And Other Payables

	Note	CONSOLIDATED		CORPORATION	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Current					
Trade creditors – unsecured	1.16.1	14,979	14,678	14,979	14,678
Other creditors – unsecured	1.16.1	58,800	43,671	58,751	43,636
Accrued interest expense		46,408	40,757	46,408	40,757
Accrued energy and transmission purchases		128,233	138,099	128,233	138,099
Accrued trade creditors		17,089	14,910	16,801	14,910
Accrued inventory purchases		7,286	1,404	7,286	1,404
Other accrued expenses		1,261	1,559	1,261	1,464
Subsidiary creditors – unsecured		–	–	18,781	15,511
Total Current Trade and Other Payables		274,056	255,078	292,500	270,459

Note 17: Interest Bearing Liabilities

	Note	CONSOLIDATED		CORPORATION	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Current					
Bank Overdraft		–	4,608	–	4,619
Loans	1.16.3	533,853	534,599	533,853	534,599
Total Current Interest Bearing Liabilities		533,853	539,207	533,853	539,218
Non-current					
Loans	1.16.3	1,446,978	1,199,710	1,446,978	1,199,710
Total Non-Current Interest Bearing Liabilities		1,446,978	1,199,710	1,446,978	1,199,710
Due to be repaid:					
Not later than one year		533,853	539,207	533,853	539,218
Later than one year but not later than two years		513,646	198,782	513,646	198,782
Later than two years but not later than three years		61,977	428,715	61,977	428,715
Later than three years but not later than four years		36,977	1,372	36,977	1,372
Later than four years but not later than five years		332,873	36,399	332,873	36,399
Later than five years		501,505	534,442	501,505	534,442
Total Interest Bearing Liabilities		1,980,831	1,738,917	1,980,831	1,738,928

All loans are guaranteed by the NSW Government.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2006

Note 18: Provisions

	Note	CONSOLIDATED		CORPORATION	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Current					
Dividends	1.16.8	76,756	18,100	76,756	18,100
Employee benefits	1.16.5	149,171	123,082	149,171	123,082
Provision for Merger with Australian Inland		141	3,321	141	3,321
Provision for environmental rectification		2,841	4,575	2,841	4,575
Other provisions		4,520	3,990	4,520	3,990
Total Current Provisions		233,429	153,068	233,429	153,068
Non-Current					
Employee benefits	1.16.5	27,852	29,439	27,852	29,439
Provision for environmental rectification		2,534	–	2,534	–
Total Non-Current Provisions		30,386	29,439	30,386	29,439

Included in current employee benefits are long term unconditional liabilities of \$97.259 million (\$93.247 million in 2005).

Movement in Provisions

(i) Dividends

Opening carrying amount	18,100	18,100
Additional provision	76,756	76,756
Amounts utilised during the year	(18,100)	(18,100)
Closing carrying amount	76,756	76,756

(ii) Provision for Merger with Australian Inland

Opening carrying amount	3,321	3,321
Additional provision as a result of contribution by owner (Note 1.6)	1,081	1,081
Amounts utilised during the year	(3,934)	(3,934)
Release of provision	(327)	(327)
Closing carrying amount	141	141

(iii) Provision for environmental rectification

Opening carrying amount	4,575	4,575
Additional provision	3,618	3,618
Amounts utilised during the year	(714)	(714)
Release of provision	(2,104)	(2,104)
Closing carrying amount	5,375	5,375

(iv) Other provisions

Opening carrying amount	3,990	3,990
Additional provision	3,717	3,717
Amounts utilised during the year	(2,752)	(2,752)
Release of provision	(435)	(435)
Closing carrying amount	4,520	4,520

Other provisions reflect liabilities arising in the course of the Corporation's operating activities.

**Provision for Merger with Australian Inland
(refer note 1.6)**

The balance of the provision is expected to be utilised by February 2007.

Provision for environmental rectification

Provisions for environmental rectification work are expected to be settled by 2008 and 2020. In respect of the obligation to be settled by 2008 the effect of the time value of money has been deemed to be immaterial and no discounting has been applied. Where settlement is expected by 2020, discounting has been applied using the market yield on Commonwealth government bonds with a comparable period as specified by NSW Treasury Circular NSW TC 06/16. The rate used is 5.8%.

Other provisions

Other provisions include legal claims relating to property damage, personal injury and workplace incidents. The amount of each obligation is the best estimate of the expenditure required to settle the obligation based on current legal requirements. The settlement of all obligations is expected by June 2007.

During 2006 Country Energy finalised a provision established for a dispute with a creditor in liquidation. Country Energy has a legal obligation to maintain confidentiality on the terms of the settlement.

Note 19: Other Liabilities

		CONSOLIDATED		CORPORATION	
	Note	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Current					
Deferred interest	1.8.3	–	584	–	584
Other liabilities		361	1,978	5	21
Prepaid Capital Contributions		9,652	24,693	9,652	24,693
Total Current Other Liabilities	1.16.10	10,013	27,255	9,657	25,298
Non-Current					
Deferred Interest		–	2,867	–	2,867
Under-funded superannuation liability		–	10,004	–	10,004
Other liabilities		1,245	1,594	–	1,594
Total Non-Current Other Liabilities	1.16.10	1,245	14,465	–	14,465

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2006

Note 20: Green Certificates

		CONSOLIDATED		CORPORATION	
	Note	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Green Certificate Current Intangible Assets					
Renewable Energy Certificates (RECS)		11,587	7,468	11,587	7,468
NSW Greenhouse Abatement Certificates (NGACS)		12,674	2,426	12,674	2,426
Green Power Rights (GPRS)		512	-	512	-
Gas Electricity Certificates (GECS)		1,470	-	1,470	-
Total Green Certificate Current Intangible Assets	1.18	26,243	9,894	26,243	9,894
Green Certificate Current Liabilities					
Renewable Energy Certificates (RECS)		7,305	4,903	7,305	4,903
NSW Greenhouse Abatement Certificates (NGACS)		15,789	6,837	15,789	6,837
Green Power Rights (GPRS)		512	-	512	-
Gas Electricity Certificates		1,355	-	1,355	-
Total Green Certificate Current Liability	1.18	24,961	11,740	24,961	11,740
Movement In Provisions					
(i) Renewable Energy Certificates					
Opening carrying amount		4,903		4,903	
Additional provision		5,386		5,386	
Amounts utilised during the year		(2,984)		(2,984)	
Closing carrying amount		7,305		7,305	
(ii) NSW Greenhouse Abatement Certificates					
Opening carrying amount		6,837		6,837	
Additional provision		28,884		28,884	
Amounts utilised during the year		(19,932)		(19,932)	
Closing carrying amount		15,789		15,789	
(iii) Green Power Rights					
Additional provision		942		942	
Amounts utilised during the year		(430)		(430)	
Closing carrying amount		512		512	
(iv) Gas Electricity Certificates					
Additional provision		2,956		2,956	
Amounts utilised during the year		(1,601)		(1,601)	
Closing carrying amount		1,355		1,355	

Note 21: Finance Facilities

	Note	CONSOLIDATED		CORPORATION	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
At balance date the Corporation had access to the following finance facilities:					
- Bank overdraft		15,000	12,000	15,000	12,000
- Lines of credit		257,610	313,530	257,610	313,530
- Loans		2,032,000	1,712,000	2,032,000	1,712,000
Total available finance facilities		2,304,610	2,037,530	2,304,610	2,037,530
At balance date the unused amounts of those facilities listed above were:					
- Bank overdraft		15,000	12,000	15,000	12,000
- Lines of credit		72,907	90,290	72,907	90,290
- Loans		51,169	7,692	51,169	7,692
Total unused finance facilities		139,076	109,982	139,076	109,982

Finance facilities are reviewed and approved on an annual basis by NSW Treasury. The facilities are subject to the provisions of the Public Authorities (Financial Arrangements) Act 1987.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2006

Note 22: Notes To The Cash Flow Statements For The Year Ended June 2005

		CONSOLIDATED		CORPORATION	
	Note	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
(a) Components of Cash					
Cash on Hand		431	91	420	91
Cash at Bank/(Overdraft)		–	(4,608)	–	(4,619)
Investment securities		11,834	1,343	11,834	1,343
		12,265	(3,174)	12,254	(3,185)
(b) Reconciliation of operating profit after income tax expense to cash provided by operating activities					
Profit from Ordinary Activities after Income Tax Expense		186,035	78,403	169,154	76,255
– Movement in AIFRS Trading balances		(22,307)	–	(22,307)	–
– Movement in AIFRS Treasury balances		(10,041)	–	(10,041)	–
Items classified as investing/finance activities:					
– (Profit)/loss on sale of property, plant and equipment		409	(814)	409	(814)
– Net Community Service Obligation expense		308	6	308	6
– Deferred Interest		(9,145)	1,019	(9,145)	1,019
– Gifted Assets		(34,080)	–	(34,080)	–
Non-cash items:					
– Movement in provisions		824	(2,347)	824	(1,847)
– Depreciation		132,111	135,546	126,488	131,251
– Amortisation		13,736	12,093	12,096	10,674
– Write down of non-current assets		–	4,705	–	4,705
– Reversal of impairment loss		(18,200)	–	–	–
– Prepaid superannuation		(26,430)	2,990	(26,430)	2,990
– Increase/(decrease) in deferred taxes payable		45,724	5,990	31,771	5,990
Changes in assets and liabilities during the financial year:					
– (Increase)/decrease in unread meters		(62,643)	(35,880)	(62,643)	(35,880)
– (Increase)/decrease in receivables		4,962	7,633	13,521	9,881
– (Increase)/decrease in inventories		517	(441)	517	(441)
– (Increase)/decrease in prepayments and other current assets		(16,810)	(19,603)	(16,753)	(19,603)
– (Increase)/decrease in operating non-current receivables		60	58	60	58
– (Increase)/decrease in other operating non-current assets		997	(18,251)	997	(18,260)
– Increase/(decrease) in operating payables		19,814	22,499	26,502	23,114
– Increase/(decrease) in customer deposits		(716)	(1,741)	(716)	(1,741)
– Increase/(decrease) in other operating liabilities		(9,344)	649	(8,988)	1,005
– (Increase)/decrease in prepaid derivative option caps		(12,987)	–	(12,987)	–
Net cash provided by operating activities		182,794	192,514	178,557	188,362

Note 23: Financial Instruments – Consolidated

Comparative Information

The NSW Treasury has mandated that agencies must delay the adoption of the financial instrument accounting standards AASB 132 and AASB 139 until 1 July 2005 (refer note 1.8). In applying this election, the comparative data appearing in this note excludes the impacts of the financial instrument standards. Financial instrument comparative data is disclosed in accordance with AAS 33: Presentation and Disclosure of Financial Instruments applicable under the previous AGAAP standards. Disclosure details specific to the previous year have been isolated from the current year's disclosures and appear at the end of this note.

30 JUNE 2006 DISCLOSURES

1.0 Financial Risk Management Objectives

The Corporation's treasury and energy trading functions provide services to the business, coordinates access to domestic financial markets, enters into wholesale market contracts in the National Electricity Market and manages the financial risk relating to operations of the Corporation. The Corporation does not enter into or trade in financial instruments for speculative purposes. The use of financial derivatives is governed by the Corporation's policies, approved by the Board of Directors, which provide written principles on the use of financial derivatives. Compliance with policies and exposure limits are reviewed annually by the internal auditors and by the Middle Office on a continuous basis with any breaches reported to the Board of Directors.

The Corporation's principal financial instruments, other than derivatives, comprise borrowings, cash and investments. The main purpose of these financial instruments is to raise finance for the Corporation's operations. The Corporation has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations. The Corporation also enters into derivative transactions to hedge its risk in interest rates, foreign exchange rates and commodity prices.

Borrowings are interest bearing loans which are actively managed under a risk management agreement with New South Wales Treasury Corporation (NSW TCorp). Other financial assets and financial liabilities are not readily traded on organised markets in standardised form.

Derivative financial instruments are used to hedge the Corporation's exposure to changes in interest rates, foreign exchange rates and commodity prices from its activities. The instruments are in the form of: interest rate swaps, interest rate futures contracts, forward foreign exchange contracts and forward commodity price contracts. These derivative financial instruments are not held for speculative or trading purposes, however derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition, derivative financial instruments are measured at fair value. The gain or loss on remeasurement to fair value is recognised immediately in the Income Statement except where the instrument is subject to hedge accounting principles whereby the gains and losses are recognised in equity. Upon realisation all gains and losses are recognised in the Income Statement.

Details of the significant accounting policies in relation to financial instruments, including the basis of recognition and measurement, are disclosed in note 1.8.2 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2006

1.1 Cash Flow Interest Rate Risk

The Corporation enters into contracts to manage cash flow risks associated with the interest rates on borrowings that are floating, or to alter interest rate exposures arising from mismatches in repricing dates between assets and liabilities.

The Corporation's debt portfolio is comprised of a mixture of fixed and variable rate borrowings with a range of maturities over a number of years. The balance and composition of the portfolio is governed by a Corporation policy document which establishes prudential limits on the amount of debt that can mature in a given financial period. The policy establishes that no more than 30% of the face value of the core portfolio can mature in any 12 month period. The core debt portfolio must maintain a modified duration of 2.8 to 3.2 years. The policy also limits the type of instruments that can be obtained.

Responsibility for management of the debt portfolio has been outsourced to NSW Treasury Corporation.

The Corporation's exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets and financial liabilities is set out below:

	Note	Floating interest rate*	Fixed interest rate maturing in:		
			1 year or less	1 to 2 years	2 to 3 years
		2006 \$'000	2006 \$'000	2006 \$'000	2006 \$'000
2006 Financial Assets					
Cash and Deposits	6	431	–	–	–
Investments NSW TCorp	6	9,697	–	–	–
Investments Other	6	–	2,087	–	–
Receivables	7	–	–	–	–
Energy Trading Swap/Option derivatives	8	–	–	–	–
Energy Trading Futures derivatives	8	–	–	–	–
Available-for-sale-investments	10	–	–	–	–
Deposits on Interest Rate Futures trading	7	2,318	–	–	–
Total Financial Assets		12,446	2,087	–	–
2006 Financial Liabilities					
Overdraft					
Payables	16	–	–	–	–
Customer deposits	15	–	–	–	–
Interest Bearing Liabilities	17	484,259	109,594	513,645	1,977
Energy Trading Swap/Option derivatives	8	–	–	–	–
Energy Trading Futures derivatives	8	–	–	–	–
Interest Rate Swaps	8	–	–	–	–
Call Loans on Interest Rate Futures trading	19	–	–	–	–
Other	19	–	–	–	–
Total Financial Liabilities		484,259	109,594	513,645	1,977

* Financial assets with a floating interest rate are at call or short term, and can be classified as maturing in 1 year or less.

3 to 4 years	4 to 5 years	More than 5 years	Non-interest bearing	Total	Weighted avg. interest rate
2006 \$'000	2006 \$'000	2006 \$'000	2006 \$'000	2006 \$'000	2006 %
-	-	-	-	431	5.19
-	-	-	-	9,697	5.69
-	-	-	50	2,137	4.45
-	-	-	436,018	436,018	-
-	-	-	100,087	100,087	-
-	-	-	359	359	-
-	-	-	2,069	2,069	-
-	-	-	-	2,318	5.75
-	-	-	538,583	553,116	
-	-	-	274,056	274,056	-
-	-	-	13,308	13,308	-
36,977	332,873	501,506	-	1,980,831	6.31
-	-	-	7,210	7,210	-
-	-	-	18	18	-
-	-	-	6,070	6,070	-
-	-	-	5	5	-
-	-	-	1,601	1,601	-
36,977	332,873	501,506	302,268	2,283,099	

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2006

1.2 Liquidity Risk

The Corporation's objective is to maintain a balance between continuity of funding and flexibility through the use of cash and investment holdings, in conjunction with interest bearing liabilities.

The Corporation's policy establishes prudential limits on the amount of debt that can mature in a 12 month period. The policy sets out that not more than 30% of its borrowings should mature in any 12 month period. At 30 June 2006 26.7% of the Corporation's debt will mature in less than one year (29.5% in 2005).

1.3 Credit Risk

Credit risk represents the loss that would be recognised if counterparties failed to meet their financial obligations.

The credit risk of financial assets, excluding investments, which have been recognised on the Balance Sheet is reflected in the carrying amount net of any provision for doubtful debts.

The Corporation minimises concentrations of credit risk by undertaking transactions with a large number of customers and counterparties in Australia. The majority of the Corporation's credit exposure is with government owned entities or other counter parties with an investment credit rating.

Credit risk related to derivative contracts is minimised by ensuring counterparties are approved under the Master's Agreements of the International Swaps and Derivatives Association Inc (ISDA).

Foreign exchange contracts are subject to credit risk in relation to the relevant counterparties, which are principally large banks. The maximum credit risk exposure on foreign exchange contracts is the positive fair value of the contract.

Corporation policy establishes that 100% of contracted exposures to foreign exchange movements with a value of \$0.05M or greater must be hedged. All Foreign Exchange hedges are transacted through NSW TCorp. As at 30 June 2006, there were no foreign Exchange hedges outstanding.

Corporation policy requires credit evaluations be performed on customers requiring credit over certain amounts when specified circumstances exist.

1.4 Price Risk

The Corporation enters into wholesale market contracts to minimise exposure to fluctuations in wholesale market electricity prices. The Corporation's policy is to manage its exposure in line with forecast volumes of committed retail customers.

For its franchise load, the Corporation operates under the Electricity Tariff Equalisation Fund (ETEF), administered by New South Wales Treasury. Under the ETEF, the Corporation pays a set price for its electricity purchases and is not exposed to pool price variation.

For its contestable load, the Corporation's policy is to actively manage the exposure arising from its forecast contestable load. In doing so, the Corporation has entered various derivative contracts (bought and sold swaps, options and futures) with individual market participants. Any unhedged position exposes the Corporation to pool price variation. The Corporation's policy is that the exposure and the consequent contract price risk are managed within Board approved limits.

As these contracts can be settled other than by physical delivery of the underlying commodity, they are classified as financial instruments in accordance with Australian Accounting Standards AASB132 and AASB 139. These contracts are taken for the purposes of managing the risks associated with retail sales. The realised and unrealised gains and losses relating to these contracts are measured and recorded in accordance with the accounting policies accompanying these statements (refer note 1.8.2). On settlement, the contracted price is compared to the spot price on that date and the price differential is applied to the contracted quantity. A net amount is paid or received by the entity.

At balance date, the Corporation's electricity derivative contracts generated a net unrealised gain of \$31.10 million in the hedge revaluation reserve. As these contracts are held for the purpose of hedging contracted mass-market customer sales and contracted commercial and industrial customer load, no ultimate net gain/loss is expected upon realisation. The market value of derivative assets and liabilities are measured in accordance with prices sourced from the Australian Financial Markets Association (AFMA) in the case of swaps, and prices sourced from brokers for option contracts. The AFMA market price estimates are based on prices usually quoted for small volume contracts and are therefore not necessarily representative of independent market price valuations for the larger volume contracts entered into by the Corporation, for which there are no readily available market price valuations.

All contracts are due to be settled within 16 years of the reporting date.

The Corporation also enters into futures contracts to buy or sell electricity at specified rates at a future date. These contracts are settled with cash. They are recorded at fair value which is a market value based on valuations sourced from the Sydney Futures Exchange. These contracts are also recorded in accordance with the policies stated in note 1.8.2.

2.0 Foreign Currency Contracts

The Corporation enters into forward foreign exchange contracts to hedge certain anticipated purchase commitments for goods and services, denominated in foreign currencies.

The Corporation's policy is to enter into forward foreign exchange contracts to hedge 100% of foreign currency risk where the contract value exceeds \$0.05 million. All Foreign Exchange hedges are transacted through NSW TCorp.

	2006 \$'000	2006 "Weighted Exchange Rate"	2005 \$'000	2005 "Weighted Exchange Rate"
Settlement less than 12 months				
Buy NZ dollars	–	–	1,135	1.07

Unrealised gains or losses are brought to account in accordance with AASB 139. The net unrealised gain on hedges for anticipated foreign currency purchases at 30 June 2006 was nil (\$0.021 million gain in 2005).

2.1 Interest Rate Swaps

Interest rate swap transactions entered into by the Corporation exchange variable and fixed interest payment obligations to protect the fair value of long term borrowings from the risk of fluctuating interest rates. Variable and fixed interest rate debt is held, and swap contracts are entered into, to receive interest at both variable and fixed rates.

"The Corporation's policy prescribes the instruments which can be transacted, having regard to legislative requirements and the potential risk faced by both the Corporation and those inherent in the instrument.

Responsibility for management of the debt portfolio and associated derivative instruments has been outsourced to NSW TCorp."

The details of interest rate swap contracts are listed in the following table:

	Notional Principal	Market Value Unrecognised Gains/(Losses)	Effective Avg Interest Rate Payable
	2006 \$'000	2006 \$'000	2006 %
Settlement due in 1 to 2 years	35,000	(466)	5.71%
Settlement due in 2 to 3 years	39,000	(680)	6.56%
Settlement due in 3 to 4 years	30,000	(961)	7.35%
Settlement due in 4 to 5 years	163,000	(2,998)	6.34%
Settlement due after 5 years	65,000	(965)	6.74%
	332,000	(6,070)	

2.2 Interest Rate Futures Contracts

Interest rate risk arises from an exposure to future movements in interest rates and Futures Contracts are undertaken in order to hedge against that risk. Futures contracts seek to position the Corporation's debt portfolio at a point where our debt managers believe interest rates will move.

There were no interest rate futures contracts at balance date.

2.3 Electricity Price Futures Contracts

Electricity price risk arises from an exposure to future movements in electricity prices and Futures Contracts are undertaken in order to hedge against that risk. Futures Contracts agree to buy and sell electricity at agreed prices and this minimises the risk to the Corporation of future price exposure and credit risk to counter parties.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2006

3.0 Fair Values

Set out below is a comparison by category of carrying amounts and fair values of all the Corporation's financial instruments recognised in the financial statements. The fair values disclosed do not differ from the carrying amounts.

	Carrying Amount	Fair Value
	2006 \$'000	2006 \$'000
Financial Assets		
Cash and Deposits	431	431
Investments NSW Tcorp	9,697	9,697
Investments Other	2,137	2,137
Receivables	438,336	438,336
Energy Trading Swap/Option derivatives	100,087	100,087
Energy Trading Futures derivatives	359	359
Available-for-sale-investments	2,069	2,069
	<u>553,116</u>	
Financial Liabilities		
Interest Bearing Liabilities	1,980,831	1,980,831
Payables	274,056	274,056
Customer deposits	13,308	13,308
Energy Trading Swap/Option derivatives	7,210	7,210
Energy Trading Futures derivatives	18	18
Interest Rate Swaps	6,070	6,070
Call Loans on Interest Rate Futures trading	5	5
Other	1,601	1,601
	<u>2,283,099</u>	

30 JUNE 2005 DISCLOSURES

The comparative data appearing within this note is based on the accounting standards applicable to the reporting period ended 30 June 2005. The disclosures do not comply with the current AIFRS accounting standards as stated earlier in this note. Financial instrument comparative data is disclosed in accordance with AAS 33 applicable under the previous AGAAP standards.

Interest Rate Risk (2005)

The Corporation enters into contracts to manage cash flow risks associated with the interest rates on borrowings that are floating, or to alter interest rate exposures arising from mismatches in repricing dates between assets and liabilities.

The Corporation's exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets and financial liabilities for the prior period is set out below:

	Floating interest rate	Fixed interest rate maturing in:			Non-interest bearing	Total	Weighted avg. interest rate
		1 year or less	1 to 5 years	More than 5 years			
	2005 \$'000	2005 \$'000	2005 \$'000	2005 \$'000	2005 \$'000	2005 \$'000	2005 %
2005 Financial Assets							
Cash	–	–	–	–	91	91	–
Investments	1,343	–	–	–	–	1,343	5.59
Receivables	–	105	143	–	422,340	422,588	5.07
Other	–	–	–	–	53,620	53,620	–
Total Financial Assets	1,343	105	143	–	476,051	477,642	
2005 Financial Liabilities							
Overdraft	4,608	–	–	–	–	4,608	8.60
Borrowings	351,787	270,517	577,586	534,419	–	1,734,309	6.31
Payables	–	–	–	–	255,078	255,078	–
Other	1,000	–	–	–	19,826	20,826	–
Total Financial Liabilities	357,395	270,517	577,586	534,419	274,904	2,014,821	

Interest Rate Swaps (2005)

The details of interest rate swap contracts for the prior period are listed in the following table:

	Notional Principal	Market Value Unrecognised Gains/(Losses)	Effective Avg Interest Rate Payable
	2005 \$'000	2005 \$'000	2005 %
Settlement due within 12 Months	45,000	(285)	10.81
Settlement due in 1 to 2 years	–	–	0
Settlement due in 2 to 5 years	104,000	(3,648)	6.41
Settlement due after 5 years	314,000	(14,920)	6.48
	463,000	(18,853)	

Derivative Financial Instruments (2005)

Derivative financial instruments were reported under AASB 1033 in 2005.

The Corporation enters into wholesale market contracts to minimise exposure to fluctuations in wholesale market electricity prices. The Corporation's policy is to manage its exposure in line with the forecast volumes of committed retail customers.

As these contracts can be settled other than by physical delivery of the underlying commodity, they are classified as financial instruments in accordance with AAS33 "Presentation and Disclosure of Financial Instruments". In entering into these contracts for the purposes of managing the risks associated with retail sales, the gains and costs of entering these contracts and any realised or unrealised gains and losses are deferred until the underlying sales occur. On settlement, the contracted price is compared to the spot price on that date and the price differential is applied to the contracted quantity. A net amount is paid or received by the entity.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2006

The following table details the terms and values of the Corporation's outstanding electricity hedging contracts at 30 June 2005.

	Net Fair Value	Face Value
	2005	2005
	\$'000	\$'000
Contracts		
1 year or less	213,673	198,058
1 to 5 years	178,653	159,633
More than 5 years	289	181
	<hr/>	<hr/>
	392,615	357,872

The amounts in the table above represent the value of the Corporation's electricity hedging contracts at 30 June 2005, where the fair value represents the market value of the contracts, and the face value represents the total premium paid in the case of options, or the strike price for swaps. The fair value calculations under AAS 33 above differ to those under AASB 132 and AASB 139, as the fair value of swaps under AASB 132 and AASB 139 represents the mark to market value only.

At 30 June 2005, the Corporation's electricity hedging contracts generated a net unrecognised gain of \$34.74 million. All contracts are due to be settled within 17 years of the reporting date.

Note 24: Commitments

	CONSOLIDATED		CORPORATION	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
a. Capital expenditure commitments				
Estimated capital expenditure contracted for at balance date but not provided for				
– not later than one year	43,964	21,924	43,867	21,924
– later than one year and not later than five years	9,239	11,571	9,239	11,571
– later than five years	–	539	–	539
	53,203	34,034	53,106	34,034
Capital expenditure commitments include input tax credits	4,837	3,094	4,828	3,094
b. Operating expenditure commitments excluding leases				
Estimated operating expenditure contracted for at balance date but not provided for				
– payable not later than one year	14,706	27,118	14,431	26,821
– later than one year and not later than five years	4,675	33,698	3,300	32,279
– later than five years	1,925	9,948	–	7,748
	21,306	70,764	17,731	66,848
Operating expenditure commitments include input tax credits	1,937	6,433	1,612	6,077
c. Operating lease (equipment) expenditure commitments (refer note 1.13.5)				
– not later than one year	360	1,493	360	1,493
– later than one year and not later than five years	560	1,042	560	1,042
	920	2,535	920	2,535
Equipment lease expenditure commitments include input tax credits	84	230	84	230
d. Operating lease (property) expenditure commitments (refer notes 1.13.5)				
– not later than one year	5,490	5,120	5,490	5,120
– later than one year and not later than five years	10,237	13,147	10,237	13,147
– later than five years	149	194	149	194
	15,876	18,461	15,876	18,461
Property Lease expenditure commitments include input tax credits	1,443	1,678	1,443	1,678
e. Operating lease (property) revenue commitments (refer note 1.13.5)				
– not later than one year	1,062	960	1,062	960
– later than one year and not later than five years	1,884	2,304	1,884	2,304
– later than five years	67	32	67	32
	3,013	3,296	3,013	3,296

There are 710 non-cancellable equipment leases referred to in section c above. This includes leases for 709 items of computer equipment.

The majority of the leases have no contingent rentals, renewal options, conditions or restrictions.

Minimum lease payments total \$0.920 million (\$2.535 million in 2005), including input tax credits of \$0.084 million (\$0.230 million in 2005).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2006

There are 144 non-cancellable property leases referred to in d above.

Minimum lease payments total \$5.056 million (\$5.164 million in 2005) including input tax credits of \$0.460 million (\$0.469 million in 2005).

There are no conditions or restrictions.

Additional to the group noted above, there are two leases with five year plus five year renewal options.

Minimum lease payments are \$10.537million (\$13.297 million in 2005), including input tax credits of \$0.958 million (\$1.209 million in 2005).

Minimum lease payments upon renewal, will be based on the market value applying at the time.

The lease may be assigned in part or in whole, and sublet in part or in whole, with the consent of the lessor.

There are 100 property leases referred to in e above.

Note 25: Auditors' Remuneration

	CONSOLIDATED		CORPORATION	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Remuneration received, or due and receivable, by the auditor of the economic entity for:				
– An audit or review of the financial statements	435	415	405	385
Remuneration received, or due and receivable, by auditors, other than of the auditor of the economic entity for:				
– An audit or review of the financial statements	55	34	55	34

Note 26: Key Management Personnel Compensation

	CONSOLIDATED		CORPORATION	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Short-term employee benefits	2,698	2,514	2,698	2,514
Other long-term benefits	98	95	98	95
Termination benefits	877	–	877	–
Total	3,673	2,609	3,673	2,609

Key management personnel comprise members of the Board of Directors and the Corporation's Group General Managers.

Note 27: Related Parties

Directors

The names of persons holding the position of Director of Country Energy during the financial year are:

Barbara Ward (Chairman)

Craig Murray (Managing Director)

The Hon. Michael Lee

Greg McLean

Tim Sullivan OAM

Rowena Sylvester

John Wearne AM (until 28 February 2006)

Some Directors of Country Energy are also Directors of other companies, or have a substantial interest in other companies or entities, that may have had transactions with Country Energy during the year. A Register of Directors' interests is confirmed and noted at each meeting of the Board. During the year no Directors declared material interests in any matters discussed at the meetings.

Wholly-owned Group

The wholly-owned group consists of Country Energy and its wholly-owned controlled entities, EMLINK Pty Limited, NorthPower Energy Services Pty Limited and Country Energy Gas Pty Limited.

Ownership interests, transactions and balances with these entities is set out in note 28.

Other Related Parties

Country Energy has an interest in a wind farm. Details are set out in note 1.13.2.

Note 28: Controlled Entities

The Group includes a consolidation of the following controlled entities, incorporated in Australia.

Name of Entity	Shares Held	Interest
EMLINK Pty Limited	10,000,000 Ordinary shares – \$1 each	100%
NorthPower Energy Services Pty Limited	2 Ordinary shares – \$1 each	100%
Country Energy Gas Pty Limited	26,870,593 Ordinary shares – \$1 each	100%

Transactions and outstanding balances between Country Energy and EMLINK Pty Limited

Transactions between the parent and the subsidiary are recorded in an intercompany account. Material transactions relate to subsidiary sales and income tax.

EMLINK Pty Limited Sales

The subsidiary's sales revenue was collected by the parent and passed to the subsidiary up to March 2005. From that date the subsidiary collected its own revenue. The amount collected during the year and passed through the intercompany account was \$4.175 million.

EMLINK Pty Limited income tax

The subsidiary is a member of a tax consolidated group (refer note 1.21). The subsidiary's tax balances were recorded in the intercompany account. The total of these transactions for the year were \$6.333 million.

Balances outstanding with the parent

The outstanding balance between the parent and subsidiary is \$18.781 million. This is disclosed in note 16 with the subsidiary being a creditor of the parent. The major components of the balance are tax balances \$11.375 million and sales revenue collected by the parent \$7.406 million. The subsidiary's debt is unsecured.

Transactions and outstanding balances between Country Energy and Country Energy Gas Pty Limited

The parent administers the subsidiary's business operations. This includes recording and receiving sales revenue. The parent also operates, maintains and constructs the gas assets, and pays the subsidiary's expenses.

Country Energy Gas Pty Limited Sales

Sales for the year that were passed through the intercompany account were \$11.166 million and \$9.924 million of these were to the parent.

Country Energy Gas Pty Limited administrative, operating and asset maintenance costs

Transactions recorded for administration, operating and maintenance costs were \$7.411 million.

Country Energy Gas Pty Limited asset construction.

Transactions recorded for asset construction were \$3.755 million.

Country Energy Gas Pty Limited income tax

The subsidiary is a member of a tax consolidated group (refer note 1.21). The subsidiary's tax balances were recorded in the intercompany account. For the year these transactions were not material.

Balances outstanding with the parent

The outstanding balance between the parent and subsidiary is \$3.695 million. This is disclosed in note 7 with the subsidiary being a debtor to the parent. The major components of the balance are tax balances \$2.626 million, sales, administration, operating, maintenance and construction costs \$6.321 million. The parent's debt is unsecured.

Transactions and outstanding balances between Country Energy and NorthPower Energy Services Pty Limited

There were no transactions between the parent and the subsidiary during the year. There were no material balances outstanding between the parent and subsidiary.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2006

Note 29: Statement Of Operations By Segment

Segment information is prepared in conformity with the consolidated group's accounting policies as disclosed in note 1.25

	Energy		Other	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
PRIMARY REPORTING – BUSINESS SEGMENTS				
Revenue				
Sales to external customers	1,855,890	1,606,523	17,603	12,918
Inter-segment sales	–	–	4,448	5,073
Total Sales Revenue	1,855,890	1,606,523	22,051	17,991
Other revenue	116,306	78,951	–	–
Total Segment Revenue	1,972,196	1,685,474	22,051	17,991
Reconciliation of Segment Revenue To Entity Revenue from Ordinary Activities				
Total segment revenue				
Add: investment income				
Add: Unallocated revenue				
Revenue from ordinary activities				
Expenses				
Non cash expenses included in segment results	50,308	48,534	–	–
Depreciation and amortisation included in segment results	145,733	147,530	114	109
Segment Result	386,816	235,098	1,921	1,065
Reconciliation of Segment Result to Entity Net Profit after Tax				
Segment Result				
Add: revenues excluded from segment result				
Less: expenses excluded from segment result				
Add: Unallocated revenue and expenses				
Profit from ordinary activities before income tax expense				
Income tax expense				
Profit from ordinary activities after income tax expense				
Assets and Liabilities				
Segment assets	3,384,423	2,892,010	253,949	217,001
Add: Non-operating assets excluded from segment assets				
Add: Taxation assets excluded from segment assets				
Add: Unallocated assets				
Total Entity Assets				
Segment Liabilities	469,397	436,075	54,543	50,671
Add: non-operating liabilities excluded from segment liabilities				
Add: Taxation liabilities excluded from segment liabilities				
Add: Unallocated Liabilities				
Total Entity Liabilities				

SECONDARY REPORTING – GEOGRAPHICAL SEGMENTS

Revenue by location of customer

Carrying amounts of segment assets by location

Acquisition of non-current assets by location

		Eliminations		Consolidated	
	2006	2005	2006	2005	
	\$'000	\$'000	\$'000	\$'000	
	-	-	1,873,493	1,619,441	
	(4,448)	(5,073)	-	-	
	(4,448)	(5,073)	1,873,493	1,619,441	
	-	-	116,306	78,951	
	(4,448)	(5,073)	1,989,799	1,698,392	
			1,989,799	1,698,392	
			5,847	879	
			15,953	-	
			2,011,599	1,699,271	
	(4,448)	(5,073)	45,860	43,461	
	-	-	145,847	147,639	
	-	-	388,737	236,163	
			388,737	236,163	
			5,847	879	
			(128,053)	(110,781)	
			1,227	-	
			267,758	126,261	
			(81,723)	(47,858)	
			186,035	78,403	
	-	-	3,638,372	3,109,011	
			14,334	1,434	
			74,687	68,360	
			-	-	
			3,727,393	3,178,805	
	-	-	523,940	486,746	
			2,057,587	1,757,017	
			354,918	330,513	
			-	-	
			2,936,445	2,574,276	
			1,989,799	1,698,392	
			3,638,372	3,109,011	
			457,917	392,953	

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2006

Note 30: Net Assets Contribution By Owners

On 1 July 2005 the net assets and equity of Australian Inland Energy Water Infrastructure (Australian Inland) were merged with Country Energy (refer note 1.6). These are disclosed in the Balance Sheet appearing below.

The values are the amounts recognised at the date of acquisition. These are the same as the carrying values immediately prior to acquisition. The net assets were contributed by the owners and no purchase price was paid by Country Energy.

The operations of Australian Inland are of a similar nature to the operations of Country Energy. The operations of both businesses have been integrated.

		ACQUISITION DATE
	Note	1 July 2005 \$'000
Current Assets		
Cash and Cash Equivalents		3,502
Trade and Other Receivables		8,343
Estimated Revenue from Unread Meters		2,713
Inventories		2,195
Total Current Assets		16,753
Non-Current Assets		
Receivables		1,509
Investments		10,000
Property, Plant and Equipment	13	46,711
Intangible Assets	14	957
Deferred Tax Assets		9,279
Other Financial Assets		86
Total Non-Current Assets		68,542
TOTAL ASSETS		85,295
Current Liabilities		
Trade and Other Payables		5,458
Deposits		223
Current Tax Liabilities		248
Provisions	18	4,694
Total Current Liabilities		10,623
Non-Current Liabilities		
Interest Bearing Liabilities		
Deferred Tax Liabilities		5,410
Provisions		6,280
Other Financial Liabilities		354
Total Non-Current Liabilities		12,044
TOTAL LIABILITIES		22,667
NET ASSETS		62,628
Equity		
Contributed Equity		34,922
Retained Profits		27,706
Total Parent Entity Interest		62,628
TOTAL EQUITY		62,628

The intangible assets relate to identifiable computer software (refer note 1.15.4).

Note 31: Superannuation Plans

The Corporation contributes to one defined contribution and several defined benefit employee superannuation plans. The defined benefit plans include Energy Industries Superannuation Scheme Pool B (EISS), State Superannuation Scheme (SSS), State Authorities Superannuation Scheme (SASS), State Authorities Non-Contributory Superannuation Scheme (SANCS), and Electricity Supply Industry Superannuation Fund (Qld) (ESISF).

In the case of the defined benefit employee superannuation plans, employer contributions are based on the advice of the plans' actuaries. Employee contributions are based on various percentages of employee gross salaries. After serving a qualifying period all employees are entitled to benefits on retirement, disability or death.

The plans provide defined benefits where a component of the final benefit is based on years of service and final average salary.

An assessment of the defined benefit plans as at 30 June 2006 was carried out by FuturePlus Financial Services for NSW employees. The actuaries used by the trustees were William M Mercer Pty Limited (NSW). The authorities concluded that the assets of the plans were sufficient to meet all benefits payable in the event of the plans' termination or the voluntary or compulsory termination of all contributors of the Corporation.

The most recent assessment of the defined benefit plans for QLD employees was performed in July 2005 by Electricity Supply Industry Superannuation (Qld) Ltd. At that time, the actuaries used by the trustees were Sunsuper Financial Services Pty Limited (QLD), who concluded that the assets of the plan were sufficient to meet all benefits payable in the event of the plan's termination or the voluntary or compulsory termination of all contributors of the Corporation.

Accordingly, the amounts included in this disclosure for the Electricity Supply Industry Superannuation Fund (Qld) are the most recent information available, being measured as at 1 July 2005.

Only four Country Energy employees belong in the Electricity Supply Industry Superannuation Fund (Qld), and as such, the amounts disclosed are not material.

The accrued benefits and plan assets at net market value are set out below. Accrued benefits are benefits which the plans are presently obliged to pay at some future date as a result of membership of the plans.

The directors, based on the advice of the trustees of the plans, are not aware of any changes in circumstances since the date of the most recent financial statements of the plans which would have a material impact on the overall financial position of the plans.

The 2006 estimates are based on the table of assumptions below. The actuary has made these estimates based upon a number of assumptions in relation to member "exits" from the schemes.

ACTUARIAL ASSUMPTIONS	2006 %	2005 %
Energy Industries Superannuation Scheme		
Rate of Investment return	7.6	7.3
Rate of salary escalation	4.0	4.0
Rate of CPI increase	2.5	2.5
Discount Rate	5.4	4.7
State Superannuation Scheme & State Authorities Non-Contributory Superannuation Scheme		
Rate of Investment return	7.6	7.3
Rate of salary escalation	4.0	4.0
Rate of CPI increase	2.5	2.5
Discount Rate	5.9	5.2
Actuarial assumptions are not available for the Electricity Supply Industry Superannuation Fund (Qld)		
	2006 \$'000	2005 \$'000
Employer contributions paid in relation to the defined contribution plan	193	21

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2006

Note 31: Superannuation Plans (continued)

DEFINED BENEFIT PLANS – REVENUE/(EXPENSE) RECOGNISED IN INCOME STATEMENT

	CURRENT SERVICE COST		INTEREST ON OBLIGATION	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Energy Industries Superannuation Scheme (EISS)	8,812	11,775	19,091	17,540
State Superannuation Scheme (SSS)	22	17	52	37
State Authorities Non-Contributory Superannuation Scheme (SANCS)	40	3	34	3
State Authorities Superannuation Scheme (SASS)	190	–	412	–
Electricity Supply Industry Superannuation Fund (Qld) (ESISF)	–	–	–	–
	9,064	11,795	19,589	17,580

The revenue/(expense) has been recognised in the line item Employer Superannuation Contributions in the Income Statement. Actuarial gains and losses are recognised immediately as revenue or expense in the Income Statement.

The following table shows the actual return on plan assets

	2006 \$'000	2005 \$'000
EISS	57,009	36,503
SSS	129	77
SANCS	101	5
SASS	1,413	17
ESISF	–	–
	58,652	36,602

DEFINED BENEFIT PLANS – MOVEMENT IN (ASSET)/LIABILITY DURING THE YEAR	NET (ASSET)/LIABILITY AT START OF YEAR		NET (ASSET)/LIABILITY BROUGHT IN ON AUSTRALIAN INLAND RESTRUCTURE	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
EISS	10,122	6,686	97	–
SSS	93	–	21	–
SANCS	13	11	13	–
SASS	(149)	(131)	(1,544)	–
ESISF	(24)	(24)	–	–
	10,055	6,542	(1,413)	–

EXPECTED RETURN ON PLAN ASSETS		NET ACTUARIAL LOSSES/ (GAINS) RECOGNISED IN THE YEAR		CHANGE IN SURPLUS IN EXCESS OF RECOVERY AVAILABLE FROM SCHEME		NET BENEFIT EXPENSE	
2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
(24,666)	(20,541)	(19,162)	4,335	–	–	(15,925)	13,109
(62)	(43)	(471)	89	227	–	(232)	100
(50)	(3)	(135)	1	66	–	(45)	4
(695)	(10)	(731)	(9)	1,385	–	561	(19)
–	–	(100)	–	–	–	(100)	–
(25,473)	(20,597)	(20,599)	4,416	1,678	–	(15,741)	13,194

NET EXPENSE RECOGNISED IN THE INCOME STATEMENT		CONTRIBUTIONS		NET (ASSET)/LIABILITY AT END OF YEAR	
2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
(15,925)	13,109	(10,659)	(9,673)	(16,365)	10,122
(232)	100	(8)	(7)	(126)	93
(45)	4	(17)	(2)	(36)	13
561	(18)	(6)	–	(1,138)	(149)
(100)	–	–	–	(124)	(24)
(15,741)	13,195	(10,690)	(9,682)	(17,789)	10,055

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2006

Note 31: Superannuation Plans (continued)

DEFINED BENEFIT PLANS – SUPERANNUATION (SURPLUS)/DEFICIT	PRESENT VALUE OF DEFINED BENEFIT OBLIGATIONS AT YEAR END		NET FAIR VALUE OF PLAN ASSETS	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
EISS	362,373	326,275	(378,738)	(316,153)
SSS	505	760	(858)	(667)
SANCS	604	55	(706)	(42)
SASS	6,655	–	(9,847)	(149)
ESISF	1,265	898	(1,389)	(922)
	371,402	327,988	(391,538)	(317,933)

The total amount of excess between the market values and accrued benefits of the plans, has been recognised as a receivable in the Balance Sheet (refer note 7). Where the plans accrued benefits exceed the market values, a liability has been recognised in the Balance Sheet (refer note 19).

The table below is a summary of the 2006 and 2005 financial position of the Fund calculated in accordance with AAS 25 – Financial Reporting by Superannuation Plans.

DEFINED BENEFIT PLANS – FUNDING ARRANGEMENTS FOR EMPLOYER CONTRIBUTIONS	ACCRUED BENEFITS		NET MARKET VALUE OF FUND ASSETS	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
EISS	327,063	278,132	(378,738)	(316,153)
SSS	414	482	(858)	(667)
SANCS	573	44	(706)	(42)
SASS	6,264	–	(9,847)	(149)
ESISF	1,265	898	(1,389)	(922)
	335,579	279,556	(391,538)	(317,933)

Recommended contribution rates for the Defined Benefit Schemes are:

Fund	EISS Division B	EISS Division C	EISS Division D	SASS	SANCS	SSS	ESISF (Qld)
Contribution Recommendations	Multiple of member contributions	% Member Salary	Multiple of member contributions	Multiple of member contributions	% Member Salary	Multiple of member contributions	% Member Salary
Rate	1.9	2.50%	1.64	0	0.00%	0	0

In relation to the contribution recommendations for EISS, SASS, SANCS, and SSS, 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 costs 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.

SURPLUS IN EXCESS OF RECOVERY AVAILABLE FROM SCHEMES		NET (ASSET)/LIABILITY RECOGNISED IN BALANCE SHEET AT END OF YEAR	
--	--	--	--

2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
–	–	(16,365)	10,122
227	–	(126)	93
66	–	(36)	13
2,054	–	(1,138)	(149)
–	–	(124)	(24)
2,347	–	(17,789)	10,055

NET (SURPLUS)/DEFICIT

2006 \$'000	2005 \$'000
(51,675)	(38,021)
(444)	(185)
(133)	2
(3,583)	(149)
(124)	(24)
(55,959)	(38,377)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2006

The economic assumptions adopted to make funding recommendations are:

Weighted – Average Assumptions – EISS	2006	2005
Expected rate of return on Fund Assets	7.50%	7.50%
Expected salary increase rate	4.00%	4.00%
Expected rate of CPI increase	2.50%	2.50%

Weighted – Average Assumptions – SASS, SANCS, & SSS

Expected rate of return on Fund Assets	7.30%	7.00%
Expected salary increase rate	4.00%	4.00%
Expected rate of CPI increase	2.50%	2.50%

In relation to the nature of the asset/liability generated from EISS, SASS, SANCS, and SSS, 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.

The components of the amounts disclosed in the Income Statement are as follows:

	2006	2005
	\$'000	\$'000
Contribution valuation adjustment	(26,430)	2,990
Superannuation cost	24,953	18,958
	(1,477)	21,948

Note 32: Contingent Liabilities

There are no known contingent liabilities that would impact on the state of affairs of the economic entity or have a material effect on these financial statements.

Note 33: Events Subsequent To Balance Date

The financial report of Country Energy for the year ended 30 June 2006 was authorised for issue in accordance with a resolution of the Directors on 5 October 2006.

There are no known events that would impact on the state of affairs of the economic entity or have a material impact on these statements.

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CONTACT DETAILS AND PUBLICATIONS AVAILABLE TO THE PUBLIC

Publications available for public review

Country Energy has a wide range of policy, administrative and information documents that are available to members of the public. Those produced during the year include:

Miscellaneous

- Country Energy Annual Report 2004–2005
- Australian Inland Annual Report 2004–2005
- Statement of Affairs period ending June 2005
- Summary of Affairs period ending December 2005

Safety

- Public Electrical Safety Awareness Plan
- Network Management Plan
- Natural Gas Safety and You
- What All Residents Should Know About Living with Electricity Easements
- Structures near Powerlines

Network improvement

- Reliability, Sustainability, Innovation
- Transmission Network Limitation in the Cowra/Forbes/Parkes Area
- Transmission Network Limitation on the Mid North Coast

Electricity network pricing and information

- Annual Prices Report 1 July 2006 to 30 June 2007
- Network Strategy Statement
- Network Price List 2006
- Street Lighting Management Plan
- Electricity Network Performance Report 2004–2005
- Public Lighting Use of System Charges 1 February 2006
- Public Lighting Use of System Charges – Annual Tariff Schedule

Gas network pricing and information

- Gas Fitting Rules
- Wagga Wagga Gas Transportation Charges
- Adelong, Gundagai and Tumut Gas Transportation Charges
- SW Slopes Gas Transportation Charges
- Cooma Gas Transportation Charges
- Wagga Wagga Access Arrangement Information
- Wagga Wagga Access Arrangement
- Reference Service Agreement Wagga Wagga Natural Gas Distribution Network

Retail electricity pricing

- Retail Price List
- Urban Domestic Electricity Tariffs
- Urban Business Electricity Tariffs
- Domestic Electricity Tariffs (Far West region only)
- Business Electricity Tariffs (Far West region only)

Retail natural gas pricing

- Regulated Retail Gas Charges
- Wagga Wagga and Uranquinty Gas Tariffs
- Tumut and Gundagai Gas Tariffs
- Henty, Culcairn, Holbrook and Walla Walla Gas Tariffs
- Temora Gas Tariffs
- Cooma and Bombala Gas Tariffs

Contestable works

- CEK8058-P1 Single Phase Electronic Meter Installation and Use
- CEK8059-Q4A Polyphase Electronic Meter Installation and Use
- CEK8073-CM170 Single Phase Induction Disc Meter Installation and Use

Water

- Schedule of Water and Sewerage Charges – Effective 1 July 2006
- Drinking Water Policy
- Drinking Water Quality Report July 2005–June 2006
- Water Counts – Garden
- Water Counts – Home
- Water Flushing
- Desalination
- Lead Safe and Water Wise

These and other documents are free of charge, unless stated otherwise, and are available from Country Energy's website www.countryenergy.com.au, customer service centres or by calling 13 23 56.

Company contact details

Telephone contacts

General enquiries	13 23 56
Interpreter services	13 14 50
Supply interruptions	13 20 80
Water and sewerage leaks and blockages	13 20 80

Hours of operation 24 hours a day, seven days a week.

Website

www.countryenergy.com.au

www.countrywater.com.au

Email info@countryenergy.com.au

Mail Country Energy
PO Box 718
Queanbeyan NSW 2620

Facsimile +61 2 6589 8695

Freedom of information (FOI)

Officer 13 23 56

CONTACT DETAILS AND PUBLICATIONS AVAILABLE TO THE PUBLIC

Customer Service Centres

Hours of operation Monday–Friday
8.30am to 5.00pm

Albury

621 Dean Street

Armidale

Galloway Street

Batemans Bay

Shop 7, Bay Centre Plaza,
Orient Street

Bathurst

151–153 George Street

Bega

219–221 Carp Street

Broken Hill

13 Chloride Street

Coffs Harbour

102 Thompsons Road

Cooma

138 Sharp Street

Cowra

Shop 12, Calare Building,
Kendal Street

Deniliquin

26 Napier Street

Dubbo

168 Macquarie Street

Dunedoo

Talbragar Street

Forster

Breese Parade

Forbes

91 Lachlan Street

Goulburn

148 Auburn Street

Grafton

17 Prince Street

Griffith

Banna Avenue

Gulgong

102 Herbert Street

Hay

81 Lachlan Street

Hillston

151 High Street

Inverell

Burtenshaws Road

Leeton

19 Pine Avenue

Lismore

81–83 Molesworth Street

Moree

223 Ballo Street

Mudgee

Burrundulla Road

Narooma

Unit M2, Narooma Plaza,
Princes Highway

Narrabri

1 Logan Street

Narrandera

113 East Street

Oberon

157 Oberon Street

Orange

187 Summer Street

Parkes

Cnr Church and Clarinda Streets

Port Macquarie

8 Buller Street

Queanbeyan

Ground Floor City Link Plaza,
30 Morisset Street

Tamworth

Electra Street

Taree

Whitbread Street

Trundle

Forbes Street

Tweed Heads

39 Sunshine Avenue

Wagga Wagga

2/209 Baylis Street

Wentworth

24–26 Darling Street

Young

53 Boorowa Street

Annual Report 2005–2006

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For copies contact:

Country Energy
Corporate Affairs
PO Box 718
Queanbeyan NSW 2620

or visit www.countryenergy.com.au
or call 13 23 56