



Eraring energy

Eraring Energy LETTER TO THE VOTING SHAREHOLDERS

October 2005

The Hon. Michael Costa MLC

Minister for Finance,
Minister for Infrastructure
Minister for the Hunter

The Hon. John Della Bosca MLC

Special Minister of State,
Assistant Treasurer

Level 33
1 Farrer Place
Governor Macquarie Tower
Sydney NSW 2000

Dear Shareholders

On behalf of the Board, we have pleasure in submitting the Eraring Energy Annual Report and Financial Statements for the year ended 30th June 2005.

This Report has been prepared in accordance with the requirements of Section 24A of the State Owned Corporations Act 1989, and the Annual Reports (Statutory Bodies) Act 1984. It is submitted for presentation to both houses of Parliament.


R M Bunyan
Chairman


G F Grove-White
Managing Director

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Our aim is to achieve the maximum utilisation of our existing assets and to be commercially successful in the national electricity market.

Eraring Energy is a state-owned corporation (SOC) established on 2nd August 2000 under the State Owned Corporations Act 1989, the Energy Services Corporation Act 1995 and Energy Services Corporation (Eraring Energy) Regulation 2000. This was as a result of the NSW Government's introduction of the electricity industry competition reform.

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

Eraring Energy manages a diverse portfolio of coal fired, wind, hydro and pumped storage electricity generating assets located throughout New South Wales. With capacity of over 3,000 megawatts (MW) we supply approximately 8% of the energy requirement of the National Electricity Market.

While our generation portfolio consists of 10 power stations, 86% of our capacity is located at the coal fired Eraring Power Station, with the remainder consisting of smaller hydro and wind generation plants spread across the State of New South Wales.

OBJECTIVES

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

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

Each of the principal objectives is of equal importance.

VISION

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

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

■ People Development and Growth

Eraring Energy's key pillars, of shaping our culture; developing our people; and rewarding and recognising our people, focus on our people being the best in the industry, with the major aim being to maximise internal capacities to capitalise on electricity market opportunities.

■ Health and Safety

Staff, Contractor and Visitor safety has been, and will continue to be, a major focus of the organisation.

■ Innovation and Leading**Industry Development**

We will take a position of innovation leadership in all areas of our business. This includes being recognised as key influencers in the development of the regulatory environment; developing an innovative portfolio of trading products that maximises commercial return; and focus on risk balanced, operational cost management.

■ Greenhouse Response

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

■ Community and the Environment

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

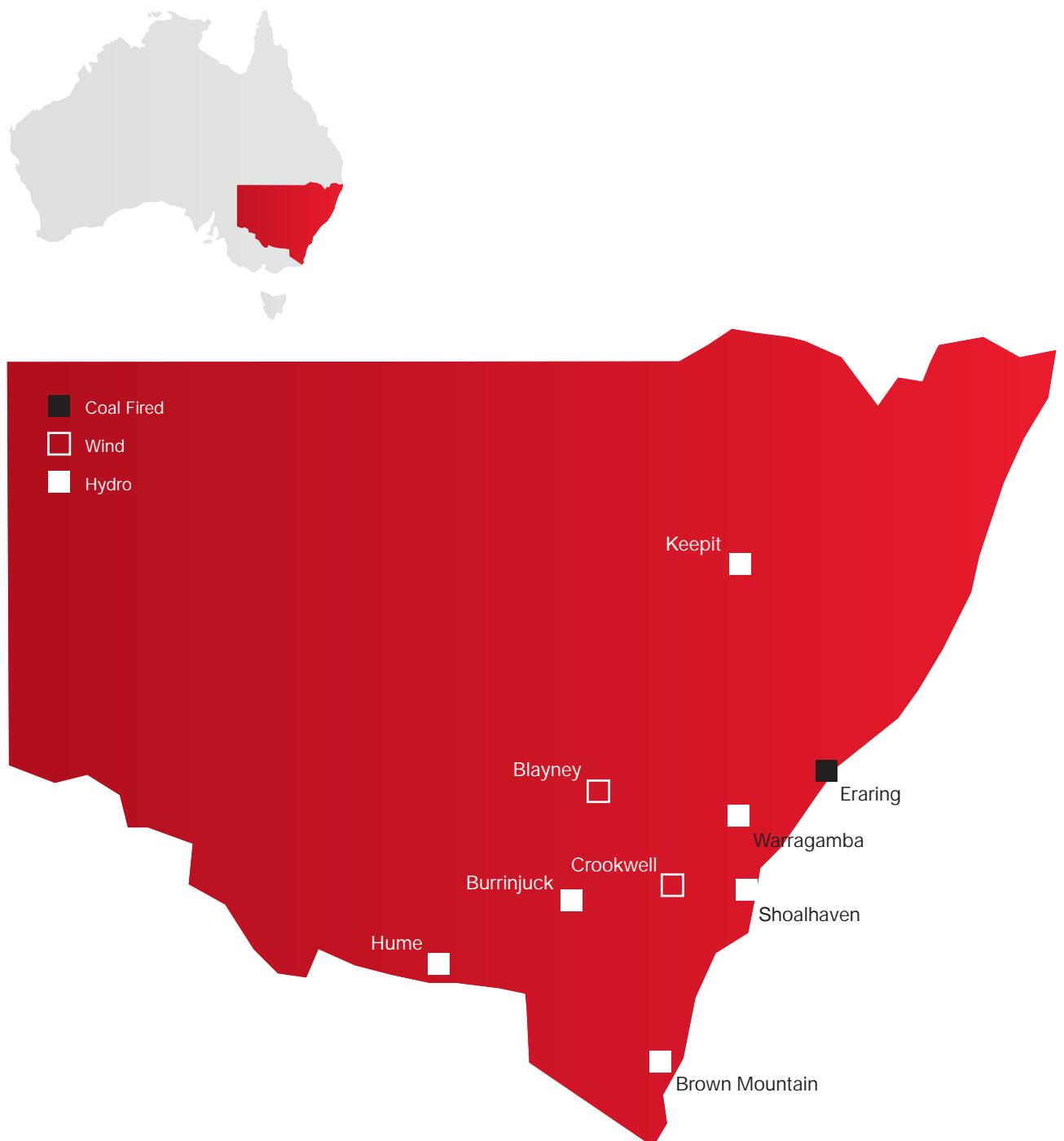
Guarantee of Service

Eraring Energy's customers in the wholesale electricity and ancillary service markets are NEMMCO, electricity retailers and contract counterparties. Eraring Energy also has customers in the recyclable fly ash market, and is committed to providing personalised and dedicated customer service through a team of highly qualified officers.

Eraring Energy ensures it meets set corporate objectives which encompass efficiency of business operations and social and environmental obligations, whilst providing a high level of service to its customers.

Eraring Energy Generation Portfolio

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



NON-EXECUTIVE DIRECTORS

Ross Bunyon
Chairman and Director
BComm (UNSW), CIE Aust,
Director/Consultant
Appointed 21st July 2000 continuing
with reappointment to 30th June 2006

Beverley Hoskinson-Green
Director
LLB (UNSW), LLM (Harvard)
Solicitor/Director, Suzie Broome &
Company Pty Limited, Strata Lawyers
Appointed 21st July 2000 continuing
with reappointment to 30th June 2005
Reappointed to 30th June 2008

John Maitland
Director
National Secretary, Construction,
Forestry, Mining and Energy Union
Appointed 21st July 2000 continuing
with reappointment to 22nd March 2006

Michael Nugent
Director
FCPA
Director
Appointed 1st July 2001 to
30th June 2007

EXECUTIVE DIRECTOR

Gerry Grove-White
Managing Director
BSc (MechEngr) Hons,
Chartered Engineer MI MechE,
Cert Diploma in Accountancy
and Finance
Appointed Executive Director
2nd January 2001

Rochelle Reynolds
Secretary
LLB, BCom, Grad Dip CSP
Appointed Secretary
1st October 2004

I am pleased to report Eraring Energy has posted yet another record financial result.

Eraring Energy now has a trading record of five years. The cumulative commitment of our relatively small and stable workforce has allowed the organisation to achieve the extreme upper end of the scale in terms of the goals we and our shareholders set in the initial weeks and months of our existence back in 2000.

This year's profit of \$116 million is significantly above both budget and the previous year's record result. We have thus maintained an unbroken record of posting profit increases every year over the last five years, which in a highly competitive national market is cause for satisfaction, but not complacency.

These results are even more notable when account is taken of the age and technology of our prime asset, Eraring Power Station, and the high coal costs and demanding trading book we inherited upon our establishment. We have not allowed any of these issues to hold us back and we have strived to achieve improvement in all areas of Eraring Energy's operation.

The board would like to formally acknowledge and thank all staff and management for this outstanding achievement over a sustained period.

In the past twelve months a number of significant events have served to highlight our commitment to continuous improvement. Among the most significant were the ongoing roll-out of new screen-based control systems at Eraring Power Station and the successful consolidation of the control room functions into one new central facility.

Major asset maintenance is a constant organisational focus and a number of planned outages were completed during the year with minimum disruption to the station's performance.

The board have never wavered from the initial positioning of Eraring Energy as *an energy trader backed by physical production assets* and I am pleased to acknowledge yet another excellent performance by our trading team, which continues to be rated highly by its peers and third parties alike.

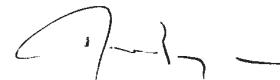
The past year has seen the completion of our association with Western Power Corporation, with the end of the Operations and Maintenance contract for Collie Power Station that Eraring Energy inherited upon formation in 2000. Our staff in the west performed admirably. We congratulate them and the contribution they made to power supply in Western Australia.

In relation to events external to the organisation, Eraring Energy has been supportive of the new regulatory regime which has recently been established.

We applaud the combined efforts of the many industry parties in working towards a common goal of clarity and transparency in the operation and regulation of the National Electricity Market (NEM).

In terms of our shareholder's plans for the future of the energy sector in NSW, we have been an active participant in the NSW Government's Industry Green Paper and White Paper process.

Eraring Energy's success is founded on our ability to adapt to, and take advantage of, changing market conditions. It is this agility, combined with our lean structure and talented people, that gives me every confidence this organisation will continue to prosper in whatever new environment may evolve as a result of these deliberations.



Ross Bunyon

Chairman

The past year has been an outstanding period for the organisation with achievements across the board, including another record financial performance.

Our consolidated profit for the period is \$116 million, an 18% increase on the previous year's result which was a record, and more than \$60 million above budget.

This result is particularly pleasing given that it was achieved during a period that included two major planned outages. Units 2 and 4 at Eraring Power Station were both out of service, at different times, for three months respectively to allow major planned maintenance work on boilers and turbines. These works were successfully completed on schedule and, as attested to by our results, without impact on financial performance.

The key to our profit result was having maximum generating capacity available during the most lucrative periods in the demand cycle and demand calendar. The last quarter of 2004 was a particularly strong earnings period for the organisation. I congratulate everyone involved in the planning and execution of these significant and essential maintenance and upgrade works.

During the Eraring Power Station outages new state-of-the-art Integrated Controls and Monitoring Systems were installed for both units. In addition, a number of planned technical enhancements boosted generating overload capacity of each unit from 680MW to 700MW.

Within the next 12 months Units 1 and 3 will undergo a similar maintenance and enhancement program, lifting Eraring Power Station's total capacity to 2,800MW on an overload capacity basis. A 12-month feasibility study is also being undertaken to examine technical and financial issues relating to a further possible augmentation of generating capacity.

Safety will always have precedence over all other issues at Eraring Energy and I am pleased to report the achievement of several important milestones during the year.

The Wind and Hydro business units achieved environmental ISO14001 accreditation, matching the status achieved by Eraring Power Station several years ago. The Eraring Power Station Safety Management System was recommended for AS4801 accreditation.

During the year 23 staff members participated in a major off-site program based on benchmarking world's best practice in plant isolation. They are now developing an action plan that reflects these learnings, which will be implemented over the next 12 months.

Another highlight of the period involved fuel prices. Historically, Eraring Power Station has been burdened by relatively high coal prices due to our reliance on underground coal rather than the open cut material available to many of our competitors. During coal contract negotiations we were able to achieve significantly reduced coal prices against a backdrop of record export price increases for this resource. These benefits will flow through to Eraring's bottom line for a number of years to come.

The underlying reason for our ongoing success is the quality of our people combined with a commitment to continuous improvement. Eraring Energy has a clear policy of encouraging employment from within and devotes substantial resources to organisational culture and personal development issues. More than 50 people participated in our custom designed "Leaders" Program during the year and we conducted our third culture survey with positive results. A refined training and development strategy was also developed during the year that will further enhance the capacity of our people to grow and excel.

The contract to provide operation and maintenance services at the Collie Power Station in Western Australia ended during the period and was not renewed. It is appropriate here to acknowledge the achievement and performance of our people in this endeavour over a number of years.

Output from Eraring Energy's hydro assets were well below normal levels as a result of the continuing drought being experienced in New South Wales whilst our wind generation assets performed in line with budget.

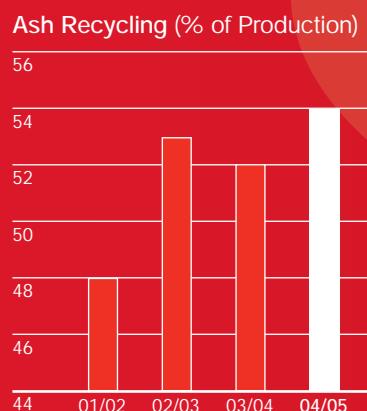
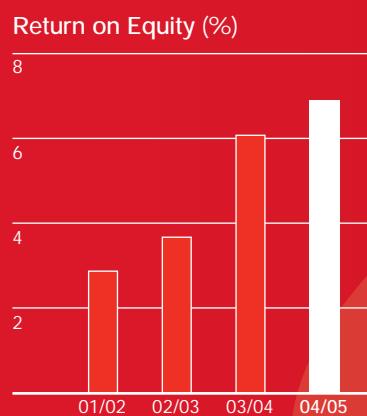
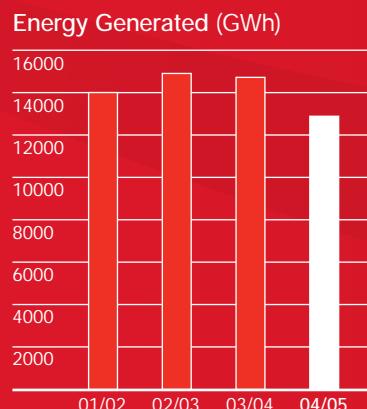
Our lost time injury frequency rate was down again this year which, on one hand, is to be welcomed. Our not negotiable target, however, is zero and everyone in the organisation is committed to the early achievement of this goal.

In summary, 2004/05 was a remarkable year of achievement for this organisation and I express my appreciation and thanks to every member of staff for their contribution.



Gerry Grove-White
Managing Director

- > Achieved a record consolidated profit of \$116 million – up 18% from previous year and the fourth consecutive year of profit growth
- > Record Energy Trading performance – revenue up 5%
- > Return on equity was approximately 7% – a record performance
- > Successfully completed Stage 2 of a major program to upgrade the unit control systems at Eraring Power Station
- > Overload capacity of Units 2 and 4 at Eraring Power Station were upgraded from 680MW to 700MW
- > Successfully implemented processes and systems to account for the transition to International Financial Reporting Standards
- > Eraring Power Station Safety Management System recommended for AS4801 accreditation
- > Coal contracts for Eraring Power Station were renegotiated to achieve a substantial reduction in coal costs
- > Industry leader in ash reuse, utilising 54% of the ash generated in 2004/05





Strong financial returns

Successful trading performance

Reliable and cost effective production

FINANCIAL OVERVIEW

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

Continued improvement in financial performance stands out from an impressive list of highlights for the year. Eraring Energy delivered an increasing Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) of \$181.4 million, with an excellent return of \$121.3 million to our shareholders. Successful financial performance is essential to a sustainable future for Eraring Energy, and contributes to the State Government's capacity to provide public services and social programs to the people of New South Wales.

Capital Expenditure

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

Major projects include:

- Integrated Controls and Monitoring System (ICMS) – over two calendar years. Eraring Energy has been replacing the ICMS on all four of its Eraring Power Station Units, with two system replacements occurring in 2004/05 financial year, comprising three month outages on each unit.
- Installation of an additional 4MW micro-hydro unit at Brown Mountain coinciding with the retirement of some smaller units.

Group Financial Performance Indicators

		01/02	02/03	03/04	04/05
Revenues	\$m	535.7	553.7	571.5	602.0
EBITDA	\$m	97.9	110.1	157.2	181.4
Net Profit Before Tax	\$m	48.6	58.2	98.1	115.7
Capital Expenditure	\$m	21.7	21.5	33.0	44.5
Financial Distributions*	\$m	50.1	56.4	94.0	121.3
Return on Equity	%	2.9	3.7	6.1	6.9
Return on Assets	%	4.2	4.7	7.3	8.0

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

Revenue

Group revenue from ordinary activities of \$602 million was 5.3% higher than in the previous year, being predominantly driven by spot sales revenue on a small number of peak trading days and supported by an improving contract portfolio.

Revenue from the Pacific Western subsidiary was \$13.4 million representing a final contribution, as its "Operate and Maintain" contract was finalised with Western Power during the year.

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

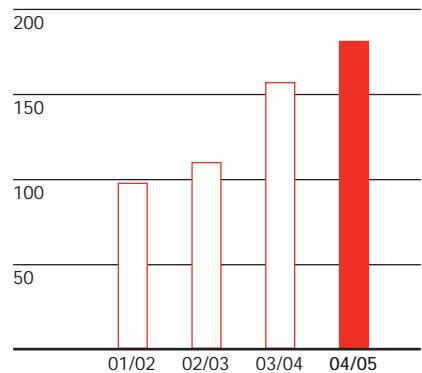
Eraring Energy achieved an EBITDA of \$181.4 million, representing an increase of \$24.2 million on the previous years' result.

The increase largely represents higher gross margin from increased spot sales.

Depreciation

Depreciation increase of \$7.8 million or 16.6% was driven by an increased capital program in recent years, a reassessment of asset lives and revaluations of non-current assets.

EBITDA (\$ Million)



Debt Management

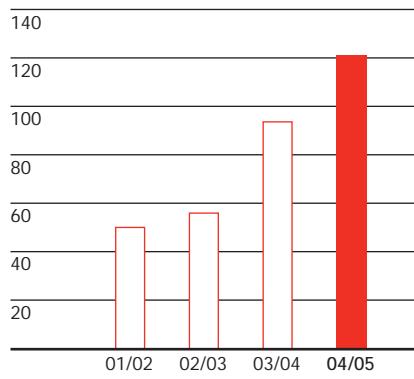
In 2004/05 financial liabilities were managed to minimise risk against volatility in financial markets, protect the value of Eraring Energy's equity and minimise the cost of these liabilities. As at 30 June 2005, Eraring Energy had total debt of \$165 million (market value).

Shareholder Return

Eraring Energy is committed to delivering sustainable and reliable returns to its shareholder, the NSW Government.

Strong performance this year, enabled the Board of Directors to declare a provision for dividend of \$82.3 million, an increase of \$22.3 million on last year.

Total financial distributions to Shareholders includes dividend, tax equivalent and loan guarantee payments.

Financial Distribution (\$Million)**Controlled Entities**

Pacific Western Pty Limited is a wholly owned subsidiary of Eraring Energy. The specific activity of the company was the operation and maintenance of Collie Power Station in Western Australia, under contract to Western Power Corporation. The contract for the operation and maintenance of Collie Power Station was terminated on 24 March 2005. (Operations of the Company have been included in the Financial Statements forming part of the Annual Report.)

Departures from Financial**SCI Targets**

Eraring Energy exceeded all financial targets agreed with Government in the 2004/05 Statement of Corporate Intent (SCI). The major explanations for the out-performance relate to:

- Higher average realised sales prices driven by price spikes in the October to December 2004 period;
- Lower production resulting in lower coal consumption costs;
- Lower financing costs due to lower debt levels which resulted from above forecast sales and reduced Government guarantee fee structure; and
- Positive actuarial adjustments for defined benefit superannuation schemes.

ENERGY TRADING

Strong Trading Performance

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

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

Energy Trading had a very successful trading performance, especially when considering the constraints imposed by having two major unit outages. The Energy Trading performance was assisted by the high spot price with the pool bidding strategy capitalising on the high prices.

Electricity Derivatives and Counterparty Relationships

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

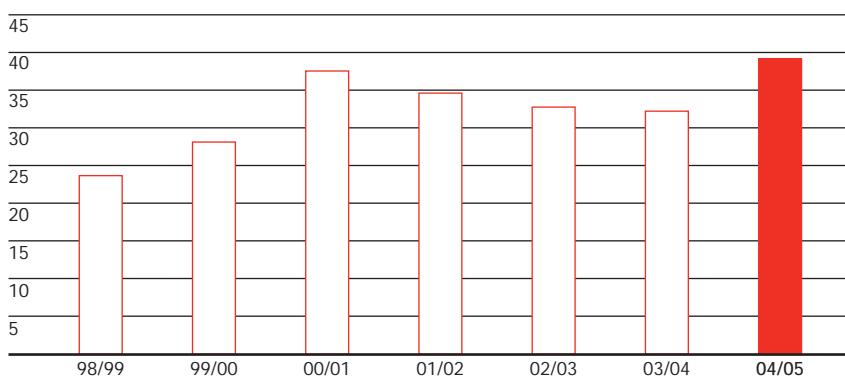
In order to minimise risks from derivative transactions, regulatory risks and risks from supply failures were two important issues promulgated with trading counterparties. The Eraring Energy view is to incorporate premiums for carrying such risks or pass through such risks to counterparties.

Spot Trading Strategies

The average spot price in the NEM showed a marked turn-around this year after falling three years in a row.

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

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



Fuel Cost Containment

Fuel delivery and stockpile management is an important aspect that is continually monitored and managed to maintain fuel stocks within reasonable limits. This is a challenging task, influenced by external events such as production issues at the mines and generation levels subject to the uncertainty of the spot market. The positive impact of recent coal contract negotiations is beginning to manifest in the management of coal costs.

Risk Management Framework

With the risks inherent in any derivative trading activity, risk management principles govern the Energy Trading activities at Eraring Energy. There continues to be a rigorous energy trading risk management framework in place, entrusting the Energy Trading Risk Management Committee with the oversight of all key Energy Trading risk issues.

The Energy Trading Risk Management Policy was reviewed during the year and approved by the Board. External audit reviews of various elements of risk management continue to give a very high rating in this area.

Regulatory Compliance

Eraring Energy has a culture of regulatory compliance. To support this, throughout the year staff undertook refresher training on Commonwealth Trade Practices and Corporations laws and legal reviews of certain work practices. In addition, all regulatory reporting requirements were met in a timely manner.

The Australian Security and Investments Commission approved Eraring Energy's application for an Australian Financial Services Licence (AFSL) in June 2005. The AFSL came into effect on 1 July 2005 and licenses Eraring Energy to advise and deal with wholesale clients.

A Dynamic Market Structure and Developments

A number of developments and market reforms that were announced last year were implemented during the course of the year.

Significant developments included:

- The establishment of the Australian Energy Market Commission (AEMC) as the body responsible for rule-making and developing the Australian energy market.
- The establishment of the Australian Energy Regulator (AER) as the body responsible for the regulation and enforcement of the National Electricity Law and Code. The AER replaces the National Electricity Code Administrator. The Australian Competition and Consumer Commission (ACCC) retains responsibility for competition regulation under the Trade Practices Act.

PRODUCTION

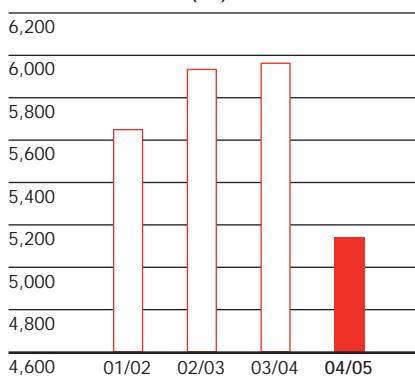
Eraring Energy manages a diverse set of generating assets located throughout NSW. The capacity of these facilities ranges from the 2,640MW coal fired Eraring Power Station on Lake Macquarie, down to the 4MW Brown Mountain Hydro Power Station near Bega. Their combined generating capacity is 3,042MW.

These power stations produce electricity from energy supplied by coal combustion, wind, water catchment schemes and pumped water storage. Such a broad generating portfolio supplies our varied customers with the cost effective, reliable, and specific products they demand.

Coal Supplies

Eraring Power Station receives black coal supplies by road, rail and overland conveyors from local and distant coal mines. A total of 5,670,509 tonnes was delivered with consumption amounting to 5,144,335 tonnes.

Coal Consumed (kT)



Coal consumption for 2004/05 is significantly lower than previous years due to the Unit 2 and 4 ICMS outages.

2004/05 Operational Performance

Eraring Power Station	12,703GWh
Hydro and Wind	230GWh
Capacity Factor	54.9%
Output Factor	64.6%
Availability Factor	85.9%
Thermal Efficiency Generated	37.9%
Equivalent Forced Outage Factor	2.1%
Unit Trips	12
Coal Consumed	5,144kT

Unit trips increased in 2004/05 with eight of these unit trips related to the installation and testing of the new control system.

Performance

Eraring Power Station recorded an availability factor of 85.9% compared to a target of 83%. This above target availability was helped by an Equivalent Forced Outage Factor (EFOF) of only 2.1% compared to a target of 2.5%. Generated thermal efficiency was below target at 37.9% due to lower output factors compared to target.

Plant improvement projects that will increase thermal efficiency and reduce environmental impact will continue to be implemented at Eraring Power Station.

Eraring Energy generated 12,933GWh of electrical energy for the year ending 30th June 2005.

Hydro and Wind Power Stations

The continuing drought in NSW has restricted normal generation from most hydro power stations. The start reliability of Shoalhaven continued to be world class with 94.7% reliability throughout the year. As a pump storage operation, the Shoalhaven Scheme continued to provide supplementary water to the Sydney water supply. 122,500ML of water were transferred in the 2004/05 financial year.

Wind farms at Blayney and Crookwell continued to produce green energy with 27,883MWh being produced.

Wind Farm	Availability
Blayney	98.2%
Crookwell	95.5%

Brown Mountain

Approval was given by the Board in August 2004 to begin the \$5.8 million upgrade project of Brown Mountain hydro power station.

The project consists of installing a new 4.2MW hydro turbine/generator, constructing a new building to house the new equipment, installation of a new 6.6kV switchboard, and construction of a new 5MW 66kV switchyard. This new turbine will be a 4.2MW VA Tech Pelton turbine with an INDAR generator.

Associated pipeline and tailrace works will connect into the existing penstocks to the new hydro turbine. An existing unit will be modified to allow automatic operation.

A new control system will also be installed to allow the fail safe operation of the power station and the capability to monitor and operate the station from a remote location.

Hydro and Wind Generation (MWh)

	00/01	01/02	02/03	03/04	04/05
Hydro					
Brown Mountain	9,496	17,006	2,609	3,855	2,320
Burrinjuck	–	2,421	20,763	12,940	27,267
Hume (100%)	259,295	174,007	87,524	146,643	149,290
Keepit	9,143	13,786	15,339	1,011	4,348
Shoalhaven	99,470	60,136	46,609	5,706	18,537
Warragamba	–	–	–	–	–
Subtotal (Hydro)	377,404	267,356	172,844	170,155	201,762
Wind					
Crookwell Wind Farm	8,631	7,923	8,527	7,582	8,214
Blayney Wind Farm	14,511	19,854	22,507	19,652	19,669
Subtotal (Wind)	23,142	27,777	31,034	27,234	27,883

The project includes improving dam level telemetry from the existing dams for the power station. On site works began at the power station in May 2005.

This new unit is expected to be available for commercial operation in November 2005.

Building Value in Assets

Eraring Energy's control system upgrade project continued during the 2004/05 financial year. The original analog control systems on Units 2 and 4 were replaced with the latest generation Centum CS 3000 Integrated Control and Monitoring System (ICMS).

The units upgraded with the ICMS have provided improvements in market response, thermal efficiency, availability and reliability.

Unit 2 was de-synchronised on the evening of Friday, 1 September 2004 and contract works were conducted for a period of nine weeks finishing Friday 5 November 2004, one week ahead of program. ICMS commissioning carried through to 24 November and the unit was synchronised for the first time on Friday 26 November at 2134 hours.

Unit 4 was taken out of service on Friday 11 March 2005, to begin a 12 week ICMS outage. During the course of the outage, substantial work was performed on the main turbine, boiler, condensers, and the unit control system.

Main turbine HP and LP rotors were removed for inspection and partial blade replacement. Main condenser tubes underwent eddy-current testing to identify the most corroded tubes needing replacement.

ICMS upgrade included the replacement of 17 Field Control Stations and the commissioning of 10,000 plant field devices. These Field Control Stations process the control and indication signals between the control room and the individual plant field devices.

The secondary airheater baskets were replaced and the associated air seals were refurbished. Furnace economiser tube bend repairs, ash hopper repairs, and draft fan and ductwork maintenance were also performed.

The unit was resynchronised at 2000 hours on Sunday 5 June 2005. ICMS commissioning checks restricted the unit output for a further four weeks, enabling full commercial operation on Monday 4 July 2005.

Eraring Energy is planning to facilitate black start capability with the installation of a Gas Turbine on the Eraring Power Station site. Investigations of a suitable and reliable gas turbine are currently being undertaken, with installation programmed for mid 2006.

PACIFIC WESTERN
(JULY 04 TO MARCH 05)

Pacific Western Pty Limited is a wholly owned subsidiary of Eraring Energy. Until 24 March 2005, the company operated and maintained, under contract to Western Power Corporation, the Collie Power Station in Western Australia.

Pacific Western had another successful year (July 04 to March 05) reporting a profit after tax of \$3,528,808 on total revenue of \$13,397,845.

For the third year in succession the Collie site had no lost time injuries. Pacific Western has now achieved seven years Lost Time Injury (LTI) free.

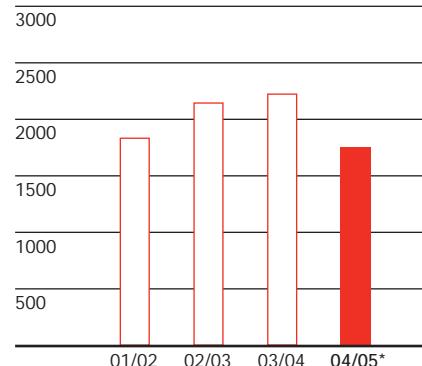
The overall availability of the unit was 98.84% A forced outage factor of 0.16% was a pleasing result for the period to 24 March 2005, indicating that many of the design faults and errors witnessed in previous years were resolved.

The dispatched output was 1,754GWh for the period to 24 March 2005.

Pacific Western successfully undertook triennial audits in June 2004 to maintain its accreditations to ISO AS/NZS 14001 and 9002 and the safety management standard AS4801.

The majority of Pacific Western employees were made redundant on 24 March 2005, with one employee remaining to finalise the affairs of Pacific Western.

Production (GWh)



* July 04 to March 05

Managing assets and operations in an environmentally responsible manner

ENVIRONMENTAL MANAGEMENT

Eraring Energy continues its commitment to managing its assets and operations in an environmentally responsible manner.

Industry leadership in Environment Performance is a key objective. The organisation's approach is based upon an ongoing improvement of processes and the integration of certification of our Environmental Management System with ISO14001 and our business planning cycle.

Eraring Energy complies with all applicable environmental legislative requirements. Equally important is the endorsement of the communities surrounding our power station sites.

This community endorsement can only be achieved by transparency in our operations through the provision of information to all our stakeholders.

ISO14001 Accreditation

Eraring Energy achieved ISO14001 accreditation for its Environmental Management System (EMS) for the organisation in March 2005.

The EMS clearly defines Eraring Energy's environmental policy, objectives and targets and is based upon a system of continual environmental improvement in management of identified key environmental issues as follows:

ISO Issues

- Review of environmental risks and implementation of projects to manage moderate assessed risks.
- Focus on potential impacts of legislative and compliance.
- Strengthening of the audit timetable to include internal audit reviews.

Environmental Management System

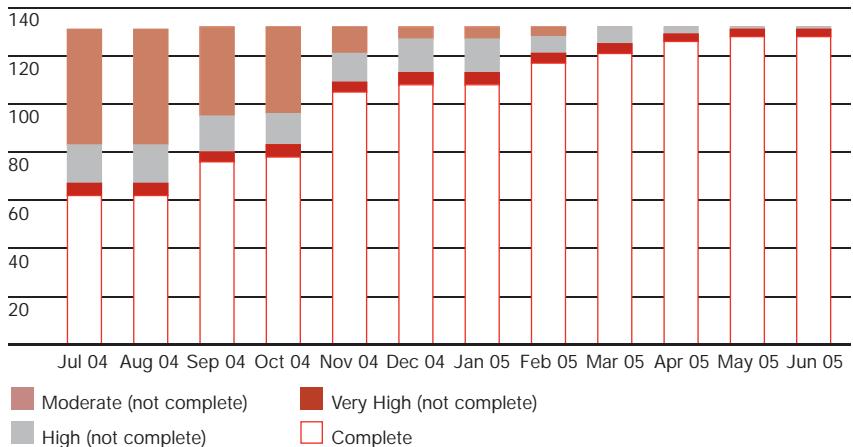
Eraring Energy has developed an EMS database which contains a register of environmental risks of the organisation's operations. Development of the risk register requires identifying and assessing the environmental risks which have been done through a series of reviews and audits. Each identified risk is given a risk rating according to the likelihood of the occurrence and possible level of impact.

This demonstrates the organisation's process of continual improvement which is a requirement of ISO14001 certification.

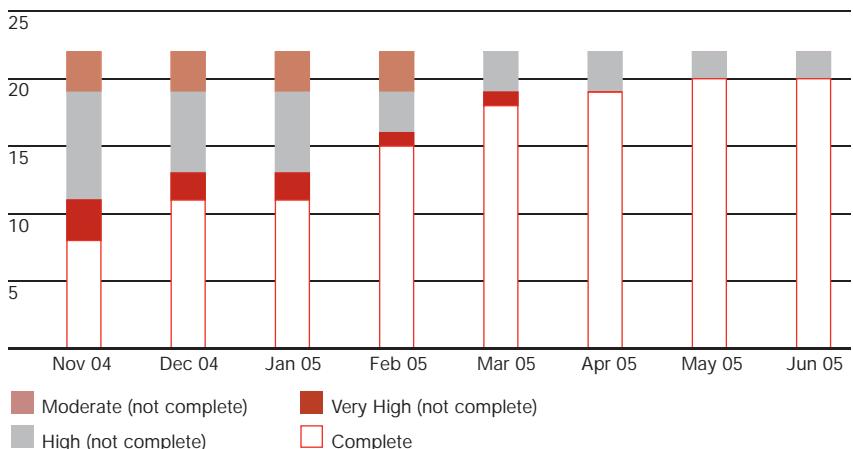
Environmental Management Plan

Environmental Management Plans (EMP) are designed to manage the environmental risks of an organisation's operations which have the potential to impact upon the environment. An EMP is a plan which assigns the responsibility and actions to be completed by nominated target dates to effectively control the identified risk.

Eraring Power Station EMP's



Wind and Hydro Operations EMP's



Significant Environmental Issues and Achievements

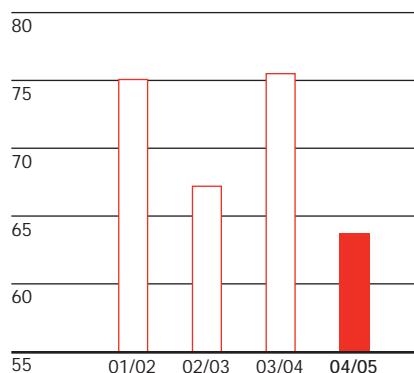
- Upgrade of the Boomerang Pond to mitigate potential black water discharge to the outlet canal.
- Load Based Licensing (LBL) and National Pollutant Inventory (NPI) returns to Department of Environment and Conservation (DEC) were completed for the calendar year 2004.
- Eraring Energy has committed to the Generator Efficiency Standards program and has developed a strategic plan, approved by the Australian Greenhouse Office (AGO) for reducing greenhouse gas emissions.
- Installation of new oil on water detectors for the inlet and outlet canals.

Recycling

Approximately 54% of the ash produced in 2004/05 was recycled, amounting to over 640,000 tonnes.

Effluent water recycling was 64% of fresh water replaced in 2004/05. This figure could have been higher with frequent plant improvements but continuing drought conditions has meant that less effluent was available to Eraring Energy and has reduced the quoted figure.

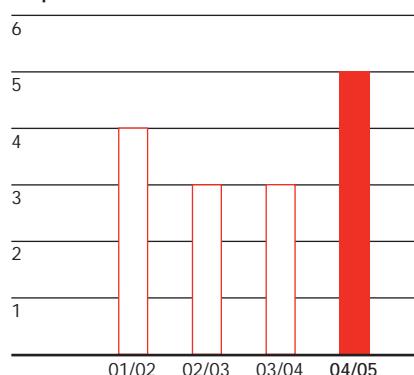
Effluent Recycling (% of Total Water Usage)



Environmental Reportable Incidents and Complaints

There were eight complaints in 2004/05. These complaints include dusting which occurred from the Ash Dam and noise arising from work at the Circulating Water Screens. There were five externally reportable incidents in 2004/05.

External Environmental Reportable Incidents



Green Energy

In 2004/05 Eraring Energy assets generated 211GWh of green energy which was supplied into the energy grid.

Under the New South Wales Greenhouse Gas Abatement Scheme, Eraring Energy produced in calendar year 2004 115,291 NGAC (A NSW Greenhouse Abatement Certificate; a tradeable certificate in the NSW Greenhouse Gas Abatement Scheme).

Eraring Energy also trades in REC (Renewable Energy Certificate – A Commonwealth certificate surrendered under the Mandatory Renewable Energy Target Scheme). In 2004 calendar year Eraring Energy created 34,484 REC's from it's renewable energy sources and surrendered 2,540 REC's for it's liabilities.

Energy Trading is active in the renewable, green energy and NGAC markets, and trades in these products to maximise the value of output from renewable energy sources.

Training

Eraring Power Station has developed 15 individual competency based environmental training modules. Each employee receives training in nominated modules relevant to their position and responsibility.

Land Management

Eraring Energy has developed and implemented a Land Management Plan to facilitate a coordinated management approach for Eraring Power Station. In 2005, Eraring Energy intends to develop a plan to also incorporate the land surrounding the Brown Mountain Power Station near Bega. The Land Management Plan has been developed in accordance with legislation, policies to manage environmental issues in areas of biodiversity (flora and fauna), heritage, weeds, feral animals, bush fire, the ash dam and environmental remediation.

Flora

So far, a total of 229 plant species in the power station lands have been identified. Eight of these species are considered to be significant.

Wildlife

Fauna surveys conducted at Eraring Power Station have detected over 100 vertebrate species, with around three quarters of them being bird species.

Weeds

Eraring Energy commissioned the preparation of a Weed Management Plan to enable weeds on the Eraring Power Station site to be managed in a practical, environmentally sustainable manner. The plan aims to eradicate, control or manage noxious weed species.

Bushfire Management

A bushfire management plan was developed by specialist consultants for Eraring Power Station in 2003, which includes a plan of actions to be taken until June 2006. Works scheduled during 2004 included monitoring fuel loads, carrying out prescribed burns in April-May, and performing fuel reduction activities such as slashing, mowing and weed control.

Heritage Management

Eraring Energy manages two sites of potential heritage significance in accordance with Section 170 of the Heritage Act.

- Brown Mountain began operation in 1943 and is still operational today; and
- Burrinjuck Power Station. No.1 station at Burrinjuck began operation in 1927 and was decommissioned following flooding in 1974.

WRAPP

Eraring Energy's Waste Management Committee (WMC) is continuing to achieve outstanding results for the organisation.

Training is carried out for all employees at Eraring Energy covering areas from waste management to the purchasing of materials, reusing, recycling and disposal. This is an ongoing program to keep all informed of new issues.

During the last year Eraring Energy has continued to publicise the importance of waste management in its Newsletter; utilise recycled water from secondary sewerage; dispose of batteries and fluorescent light tubes in an environmentally safe manner; and track purchasing; recycling and other waste issues on its data base.

In 2004/05 further achievements included:

- Extending equipment life leading to longer consumption of printers, copiers and computers.
- Phasing out of fax machines for replacement with electronic faxing.
- Tender documents are now placed on the website.

Continued focus on growth and development of people.

Strong commitment of Eraring Energy people to safety in the workplace.

Active contributor to regional communities throughout NSW.

PEOPLE

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

Shaping our Culture

Eraring Energy continues to promote a culture that values fairness, honesty, integrity, safety, diversity, equity and working together.

Activities and initiatives during the year included:

- participation by all staff in bi-annual briefings with the Managing Director.
- policy and procedure training sessions relating to Code of Conduct, diversity and equity, ethics and integrity.
- increased opportunities for staff to be involved in cross functional team activities, benchmarking committees, process re-engineering projects, strategy and business planning, development activities, and providing feedback on important initiatives and issues.

Our commitment to support employment from within as a first choice has resulted in promotions across all levels and classifications.

In June a culture survey was issued to all staff, the third since Eraring Energy was established. The results and subsequent two-way feedback sessions to staff will form the platform for future actions and initiatives to further develop our preferred culture and achieve Eraring Energy's vision.

Developing our People

As a key aspect of the vision, the growth and development of Eraring Energy people continues to be a focus of attention. This will continue as workforce and succession plans are actioned to ensure Eraring Energy has the right mix of knowledge and skills for the future.

A training and development strategy was developed during the period. It includes a framework for the identification of organisational, technical, safety and personal competencies and capabilities required for the future operation of the business. These will form the basis of training plans for Business Units, teams and individuals.

More than 50 people from all areas and levels of the organisation participated in Eraring Energy's custom designed "Leaders" Program during the year. Our in-house Certificate IV Frontline Management Program and the "Achievement Through People" coaching and mentoring program continued to function effectively.

A Team Development Program aligned to the Eraring Energy Strategic Intent was released during the period. Teams are able to select from a suite of twenty different activities, which reflect the diversity of Eraring Energy teams in size, stages of development, and preferences regarding the style and outcome of activities.

Technical, safety and personal development training continued with employees participating in training relating to Operations, PC upgrade and applications training, Australian Financial Services Licence, and OH&S. Programs included internal auditing training for 18 employees, and operator training for new control systems and power plant operation. Other training completed

includes Access to Apparatus Rules, working at heights, fire training, defensive driving, interpersonal skills and problem solving, and decision making development workshops.

Reward and Recognition

Eraring Energy's remuneration systems provide a mechanism whereby employees are able to progress through a salary range appropriate to the position, and also to recognise their own growth, development, experience and importantly, their efforts and achievements within that role.

A wide range of reward mechanisms, both monetary and non monetary, are utilised within Eraring Energy. These rewards are based on needs and circumstances at the individual, team and business level, targeted at the actions and behaviours we want to reinforce within the organisation.

Similarly, intangible forms of positive feedback on "a job well done" have been a focus during the period. This will continue to grow through improved face-to-face communication on an individual or group basis, peer approval mechanisms, newsletters and publicity, and subcommittees and project work within and external to the organisation.

At the close of the reporting period staff numbers were 368, compared to 363 at the close of 2003/04.

Code of Conduct

The Eraring Energy Code of Conduct objectives are to ensure:

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

Education and training in our Code of Conduct has continued during the period. Information training sessions have been held for all staff to reinforce the objectives and responsibilities contained in the associated Procedure. These sessions also focussed on the Ethics & Integrity sections of the Code of Conduct and associated procedures including Reporting Fraud, Corruption, Maladministration and Serious Waste, Conflict of Interest and Protected Disclosures.

Disability Action Plan

Eraring Energy continues to be proactive in the provision of assistance and access to meet the needs of people with a disability. The Workforce Diversity Section of this report includes actions and outcomes that relate to meeting the needs of EEO Group members including people with a disability.

Ethnic Affairs Report

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

International symbolic forms and plain language has been utilised in signage updates on Eraring Energy sites, and in public access areas on land owned by Eraring Energy and utilised by the community. EAPS related actions and outcomes are incorporated in the Workforce Diversity Section of this report.

Workforce Diversity Report

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

Achievements for the reporting period:

Planning Outcome Achievements

- EEO related data has been collected for 91% of staff.
- Eraring Energy continues to make a determined effort to ensure diverse representation by classification grouping, gender/age, and social/cultural background is sought for business planning activities, working parties and committees.
- There were a number of opportunities for staff to have their views heard and addressed during the period including:
 - Six monthly small group staff briefings with the Managing Director
 - Monthly Site Consultative Committee Meetings, Team Meetings and Tool Box Talks
 - Consultations with random samples of staff relating to specific initiatives via focus groups, surveys and feedback workshops.
- The Eraring Energy Culture Survey was modified and reissued to staff in June 2005 to include questions relating to equity, harassment and discrimination in the workplace.

Action Outcome Achievements

- During the period a number of policies and procedures were either reviewed or developed to supplement our Code of Conduct and Achievement Through People Policies.
- Eraring Energy continued half day Code of Conduct workshops for all staff during the period. The main focus of the workshop is to ensure that all staff understand the value of diversity, their role and responsibilities in ensuring that the workplace is free from discrimination, harassment and bullying, and how grievances can be raised and dealt with in relation to these areas.
- All staff participated in information sessions relating to ethics and integrity.
- Diversity considerations have been incorporated into all aspects of mainstream training, particularly our leadership development program, which entails completion of seven two day modules and currently has over 50 participants from all levels and parts of the organisation.

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

- One permanent part time and two job share arrangements were initiated during the period.

Program Outcome Achievements

- Twenty-one people were recruited during the period with 100% responding to the EEO data request form. Of the twenty-one, five were women and three identified as being from a Racial, Ethnic or Ethno-Religious Minority Group.
- Eleven men and four women left the organisation during the period. Of the 15 separations, two employees had identified as being from a Racial, Ethnic, Ethno-Religious Minority Group, three as people with a disability and one as a person with a disability requiring adjustment.
- Twenty-five internal promotional appointments occurred, five of which were women.
- The seven member executive team now includes two women.

Key Initiatives**1 July 2005 – 30 June 2006**

The following activities are planned for the next reporting period:

- Commence review of the Eraring Energy Workforce Diversity Management Plan and Ethnic Affairs Priority Statement.
- Review the results of the Eraring Energy Culture Survey, particularly the section dedicated to questions relating to equity, harassment and discrimination in the workplace.
- Increase the number and profile of EEO Contact Officers.
- Continue to reinforce, communicate and educate our people on the value, benefits and business outcomes to be realised by respecting and increasing the diversity of our workplace.

A. Trends in the Representation of EEO Groups (1)

EEO Group	NSW Government Benchmark or Target	% of Total Staff (2)			
		01/02	02/03	03/04	04/05
Women	50%	8.0%	9.0%	9.0%	9.0%
Aboriginal people and Torres Strait Islanders	2%	0.4%	–	0.3%	0.3%
People whose first language was not English	20%	7.0%	7.0%	7.0%	6.0%
People with a disability	12%	9.0%	9.0%	9.0%	8.0%
People with a disability requiring work-related adjustment	7%	4.0%	4.0%	4.1%	3.6%

B. Trends in the Distribution of EEO Groups

EEO Group	NSW Government Benchmark or Target	Distribution Index (3 & 4)			
		01/02	02/03	03/04	04/05
Women	100	90	97	99	99
Aboriginal people and Torres Strait Islanders	100	n/a	n/a	n/a	n/a
People whose first language was not English	100	117	112	113	115
People with a disability	100	104	100	100	100
People with a disability requiring work-related adjustment	100	n/a	n/a	n/a	n/a

Notes:

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

OCCUPATIONAL HEALTH AND SAFETY (OHS)

Ensuring the health and safety of employees, contractors and visitors to Eraring Energy locations is of paramount importance to Eraring Energy. Significant progress has been made during the year on improving the organisation's capability in this area.

Work has been carried out to improve Eraring Energy's documented OHS Management Systems, encourage and promote participation of employees and contractors in OHS activities, increase plant safety and to establish audit and review processes to enable the organisation to effectively monitor its performance.

The OHS Management System

Eraring Power Station's documented OHS Management System has been extensively rewritten over the last 12 months to ensure it complied with the requirements of AS 4801 – OHS Management Systems and the WorkCover Self Insurer's Model.

During the year Eraring Power Station engaged NCSI to undertake a Gap Analysis against the requirements of AS 4801. This was followed by an Accreditation Audit conducted in May 2005. Eraring Power Station was recommended for accreditation to this standard.

In June 2005 Eraring Power Station was audited by WorkCover Auditors to confirm that its OHS Management System met the requirements of the WorkCover Self Insurer's model.

Work Process Risk Assessments for maintenance activities were reviewed during the year and a new formal system of operator risk assessments was established. The Eraring Plant Risk Register was reviewed and updated.

The Hydro and Wind Operations Group undertook plant risk reviews at all Hydro and Wind locations and commenced a formal review of all work hazards. A Risk Register was developed to record all identified hazards and any control measures that exist or are developed.

The Plant Isolation Benchmarking Committee members visited a range of industries within Australia and overseas to observe and review their plant isolation systems. The findings of these visits were recorded and a sub committee used this data to develop a report which identified "Best Practices". Eraring Energy ranked fifth of the sixteen companies visited. Work is now being carried out to identify which "Best Practices" will need to be implemented to lift Eraring Energy to industry leadership.

Work has also commenced on a project to simplify the existing corrective action systems and to consolidate all OHS corrective actions into a single database regardless of how they are raised. This project will enable the organisation to more effectively review, evaluate and prioritise all safety issues.

Employee and Contractor

Participation in OHS Activities

Employee and contractor participation in, and ownership of, safety activities is a critical part of Eraring Energy's strategy to achieve leadership in OHS.

OHS sub-committees established in the previous financial year were successful in achieving an employee health and fitness program, increased promotion of safety activities, improved management of safety work orders and the establishment of an internal audit program using trained employees as auditors. An OHS Development Program - Safety Yesterday, Today and Tomorrow was held in December 2004 to review and measure progress towards a safer work place and to reset goals.

The behavioural safety program "B Safe" attracted a number of new observers during the year, some of whom participated in the OHS Committee Development Program. A Steering Committee, made up of employee and contractor representatives was established to support the activities of the observers and to set the direction for "B Safe" for the future. Throughout the year Managers and the Steering Committee have worked to increase observation participation rates, with participation rates now used as one of the organisation's key safety performance indicators.

The Hydro and Wind Operations

Group's OHS Committee has met quarterly throughout the year with a particular focus on identifying and managing risk situations.

Contractors participated in the OHS Committee and Sub-committees and in "B Safe" program, were responsible for identifying a range of safety improvement opportunities and participating in their implementation.

Plant Safety

The increased focus on plant safety resulting from the improved systems and the activities of the OHS Committees and the "B Safe" observers led to the identification of a range of plant safety improvement opportunities. In excess of \$600,000 was spent making Eraring Energy plant and equipment safer.

Audit and Review

OHS Management System audits are increasingly being used to measure the organisation's performance against the established systems. In the last 12 months Eraring Energy has used an external auditor to audit the organisation's systems against the requirements of the WorkCover Self Insurer's model and NCSI to undertake a Gap Analysis and audit against the requirements of AS4801.

A total of 18 Eraring Energy employees have now been trained as OHS auditors with five of these auditors completing lead auditor training. Five internal audit teams have been formed and the teams will work with the external auditor to review not only the OHS Management System but a range of OHS procedures.

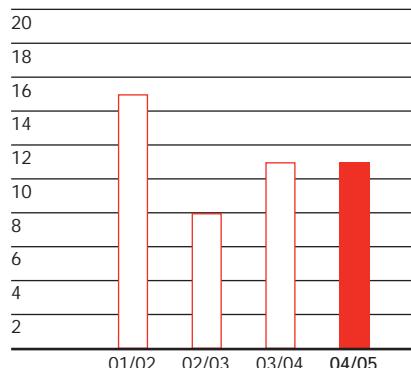
The audit reports and a range of other OHS data is reviewed regularly by the Employee OHS Committees, the Production OHS Committee, the Executive OHS Committee, the Board Human Resources and OHS Sub Committee and the Board.

The reports and data are being used to drive further safety improvements to the organisation's OHS systems and plant and to ensure that people at all levels within the organisation are aware of all safety issues and are involved in improving the safety of our people.

OHS Performance

There were 14 lost time injuries reported during the year. There were six lost time injuries involving Eraring Energy employees and eight lost time injuries involving contractors. The Lost Time Injury Frequency Rate for the year was eleven, the same figure as the previous year.

Lost Time Injury Frequency Rate (LTIFR)



COMMUNITY

Eraring Energy is committed to being an active contributor to the regional communities throughout New South Wales associated with our business operations. This includes a wide range of sponsorships and donations together with consultation with community groups and support of educational programs and initiatives.

Eraring Energy people have also been generous in actively supporting charities at the local and national level. Along with so many Australians, staff members contributed \$7,236 to the Australian Red Cross Tsunami Appeal in January 2005. Staff members also made significant contributions to the Cancer Council "World's Biggest Morning Tea" and the Leukaemia Foundation "Shave for a Cure" Appeals, which were also matched by an equal corporate donation.

The demonstrated strong commitment of Eraring Energy people to safety in the workplace has enhanced the ongoing Safety Performance Reward Program in support of the Hunter and New England regionally-based Westpac Rescue Helicopter Service and the nationally based CanTeen organisations, respectively. Eraring Energy has contributed a total of \$27,200 during the year in recognition of employee achievement outcomes, which was allocated equally between the two organisations. Based on this support, Eraring Energy was recognised as the sponsor of the annual CanTeen Hunter Division Camp themed "Superhero", a highlight event for members in that region.

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

Eraring Energy people were also unstinting in their support of the Barnardos Star of Wonder Christmas Gift Appeal 2004, which followed similar generous support of the previous year.

Community Events

Eraring Energy was a key sponsor of the Southlake Business Excellence Awards 2004 and the Lake Macquarie City Council Australia Day Celebrations 2005. Other community events supported by Eraring Energy included the Christmas Party for Special Children held in Albury, NSW; the Crookwell Country Weekend Festival 2005; the Blayney District Show 2005; the Toronto Village Fair and 175th Anniversary celebrations; the Morisset Community Festival Day 2005 and the Dobell Festival of Art 2005.

Community Forum

The Eraring Energy Community Forum, based at Eraring Power Station, has continued as a lively discussion group and is a well-supported link to the community in the Lake Macquarie region. Meetings were held on a three-monthly basis with a primary focus on the exchange of information on environmental issues and the encouragement of dialogue and feedback. The contribution of the Forum members has been of particular benefit to the organisation in understanding community concerns and enabled open communication to enhance understanding of Eraring Energy's business strategies and compliance obligations, together with the reporting of performance and business achievement outcomes.

The publication of the Community and Environment Report 2004 was a significant outcome of consultation with the Community Forum. This inaugural Report enabled improved communication to the wider community, with the aim of demonstrating transparency in Eraring Energy's business operations. The Report was widely distributed to community groups, schools, universities, and both private business and government organisations.

Environmental Support

Eraring Energy has continued as a key partner supporter of the Lake Macquarie Environmental Research Grants in 2005, coordinated by the Lake Macquarie City Council. New sponsorship partnerships with the Council were established to support the implementation of the Water Safety Program 2005, focusing on primary school children, and the Adopt-a-SQID Program that is part of Waterwatch, the world's largest community based water monitoring program.

Corporate sponsorship was provided for the Innovation Forum presented in September 2004 by The Wetlands Centre, based in Newcastle, and the NSW Coastal Conference held in the Lake Macquarie region in November 2004.

Learning Initiatives

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

Currently, Eraring Energy employs 20 apprentices based at Eraring Power Station and Hume Power Station. Excellent results are being recorded in electrical, mechanical, boiler making and motor mechanic trade skills development. Eraring Energy is also a Trainee Host Employer for five young persons undertaking traineeships in Business Administration, Human Resources and Materials Management.

A key ongoing initiative is the corporate sponsorship, in conjunction with the University of Newcastle, of the University of Newcastle Industry Scholarship Scheme (UNISS). Four engineering students are sponsored through this UNISS program.

A commitment has been made to participate in the EXIST (Excellence in Science and Technology) Project in partnership with the primary schools in the area bounded by Wangi Wangi, Cooranbong and Wyee and also Morisset High School. The project, which is part of a major federally-funded initiative to enhance science, technology and mathematics education and promote innovation in schools, is expected to be implemented in this cluster of schools in 2006.

Additional support for individual school programs has been provided to a number of schools in the Lake Macquarie region and at Kangaroo Valley.

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

Social Program

Eraring Energy has not been involved in any social programs as defined in the Annual Reports (Statutory Bodies) Regulation 2000 for reporting period 2004/05.

Funds Granted to Non-Government Organisations

Eraring Energy plays an active role in the community through its contribution to community projects and events, the provision of facilities for community and sporting groups in a range of broad-based activities, and the willing support given to staff involved in various fund-raising activities.

More than 33 organisations and community groups benefited from donations and sponsorships from Eraring Energy totalling approximately \$69,000 during the year.

A strong and effective governance framework ensures appropriate risk assessment and accountability for business operations

THE MANAGEMENT OF SIGNIFICANT BUSINESS RISK

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

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

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

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

Insurance

The renewal of Eraring Energy's property insurance for 2005/06 involved marketing the organisation's risk portfolio to both London and locally based insurance markets. As a result of the robustness of Eraring Energy's risk management practices a more favourable insurance program was purchased.

Information Management

In 2004/05 Eraring Energy focused on mitigating a key business risk relating to Corporate Information Management. In September 2004 a Project Manager was appointed to manage the development and implementation of a Records Management System and an Intranet System so that Eraring Energy can better protect and manage its Corporate Information. The Project plan was approved by Eraring Energy's Board in May 2005 and commenced in June 2005. This will continue to be a focus for the organisation in 2005/06.

Fraud Prevention

Fraud Prevention is a risk focus. During the year Eraring Energy's Fraud Prevention Program was enhanced through the development of a series of additional procedures. These included the introduction of a formal reporting framework for staff to report any instances of potential or actual fraud and be granted protection in accordance with the Protected Disclosures Act. Training programs were conducted throughout 2004/05 for all staff to ensure an awareness of the new framework.

Incident Reporting

The Incident Reporting System is another feature of Eraring Energy's risk management focus. The system, developed in 2004, allows any staff member to anonymously report any incident including a breach of procedure/legislation, or a near miss, in the following categories:

- Health and Safety
- Australian Financial Services Licence
- Environment
- Security
- National Electricity Law Compliance
- Asset Damage and Loss
- Production
- Other Compliance e.g. Trade Practices Act etc.

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

International Accounting Standards

Significant work was undertaken during 2004/05 in establishing processes and systems to account for the transition to Australian Equivalents to International Reporting Standards.

THE BOARD

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

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

The role of the Board is to –

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

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

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

Board Membership

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

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

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

Remuneration of Directors

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

Changes in Board Membership

The appointments of Directors Beverley Hoskinson-Green and Michael Vertigan expired on 30 June 2005 and they were reappointed for a further three years.

The appointment of Director John Maitland expired on 22 March 2005 and he was reappointed for a further twelve months.

BOARD COMMITTEES

The Board has established four standing committees, outlined below, and when required forms a committee of appropriately skilled directors to deal with specific matters. During the year, the charters for each committee were reviewed.

Audit and Risk Management Committee

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

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

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

Environment Committee

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

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

Remuneration Committee

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

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

Human Resources and Safety Committee

This Committee meets quarterly to assist the Board on:

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

Conflict of Interest

A register of directors' interests is maintained and directors disclose any material contract in which they have an interest. Directors do not take part in any decision-making processes considered by the Board if they have any personal interest in the matters. (Note 32 to the accounts details related parties' transactions.)

Meetings of the Board

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

A Attended **E** Eligible meetings

	A	E
Board		
Ross Bunyon	11	11
Beverley Hoskinson-Green	10	11
John Maitland	8	11
Michael Nugent	11	11
Dean Pritchard	11	11
Michael Vertigan	11	11
Gerry Grove-White	11	11

Audit and Risk Management

Michael Vertigan	5	5
Ross Bunyon	4	5
Michael Nugent	5	5

Environment

Beverley Hoskinson-Green	4	4
Ross Bunyon*	3	3
John Maitland	2	4
Michael Nugent [#]	1	1

* Ceased on 13/04/05

[#] Appointed on 13/04/05

Remuneration

Ross Bunyon	4	4
Beverley Hoskinson-Green	4	4
Dean Pritchard	4	4

Human Resource and Safety

Dean Pritchard	4	4
Ross Bunyon	4	4
John Maitland	4	4

EXECUTIVE MANAGEMENT

Organisation Structure

Voting Shareholders (NSW Government)

Board of Directors

Chairman – Ross Bunyon

Managing Director

Gerry Grove-White

General Manager Production

Peter Jackson

General Manager Trading

Stephan Boras

General Manager Finance

Philip Russell

General Manager People

Shaun Edwards

Secretary

Rochelle Reynolds

Business Risk and Assurance Manager

Anne-Marie Akle

EXECUTIVE COMMITTEES

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

Executive Committee

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

Members

Managing Director
Gerry Grove-White
General Manager Trading
Stephan Boras
General Manager Production
Peter Jackson
General Manager Finance
Philip Russell
General Manager People
Shaun Edwards
Secretary
Rochelle Reynolds
Business Risk and Assurance Manager
Anne-Marie Akle

Environment Committee

Generally meets quarterly to review environmental audit reports, agree and monitor the implementation of actions arising from such reports, oversee the development of compliance and audit programs, set and review policy, review incidents, and develop environmental initiatives.

Members

Managing Director
Gerry Grove-White
General Manager Production
Peter Jackson
Secretary
Rochelle Reynolds
Wind, Hydro & Environment Manager
Frank Mieszala
Environment Team Leader
Neil Williams
Manager Energy Derivatives
Alistair Webb

Energy Trading Risk Management Committee

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

Members

Managing Director
Gerry Grove-White
General Manager Trading
Stephan Boras
General Manager Finance
Philip Russell
General Manager Production
Peter Jackson
Business Risk and Assurance Manager
Anne-Marie Akle

Executive Safety Committee

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

Members

Managing Director
Gerry Grove-White
General Manager Production
Peter Jackson
General Manager People
Shaun Edwards
Asset Manager
Wayne Winterbine
Operations Manager
John Kennedy
Wind, Hydro & Environment Manager
Frank Mieszala
Projects Manager
George Wells
Commercial Manager
David Woodroof
Occupational Health & Safety Manager
Steve Gambrill
Chairperson Eraring Occupational Health & Safety Committee
Leigh Brydson
Shift Manager on Duty

EXECUTIVE MANAGEMENT REMUNERATION AND PERFORMANCE

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

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

Position/Name (Time in Position)	Qualifications	Remuneration Paid to 30/6/05	Performance Payment	Individual Performance Statement
Managing Director Gerry Grove-White (All of Year)	BSc (Mech Engr)Hons, Chartered Engineer MI MechE, Cert Diploma in Accountancy & Finance	\$343,882	\$90,500 *	Assessed by the Board against business plan targets including financial performance, strategic advice and strategy implementation, stakeholder relationships, safety and environmental performance.
General Manager Trading Stephan Boras (All of Year)	Degree in Business Administration (Hamburg), MAICD	\$234,776	\$62,000 *	Assessed by the Managing Director against business plan targets including market strategy, trading performance, coal purchases and other performance targets.
General Manager Production Peter Jackson (All of Year)	BSc, BE, MEM GAICD	\$230,068	\$60,500 *	Assessed by the Managing Director against business plan targets including plant performance, financial management, safety, environment and other performance targets.
General Manager Finance Philip Russell (All of Year)	CommAcct Cert. Dip. Chartered Sec. FCPA, FCIS, GAICD, MFTA, AMCIPS	\$196,190	\$51,500 *	Assessed by the Managing Director against business plan targets including financial management and projects, stakeholder relationships and other performance targets.
General Manager People # Shaun Edwards (Appointed 16/8/04)	BE, Grad Cert Mgt, MIE Aust	\$166,509	\$23,800 *	Assessed by the Managing Director against business plan targets including succession planning, leadership and training development programs, health and safety management, human resource strategy and other performance targets.
Secretary Rochelle Reynolds (Acting 1/7/04 - 30/9/04 Appointed 1/10/04)	LLB, BCom, Grad Dip CSP	\$136,483	\$17,496 *	Assessed by the Managing Director against business plan targets including stakeholder relationships, governance, corporate services and other performance targets.
Business Risk and Assurance Manager Anne-Marie Akle (Appointed to Executive 1/10/04)	BCom	\$128,854	\$14,459 *	Assessed by the Managing Director against business plan targets including risk management framework, risk transfer program, audit program and other performance targets.

Previous occupant ceased employment on 13/8/04

* Amount shown relates to performance payments for 2003/04 made in 2004/05. Determinations under this policy for 2004/05 will be concluded in 2005/06 and reported in the 2005/06 annual report.

Executive and Senior Officers Profile

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

	As at 30/6/04	As at 30/6/05
Number of Executive Officers with remuneration equal to or exceeding equivalent of SES Level 1	28	27
Number of the above positions filled by women	4	2
Total package remuneration for the period	\$5,016,378	\$5,087,709

PACIFIC WESTERN

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

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

The Board

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

Board Membership

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

Ross Bunyon, Chairman
John Maitland, Director
Michael Vertigan, Director
Gerry Grove-White, Director
Brian Todd, Secretary

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

Remuneration of Directors

No remuneration is currently paid to Directors by Pacific Western.

Changes in Board Membership

All Directors have held office for the whole of the financial year.

Meetings of the Board

A Attended E Eligible meetings

	A	E
Board		
Ross Bunyon	5	5
John Maitland	5	5
Michael Vertigan	5	5
Gerry Grove-White	5	5

Executive Management Organisation Structure

Board of Directors

Chairman – Ross Bunyon

|

General Manager

Peter Schmidt

(Independent Contractor)

01/07/04 – 24/03/05

– Production
Brian McKenry

– Commercial Manager / Secretary
Brian Todd

Executive Management Remuneration and Performance

Contracts for these officers provide for an at-risk payment and the Board has established a policy for the assessment of performance and the calculation of at-risk payments based on the organisation's performance against its business plan and personal performance, with the major component being the organisation's performance.

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

Position/Name (Time in Position)	Qualifications	Remuneration Paid	Performance Payment	Individual Performance Statement
Production Manager Brian McKenry (Ceased 24/3/05)	BBus (Production & Operations Mgt and HR Mgt) USQ	\$231,463#	\$7,056*	Assessed by the General Manager against the business plan objectives and targets including contract, financial, safety, environmental and quality performance. Preparation of the station's plans and procedures, including the establishment of the intranet based information systems package.
Commercial Manager/Secretary Brian Todd (All of year)	CPA	\$137,378	\$6,425*	Assessed by the General Manager against business plan objectives and targets covering information technology, purchasing and warehousing, financial accounting, safety and environmental targets relative to his area of responsibility.

* Amount shown relates to performance payments for 2003/04 made in 2004/05. Determinations under this policy for 2004/05 will be concluded in 2005/06 and reported in the 2005/06 annual report.

Includes redundancy payment until 24/03/05.

Executive and Senior Officers Profile

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

	As at 30/6/04	As at 30/6/05
Number of Executive Officers with remuneration equal to or exceeding equivalent of SES Level 1	3	2
Number of the above positions filled by women	-	-
Total package remuneration for the period	\$491,138	\$368,841

REGULATORY COMPLIANCE

Exemptions from Reporting

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

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

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

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

Further exemptions were approved subject to specific conditions:

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

Human Resources Disclosure of overseas visits with the main purposes highlighted.

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

Financial Statements of Controlled Entities

Exemption from preparing manufacturing and trading statements but required to prepare a summarised operating statement.

Cost of Annual Report

Eraring Energy has produced 450 copies of the annual report in printed format and 50 copies in CD format at a total cost \$24,600.00. Eraring Energy's annual report is available on-line at www.eraring-energy.com.au

Freedom of Information

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

This request was granted in part as some of the information requested was considered to be covered as exempt by Clause 7 of Schedule 1 of the Freedom of Information Act 1989.

An application fee of \$30 was received with no further processing costs being applied.

During the 2004/05 year:

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

Legal Change

The regulatory environment in which participants in the National Electricity Market operate continues to change, with the formation of the Australian Energy Regulator and the Australian Energy Market Commission. In addition, the new National Electricity Law applies from 1 July 2005, which will replace the old National Electricity Law, Regulations and Code. There have also been changes to the Occupational Health and Safety, and Environmental Law.

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

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

Promotion

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

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

OVERSEAS VISITS

During 2004/05 the following officers travelled overseas.

Name/Designation	Dates Travelled	Destination	Purpose
Peter Dedden Senior Plant Owner	29/08/04 – 05/09/04	Japan	Attendance at the Toshiba Turbine Engineering Course in Tokyo
Mark Corkett Advanced Hydro Maintenance Officer	23/09/04 – 10/10/04	United Kingdom/Hong Kong	Plant Isolation Benchmarking in London and Hong Kong.
James Davies Power Plant Operator			
Neil Morris Shift Manager			
Alistair Webb Manager Energy Derivatives	08/10/04 – 25/10/04	United Kingdom	Accelerated Development Program at London Business School (Module 1)
Alistair Webb Manager Energy Derivatives	25/11/04 – 06/01/05	United Kingdom	Accelerated Development Program at London Business School (Module 2)
Emily Harper Electrical Plant Owner	26/01/05 – 28/01/05	New Zealand	Visit ABB Coil Manufacturing Works and Canterbury University to witness coil manufacture and coil testing for the EX 2A ID Fan Motor Rewind
Robert Small Connell Wagner/PPI	06/02/05 – 13/02/05	Japan	Eraring HP Inner Casing Manufacture in Tokyo
Stephan Boras General Manager Trading	05/03/05 – 11/03/05	China	Presentation at the Energy APAC Conference in Beijing
Wayne Winterbone Asset Manager	28/03/05 – 03/04/05	South Korea	Generator Rotor Overhaul Inspections
Helen Rooke Electrical Engineer	29/03/05 – 02/04/05		
Gerry Grove-White Managing Director	24/04/05 – 06/05/05	Singapore/United Kingdom	Market Insurance Portfolio in Singapore and London
Anne-Marie Akle Business Risk and Assurance Manager			
Rochelle Reynolds Company Secretary	08/06/05 – 25/06/05	Singapore	Attend INSEAD Young Managers Programme (Module 1)
Ivor Wright Senior Plant Owner	18/06/05 – 26/06/05	Switzerland	Visit VA Tech factory in Switzerland to witness testing of the 4.2MW Pelton turbine

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Beginning of the Financial Statements audited by the Auditor-General

Eraring Energy STATEMENT OF FINANCIAL PERFORMANCE

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For the year ended 30th June, 2005

	Note	Consolidated		Parent Entity	
		2005	2004	2005	2004
		\$'000	\$'000	\$'000	\$'000
Revenues from ordinary activities	2	602,027	571,501	591,477	557,186
Insurance provision writeback	2	–	8,048	–	8,048
Total revenue		602,027	579,549	591,477	565,234
Raw materials and purchases of electricity		(304,121)	(315,565)	(303,203)	(314,080)
Employee benefits expense		(44,489)	(48,331)	(41,692)	(42,760)
Depreciation expense		(54,455)	(46,694)	(54,265)	(46,319)
Borrowing costs expense		(11,282)	(12,361)	(11,282)	(12,361)
Other expenses from ordinary activities		(71,980)	(58,497)	(67,670)	(51,000)
Profit from ordinary activities before income tax expense	3	115,700	98,101	113,365	98,714
Income tax expense relating to ordinary activities	4	(35,571)	(29,258)	(34,051)	(29,026)
Net profit		80,129	68,843	79,314	69,688
Non owner transaction changes in equity					
Increase in asset revaluation reserve arising on revaluation of non-current assets	23	49,717	156,564	49,717	156,564
Total revenue, expense and valuation adjustments recognised		49,717	156,564	49,717	156,564
Total changes in equity other than those resulting from transactions with owners as owners	23	129,846	225,407	129,031	226,252

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

	Note	Consolidated		Parent Entity	
		2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Current Assets					
Cash assets	5	441	128	402	108
Receivables	6	51,227	52,509	48,509	53,358
Investments	7	1,925	–	1,925	–
Inventories	8	44,202	31,423	44,202	26,056
Current tax assets	9	2,238	2,119	2,238	1,886
Other	10	10,704	3,465	10,687	3,334
Total Current Assets		110,737	89,644	107,963	84,742
Non-Current Assets					
Property, plant and equipment	12	1,426,657	1,379,069	1,426,657	1,378,734
Deferred tax assets	13	22,401	14,117	22,353	13,548
Other	14	31,939	39,960	31,939	39,960
Total Non-Current Assets		1,480,997	1,433,146	1,480,949	1,432,242
Total Assets		1,591,734	1,522,790	1,588,912	1,516,984
Current Liabilities					
Payables	15	58,151	49,778	57,510	48,513
Interest bearing liabilities	16	62,823	33,800	64,748	33,800
Current tax liabilities	17	21,973	26,643	21,538	26,643
Provisions	18	90,818	67,206	90,676	64,852
Other	19	0	1,030	0	1,030
Total Current Liabilities		233,765	178,457	234,472	174,838
Non-Current Liabilities					
Interest bearing liabilities	20	102,113	128,201	102,113	128,201
Deferred tax liabilities	21	23,194	7,264	23,194	7,264
Provisions	22	75,239	82,964	75,239	82,946
Total Non-Current Liabilities		200,546	218,429	200,546	218,411
Total Liabilities		434,311	396,886	435,018	393,249
Net Assets		1,157,423	1,125,904	1,153,894	1,123,735
Equity					
Contributed equity	23	879,481	895,481	879,481	895,481
Reserves	23	261,412	211,695	261,412	211,695
Retained profits	23	16,530	18,728	13,001	16,559
Total Parent Entity Interest		1,157,423	1,125,904	1,153,894	1,123,735
Total Equity		1,157,423	1,125,904	1,153,894	1,123,735

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

Eraring Energy STATEMENT OF CASH FLOWS

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For the year ended 30th June, 2005

Note	Consolidated		Parent Entity	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000
	Inflows (Outflows)	Inflows (Outflows)	Inflows (Outflows)	Inflows (Outflows)
Cash flows from operating activities				
Cash received in the course of operations	668,196	672,867	649,249	655,989
Interest and bill discount received	187	249	204	462
Cash paid in the course of operations	(469,627)	(484,605)	(456,861)	(468,642)
GST refunded	(26,339)	(20,856)	(26,339)	(20,856)
Interest and other finance costs paid	(12,549)	(8,977)	(12,438)	(9,016)
Dividend received	–	–	2,714	1,390
Income tax paid	(32,714)	(18,984)	(32,382)	(18,021)
Net cash provided by operating activities	28	127,154	139,694	124,147
Cash flows from investing activities				
Proceeds from sale of equipment	609	302	573	302
Purchase of investments	(1,925)	–	(1,925)	–
Payments for property, plant & equipment	(53,673)	(40,568)	(53,649)	(40,490)
Net cash used in investing activities		(54,989)	(40,266)	(55,001)
Cash flows from financing activities				
Proceeds from borrowings	632,957	687,946	631,157	683,946
Repayment of borrowings	(647,857)	(751,095)	(643,057)	(748,595)
Repayment (borrowing) of loans & advances by related parties	3,112	(1,538)	3,112	(1,538)
Dividend paid	(60,064)	(35,828)	(60,064)	(35,828)
Net cash used in financing activities		(71,852)	(100,515)	(68,852)
Net increase in cash held	313	(1,087)	294	(897)
Cash at beginning of the financial year	128	1,215	108	1,005
Cash at the end of the financial year	5	441	128	402

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

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

These financial statements are a general purpose financial report prepared in accordance with the provisions of the Public Finance and Audit Act, 1983 and Public Finance and Audit Regulation, 2000, Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Consensus Views and the requirements of the State Owned Corporations Act, 1989.

The financial report has been prepared on the basis of historical cost except for some classes of non-current assets, which have been accounted for at valuation. Cost is based on the fair values of the consideration given in exchange for assets. The accounting policies have been consistently applied by each entity in the consolidated entity.

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

(b) Non-Current Assets

Classes of non-current assets are measured at fair value and are revalued regularly to ensure the carrying amount of each asset in the class does not differ materially from fair value at reporting date. Independent valuations are obtained at least every five years for land and buildings, with power station plant being reviewed annually. Revaluation increments on a class of asset basis are recognised in the asset revaluation reserve except that amounts reversing a decrement previously recognised as an expense are recognised as revenues. Revaluation decrements are only offset against revaluation increments relating to the same class of asset and any excess is recognised as an expense.

The recoverable amount of a non-current asset is the net amount expected to be recovered through the net cash inflows arising from its continued use and subsequent disposal, discounted to present value using Eraring Energy's weighted average cost of capital. The valuation methodology uses a discounted cash flow of the forecast spot price of electricity.

Where a group of assets work together to generate net cash inflows, the recoverable amount test is applied to that group of assets as a whole. The recoverable amount test is undertaken annually. Eraring Energy has a number of cash generation units at different sites, all of which are within the one asset class (Plant & Equipment – Power Stations).

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

(c) Depreciation of Property, Plant and Equipment

Depreciation is calculated on a straight line basis to write off the net cost or revalued amount of each item of property, plant and equipment, other than land, over its expected useful life to Eraring Energy. Depreciation rates and methods are reviewed annually for appropriateness.

Estimates of remaining useful lives are made on a periodic basis for all assets. The useful lives for each class of asset are:

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

Component parts of Power Stations may have different asset lives.

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

(d) Receivables

Trade accounts receivable, amounts due from related parties and other receivables represent the principal amounts due at balance date plus, where applicable, accrued interest and less any unearned income and provisions for doubtful accounts. Trade debtors are normally settled within 28 days.

(e) Principles of Consolidation

The financial statements of Eraring Energy and its controlled entity are consolidated in compliance with Accounting Standard AASB 1024 "Consolidated Accounts". The consolidated financial report combines the financial report of Eraring Energy and its controlled entity, Pacific Western Pty Ltd. The effect of all transactions between entities in the consolidated entity has been eliminated in full in preparing the consolidated financial statements.

During the year, Pacific Western terminated its contract to operate and maintain Collie Power Station for Western Power. Eraring Energy guarantees the performance of Pacific Western.

(f) Foreign Currency Translation

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

Exchange differences on forward foreign exchange contracts to hedge the purchase or sale of specific goods and services are deferred and included in the measurement of the purchase or sale when it takes place.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

(g) Interest Rate Contracts

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

(h) Derivatives

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

Where derivative transactions are used to manage financial and commodity risks associated with the anticipated purchase or sale of goods or services, the gains and losses on the derivative arising up to the date of the anticipated transaction, together with any costs or gains arising at the time of entering into the derivative, are deferred and included in the measurement of the anticipated transaction when the transaction has occurred as designated. Any gains or losses on the transaction after that date are included in the Statement of Financial Performance.

When the anticipated transaction is no longer expected to occur as designated, the deferred gains and losses relating to the transaction are recognised immediately in the Statement of Financial Performance.

(i) Revenue Enhancing Contracts and Option Premiums

Eraring Energy may enter into sold options for the purpose of maximising total revenue from generation ie. as part of an overall pricing strategy and as such are considered to be revenue enhancing contracts, and the accounting treatment is consistent with other electricity derivatives. Premiums to be paid or received are deferred off balance sheet. Once received or paid, the premium is deferred on the balance sheet at historical cost and amortised to the Statement of Financial Performance as the contract matures. Any premium received that relates to a contract not accounted for as a derivative or revenue enhancing contract treated on an historic cost basis, is recognised immediately in the Statement of Financial Performance.

(j) Borrowing Costs

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

(k) Liability Management

Eraring Energy actively manages its liabilities against a benchmark in accordance with Board approved policies and the Treasury Management Guidelines issued by New South Wales Treasury. Eraring's debt book contains a core debt portfolio, a value add portfolio and a working capital portfolio. The core debt portfolio contains financial instruments held to maturity where accounting is maintained at historical cost and deferred off balance sheet. The value add portfolio uses trading instruments to adjust modified duration levels with fair value movements taken to the Statement of Financial Performance. The working

capital portfolio is made up of Come & Go and TCorp short term loans of maturity less than six months. These are fair valued with movements taken to the Statement of Financial Performance.

(l) Discount and Premium on Loans

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

(m) Revenue Recognition

Revenues are recognised at fair value of the consideration received net of the amount of goods and services tax (GST). Exchanges of goods or services of the same nature and value without any cash consideration are not recognised as revenues.

Sale of Electricity

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

Sale of Non-Current Assets

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

Interest Revenue

Interest revenue is recognised as it accrues.

Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or

(b) for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

(n) Segment Reporting

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

(o) Inventories

Inventories are measured at the lower of cost and net realisable value in accordance with Accounting Standard AASB 1019 "Inventories". Costs have been assigned to inventory quantities on hand at balance date using the weighted average cost method.

(p) Leases

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

(q) Operating Cycle

An operating cycle of 12 months has been used as the basis for identifying current assets and current liabilities in the Statement of Financial Position.

(r) Insurance

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

(s) Income Tax

Tax effect accounting procedures are followed whereby the income tax expense in the Statement of Financial Performance is matched with the accounting profit after allowing for permanent differences.

Income tax on cumulative timing differences is set aside to the deferred income tax or the future income tax benefit accounts at the rates which are expected to apply when those timing differences reverse.

Eraring Energy is exempt from liability for Commonwealth income tax. Income tax equivalents are, however, payable to the New South Wales Office of State Revenue under the National Tax Equivalent Regime. The National Tax Equivalent Regime is administered by the Australian Taxation Office.

(t) Employee Entitlements

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

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

(u) Leasehold Improvements

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

(v) Payables

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

(w) Rounding of Amounts

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

Eraring Energy NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

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For the year ended 30th June, 2005

	Consolidated		Parent Entity	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000
NOTE 2 REVENUE FROM ORDINARY ACTIVITIES				
Revenue from operating activities				
Electricity sales	578,472	548,929	578,472	548,929
Services rendered	13,168	16,018	—	—
	591,640	564,947	578,472	548,929
Other revenue from operating activities				
Superannuation movement	6,251	3,696	6,251	3,696
Rentals	51	44	51	44
Interest received	158	149	106	136
Interest – Pacific Western	—	—	70	226
Dividends received relating to last year	—	—	545	1,390
Dividends received relating to this year	—	—	2,169	—
CSO NSW Treasury	89	67	89	67
Miscellaneous	3,087	2,296	3,151	2,396
Other revenue from outside operating activities				
Proceeds from sale of property, plant & equipment	751	302	573	302
Insurance provision writeback	—	8,048	—	8,048
	4,136	10,906	6,754	12,609
Total revenue from ordinary activities	602,027	579,549	591,477	565,234
NOTE 3 EXPENSES				
Expenses				
Raw material and purchases of electricity	304,121	315,565	303,203	314,080
Depreciation:				
Buildings	657	795	657	795
Plant and equipment	53,732	45,833	53,542	45,458
Leasehold improvements	66	66	66	66
	54,455	46,694	54,265	46,319
Depreciated value of assets sold and/or written off	1,345	392	1,176	389
Borrowing costs				
Interest and finance charges paid/payable	11,922	12,856	11,922	12,856
Interest capitalised	(640)	(495)	(640)	(495)
	11,282	12,361	11,282	12,361
Operating lease rentals:				
Minimum lease payments	536	486	479	423
Consultants	359	491	259	290
Doubtful debts	(20)	(12)	(20)	(12)
Consultants				
Expenditure on consultants totalled \$258,876 (consolidated \$359,148). The parent entity's engagements related to the provision of tax and accounting advice particularly relating to the adoption of International Accounting Standards, and the provision of corporate governance advice.				

	Consolidated		Parent Entity	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
NOTE 4 INCOME TAX				
Income tax on profit from ordinary activities differs from the prima facie tax on that profit as follows:				
Prima facie income tax on operating profit at 30%	34,711	29,430	34,010	29,614
Tax effect of permanent differences which reduce tax payment due to:				
Foreign currency translation	(67)	–	(67)	–
Actuary assessment of defined superannuation funds	(1,875)	(1,109)	(1,875)	(1,109)
Research and development concession	(1)	(1)	(1)	(1)
	(1,943)	(1,110)	(1,943)	(1,110)
Increase tax payable due to non-deductible:				
Incremental depreciation expense on revaluation of non-current assets	1,995	516	1,995	516
Inter-company dividend rebate	813	416	–	–
Other non-deductible expenses	61	28	58	28
	2,869	960	2,053	544
Prima facie tax adjusted for permanent differences	35,637	29,280	34,120	29,048
Prior year adjustments	(65)	(22)	(68)	(22)
Income tax expense attributable to profit from ordinary activities	35,572	29,258	34,052	29,026
Aggregate income tax expense comprises:				
Income tax payable	22,149	27,250	21,149	26,748
Deferred income tax provision	22,059	2,834	22,059	2,833
Future income tax benefits	(8,636)	(826)	(9,156)	(555)
	35,572	29,258	34,052	29,026
NOTE 5 CURRENT ASSETS – CASH ASSETS				
Cash at bank and on hand	441	128	402	108
NOTE 6 CURRENT ASSETS – RECEIVABLES				
Trade debtors	50,675	52,010	47,957	49,747
Less: Allowance for doubtful debts	(130)	(151)	(130)	(151)
	50,545	51,859	47,827	49,596
Loan to Pacific Western	–	–	–	3,112
Other debtors	682	650	682	650
	51,227	52,509	48,509	53,358
NOTE 7 CURRENT ASSETS – INVESTMENTS				
Investments	1,925	–	1,925	–

Eraring Energy **NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

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For the year ended 30th June, 2005

	Consolidated		Parent Entity	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000
NOTE 8 CURRENT ASSETS - INVENTORIES				
Stores and materials	1,005	6,452	1,005	1,085
Coal stocks	42,047	23,126	42,047	23,126
Oil stocks	1,150	1,845	1,150	1,845
	44,202	31,423	44,202	26,056
NOTE 9 CURRENT ASSETS - CURRENT TAX ASSETS				
Future income tax benefit	2,238	2,119	2,238	1,886
Future Income Tax Benefit				
The amount of the future income tax benefit which is expected to be realised within the next operating cycle, ie 12 months.				
NOTE 10 CURRENT ASSETS - OTHER				
Insurance recoveries	(see Note 22)	2,777	645	2,777
Prepayments		485	599	468
Superannuation - overfunded position	(see Note 31)	7,442	2,221	7,442
		10,704	3,465	10,687
				3,334
NOTE 11 NON-CURRENT ASSETS - OTHER FINANCIAL ASSETS				
Shares in controlled entities		-	-	.001
Unlisted Shares in Controlled Entity				
As at balance date, Eraring Energy held 100% of the shareholding in Pacific Western Pty Ltd, being one \$1.00 ordinary share.				

	Consolidated		Parent Entity	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000
NOTE 12 NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT				
Freehold Land				
At valuation	32,830	32,790	32,830	32,790
Total Freehold Land	32,830	32,790	32,830	32,790
Buildings – Power Stations				
Operating power stations – at valuation	21,324	19,904	21,324	19,904
Less: Accumulated depreciation	–	–	–	–
Total Buildings – Power Stations	21,324	19,904	21,324	19,904
Buildings – Other				
Other – at valuation	1,219	1,219	1,219	1,219
Less: Accumulated depreciation	(92)	(61)	(92)	(61)
Total Buildings – Other	1,127	1,158	1,127	1,158
Total Buildings	22,451	21,062	22,451	21,062
Plant and Equipment – Power Stations				
Operating power stations – at valuation	1,370,728	1,318,560	1,370,728	1,318,560
Less: Accumulated depreciation	(9,645)	(5,262)	(9,645)	(5,262)
Total Plant and Equipment – Power Stations	1,361,083	1,313,298	1,361,083	1,313,298
Plant and Equipment – Other				
Other – at cost	19,448	19,685	19,438	17,174
Less: Accumulated depreciation	(9,591)	(8,268)	(9,581)	(6,092)
Total Plant and Equipment – Other	9,857	11,417	9,857	11,082
Total Plant and Equipment	1,370,940	1,324,715	1,370,940	1,324,380
Leasehold Improvements				
At cost	699	699	699	699
Less: Accumulated depreciation	(263)	(197)	(263)	(197)
Total Leasehold Improvements	436	502	436	502
Total Property, Plant and Equipment	1,426,657	1,379,069	1,426,657	1,378,734

Valuation of Power Station Equipment and Power Station Buildings

The classes of power station equipment and associated building assets are measured on a fair value basis. An independent review of the written down replacement value of the Eraring power station and hydro and wind assets was conducted by Rodney Hyman Asset Services as at 30th June 2005 and 30th June 2004 respectively. The discounted cash flow valuation was conducted effective at 30th June 2005 using 2005/06 SCI 10 year forecasts and internal models based on forward curves as at 31st January 2005.

The revaluation resulted in an increment to the power station building and plant and equipment power station classes of \$49,716,089.

Eraring Energy has changed its methodology to value non-current assets whereby the discounted cash flow of the forecast spot price of electricity has been used as it represents a better approximation of the asset value of the generating plant and in preparation for fair value movements in derivatives applicable from 1st July 2005. This methodology has added \$140 million to the value of non-current assets as at 30th June 2005. In previous years, the value included Eraring's existing contracts as well as forecast spot sales. If this methodology had applied last year, the value of non-current assets would have increased by \$207 million at 30th June 2004. Property, plant and equipment was written to \$1,426 million recoverable amount and has been determined using the expected net cash flows discounted to their present value using Eraring Energy's weighted average cost of capital. The weighted average cost of capital was amended during 2004/05 which increased asset values.

NOTE 12 NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**Reconciliations**

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

	Freehold Land \$'000	Power Station Building \$'000	Other Buildings \$'000	Plant & Equipment Power Stn \$'000	Plant & Equipment Other \$'000	Leasehold Improvement \$'000	Total \$'000
Parent Entity							
Balance @ 01/07/04	32,790	19,904	1,158	1,313,298	11,082	502	1,378,734
Parent plant spares transfer	–	–	–	8,125	–	–	8,125
Capital spares transfer	–	–	–	1,024	–	–	1,024
Asset additions	40	86	–	40,716	3,656	–	44,498
Asset disposals	–	–	–	(520)	(656)	–	(1,176)
Depreciation expense	–	(626)	(31)	(49,317)	(4,225)	(66)	(54,265)
Asset revaluation increase	–	1,960	–	47,757	–	–	49,717
Balance @ 30/06/05	32,830	21,324	1,127	1,361,083	9,857	436	1,426,657

Work in progress amounting to \$21,865,001 (2004 – \$28,647,279) is included in the carrying amount of property, plant and equipment.

Consolidated Entity

Balance @ 01/07/04	32,790	19,904	1,158	1,313,298	11,417	502	1,379,069
Parent plant spares transfer	–	–	–	8,125	–	–	8,125
Capital spares transfer	–	–	–	1,024	–	–	1,024
Asset additions	40	86	–	40,716	3,680	–	44,522
Asset disposals	–	–	–	(520)	(825)	–	(1,345)
Depreciation expense	–	(626)	(31)	(49,317)	(4,415)	(66)	(54,455)
Asset revaluation increase	–	1,960	–	47,757	–	–	49,717
Balance @ 30/06/05	32,830	21,324	1,127	1,361,083	9,857	436	1,426,657

	Consolidated		Parent Entity	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000

NOTE 13 NON-CURRENT ASSETS – DEFERRED TAX ASSETS

Future income tax benefit	22,401	14,117	22,353	13,548
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NOTE 14 NON-CURRENT ASSETS – OTHER

Insurance recoveries	(see Note 22)	31,939	39,960	31,939	39,960
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	Consolidated		Parent Entity	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000
NOTE 15 CURRENT LIABILITIES – PAYABLES				
Trade creditors	30,758	22,519	30,117	21,254
Other creditors	27,393	27,259	27,393	27,259
	58,151	49,778	57,510	48,513
NOTE 16 CURRENT LIABILITIES – INTEREST BEARING LIABILITIES				
Borrowings	62,823	33,800	62,823	33,800
Loan from Pacific Western	–	–	1,925	–
	62,823	33,800	64,748	33,800
Current Borrowings				
Short term loans – face value	34,683			
Come and go – face value	27,900			
Premium on domestic loans issued by NSW TCorp	240			
	62,823			
NOTE 17 CURRENT LIABILITIES – CURRENT TAX LIABILITIES				
Income tax	8,139	18,937	7,704	18,937
Current deferred income tax liability	13,834	7,706	13,834	7,706
	21,973	26,643	21,538	26,643
NOTE 18 CURRENT LIABILITIES – PROVISIONS				
Dividend	(see Note 27)	82,327	60,064	82,327
Employee entitlements	(see Note 31)	2,722	2,830	2,668
Redundancy		88	1,812	–
Insurances	(see Note 22)	5,681	2,500	5,681
	90,818	67,206	90,676	64,852
Reconciliation of provision classes – see Note 22				
NOTE 19 CURRENT LIABILITIES – OTHER				
Superannuation – underfunded liability	(see Note 31)	–	1,030	–
			1,030	

Eraring Energy NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

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For the year ended 30th June, 2005

	Consolidated		Parent Entity	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000
NOTE 20 NON-CURRENT LIABILITIES – INTEREST BEARING LIABILITIES				
Borrowings	102,113	128,201	102,113	128,201
Non-Current Borrowings				
Non-current borrowings	98,891			
Premium on domestic loans issued by NSW Tcorp	3,222			
	<u>102,113</u>			
Total Debt				
Current	(see Note 16)	62,823		
Non-current	(see Note 20)	<u>102,113</u>		
	<u>164,936</u>			
Total Debt and Maturity Analysis				
Total debt outstanding at 30th June 2005, and maturity pattern is:				
Up to one year	62,823			
Over two and up to five years	33,457			
Over five years	68,656			
	<u>164,936</u>			
Finance Facilities Available				
Bank overdraft	2,000			
NSW Treasury Corporation loans and come and go	<u>305,000</u>			
	<u>307,000</u>			
Finance Facilities Used as at 30 June 2005				
NSW Treasury Corporation loans and come and go	<u>164,936</u>			
	<u>164,936</u>			

Eraring Energy also utilises the Commonwealth Bank of Australia facilities for contingent liabilities associated with dust diseases liabilities (\$10,000,000), intra day cash management (real time gross settlements – \$10,000,000) and credit card facilities (\$1,000,000) as approved by the Governor under Public Authorities Finance Act legislation. With the exception of the Commonwealth Bank of Australia facilities, all new borrowings are arranged through NSW Treasury Corporation.

The come and go facility of \$30,000,000 is used for short term working capital and other discrete (rather than continuous) requirements. The principal is repaid and redrawn at any time within approved limits.

Capital Restructure

Eraring Energy repaid capital of \$16 million in August 2004 via a non cash equity to debt swap.

	Consolidated		Parent Entity	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000
NOTE 21 NON-CURRENT LIABILITIES – DEFERRED TAX LIABILITIES				
Provision for deferred income tax	23,194	7,264	23,194	7,264
NOTE 22 NON-CURRENT LIABILITIES – PROVISIONS				
Employee entitlements	12,918	12,824	12,918	12,806
Insurance	62,321	70,140	62,321	70,140
	<u>75,239</u>	<u>82,964</u>	<u>75,239</u>	<u>82,946</u>

NOTE 22 NON-CURRENT LIABILITIES – PROVISIONS (CONTINUED)

Reconciliations

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

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

Former decommissioned Power Stations of the former Electricity Commission;

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

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

The total insurance provision is made up of a provision for current workers compensation and dust diseases claims liability at \$3,820,000 (2004 – \$4,640,000) which is the minimum amount certified by the actuary in accordance with Clause 3.3 (a) (iv) of the Self Insurer licence provisions. The remaining balance of the insurance provision is \$64,182,225 (2004 – \$68,000,000) and represents future dust diseases claims liability. The insurance provision includes a provision for \$66,392,225 which relates to other than Eraring Energy employees and contractors. Eraring Energy has created an asset in these financial statements for anticipated insurance recoveries from third parties. The value of this asset is \$34,716,328 (2004 – \$40,605,176), and is in accordance with independent actuarial advice.

The 2004 actuarial assessment omitted the assessment of public liability dust diseases claims and recoveries. The actuary has advised this would have added between \$10 to \$15 million net liability. Had this assessment been included, there would have been no adjustment to the insurance provision in that year.

Eraring Energy NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

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For the year ended 30th June, 2005

	Consolidated		Parent Entity	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000
NOTE 23 CONTRIBUTED EQUITY, RESERVES AND RETAINED PROFITS				
Contributed equity	879,481	895,481	879,481	895,481
Reserves	261,412	211,695	261,412	211,695
Retained profits	16,530	18,728	13,001	16,559
	1,157,423	1,125,904	1,153,894	1,123,735
Movements in Contributed Equity				
Opening balance	895,481	1,032,481	895,481	1,032,481
NSW Treasury debt for equity swap	(16,000)	(137,000)	(16,000)	(137,000)
	879,481	895,481	879,481	895,481
Movements in Asset Revaluation Reserve				
Opening balance	211,695	55,131	211,695	55,131
Asset revaluation increment	49,717	156,564	49,717	156,564
	261,412	211,695	261,412	211,695
Movements in Retained Profits				
Opening balance	18,728	9,948	16,559	7,779
Net profit after tax	80,129	68,843	79,314	69,688
Dividends	(see Note 27)	(82,872)	(82,872)	(60,908)
Prior year dividend elimination	(see Note 27)	545	1,390	—
	16,530	18,728	13,001	16,559

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

In accordance with the State Owned Corporations Act, 1989, the two voting shareholders, the Hon. A. Refshauge, Treasurer, and the Hon. J. Della Bosca, Special Minister of State, hold one share each valued at \$1.00 per share.

NOTE 24 CAPITAL EXPENDITURE COMMITMENTS

Capital commitments payable:

Within one year	20,969	31,147	20,969	31,144
Later than one year but not later than five years	3,080	5,491	3,080	5,491
	24,049	36,638	24,049	36,635

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

NOTE 25 LEASE COMMITMENTS

Operating lease rentals payable:

Within one year	183	407	140	333
Later than one year but not later than five years	10	192	—	139
	193	599	140	472

Operating Leases

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

Eraring Energy expects to receive input tax credits from the Australian Taxation Office totalling \$12,676 (consolidated – \$17,953) for Goods and Services Tax paid with these commitments.

	Consolidated		Parent Entity	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000
NOTE 26 OPERATING EXPENDITURE COMMITMENTS				
Operating expenditure commitments payable:				
Within one year	19,996	22,454	19,996	22,175
Later than one year but not later than five years	14,509	4,659	14,509	4,419
Later than five years	2,475	–	2,475	–
	36,980	27,113	36,980	26,594

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

NOTE 27 DIVIDENDS

In accordance with the share dividends scheme determined by the voting shareholders, and as required by the Energy Services Corporation Act, 1995 and State Owned Corporations Act, 1989, the Board has provided for a consolidated dividend payment of \$82,326,803 (2004 – \$60,063,626). This will be paid during the course of the 2005/2006 year and is represented by the balance of the provision (see Note 18). The dividend provision has been increased by the amount of \$2,198,289 (2004 – \$731,435 reduction) for net recoveries for worker's compensation and dust disease Court determinations for other than Eraring Energy employees. This liability was transferred from the NSW Government to Eraring Energy on corporatisation with agreement for the matter to be treated as a community service obligation and the net of payments less recoveries deducted from dividends.

Eraring Energy NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

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For the year ended 30th June, 2005

	Consolidated		Parent Entity	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
NOTE 28 NOTES TO THE STATEMENT OF CASH FLOWS				
Cash at bank and on hand	(see Note 5)	441	128	402
Reconciliation of profit from ordinary activities after income tax expense to net cash provided by operating activities:				
Profit from ordinary activities after income tax expense		80,129	68,843	79,314
Add/(less):				
(Profit)/loss on repayment of borrowings		14	–	14
Amortisation of fixed interest borrowings		(1,179)	(1,034)	(1,179)
Allowance for doubtful debts		(20)	(12)	(20)
(Profit)/loss on sale of property, plant and equipment		68	4	59
Add/(less): Non-cash items				
Depreciation		54,455	46,694	54,265
Depreciation on assets written off		715	86	546
(Increase)/decrease in accrued interest income		–	38	–
Increase/(decrease) in income tax payable		2,338	10,544	1,670
Increase/(decrease) in accrued interest expense		(1,268)	3,345	(1,156)
Net cash provided by operating activities before changes in assets and liabilities		135,252	128,508	133,513
Net changes in assets and liabilities during the financial year:				
(Increase)/decrease in receivables		(2,373)	(489)	7
(Increase)/decrease in other debtors		1,864	40,591	1,750
(Increase)/decrease in inventories		(12,778)	11,860	(18,145)
(Increase)/decrease in other assets		6,407	(6,897)	5,887
Increase/(decrease) in payables and borrowings		(1,732)	129	–
Increase/(decrease) in other liabilities		514	(34,008)	1,135
Net cash provided by operating activities		127,154	139,694	124,147

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

Note – restructuring adjustments to and from NSW Treasury Corporation are non cash debt to equity transactions.

NOTE 29 CONTINGENT LIABILITIES

Parent Entity

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

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

Pacific Western

Western Power has submitted a claim under the contract with Western Power for loss and/or damages incurred as a direct consequence of the early termination of the contract by Pacific Western. The claim is currently estimated by Western Power at \$4,992,236 which is withholding payment of sums due to Pacific Western of \$2,736,979, pending resolution of this claim.

Pacific Western has disputed the validity of this claim and the withholding of payment by Western Power and is currently pursuing its rights under the contract for a resolution of this matter.

NOTE 30 FINANCIAL INSTRUMENTS

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

Forward Foreign Exchange Contracts

In the normal course of business, Eraring Energy enters into contracts required for goods or services from overseas which are settled in the suppliers currency. Under Board approval, Eraring Energy hedges specific commitments by use of forward foreign exchange contracts. The contracts are timed to mature when settlement of the goods and services are due, and any gain or loss realised being included in the measurement of the purchase. At balance date Eraring Energy had 2 (2004 – 6) forward foreign exchange contracts as detailed below:

	2005			2004		
	Contracts	Average Exchange Rate	Principal Amount AUD	Contracts	Average Exchange Rate	Principal Amount AUD
Japanese Yen duration less than one year	2	73.48	1,539,350	5	79.47	4,150,134
Japanese Yen duration greater than one year	–	–	–	1	73.88	339,158

The contracts as at 30 June 2005 are showing an unrealised loss of \$193,148 (2004 – \$456,551 unrealised gain).

a) Interest Rate Risk

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

	Floating Interest Rate \$'000	Fixed Interest Rate Maturing In			Non-Interest Bearing \$'000	Total Carrying Amount \$'000	Weighted Average Effective Interest Rate pa %				
		1 Year or less \$'000	1 to 5 Years \$'000	Over 5 Years \$'000							
Parent Entity 2005											
Financial Assets											
Cash	402	–	–	–	–	402	3.66%				
Trade Debtors	–	–	–	–	48,636	48,636	–				
Deposits	1,925	–	–	–	–	1,925	5.45%				
Other	–	–	–	–	5	5	–				
Total Financial Assets	2,327	–	–	–	48,641	50,968	–				
Financial Liabilities											
Accounts Payable	–	–	–	–	59,423	59,423	–				
Debt	27,900	34,923	33,457	68,656	–	164,936	5.38%				
Other	–	–	–	–	82,574	82,574	–				
Total Financial Liabilities	27,900	34,923	33,457	68,656	141,997	306,933	–				
Consolidated 2005											
Financial Assets											
Cash	441	–	–	–	–	441	3.66%				
Trade Debtors	–	–	–	–	51,354	51,354	–				
Deposits	1,925	–	–	–	–	1,925	5.45%				
Other	–	–	–	–	5	5	–				
Total Financial Assets	2,366	–	–	–	51,359	53,725	–				
Financial Liabilities											
Accounts Payable	–	–	–	–	60,064	60,064	–				
Debt	27,900	34,923	33,457	68,656	–	164,936	5.38%				
Other	–	–	–	–	82,574	82,574	–				
Total Financial Liabilities	27,900	34,923	33,457	68,656	142,638	307,574	–				

NOTE 30 FINANCIAL INSTRUMENTS (CONTINUED)

	Floating Interest Rate \$'000	Fixed Interest Rate 1 Year or less \$'000	Interest Rate Maturing In 1 to 5 Years \$'000	Over 5 Years \$'000	Non-Interest Bearing \$'000	Total Carrying Amount \$'000	Weighted Average Effective Interest Rate pa %
Parent Entity 2004							
Financial Assets							
Cash	108	–	–	–	–	108	4.65%
Trade Debtors	–	–	–	–	50,393	50,393	–
Received from Related Entities	–	3,112	–	–	–	3,112	5.08%
Other	–	–	–	–	48	48	–
Total Financial Assets	108	3,112	–	–	50,441	53,661	–
Financial Liabilities							
Accounts Payable	–	–	–	–	45,323	45,323	–
Debt	20,800	13,000	70,853	57,348	–	162,001	5.35%
Other	–	–	–	–	59,519	59,519	–
Total Financial Liabilities	20,800	13,000	70,853	57,348	104,842	266,843	–
Consolidated 2004							
Financial Assets							
Cash	128	–	–	–	–	128	4.65%
Trade Debtors	–	–	–	–	52,656	52,656	–
Other	–	–	–	–	48	48	–
Total Financial Assets	128	–	–	–	52,704	52,832	–
Financial Liabilities							
Accounts Payable	–	–	–	–	46,588	46,588	–
Debt	20,800	13,000	70,853	57,348	–	162,001	5.35%
Other	–	–	–	–	60,064	60,064	–
Total Financial Liabilities	20,800	13,000	70,853	57,348	106,652	268,653	–

b) Credit Risk – Recognised Financial Instruments

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

NOTE 30 FINANCIAL INSTRUMENTS (CONTINUED)

	Government \$'000	Banks \$'000	Others \$'000	Total \$'000
Parent Entity 2005				
Financial Assets				
Cash	–	402	–	402
Trade Debtors	37,805	–	10,831	48,636
Deposits	1,925	–	–	1,925
Other	–	–	5	5
Total Financial Assets	39,730	402	10,836	50,968
Consolidated 2005				
Financial Assets				
Cash	–	441	–	441
Trade Debtors	40,523	–	10,831	51,354
Deposits	1,925	–	–	1,925
Other	–	–	5	5
Total Financial Assets	42,448	441	10,836	53,725
Parent Entity 2004				
Financial Assets				
Cash	–	108	–	108
Trade Debtors	44,620	–	5,773	50,393
Received from Related Entities	–	–	3,112	3,112
Other	–	–	48	48
Total Financial Assets	44,620	108	8,933	53,661
Consolidated 2004				
Financial Assets				
Cash	–	128	–	128
Trade Debtors	46,835	–	5,783	52,618
Other	–	–	48	48
Total Financial Assets	46,835	128	5,831	52,794

c) Net Fair Value

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

	Total Carrying Amount \$'000	Aggregate Net Fair Value \$'000
Parent Entity 2005		
Semi-Government Bonds	164,936	167,945
Consolidated 2005		
Semi-Government Bonds	164,936	167,945
Parent Entity 2004		
Semi-Government Bonds	162,001	161,796
Consolidated 2004		
Semi-Government Bonds	162,001	161,796

NOTE 30 FINANCIAL INSTRUMENTS (CONTINUED)**d) Credit Risk Exposure – Unrecognised Financial Instruments****Electricity Hedging Contracts**

The corporation is an active manager of its credit risk exposure to electricity hedging contracts. Following Board approved policy, exposure limits are applied to each respective counterparty. This is done by reference to an acceptable public credit rating assigned by an approved credit rating agency, or in the absence of an acceptable public rating, by assessing internally the credit rating of that counterparty using a methodology consistent with the approach of an approved credit rating agency. Credit limits and exposures are monitored regularly and reported monthly to the Board. It is preferred policy to seek an ISDA master agreement with all trading counterparts, and when necessary, the ISDA may require a Bank Guarantee or other acceptable security exercisable in the State of New South Wales. The total credit exposure for electricity hedging contracts as at 30 June 2005 was \$56,929,232 (2004 – \$32,502,049).

Forward Foreign Exchange Contracts, Interest Rate Swaps and Interest Rate Futures

Credit exposures are represented by the net mark to market position of the contracts, as disclosed. Board approved policy is in place which sets limits and credit rating for the financial institutions the company is allowed to deal with. Monthly reporting on limits and exposures is presented to the Board.

e) Electricity Derivatives Disclosure Note

	2005	2004
	Face Value	Face Value
	\$'000	\$'000
Electricity Hedging Contracts		
Duration less than one year	393,058	308,103
Duration later than one year but not later than five years	637,827	366,050
Duration later than five years	3,906	11,108
	1,034,791	685,261

The contracts as at the 30th June 2005 have a net mark to market value of negative \$202 million (2004 – negative \$227 million).

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

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

Uncontracted generation exposes the entity to pool price variation. The entity's risk management policy is to limit the exposure and consequent price risk within Board prescribed limits.

Mark to market value is measured based on industry accepted valuation methodologies and a market published forward curve.

As these contracts can be settled other than by physical delivery of the underlying commodity, they are classified as financial instruments. In entering into these contracts for the purpose of hedging the risks associated with future generation, the gains and costs of entering these contracts and any realised or unrealised gains and losses are deferred until the underlying generation occurs. On maturity, 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.

	Consolidated		Parent Entity	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
NOTE 31 EMPLOYEE ENTITLEMENTS				
Provision for employee entitlements				
Current	(see Note 18)	2,722	2,830	2,668
Non-current	(see Note 22)	12,918	12,824	12,918
		15,640	15,654	15,586
				15,023

Long Service Leave

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

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

Superannuation

Eraring Energy contributes to three defined benefit superannuation schemes at rates determined by Pillar. These schemes are the State Superannuation Scheme (SSS), State Authorities Superannuation Scheme (SASS) and the State Authorities Non-Contributory Superannuation Scheme (SANCS).

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

At balance date, any underfunded superannuation liability is recognised as a liability in the Statement of Financial Position. Similarly, the amount of any overfunded position is recognised as an asset in the Statement of Financial Position in the form of prepaid superannuation contributions. The superannuation balance of the three defined benefit superannuation schemes included in the Statement of Financial Position are:

	SASS \$'000	SANCS \$'000	SSS \$'000	Total \$'000
2005				
Accrued liability assessed by actuaries at 30 June 2005	17,883	7,453	58,100	83,436
Investment reserve balance	20,569	8,728	61,581	90,878
Superannuation balance – brackets indicate underfunded position	2,686	1,275	3,481	7,442

2004

Accrued liability assessed by actuaries at 30 June 2004	16,494	6,681	53,249	76,424
Investment reserve balance	17,978	7,418	52,219	77,615
Superannuation balance – brackets indicate underfunded position	1,484	737	(1,030)	1,191

The following assumptions were adopted in measuring present values of superannuation:

Consumer price index	2.5%
Investment return	7.0%
Salary increase	4.0%

NOTE 32 RELATED PARTIES

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

Eraring Energy NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

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For the year ended 30th June, 2005

NOTE 33 DIRECTORS

Terms and Remuneration of Directors

Appointments for non-executive directors can be for a period of up to five years. Eraring Energy pays all remuneration of non-executive directors which is set by the voting shareholders. No additional remuneration is paid to the Managing Director for being an executive director.

Name & Position	Appointed	Qualifications
Non-Executive Directors		
Mr RM Bunyon *	21st July 2000 to 30th June 2003	BComm (UNSW), CIE Aust
Chairman and Director	Reappointed to 30th June 2006	Director/Consultant
Ms BA Hoskinson-Green	21st July 2000 to 30th June 2005	LLB (UNSW), LL.M (Harvard)
Director	Reappointed to 30th June 2008	Solicitor/Director, Suzie Broome & Company Pty Limited, Strata Lawyers
Mr J Maitland *	21st July 2000 to 30th June 2003	National Secretary, Construction, Forestry, Mining & Energy Union
Director	Reappointed to 22nd March 2006	
Dr MJ Vertigan *	21st July 2000 to 30th June 2005	AC, B.Ec (Hons) Tasmania
Director	Reappointed to 30th June 2008	PhD California, FAICD
Mr M Nugent	1st July 2001 to 30th June 2004	FCPA
Director	Reappointed to 30th June 2007	Director
Mr D Pritchard	22nd August 2001 to 30th June 2004	BE, FIE Aust, CP Eng, FAICD
Director	Reappointed to 30th June 2007	Director
Executive Director		
Mr G Grove-White *	2nd January 2001	BSc (MechEngr) Hons, Chartered Engineer MI Mech E, Cert Diploma in Accountancy and Finance
Managing Director		

* These directors of Eraring Energy are also directors of Pacific Western Pty Ltd. No additional remuneration is paid to these directors for undertaking their Pacific Western directorship.

	Parent Entity	
	2005	2004
	\$'000	\$'000
Income paid or payable, or otherwise made available, to directors in connection with the management of the affairs of the entity	799	741
Superannuation benefits payable	83	74
Total remuneration payable to directors	882	815

	Parent Entity	
	2005	2004
	\$	No.
The number of directors whose total income from the entity was within the following bands are as follows:		
10,000 – 19,999	–	1
60,000 – 69,999	5	4
110,000 – 119,999	1	1
410,000 – 419,999	–	1
430,000 – 439,999	1	–

	Consolidated		Parent Entity	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000

NOTE 34 REMUNERATION TO EXTERNAL AUDITORS

Remuneration paid or payable for audit of the financial report

206 197 188 180

NOTE 35 EXEMPTIONS

The financial statements have been prepared in accordance with the requirements of Part 3 of the Public Finance and Audit Act 1983 and the Public Finance and Audit Regulation 2000, except that the following exemptions have been granted by the Treasurer:

Exemption from reporting amounts set aside for renewal or replacement of fixed assets.

Exemption from reporting amounts set aside to any provision for known commitments.

Exemption from reporting amounts appropriated for repayment of loans, advances and deposits.

Exemption from reporting material items of income and expenditure on a program or activity basis in respect of commercially sensitive information.

NOTE 36 IMPACTS OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

Eraring Energy will apply the Australian equivalents to International Financial Reporting Standards (AEIFRS) from the 2005/06 financial statements.

Eraring Energy has allocated internal resources and engaged expert consultants to conduct impact assessments to identify key areas that would be impacted by the transition to AEIFRS. A steering committee and project team, both chaired by the Chief Financial Officer, were established to manage AEIFRS implementation. Progressive reporting to the Board Audit Committee and regular updates to the Board of Eraring Energy have taken place. Consideration was given to key impact areas such as policies, procedures, systems and financial impacts arising from the transition to AEIFRS. A comprehensive AEIFRS impacts summary was developed and forms the basis of Eraring Energy's AEIFRS transition.

Eraring Energy has determined the key areas where changes in accounting policies are likely to impact the financial report. Some of these impacts arise because AEIFRS requirements are different from existing AASB requirements (AGAAP). Other impacts are likely to arise from options in AEIFRS. To ensure consistency at the whole of government level, NSW Treasury has advised agencies of options it is likely to mandate for the NSW Public Sector. The impacts disclosed below reflect Treasury's indicative mandates.

(a) Reconciliation of key aggregates**Reconciliation of equity under existing Standards (AGAAP) to equity under AEIFRS**

	30 June 2005	1 July 2004
Notes	\$'000**	\$'000 *
Total equity under AGAAP	1,153,894	1,123,735
Adjustments to accumulated funds		
Effects of valuing assets individually rather than by class	1 (10,523)	(8,034)
Derecognition of insurance receivables	2 (31,366)	(34,000)
Defined benefit superannuation adjustment for change in discount rate	3 (32,078)	(15,926)
Effect of discounting long-term annual leave	4 203	203
Tax effect adjustment	5 15,274	5,432
Adjustments to other reserves		
Effect of valuing assets individually rather than by class	1 10,523	8,034
Tax effect adjustment	5 (81,580)	(65,919)
Total equity under AEIFRS	1,024,347	1,013,525

* adjustments as at the date of transition

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

Eraring Energy NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

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For the year ended 30th June, 2005

NOTE 36 IMPACTS OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

Reconciliation of surplus / (deficit) under AGAAP to surplus / (deficit) under AEIFRS

		Year ended 30 June 2005
	Notes	\$'000
Surplus / (deficit) under AGAAP		79,314
Insurance recovery income	2	2,634
Defined benefit superannuation	3	(16,152)
Income tax expense	5	(982)
Surplus / (deficit) under AEIFRS		64,814

Notes to tables above

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

(b) Financial Instruments

In accordance with NSW Treasury's indicative mandates, Eraring Energy will apply exemption provided in AASB1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards not to apply the requirements of AASB132 Financial Instruments: Presentation and Disclosures and AASB139 Financial Instruments: Recognition and Measurement for the financial year ended 30 June 2005. These Standards will apply from 1 July 2005. None of the information provided above includes any impacts for financial instruments. However, when these Standards are applied, they will impact on retained earnings (first time adoption) and the amount and volatility of profit or loss. Further, the impact these Standards will in part depend on whether the fair value option can or will be mandated consistent with Government Finance Statistics.

Eraring Energy will need to recognise a liability for electricity derivatives (refer Note 30 Financial Instruments) on the Balance Sheet on transition. The break up of the negative mark to market of derivatives will impact Equity or Retained Earnings on transition depending on whether hedges are classified as effective or not and on NSW Treasury indicative mandates under these Standards. The tax effect of these derivatives will also be included.

NOTE 37 EVENTS OCCURRING AFTER BALANCE DATE

Agreement was reached for Eraring Energy to repay capital of \$49 million in August 2005 via a non cash equity to debt swap. The share held by the Hon. A. Refshauge, Treasurer at balance date has subsequently been transferred to the Hon M. Iemma, Premier and Treasurer.

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

1. The Financial Statements exhibit a true and fair view of the financial position, financial performance and cash flows of Eraring Energy as at 30th June, 2005.
2. The Financial Statements are a general purpose financial report which has been prepared in accordance with applicable Australian Accounting Standards and other mandatory professional reporting requirements, the provisions of the State Owned Corporations Act 1989, including Part 3 of the Public Finance and Audit Act 1983, the Public Finance and Audit Regulation 2000, except where the Treasurer's exemption has been granted.
3. At the date of this statement, there are reasonable grounds to believe the company will be able to pay its debts as and when they become due and payable.
4. We are not aware of any circumstances at the date of this declaration that would render any particulars in this financial report to be misleading or inaccurate.

Dated at Sydney this 13th day of September 2005.



R M Bunyon
Chairman



G F Grove-White
Managing Director



GPO Box 12
SYDNEY NSW 2001

To Members of the New South Wales Parliament

Audit Opinion

In my opinion, the financial report of Eraring Energy:

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

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

The Board's Role

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

The Auditor's Role and the Audit Scope

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

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

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

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

My opinion does not provide assurance:

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

Audit Independence

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

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

R J Sendt
Auditor-General
SYDNEY
13 September 2005

Directors

The Directors in office at the date of this report are Ross Murdoch Bunyon, John Maitland, Michael John Vertigan and Gerry Grove-White. All Directors have held office for the whole of the financial year.

Principal Activities

The principal activity of the company for the year until termination of the contract with Western Power on 24 March 2005 was operation and maintenance of the Collie Power Station.

Trading Results

The profit from ordinary activities after tax was \$3,528,808 (2004 – \$544,905) on total revenue of \$13,397,845 (2004 – \$16,031,425). The operating result was significantly higher than the previous year due to inclusion in that year of the cost of planned outages (\$2.4 million) and provision for a redundancy/loyalty payment of \$1.2 million.

Dividends

The dividend provided for in the prior year was paid to the parent entity during the year. The directors have declared a dividend of \$2,169,080, payable out of retained profits at 30 June 2004. This dividend was also paid to the Parent Entity during the year. No dividend has been recommended from the current year profits pending dispute resolution with Western Power.

Directors' Benefits

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

Review of Operations

Negotiations for an extension of the contract with Western Power were not successful and as a consequence Pacific Western terminated the contract effective 26 March 2005, two months prior to its natural expiry. Although Pacific Western submitted a tender for a new form of contract proposed by Western Power, its submission was unsuccessful. By mutual agreement the previous contract was terminated on 24 March 2005 with all staff except one being terminated on that date.

The plant achieved availability for the period ending 24 March 2005 of 98.84% with a forced outage factor of 0.16% and a maintenance outage factor of 0.00%. This resulted in a bonus payment from Western Power for the operating period.

Despatched output for the period ending 24 March 2005 was 1,754GW which was 9.43% above budget. There were no lost time injuries to staff or contractors during this period.

The Company successfully undertook a compliance audit in January 2005 and retained its accreditation for safety, environmental and quality.

Likely Developments

Dispute resolution has commenced with Western Power over their claim for additional costs associated with the early termination of the contract. Pacific Western disagrees with the basis and quantum of the claim.

Auditor's Independence Declaration

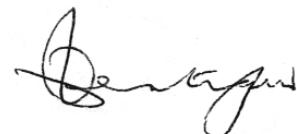
The Auditor's Independence Declaration, required under the Corporations Act 2001, is included on the following page.

Dated at Sydney this 13th day of September 2005.

Signed in accordance with a resolution of the Directors:



R M Bunyon
Director



M Vertigan
Director



GPO Box 12
SYDNEY NSW 2001

To the Directors
Pacific Western Pty Limited

Auditor's Independence Declaration

As auditor for the audit of Pacific Western Pty Limited for the year ended 30 June 2005, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

M P Abood

M P Abood
Director, Financial Audit Services

13 September 2005
SYDNEY

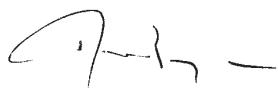
Beginning of the Pacific Western Pty Limited Financial Statements audited by the Auditor-General

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

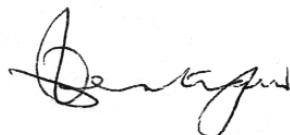
- a) the financial statements are drawn up so as to give a true and fair view of the profit and cash flows of the company for the period 1 July 2004 to 30 June 2005 and the state of affairs of the company as at 30th June 2005.
- b) at the date of this statement there are reasonable grounds to believe that the company, with the support of its parent entity Eraring Energy, will be able to pay its debts as and when they fall due;
- c) the financial statements have been made out in accordance with Corporations Act 2001;
- d) the financial statements of the company have been made out in accordance with applicable accounting standards, authoritative pronouncements of the Australian Accounting Standards Board and Urgent Issues Consensus Group Views, and
- e) the financial statements have been prepared in accordance with the provisions of the NSW Public Finance and Audit Act, 1983 and the NSW Public Finance and Audit Regulation, 2000.

Dated at Sydney this 13th day of September 2005.

Signed in accordance with a resolution of the Directors:



R M Bunyon
Director



M Vertigan
Director

Pacific Western Pty Limited **STATEMENT OF FINANCIAL PERFORMANCE**

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For the year ended 30th June, 2005

	Note	2005 \$	2004 \$
Revenues from rendering services	2 (a)	13,162,865	15,997,950
Other revenues from ordinary activities	2 (b)	234,980	33,475
Total revenue		13,397,845	16,031,425
Materials and consumables used		(917,986)	(1,484,870)
Employee benefits expense		(2,796,847)	(5,570,661)
Depreciation expense		(189,675)	(374,818)
Borrowing costs expense		(69,864)	(225,609)
Other expenses from ordinary activities		(4,374,193)	(7,598,124)
Profit from ordinary activities before income tax expense	3	5,049,280	777,343
Income tax expense relating to ordinary activities	4	(1,520,472)	(232,438)
Profit from ordinary activities after income tax expense		3,528,808	544,905
Net profit attributable to members of the parent entity	15	3,528,808	544,905
Total changes in equity other than those resulting from transactions with owners as owners		3,528,808	544,905

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

STATEMENT OF FINANCIAL POSITION Pacific Western Pty Limited

As at 30th June, 2005

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	Note	2005	2004
		\$	\$
Current Assets			
Cash assets	5	38,598	19,618
Receivables	6	4,643,418	2,263,304
Current tax assets	4b	-	232,668
Inventories	7	-	5,367,262
Other	8	17,338	131,503
Total Current Assets		4,699,354	8,014,355
Non-Current Assets			
Plant and equipment	9	-	335,142
Deferred tax assets	4c	48,125	568,516
Total Non-Current Assets		48,125	903,658
Total Assets		4,747,479	8,918,013
Current Liabilities			
Payables	10	640,730	1,264,961
Interest bearing liabilities	11	-	3,111,583
Current tax liabilities	4b	435,374	-
Provisions	12	142,566	2,354,191
Total Current Liabilities		1,218,670	6,730,735
Non-Current Liabilities			
Provisions	13	-	18,197
Total Non-Current Liabilities		18,197	18,197
Total Liabilities		1,218,670	6,748,932
Net Assets		3,528,809	2,169,081
Equity			
Contributed equity	15	1	1
Retained profits	15	3,528,808	2,169,080
Total Parent Entity Interest		3,528,809	2,169,081
Total Equity		3,528,809	2,169,081

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

Pacific Western Pty Limited **STATEMENT OF CASH FLOWS**

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For the year ended 30th June, 2005

	Note	2005 \$	2004 \$
Cash flows from operating activities			
Cash received in the course of operations		18,947,042	17,387,801
Interest and bill discount received		53,243	12,668
Cash paid in the course of operations		(12,766,293)	(16,473,689)
Interest and other finance costs paid		(181,447)	(187,409)
Income tax paid		(332,039)	(962,537)
Net cash inflow (outflow) from operating activities	17 (b)	5,720,506	(223,166)
Cash flows from investing activities			
Proceeds from sale of equipment		36,000	–
Payments for property, plant & equipment		(23,541)	(77,628)
Net cash inflow (outflow) from investing activities		12,459	(77,628)
Cash flows from financing activities			
Proceeds from borrowings		1,800,000	4,000,000
Repayment of borrowings		(4,800,000)	(2,500,000)
Dividend paid	17 (c)	(2,713,985)	(1,389,632)
Net cash inflow (outflow) from financing activities		(5,713,985)	110,368
Net increase (decrease) in cash held		18,980	(190,426)
Cash at beginning of the year		19,618	210,044
Cash at the end of the year	17 (a)	38,598	19,618

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

NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of Preparation

The financial statements are a general purpose financial report which has been prepared in accordance with the requirements of the NSW Public Finance and Audit Act 1983, the NSW Public Finance and Audit Regulation 2000, the Australian Accounting Standards, Corporations Act 2001, Urgent Issues Group Consensus Views and other authoritative pronouncements of the Australian Accounting Standards Board.

They have also been prepared in accordance with the historical cost convention and do not take account of changes in the general purchasing power of the dollar except where stated. The accounting policies have been consistently applied by the Company and are consistent with those of the previous year. The financial report has been prepared on a going concern basis, which presumes the realisation of assets and discharge of liabilities in the normal course of business for the foreseeable future. The preparation of these accounts on an ongoing basis has not produced results which are materially different to that of preparing them on an alternative basis, ie. on a liquidation basis.

(b) Income Tax

Tax effect accounting procedures are followed whereby the income tax expense in the Statement of Financial Performance is matched with the accounting profit after allowing for permanent differences. The future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt. Income tax on cumulative timing differences is set aside to the deferred income tax or future income tax benefits accounts at the rates which are expected to apply when those timing differences reverse. Income tax is paid to the NSW Office of State Revenue under the National Tax Equivalent Regime.

(c) Plant and Equipment

Items of plant and equipment are recorded at cost. Cost is determined as the fair value of the assets given as consideration plus the costs incidental to the acquisition. Depreciation is calculated on a straight line basis to write-off the net cost or re-valued amount of plant and equipment over its expected useful life.

Estimates of remaining useful lives are made on a periodic basis for all assets. The useful lives presently assigned to the company's assets – plant and equipment are between 3 – 5 years.

(d) Inventories

Inventories, which consist predominately of maintenance spare parts, are valued at the lower of cost and net realisable value. Costs are assigned to individual items of stock on the basis of weighted average cost.

(e) Interest bearing liabilities

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

(f) Revenue recognition

Revenues are recognised at fair value of the consideration received net of the amount of goods and services tax (GST) payable to the taxation authority. Exchanges of goods and services of the same nature and value without any cash consideration are not recognised as revenues.

Revenue from rendering services represents revenue earned for the provision of services under the Operating and Maintenance Agreement with the station owner. Revenue is recognised in proportion to the stage of completion of the contract when the stage of completion can be reliably measured.

NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(g) Receivables**

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

(h) Payables

Liabilities are recognised for amounts to be paid in the future for goods and services received. Trade accounts payables are normally settled within 30 days. Payables in the Statement of Financial Position represent the principal amounts outstanding at balance date plus, where applicable, any accrued interest.

(i) Goods and Services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except

(a) where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of a acquisition of an asset or as part of an item of expense; or

(b) for receivables and payables which are recognised inclusive of GST. The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

(j) Employee Entitlements

(i) Annual leave: Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in provisions for employee benefits up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

(ii) Long service leave: The liability for long service leave expected to be settled within 12 months of the reporting date is recognised in the provision for employee benefits and is measured in accordance with (i) above. The liability for long service leave expected to be settled more than 12 months from the reporting date is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on National Government bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

(iii) Termination benefits: Liabilities for termination benefits, not in connection with the acquisition of an entity or operation, are recognised when a detailed plan for the terminations has been developed and a valid expectation has been raised in those employees affected that the terminations will be carried out. The liabilities for termination benefits are recognised in other creditors unless the amount or timing of the payment is uncertain, in which case they are recognised as provisions.

Liabilities for termination benefits expected to be settled within 12 months are measured at their amounts expected to be paid when they are settled.

(k) Impacts of Adopting Australian Equivalents to International Financial Reporting Standards

The disclosure required by AASB1047 Disclosing the Impacts of Adopting Australian Equivalents to International Financial Reporting Standards is not applicable as Pacific Western has terminated its contract with Western Power.

	2005	2004
	\$	\$
NOTE 2 REVENUE FROM ORDINARY ACTIVITIES		
(a) Revenue from operating activities		
Services rendered	13,162,865	15,997,950
	<hr/>	<hr/>
	13,162,865	15,997,950
(b) Other revenue from non operating activities		
Interest received	53,243	12,668
Proceeds from sale of plant & equipment	177,811	–
Miscellaneous	3,926	20,807
	<hr/>	<hr/>
	234,980	33,475
Total revenue from ordinary activities	<hr/>	<hr/>
	13,397,845	16,031,425

NOTE 3 OPERATING PROFIT

Profit from ordinary activities before income tax expense includes:

Expenses		
Contractor costs	2,408,045	4,584,916
Depreciation:		
Plant and equipment	189,675	374,818
Borrowing costs		
Interest and finance charges paid/payable to parent entity	69,864	225,609
Minimum lease rentals:		
Operating lease payments	56,551	68,808
Novated lease payments	202,719	343,043
Other		
Consultants	100,272	200,100
Redundancy/loyalty cost	90,057	1,196,407

Consultants

Expenditure on consultants totalled \$100,272. The main purpose of the engagements related to legal advice associated with contract negotiations with Western Power.

Redundancy/Loyalty Cost

The Redundancy/Loyalty provision has been determined in accordance with the Company's approved redundancy policy.

	2005	2004
	\$	\$
NOTE 4 INCOME TAX		
a) Income Tax Expense		
The income tax expense for the financial year differs from the amount calculated on the profit. The differences are reconciled as follows:		
Profit from ordinary activities before income tax expense	5,049,280	777,343
Income tax calculated at 30%	1,514,784	233,203
Tax effect of permanent differences:		
Underprovision in prior year	3,161	–
Sundry items	2,527	(765)
Income tax attributable to operating profit	1,520,472	232,438
Aggregate income tax expense comprises:		
Current taxation provision	1,000,081	502,739
Future income tax benefits	520,391	(270,301)
	1,520,472	232,438
b) Current Tax Assets/Liabilities		
Balance at beginning of year	(232,668)	227,130
Less income tax paid (after deducting any refund received)	(332,039)	(962,537)
Current year's income tax expense on operating profit	1,000,081	502,739
Income tax payable / (refund due)	435,374	(232,668)
c) Deferred Tax Assets		
Future income tax benefit	48,125	568,516
NOTE 5 CURRENT ASSETS - CASH ASSETS		
Cash at bank and on hand	38,598	19,618
NOTE 6 CURRENT ASSETS - RECEIVABLES		
Trade debtors	2,718,418	2,224,783
Other debtors	1,925,000	38,521
	4,643,418	2,263,304

Other Debtors

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

	2005	2004
	\$	\$
NOTE 7 CURRENT ASSETS – INVENTORIES		
Stores and materials	–	5,367,262
NOTE 8 CURRENT ASSETS – OTHER		
Prepayments	17,338	131,503
NOTE 9 NON-CURRENT ASSETS – PLANT AND EQUIPMENT		
Plant and equipment		
At cost	10,313	2,511,318
Less: Accumulated depreciation	(10,313)	(2,176,176)
Written Down Value of Plant and Equipment	–	335,142
Reconciliation		
Reconciliation of the carrying amount of plant and equipment at the end of the current financial year is set out below:		
Carrying amount at 1 July 2004	335,142	
Addition	23,541	
Disposals	(169,008)	
Depreciation expense	(189,675)	
Carrying amount at 30 June 2005	–	
NOTE 10 CURRENT LIABILITIES – PAYABLES		
Trade creditors and accruals	640,730	1,264,961
NOTE 11 CURRENT LIABILITIES – INTEREST BEARING LIABILITIES		
Borrowings – Loans from Parent Entity	–	3,111,583
Standby arrangements and credit facilities – short term advances from parent entity to a \$9 million limit.		
Borrowings from parent entity includes accrued interest of \$0 (2004 – \$111,583). The terms of the loans do not exceed 12 months.		
See note 19.		
NOTE 12 CURRENT LIABILITIES – PROVISIONS		
Dividend to Parent Entity	–	544,905
Employee entitlements – long service leave	24,976	281,336
Employee entitlements – annual leave	28,987	331,543
Redundancy	88,603	1,196,407
	142,566	2,354,191
Reconciliation of provision classes – see Note 14		
NOTE 13 NON-CURRENT LIABILITIES – PROVISIONS		
Employee entitlements – long service leave	–	18,197

	Dividend	Current Employee Entitlements	Redundancy	Non-Current Employee Entitlements
	\$	\$	\$	\$
NOTE 14 MOVEMENTS IN PROVISIONS				
Movements in each class of provision during the financial year, are set out below.				
Carrying amount at 1 July 2004	544,905	612,879	1,196,407	18,197
Additional provisions recognised	2,169,080	–	90,057	–
Payments/other sacrifices of economic benefits	(2,713,985)	(558,916)	(1,197,861)	(18,197)
Carrying amount at 30 June 2005	–	53,963	88,603	–
			2005	2004
			\$	\$

NOTE 15 CONTRIBUTED EQUITY AND RETAINED PROFITS

Authorised Capital				
100,000,000 ordinary shares of \$1 each		100,000,000	100,000,000	
Issued and Paid up Capital				
1 ordinary share of \$1 each, fully paid				
		1	1	
Retained Profits				
Retained profits at the beginning of the financial year	2,169,080	2,169,080		
Net profit attributable to members of the parent entity	3,528,808	544,905		
Dividends provided for or paid	(2,169,080)	(544,905)		
Retained profits at the end of the financial year	3,528,808	2,169,080		

NOTE 16 COMMITMENTS FOR EXPENDITURE

Capital commitments payable:			
Within one year	–	2,616	
	–	2,616	
Operating Leases			
The company has a number of motor vehicle operating leases none of which have any contingent rentals, renewal options conditions or restrictions. Minimum lease payments in any year are dependent on the term of each lease.			
Operating lease rentals payable:			
Within one year	42,602	74,224	
Later than one year but not later than five years	10,177	52,780	
	52,779	127,004	

Pacific Western expects to receive input tax credits from the Australian Taxation Office totalling \$4,798 for Goods and Services Tax paid with these commitments.

	2005	2004
	\$	\$

NOTE 16 COMMITMENTS FOR EXPENDITURE (CONTINUED)**Novated Leases**

The company has commitments under Deeds of Novation in respect of employee motor vehicle leases. The company's commitment under a Deed of Novation ceases on termination of employment of the employee concerned. All costs paid by the company in respect of these leases are fully recoverable from the employees salaries. Minimum lease payments in any year are dependent on the term of each lease and the continued employment of the relevant employees.

Novated lease rentals payable:

Within one year	-	279,316
Later than one year but not later than five years	-	239,902
	-	519,218

Pacific Western expects to receive input tax credits from the Australian Taxation Office totalling \$0 for Goods and Services Tax paid with these commitments.

NOTE 17 CASH FLOW INFORMATION

(a) Cash at bank and on hand	38,598	19,618
(b) Reconciliation of profit from ordinary activities after income tax expense to net cash provided by operating activities:		
Profit from ordinary activities after income tax expense	3,528,808	544,905
Add/(less): Non-cash items		
Depreciation	189,675	371,558
Depreciation on assets written off	169,008	3,261
Proceeds from sale of non-current assets	(36,000)	-
Increase/(decrease) in income taxes payable	668,042	(459,798)
Increase/(decrease) in interest payable	(111,583)	38,200
Net cash provided by operating activities before changes in assets and liabilities	4,407,950	498,126
Net changes in assets and liabilities during the financial year:		
(Increase)/decrease in receivables	(2,380,114)	(754,843)
(Increase)/decrease in other debtors	114,165	(57,036)
(Increase)/decrease in inventories	5,367,262	(7,874)
(Increase)/decrease in future income tax benefit	520,391	(270,302)
Increase/(decrease) in trade creditors and accruals	(1,732,035)	379,439
Increase/(decrease) in other liabilities	(577,113)	(10,676)
Net cash provided by operating activities	5,720,506	(223,166)

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

(c) The dividend of \$544,905 payable to the Parent Entity relating to the year ended 30 June 2004 which was paid on the 28th November 2004 was not franked.

NOTE 18 CONTINGENT LIABILITIES

Western Power has submitted a claim under the contract with Pacific Western for loss and/or damages incurred as a direct consequence of the early termination of the contract by Pacific Western. The claim is currently estimated by Western Power at \$4,992,236 which is withholding payment of sums due to Pacific Western of \$2,736,979, pending resolution of this claim. Pacific Western has disputed the validity of this claim and the withholding of payment by Western Power and is currently pursuing its rights under the contract for a resolution of this matter.

NOTE 19 FINANCIAL INSTRUMENTS

Financial instruments give rise to positions that are financial assets or liabilities of either Pacific Western or its counterparties. For Pacific Western these include cash, receivables, creditors and borrowings. In accordance with AASB 1033 "Presentation and disclosure of Financial Instruments", information is disclosed in this Note in respect of the risks entailed in the use of Financial Instruments. All such amounts are carried in the accounts at net fair value unless otherwise stated hereunder. Classes of instruments recorded at cost comprise Cash, Receivables and Payables. Borrowings are recorded at the principal sum repayable at maturity plus any accrued interest. All financial instruments including revenue, expenses or other cash flows arising from instruments are recognised on an accrual basis.

a) Interest Rate Risk

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

	Floating Interest Rate	Fixed Interest Rate Maturing In			Non- Interest Bearing	Total Carrying Amount	Weighted Average Effective Interest Rate
2005							
Financial Assets							
Cash	38,598	–	–	–	–	38,598	3.66%
Receivables	1,925,000	–	–	–	2,718,418	4,643,418	–
Total Financial Assets	1,963,598	–	–	–	2,718,418	4,682,016	–
Financial Liabilities							
Other	–	–	–	–	640,730	640,730	–
Total Financial Liabilities	–	–	–	–	640,730	640,730	–
2004							
Financial Assets							
Cash	19,618	–	–	–	–	19,618	3.70%
Receivables	–	–	–	–	2,263,304	2,263,304	–
Total Financial Assets	19,618	–	–	–	2,263,304	2,282,922	–
Financial Liabilities							
Other	–	–	–	–	1,264,961	1,264,961	–
Debt – Parent Entity	–	3,111,583	–	–	–	3,111,583	10.31%
Total Financial Liabilities	–	3,111,583	–	–	1,264,961	4,376,544	–

NOTE 19 FINANCIAL INSTRUMENTS (CONTINUED)**b) Credit Risk – Recognised Financial Instruments**

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

	Government	Banks	Other	Total
2005				
Financial Assets				
Cash	–	38,598	–	38,598
Receivables	4,643,418	–	–	4,643,418
Total Financial Assets	4,643,418	38,598	–	4,682,016
2004				
Financial Assets				
Cash	–	19,618	–	19,618
Receivables	2,214,898	–	9,885	2,224,783
Total Financial Assets	2,214,898	19,618	9,885	2,244,401

c) Net Fair Value

The aggregate net fair value of financial assets and financial liabilities approximate the values recognised in the Statement of Financial Position.

	2005	2004
	\$	\$
NOTE 20 EMPLOYEE ENTITLEMENTS		
Provision for employee entitlements		
Current	(see Note 12)	53,963
Non-current	(see Note 13)	–
	53,963	631,076
Employee Numbers		
Number of employees at reporting date	1	43

NOTE 21 RELATED PARTIES DISCLOSURES

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

Ultimate Parent Entity

The ultimate Parent Entity of the company as at balance date is Eraring Energy.

Transactions with the ultimate Parent Entity

Expenses incurred for services provided by Eraring Energy totalled \$70,264. These were primarily in relation to insurance services and were on normal terms and conditions. Other transactions included borrowing costs of \$69,864.

NOTE 22 DIRECTORS**Terms and Remuneration of Directors**

The names of each person holding the position of Director of the company during the financial year are detailed below. No additional remuneration is paid to these directors for undertaking their Pacific Western directorship. All of the persons detailed below were also directors during the year ended 30th June 2004.

Name & Position	Appointed	Qualifications
Non-Executive Directors		
Mr RM Bunyon Chairman and Director	6th September 2000	BComm (UNSW), CIE Aust Director/Consultant
Mr J Maitland Director	6th September 2000	National Secretary, Construction, Forestry, Mining & Energy Union
Dr MJ Vertigan Director	6th September 2000	B.Ec (Hons) Tasmania PhD California, FAICD Director
Executive Director		
Mr G Grove-White Director	19th February 2001	BSc (MechEngr) Hons, Chartered Engineer MI Mech E, Cert Diploma in Accountancy and Finance
		2005 2004 \$ \$
Remuneration paid or payable for audit of the financial report		17,850 17,000



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

Audit Opinion

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

(a) the Corporations Act 2001, including:

- (i) giving a true and fair view of Pacific Western Pty Limited's financial position as at 30 June 2005 and financial performance for the year ended on that date, and
- (ii) complying with Accounting Standards in Australia, and the Corporations Regulations 2001,

(b) other mandatory financial reporting requirements in Australia, and

(c) section 41B of the Public Finance and Audit Act 1983.

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

The Directors' Role

The financial report is the responsibility of the company's directors. It consists of the statement of financial position, the statement of financial performance, the statement of cash flows and the accompanying notes, and directors' declaration.

The Auditor's Role and the Audit Scope

As required by the Public Finance and Audit Act 1983 and the Corporations Act 2001, I carried out an independent audit to enable me to express an opinion on the financial report. My audit provides reasonable assurance to Members of the New South Wales Parliament and the members of Pacific Western Pty Limited that the financial report is free of material misstatement.

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

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

GPO Box 12
SYDNEY NSW 2001

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

My opinion does not provide assurance:

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

Audit Independence

The Audit Office complies with all applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001. The Public Finance and Audit Act 1983 further promotes independence by:

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

M P Abood

M P Abood
Director, Financial Audit Services

SYDNEY

13 September 2005

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