



Annual Performance Report 2001>2002

The power is in your hands

A low-angle photograph of a young boy with curly hair, wearing a red t-shirt with white stripes on the sleeves. He is smiling and looking upwards while holding a wooden stick with a colorful pinwheel attached. The pinwheel is blurred, indicating it is spinning. In the background, a large white wind turbine is visible against a clear blue sky. The overall scene conveys a sense of clean energy and hope for the future.

The power
is in your hands



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Cover: Generating his own power, Brandon McBey, 5, son of Operational Manager Steve McBey (Bowenfels/Kandos) at the Hampton wind farm, Lithgow, a source of 'green' power for Integral Energy.

Opposite page: Against a typical South Coast backdrop, live line workers Rod Tennison (Leading Hand) and Dave Warren are able to maintain or enhance Integral Energy's electricity supply network without disconnecting customers.

...to serve customers

31 October 2002

The Hon Michael Egan MLC
Treasurer
Minister for State Development
Vice-President of the Executive Council
Parliament House
Macquarie Street, Sydney 2000

Dear Mr Egan

Report of performance for the year ended 30 June 2002

This performance report covers Integral Energy's performance, operations and statement of accounts for the year ended 30 June 2002, in accordance with the provisions of the *Annual Reports (Statutory Bodies) Act, 1984* and is submitted on behalf of the Board of Integral Energy for tabling in Parliament.

Copies are being sent to the Premier of New South Wales, the Auditor-General, Members of Parliament, key customer groups and the media.
Sincerely



Michael McLeod
Chairman



Richard Powis
Chief Executive Officer

> Performance report

The advent of full retail competition in the New South Wales electricity heralded a new era for Integral Energy.

This year's report further underlines the value of concentrating on core business – electricity distribution and sales – as external pressures increased. Apart from meeting customer expectations, reinforced by their ability to choose their electricity supplier, Integral Energy's distribution network also withstood a record number of storms, and raging bushfires.

The organisation rose to these challenges, determined to achieve its aims of being a **best practice asset manager and a competitive energy retailer**.

Integral Energy again improved its financial performance and continued to perform strongly in a highly competitive market, growing its customer base.

At the same time, the organisation continued to plan for its immediate and long-term future.

This report sets out the organisation's achievements throughout 2001-2002, and the contribution made by its employees on behalf of our 790,000 customers, our shareholder, and the community.

> This is Integral Energy

Integral Energy is one of NSW's largest state-owned energy corporations, incorporated under the *Energy Services Act 1995*.

We conduct our business with a sharp commercial and customer focus, within the terms of the *Electricity Supply Act 1995* on behalf of our shareholder, the NSW Government.

We operate in the National Electricity Market, retailing energy services and electrical contracting, and providing and metering services to industrial and commercial customers. We also distribute and retail electricity and value added services to 790,000 customers, or 2.1 million people, in households and businesses across a network franchise spanning 24,500 square kilometres in Greater Western Sydney, the Illawarra, and the Southern Highlands.

We are a forward looking, financially disciplined business, intent on achieving our vision: to be Australia's leading energy business.

In pursuit of this vision, we intend to build sustainable success into all facets of our operation, and have set ourselves the following mission: to be a successful energy corporation with a long term focus on being a best practice asset manager and competing in profitable energy markets.

Our corporate values drive an ethical and responsible culture and underpin the way we work at Integral Energy. Our values are safety excellence, integrity, customer commitment, sustainability and commercial success, respect for people, accountability and responsibility, and management by fact.

We believe it is the inherent quality of our people that enables Integral Energy to look confidently to the future.

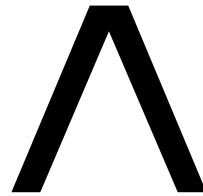


> Year at a glance

Items		2001/2002	2000/2001	%change
Customer and market				
Total sales of electricity	GWh	9,329	9,462	(1.4)
Total customer connections		789,923	773,383	2.1
System maximum demand	MW	2,915	2,966	(1.7)
Reliability (planned and unplanned interruptions to supply)	Min/lost/cust	133.7	136.3	(1.9)
Customer Service Indicator ¹				
Target	%	45.0	n/a	
Result	%	50.3	n/a	
Social programs	\$'000	17,025	14,196	19.9
Pensioner Rebates	\$'000	16,480	13,750	19.9
Life Support Equipment Rebate	\$'000	545	446	22.2
Energy Accounts Payment Assistance (EAPA)	\$'000	3,212	2,809	14.3
Business results				
Sales revenue	\$'000	1,012,394	1,013,028	(0.1)
EBIT before capital contributions	\$'000	145,454	152,550	(4.7)
Operating result before tax and capital contribution	\$'000	63,024	74,240	(15.1)
Cash flow from operations	\$'000	215,531	267,613	(19.5)
Net borrowing costs	\$'000	72,963	71,735	1.7
Net borrowing costs X interest cover	\$'000	175,111	179,338	(2.4)
Capital expenditure	\$'000	163,056	105,247	54.9
Debt/equity ratio	%	40.2	35.5	13.2
Times interest earned		2.4	2.5	(4.0)
Asset sales	\$'000	10,635	11,368	(6.4)
Net assets	\$'000	999,692	1,159,807	(13.8)
Return on net operating assets	%	7.0	8.2	(14.6)
Return on equity	%	5.2	7.6	(31.6)
System loss index	%	5.6	5.0	12.0
Output	GWh	14,975	15,100	(0.8)
Returns to NSW Government				
Dividend ²	\$'000	90,632	52,776	71.7
Income tax equivalents	\$'000	42,938	16,524	159.9
Payment of capital from equity	\$m	150	200	(25.0)
Greenhouse emissions reduction	Millions of tonnes	3.9	4.0	(2.5)
People learning and growth				
Total employees		1,944	1,765	10.1
Lost time accidents frequency rate – per million hours worked		13.3	12.8	3.9
Absenteeism per employee	Days/year	5.9	6.1	(3.3)
Business processes, products and services				
Qualified credit rating Standard & Poor's	AA	AA	n/a	

1. Based on performance in a series of customer services

2. Includes a special dividend of \$80m



> This is what we did well ...

- > Returned \$133m to our shareholder, the NSW Government, including a special dividend of \$80m.
- > Increased profit (EBITDA) by \$37m above forecast to \$267.7m.
- > Responded to a record number of natural disasters across the franchise area, including the Christmas bushfires and the worst storm in 10 years.
- > Embarked on an ambitious program of capital investment totalling \$107m in the supply network to further improve safety and reliability.
- > Revitalised our brand and embarked on a new corporate positioning strategy.
- > Rebuilt our retail business in preparation for full retail contestability.
- > Achieved new standards for end-to-end billing processes.
- > Led the NSW energy industry in preparations for Full Retail Contestability.
- > Maintained industry environmental leadership with a reduction of 3.9m tonnes of greenhouse gas emissions.
- > Hosted the NSW Electricity Supply Industry's safety field days for the second successive year.
- > Published our inaugural annual planning statement – *Network 2010* – and our inaugural sustainability report.

... and where we need to improve <

- > Develop a culture of safety among all staff to reduce lost time accidents (LTAs), injuries and illnesses.
- > Draw sharper focus on the capital program to upgrade the network to improve reliability and drive efficiency throughout the franchise.
- > Complete implementation of our fraud control strategy in order to promote an ethical culture.
- > Continue to introduce programs to develop our people.



> Business scorecard for 2001-2002

	Critical success factors	Measures	Target	Results	Comments	Future action
Business results	Financial	EBITDA	\$230.6m	\$267m	Reflects stronger financial discipline	Finance unit support for IPART submission
	Return on regulated assets	%	7.50%	6.9%	Revenue allowances did not include higher level of investment to drive improved reliability	To be addressed in submissions to the regulator.
Customer and market	Network reliability	Customer minutes	130 minutes	133.68 minutes	Higher incidence of unstable weather and higher than usual number of planned outages	Target for 2002-03 reduced to 125 minutes
	Customer service indicator	%	45%	50.3%	Compiled from a range of internal and external indicators. Overall customer service targets were achieved	2002-03 measure will focus on customer satisfaction
	Profitable market share	%	55.3%	58.4%	Target exceeded among contestable franchise customers	Continue to improve performance
Business processes, products and services	Debtor days	Days	35 days	27.3 days	Achieved as a result of improvements to clearing of backlog of overdue accounts	Continue to improve performance
People, Learning and Growth	Staff performance index	%	42.1%	47.8%	Target achieved	Measure for 2002-03 will focus on an improvement in staff satisfaction based on previous research.
	Level of staff safety	Frequency rate	10	13.27	A high incidence of accidents was the major factor	Target for 2002-03 is 9.5.
		Severity rate	85	72.61	Achieved. Time lost as a result of accidents has reduced.	Target for 2002-03 is 80.
	Staff development index	%	67.5%	53.3%	Unfavourable against target due to career plans incomplete, lower proportion of vacant positions filled internally and performance appraisals being incomplete.	2002-03 will focus on 100% completion of performance appraisals for all staff



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2 >



YEAR IN REVIEW

Three key strategies – building value in our network, responding to the mass-market challenge, and ensuring the quality and integrity of our support systems – have put us on course for long-term success.

...to chart a course for success

It wasn't all plain sailing, but there's time for quiet reflection on a successful year by Business Analyst Shelley Zerni (Customer Interaction) and daughter Gabrielle, 5.

Inset pics from left: > Craig Hadfield, Transmission Major Projects, Coniston > David Neville, Manager Regulatory and Pricing > Belinda Hernandez, Call Centre, Coniston

The past year has been one of consolidation, building on the achievements of 2001. We continued to reap the rewards from our “back to basics” philosophy which we commenced in 2000.

> Chairman's report

This strategy of refining and improving every aspect of our business has paid off, especially in terms of improved financial performance. It follows a period of sustained hard work to capitalise on the inherent strengths within our core business and to drive dramatic improvements in those parts of the business where our performance was previously found wanting.

Financial performance

The Board and Executive team can be pleased with the impressive financial results that have been achieved. We delivered a net profit before tax, interest, depreciation and amortisation (EBITDA) of \$267.7m – a slight increase over last year's result. This result compares favourably with others in the industry, and is the second successive year of improved financial performance for Integral Energy.

We delivered a strong return of \$53m to our shareholder, the NSW Government, with a further special dividend of \$80m. This is a substantial increase on last year's result of \$69.3m. These impressive results can be ascribed to strong financial discipline, an unfaltering commitment to commercial success, and our continuing consolidation efforts.

Capital expenditure for the year totalled \$163m, an increase of \$58m from last year, but falling short of the budgeted target by \$16.3m. Among the reasons for the underspend against budget was the need to often divert staff to respond to the abnormal major natural crises throughout the year, and deferred IT projects.

Strategic direction

Our vision is to be Australia's leading energy business. In striving to achieve this vision, the Board renewed its commitment to our business purpose:

to be a successful energy corporation with a long term focus on being a best practice asset manager and competing in profitable energy markets. This vision and mission work to balance the often competing demands of diverse stakeholders while delivering strong financial outcomes.

We intend to achieve this aim by pursuing the three fundamental strategies articulated in our corporate plan, which remain relatively unchanged from last year. These strategies build on our core strengths. Throughout 2001-2002, they worked to focus the efforts of the Board, the Executive and staff on the issues central to our long-term success.

These focus areas included:

- > building value in our network;
- > preparing ourselves for the mass market challenges; and
- > ensuring the quality and integrity of our support systems.

These three strategies form the cornerstone of our corporate strategy through to 2004 and underpin all that we do. Our performance against each is detailed in the CEO's report.

One of the major challenges in pursuing this strategy is that it demands a certain discipline from us all to stick to our plan.

It means divesting those businesses that are not considered core to our long-term success. For this reason, the Board decided to sell the small reticulated gas network located in the Shoalhaven area during the course of the year. Returns generated by this business had been very disappointing.

Our agreed strategy also requires discipline in the assessment of the long-term value of new business ventures presented as a result of a competitive market. This means that

Integral Energy has made significant returns to its shareholder since the introduction of the competitive electricity market in NSW in 1996. These dividends provide funding for improving the quality of life for future generations and the long-term success of communities through expenditure, for example, on schools, hospitals, police and the environment.

while many of our competitors appear to have seized emerging opportunities with a view to reinventing themselves as a multi-utility, Integral Energy remains intent on doing what it does best.

Sustainability

In considering our strategy, the Board recognises that the relationship between our financial, environmental and social performance is critical to our long-term business success. Like many leading Australian and international businesses, we recognise that sound environmental and social performance has a direct impact on our financial bottom line.

Also, sound financial performance ensures we are able to return healthy dividends to our shareholder, the NSW Government. It should be recognised that Integral Energy has made significant returns to its shareholder since the introduction of the competitive electricity market in NSW in 1996. These dividends provide funding for improving the quality of life for future generations and the long-term success of communities through expenditure, for example, on schools, hospitals, police and the environment.

Last year we committed ourselves to the principle of sustainability and enshrined it as a core value of the organisation. Our aim over the course of the next year is to provide an integrated report of financial, social and environmental performance for all our stakeholders.

Corporate governance

There is little doubt that the community expects improved management controls and greater levels of transparency from businesses, especially those owned by governments. Against this rising tide of community expectation and

scrutiny, both in Australia and internationally, the Board worked to develop a tight framework of corporate governance. This was achieved by researching domestic and international best practice governance frameworks and by benchmarking our past performance against them.

The development of a new Board policy on governance has been one of the key instruments in driving improved understandings throughout the business since this benchmarking exercise was completed.

In addition, all members of the Board are focused on retail risk management due to the importance of protecting shareholder value in a volatile market, as witnessed with electricity trading in May and June 2002.

Two areas of corporate governance that have focussed the Board's thinking during the year have been business ethics and our safety performance.

Business ethics

Our corporate values provide a set of principles that guide our behaviour and business operations. These values are detailed on pages 104-5. At the heart of these values sits a commitment to honesty, integrity and fairness in all aspects of our business. We also expect others to conduct their business with us according to these principles.

During the course of the year, the Board was concerned to take steps to review the robustness of business systems, and to review the organisation's Code of Ethics. This flowed from an allegation of corrupt conduct by an employee about an employee that was immediately referred to ICAC for further investigation. This resulted in the dismissal of one employee.

It was followed by an exhaustive review of business systems, policies and processes, presided over by the CEO, Richard Powis, with a special emphasis placed on fraud prevention. It also meant a thorough revision of the Code of Ethics. The Board and the Executive team recognise that winning the confidence of customers, staff, and suppliers demands the highest levels of integrity in the course of our business.

Safety

Of considerable concern to the Board has been the organisation's lacklustre safety performance, which appeared to have stalled by mid year. This was entirely unacceptable to the Board and the management team and led a renewed push on safety matters through our occupational health and safety strategic plan. This plan defines our philosophy that people must feel secure and safe in the workplace if they are to contribute to the organisation.

Future challenges

The Board was impressed by the organisation's ability to deliver solid results in preparation for Full Retail Contestability (FRC) against a demanding timetable, with a smooth transition to the new fully contestable market being achieved for millions of domestic and small business customers in NSW and Victoria from January 2002.

Competing successfully in the retail business presents both challenges and opportunities for us. This market brings a new set of challenges for Integral Energy as well as other NSW industry participants, with increased competition for customers, downwards pressure on margins and costs, and heightened expectations from customers about dramatically improved products and customer service.

Of focus to the Board longer term is the capacity of our retail business to compete in such an aggressive marketplace, particularly against businesses that possess the scale and scope to drive out costs as margins decline due to the pressures of competition.

Our retail business has already witnessed considerable change in the competitive landscape since competition was first introduced for large businesses over five years ago. Those businesses presently emerging as leaders have actively grown their customer base through mergers and strategic acquisitions. This has been the case in Victoria during 2001-2002, with AGL purchasing Pulse and Origin purchasing the retail business of Citipower. As a result, AGL and Origin each have customer bases in excess of 2m, providing ample scope for cost minimisation.

Integral Energy, on the other hand, has spent the past few years getting itself fit to compete. It has built strong trading skills, regrouped its sales and marketing functions, and developed sound risk management and business systems.

We now need to focus on plans to make up lost ground. While our future focus will be to seize the lead by growing profitable market share, we are also cognisant of the limits to what we can be achieved in this type of market, characterised by pricing volatility, declining margins and an abundance of aggressive competitors.

Industry pundits have long promoted the view that the market can not sustain the present number of players. Consolidation of the industry is well under way. Strategic alliances and joint ventures are one of the options the Board intends to consider. These provide viable options for delivering

benefits to customers, while at the same time ensuring the financial returns to our shareholder that are expected of us.

Maximising our contributions from this business and building value for customers and our shareholder as a result poses a challenge to us longer term.

Strategic leadership

I am very grateful for the support I have received from my fellow directors since I took up the role from our former Chairman, Neil McDermott, on 1 March 2002. Neil chose not to seek re-appointment as Chairman of the Board and left to pursue new challenges that had arisen for him. He led the Board through a period when the organisation was gearing itself for major change, and made a valuable contribution to our success. The Board of Directors join with me in wishing Neil well in his new pursuits.

John Fahey, former NSW Premier and Federal Finance Minister joined our Board in June 2002. Besides adding to the Board's commercial focus, John brings a wealth of experience in business and government. John is also familiar with the particular needs of regional economies, having resided and worked for many years within Integral Energy's franchise. His skills and understandings will be a significant asset to the Board.

Thank you

The Board also acknowledges Richard Powis and his Executive team, for their dedicated and determined leadership and commitment over the past year. The results of 2001-2002 speak for themselves, and reflect the healthy relationship that has been established between the Board and the Executive team.

Most importantly, the Board recognises the efforts and dedication of Integral Energy staff members who have gone the extra mile for the organisation in another challenging year. On behalf of the Board, I would especially like to express our admiration and thanks to them in responding to the unusually high number of natural disasters confronting Integral Energy over the past year. I am sure that in doing so, I am also echoing the indebtedness of the community to them.

Moving forward

The Board of Directors understand our role as custodians of a valuable state owned enterprise. We believe we are well equipped to build on the foundations laid over the course of the past two years. We remain steadfastly committed to delivering solid returns and building and protecting shareholder value, while contributing to the long-term benefit of our people, the customers whom we serve, and to the communities in which we live.

Finally, the Board and Executive team is committed to improving the value of Integral Energy for all its stakeholders. I am confident that we have all the fundamentals in place to meet further challenges and opportunities as they present themselves, and that our performance will go from strength to strength.



Michael McLeod
Chairman

Integral Energy's year saw most performance targets achieved against a backdrop of an unprecedented number of natural disasters, including the Christmas bush fires and the worst windstorm in ten years. These disasters tested the resolve of our staff, the robustness of our crisis management systems and the patience of our customers.

> Chief Executive Officer's report

On behalf of the Executive team, I would like to express my gratitude to our staff for their strong sense of professionalism and commitment to customer service. Our people performed beyond the limits of expectation, particularly our asset management, call centre and front-line response teams.

Despite these unexpected pressures, by year's end we had met the majority of ten challenging performance targets agreed with our shareholder in our Statement of Corporate Intent and encapsulated in our Corporate Plan.

Financial performance

Being profitable – through serving our customers well and managing our assets – is a vital element of what we contribute to the broader community and to the people of NSW. This is supplemented with employment opportunities, developing the expertise of our people, listening and contributing to regional economies, and investing in them.

It is worth noting that since competition commenced in the NSW electricity industry in 1996, Integral Energy has returned over \$500m to the NSW Government. This has enabled further investment and job creation in public schools, hospitals and roads.

To this end, Integral Energy continued to deliver solid financial results in the year under review. Staff should feel justifiably proud of our performance. We delivered a healthy \$133m to our shareholder, which included a special dividend of \$80m, representing an impressive 92% improvement over the 2000-2001 results.

This can be attributed to the fact we demonstrated sound financial discipline and, to a lesser extent, to

the Electricity Tariff Equalisation Fund (ETEF), introduced by the NSW Government in 2001.

Net profit before tax was \$99.1m, marginally below last year's figure, but well ahead of our budget of \$53m.

Last year we revealed our plans to embark on a five-year network capital expenditure program worth over \$800m. This program is designed to redress successive years of under expenditure in maintenance of ageing assets, which has significant implications for maintaining and improving reliability, while simultaneously investing in growth related projects. By year's end, we had invested \$108m in planned projects, falling slightly short of the budgeted amount of \$126m, mainly due to the need to divert our people from planned capital programs to respond to the unusually high frequency and intensity of natural disasters that hit our franchise area at various times throughout the year. We have plans in place to ensure that capital expenditure is better managed into the future, outlined below.

Building value in the network

If we are to fulfil our obligations to our shareholder and our customers, we must ensure that we effectively manage network assets worth an estimated \$2 billion.

Integral Energy's network is our primary asset management responsibility and covers some of the fastest growing residential and industrial areas in NSW, including West and South-west Sydney, the South Coast and Illawarra. It is made up of 25,000 transmission, zone and distribution substations, 370,000 power poles and 150,000 streetlights. The latter are bound together by 33,000 kilometres of overhead and underground cable.

These assets play a vital role in the success of regional economies. Vast tracts of land in Sydney's Greater West and the Illawarra are being transformed into major residential estates housing thousands of young families, while growing numbers of businesses are capitalising on improved infrastructure and lower operating costs in relocating away from the city.

It goes without saying that a reliable and safe electricity supply is integral to the success of regional communities, helping to create employment opportunities, attract investment, and build globally competitive businesses.

It is therefore disappointing that reliability slightly exceeded our target of 130 minutes of supply lost per customer, with 133.68 minutes recorded. We are therefore unable to claim the excellent reliability that we strive to provide.

This result is primarily due to the higher incidence of unstable weather – other than storms – and a higher than usual number of planned outages.

The impact of storms was much greater than usual. Over the previous four years, Integral Energy's franchise area experienced an average of six major storms a year. The frequency and severity of these natural disasters diverted staff from planned work and called on the unified efforts of hundreds of field and customer service staff to work in extreme conditions on an almost monthly basis.

The bushfires, in particular, had a devastating impact on our network and customers. In the space of three weeks, repair work costing \$7.4m was undertaken, with 500 burnt power poles replaced and 100 kilometres of overhead cable re-strung, with no lost time accidents recorded.

Integral Energy learned important lessons about mitigating the impact of bushfires on the network and on the community. Following the fires, we conducted a comprehensive review of the network's performance during this period, culminating in the development of an extensive bushfire risk management plan endorsed by the Board.

Practical steps to minimise the risk of the network contributing to fires through sparks or arcing included a renewed focus on vegetation management, the systematic installation of over 23,000 'spreaders' on our overhead network, and a public safety awareness campaign designed to alert customers to preventative steps they can take.

If we are to achieve longer-term reliability targets, we need to ensure that our capital expenditure program is well planned and implemented. The significance of our capital investment program should not be underestimated. This was again one of the most important programs that we focused on during the past year.

We launched our inaugural Annual Planning Statement – *Network 2010* – which details our plans to invest in the network over the course of the next ten years. We initiated the plan to inform our stakeholders – customers, regulators, local government, the business community and all other interested parties – of our plans and strategies to improve our long-term network asset value and ensure we deliver optimal returns.

By doing so, we sought to engage our stakeholders in how we are seeking to align with customer, technical and regulatory drivers. In addition, we have provided them with an understanding of how we will put in place major investment and asset management policies to maintain the ongoing capability of our network.

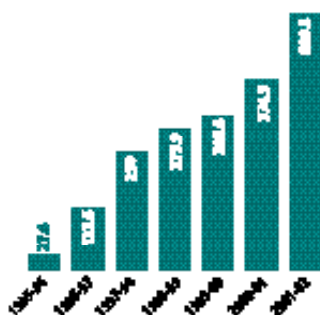
Regulatory management

Integral Energy's network and regulated retail operations primarily fall under the determinations of the Independent Pricing and Regulatory Tribunal (IPART). The Tribunal plays a major role in influencing the incentives and operations of NSW electricity distributors and retailers, and in regulating revenue outcomes and producing pricing determinations. As such, it has a significant impact on the financial performance of both our distribution and retail businesses.

IPART's current Network Determination was set to operate from February 2000 to June 2004. This Determination set a revenue cap for all NSW distributors for the regulatory period until the end of 2003-2004. As stated in last year's report, we believe this Determination has not provided sufficiently for recent changes in our operating environment and that the capital and operating expenditures approved by IPART were insufficient. Capital and operating expenditures are two of the components, or "building blocks", that the regulator assesses in determining the revenue stream that the distribution business is able to earn over a given period.

Returns to shareholder since the introduction of electricity reform in NSW

\$m (cumulative)



Due to Integral Energy's ageing asset base, increasing demand growth and greater community expectations relating to network service quality and reliability, we have substantially revised our capital expenditure requirements to around \$200m higher than that allowed in IPART's current Network Determination. This has placed further commercial pressures on the organisation as the funding of this additional \$200m will need to be met from the existing level of income that our Network business will receive under the fixed revenue cap arrangement.

This has focused our attention on the 2004 Network Determination and the importance of receiving a balanced commercial outcome. The forthcoming review will determine the revenue/price path for the Network business, which will in turn directly impact on the organisation's future commercial return, along with its ability to deliver in the areas of asset investment and renewal strategies, network performance and standards of service.

We are very mindful of the fact that Integral Energy's response to this review will effectively determine more than \$2b in revenue for the period 2004-2009. Our objective is to achieve a Determination outcome that enables Integral Energy to meet or exceed our customers' expectations, achieve the commercial objectives set by our shareholder, and appropriately address the organisation's medium to long term investment and expenditure requirements.

Integral Energy's Retail business also has its own set of regulatory challenges. The current Retail Determination, which also extends until the end of 2003-2004, establishes the regulated retail prices that Integral Energy can charge in supplying electricity to customers who remain on standard supply contracts and do not enter into a negotiated contract with a licensed retailer. This form of regulation has been developed based on the setting of 'target tariffs' by IPART, which is a retail tariff established by the Tribunal based on its assessment of each standard retailer's cost of supplying electricity to franchise customers.

During 2001-2002, IPART conducted a mid-term review of the existing regulatory arrangements in the retail area. Integral Energy argued that its target tariffs had been set too low and needed to be increased to reflect the actual costs associated with supplying customers. In terms of outcomes, we welcomed the steps taken by the tribunal in its mid-term review to relax existing retail price limits and increase retail target tariffs towards more appropriate commercial levels. While there remain many difficulties, IPART is to be commended for the practical improvements that have been made in this area.

Within the revised framework established by IPART for regulated retail tariffs, we will continue to focus on moving those tariffs that are currently below target, or 'under-collecting', towards the allowed target tariff by June 2004. Longer term, we look forward to working with IPART and other stakeholders in improving the efficiency and effectiveness of any future regulated retail arrangements.

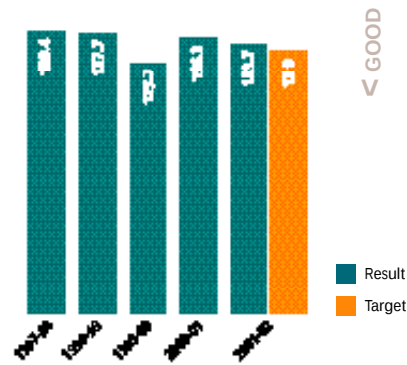
Preparing for the mass market challenge

Integral Energy invested a total of \$30.4m to meet the demands of the mass-market and full retail contestability (FRC). These preparations were undoubtedly one of our greatest challenges during the reporting period.

The race to be prepared by January 2002 required renewed emphasis on service delivery, enhanced understanding of customer needs, development of new products, robust technical systems to enable customers to exercise choice of supplier, and a soundly managed retail business.

Reliability of electricity supply is a key driver of customer satisfaction

Minutes lost per customer



A huge effort was required behind the scenes to ensure a smooth transition from a monopoly market to a competitive market. These challenges saw many parts of our organisation working together across organisational boundaries on over 90 projects, designed to enable the retail and back office business units to ensure a smooth transition to full retail contestability against non-negotiable time frames. Since competition began, over 160,000 customers in NSW have exercised their right of choice between energy providers.

In less than a year, Integral Energy has witnessed fierce competition for our customers from new and traditional energy retailers intent on increasing their market share. We geared ourselves to meet this competition by revitalising our brand, revising our marketing strategies and giving renewed emphasis to issues of customer service and competitive prices. While the market is still quite immature, it is clear that the current number of participants cannot be sustained. For this reason, industry consolidation is emerging as a strategic issue for us.

Ensuring support systems are in place

We recognise that the efforts of our people form the backbone of our success. We worked to fine tune our structure to enhance the effectiveness of teams and to deliver improved customer service throughout the year. We rebuilt and refocused teams where necessary, equipping them to succeed through training and development programs, particularly for senior leaders. By bringing together this team, the Executive aimed to ensure that our top people shared one vision of our future, effectively uniting our people towards a common goal. This was a significant achievement for the Executive team in the year under review.

Pitching our brand

Integral Energy required a deliberate and coordinated strategy to build, sustain and defend a positive brand image and reputation in NSW energy market, particularly among its franchise customers.

The resulting strategy aimed to build value in the Integral Energy brand, achieve a high level of awareness and recognition, increase brand loyalty, and create strong, favourable brand associations. Targets were set for increasing awareness of Integral Energy and affinity with the brand both within and beyond the franchise area.

Agreement on the desired corporate positioning was critical to the success of strategy. The positioning needed to draw on the organisation's competitive strengths and the attributes most important to energy consumers.

Research showed that most energy consumers saw electricity as a "public right" and found it hard to differentiate players in the market. They did, however, want to trust and know that their energy provider was "doing the right thing".

This insight reflected a global trend – the increasing importance consumers place on both behavioural and performance attributes. That is, how an organisation conducts its business is just as important, if not more so, as what an organisation does.

Within and beyond our franchise, the organisation's market visibility was increased through brand advertising.

Safety

Safety is a key focus for the Board and Executive team and I echo the Chairman's comments about our commitment to driving improved safety performance. Despite renewed efforts, our safety results disappoint.

Specifically, we are concerned about the number of lost-time accidents during 2001-2002. We recorded 49 lost time accidents with 43 accidents in the previous year. The frequency rate was 13.27 accidents per million hours worked, against a target of 10.

Given our corporate value of respect for people, I am of the firm view that it is unacceptable for us to tolerate performance that falls well below industry norms. The challenge for 2002-2003 will be to translate that view into specific behaviours that ensure that each employee returns safely to his or her family at the end of the day. To assist with this objective, we benchmarked our safety performance against best-performing businesses, sought external advice, and made a commitment to ten safety principles that were then deployed throughout the management team.

Our people's efforts deserve the support of world class IT&T systems and strategies. This has proven difficult to achieve at various points in our history, and so we moved towards refocusing our strategic management of IT&T to bring it 'in-house'. This resulted in the preparation of an IT&T strategic plan and the formation of a strategic team built on the specific requirements of our various business units. The three key themes of this strategy are cost restraint, risk management and business alignment.

Sustainability

We published, and then welcomed third party endorsement of our inaugural Sustainability Report. This report documents our commitments, our performance to date and plans for the future in balancing our financial, environmental and social performance.

Safety is a key focus for the Board and Executive team and I echo the Chairman's comments about our commitment to driving improved safety performance.

In addition, I was honoured to accept external acknowledgment by the Sustainable Energy Development Authority (SEDA) in April 2002, as SEDA Ambassador of the Year. This award recognises Integral Energy's leadership and commitment to sustainable energy initiatives, including unparalleled greenhouse gas reductions, and promotion of renewable energy programs.

Sale of gas business

Several years ago, we embarked on tentative steps to expand the organisation's capability in dual-fuel operations by buying the Shoalhaven gas business. Since then, the organisation has reviewed its commitment to dual-fuel initiatives. We decided to relinquish the business as it had failed to generate expected returns and it did not fit in with our commitment to focus on our core capabilities. The gas network assets at Harrington Park and Nowra, along with the gas retail business was sold to ActewAGL on 30 June 2002.

ICAC investigation

One disappointment in our social performance in 2001/2002 involved a fraud committed by a former employee. This involved the unauthorised sale of a number of Integral Energy's redundant electricity transformers to scrap metal merchants. The action was in serious breach of Integral Energy's Code of Ethics and the employee was dismissed immediately. The fraud was referred to the Independent Commission Against Corruption (ICAC) in February 2002 in accordance with Integral Energy's statutory obligations.

We have co-operated with ICAC during the course of the investigation. We have also embarked on a review of relevant policies and procedures with a view to reducing the scope for fraud.

As CEO, I have an unwavering commitment to delivering effective leadership and developing a culture noted for the highest levels of professional integrity. I am, of course, disappointed to report the actions of the dismissed employee, and remain concerned about the inevitable consequences of his actions, as I realise the serious impact that an incident of fraud has on the good reputation of Integral Energy and its people.

Changes to the Executive team

We made solid progress during the past year in bringing together a new leadership team complemented by the addition of two new General Manager positions – that of GM Sales and Marketing and GM Trading, which were taken up by Michael Tauber and Stephen Lowe respectively. These new positions signify our commitment to refocusing our retail business, and since their appointment, both GMs have made solid progress in developing strategic plans and building new teams.

Acknowledgments

Paramount to our success is the effort and commitment of our people, who respond with renewed vigour to the challenges presented to them. As mentioned earlier, I would like to sincerely thank them for working under inordinate pressure and often in extraordinary conditions during the past year.

I would also like to acknowledge the Chairman and Directors of the Board for their guidance, effective governance and continued support.

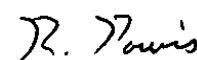
The close of 2002 will mark a full twelve months during which the new Executive team has been working together. I would like to thank them for their individual and collective contributions and demonstrated leadership.

Outlook

Integral Energy is a sound business with significant potential for growth in a new competitive environment, underpinned by a solid foundation of expertise. We are now well positioned to capitalise on the foundations we have rebuilt over the course of the past two years.

As we strive to achieve our vision of being Australia's leading energy business, we will focus on building and maintaining value in our network, on improving reliability; on managing the inherent risks in retail activities in a rapidly changing competitive environment; on progressing our safety performance by living our safety principles; on renewing our commitment to our customers; and on ensuring that the basic foundations of our business remain robust.

I am confident that by working together, our Board, Executive team and staff are poised to contribute substantially to Integral Energy's ongoing success in the years ahead.



Richard Powis
Chief Executive Officer

We recognise that the long-term success of our organisation hinges on sound management of our network assets, and we are committed to their continual improvement.

> Building value in the network

Integral Energy's electricity supply network serves over two million people across 24,500 square kilometres. With an estimated value in excess of \$2b, the network is made up of more than 25,000 substations, 370,000 power poles and 150,000 streetlights, bound together by in excess of 33,000km of overhead and underground mains. It is our key income-generating asset and, as such, we ensure its positive contribution to our entire business, while meeting the needs of our customers for a safe and reliable electricity supply.

In addition, we have to take into account:

- > our obligation to provide a safe and reliable network for the public, customers and staff;
- > the role of regulators who influence our financial returns from assets and operations;
- > the expectation of our shareholder for commercial returns through the optimum mix of capital and operating expenditures;
- > developments in technology – and comparisons with industry benchmarks – so as to continually improve our asset management technologies and practices; and,
- > environmental sensitivity in all our activities.

Responsibility for the development and operation of the network rests with two key business units:

Engineering Performance provides engineering support related to planning, operation, maintenance and connection within the franchise area. The business unit also develops strategies, policies and plans for the development of electrical assets to meet the current and future needs of customers.

Asset Management, which employs more than half of the organisation's staff, ensures that the organisation's electrical assets are 'fit for service' through transmission and distribution engineering, maintenance, construction, refurbishment and emergency response.

Reliability of supply

The past financial year has been a difficult one for network reliability due to the impact of major storms and bushfires. The reliability target was set at 130 minutes, comprising 35 minutes for planned outages and 95 minutes for unplanned outages.

We achieved a result of 34.36 minutes for planned reliability, an extremely pleasing result, given the high levels of maintenance carried out on the network throughout the year. Excluding major storms, the unplanned reliability result of 99.32 minutes was 4.5% above target.

Overall reliability was 133.7 minutes, excluding storms. The impact of heavy storms on customers was dramatic, taking the unplanned interruption figure to 704 minutes lost per customer.

Meeting demand

Our geographically diverse franchise area contains some of Australia's fastest developing areas where annual electricity capacity demand has been growing at 5% per year over the last four years. During 2001-2002, growth in demand continued, with more than 4,500 connection projects, including residential sub-divisions.

As well as meeting the growing demands of new customers, Integral Energy has embarked upon a major capital investment program for the network. This program is detailed in Integral Energy's annual planning statement, *Network 2010*. It includes



> How's the weather? All bad, including a furious windstorm at Smithfield, snow falling at Bowral, burned out power poles in the Christmas/New Year bushfires, and floods at the Hoxton Park depot.

Natural disasters

We had to cope with an unprecedented number of incidents during 2001-2002 – nine major storms compared to an average of six over the previous four years, plus the devastating Christmas/New Year bushfires that affected a significant part of our franchise area, from the Blue Mountains, east to Helensburgh and south to Sussex Inlet.

The storms and bushfires caused significant damage to the network with the cost of repair work exceeding \$7m. Over the Christmas period alone, the bushfire clean-up included replacement of 500 burned transmission and distribution poles and 100km of cable, restoring supply to more than 89,000 customers.

These events again demonstrated the ability of our staff to work as a team under extremely difficult conditions, and their commitment to restore supply to customers as speedily as possible.

Following a thorough review of the impact of the bushfires, the organisation developed a comprehensive bushfire risk management plan due to take effect ahead of the 2002-2003 bushfire season.

At the mercy of the elements

On average, six out of every seven of our customers were affected by an unprecedented series of storms and bushfires that hit our supply network between August and February. All up, our field staff worked to restore supply to a total of 660,000 customers. Storm activity is usually confined to the months from November to February.

Date	Cause	Days to Recover	Customers affected
2001			
16 August	Wind	4	40,431
18 August	Wind	2	61,496
26 August	Electrical/snow	2	16,334
2 October	Electrical	3	14,822
18 November	Wind	4	165,058
3 December	Electrical	2	62,966
25 December	Bush fires	11	89,575
2002			
7 January	Electrical	2	30,620
16 February	Electrical/wind	4	160,273
26 March	Electrical	2	19,543

new or upgraded zone and transmission substations.

During the year, new substations were completed at Narellan and Prestons, improving supply for thousands of customers in rapidly growing suburbs south of Liverpool. Built at a total cost of \$15m, both substations came on stream on November 2001.

Major projects issued for construction include new zone substations at Bow Bowling, North Richmond, Wetherill Park (also transmission), Lennox, Mamre, Glenmore Park and Quarries. In addition, a long-term plan for electricity supplies to the Parramatta CBD is nearing finalisation, ahead of community liaison on the impact of the project.

Enquiries on the location of underground assets carried out on behalf of the 'Dial before you dig'

service achieved an average 99% response rate within 36 hours of requests from customers. This was a significant result given a tenfold increase in enquiries in the South Coast area due to re-definition of boundaries, and when compared with a service level of responding to 95% within 48 hours.

Demand Management

Integral Energy continued its strong commitment to the investigation and development of demand management (DM) programs and improving the industry wide processes to achieve this outcome. The organisation has also developed internal procedures to allow all stakeholders the opportunity to have input into the development of non-network options. The first of these projects to be placed in the public domain is Penrith Transmission Substation.

Integral Energy's extensive demand management (DM) program aims to manage the growth of electricity demand in selected areas in our franchise. Key projects have enabled us to reduce energy consumption, better manage peak consumption periods, and reduce the impact of network charges on customers.

At 30 June, major DM programs were in place at Wetherill Park and Seven Hills – controlling summer afternoon peaking problems among industrial customers – and Katoomba, where load growth has been reduced through energy efficiency programs among new and existing homeowners.

New DM programs for power factor corrections were begun at Blacktown industrial area and the Camden Zone Substation. These programs realised a saving of \$460,000 by deferring

Increasing use of air conditioners in summer has changed the nature of demand on the network, requiring ways to improve performance.

Megawatts



network build options valued at \$6.6m. The programs also resulted in total reduction of 877 tonnes of greenhouse emissions.

Integral Energy played a leading role in the NSW Independent Pricing and Regulatory Tribunal (IPART) inquiry into the Role of Demand Management and Other Options in the Provision of Energy Services, making presentations and providing data on DM programs at the request of IPART. It is anticipated that this inquiry will result in the development of regulatory policy to assist the implementation of cost-effective DM programs.

Integral Energy conducted an interruptible air conditioning study over the 2000-2001 summer period. The study is recognised as the only trial of its kind in Australia with the express objective of reducing residential peak demand as set out in the NSW Sustainable Energy Development Authority (SEDA) report, *Demand Side Management: Evaluation of Market Potential in NSW*.

Network connections

A total of 37,841 customer connection services – for existing customers requiring expansion or augmentation of their electricity supply, and at new residential and commercial subdivisions - were completed during the year, reflecting the growth in development in the franchise.

As a contestable activity, connection of customers to the network required continued development of processes and systems.

The process controlling the design and connection of contestable works carried out by both external Accredited Service Providers (ASPs) and internal staff was refined, and the terms and conditions updated.

ASPs, who carry out 95% of new connections, were also used to improve service to customers during times of extreme system disruption, such as storms. In February, 40 ASPs assisted in the restoration effort, reconnecting about 1,200 customers.

An emergency response manual was compiled to further ensure the safe and efficient use of ASPs, as well as to refine existing emergency procedures.

Environmental initiatives

A number of major changes were made to environmental processes and procedures during the past year, including an assessment of how new poles and padmount substations are installed in the network; updating our environmental standards; soil erosion and sediment control training for over 300 asset management staff; and, hazardous waste awareness training for the drivers of Integral Energy's vehicles licensed to carry such waste.

Vegetation management

Striking a balance between environmental concerns and network needs, Integral Energy operates a \$12m vegetation management program through specifically contracted firms and its own staff with skills in horticulture.

Vegetation contact with overhead powerlines is a common cause of supply interruptions. To help maintain supply reliability, we have a comprehensive vegetation management policy that is underpinned by both Australian and industry horticultural standards.

In a year-round activity, 12 vegetation control contracts were managed during the year to help recover from significant backlogs in this program over the past five years. Careful planning and cooperative responses by contractors helped achieve

performance within 99% of the set targets by year-end.

A program was introduced during the year that allows trees to be trimmed without the normal practice of interrupting supply to customers. Four Integral Energy crews have been trained to trim trees that have grown within normal safe working clearances.

Further information on environmental initiatives is contained in the environment report on page 30.

Capital and maintenance programs

With continued anticipated growth in our franchise area, we focused on planning for an accelerated capital and refurbishment program designed to improve network reliability.

Overall, there was an increase in capital for 2001-2002 to \$107.7m, part of a ten-year rolling program that will see more than \$1.6b invested in the network.

Among the highlights of our capital program over the year were:

- > as part of the Prestons zone substation project, installation of the longest single length of 33kV underground cable in the franchise;
- > major design and construction work for the Liverpool to Parramatta Transitway project, for which we have successfully tendered and won design work for all 13 stages, as well as construction work for one of two major stages;
- > construction of a 132kV supply cable for a distance of 2.5kms from Parklea zone substation through the Stanhope Gardens property development, the longest installation of its kind ever carried out by the organisation;
- > in conjunction with Landcom, a \$950,000 project to underground

- two 66kV feeders for a distance of 550 metres through the Garden Gates estate at Mt Annan, on land adjacent to the botanic gardens; and,
- > augmentation at West Castle Hill zone substation to meet increased demand following strong residential and commercial growth, with plans to add capacitor banks to make additional power available when required.

In addition to normal maintenance activities and emergencies, we continued with special programs to address unplanned events and improve the reliability and safety of our network, and meet environmental expectations. These included major programs for replacement of condemned power poles, vegetation management, upgrading of overloaded transformers, cleaning sites, and installing or replacing spreaders to prevent clashing of overhead low voltage wires in high winds.

We are also conducting a review of our design, construction and maintenance practices with a view to minimising supply problems caused by extreme weather conditions.

Major maintenance programs, included:

- > new oil containment bund walls constructed at Ulladulla, Sussex Inlet, Yatta Yattah, Huskisson, Meadow Flat, Berry, Bonnyrigg, Sherwood, Gerringong, South Nowra and Granville zone substations;
- > establishment of a new contract for oil separators, with units installed at Hawkesbury transmission substation, Wentworth Falls, Glossodia, Yennora and Granville zone substations, and at most of the newly walled bund sites mentioned above;

- > implementation of an improved environment incident recovery procedure, used effectively following failures of transformers at Guildford and West Liverpool;
- > achievement of zero condemned poles overdue for replacement; and,
- > a major program to identify and upgrade overloaded substations and transformers. In all, 595 substations were upgraded, primarily due to load growth resulting from air-conditioning.

Network 2010

In November 2001, Integral Energy published *Network 2010: our blueprint for sustainability*, giving details of immediate, medium and long-term development planned for the network. Apart from giving an insight into the complex mix of factors to be considered when planning and operating a large electricity distribution network, *Network 2010* was also designed to engage the input of stakeholders into our long-term network planning.

The blueprint was published in response to the industry's Demand Management Code of Practice, issued in May 2001, and recognised by the Ministry of Energy and Utilities. As a leading practitioner of demand management (DM) strategies to help better manage growth in electricity demand, Integral Energy made a major contribution to the development of the code, and chaired the working group.

As a first step, Integral Energy established a register of interested parties, recording customers, service providers and others who want to be informed of our network plans on an ongoing basis, and to gather opinions on possible solutions to identified issues or constraints. Input has already been received on a constraint area at

Penrith and this will be considered during development of a solution.

Towards the end of 2002, Integral Energy will publish *Network 2012*, detailing the rolling capital investment program for the next 10 years.

Details of the benefits of the organisation's DM programs are given on page 17, and in the appendices on page 96.

Systems management program

Integral Energy is committed to maintaining and investing in its network to ensure that the increasing electrical demands of our customers are met. This includes computer-based systems that underpin the operation and performance of the network.

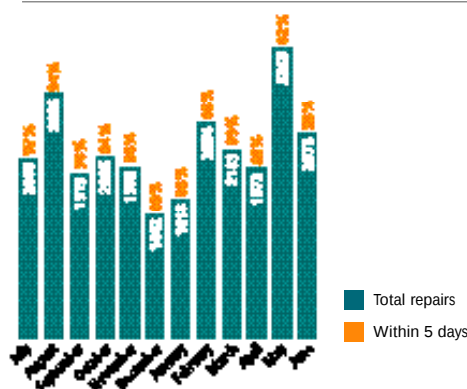
In order to drive improvements in systems, the organisation established the Integrated Asset Information Management System (IAIMS) project to evaluate existing business systems and processes, and assist in making optimal decisions about upgrades to or new investments.

The project started in 2001, with a review of the organisation's Geographical Information System (GIS), a database showing the location of all network assets. After documenting the requirements of a broad range of GIS users, and preparing a detailed solution design, an external vendor was appointed to manage the replacement of the system by April 2002. This date was subsequently extended to November 2002 due mainly to additional requirements identified by the organisation. Notwithstanding the delay, the project is running to budget.

The IAIMS team is also documenting improved business processes within the Mincom Information Management

Over the year, only 220 street lights were not repaired within the agreed five-day period set out in our Customer Service Guarantees.

Total repairs %



System (MIMS) as a blueprint to support Engineering Performance and Asset Management in any design decisions that may be required for future process re-engineering.

During the past year, the project team completed business requirements documentation and moved to solution design. Implementation is scheduled for completion in April 2003. In addition, an extensive business awareness program has been implemented with key staff at depots being briefed on the IAIMS project and the importance of accurate asset information.

IAIMS has a long-term vision and, on successful completion, it will ultimately provide asset and works managers with access to best practice processes, systems and information for the effective ongoing management of the organisation's asset base. This, in turn, will:

- > provide improved reliability of supply for our customers;
- > promote the safety of the community and our staff;
- > improve our network performance;
- > comply with statutory and community expectations; and,
- > provide our shareholder with increased value.

Regulatory strategy

Integral operates in a complex regulatory environment that substantially impacts on network operations by influencing or controlling:

- > the prices we charge;
- > the revenue we earn;
- > the level of 'efficient' costs/expenditure we are allowed to incur/spend;
- > the type and standard of the services we provide;
- > how we are required to relate to customers;
- > the return we can deliver to our shareholder; and,
- > the information we are required to disclose to customers, other market participants and regulators.

The network operations primarily fall under the determinations of the NSW Independent Pricing and Regulatory Tribunal (IPART). The Tribunal plays a major role in influencing the incentives and operations of NSW electricity distributors, and in regulating revenue outcomes and producing pricing determinations.

The organisation was an active participant in the Independent Pricing & Regulatory Tribunal's (IPART) review of the Form of Regulation for the next Network Determination. This was a key debate within the regulatory framework as it determines the arrangements under which we, and other NSW distributors, will derive their revenue in the period from July 2004.

During the year, Integral Energy strongly advocated moving from the revenue cap in the current determination to a weighted average price cap form of regulation. If appropriately implemented, Integral Energy considers that the weighted average price cap should deliver stable and cost reflective end-user prices and sustainable and commercial revenues.

We will continue working with IPART and the NSW electricity industry to address regulatory issues to the benefit of our organisation and our key stakeholders.

Undergrounding

In November 2001, the NSW Government announced an examination of ways to reduce the number of overhead electricity cables in the State. IPART was asked to review the costs, benefits and funding for undergrounding electricity cables.

Integral Energy made a major submission to the review, supporting undergrounding in principle, but seeking consideration of a number of matters in order to achieve the best outcome for customers and other stakeholders.

The submission clearly indicated the organisation's desire to work closely with local Councils and other stakeholders in developing undergrounding projects that have the broad support of the local community.



> Transmission substations technologists Jason D'Angelo and Kevin Moon, Coniston > Protection Technologists Satya Lal, Nepean and Terry Page, Seven Hills > Technologist Richard Fenech > Bob McCue, Project Manager, Prestons zone substation

Integral Energy recognises the obvious benefits of undergrounding and has been pro-active, along with local councils and developers, in the undergrounding of electricity assets in new developments over the last three decades. This approach has resulted in a 16% of high voltage and 36% of low voltage mains being placed underground.

At the time of assembling this report, the organisation was awaiting the outcome of IPART's review.

Safety commitment

We demonstrated our commitment to promoting and supporting safety initiatives in the electricity industry by once again hosting the 2002 National Electricity Supply Field Days on 16-17 April 2002. Details are contained in Our People on page 34.

Each year, Integral Energy's Public Safety Awareness Plan seeks to both meet and exceed regulatory requirements to provide information to the public about the hazards associated with electricity.

In 2001-2002, the plan aimed to minimise electrical accidents by advising the public of the hazards associated with electricity, reduce incidents of vandalism on the network, and demonstrate the organisation's commitment to public electrical safety, particularly safe work practices.

In line with our regulatory obligations, and taking into account incidents over the previous year, safety communications also included the dangers of fallen overhead lines/trees in contact with fallen lines, overloaded power points inside the home and the use of high machinery near electricity infrastructure.

Outlook

The 2004 IPART network determination is fundamental both to the organisation's development as a safe and reliable electricity distributor, and to its financial performance. In balancing these issues, Integral Energy will continue to focus on working with the regulator and other stakeholders to achieve an outcome that enables the organisation to meet the price and service expectations of customers, deliver on our commercial objectives, and appropriately address our medium to long-term asset investment and expenditure requirements.

The vast majority of the work that the organisation needs to complete for the next review will be completed in 2002-2003, and we are determined to continue building value in the network. In particular, we will focus on achieving a further increased capital program that amounts to \$135m, 27% more than in 2001-2002. Major projects to be undertaken are spelled out in detail in *Network 2010* and *2012*.

In July 2002, the Asset Management business unit's product base structure was reorganised to one based on geographical regions. This change will help improve the way we deliver service, assist our operations to run more efficiently, and help maintain our competitiveness in a deregulated market.

In the year ahead, we will continue to develop work practices that drive efficiency, reliability and increased productivity. We will also continue to benchmark our performance against that of other asset managers, striving to gain and maintain a reputation as a "best practice" network asset manager.

On the network, the organisation plans to continue its drive for greater reliability, setting the overall target at 125 minutes lost per customer (excluding storms), made up of 35 minutes for planned reliability and 90 minutes unplanned.

On 1 January 2002, Full Retail Competition (FRC) commenced in NSW. For the first time, 2.7 million customers could choose their electricity retailer irrespective of the amount of energy they used.

> Preparing for competition

For Integral Energy, the launch of FRC meant the dawn of a new era of competition, testing our resources and systems and the relationships with our existing customers. It also provided an opportunity to test the lessons learnt during the introduction of FRC in the UK and New Zealand.

Charting our preparedness for the onset of this final market step was primarily the responsibility of our dedicated Full Retail Contestability team, established in April 2000, and supported by:

- > Sales and Marketing, which is responsible for product and service development, negotiated pricing, and channel management;
- > Energy Trading, responsible for matching financial supply to demand over time and settlements;
- > Commercial, which provides call centre service and meter data functions;
- > Billing Operations, which is responsible for customer transfers, meter reading, field operations and collections; and,
- > Corporate Development, which carries responsibility for brand, regulated pricing and eCommerce strategies.

Market preparations

Integral Energy worked to build a solid platform of business processes and systems designed specifically for the mass market, and performed well against a series of non-negotiable deadlines for market readiness. In fact, our efforts were recognised and acknowledged by our key external stakeholders including the NSW Treasury, the Ministry for Energy and Utilities and the national market operator NEMMCO.

This accomplishment was the result of meticulous planning and careful control by a team of industry experts responsible for more than 90

individual projects. The projects, which cost more than \$30m, linked to every aspect of Integral Energy's business from back office systems through to the customer interface.

Major projects included:

- > customer interface and pricing, where Integral Energy was the first to offer competitive quotes over the phone and registration for a contract price on the Internet;
- > procedures and systems to manage the offer and contract administration process;
- > implementing a business-to-business (B2B) transaction based customer transfer solution, communicating with the central market system;
- > development of new standing data arrangements for all customers, involving collation of more than 1.3 million records;
- > upgrade of the meter reading system to handle both basic and manually read interval meters on the same route;
- > upgrading systems to help deliver and receive basic metering data from NEMMCO and market participants;
- > enhanced processes for billing external retailers and newly acquired contract customers;
- > development and implementation of new activities to manage customer billing configuration changes as a result of customer churn;
- > developing a debt policy and strategic framework to support new market conditions of FRC, including credit assessment for out-of-franchise customers and credit risks among customers churning to another retailer; and,
- > development of a corporate meter data management strategy to assist settlements and forecasting.



- > Andrew Nash, Manager Commercial, Sales and Marketing > Contracting Assistant Jodi Loeckenhoff, Sales and Marketing
> Dianne Wynn, Coniston Call Centre > Tony De Lorenzo, Small Business Development, Retail Sales

Market results

The organisation had already anticipated the evolution of the retail business into a more sophisticated model by recognising the important but differing roles of Sales and Marketing and Energy Trading. In late April 2001, the Retail operations were split, with General Managers appointed for trading activities and the sales and marketing portfolio.

In a complete restructure of both parts of the business, new staff were recruited with specific skills and expertise, and on the sales and marketing side, engaged the services of professional, sales-driven external call centres to work with our existing call centres. This resulted in a pool of experienced managers keen to embrace the challenges of the deregulated market, supported by proven market and customer systems, and a strategy to retain existing accounts and attract new business beyond the franchise.

In a tough market, Integral Energy developed negotiated contract pricing as a means of retaining existing customers, and attracting new business beyond its franchise. Negotiated contracts made significant savings on energy bills available to the majority of NSW consumers. As a result, the organisation grew its customer base, and converted tens of thousands of customers to negotiated supply contracts.

Key results include:

- > a significant number of customers won by a team of professional, face-to-face sales agents; and,
- > cost-effective direct marketing campaigns were responsible for securing substantial numbers of existing profitable customers onto contract with higher margins, while still offering savings to customers.

However, the costs associated with serving customers have increased and in the new competitive environment, one of the greatest achievements was our ability to secure a more profitable market share.

Integral Energy retained key customers and won major new contracts, such as the Rail Infrastructure Corporation and also retained major client BHP.

Integral Energy was also the first NSW retailer to provide a competitive "quote and contract" offer over the telephone and on the Internet, one of the key developments in our eCommerce strategy.

Customer service

Improvements in customer service philosophy and culture were targeted as one of the strategic initiatives to be implemented during the year.

Highlights of this initiative included the following achievements:

- > establishment of a strategy and vision for customer service that reinforces the concepts of genuine commitment to customers and personal responsibility on the part of management and staff;
- > development of a new company-wide customer service charter and promotion to all residential and small business customers with their electricity accounts;
- > conducting organisation-wide training for all staff on customer service and new customer service protocols; and,
- > introduction of targeted performance monitoring on customer service. This process continues at a fundamental level, seeking to address the culture of the organisation and the personal motivation of staff.

The organisation coordinated an industry best practice study in the area of customer service protocols. Cross business teams were formed to collect ideas from some of Australia's leading customer focused companies. These ideas were prioritised and tailored to suit our business, then collated into a reference manual to allow communication to staff through a comprehensive training program.

The organisation's customer service performance underpins ongoing retention, reputation and customer commitment. The call centre and customer care teams supported and assisted customers against a backdrop of an unprecedented number of major natural emergencies, as well as the start of the fully competitive market.

As a result of committed staff, the time taken to resolve customer problems reduced by approximately 10%, with 96% of complaints being resolved within 30 days, exceeding our target of 90%.

Call centre staff answered more than 1.5 million calls from customers, with over 70% being answered within 30 seconds, slightly below the target of 77.5%.

Integral Energy met its Mandatory Renewable Energy Target (MRET) – the only retailer in NSW to do so – through the purchase of Renewable Energy Certificates.

The quality of customer service was significantly increased through a professional management focus and a commitment to engaging, retaining and training skilled staff, as well as implementation of new systems.

Billing and payments accuracy and timeliness was significantly improved over the course of the year with performance now superior to many competitors. Field services staff maintained a consistently high standard of timeliness in fulfilling service orders.

Prices and the Regulator

The organisation operates in a complex regulatory environment, which substantially impacts on the retail operations by influencing or controlling, among other things, the prices we charge, the type and standard of service we provide, and how we are required to relate to customers.

In working to protect and promote the commercial interests of our retail activities, the focus continued on shaping the regulatory framework. A key part of our regulatory involvement was responding to IPART's mid-term review of regulated retail tariffs. The current retail price determination runs from January 2001 until June 2004.

Among other issues, the review considered:

- > the appropriateness of existing retail target tariffs (those established by the tribunal based on the cost of supplying electricity to customers);
- > the amounts allowed for the net margin;
- > operating costs and 'green' compliance; and,
- > the appropriateness of existing side constraint requirements.

Target tariffs are an essential benchmark in setting the prices that Integral Energy and other standard retailers should be charging customers who choose to remain on the regulated tariff. However, due to side constraints set by IPART, Integral Energy has been limited in reaching the target levels for some of these tariffs.

Integral Energy's submission argued for an increase in the existing target tariffs based on increases required in the current net margin, operating costs, 'green' compliance, and the inclusion of retail-related FRC costs. It also argued that side constraints should be relaxed to enable prices to be increased to any revised target tariffs set by IPART.

Based on the final report released by IPART in June 2002, some important changes have been made, particularly in relation to the level of the target tariffs and the application of side constraints. These changes improve our ability to achieve a commercial return from small retail customers remaining on regulated tariffs. The relaxation of side constraints also provides greater flexibility in re-balancing prices across the 'basket' of small retail tariffs, however, there are still overall limits which will restrict any substantial revenue gains over the remaining period of the current determination.

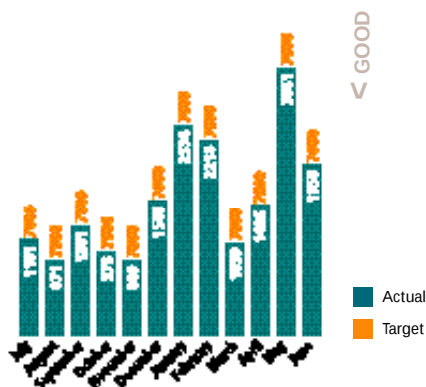
Green energy

In a program designed to meet renewable energy targets, and to give customers purchasing options that are environmentally friendly, two green power products were developed and launched. Both were approved by the NSW Sustainable Energy Development Authority (SEDA). The products were launched in June 2002 as part of a negotiated contract offering, and are expected to attract thousands of customers to negotiated contracts by December 2002.

Solar for Schools

Our community green energy scheme, Solar for Schools, which is supported by voluntary contributions by customers, gathered pace. By year-end, there were 9,664 customers contributing to this program by rounding up or nominating fixed amounts through their electricity bills. Customer contributions were spent on installing solar energy systems at two schools during the year, bringing the total of school and community solar systems to 32 in and beyond the franchise area. Apart from savings in school energy bills, and environmental benefits, the solar panels create awareness of environmental issues among future generations.

Improvements to billing processes have allowed Integral Energy to set industry-leading targets for on-time delivery of customer accounts.



Trading

In late 2001, it was recognised that the impact of FRC would stretch the limits of Integral Energy's energy trading system capabilities. A review was completed of the current systems combined with the business requirements needed to ensure competitiveness while managing the risks associated with an ongoing business. The organisation is currently evaluating a number of alternatives to achieve this goal.

Trading also worked to formally separate pricing and deal structuring functions from wholesale market activities. This will allow transfer-pricing to be more pro-active as the market evolves. It marks a significant shift from the previous practice of being reactive in transfer pricing activities.

Changes in trading methodologies and practices have led to improvements in transfer pricing and risk reward, allowing Integral Energy to win new contracts and retain major contracts.

For the first wave of Tranche 3 customer marketing, transfer-pricing structures delivered effective, attractive offers, which enhanced the margin earned by the business. Trading expects to continue to offer competitive pricing into the future, particularly when improved systems deliver a clearer picture of market and customer flows.

An improved trading position also contributed to a positive margin of approximately \$7m. Re-positioning of the portfolio against price volatility not only protected our margins but also delivered approximately \$12m in extra margin to the retail EBIT.

Integral Energy met its Mandatory Renewable Energy Target (MRET) – the only retailer in NSW to do so – through the purchase of Renewable Energy Certificates. These targets were met with total costs coming in under target by 33%. This success was the result of effective management of this process and associated costs.

Outlook

The organisation has developed a dynamic market strategy to carry the business over the next three years. Continued strong focus will remain on comprehensive customer acquisition/retention strategies, with the aim of profitable market share.

In serving customers, the organisation will continue to promote the overall benefit of dealing with a business that operates with integrity. Ongoing application of a comprehensive eCommerce strategy will ensure a continued program that offers greater customer choice.

Integral Energy continues to make excellent progress towards establishing a sound organisational structure that aligns with our business needs.

> Ensuring support systems are in place

Integral Energy continues to make excellent progress towards establishing a sound organisational structure that aligns with our business needs.

During 2001-2002, we moved forward with our “one Integral” approach, ensuring that we have the right financial, technology and people processes and resources in place to support the growth of our business.

Financial management

Integral Energy's financial performance was one of the highlights of 2001-2002. To assist this performance, the Finance unit strengthened its centralised accounting and reporting functions. In further developing provision of financial strategy, discipline and cash flow management for the organisation, and the accurate capture, control and reporting of financial performance to key stakeholders, the Finance unit:

- > developed an automated budgeting and forecasting tool, enabling 160 users to gain access to and update data through a web-based process;
- > commenced a three-year rolling stock-take of fixed assets, including the development of an integrated equipment register; and,
- > developed a scenario planning and decision making matrix designed to optimise value created from network investments, as well as providing feedback to regulatory and network development strategy development processes.

Supporting the organisation's submission to IPART on the network determination by providing key financial data will remain a focus over the next 12 months.

Supporting our people

The ongoing success of our organisation depends on the establishment of a working environment that supports and recognises individual and team performance. Integral Energy's focus on people issues over the past two years has put in place strategies for recruitment and retention of staff, the development of skill sets and career planning as well as recognition and reward programs.

Key human resources initiatives over the past year included:

- > a renewed focus on the occupational health and safety strategic plan;
- > updating and implementing policies and procedures that guide our HR practices;
- > the development and implementation of graduate and cadet programs;
- > a revision of our remuneration strategy for senior roles and a redesign of our reward program; and,
- > development and implementation of performance review workshops.

Full details are given in the people report on page 34.

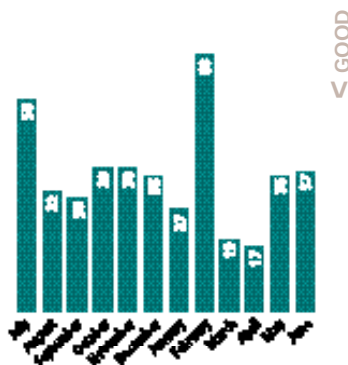
Information technology and telecommunications (IT&T)

IT&T supports the organisation's overall business strategy by coordinating, developing and maintaining proven IT&T solutions. The business unit also recommends, procures and supports technology and systems infrastructure to ensure the cost-effective achievement of corporate objectives.

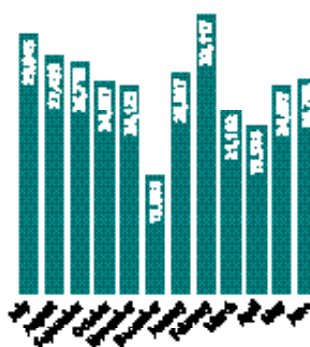
In order to meet these challenges, IT&T completed its strategic plan for 2002-2005, with three major themes: cost containment, risk management and business alignment.

Customer call waiting times

Average waiting time/seconds



Average monthly customer call rates of 22,000 are exceeded at times of heavy storms.



The major focus during 2001-2002 was on preparing for Full Retail Contestability, linking the technical architectures required for FRC with developing enterprise architectures, while also providing technical consultancy and operational support to the entire organisation.

Future IT&T directions

In the coming financial year, IT&T will be working towards significant cost reductions in delivering essential services to the organisation. This will be achieved through a shift in focus to leveraging the information technology and telecommunications to provide competitive advantage through improved information access, faster customer and market responsiveness, more effective network management, increased process automation and enhanced management efficiency.

Managing meter data

During the year, InfoMet became Integral Energy's chief agent for managing all meter data. In particular, the InfoMet team implemented new meter data handling systems and processes vital to operating in a contestable environment, and secured accreditation from NEMMCO as a meter data provider for FRC meter data requirements.

In the coming year, InfoMet will be deregistered as a company and will be integrated into a single meter data group within Integral Energy. Significant work on the integration has already been completed without disruption to customers or staff.

Overseeing positioning

The corporate development team oversees Integral Energy's positioning in the areas of governance, regulatory management, stakeholder management and reputation. In delivering outcomes across such a broad spectrum, we focused on key initiatives, achieving a high rate of success, including:

- > improved risk management by designing and deploying risk methodology across business units, and introducing risk, planning and audit software;
- > development and coordination of a guidance and preparation program for the introduction of privacy legislation;
- > reviewing and updating the Code of Ethics and releasing a fraud and corruption policy and procedure;
- > distribution to all staff and contractors of advice on addressing fraud, corruption and other ethical breaches;
- > emphasis on a robust Trade Practices Act compliance program during our move into Full Retail Contestability;
- > launch and deployment of the 2001-2004 Corporate Plan;
- > documenting end-to-end processes and identifying and evaluating key controls in major systems of accounts payable, payroll and HR;
- > development of 15 major regulatory submissions covering retail tariffs, undergrounding of electricity cable, Demand Management, form of regulation, ring fencing of NSW electricity businesses, review of licence conditions, the accounting code of separation, and capital contributions;
- > management of the 1 July 2001 network and retail price increases – delivering an estimated \$26m in additional revenue – and the response to IPART's Mid Term Review of Regulated Retail Tariffs;

- > development, implementation and evaluation of the corporation's brand strategy, launched for staff in mid-January, with 86% of staff attending special sessions;
- > in a key project, development and implementation of an eCommerce strategy, beginning with a redesign and launch of a new website, ranked as the national energy industry's number one site for service and content, and the only site to allow customer connections/transfers online; and
- > management of the alternative energy purchase arrangements with the Smithfield cogeneration plant and the Appin Tower Collieries coal bed methane project.

The organisation continued to consolidate property assets and better align the property portfolio, finalising a new strategy that provides a sustainable property direction for the organisation over the next few years.

Integral Energy also pursued revenue opportunities on developed sites and telecommunications towers, and managed a comprehensive environmental management program (details on page 30).

With a widespread network of depots, substations and construction sites, our security team effectively closed off sources of loss and risk to the organisation.

In pursuing improvements in supply and procurement, the organisation continued to bring greater commercial discipline to the selection and engagement of contractors and suppliers.

The power

is in your hands



...to aim high

3 >



THE ORGANISATION

The ability of our people to respond with renewed vigour to the challenges presented to them is paramount to our success.

Reaching for the sky, Liga Walters, 9, daughter of Administrative Assistant Anna Walters (Corporate Development) helps set the benchmark for Integral Energy's success.

Inset pics from left: > Sharon Finlay, Manager Strategic Finance > Frank Bucca, Demand Manager, Engineering Performance > Daniel Bubb, Economics Graduate, Regulatory and Pricing

In 1995, Integral Energy seized the opportunity to become one of the first energy companies in Australia to embrace the Federal Government's "Greenhouse Challenge" – a program of cooperative agreements between industry and government to reduce greenhouse emissions.

> Environment

In the seven years since, Integral Energy has led the industry in greenhouse gas reduction through a broad range of programs including solar energy, coal bed methane extraction, co-generation, wind and water generated power.

At the same time, the organisation has increasingly developed programs to address pollution and waste management issues in response to industry and community expectations, licence compliance and regulations.

The extensive suite of environmental activities continued throughout the year, further underlining the organisation's strong commitment to the continual improvement of environmental performance by implementing measures to ensure the prevention of pollution. Integral Energy recognises that long-term business success hinges on sound environmental performance. We are committed to compliance with all applicable legislative and regulatory requirements and, where reasonable and practicable, to exceed these requirements.

Governance

In 2001-2002, Integral Energy put into action its first Corporate Environment Strategy, a document that coordinates and streamlines environmental actions across the organisation and is prioritised on the basis of risk. Through 96 individual actions, the strategy aims to create a more environmentally responsible and sustainable organisation, in particular, focusing on the following priorities:

- > Developing an improved environmental management system.
- > Improving environmental governance.
- > Improving operational environmental controls.
- > Rollout of environmental training and education.

Achievements under the strategy include:

- > Developing environmental benchmarks.
- > Improved asbestos control.
- > All environmental site licences in place.
- > Development of the organisation-wide environmental management system.
- > Development and issue of an environment incident response process.
- > A pilot program to examine the environmental impact of drainage systems at substations.
- > A program to install and maintain oil/water separators in bunds.
- > Improvements in aesthetics and security.
- > Improvements in graffiti removal.
- > Embedding a culture of environmental care.

Report card

Significant progress has been made on a range of specific environmental issues:

Environmental training

Integral Energy launched an organisational wide environmental awareness training program, covering our environmental commitment; how to identify and manage environmental risks; and, environmental projects and how staff can help to improve environmental performance. The Board and Executive received their environmental training, which will be extended to all staff in a rolling program in 2002-2003.

As part of this training, staff also undertake an environmental training needs self-analysis to determine if they require further, job-specific training in areas such as pesticide use, spill management, oil handling, etc. This will extend a program begun during 2001-2002, which included training in soil erosion awareness and control, as well as hazardous waste driver training.



> Anita Mitchell, Corporate Environment Manager > Greg Reilly, Acting Operations Manager, Transmission South
> Michael Owens, Manager Security > Jack Druc, Lineworker, Transmission mains

The aim of this training is to equip our people with the skills and knowledge necessary to live our commitment to environmental management, as well as meeting our legislative obligations.

Inspections and incident response

Environmental, occupational health and safety and security assessments are conducted at every field location at least annually. The results of these inspections are reported to the Executive and action plans are put in place to correct any non-conformances found at these sites.

Environmental defects are also captured in a program of eight weekly inspections of substations and reports are forwarded to the Executive Environmental Steering Committee.

In the past financial year, Integral Energy received one environmental penalty infringement notice for a vehicle emitting smoke. All environmental incidents, no matter how minor, as well as near misses, are reported to the Corporate Environment Manager. Regular reports are prepared for the Executive Environmental Steering Committee, who decide if any changes need to be made to processes or practices, or if funding is required to rectify any issues that may arise.

The results of these inspections and incidents allows Integral Energy to gather accurate data to identify potential environmental issues. It also enables the organisation to focus on any patterns and allocate resources to fix problems before they lead to environmental harm.

Greenhouse and renewable energy

Greenhouse gas reduction

Continuing its strong performance, Integral Energy again led the industry in greenhouse gas reduction, contributing a total of 3.9 million tonnes of CO₂ equivalent (CO₂e) in 2001-2002, 0.25% less than the 4 million in the previous year. The small reduction was due to the lower production recorded at Appin-Tower colliery, the source of coal bed methane for electricity generation.

Alternative energy

As part of the regime for its Retail Supplier's licence, Integral Energy complied with conditions to reduce greenhouse gas emissions by remaining 32% below our allocated benchmark. Reduction is slightly lower than that reported last year (36.4%) due to improved performance across the energy industry pool.

However, several years of good performance by Integral Energy – compared with its pool partners – have been recognised. Any surplus currently returned to the pool will from January 2003 be available to Integral Energy to sell to others who cannot meet their licence conditions.

Alternative energy sources make a significant contribution to reducing greenhouse gas emissions. In 2001-2002, Integral Energy purchased 17.25% of its energy from alternative sources including, for the first time, the Hampton wind farm, south of Lithgow, and the Wyuna Water hydro power plant, at Kembra Grange, near Wollongong. Both sites commenced production last year. Integral Energy's initial marketing campaign for these products, which are accredited by the NSW Sustainable Energy Development Authority (SEDA) is directed solely at residential customers. Further marketing campaigns are planned

later this year. From around 2,500 initial inquiries received, 240 customers signed up to receive alternative energy as part of their supply, and this number is rapidly increasing. Integral Energy has an exclusive purchase arrangement with each supplier.

Renewable energy target

On 1 April 2001, the Federal Government's Mandatory Renewable Energy Target (MRET) scheme was introduced under the Renewable Energy Electricity Act 2000. This requires the additional purchase of electricity from sources other than coal each year, rising to a total of 9,500GWh by 2010, to be shared among all electricity suppliers. Individual targets are expressed as a percentage of total demand for electricity. Through its existing programs, Integral Energy comfortably met its share of the target (58,000 MWh) this year through wholesale purchases of renewable energy from all sources.

Waste management

Like most major organisations, Integral Energy generates a mixed waste stream from its day-to-day operations. In recent years, development of environmental management strategies has included programs to control and reduce wastage where possible, and to properly dispose of waste material.

Recycling programs have been operating throughout the year for aluminium, steel, copper, paper, cardboard, concrete, tyres, batteries and green waste. In an effort to reduce waste, data is constantly gathered to determine the most appropriate action to achieve this objective.

> Environmental improvement timeline

Establish environmental governance

Focus on:

- > Environmental Committees
- > Environmental Management System architecture
- > Regular reporting
- > Policies in place
- > Environmental issues controlled
- > Environmental roles defined

2000-2001

Move to beyond compliance

Focus on:

- > Environmental Management System certification
- > Refining environmental strategy
- > Risk minimisation
- > Further environmental training
- > Engaging stakeholders
- > Triple bottom line
- > Sustainability
- > Corporate social responsibility

2001-2002

Improve environmental compliance

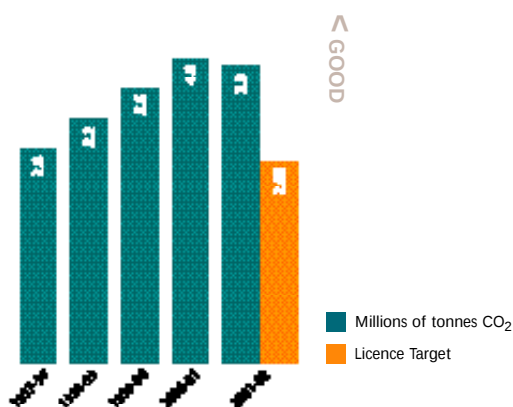
Focus on:

- > Environmental Management System organisation-wide
- > Environmental strategy
- > Risk minimisation
- > Operational controls
- > Environmental training
- > Improving reporting
- > Renewable energy policy and strategy
- > Audit and review

2002-2003

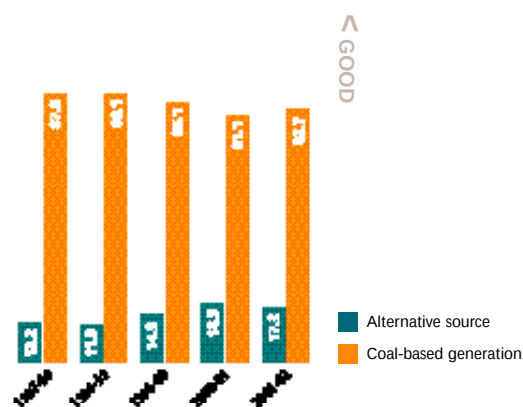
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Reduction in greenhouse emissions



Energy purchased from alternative sources

% of energy purchased



Resources and recycling

In its office-based operations, the organisation conducted a trial of recycled paper for photocopying and printing, which proved less than successful. Preliminary results showed higher than expected levels of maintenance were required on machines using the recycled paper. Investigations are continuing in an effort to source high quality recycled paper that does not have a significant negative impact on valuable machinery.

In its field operations, Integral Energy has a policy of re-using timber poles wherever possible. The timber wastes generated are principally poles and cross arms, typically of treated timber, which are not structurally sound and also unsuitable for other applications.

One key area of success is in recycling of oil used as an insulating and cooling medium in transmission equipment. Previously disposed of as waste, last year 250,000 litres of transformer oil were filtered and re-used as part of an innovative oil management strategy. Programs are on track to recycle a further 200,000 litres of oil by end of 2002.

Although refurbished oil has a higher cost than new oil, Integral Energy has taken this unprecedented step in order to minimise our waste stream; ensure that significant amounts of oil are recycled; and, to reduce dependence on new oil, which is a non-renewable resource.

Contaminated land

In the first year of a three-year program, remediation has been completed at three depot sites, cost effectively removing disused or abandoned fuel tanks and contaminated soil. Funds are allocated for the remaining nine sites to be undertaken over the next two years.

The table at let sets out the organisation's environmental compliance journey. As we enter the third phase, we have addressed the aim sustainability in "beyond compliance" through publication of a Sustainability Report, which included the following objectives:

- > Conducting employee, customer and other stakeholder surveys.
- > Increasing environmental training and OH&S training in specific areas.
- > Achieving certification of our Environmental Management System to International Standard ISO 14001.
- > Developing a set of key performance indicators (KPIs) for sustainability, in conjunction with our stakeholders.
- > Initial benchmarking of sustainability performance.
- > Commencing triple bottom line reporting.

Beyond 2003, the organisation aims to incorporate triple bottom line goals into overall corporate business planning; balance competing financial, environmental and social demands; introduce fully integrated TBL systems with regular reporting and monitoring of KPIs; and, produce an integrated sustainability report

Goals – 2006, 2010, 2020...

Looking forward, the 2002-2003 Corporate Environment Strategy strives to move beyond compliance and towards sustainability, with over 170 individual actions, the strategy focuses on 10 high level organisational objectives, coming out of our environmental policy, our Environmental Management System and our sustainability report.

These objectives include:

- > A systematic approach to environmental management.
- > Compliance with legislation.
- > Ecologically sustainable development.
- > Consultation with stakeholders.
- > An environmentally responsible culture.
- > Public health and safety.
- > Efficient use of energy and the reduction of greenhouse gas emissions.
- > Minimising waste.
- > Minimising the impact of our infrastructure.
- > Minimising harm to the environment.

Key achievements

The organisation's key strategies of building value in the network and responding to the demands of the mass-market presented significant challenges to the organisation's people.

> Our people

The health and safety of our staff is the organisation's first priority.

At Integral Energy safety is the number one priority. In line with this priority the Board and Executive endorsed a new, far-reaching, occupational health and safety strategy for all Integral Energy staff. They have also led a renewed focus to workplace safety by committing to a set of 10 safety principles, which include:

- > learning and following safety and health requirements related to jobs;
- > learning to do work safely;
- > maintaining safety and health awareness in all tasks;
- > maintaining a clear and orderly work area at all times;
- > constantly checking the workplace for hazards and, when necessary, fixing them;
- > coming to work free from the influence of drugs and alcohol;
- > taking action when co-workers or contractors are not working safely;
- > looking for opportunities to improve safety and health performance;
- > taking part in safety and health activities; and,
- > immediately reporting all near misses, incidents, injuries and occupational illnesses.

As part of this process, Integral Energy is integrating improved safety standards into all business and management processes and striving to improve safety management while working towards a goal of zero accidents, injuries and illnesses.

The safety statements include key points relating to safety performance and these are set out in a new corporate value of safety excellence.

The measures aim to:

- > strengthen our safety management system, including training,

- procedures and work instruction;
- > support and improve our people by defining roles and responsibilities at all levels, communicating strongly on safety and developing improved training programs; and,
- > improve our working environment and conditions.

The renewed safety focus was inspired by research that revealed standards were in decline. In addition to serious incidents, the number of slips, trips and falls was on the rise.

In order to adequately benchmark safety performance against best practice industry and other organisations, Integral Energy has adopted key performance indicators for accident frequency (LTIFR) and severity (LTISR).

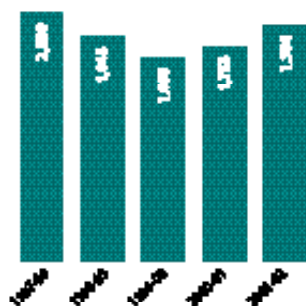
As a result of 49 lost time accidents (LTAs) in 2001-2002 – compared with 43 in the previous year – the frequency rate was 13.27 accidents in each one million hours worked, against a target of 10. For severity, the result was 72.61 shifts lost in each one million hours worked, well below the target of 85.

Reinforcing the organisation's concern at the number of accidents caused by slips, trips and falls, and incorrect manual handling techniques, the number of shifts lost in the 49 LTAs was 268, compared with 324 shifts lost from 43 LTAs in the previous year. Training in manual handling and renewed emphasis on workplace hazard and risk assessments are designed to dramatically reduce injuries in these categories.

Further reinforcing the organisation's safety commitment, an Occupational Health and Safety Manager was appointed in July 2002, residing in HR. In support of this appointment, the Electrical Safety Group – formerly in

Staff numbers

Full time equivalents





> Business Development duo, Fiona Macleod and John Carroll, Sales and Marketing > Deepak Sahay, Demand Management and Forecasting Officer > Steve Allen, Project Officer, Penrith > Tui Mokaraka, B2B Transfers Officer

Engineering Performance – was transferred into the Occupation Health and Safety portfolio. Group members joined existing OH&S staff in HR to form the organisation's dedicated safety team.

This team has conducted an extensive review of safety standards and an action plan was drawn up to ensure safety values were put at the top of the agenda for all staff, at all levels of the corporation.

- > 20-point plan addresses a number of key safety issues including:
- > accident investigation;
- > hazard risk and assessment;
- > consequence management;
- > emergency preparedness; and,
- > work process control.

The team has also established a simple and consistent process for investigating accidents and near-misses in order to strengthen prevention strategies.

Other action groups are being formed to address additional safety issues. OH&S committees were reintroduced. These committees hold a wealth of knowledge about safety issues and the members will be asked to make recommendations and then work with their manager to solve problems. All issues will be carefully monitored by senior managers to make sure safety problems are addressed quickly and adequately.

A zero tolerance policy for poor safety standards has been introduced and disciplinary action will be taken if staff take calculated risks. The message across the corporation is straightforward – there is no compromise with safety!

Towards the end of the financial year, the organisation moved to curb a disturbing trend in excess overtime worked by many field staff. In the face

of a very heavy workload in building and maintaining the network, figures showed that some staff were working hours considered to be excessive, increasing the risk of damage to their health and safety. This situation will continue to be closely monitored to ensure staff remain alert, especially when working in high risk areas.

Following extensive consultation with staff, new safety uniforms were introduced early in 2002, featuring high visibility yellow shirts and safety vests. Apart from satisfying requirements set out in occupational health and safety legislation, the uniforms were also designed to cope with varying work demands, including heavy-duty assignments.

Safety breach

Proceedings were taken against Integral Energy by WorkCover NSW over a breach of the Occupational Health and Safety Act 1983, for failure to provide a safe system of work. This related to an incident in March 1999 when two employees suffered severe electrical burns when a low voltage conductor came into contact with a phase of a live 11,000-volt high voltage conductor.

The matter was heard in March 2002 at the NSW Industrial Relations Commission. Integral Energy entered an early plea of guilty. The Commission fined Integral Energy \$160,000, as well as costs. In setting the fine – the maximum is \$825,000 – the Commission took into account the organisation's "...fine industrial record for an organisation operating with a large number of employees over a long period of time in a high-risk occupation".

As a result of the accident, significant steps were taken to minimise the possibility of such an incident being repeated. Integral Energy now

appoints site co-ordinators to better manage work involving more than one team, and to help merge work practices to reduce variances between work groups.

New work procedures have also been introduced to manage the replacement of mains under live high voltage. While Integral Energy has a preference for working with de-energised high voltage lines, the new work procedures are followed where this is not feasible.

As well, improved training has been implemented along with enhanced information on the qualifications of work crews, and safety training further reinforces the importance of maintaining adequate clearances associated with rescue under live 11kV lines.

Since these steps were taken, Integral Energy has not experienced any lost time accidents due to similar incidents.

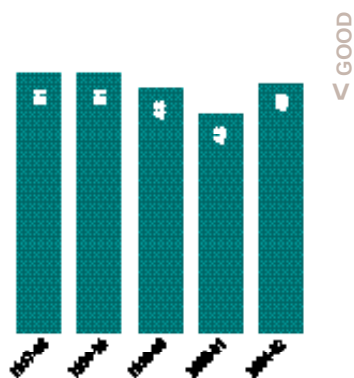
Key achievements

The organisation's key strategies of building value in the network and responding to the demands of the mass-market presented significant challenges to the organisation's people, against a backdrop of an ongoing restructure.

Increasing workloads in the areas of customer care, asset management and full retail contestability resulted in demands for staff that again pushed up total employee numbers for the second successive year. By year-end, there were 1,936 full time staff, an increase of 171 on the previous year.

The organisation has sought always to balance staff numbers against the escalating demands of the business, particularly the key activities of supply, reliability and customer satisfaction. Between early 1996 and July 2000,

Integral Energy's safety commitment is zero accidents, injuries and occupational illnesses.



staff numbers fell from 2,294 to 1,668 but this trend was reversed in 2000-2001 with full time equivalent staff numbers rising by 97.

The organisation operates a client-focussed human resources structure designed to meet the needs of the business units and their people, while retaining consistent, organisation-wide people policies and procedures. As part of the restructure a corporate training function was established with an initial focus on developing the skills and knowledge of the organisation's front line leaders.

Implementation of the new structure was completed during the year. The new structure incorporates client-based human resource services, learning and development, occupational health and safety, and payroll services.

Human Resources also provides advice and support on issues such as terms and conditions of employment, employee relations, recruitment, performance management, training programs, leadership initiatives, workers compensation, rehabilitation and pay administration.

Training and development

As part of its performance program, Integral Energy operates a training and career development plan for all employees. This year, we fell short of our target to complete individual development plans for all employees, due largely due to the impact of the organisation restructure, which affected most parts of the business.

In the year under review:

- > career plans were completed for 95% of staff;
- > higher than expected recruitment levels requiring appointments from the external labour market resulted in only 43% of vacant positions

- being filled internally, against a target of 60%; and,
- > performance appraisals were completed for 75% of staff compared to a target of 100%.

Strategies are in place to achieve all targets in 2002-2003.

Electrical training

In order to ensure adequate numbers of skilled electrical staff for the future, the organisation operates an electrical training group located at the Penrith Campus of the University of Western Sydney at Werrington. The facility was developed through a partnering arrangement between Integral Energy, the University of Western Sydney and the Western Sydney Institute of TAFE.

The training centre helps to meet the training needs of our organisation and those of other businesses that need to develop or maintain their employees' electrical competencies. Up to 5,000 trainees attend courses at the centre each year.

Recruitment of apprentices again increased in 2001-2002, with a total of 63 apprentices undertaking their training. We plan to recruit a further 27 in 2003 and to host train 10 electrical industry apprentices in their third or fourth years.

Currently, 90% of apprentices completing their training continue in permanent employment with Integral Energy.

Integral Energy is a Registered Training Organisation (RTO) and enjoys high regard in the industry. Over several years, the organisation's training programs have produced award-winning apprentices at regional, State and national level.

New programs

A revitalised orientation program was introduced. The orientation program provides new starters – permanent, part-time and contract staff – with information about the organisation and its operations and allows new team members to understand our corporate vision, mission and values.

Graduate and cadet trainee programs were also developed and are now being implemented across the corporation. These programs provide a consistent supply of quality, academically qualified, specialists who could become future leaders in Integral Energy.

Human Resources policies and procedures have been updated and are being implemented. These policies and procedures guide our practices for recruitment and selection, employment conditions, leave, equal opportunity, employee benefits, occupational health and safety, payroll, learning and development and termination of employment.

To ensure the right people are employed for the job, recruitment and selection practices are undergoing further review. This will ensure a streamlined process that delivers high calibre new recruits.

Aboriginal employment

Integral Energy has developed an Aboriginal Employment Strategy 2003-2008, which provides a framework for increasing employment opportunities for aboriginals and Torres Strait islanders within our franchise area. The current representation in our workforce of aboriginals and Torres Strait islanders is 0.6%: our target is 2% by 2008, consistent with NSW Government targets.



- > Rosa Tabusares, Business Process Coordinator, Corporate Development > Ron McCullagh, Leading Hand Electrical Fitter Mechanic, Ulladulla > Steve Lette, Regulatory Development Manager, Corporate Development > Mark Jarman, Lineworker, Ulladulla
- > Helen Roffey, Branch Administrator, Sales and Marketing > Warwick Ward, Jeff Willis, Technologists, Coniston
- > Peter D'Angelo, Project Manager, Transmission, Coniston

Performance reviews

Integral Energy has developed and implemented performance review workshops to improve the skills and knowledge of managers in the use of the performance management system and in the day to day performance management of their team.

A performance management program utilising a skills "passport" has been introduced for field staff.

Workers' Compensation

A total of 117 claims were received during the year, a decrease of five on the previous year, with an average cost per claim of \$1,313 (\$1,195 last year). In all, 275 claims were handled during the year, which included claims carried forward from previous years. The total cost of all claims and levies was \$1,424,785.

Workplace relations

Industrial action was taken by 200 staff in Manager/Specialist roles, predominantly technical, over the renegotiation of their workplace arrangement and the use of performance based contracts for senior roles. The action involved two half-day stoppages, and was supported by short-term overtime bans by field staff. A committee of management, union and employee representatives was established to negotiate a new Manager/Specialist workplace arrangement.

The two-step 5% wage increase under the Integral Energy Terms and Conditions of Employment Award 2001 was implemented in January and July 2002. With the award due to expire in January 2003, negotiations for a new award will begin towards the end of 2002.

Leadership programs

Improving the leadership abilities of our frontline managers will continue through the Management Development Program, which covers managing teams, coaching skills, managing change and creating motivational work environments. Following a successful trial in Asset Management, the program is being extended throughout the organisation.

Integral Energy also utilises 360-degree surveys as an important component of all senior managers' development program. Following a successful trial, the program will be expanded next year.

Staff support

Now in its tenth year of operations, Integral Energy's childcare centre continues to help staff balance work needs and family responsibilities. The centre is licensed for a maximum of 39 children, either full- or part-time. Enrolments remained high throughout the year. The centre caters for children aged from six weeks to five years of age, and is recognised by the National Childcare Accreditation Council.

Future challenges

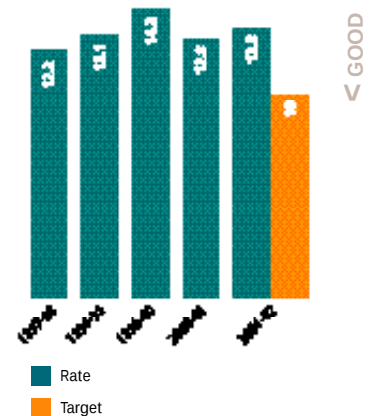
Safety will remain high on the agenda for Integral Energy and its people. Human Resources will concentrate on implementation of the Safety Management System, re-focussing staff attitudes and behaviour towards safety, and ensuring that everyone understands their accountability and responsibility for safety.

Employee relations initiatives include:

- > Continued development of the competency based progression structure to improve the knowledge and skill of award employees.
- > Rationalisation of more than 20 enterprise agreements and workplace arrangements.

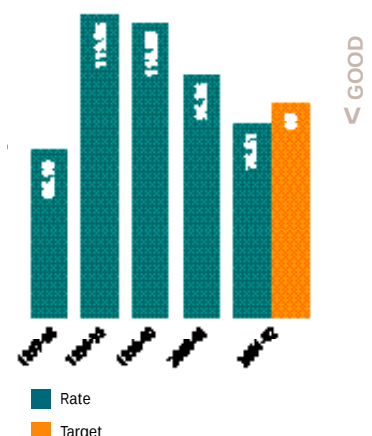
Lost time injury frequency rate (LTIFR)*

*Per million hours worked



Lost time injury severity rate (LTIFR)*

*Shifts lost per LTI



We contribute to the success of the regional economies and communities in which we live and work by... earning community trust and credibility, building employee and customer loyalty and responding to community expectations.

> Community partnerships

Integral Energy is committed to conducting its operations with an ethical and responsible approach in all that we do. This commitment is enshrined in our corporate values of safety excellence; integrity; customer commitment; sustainability and commercial success; respect for people; accountability and responsibility; and, management by fact.

In striving to meet this commitment, Integral Energy recognises the interests of a diverse group of stakeholders and has put in place steps to consult with and engage with them on issues of mutual interest and concern. These stakeholders include: our customers, consumer advocacy groups, welfare groups, staff, employee unions, suppliers, environmental groups, regulators, regional business advisory groups, media representatives, government, and the broader community.

Integral Energy recognises the increased expectations and scrutiny that these stakeholders have of all businesses, and for this reason, plans to develop an integrated corporate social responsibility strategy over the next year.

Integral Energy believes corporate social responsibility to be the continuing commitment to behave ethically and to contribute to economic development while improving the quality of life for our workforce and their families as well as the local community and society at large. While Integral Energy already has many positive programs and initiatives in areas including community partnerships, sponsorships, workplace relations and ethics, it plans to integrate these into a strategy that will drive further improvements.

Our contributions to the communities in which we worked over the past year are outlined below and on pages 39 and 100.

Building a sustainable future

Our publicly stated commitment to sustainability was reinforced among a wide variety of stakeholders through publication in April 2002 of the organisation's sustainability report, *Building a better future for us all*. The publication looks at ways to build a better future, and examines the organisation's active promotion of sustainable growth for the benefit of all our stakeholders.

To achieve this goal, Integral Energy is reducing greenhouse gas emissions, offering customers choices about the source of their electricity and working on total energy solutions. The report is our first stake in the ground on a journey towards a more sustainable future. It outlines how we can move beyond compliance with present environmental regulations and standards to achieve a "triple bottom line" goal – integrating financial, environmental and social responsibilities.

Customer Service Charter

Our vision is to be recognised for our personal responsibility and genuine commitment to our customers. Our focus is on getting it right for our customers by providing a quality service, every time. To further underline this commitment, we have set out clear principles in a new Customer Service Charter, developed as a key initiative of our customer service strategy. The charter covers issues such as customer safety, complaint handling, connections and disconnections, disruptions to electricity supply, tree trimming and street lighting and was issued to all residential customers.



> Keith Brooke, Manager Customer Care > Margaret Bird and Jenny Clough, Billing Operations, Commercial
> Alf Marino, GIS Data Migration Officer, Capital Solutions > Business Representative Robert Ritchie and
MIMS Project Officer Scott Williams, IAIMS project

Customer Consultative Committee

In order to provide an important forum for customer groups to voice their ideas and concerns, Integral Energy operates a Customer Consultative Committee that meets quarterly to consider current issues. The committee includes representatives of small business groups, welfare groups, customers from non-English speaking backgrounds, low-income earning groups, environmental groups, and the Australian Consumers' Association. The committee's charter was revised in February.

The committee works to an annual work plan. Achievements for the year included provision of advice on customer service issues, including accounts, pricing and payment issues; the Customer Service Charter; existing industry regulations; streetlighting, undergrounding and vegetation management policies and practices; environmental policy and performance and plans to upgrade the network.

Safety awareness and education

Integral Energy has a regulatory obligation to warn the public about the hazards associated with electricity. To meet this requirement, Integral Energy developed a comprehensive safety awareness program, which educates people about electrical accidents. As part of this campaign, press and radio advertisements raised awareness about the hazards associated with fallen power lines, overloaded power points and vandalism. The theme – Imagine what can go wrong, and it won't – was developed from the results of research conducted in January 2002 to identify the groups at risk of receiving an electric shock because of a lack of knowledge about electrical hazards. Additionally, Integral Energy manages a community Safety Awareness and Education project, which educates

adults and school students on all aspects of electrical safety.

Safety field days

Industry-wide electrical safety was again in the spotlight in April 2002 when Integral Energy hosted the 13th National Electricity Supply Industry Field Days with the theme of 2002: a national approach, in anticipation of a national electrical safety code to be introduced in 2002. This was the second year that Integral Energy has hosted the expo on behalf of the Industry Safety Steering Committee, convened by the NSW Ministry of Energy and Utilities. The expo provided an opportunity to raise national standards, and encourage field staff and management to share information and improve their safety techniques.

Regional economies

Integral Energy is an active and interested participant in issues of significance to regional economies. These economies include some of Australia's fastest growing residential areas.

Integral Energy lends support through participation in regional task forces and planning, comment on issues of regional significance, and support for a series of regional business awards.

Sponsorships

Integral Energy completed a strategic review of its sponsorship portfolio in the year under review. As a result, the portfolio was realigned with the revitalised corporate positioning strategy and covers key economic, social and environmental programs.

The portfolio includes support for talented young Australians through the NSW Department of Education and Training's *ArtExpress* – showcasing the best in visual and creative arts among NSW high school students –

and the *Schools Spectacular* – the largest variety show in the southern hemisphere, featuring the best performing arts talent in public schools. Both activities provide an opportunity for young Australians to develop through the challenges of public performance.

Coaching clinics run by St George Illawarra Rugby League and the NBL Integral Energy Razorbacks also develop young Australians in teamwork and fitness.

The portfolio also partners with the NSW Sports Council for the Disabled in providing valued scholarships for 26 athletes with disabilities who excel in events from athletics to sailing. Integral Energy has funded the scholarship scheme for seven years, helping build a successful future for 99 talented young athletes. Many have gone on to represent Australia in Paralympic and international competition.

Other programs include opportunities for families to attend regional Australia Day events, and an extensive series of regional business awards.

Outlook

Development of the corporate social responsibility strategy is the central initiative to be completed in the coming year.

Integral Energy is determined to improve its culture of governance.

> Corporate Governance

In the year under review, the organisation set out to further strengthen its overall governance practices against a backdrop of stakeholder demands for greater transparency, with emphasis on audit and risk management procedures.

Directors and management gave full support to a statement on how the Corporation will direct, control and hold itself to account.

NSW, Australian and global best practice in governance frameworks was researched and practices to meet or exceed these standards were agreed.

This level of transparency is a demonstration that Integral Energy was determined to embark on improving its culture of governance over the 2001-2004 planning cycle, and beyond.

Risk management

To ensure the optimum allocation of resources to the community's energy needs, the year saw the increased incorporation of risk assessment methodology and risk management into planning decisions. Risk assessment played a key role in deciding strategies and actions to deliver reliable electricity to a growing customer base, as well as commercial returns for its shareholder, for benefit of the community. In order to achieve these outcomes, the Corporate Plan for 2001-2004 included a risk assessment across the spectrum of its business risks.

This resulted in sharper focus on key risks to the community, for example, upgrading of assets critical to growth in supply, improving environmental standards at our sites, and improving equipment and depots used by field staff.

The year was marked by an exceptional number of risks: the network was hit by major storms and prolonged severe bushfires across the franchise. The ability of our staff to deal with these incidents was helped by pre-planned incident and crisis coordination strategies, which help minimise the impact of natural disasters on the community. Despite the constant challenge of these emergencies, our people worked continually to restore safe and reliable electricity supply, while learning from the events.

Improved controls

Governance procedures also drive the need for behavioural change among staff by continuously developing the organisation's policies and processes to take account of contemporary attitudes and events.

The corporation ended the year with a renewed framework of policy and procedures that reflects the risks identified in the previous year by the Board and management. These policies carry improved direction, control and accountability, providing readily available documented guidance to improve diligence in undertaking our business.

In 2002-2003, the organisation will focus on two-way communication and training for all staff in an effort to encourage behavioural change by increasing embodiment and practice of the improved principles, values, standards and processes now in place.

Compliance step-change

A major initiative in governance for the corporation this year was the commitment by the Board and management to improve the effectiveness of the organisation's compliance system. This was prompted by a raft of new legislation that required both sharp focus and

resources behind the effort to change behaviours as rapidly as possible, but in a sustainable manner.

New legislation covered the full retail competition regulatory regime, the marketing code of conduct, privacy regime, occupational health and safety, as well as changes to various industry codes. On top of these new requirements, the organisation was entering a totally new retail market requiring full compliance with trade practices laws, while our field staff were required to work through storms and bushfires in compliance with safety and environmental laws.

As a result of these challenges the corporation established a dedicated compliance committee and developed a program specifically to promote integrated and effective compliance with this range of laws. Benefits have already flowed from this initiative, with the corporation exercising an increased and targeted focus on its compliance with laws as business processes are decided, implemented and improved. Identified compliance risks are brought to the attention of the compliance officer and, if required, processes changed. The organisation's view is that the absence of the compliance committee and program would have heightened risks and increased costs.

Ethics and conduct

Improved accountability and role definition for executive committees was put in place by revising their charters, to explicitly include conduct in line with our Code of Ethics. The year has also seen the review of many key policies and procedures to reflect the code of ethics and standards of conduct it contains.

In a specific program, the corporation's push to detect and prevent corruption was increased with the introduction in

August 2001 of a transparent procedure, available to all staff, to encourage disclosures of corrupt conduct through a range of alternative officers, or direct to external bodies. This mechanism was accompanied by induction sessions explaining the ethics code to new staff, and organisation-wide team briefings stressing the importance of ethical behaviour. The corporation is also implementing a fraud control strategy together with an organisation-wide update of the code, its principles, values and standards, including refresher training for all staff.

Any detected or notified breaches of our principles and standards were disclosed during the year and action promptly taken.

Board and committees

Integral Energy Australia's Board of Directors is responsible and accountable to the voting shareholders, being the NSW Treasurer and NSW Special Minister of State, who each hold one share for and on behalf of the New South Wales Government.

Board of Directors

The Integral Energy Australia Board comprises a non-executive Chairman, the Chief Executive Officer as an executive director, and six non-executive directors.

In accordance with the *State Owned Corporations Act 1989*, the composition of Integral Energy's Board is determined using the following principles:

- > the Chief Executive Officer (CEO) is to be a member of the Board;
- > one director to be appointed by the voting shareholders on the recommendation of a selection committee comprising: a) two persons nominated by the voting shareholders, and b) two persons

nominated by the Labor Council of New South Wales. This director is selected by the committee from a panel of three persons nominated by the Labor Council; and,

- > at least two and not more than five other directors to be appointed by the voting shareholders at their discretion.

Board responsibilities

The Board is responsible for the overall corporate governance of Integral Energy and its subsidiaries – InfoMet Pty Limited and Integral Energy Gas Pty Limited – including setting the strategic direction, establishing goals for management, and monitoring the achievement of those goals. The respective Board of each subsidiary controls the corporate governance of that subsidiary. Some members of those Boards are also members of the Board of Integral Energy.

The Integral Energy Board meets monthly to consider the progress of Integral Energy against its Corporate Plan, and places special emphasis on the review of its financial position and management of risk. During these meetings, the Board takes the opportunity to seek the input and advice of senior management about matters relating to the corporation's strategic direction and performance. The Board and senior management also meet at least annually for a dedicated planning session to help shape future strategic direction.

The Board delegates authority and responsibility for operational issues to Integral Energy's Chief Executive Officer who, with other members of the Executive team, is directly accountable for achieving set performance targets through a series of Board endorsed policies, delegated authorities, and performance targets.

While the Board assigns the major responsibility for stakeholder relations to the CEO and senior management, the Chairman maintains liaison with critical stakeholders, principally the voting shareholders and their delegates. This takes place at points throughout the year, particularly during discussion revolving around the annual development of our Statement of Corporate Intent. These consultations keep our shareholders informed about the corporation's strategic and financial direction.

Memorandum and Articles of Association

At the request of the voting shareholders, the Memorandum and Articles of Association were replaced at a general meeting held on 23 February 1999. One of the more significant changes of the new Memorandum and Articles of Association was the deletion of the requirement for directors to retire, on a rotation basis, each March.

Term of office

Except for the Chief Executive Officer, all directors can be appointed by the voting shareholders for a period of up to five years.

A vacancy in the office of director (excepting the CEO and Labor Council nominee), either by retirement or other reason, is filled by a nominee of the voting shareholders.

The remuneration of each non-executive director is paid out of the funds of Integral Energy, and is approved by the voting shareholders. The CEO is not entitled to any additional remuneration for being an executive director.

For further details about remuneration please refer to page 84.

Changes to the Board

On 26 February, the Shareholders announced the re-appointment of the current Directors (other than Neil McDermott, who chose not to seek re-appointment as Chairman of the Board of Integral Energy Australia) and the appointment of a new Director. Mr John Fahey was appointed to the Board on 1 March 2002.

Board committees

The Board operates four committees, each with a specific function and charter, which is reviewed each year. The Board committees are Audit; Business Risk Management; Retail Risk Management; and, Remuneration and Human Resources. The Board committees meet at least four times a year. The key responsibilities and objectives of these committees are outlined below.

During the course of its work, the Board and its committees are able to draw on independent advice to assist in its deliberations and to supplement internal advice it receives. The Board has taken advantage of this in the last financial year, considering the advice of PricewaterhouseCoopers, Jardine Lloyd Thompson and KPMG.

Audit Committee

The Audit Committee draws specific focus on audit matters for the organisation and ensures that these are dealt with in an independent manner. The Manager Audit and Business Performance has responsibility for supporting the work of this committee and therefore reports directly to it.

The committee's responsibilities include any matters relating to the financial affairs of the company and its controlled entities and to internal and external audit that it considers necessary. In addition, the committee examines any other matters referred to it by the Board.

Specific duties include:

- > monitoring the performance of the internal and external audit contractor;
- > approving the annual consolidated audit plan;
- > monitoring of progress against the consolidated audit plan;
- > reviewing internal and external audit reports to ensure that where major deficiencies or breakdowns in controls or procedures have been identified, appropriate and prompt action is taken by management;
- > liaising with the external auditors and ensuring that the annual and half-year statutory audits are conducted in an effective manner;
- > reviewing reports on any major defalcations, frauds and thefts from Integral Energy and the monitoring of procedures;
- > initiating and supervising special investigations;
- > receiving information and recommendations from the Audit Group;
- > reviewing financial statements and other financial information distributed externally;
- > assessing the performance of financial management;
- > monitoring the establishment of an appropriate internal control framework, including information systems, and considering enhancements;
- > reviewing progress against Statement of Corporate Intent targets;
- > monitoring corporate risk assessment and the internal controls instituted;
- > monitoring the procedures in place to ensure that Integral Energy is complying with the relevant legislation and reporting requirements;
- > reviewing the declaration from the Company Secretary on compliance with financial statutory

responsibilities;

- > reviewing compliance to Integral Energy's Code of Ethics;
- > reviewing significant transactions which are not a normal part of the entity's business;
- > approving the nomination of the internal auditors; and,
- > taking such independent professional advice as it considers necessary.

Members of the committee during the year were Neil McDermott, Michael McLeod, Terry Downing (Chair) and Paul Sinclair. Richard Powis attends meetings by invitation.

Business Risk Management Committee

The Business Risk Management Committee considers any matters relating to:

- > the effectiveness and efficiency of business operations;
- > the programs, policies, processes and systems to ensure the effective identification, analysis and treatment of the Corporation's risks; and,
- > compliance with legal requirements.

In addition, the Business Risk Management Committee shall examine any other matters referred to it by the Board.

Specific duties include:

- > recommending to the Board the annual corporate strategies for addressing risk; and,
- > reviewing compliance with the health and safety policies, plans, procedures, statutory requirements and regulations particularly those imposed by the Occupational Health and Safety Act.



Mark Mostyn, Debt Manager, Revenue Management, and Mohammed Khan, Debt Recovery Officer > Dave Campbell, Manager Customer Transfers, Steed Leonard Project Manager, Bruce Horlyck, Manager Meter Data Project, Commercial > Direct Response Manager Tamara Hitchcock and Business Development Manager Anna Storti, Sales and Marketing > Joel Manning, Account Manager, Retail Sales

In addition, the attainment of the above responsibilities may involve:

1. Maintaining a program of development, review and assessment to ensure the effective identification, analysis and treatment of the corporation's risks.
2. Reviewing matters referred by the Board, regarding reports from Company Secretary on compliance with laws relating to environment, health and safety, trade practices, ICAC, privacy, and licences under the Energy Supply Act.
3. Reviewing all risks listed in the statement of corporate intent and progress in addressing those risks through the organisation.
4. Reviewing specific exposure to occupational health and safety risks, litigation, contingent liabilities and implementation of policy and strategies to address these.
5. Reviewing specific exposure to environmental risks, litigation, contingent liabilities and implementation of policy and strategies to address these.
6. Reviewing site assessments of all depots and progress in implementation of actions.
7. Reviewing adequacy of insurance cover and major insurance litigation and liabilities.
8. Reviewing Code of Ethics communication and embodiment.
9. Reviewing the effectiveness of risk management processes.

Committee members during the year were Neil McDermott, Michael Mcleod, Terry Downing, Mary Reemst, John Fahey (appointed Chair from 8 May 2002), Prof. Janice Reid, Paul Sinclair and Richard Powis.

Retail Risk Management Committee

The Retail Risk Management Committee considers and makes recommendations to the Board in relation to:

- > the policies, procedures and strategies relating to the Energy sales and marketing and energy portfolio management business activities;
- > determining the appetite for risk in line with Integral Energy's business plans and strategic objectives;
- > performance measures for energy trading and sales;
- > counterparties and their exposure limits;
- > the use of financial contracts and the limits associated with their use;
- > dealer trading limits;
- > delegation of payment limits for settlements;
- > reviews the performance of the risk management activities;
- > credit limit exposure of customers; and,
- > market share targets.

In addition, the committee examines any other matters referred to it by the Board.

Committee members during the year were Neil McDermott, Michael Mcleod (from May 2002), Terry Downing, Mary Reemst (Chair) and Richard Powis.

Remuneration and Human Resources Committee

The Remuneration and Human Resources Committee (renamed from Remuneration Committee this year) reviews the development, implementation and effectiveness of Board policy and human resources strategy on the organisation's employees. As well, the committee reviews, makes decisions or makes recommendations to the Board on:

Remuneration policies, principles and guidelines applicable to contract staff (including senior executives), and award-based staff.

Committee members during the year were Neil McDermott, Michael Mcleod, Mary Reemst, Prof. Janice Reid (Chair) and Richard Powis.

> Terms of office

Name	Term (including re-appointments)	
Neil McDermott	26 April 2000 – 28 February 2002	Non Executive Director Chairman (until 28 February 2002)
Michael McLeod	1 March 2000 – 28 February 2004	Non Executive Director Deputy Chairman (until 28/2/2002) Chairman from 1/3/2002
Terry Downing	1 March 2000 – 28 February 2004	Non Executive Director Deputy Chairman from 1 March 2002
Mary Reemst	1 March 2000 – 28 February 2004	Non Executive Director
Professor Janice Reid	1 March 2001 – 28 February 2005	Non Executive Director
John Fahey	1 March 2002 – 28 February 2004	Non Executive Director
Paul Sinclair	1 March 2000 – 28 February 2003	Non Executive Director
Richard Powis	Appointed 17 January 2000	Executive Director Chief Executive Officer

> Directors' meetings

Name	Integral Energy Australia Board		Audit Committee		Retail Risk Management Board Committee		Business Risk Management Committee		Remuneration and Human Resources Committee ²	
	A	B	A	B	A	B	A	B	A	B
Neil McDermott	7	7	4	4	7	7	3	3	4	4
Michael McLeod ⁵	11	11	6	6	2	2	3	3	4	4
Terry Downing	11	11	6	6	10	11	4	4	-	-
Mary Reemst	11	11	-	-	9	11	4	4	4	4
John Fahey ³	4	4	1	1	-	-	1	1	-	-
Professor Janice Reid ¹	11	11	-	-	-	-	3	3	4	4
Paul Sinclair	10	11	3	6	-	-	3	3	-	-
Richard Powis ⁴	11	11	6	6	9	11	4	4	4	4

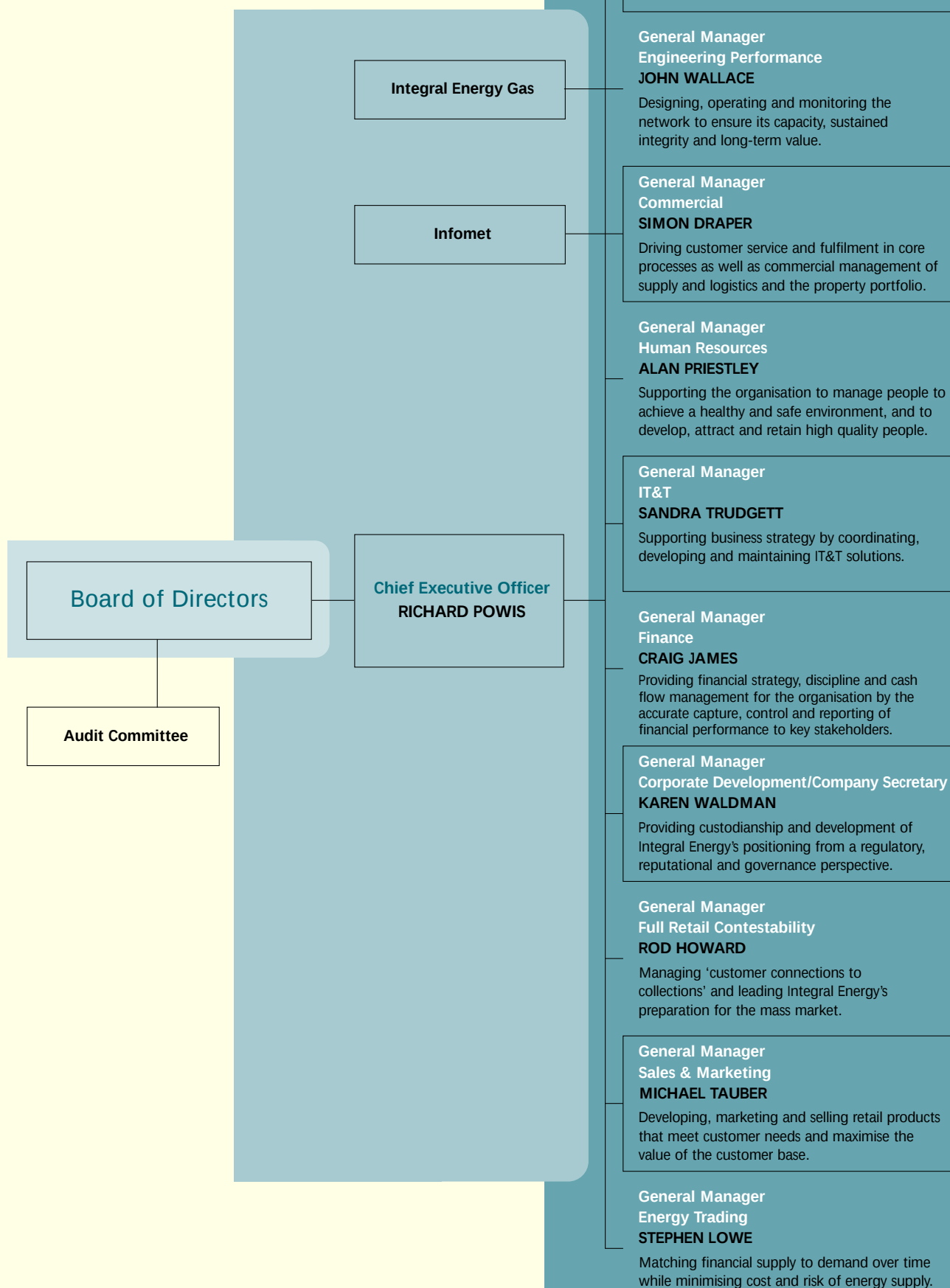
A – Number of meetings attended

B – Number of meetings held during the Director's term of office 2001-2002
Membership of Board committees was revised on 12 April 2002

Notes:

1. Professor Janice Reid appointed Chair of Remuneration Committee from 4 July 2001.
2. Remuneration Committee renamed Remuneration and Human Resources Committee in April 2002.
3. John Fahey appointed Chair of Business Risk Management Committee and a member of the Audit Committee from 12 April 2002.
4. Richard Powis attends the Audit Committee Meetings as an invitee.
5. Michael McLeod attended Retail Risk Management Board Committee Meetings from May 2002.

> Organisational structure



> Board of Directors



Michael McLeod



Terry Downing



Richard Powis



Paul Sinclair



Professor Janice Reid



John Fahey



Mary Reemst

>1 Michael McLeod, Chairman

Appointed *Non Executive Director* in March 2000, and appointed Chairman in March 2002. Michael is Chief Executive Officer of United Medical Protection and a Director of Milyn Holdings Pty Ltd. He was also Managing Director at Willis Corroon Australia Ltd and CEO at Richard Oliver International Pty Ltd. He is a Fellow with the Australian Institute of Company Directors.

>2 Terry Downing

B Comm, M Mgmt, Dip Bus Studies (Insurance)

Appointed *Non Executive Director* in March 2000, and Deputy Chairman in March 2002. Terry is a Management Consultant with extensive experience in the financial services sector. Previously Terry held a number of senior executive positions in the financial services sector. He is a Certified Practising Accountant, a Fellow of the Australian Institute of Company Directors, a Fellow of the Chartered Institute of Company Secretaries and a Fellow of the Australian and New Zealand Institute of Insurance and Finance.

>3 Richard Powis

B Ec Dip Ed

Appointed *Executive Director* and *Chief Executive Officer* in January 2000. Full biographical details are listed in the Executive group section on page 48.

>4 Paul Sinclair

Re-appointed *Non Executive Director* in March 2000. Paul is an Organiser, Electrical Trades Union (New South Wales Branch). He is also Assistant Secretary of the Metal Trades Federation of Unions, New South Wales Branch.

>5 Professor Janice Reid, AM

B Sc (Adelaide), MA (Hawaii), MA (Stamford), PhD (Stamford)

Appointed *Non Executive Director* in March 2001. Vice-Chancellor and President of the University of Western Sydney since April 1998, Janice has received several awards and honours in both Australia and overseas, and has served on the boards both of community organisations and public agencies at State and Commonwealth levels in the health, welfare, education and cultural fields. She has been a member of the Greater Western Sydney Economic Development Board and chaired the Board of the Australian Institute of Health and Welfare for six years until mid 2001. Janice is a Fellow of the Academy of Social Sciences in Australia, a Fellow of the Australian Institute of Management, and a Member of the Australian Institute of Company Directors. In recognition of her service to cross-cultural public health research and the development of health services, Janice was made a Member of the Order of Australia in January 1998.

>6 John Fahey

Dip L

Appointed *Non Executive Director* in March 2002. Former Premier of NSW and member of State Parliament for 12 years (1984-96), John was elected to Federal Parliament in 1996, and served as Minister for Finance and Administration in the Howard government from 1997 until 2001. Besides adding to the Board's commercial focus, John represented residents from within Integral Energy's franchise area during his State and Federal Parliamentary career, giving him a close insight into the needs and interests of local customers.

>7 Mary Reemst

BA (Hist/ Pol), Dip Fin Mgmt (Accountancy)

Appointed *Non Executive Director* in March 2000. An Executive Director with Macquarie Bank, where she specialises in providing financial advisory services to infrastructure providers, in particular the energy industry. Mary was previously an Executive Vice President with Bankers Trust. She is a Fellow of the Australian Institute of Company Directors.

Changes to the Board

Neil Martin McDermott, who was Chairman from his appointment in April 2000, chose not to seek re-appointment, and stepped down from the Board because of work commitments on 28 February 2002.

>1 Richard Powis

BEC DipEd

Appointed Chief Executive Officer in January 2000. He has since presided over realignment of corporate objectives; significant improvements in financial performance; major environmental initiatives; a smooth transition to full retail competition; and, the launch of a fresh corporate image. Richard has worked in the electricity supply industry in NSW for over ten years and had a strong track record in business management and strategic development across a number of industries. He is a board member of the Electricity Supply Association of Australia (ESAA), and a member of the NEMMCO Participant Advisory Committee. Prior to his appointment, Richard was part of the senior management team at TransGrid, where he was instrumental in managing the organisation's challenging separation from Pacific Power and then charting its next steps towards corporatisation. He was also a central figure in the development of the National Electricity Market, which included the connection of the Queensland and NSW markets via QNI.



Richard Powis



Craig James



Rod Howard



Simon Draper



Karen Waldman



Michael Tauber



Stephen Lowe

>2 Craig James

BFin Admin, CA, CPA, ACIS

Appointed General Manager Finance in August 2000. Previously employed by the Rail Access Corporation in senior finance/secretarial and commercial roles from the corporation's inception in 1996. Prior to this he worked with Ferrier Hodgson, strengthening his corporate re-organisation skills within the shipping and road transport industries. Craig has gained wide experience in accounting, financial and administrative re-organisation.

>3 Rod Howard

BE (Hons), M Eng Sc, B Bus, MBA, MIE Aust, GAICD

Appointed General Manager Full Retail Contestability in July 2000. Rod's previous responsibilities included General Manager Corporate Development/Company Secretary, General Manager Business Development, General Manager Integral Energy Contracting and, with Prospect Electricity, General Manager Network Services, General Manager Corporate, and Manager Technical Services. Rod joined Prospect in 1974 as a cadet engineer. His professional memberships include: Member, Australian Institute of Company

Directors; and, Member, Institution of Engineers Australia. He is also a Director of the NSW Energy and Water Ombudsman scheme (EWON).

>4 Simon Draper

BEC (Hons), M Bus (Finance), GAICD

Appointed General Manager Commercial in September 2000. Simon was previously the CEO of Northern Territory Airports, a privatised airport company. He has held executive positions with Qantas, the Federal Airports Corporation and the Property Council of Australia, after starting his professional career with the CFMEU. He draws on strong skills in economic analysis, commercial strategy, operations and general management.

>5 Karen Waldman

BSc(Arch), BArch (Hons), MBA, GAICD

Appointed General Manager Corporate Development/Company Secretary in July 2000. Prior to this Karen was General Manager Integral Energy Contracting. Previously employed by Sydney Water where she held positions including Regional Manager, Central Region, and Senior Strategic Planner. Prior to that she was General Manager and Director of her architectural and construction company, specialising in project management.

> Executive group



Dr Sandra Trudgett

Alan Flett

John Wallace

Alan Priestley

>6 Michael Tauber

B Com, M Com

Appointed General Manager Sales and Marketing in July 2001. Michael has a strong background in sales and marketing, including senior positions with some of the world's leading companies. Prior to joining Integral Energy, Michael headed the mortgage team at Westpac, and led the priority customer marketing activities. Before joining Westpac, Michael was Citibank's vice-president of global marketing in their New York office. Michael's experience also includes senior sales and marketing roles within Coca-Cola South Pacific, Fuji Film and Unilever.

>7 Stephen Lowe

Appointed General Manager Energy Trading in September 2001. Stephen brought a wealth of experience in energy trading, including responsibility for originating structured deals in electricity, as well as generating new business and expanding the client base for a major US organisation. His past experience includes establishing the Commonwealth Bank's energy trading capabilities, as well as recommending strategies on the development of a commodity trading department. Stephen also has experience in asset

risk management, proprietary trading, and as a senior dealer in international finance markets.

>8 Dr Sandra Trudgett

BA (Maths/Computing), MBA, DBA, GAICD

Appointed General Manager Information Technology and Telecommunications in July 2000. Sandra was previously the General Manager Sales Solutions and Management Information Systems for Telstra. She has held numerous roles related to information technology and general management for over 20 years and draws on strong skills across a variety of technology streams. Sandra maintains a strong research interest in management and has published numerous articles in this field.

>9 Alan Flett

BE Ind Eng (Hons)

Appointed General Manager Asset Management in July 2000. Alan's career has seen him employed with companies in Australia and overseas, including ABB, Brook Crompton Parkinson and Cablemakers Australia. His overseas work included service in both the UK and China. Whilst working with ABB, Alan worked in both Transmission and Distribution areas and prior to joining Integral

Energy was General Manager of ABB's Power Transformer division, in Australia and China, a position he had held since 1986.

>10 John Wallace

BE, BFin Admin

Appointed General Manager Engineering Performance in July 2000. John's previous responsibilities with Integral Energy included Acting General Manager Integral Energy Contracting and Branch Manager in the Contracting business. Prior to the formation of Integral Energy, John was employed as the Divisional Engineer Development with Illawarra Electricity, after joining the electricity distribution industry as a cadet engineer.

>11 Alan Priestley

B Sc (Hons), G Dip Labour Relations, MBA

Appointed General Manager Human Resources in February 2001. Previously employed as General Manager Human Resources for Royal & Sun Alliance Insurance. Broad experience in the human resources field includes senior personnel appointments with Mt Newman Mining and BHP Collieries Division.

The power

is in your hands





...to build a better future

4 >



THE FUTURE

Integral Energy has broadened its strategic horizon to one with a clear focus on sustainable growth.

Integral Energy's commitment to building for the benefit of future generations is reflected by SCADA Team Leader Wayne Dafter and son Jarrod, 10.

Inset pics from left: > Jim Hickey, Team Leader, Testing Services > Melissa Tabone, Contestable Works Officer, Customer Connections > Tom Boslem, Leading Hand Lineworker, Bowenfels

We aim to build a unified sense of purpose and a common understanding of our organisation's long-term future.

> The future

Broadening our strategic horizon

The onset of Full Retail Contestability, and its impact on our retail operations, and increasing asset age, with consequent reliability issues inherent in the network part of the business, were the major areas of focus during the past year.

Both challenges required careful management to ensure the organisation was well placed in the long-term to meet the needs and expectations of its shareholder, its customers, the community and its staff.

In preparing the 2002-2005 Corporate Plan to move the organisation ahead, we were able to plan confidently because of time and effort spent on fine tuning the foundations laid down over the past two years. Integral Energy is now able to broaden its strategic horizon to one with a clear focus on sustainable and profitable growth.

We will continue to strive towards our vision, To be Australia's leading energy business, and in fulfilling our mission, to be a successful energy corporation with a long term focus on being a best practice asset manager and competing in profitable retail energy markets.

Our Corporate Plan aims to communicate the strategies and initiatives for the way ahead. We will focus on the pursuit of our strategies by using the plan as a decision-making framework and an aid to prioritising resource allocation and investment decisions.

Effective strategy implementation through an aligned leadership team will be a key focus area in 2002-2003 as the success of our initiatives will be realised through the collective contribution of our people. We aim to build a unified sense of purpose and a common understanding of our organisation's long-term future.

The deployment of Integral Energy's vision and mission will be guided over this period by two fundamental strategies . . .

- 1 Building value in the network, through achieving best practice in network asset management. This involves making appropriate capital investment in the network to improve reliability and performance, maximising the value of the network for our shareholders, and developing strategies to influence the regulatory environment.
- 2 Maximise the contribution from the Retail business. Delivering shareholder value by providing profitable electricity product solutions, tailored to each segment of the electricity market.

... and seven strategic initiatives:

- i. Network operating efficiency: To ensure the efficient construction, maintenance and operation of the network.
- ii. Improving the network capital investment process: To deliver the network capital program for 2002-2005 and review and prioritise the ongoing capital program and its supporting principles and delivery mechanisms.
- iii. Network reliability improvement: To protect Integral Energy's reputation as a reliable electricity supplier, a key driver of customer satisfaction.
- iv. Safety excellence: To support the integration of safety into all business and management processes.
- v. Optimise regulatory outcomes: To influence and monitor the regulatory framework and stakeholders to ensure our commercial interests are protected and developed.

- vi. Competitive "cost to serve": To improve margins of the Retail and Network businesses by driving down "cost to serve" to commercially competitive levels.
- vii. Grow retail gross contribution: To grow through sales and marketing and trading initiatives to deliver customer solutions.

These seven strategic initiatives are complemented by four strategic ongoing programs, Organisational capability and cultural change, IT cost restraint management, customer service strategy and systems capability, and economic value propositions.

The organisation will introduce a new concept in corporate planning, moving away from the "back to basics" approach to one of challenging our current strategic direction and testing assumptions. This new level of strategic maturity will be achieved through a process that embodies discussion of long-term issues, tests our position in light of changes in the industry, and broadens creative latitude in strategic thinking.

Rather than forecasting from the past to predict the future, the organisation will test current thinking through scenarios built from information that is current and recognisable.

Integral Energy anticipates enriched strategic debate through this process, as well as an opportunity to explore new concepts, a rigorous assessment of existing strategies, and preparedness for a wider range of possible eventualities.

> Corporate Plan

Key performance indicators 2002-2003 to 2004-2005

	Key performance indicator	Measure	Target 2002-2003	Target 2004-2005
Building value in the Network	Reliability	Minutes lost per customer	125 mins	120 mins
	Capital investment program compliance	%	>90%	>95%
	Capital budget compliance	%	>90%	>95%
	Customer satisfaction*	%	56%	63%
Maximising the contribution from the Retail business	Budgeted contribution from Sales and Marketing	\$	\$53.9m	\$63.2m
Strategic ongoing programs	Level of staff safety	Accident Frequency Rate (DIFR)	9.5	9.0
		Accident Severity Rate (DISR)	80	75
	Staff satisfaction level	%	50%	60%
	Performance appraisals completed for all staff	%	100%	100%
Business fundamentals	EBITDA	\$	\$233.2m	\$265.9m
	Compliance to budget	%	<5%	<5%
	Compliance with policies and standards	% audit corrective actions complete on time	90%	90%
	Operating efficiency improvement	% decrease in Opex	3.0%	3.5%

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

Integral Energy is committed to delivering sustainable and attractive returns to its shareholder, the NSW government.

> Management discussion and analysis

Overview

The year 2001-2002 was characterised by continuation and consolidation of changes in the organisational structure and a restatement of ethics, vision and values.

Revenue

Revenue from ordinary activities for the year of \$1.14b was slightly lower than the previous year's revenue of \$1.15b.

During the year total electricity sales increased by \$29.2m or 3%, whereas external Network revenue from "use of system charge" decreased by \$29.9m or 18%.

Revenue from other activities was maintained at previous year's levels.

Overall profit was again impacted by a loss in value of superannuation investments due to overseas influences.

Net profit

Integral Energy recorded a net profit before tax of \$99.1m for the year under review. This represents a decrease of \$5.2m or 5% from the previous year. Budgeted net profit before tax for the year was \$53.0m.

It is significant to note that the net profit before tax for the year was above budget by \$46.1m despite difficult trading conditions and increases in interest and depreciation and amortisation expense during the year.

Interest expense increased by \$4.1m or 5% primarily due to an additional debt of \$150m raised in August 2001 on account of capital repatriation to the NSW Treasury, offset by reduction in interest rates during the year.

Provision for depreciation also increased by \$14.3m or 13% from the previous year as a result of adoption of a NSW Treasury commissioned valuation. This valuation was used by IPART to set the price path for the Network business commencing February 2000. The valuation was adopted by the Corporation from 1 January 2001.

Shareholder return

Integral Energy is committed to delivering sustainable and attractive returns to its shareholder, the NSW government.

In view of the continued good performance the Directors have declared a first and final dividend of \$90.6m which includes a special dividend of \$80m. This reflects an increase of \$37.9m (or 72%) on the dividend declared and paid in the prior year, and \$61.5m higher than budget.

Balance sheet

At the end of June 2002, working capital showed a decline of \$94.7, primarily due to \$68.9m of debt maturity moving from long term to current and addition dividend provided of \$37.9m.

The Corporation ended the financial year with a strong cash position.

During the year, cash and other financial assets increased by \$21.7m reflecting the emphasis placed on working capital management. During the period the amounts receivable from debtors increased by \$6.3m whilst the level of creditors decreased by \$5.7m.

The written down value of property, plant and equipment increased by \$75.6m, with \$22.4m of this increase attributable to the revaluation of land and buildings on 30 June 2002.

Cash flows

Cash flow from operations for the year was very strong at \$215.5m. This represents a \$52.1m (or 19%) decrease on the previous year primarily due to income tax paid for the first time of \$27.4m. This healthy position is a reflection of the measures put in place to improve the billing cycle as well as the credit management process.

Interest payments during the year totalled \$82.0m, an increase of \$9.1m (or 13%).

Capital expenditure

Capital expenditure was higher than last year at \$163.1m, an increase of \$57.8m.

Capital expenditure was predominantly targeted at asset renewals as well as growth related projects. The capital program is underpinned by Integral Energy's Strategic Asset Management Plan (SAMP), which details the framework for network investment in the three to five year horizon.

The closing cash balance was \$19.5m

At the end of June, the Corporation had unused credit facilities of \$97.0m.

Subsidiary companies

Integral Energy Gas Pty. Limited

In February 2002, an agreement was reached to sell the natural gas customer base and network assets to ActewAGL, effective 30 June 2002. The remaining assets and liabilities as at 30 June 2002 will be transferred to Integral Energy Australia, during the 2002/03 financial year. Accordingly, Integral Energy Gas Pty Limited ceased trading on 30 June 2002.

InfoMet Pty. Limited

The principal activity of InfoMet during the period was to provide Meter Data Agent and Meter Provider services to energy retailers in the contestable national market of the electricity industry.

The introduction of contestability for all customers within New South Wales and Victoria had a significant impact on InfoMet Pty Limited. New systems needed to be commissioned to meet the meter data requirements of the market. Revenue for the year was below expectations due to zero penetration of Manually Read Interval Meters into the market.

InfoMet Pty. Limited will be integrated into Integral Energy Australia effective 1 July 2002.

The voluntary de-registration of InfoMet Pty Limited will occur during 2002/03. The commercial reasons for maintaining InfoMet Pty Limited's status as a separate legal entity have significantly diminished, particularly as Full retail Contestability has increased InfoMet Pty Limited's role as an internal function. The financial performance and commercial environment of InfoMet Pty Limited were not consistent with the objectives for operating a subsidiary business.

Credit rating

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

Financials

> Financial Statements 2001-2002

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> Directors' Report

The Board of Directors of Integral Energy Australia ("the Corporation") has pleasure in submitting the consolidated accounts of the economic entity, being the Corporation and the controlled entities, for the period 1 July 2001 to 30 June 2002, and the independent audit report thereon.

Directors

Details of Directors appear on pages 44 and 46.

Directors' meetings

Details of meetings and attendance by Directors are given in the Corporate Governance section on page 44.

Results

The consolidated after tax profit of the economic entity for the year was \$56.3m.

Principal activities

The principal activities of the economic entity during the course of the period ended 30 June 2002 were purchase, distribution and sale of electricity, sale of natural gas, meter data agent as well as maintenance, construction and management of electricity distribution assets.

State of Affairs

The corporation operates in the New South Wales, Victoria, ACT, Queensland and South Australia electricity industry in its own right under the provisions of the Electricity Supply Act 1995, and in the national electricity market.

The consolidated financial statements for the corporatised entity and its wholly owned subsidiaries Integral Energy Gas Pty. Limited and Infomet Pty. Limited for the period ended 30 June 2002 are presented on pages 60 to 89 inclusive.

As at 30 June 2002 the natural gas customer base and assets were sold to ActewAGL.

Events subsequent to the balance date

There has not arisen in the interval between the end of the financial period, and the date of this report, any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Corporation, to affect significantly the operations of the economic entity, the results of those operations, or the state of affairs of the economic entity, in subsequent financial years.

Likely developments

The economic entity will pursue its vision "to be Australia's leading energy business" by focusing on delivering superior value to our customers and our shareholders now and into the future. Its business purpose is "to be a successful energy corporation with a long term focus on being a best practice asset manager and competing in profitable energy markets".

Further information about likely developments in the operations of the economic entity, and the expected results of those operations in the economic entity, and the expected results of those operations in subsequent financial years, has not been included in this report because, the directors believe, on reasonable grounds, that to include such information would be likely to result in unreasonable prejudice to the economic entity.

Environmental regulation performance

The economic entity's environmental and waste discharge obligations are regulated under both State and Federal Law. All environmental performance obligations are monitored by the Environmental Steering Committee and subjected, from time to time, to Government agency audits and site inspections. The economic entity has a policy of at least complying, but in most cases exceeding its environment performance obligations. No environmental breaches have been notified by any Government Agency during the year ended 30 June 2002.

Directors' benefits

During the period no Director of the entity has received or become entitled to receive any benefits by reason of a contract made by the entity or a related body corporate with a Director or with a firm of which a Director is a member or with an entity in which a Director has a substantial interest.

Rounding of amounts

Amounts in the consolidated financial statements have been rounded off to the nearest thousand dollars unless specifically stated to be otherwise.

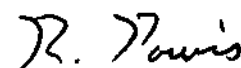
Auditors

The Auditor General of NSW continues in office in accordance with Section 327 of the Corporations Law.

Signed in accordance with a resolution of the Directors:



Michael McLeod
Director
4 September 2002



Richard Powis
Director
4 September 2002



GPO BOX 12
SYDNEY NSW 2001

INDEPENDENT AUDIT REPORT

INTEGRAL ENERGY AUSTRALIA

To Members of the New South Wales Parliament

Scope

I have audited the accounts of Integral Energy Australia for the year ended 30 June 2002. The financial report includes the consolidated financial statements of the consolidated entity comprising the Corporation and the entities it controlled at the year's end or from time to time during the financial year. The members of the Board of Integral Energy Australia are responsible for the financial report consisting of the accompanying statement of financial performance, statement of financial position and statement of cash flows, together with the notes thereto, and the information contained therein. My responsibility is to express an opinion on the financial report to Members of the New South Wales Parliament and members of Integral Energy Australia based on my audit as required by the *State Owned Corporations Act 1989* and the *Public Finance and Audit Act 1983* (the PF&A Act).

My audit has been conducted in accordance with statutory requirements and Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. My procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates.

These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements and statutory requirements, in Australia, so as to present a view which is consistent with my understanding of the Corporation's financial position, the results of its operations and its cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

In my opinion, the financial report of Integral Energy Australia complies with section 41B of the PF&A Act, other statutory requirements and presents fairly in accordance with applicable Accounting Standards and other mandatory professional reporting requirements the financial position of the Corporation as at 30 June 2002 and the results of its operations and its cash flows for the year then ended.

A handwritten signature in dark ink, appearing to read "D A Jones".

D A Jones FCPA
Director of Audit

SYDNEY
13 September 2002

i:\z1010\iar2002.doc

> Statement of Financial Performance

YEAR ENDED 30 JUNE 2002

		CONSOLIDATED		CORPORATION	
	Notes	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
Revenues from ordinary activities	2	1,140,792	1,145,391	1,133,969	1,142,876
Expenses from ordinary activities	3	(959,296)	(962,839)	(965,018)	(959,471)
Borrowing expense	3	(82,430)	(78,310)	(82,430)	(78,310)
Profit from ordinary activities before income tax expense		99,066	104,242	86,521	105,095
Income tax expense relating to ordinary activities	4	(42,793)	(30,721)	(45,914)	(33,556)
Profit from ordinary activities after income tax expense		56,273	73,521	40,607	71,539
Net profit after tax		56,273	73,521	40,607	71,539
Net profit attributable to members of Integral Energy	21	56,273	73,521	40,607	71,539
Net increase/(decrease) in asset revaluation reserve	21	22,376	571,814	22,376	571,814
Total revenues, expenses and valuation adjustments attributable to members of Integral Energy and recognised directly in equity	21(a)	22,376	571,814	22,376	571,814
Total changes in equity other than those resulting from transactions with owners as owners		78,649	645,335	62,983	643,353

The above Statement of Financial Performance should be read in conjunction with the accompanying notes.

> Statement of Financial Position

AT 30 JUNE 2002

		CONSOLIDATED		CORPORATION	
	Notes	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
Current Assets					
Cash assets	22	-	7,596	-	9,290
Receivables	6	120,712	114,455	128,178	117,340
Estimated revenue from unread meters		70,592	67,792	70,592	67,792
Inventories		6,963	8,354	6,778	8,132
Other financial assets	7	214,630	185,330	214,630	185,330
Deferred tax assets	4	29,007	4,149	28,402	4,142
Other	8	10,619	8,789	10,619	8,789
Total Current Assets		452,523	396,465	459,199	400,815
Non-current Assets					
Other financial assets	10	-	200	-	5,200
Property, plant and equipment	11	2,154,863	2,079,302	2,148,230	2,061,761
Deferred tax assets	4	30,380	45,039	30,068	44,936
Loans to subsidiaries		-	-	-	19,900
Other	12	21,164	37,764	21,164	37,764
Total Non-current Assets		2,206,407	2,162,305	2,199,462	2,169,561
Total Assets		2,658,930	2,558,770	2,658,661	2,570,376
Current Liabilities					
Bank overdraft	22	2,224	-	2,224	-
Payables	13	153,831	159,575	156,398	157,903
Interest-bearing liabilities	14	308,788	239,911	308,788	239,911
Current tax liabilities	4	26,651	16,524	26,651	20,015
Deferred tax liabilities	4	24,203	23,230	24,160	23,226
Provision for dividend	5	90,632	52,776	90,632	52,776
Provisions	15	64,972	32,085	67,503	32,078
Other	16	10,011	6,470	9,963	6,418
Total Current Liabilities		681,312	530,571	686,319	532,327
Non-current Liabilities					
Interest-bearing liabilities	17	760,761	668,392	760,761	668,392
Deferred tax liabilities	4	100,019	92,808	100,063	92,310
Provisions	18	94,221	88,504	94,211	88,496
Other	19	22,925	18,688	22,925	18,688
Total Non-current Liabilities		977,926	868,392	977,960	867,886
Total Liabilities		1,659,238	1,398,963	1,664,279	1,400,213
Net Assets		999,692	1,159,807	994,382	1,170,163
Equity					
Parent entity interest					
Contributed equity	20	335,046	485,046	335,046	485,046
Reserves	21	612,218	589,842	612,218	589,842
Retained profits	21	52,428	84,919	47,118	95,275
Total parent entity interest in equity		999,692	1,159,807	994,382	1,170,163
Total Equity		999,692	1,159,807	994,382	1,170,163

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

> Statement of Cash Flows

YEAR ENDED 30 JUNE 2002

		CONSOLIDATED		CORPORATION	
	Notes	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
Cash flows from operating activities					
Receipts in the course of operations		1,098,259	1,194,344	1,094,761	1,184,415
Payments in the course of operations		(782,750)	(860,380)	(777,788)	(859,925)
Interest received		9,467	6,575	9,467	6,574
Interest paid		(82,049)	(72,926)	(82,049)	(72,926)
Income tax paid		(27,396)	-	(30,887)	-
Net cash provided by/(used in) operating activities	22	215,531	267,613	213,504	258,138
Cash flows from investing activities					
Proceeds from sale of property, plant and equipment		8,535	15,868	8,533	11,367
Purchase of property, plant and equipment		(163,056)	(105,247)	(162,721)	(103,449)
Net cash provided by/(used in) investing activities		(154,521)	(89,379)	(154,188)	(92,082)
Cash flows from financing activities					
Proceeds from borrowings		161,246	207,160	161,246	207,160
Dividends paid		(52,776)	(29,743)	(52,776)	(29,743)
Capital repatriation		(150,000)	(200,000)	(150,000)	(200,000)
Net cash provided by/(used in) financing activities		(41,530)	(22,583)	(41,530)	(22,583)
Net increase/(decrease) in cash held		19,480	155,651	17,786	143,473
Cash at the beginning of the financial year		192,926	37,275	194,620	51,147
Cash at the end of the financial year	22	212,406	192,926	212,406	194,620

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

> Notes to the Financial Statements

30 JUNE 2002

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of accounting

The financial report is a general purpose financial report which has been prepared in accordance with the requirements of Australian Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board, the State Owned Corporations Act 1989 and the Public Finance and Audit Act 1983.

The financial report has been prepared in accordance with the historical cost convention and except where stated, does not take into account changing money values or current valuations of non-current assets.

The entity has adopted the presentation and disclosure requirements of Accounting Standards AASB 1005 "Segment Reporting", AASB 1041 "Revaluation of Non-current Assets" and AASB 1042 "Discontinuing Operations" for the first time in the preparation of this financial report. In accordance with the requirements of these new/revised Standards, comparative amounts have been reclassified in order to comply with the new presentation format. The reclassification of comparative amounts has not resulted in a change to the aggregate amounts of current assets, non current asset, current liabilities, non current liabilities or equity, or the net profit/loss of the entity as reported in the prior financial year.

(b) Changes in accounting policies

There were no significant changes to accounting policies during the 2001/2002 financial year except as noted under note (a) above.

(c) Principles of consolidation

The consolidated accounts of the economic entity include the financial statements of the Integral Energy Australia (the Corporation) and its controlled entities. The balances and effects of transactions between the Corporation and its controlled entities have been eliminated on consolidation.

(d) Foreign currency

All foreign currency transactions during the financial year are brought to account using the exchange rate in effect at the date of the transaction. Foreign currency monetary items at reporting date are translated at the exchange rate existing at that date. Exchange differences are recognised in the profit and loss in the period in which they arise.

(e) Trade and other receivables

Trade receivables are recorded at amounts due less a provision for any uncollectable debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written-off as incurred.

Trade debtors are normally settled within 27.3 days.

(f) Investments

(i) Controlled entities

Investments in controlled entities are carried in the Corporation's books at the lower of cost and recoverable amount.

At a meeting of the Board held on the 6 September 2000,

the Board approved the execution of a Deed of Indemnity between Integral Energy Australia and its subsidiaries Infomet Pty Limited and Integral Energy Gas Pty Limited. This Deed of Indemnity is still in force as at 30 June 2002.

Integral Energy Australia provides accounting, human resources, EDP and other services to these entities for which no charge is made.

(ii) Money market securities

Current other financial assets comprise:

(a) investments for a fixed term where the maturity date is twelve months or less from year end balance date; or

(b) readily tradeable investments which are likely to be converted to cash within twelve months of year end balance date even though the maturity date may be greater than twelve months from year end balance date.

Non-current other financial assets are those repayable or with a maturity date of more than twelve months from year-end balance date.

(g) Inventories

Inventories are carried at the lower of cost or net realisable value. Cost is determined using the average purchase price of each item and comprises the cost of purchase and the cost of bringing the inventories to the existing condition and location. In the case of manufactured goods, direct labour costs, variable overhead and a portion of fixed overhead costs, allocated on the use of normal operating capacity, have been included.

(h) Unread meters

At balance date, Integral Energy Australia accrues an estimate of electricity consumed where the meter has not been read. This calculation is recognised as revenue on unread meters in the Statement of Financial Performance.

(i) Recoverable amount of non current assets

Non current assets are written down to their recoverable amount where the carrying value of any non current asset exceeds the recoverable amount. In determining the recoverable amount of non current assets, the expected net cash flows have been discounted to their present value. The entity's weighted average cost of capital of 7.5% has been used as the discount rate.

(j) Property, plant and equipment

(i) System property, plant and equipment and non-system land and buildings

System assets have been valued at the lower of the optimised-depreciated replacement cost or recoverable amount. System land and non-system land and building assets are valued at the latest market valuation based on a fair value of the asset. Any increment resulting from the revaluation is credited directly to an asset revaluation reserve except that, to the extent that the increment reverses a revaluation decrement previously recognised as an expense in the Statement of Financial Performance in respect of that same class of assets, it is recognised as revenue in the statement of financial performance for the reporting period. A revaluation decrement is recognised as an expense in the statement of financial performance except that, to the extent

> Notes to the Financial Statements continued

30 JUNE 2002

that the decrement reverses a revaluation increment previously credited to, and still included in the balance of, an asset revaluation reserve in respect of that same class of asset, it is debited directly to that revaluation reserve (refer note 21(a)).

(ii) Other property, plant and equipment

Other property, plant and equipment assets are initially recorded in the Statement of Financial Position at cost and are depreciated as outlined below.

(iii) Valuation

In June 1998, a consortia comprising Gutteridge, Haskins & Davey (GHD), Worley International and Arthur Andersen carried out a valuation of the system property plant and equipment. This valuation was adopted as of 1 January 2001 and necessary entries were made to the asset values to reflect the new values. The revaluation increment resulting from the recognition of the new values has been recognised and credited to the revaluation reserve.

System land and non-system land and buildings are revalued on a cyclical basis over a three year period. The valuation of system land and non-system land and building in 2001/2002 was conducted by Colliers International Consultancy & Valuation Pty. Limited.

(iv) Depreciation

Depreciation of property, plant and equipment assets is calculated using the straight-line method, at rates based on the assets estimated useful economic life. Depreciation is charged on a pro-rata basis for assets purchased or sold during the year. Depreciation rates are shown in note 11(c).

(v) Disposal of revalued assets

Any gain or loss on the disposal of revalued assets is determined as the difference between the carrying amount of the asset at the time of disposal and the proceeds of the disposal, and is included in the Statement of Financial Performance for the year. Any related revaluation increment in the asset revaluation reserve at the time of disposal is transferred to the statement of financial performance.

(vi) Capitalisation threshold

Property, plant and equipment assets purchased below \$500 are expensed in the year of acquisition.

(k) Leased plant and equipment

Assets which are acquired under leases deemed to be "finance leases", that is, leases which substantially transfer, from the lessor to the lessee, all the risks and benefits incidental to the ownership of the leased assets, are capitalised as fixed assets where appropriate.

Finance leases are carried at fair value and capitalised by recording an initial asset and liability equal to the present value of the minimum lease payments including any guaranteed residual values. Leased assets are amortised over the expected useful lives using the straight line method. Lease payments are allocated between interest expense and lease liability. Defeased lease liabilities are removed from the balance sheet in accordance with the Accounting Standard AAS 23 - "Set-Off and Extinguishment of Debt".

(l) Other non-current assets

The purchase method of accounting is used for all acquisitions of assets. Cost is measured as the fair value of the assets given up or liabilities undertaken at the date of the acquisition plus incidental costs directly attributable to the acquisition. The costs of assets constructed or internally generated include the cost of materials and direct labour. Directly attributable costs and other overheads are also capitalised to the asset.

The carrying amounts of non-current assets are reviewed to determine whether they are in excess of the recoverable amount at balance date. If the carrying amount of a non-current asset exceeds the recoverable amount, the asset is written down to the lower amount.

(m) Payables

Trade accounts payable, other payables and accruals are recognised when the economic entity becomes obliged to make future payments as a result of purchases of goods and services.

Trade accounts payable are normally settled within 32.6 days.

(n) Borrowing costs

Borrowing costs include interest, amortisation of discounts or premiums relating to borrowings, amortisation of ancillary costs incurred in connection with arrangement of borrowings and lease finance charges. Borrowing costs are expensed unless they relate to qualifying assets that are capitalised.

Loans outstanding at 30 June 2002 are shown in the statement of financial position as either a current or non-current liability and are net of any unamortised discount and premium.

(o) Revenue recognition .

(i) Revenue from operating activities

Revenue from operating activities comprises revenue earned from the provision of energy products and other ancillary services to entities outside the economic entity.

Revenue is recognised when energy products and services are provided to the consumer. Metered energy supply is recognised when the meters are read and an estimate is brought to account where meters have not been read (refer note 1(h)).

Network use of system charges are invoiced to out-of-area retailers following the reading of meters of customers within the franchise area who are contracted to external retailers. Network use of system income is recognised on an accrual basis, as revenue is accrued for consumption that is not invoiced at month end.

Interest receivable and other revenue from operating activities is brought to account as it is earned, and is recognised when the goods and services are provided.

Developer or customer contributions of non-current assets are recognised as revenue and an asset when Integral gains control of such contributions. The amount recognised is the fair value of the contributed asset at the date on which Integral gains control of such asset.

Other revenue, outside the provision of energy products, is recognised on an accrual basis and in accordance with the

> Notes to the Financial Statements continued

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substance of the agreement covering such transactions.

A developer or customer cash contribution is recognised as revenue when the network is extended or modified consistent with the terms of the contribution.

(ii) Revenue from non-operating activities

Surplus or deficit arising out of revaluation of the superannuation pooled funds held by Energy Industries Superannuation Scheme is recognised when notified of such event by the trustees (refer note 1(q)(ii)).

Revenue arising from the sale of assets is recognised when the entity has passed control of the goods, and the amount of revenue can be measured reliably.

(p) Tax equivalents and financial distributions

(i) Taxation Equivalent

From 1 July 2001, Integral Energy Australia commenced operations under Australian Taxation regulations administered by the Australian Taxation Office. Prior to this the entity operated within the NSW Government Tax Equivalent Regime (TER). Tax equivalents are still payable to the Office of the State Revenue.

Income tax expense is calculated on operating profit adjusted for permanent differences between taxable and accounting income. The tax effect of timing differences, which arise from items being brought to account in different periods for income tax and accounting purposes, is carried forward in the statement of financial position as a future income tax benefit or a provision for deferred income tax.

Future income tax benefits are not brought to account unless realisation of the assets is assured beyond reasonable doubt. Future income tax benefits relating to entities with tax losses are only brought to account when the realisation is virtually certain.

(ii) Distributor Levy

A distributor levy, imposed in the 1997 NSW State Budget, was collected on use of system charges billed to contestable customers and paid quarterly to the Office of the State Revenue (OSR). The distributor levy ceased on 30 June 2001.

(iii) Financial Distribution

A financial distribution in the form of a dividend, approved by the Board, is also paid to NSW Treasury. The dividend entitlement is based on 85% of profit before income tax (excluding capital contributions) less income tax payable, or a reasonable amount as determined by NSW Treasury in consultation with the Board.

(iv) Goods and Services Tax

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

- (i) 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
- (ii) for receivables and payables which are recognised inclusive of GST.

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

(q) Employee entitlements

(i) General

Long service leave and maturing allowance provisions have been based on an actuarial assessment undertaken by the NSW Government Actuary as at 30 June 2001 and the associated formulae provided for intervening periods between assessments.

The NSW Government Actuary has based their assessment on the following assumptions:

(a) Rate of investment return (after tax and investment related expenses) 6%;

(b) Rate of general salary increase 3.5%

All other provisions have been calculated at nominal amounts based on current wage and salary rates.

Liability for employee entitlements (long service leave and maturing allowance), which are not expected to be settled within twelve months, are discounted at 6% per annum.

(ii) Superannuation

The Corporation's contributions to employee superannuation are expensed at the time of payment. An actuarial assessment of funds held by the Energy Industries Superannuation Scheme on behalf of Integral Energy Australia was performed during the year by the scheme's actuary. A letter from the Chairperson of the fund, dated 10 July 2002 advises a prepaid superannuation contribution of \$29.16m (\$45.76m in 2001). This represents the difference between the gross liability assessed of \$87.4m and the reserve account balance of \$116.6m. The decrease in the surplus of \$16.6m has been recognised in the books of the Corporation as an expense, and has been subtracted from the previous balance of prepaid assets.

The actuary adopted the following assumptions:

	2000/01	2001/02	Thereafter
Rate of investment return	6.0%	(7.0%)	7.5% pa
Rate of salary escalation	3.0%	5.5%	4.0% pa
Rate of CPI increase	4.0%	2.5%	2.5% pa

(r) Financial instruments

Financial instruments give rise to positions that are a financial asset of either Integral Energy Australia or its counterparty and a financial liability (or equity instrument) of the other party. For Integral Energy Australia these include cash assets, receivables, other financial assets, payables, other financial liabilities which includes deposits and retentions, deferred income, interest bearing liabilities and dividends payable. All amounts are recorded at cost and are recognised on an accrual basis. As at 30 June 2002, all derivative instruments were relating to energy trading and interest rate swaps.

When an interest rate swap is terminated early and the underlying hedged transactions are still expected to occur as designated, the gains or losses arising on the swap upon its early termination continue to be deferred, and are progressively brought to account over the period during which the hedge transactions are recognised.

In accordance with AAS33 - "Presentation and Disclosure of

> Notes to the Financial Statements continued

30 JUNE 2002

Financial Instruments", information in respect of interest rate risk and credit risk is disclosed at note 30.

Deferred gains as at 30 June 2002 were \$7.46m (nil in 2001). These gains will be recognised as revenue over the following periods:

	2001/02	2000/01
Not later than one year	1.27m	-
Later than one year and not later than five years	4.28m	-
Later than five years	1.91m	-
Total	7.46m	-

(s) Energy trading operations

The trading activities of the entity expose it to changes in the market price of electricity and gas. It is the entity's policy to enter into financial transactions in order to protect it from adverse price fluctuations. Energy trading transactions are designated as hedges and accounted for on the same basis as the underlying exposure.

(t) Rounding of amounts

Amounts shown in the financial statements are rounded to the nearest thousand dollars whenever figures are presented in tabular form. However, where an amount is quoted within text, the amount is rounded to the nearest whole dollar. Where amounts over \$10m are involved, the values are shown as \$xx.xm except where they are compared to figures below \$10m.

(u) NSW Treasury exemptions

The NSW Treasury has granted Integral Energy Australia exemptions from certain disclosure requirements of part 3 of the Public Finance and Audit Act, 1983, to avoid disclosure of commercially sensitive information to external competitors.

Exemptions are as follows:

- (i) Preparation of trading profit and loss statements
- (ii) Preparation of notes:
 - (a) Identifying amounts set aside for the renewal or replacement of fixed assets;
 - (b) Identifying amounts set aside to any provision for known commitments;
 - (c) Identifying amounts appropriated for the repayment of loans, advances, debentures or deposits;
 - (d) Identifying excess of non-current asset sale over replacement cost;
 - (e) Identifying material items of income and expenditure on a program or activity basis.

(v) Discontinuing Operations

In February 2002, an agreement was reached with ActewAGL to sell the natural gas customer base and network assets, effective 30 June 2002. The remaining assets and liabilities as at 30 June 2002 will be transferred to the parent company, Integral Energy Australia, during the 2002/03 financial year. Accordingly, Integral Energy Gas Pty. Limited ceased trading on 30 June 2002. The natural gas customer base and network assets were sold for the sum of \$2,100,000 which was received on 5 July 2002. The carrying value of the net assets sold was \$7,694,996 resulting in a loss on sale before income tax of \$5,594,996. No further disclosures have been made in relation to these discontinuing operations, given the financial impact is considered immaterial.

(w) Segment Reporting

Integral Energy Australia operates predominantly in one industry segment, that being the distribution of energy, and within one geographical sector, Australia.

> Notes to the Financial Statements

30 JUNE 2002

		CONSOLIDATED		CORPORATION	
		2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
	Notes				
2 REVENUE FROM ORDINARY ACTIVITIES					
Operating activities					
Metered sales of electricity		868,769	815,247	867,532	813,822
Estimated revenue on unread meters	1(h)	2,800	27,800	2,800	27,800
Street lighting		3,122	2,413	3,122	2,413
Total electricity sales		874,691	845,460	873,454	844,035
Network use of system income		137,703	167,568	137,703	167,568
Reimbursement of community service obligations		17,025	14,196	17,025	14,196
Sales revenue from operating activities		1,029,419	1,027,224	1,028,182	1,025,799
Other revenue		71,829	82,794	68,345	81,705
Interest income		9,467	6,575	9,467	6,574
Capital contribution		36,042	30,002	36,042	30,002
Other revenue from operating activities		117,338	119,371	113,854	118,281
Total revenues from operating activities		1,146,757	1,146,595	1,142,036	1,144,080
Revenues from non-operating activities					
Prepaid superannuation contributions	1(q)(ii)	(16,600)	(12,572)	(16,600)	(12,572)
Revenue from sale of non-current assets		10,635	11,368	8,533	11,368
Total revenues from outside operating activities		(5,965)	(1,204)	(8,067)	(1,204)
Total revenues from ordinary activities		1,140,792	1,145,391	1,133,969	1,142,876

> Notes to the Financial Statements

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	CONSOLIDATED		CORPORATION	
	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
3 PROFIT FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE INCLUDES:				
Amount set aside to provisions				
Doubtful debts	(3,970)	5,199	(4,103)	5,123
Employee entitlements	24,847	21,411	24,831	21,398
Other provisions	40,873	18,277	40,873	18,264
Total amount set aside to provisions	61,750	44,887	61,601	44,785
Expenses relating to ordinary activities				
Bad debts written off	10,754	4,766	10,705	4,681
Consultants	7,081	12,475	7,098	12,446
Contractors	24,692	20,571	24,088	19,840
Employee benefits	111,856	94,527	107,257	90,136
Superannuation contributions	5,457	4,428	5,450	4,415
Other operations and services	615,477	673,295	629,179	677,734
Total expenses relating to ordinary activities	775,317	810,062	783,777	809,252
Depreciation expense				
Buildings	1,276	1,212	1,276	1,212
System plant and equipment	83,350	70,846	81,006	68,535
EDP Equipment	14,056	12,959	14,033	12,914
Motor vehicle, mobile plant, unregistered plant	4,267	4,070	4,267	4,070
Radio communication equipment	651	849	651	849
Other non system equipment	2,578	2,399	2,572	2,389
Reticulation assets	216	90	-	-
Total depreciation of non-current assets	106,394	92,425	103,805	89,969
Amortisation expense				
Leased system assets	15,835	15,465	15,835	15,465
Total amortisation of non-current assets	15,835	15,465	15,835	15,465
Total depreciation and amortisation expenses	122,229	107,890	119,640	105,434
Expenses from ordinary activities	959,296	962,839	965,018	959,471
Borrowing expenses				
Gross interest expense	63,016	61,952	63,016	61,952
Net amortisation of discounts/premiums on loans	12,513	9,536	12,513	9,536
Government guarantee	6,901	6,822	6,901	6,822
Total borrowing expenses	82,430	78,310	82,430	78,310

(a) Significant Items

Profit from ordinary activities before income tax expense includes the following revenues and expenses whose disclosure is relevant in explaining the financial performance of the entity:

Revenue from sale of non-current assets	10,635	11,368	8,533	11,368
Expenses relating to sale of non-current assets	(22,128)	(11,814)	(13,473)	(11,619)
Gain (loss) on sale of non-current assets	(11,493)	(446)	(4,940)	(251)
Revenue from sale of investments	-	-	-	-
Expenses relating to sale of investments	(200)	-	(5,200)	-
Gain (loss) on sale of investments	(200)	-	(5,200)	-

> Notes to the Financial Statements

30 JUNE 2002

	CONSOLIDATED		CORPORATION	
	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
4 TAXATION				
(a) Income tax expense				
The prima facie tax, using tax rates applicable on operating profit and extraordinary items differs from the income tax provided in the financial statements as follows:				
Prima facie income tax expense calculated at 30% (34% last year) on the operating profit	29,720	35,442	25,956	35,732
Adjustment to income tax expense due to non-tax deductible items:				
Depreciation of buildings	(56)	(96)	(56)	(96)
Depreciation on assets not depreciable for tax	8,367	156	8,367	156
Legal expenses	150	680	150	680
Easement purchases	14	41	14	41
Entertainment	8	8	7	7
Prepaid superannuation	4,980	4,274	4,980	4,274
Capital contributions	-	(10,201)	-	(10,201)
Internal loan provision	-	-	6,651	-
Write-down of investment in subsidiary	-	-	1,500	-
Provision for write down of loan	-	-	-	1,733
Income tax expense on operating profits	43,183	30,304	47,569	32,326
Under/(over) provision of previous year	223	3,044	(1,392)	3,870
Tax benefit gained for Infomet Pty. Limited losses	-	-	5,366	-
Adjustments to correct Infomet Pty. Limited and Integral Energy Gas Pty. Limited balances	(613)	-	-	-
Tax losses from Infomet Pty. Limited and Integral Energy Gas Pty. Limited for current year	-	-	(2,530)	-
Prior period tax adjustment	-	-	(3,099)	-
Restatement of deferred balances due to income tax rate change to 34% or 30% depending on the time of expected settlement	-	(2,627)	-	(2,640)
Income tax expense attributable to ordinary activities	42,793	30,721	45,914	33,556
Total income tax expense is made up of:				
Income tax payable	42,938	16,524	45,469	20,015
Deferred income tax provision	8,631	14,957	8,607	14,282
Future income tax benefit	(8,386)	(3,804)	(6,507)	(4,611)
Under/(over) provision in prior period	223	3,044	(1,392)	3,870
Tax benefit gained for Infomet Pty. Limited losses	-	-	5,366	-
Adjustments to correct Infomet Pty. Limited and Integral Energy Gas Pty. Limited balances	(613)	-	-	-
Tax losses from Infomet Pty. Limited and Integral Energy Gas Pty. Limited for current year	-	-	(2,530)	-
Prior period tax adjustment	-	-	(3,099)	-
Total	42,793	30,721	45,914	33,556

> Notes to the Financial Statements

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	CONSOLIDATED		CORPORATION	
	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
4 TAXATION (continued)				
(b) Provision for current income tax				
Movements during the period were as follows:				
Balance at the beginning of the period	16,524	-	20,015	-
Income tax paid	(34,679)	-	(37,716)	-
Current years income tax expense on operating profit	42,938	16,524	45,468	20,015
Tax losses from Infomet Pty. Limited and Integral Energy Gas Pty. Limited for current year	-	-	(2,530)	-
Under/(over) provision in prior period	1,868	-	1,414	-
Total	26,651	16,524	26,651	20,015
(c) Provision for deferred income tax				
<i>(i) Current</i>				
Provision for deferred income tax comprises the estimated expense at current income tax rates on the following items:				
Unread meters accrual	21,177	20,338	21,177	20,338
Difference in depreciation of property, plant and equipment for accounting and income tax purposes	2,392	2,268	2,400	2,240
Asset write downs	(467)	115	(505)	115
Capitalised labour	748	588	748	588
Prepayments	314	236	314	237
Other	39	(315)	26	(292)
Total	24,203	23,230	24,160	23,226
<i>(ii) Non Current</i>				
Provision for deferred income tax comprises the estimated expense at current income tax rates on the following items:				
Difference in depreciation of property, plant and equipment for accounting and income tax purposes	81,326	77,123	81,608	76,200
Asset write downs	(8,180)	(6,849)	(7,961)	(6,364)
Capitalised labour	25,428	19,978	25,428	19,978
Other	1,445	2,556	988	2,496
Total	100,019	92,808	100,063	92,310
(d) Future income tax benefit				
<i>(i) Current</i>				
Future income tax benefit comprises the estimated future benefit at current income tax rates of the following items:				
Provisions and accrued employee entitlements not currently deductible	23,524	4,050	23,398	4,050
Difference in property, plant & equipment for accounting and tax purposes	51	-	-	-
Deferred profit swaps assessable for tax	382	-	382	-
Sundry	5,050	99	4,622	92
Total	29,007	4,149	28,402	4,142

> Notes to the Financial Statements

30 JUNE 2002

	CONSOLIDATED		CORPORATION	
	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
4 TAXATION (continued)				
<i>(ii) Non Current</i>				
Future income tax benefit comprises the estimated future benefit at current income tax rates of the following items:				
Provisions and accrued employee entitlements not currently deductible	28,214	45,039	28,211	44,936
Difference in property, plant & equipment for accounting and tax purposes	309	-	-	-
Deferred profit swaps assessable for tax	1,857	-	1,857	-
Total	30,380	45,039	30,068	44,936

This future income tax benefit will only be obtained if:

- (a) future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised;
- (a) the conditions for deductibility imposed by tax legislation continue to be complied with; and
- (b) no changes in tax legislation adversely affect the consolidated entity in realising the benefit.

5 PROVISION FOR DIVIDEND

Dividends provided for by the Corporation to the NSW Treasury are:

Provision for dividend as proposed to and declared by the Board of Directors in consultation with the shareholders	90,632	52,776	90,632	52,776
Total	90,632	52,776	90,632	52,776

6 RECEIVABLES (CURRENT)

Trade debtors – electricity	97,768	104,017	96,251	103,416
Provision for doubtful debts	(10,177)	(16,595)	(9,797)	(16,376)
	87,591	87,422	86,454	87,040
Other debtors	33,986	36,203	42,556	39,360
Provision for doubtful debts	(865)	(9,170)	(832)	(9,060)
	33,121	27,033	41,724	30,300
Total	120,712	114,455	128,178	117,340

> Notes to the Financial Statements

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	CONSOLIDATED		CORPORATION	
	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
7 OTHER FINANCIAL ASSETS (CURRENT)				
Private sector securities				
Money market securities	86,910	63,706	86,910	63,706
Term deposits	18,732	17,741	18,732	17,741
Unit trust deposits	-	-	-	-
	105,642	81,447	105,642	81,447
Public sector securities				
Money market securities	-	-	-	-
Term deposits	82,534	103,883	82,534	103,883
Unit trust deposits	26,454	-	26,454	-
	108,988	103,883	108,988	103,883
Total	214,630	185,330	214,630	185,330

Market value of

Private sector securities				
Money market securities based upon buy back rates	87,245	63,953	87,245	63,953
Market value of term deposits	18,786	17,834	18,786	17,834
Unit trust deposits	-	-	-	-
	106,031	81,787	106,031	81,787
Public sector securities				
Money market securities based upon buy back rates	-	-	-	-
Market value of term deposits	82,821	104,253	82,821	104,253
Unit trust deposits	26,454	-	26,454	-
	109,275	104,253	109,275	104,253
Total	215,306	186,040	215,306	186,040

Public sector securities include financial assets invested with NSW Treasury Corporation. Private sector securities include financial assets invested with non Government-owned bodies.

8 OTHER CURRENT ASSETS

Prepayments				
Motor vehicle registration and CTP insurance	841	584	841	584
Software licence fee	135	145	135	145
PC lease/software maintenance	728	60	728	60
Prepaid superannuation	8,000	8,000	8,000	8,000
Insurance	441	-	441	-
Other current assets	474	-	474	-
Total	10,619	8,789	10,619	8,789

> Notes to the Financial Statements

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9 PARTICULARS IN RELATION TO CONTROLLED ENTITIES (EXTERNAL)

	Class of Share	Interest Held	Total Revenue	Profit/(Loss) before tax	Net value of Parent Entity's Investment	Dividends received/ receivable	Contribution to Consolidated Profit
Integral Energy Australia controlled entities:							
Integral Energy							
Gas Pty. Limited	Ord	100%	1,438	(5,994)	-	-	(5,994)
Infomet Pty. Limited	Ord	100%	9,394	(3,534)	-	-	(3,534)

Integral Energy Australia is the parent entity within the economic entity as detailed above. Integral Energy Australia and its subsidiaries, Infomet Pty. Limited and Integral Energy Gas Pty. Limited, were incorporated in Australia.

At a meeting of the Integral Energy Australia Board held on 6 September 2000, approval was granted to execute a Deed of Indemnity between Integral Energy Australia and its subsidiaries, Infomet Pty. Limited and Integral Energy Gas Pty. Limited, indemnifying the officers of the subsidiaries. This Deed was signed on 22 November 2000 and remains in force as at 30 June 2002.

The Deed stipulates that the Integral Energy Australia Board is to be notified prior to a subsidiary entering into any agreement, contract, undertaking, deed or legally enforceable arrangement ("transaction"), in the proper operation of its business, with a potential liability greater than \$25,000.00 (other than annual Integral Energy Australia cost overhead allocation). Transactions that have a potential liability lower than the threshold figure will be automatically covered.

The effect of the Deed is that Integral Energy Australia, as the parent body, will cover all transactions that it has been advised of and agreed to cover, as well as those that are below the threshold figure.

As at 30 June 2002, the natural gas customer base and network assets of Integral Energy Gas Pty. Limited were sold to ActewAGL for \$2.1m. Remaining assets and liabilities will be transferred to the parent company, Integral Energy Australia.

Infomet Pty. Limited will be integrated into Integral Energy Australia, effective 1 July 2002. The voluntary de-registration of Infomet Pty. Limited will occur during 2002/03.

	CONSOLIDATED		CORPORATION	
	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
Notes				

10 OTHER FINANCIAL ASSETS (NON-CURRENT)

Shares in controlled entities	-	-	-	5,000
Investment in non controlled entities	-	200	-	200
Total	-	200	-	5,200

> Notes to the Financial Statements

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		CONSOLIDATED		CORPORATION	
	Notes	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
11 PROPERTY, PLANT AND EQUIPMENT					
Non system land and buildings					
Freehold land		25,424	21,669	25,424	21,669
	11(d)	25,424	21,669	25,424	21,669
Buildings	11(c)	43,252	38,516	43,252	38,516
Accumulated depreciation		(1,160)	(669)	(1,160)	(669)
	11(d)	42,092	37,847	42,092	37,847
Total non system land and buildings		67,516	59,516	67,516	59,516
System assets					
Leased system assets		378,629	378,629	378,629	378,629
Accumulated amortisation		(63,322)	(47,487)	(63,322)	(47,487)
	11(d)	315,307	331,142	315,307	331,142
System plant and equipment	11(a)	1,851,497	1,719,794	1,836,477	1,703,184
Accumulated depreciation		(318,525)	(235,695)	(310,053)	(228,891)
	11(d)	1,532,972	1,484,099	1,526,424	1,474,293
System land		75,454	63,514	75,454	63,514
	11(d)	75,454	63,514	75,454	63,514
Work in progress	11(a)	31,784	27,500	31,784	27,499
	11(d)	31,784	27,500	31,784	27,499
Capital stores	11(a)	195	221	195	221
	11(d)	195	221	195	221
Total system assets		1,955,712	1,906,476	1,949,164	1,896,669

> Notes to the Financial Statements

30 JUNE 2002

		CONSOLIDATED		CORPORATION	
	Notes	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
11 PROPERTY, PLANT AND EQUIPMENT (continued)					
Non system plant and equipment					
EDP Equipment		78,727	85,171	78,567	85,014
Accumulated depreciation		(29,928)	(34,274)	(29,772)	(34,140)
	11(d)	48,799	50,897	48,795	50,874
Motor vehicle, mobile plant, unregistered plant		49,356	45,998	49,356	45,994
Accumulated depreciation		(18,529)	(16,462)	(18,529)	(16,463)
	11(d)	30,827	29,536	30,827	29,531
Radio communication equipment		7,576	7,571	7,576	7,571
Accumulated depreciation		(6,295)	(5,644)	(6,295)	(5,644)
	11(d)	1,281	1,927	1,281	1,927
Other plant and equipment		50,577	41,263	50,490	41,263
Accumulated depreciation		(34,486)	(27,008)	(34,480)	(27,008)
	11(d)	16,091	14,255	16,010	14,255
Work in progress		34,637	8,990	34,637	8,989
	11(d)	34,637	8,990	34,637	8,989
Total non system plant and equipment		131,635	105,605	131,550	105,576
Gas assets					
Reticulation assets		-	7,705	-	-
Accumulated depreciation		-	-	-	-
	11(d)	-	7,705	-	-
Total gas assets		-	7,705	-	-
Total property, plant and equipment		2,154,863	2,079,302	2,148,230	2,061,761
Total property, plant and equipment		2,627,108	2,446,541	2,611,841	2,422,063
Accumulated depreciation and amortisation		(472,245)	(367,239)	(463,611)	(360,302)
Total written down amount		2,154,863	2,079,302	2,148,230	2,061,761

(a) System assets

(i) System assets are valued at the optimised-depreciated replacement cost (ODRC). The ODRC valuation approach assumes an altered electrical distribution system configuration. This is achieved by valuing network distribution system assets, on the basis that the system is built to assumed engineering standards above that required to support the maximum possible electrical load. If excess capacity still remains within this optimised system configuration, such capacity is valued at zero.

(ii) The NSW Treasury engaged a consortium comprising Gutteridge, Haskins & Davey (GHD), Worley International and Andersen to update the optimised depreciated replacement cost asset valuations of the Network assets. The valuation report was presented in February 1999. Directors decided to incorporate this valuation with effect from 1 January 2001.

> Notes to the Financial Statements

30 JUNE 2002

	CONSOLIDATED	CORPORATION
	2002	2002
	\$'000	\$'000

11 PROPERTY, PLANT AND EQUIPMENT (continued)

(b) Sale and lease back of system assets.

During 1994/95, the then Prospect Electricity entered into a sale and leaseback transaction and the leaseback is classified as a finance lease. The resulting lease liability, defeasance, revaluation of the finance lease and loss on the transaction resulted in a zero net effect. The finance lease asset established by the sale and leaseback transactions were, consequently capitalised at their optimised deprival value and are being amortised over the remaining economic life of the assets concerned.

(c) Depreciation rates

Buildings	2.5% – 12.38%
System plant and equipment	1.67% – 33.33%
EDP Equipment	14.29% – 33.33%
Motor vehicle, mobile plant, unregistered plant	10%
Radio communication equipment	14.28%
Other non system plant and equipment	4.29% – 33%
Reticulation assets	1.25% – 33%
Other gas assets	1.25% – 33%

(d) Reconciliations

Reconciliations of the carrying amounts of property, plant and equipment at the beginning and end of the current financial year.

Freehold land

Carrying amount at beginning	21,669	21,669
Additions	-	-
Disposals	(1,744)	(1,744)
Revaluations	5,499	5,499
Carrying amount at end	25,424	25,424

Buildings

Carrying amount at beginning	37,847	37,847
Additions	935	935
Disposals	(364)	(364)
Revaluations	4,950	4,950
Depreciation expense	(1,276)	(1,276)
Carrying amount at end	42,092	42,092

Leased system assets

Carrying amount at beginning	331,142	331,142
Additions	-	-
Disposals	-	-
Amortisation expense	(15,835)	(15,835)
Carrying amount at end	315,307	315,307

> Notes to the Financial Statements

30 JUNE 2002

	CONSOLIDATED	CORPORATION
	2002 \$'000	2002 \$'000
11 PROPERTY, PLANT AND EQUIPMENT (continued)		
<i>System plant and equipment</i>		
Carrying amount at beginning	1,484,099	1,474,293
Additions	133,243	133,197
Disposals	(420)	(60)
Asset write downs	(600)	-
Depreciation expense	(83,350)	(81,006)
Carrying amount at end	1,532,972	1,526,424
<i>System land</i>		
Carrying amount at beginning	63,514	63,514
Additions	13	13
Disposals	-	-
Revaluations	11,927	11,927
Depreciation expense	-	-
Carrying amount at end	75,454	75,454
<i>System work in progress</i>		
Carrying amount at beginning	27,500	27,499
Additions	103,318	102,855
Completed projects	(99,034)	(98,570)
Revaluations	-	-
Depreciation expense	-	-
Carrying amount at end	31,784	31,784
<i>System capital stores</i>		
Carrying amount at beginning	221	221
Additions	(26)	(26)
Movements	-	-
Revaluations	-	-
Depreciation expense	-	-
Carrying amount at end	195	195
<i>EDP equipment</i>		
Carrying amount at beginning	50,897	50,874
Additions	17,196	17,191
Disposals	(198)	(197)
Asset write downs	(5,040)	(5,040)
Depreciation expense	(14,056)	(14,033)
Carrying amount at end	48,799	48,795
<i>Motor vehicle, mobile plant, unregistered plant</i>		
Carrying amount at beginning	29,536	29,531
Additions	11,613	11,613
Disposals	(6,055)	(6,050)
Revaluations	-	-
Depreciation expense	(4,267)	(4,267)
Carrying amount at end	30,827	30,827

> Notes to the Financial Statements

30 JUNE 2002

	CONSOLIDATED	CORPORATION
	2002 \$'000	2002 \$'000
11 PROPERTY, PLANT AND EQUIPMENT (continued)		
<i>Radio communication equipment</i>		
Carrying amount at beginning	1,927	1,927
Additions	5	5
Disposals	-	-
Revaluations	-	-
Depreciation expense	(651)	(651)
Carrying amount at end	1,281	1,281
<i>Other non system plant and equipment</i>		
Carrying amount at beginning	14,255	14,255
Additions	4,437	4,345
Disposals	(23)	(18)
Revaluations	-	-
Depreciation expense	(2,578)	(2,572)
Carrying amount at end	16,091	16,010
<i>Non system work in progress</i>		
Carrying amount at beginning	8,990	8,989
Additions	59,765	59,711
Completed projects	(34,118)	(34,063)
Revaluations	-	-
Depreciation expense	-	-
Carrying amount at end	34,637	34,637
<i>Gas reticulation assets</i>		
Carrying amount at beginning	7,705	-
Additions	195	-
Disposals	(7,684)	-
Revaluations	-	-
Depreciation expense	(216)	-
Carrying amount at end	-	-

> Notes to the Financial Statements

30 JUNE 2002

		CONSOLIDATED		CORPORATION	
	Notes	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
12 OTHER NON-CURRENT ASSETS					
Prepaid superannuation		21,164	37,764	21,164	37,764
Total		21,164	37,764	21,164	37,764
13 PAYABLES (CURRENT)					
Trade creditors		22,325	36,760	26,461	35,623
Accruals		117,242	108,932	115,673	108,397
Other		14,264	13,883	14,264	13,883
Total		153,831	159,575	156,398	157,903
14 INTEREST-BEARING LIABILITIES (CURRENT)					
Unsecured					
- other loans	30	308,788	239,911	308,788	239,911
Total		308,788	239,911	308,788	239,911
15 PROVISIONS (CURRENT)					
Employee entitlements:					
Annual leave		10,405	8,913	10,399	8,907
Sick leave (i)		1,244	1,174	1,244	1,174
Long service leave		2,518	2,378	2,517	2,378
Maturing allowance (ii)		1,210	999	1,210	999
Other (iii)		2,815	2,711	2,815	2,710
Total employee entitlements		18,192	16,175	18,185	16,168
Other provisions					
Payroll tax		820	720	819	720
Self insurance		68	68	68	68
Workers compensation		1,856	1,402	1,856	1,402
Dependents fund		59	59	59	59
Other provisions		43,977	13,661	46,516	13,661
Total other provisions		46,780	15,910	49,318	15,910
Total current provisions		64,972	32,085	67,503	32,078
(i) Sick leave - vested sick leave only - closed scheme since 1992.					
(ii) Maturing allowance - closed scheme since 1996, previously set aside in recognition of employee "length of service".					
(iii) Other includes leave in lieu and award special leave.					
16 OTHER CURRENT LIABILITIES					
Deposits and retentions		8,398	6,470	8,350	6,418
Unearned income		1,613	-	1,613	-
Total		10,011	6,470	9,963	6,418
17 INTEREST-BEARING LIABILITIES (NON-CURRENT)					
Unsecured					
- other loans	30	760,761	668,392	760,761	668,392
Total		760,761	668,392	760,761	668,392

> Notes to the Financial Statements

30 JUNE 2002

	CONSOLIDATED		CORPORATION	
Notes	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
18 PROVISIONS (NON-CURRENT)				
Employee entitlements				
Sick leave (i)	17,515	18,340	17,515	18,340
Long service leave	38,724	35,605	38,714	35,597
Maturing allowance (ii)	32,546	29,589	32,546	29,589
Total employee entitlements	88,785	83,534	88,775	83,526
Other provisions				
Self insurance	153	153	153	153
Workers compensation	5,261	4,780	5,261	4,780
Dependents fund	22	37	22	37
Total other provisions	5,436	4,970	5,436	4,970
Total non current provisions	94,221	88,504	94,211	88,496

(i) Sick leave - vested sick leave only - closed scheme since 1992.

(ii) Maturing allowance - closed scheme since 1996, previously set aside in recognition of employee "length of service".

19 OTHER NON-CURRENT LIABILITIES

Deposits and retentions	16,735	18,688	16,735	18,688
Deferred income	6,190	-	6,190	-
Total	22,925	18,688	22,925	18,688

20 CONTRIBUTED EQUITY

Opening balance	485,046	685,046	485,046	685,046
Repayment of Equity	(150,000)	(200,000)	(150,000)	(200,000)
Closing balance	335,046	485,046	335,046	485,046

(i) Included in contributed equity is issued capital of two \$1 ordinary shares held by the Treasurer and The Special Minister for State.

21 RESERVES AND RETAINED PROFITS

Asset revaluation	21(a)	612,218	589,842	612,218	589,842
Retained profits	21(b)	52,428	84,919	47,118	95,275

(a) Asset revaluation

(i) Nature and purpose of reserve

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

(ii) Movements in reserve

Balance at beginning of year	589,842	18,028	589,842	18,028
Transfers into reserve	22,376	571,814	22,376	571,814
Balance at end of year	612,218	589,842	612,218	589,842

> Notes to the Financial Statements

30 JUNE 2002

	CONSOLIDATED		CORPORATION	
	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
21 RESERVES AND RETAINED PROFITS (continued)				
(b) Retained profits				
Balance at the beginning of year	84,919	64,174	95,275	76,512
Net profit attributable to members of Corporation	56,273	73,521	40,607	71,539
Total available for appropriation	141,192	137,695	135,882	148,051
Dividends provided for or paid	(88,764)	(52,776)	(88,764)	(52,776)
Balance at end of year	52,428	84,919	47,118	95,275

22 STATEMENT OF CASH FLOWS

(a) Reconciliation of the operating profit after tax to the net cash flows from operations

Profit from ordinary activities after tax	56,273	73,521	40,607	71,539
Non-Cash Items				
Depreciation of non-current assets	106,394	92,425	103,805	89,969
Amortisation of non-current assets	15,835	15,465	15,835	15,465
Amortisation of discounts/premiums	12,513	9,536	12,513	9,536
Asset value write down	5,640	(2,993)	5,040	(4,693)
Capital contributions	(34,485)	(28,533)	(34,485)	(28,533)
Prepaid super contribution	16,600	12,572	16,600	12,572
Net (profit)/loss on write-off of shares in controlled entity	-	-	5,000	-
Net (profit)/loss on disposal of fixed assets/investments	6,053	446	100	251
Provision for loss on subsidiary net assets	-	-	17,073	-
Changes in assets and liabilities				
(Increase)/decrease in trade and other receivables	(11,834)	100,687	(10,838)	93,186
(Increase)/decrease in unread meters	(2,800)	(27,800)	(2,800)	(27,800)
(Increase)/decrease in inventory	1,390	(1,367)	1,354	(1,611)
(Increase)/decrease in future income tax benefit	(15,642)	(754)	(9,391)	(4,611)
(Increase)/decrease in prepayments	(1,830)	3,710	(1,830)	3,578
(Decrease)/increase in payables and provisions	46,371	(4,875)	39,612	1,372
(Decrease)/increase in other liabilities	6,619	(5,910)	6,623	(5,905)
(Decrease)/increase in deferred income tax	8,434	31,483	8,686	33,823
Net cash flow from (used in) operating activities	215,531	267,613	213,504	258,138

(b) Reconciliation of cash

Cash balance comprises:				
- Cash and deposits	(2,224)	7,596	(2,224)	9,290
- Current investments	214,630	185,330	214,630	185,330
Closing cash balance	212,406	192,926	212,406	194,620

For the purposes of the Statement of Cash Flows, cash includes cash on hand and in banks, net of outstanding overdrafts and current investments in the Statement of Financial Position other than current funded investment reserves.

> Notes to the Financial Statements

30 JUNE 2002

	CONSOLIDATED		CORPORATION	
	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
22 STATEMENT OF CASH FLOWS (continued)				
(c) Financing facilities available				
At balance date, the following financing facilities had been negotiated and were available:				
Total facilities				
- Bank overdraft (CBA)	20,000	20,000	20,000	20,000
- Come and Go facility (NSW Treasury Corp.)	50,000	50,000	50,000	50,000
- Westpac purchasing card facility	2,000	-	2,000	-
- Bank guarantees, cheques encashment, payroll, corporate credit card (CBA)	25,000	25,000	25,000	25,000
Total	97,000	95,000	97,000	95,000
Facilities unused at balance date				
- Bank overdraft (CBA)	20,000	20,000	20,000	20,000
- Come and Go facility (NSW Treasury Corp.)	50,000	50,000	50,000	50,000
- Westpac purchasing card facility	2,000	-	2,000	-
- Bank guarantees, cheques encashment, payroll, corporate credit card (CBA)	25,000	25,000	25,000	25,000
Total	97,000	95,000	97,000	95,000

23 EXPENDITURE COMMITMENTS

(a) Capital expenditure commitments

Estimated capital expenditure contracted for at balance date, but not provided for, payable:

- not later than one year	35,437	2,006	35,437	2,006
- later than one year and not later than five years	323	-	323	-
Total	35,760	2,006	35,760	2,006

(b) Lease expenditure commitments

Non-cancellable operating lease commitment not provided for in the accounts:

- not later than one year	3,735	4,627	3,735	4,627
- later than one year and not later than five years	1,268	6,942	1,268	6,942
- later than five years	129	114	129	114
Total	5,132	11,683	5,132	11,683

(c) Operating expenditure commitments

Estimated operating expenditure contracted for at balance date, but not provided for, payable:

- not later than one year	83,909	54,340	83,799	54,323
- later than one year and not later than five years	189,005	185,259	189,005	185,259
- later than five years	306,209	303,267	306,209	303,267
Total	579,123	542,866	579,013	542,849

> Notes to the Financial Statements

30 JUNE 2002

	CONSOLIDATED		CORPORATION	
	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
23 EXPENDITURE COMMITMENTS (continued)				
(d) Smithfield energy purchase contract operating expenditure commitments				
Estimated operating expenditure contracted for at balance date, but not provided for, payable:				
- not later than one year	72,537	71,218	72,537	71,218
- later than one year and not later than five years	304,711	373,560	304,711	373,560
- later than five years	1,769,464	1,769,464	1,769,464	1,769,464
Total	2,146,712	2,214,242	2,146,712	2,214,242
Total expenditure commitments	2,766,727	2,770,797	2,766,617	2,770,780

Notes

The consolidated entity leases property under operating leases expiring from one to five years. Leases generally provided the consolidated entity with a right of renewal at which time all terms were renegotiated. Lease payments comprise a base amount plus an incremental contingent rental. Contingent rentals are based on either movements in the Consumer Price Index or operating criteria.

Total expenditure commitments include input tax credits of \$251.5m (\$251.6m in 2001) which are expected to be recovered from the Australian Taxation Office. Smithfield energy purchase contract operating expenditure commitments include input tax credits of \$195.2m (\$201m in 2001). Remaining input tax credits are included in operating expenditure commitments and total \$56.3m (\$50.6m in 2001).

24 CONTINGENT LIABILITIES

The directors are not aware of any circumstances or information that would lead them to believe that the following liabilities will crystallise and consequently no provisions are included in the accounts in respect of these matters:

- Industrial relations
- WorkCover Authority: and
- Sundry general claims.

The estimated total of these claims is up to \$1.5m

> Notes to the Financial Statements

30 JUNE 2002

	CONSOLIDATED		CORPORATION	
	2002	2001	2002	2001
	\$'000	\$'000	\$'000	\$'000

25 REMUNERATION OF DIRECTORS

(a) Directors' remuneration

Income paid or payable, or otherwise made available, in respect of the financial year, to all directors of each entity in the consolidated entity, directly or indirectly, by the entities of which they are directors or any related party:

	816	595		
Income paid or payable, or otherwise made available, in respect of the financial year, to all directors of Corporation, directly or indirectly, from the entity or any related party:			816	595

The number of directors of Corporation whose income (excluding superannuation contributions) falls within the following bands is:

	No.	No.	No.	No.
\$10,000 - \$19,999	1	1	1	1
\$40,000 - \$49,999	-	4	-	4
\$60,000 - \$69,999	4	-	4	-
\$70,000 - \$79,999	1	1	1	1
\$80,000 - \$89,999	-	1	-	1
\$350,000 - \$359,999	-	1	-	1
\$390,000 - \$399,999	1	-	1	-

Directors' remuneration includes salaries paid to Directors who are full time employees of Integral Energy Australia.

26 REMUNERATION OF EXECUTIVES

Remuneration received or due and receivable by executive officers of the consolidated entity whose remuneration is \$100,000 or more, from entities in the consolidated entity or a related party, in connection with the management of the affairs of the entities in the consolidated entity whether as an executive officer or otherwise:

	14,877	7,436		
Remuneration received or due and receivable by executive officers of the company whose remuneration is \$100,000 or more, from the company or any related party, in connection with the management of the affairs of the company or any of its subsidiaries, whether as an executive officer or otherwise			14,877	7,436

The number of executives of the consolidated entity and the company whose remuneration (including superannuation contributions) falls within the following bands:

	No.	No.	No.	No.
\$100,000 - \$109,999	45	23	45	23
\$110,000 - \$119,999	24	9	24	9
\$120,000 - \$129,999	17	7	17	7
\$130,000 - \$139,999	5	3	5	3
\$140,000 - \$149,999	5	5	5	5
\$150,000 - \$159,999	3	1	3	1
\$160,000 - \$169,999	3	3	3	3
\$170,000 - \$179,999	1	-	1	-
\$180,000 - \$189,999	-	-	1	1
\$190,000 - \$199,999	1	1	1	1
\$200,000 - \$209,999	-	1	-	1
\$210,000 - \$219,999	-	2	-	2
\$220,000 - \$229,999	2	-	2	-
\$230,000 - \$239,999	2	-	2	-
\$240,000 - \$249,999	4	-	4	-
\$250,000 - \$259,999	1	-	1	-
\$350,000 - \$359,999	-	1	-	1
\$430,000 - \$439,999	1	-	1	-

> Notes to the Financial Statements

30 JUNE 2002

	CONSOLIDATED		CORPORATION	
	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
27 AUDITORS' REMUNERATION				
Amounts paid and payable for audit services by:				
- Auditors of the Corporation - External	283	278	230	224
- Auditors of the Corporation - Internal	241	403	241	403
	524	681	471	627
Amounts paid and payable for other services by:				
- Internal Auditors	225	280	225	280
	225	280	225	280
Total auditor's remuneration	749	961	696	907

28 DIRECTORS' APPOINTMENTS

All existing non-Executive Directors were re-appointed at the completion of their term on 28 February 2002, with the exception of Neil McDermott who resigned.

Re-appointments

Terry Downing
Michael McLeod
Mary Reemst
Janice Reid
Paul Sinclair

New appointments

John Fahey (appointed 1 March 2002)

Departures

Neil McDermott (resigned 28 February 2002)

Continuing Director

The Chief Executive Officer, Richard Powis, continued as Director during the period.

29 RELATED PARTY DISCLOSURES

a) Directors

The name of each person who held or is holding the position of director of Integral Energy Australia during the financial period is set out in note 28 above.

Details of directors' remuneration is set out in note 25 above.

There were no declared director related party transactions for the 2001/2002 financial year.

b) Wholly-owned Group

The group includes a consolidation of the following entities:

Integral Energy Australia
Integral Energy Gas Pty. Limited
Infomet Pty. Limited

Details of dealings with entities in the wholly owned group are as follows:

Loans

Infomet Pty. Limited

Integral Energy Australia provided a loan of \$19,899,910 in the 1998/99 financial year to assist in the establishment of Infomet Pty. Limited. The loan was reduced during the period by \$5,365,617 which represents consideration for Infomet Pty. Limited's tax losses transferred to Integral Energy Australia. The loan consists of a 10 year loan of \$8,500,000, due on 1 January 2009 with an interest rate of 5% per annum, and a long term interest free loan of \$6,034,293, which represents the assets transferred from Integral Energy Australia to Infomet Pty. Limited. Integral Energy Australia received interest of \$425,000 for the year ended 30 June 2002 (\$425,000 in 2001), but had not received any principal repayment up to 30 June 2002.

As at 30 June 2002 Integral Energy Australia recognised and recorded a provision of \$14,534,293 representing expected loss on the loan to Infomet Pty. Limited.

> Notes to the Financial Statements

30 JUNE 2002

29 RELATED PARTY DISCLOSURES

Integral Energy Gas Pty. Limited

Integral Energy Australia provided a loan of \$5,086,518 in the 1996/97 financial year to assist in the establishment of Integral Energy Gas Pty. Limited. An additional amount of \$10,223 was advanced in the 1998/99 financial year, which represents a 5 year bullet loan with redemption due on 1 July 2002. Interest is being paid on the total loan of \$5,096,741 at 5% per annum. Integral Energy Australia received interest of \$254,837 for the year ended 30 June 2002 (\$254,837 in 2001), but had not received any principal repayment up to 30 June 2002.

At 30 June 2001 Integral Energy Australia recognised and recorded a provision of \$5,096,741 representing expected loss on the loan to Integral Energy Gas Pty. Limited. As at 30 June 2002 the natural gas customer base and network assets of Integral Energy Gas Pty. Limited were sold, and the company ceased trading on 30 June 2002. Remaining assets and liabilities will be transferred to Integral Energy Australia during the 2002/03 financial year.

Other transactions

During the financial year Integral Energy Australia entered into a number of transactions with its controlled entities.

Infomet Pty. Limited

Accounting services were provided to Infomet Pty. Limited at no cost. For all other services such as property management, leasing of motor vehicles, IT&T and maintenance of business systems, Infomet Pty. Limited has been charged commercial rates.

Infomet Pty. Limited provided Integral Energy Australia with Meter Data Agent and Meter Provider Services during the financial year. These services were provided to Integral Energy Australia at arms length commercial rates.

Integral Energy Gas Pty. Limited

Accounting, human resource, EDP and other services were provided to Integral Energy Gas Pty. Limited at no cost. No services were provided to Integral Energy Australia by Integral Energy Gas Pty. Limited.

Receivables/Payables

Receivables from the controlled entities and payables to the controlled entities include the following amounts:

		2001/02	2000/01
Infomet Pty. Limited	Receivables	\$5,577,393	\$3,942,162
	Payables	\$9,976,998	\$3,294,226
Integral Energy Gas Pty. Limited	Payables	\$6,315,949	\$1,441,162

Integral Energy Australia has also provided the necessary cash facilities for each of the controlled entities, with respect to external transactions which were not settled by the controlled entity.

c) Other related parties

There were no declared other related party transactions.

Notes to the Financial Statements

30 JUNE 2002

30 FINANCIAL INSTRUMENTS

30(a) Interest rate risk

The consolidated entity's exposure to interest rate risks and the effective interest rates of financial assets and financial liabilities, both recognised and unrecognised at the balance date, are as follows:

Financial Instruments														
	Floating interest rate		Fixed interest rate maturing in:						Non-interest bearing		Total carrying amount as per the balance sheet		Weighted average effective interest rate	
	2002 \$'000	2001 \$'000	1 year or less		Over 1 to 5 years		More than 5 years							
	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000	2002 %	2001 %
(i) Financial assets														
Cash assets	-	-	-	-	-	-	-	-	-	-	-	7,596	-	4.5
Receivables	-	-	-	-	-	-	-	-	-	-	-	114,455	-	-
Other financial assets	-	-	214,630	185,330	-	-	-	-	-	-	-	185,330	4.8	5.0
Investments in other entities unlisted	-	-	-	-	-	-	-	-	-	-	200	-	-	-
Total financial assets	-	-	214,630	192,926	-	-	-	-	120,712	114,655	335,342	307,581	-	-
(ii) Financial liabilities														
Bank overdraft	-	-	2,224	-	-	-	-	-	-	-	2,224	-	4.3	-
Payables	-	-	-	-	-	-	-	-	153,831	159,575	153,831	159,575	-	-
Other financial liabilities	-	-	-	-	-	-	-	-	10,011	6,470	10,011	6,470	-	-
Interest bearing liabilities	251,165	110,878	57,623	129,033	574,622	489,756	186,139	178,636	-	-	1,069,549	908,303	6.6	7.0
Dividends payable	-	-	-	-	-	-	-	-	90,632	52,776	90,632	52,776	-	-
Interest rate swaps (a)	40,000	64,000	-	-	(70,000)	(84,000)	30,000	20,000	-	-	-	-	-	-
Total financial liabilities	291,165	174,878	59,847	129,033	504,622	405,756	216,139	198,636	254,474	218,821	1,326,247	1,127,124	-	-

(a) Notional principal amount

> Notes to the Financial Statements

30 JUNE 2002

30 FINANCIAL INSTRUMENTS (continued)

30(b) Net fair values

The carrying amounts and estimated net fair value of financial assets and financial liabilities held at balance date are given below. The net fair value of a financial asset or a financial liability is the amount at which the asset could be exchanged, or liability settled in a current transaction between willing parties after allowing for transaction costs.

	CONSOLIDATED		Aggregate	
	Total carrying amount as per the Statement of Financial Position		net fair value	
	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
Financial assets				
Cash assets	-	7,596	-	7,596
Receivables	120,712	114,455	120,712	114,455
Other financial assets	214,630	185,330	215,339	186,040
Investment in other entities unlisted	-	200	-	1
Total financial assets	335,342	307,581	336,051	308,092
Financial liabilities				
Bank overdraft	2,224	-	2,224	-
Payables	153,831	159,575	153,831	159,575
Other financial liabilities	10,011	6,470	10,011	6,470
Interest bearing liabilities	1,069,549	908,303	1,120,784	969,879
Dividends payable	90,632	52,776	90,632	52,776
Total financial liabilities	1,326,247	1,127,124	1,377,482	1,188,700
Interest rate derivative liabilities				
Off balance sheet AUD interest rate swaps	-	-	6,844	490
Total interest rate derivative liabilities	-	-	6,844	490

	CORPORATION		Aggregate	
	Total carrying amount as per the Statement of Financial Position		net fair value	
	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
Financial assets				
Cash assets	-	9,290	-	9,290
Receivables	128,178	117,340	128,178	117,340
Other financial assets	214,630	185,330	215,339	186,040
Investment in other entities unlisted	-	5,200	-	5,001
Total financial assets	342,808	317,160	343,517	317,671
Financial liabilities				
Bank overdraft	2,224	-	2,224	-
Payables	156,398	157,903	156,398	157,903
Other financial liabilities	9,963	6,418	9,963	6,418
Interest bearing liabilities	1,069,549	908,303	1,120,784	969,879
Dividends payable	90,632	52,776	90,632	52,776
Total financial liabilities	1,328,766	1,125,400	1,380,001	1,186,976
Interest rate derivative liabilities				
Off balance sheet AUD interest rate swaps	-	-	6,844	490
Total interest rate derivative liabilities	-	-	6,844	490

> Notes to the Financial Statements

30 JUNE 2002

30 FINANCIAL INSTRUMENTS (continued)

30(c) Credit risk exposures

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. Integral Energy Australia's maximum exposure to credit risk is represented by the carrying amounts of the financial assets included in the Statement of Financial Position.

Credit risk on derivative contracts which have not been recognised in the Statement of Financial Position is minimised due to the counterparties being either New South Wales Treasury Corporation, or one of the four major trading Banks in Australia. These counterparties all have a Moody's or Standard & Poor's credit rating which is acceptable to Integral Energy Australia.

Integral Energy Australia controls risk through the use of credit ratings, limits and monitoring procedures, and does not usually require collateral or other security to support financial instruments with credit risk.

	Energy Sales \$'000	2002 Other \$'000	Total \$'000
Financial Assets			
Receivables	87,591	33,121	120,712
Short term money market investments	-	214,630	214,630
Total financial assets	87,591	247,751	335,342

		2002	
Financial Assets			
Cash	-	7,596	7,596
Receivables	87,422	27,033	114,455
Short term money market investments	-	185,330	185,330
Total financial assets	87,422	219,959	307,381

Integral Energy does not have any significant exposure to any individual customer or counterparty outside Board approved counter party limits.

30(d) Derivative Financial Instruments

During 2001/2002 all derivative products applicable to the energy trading activities of Integral Energy Australia were exempt from disclosure under AAS33.

31 CAPITAL REPATRIATION

At the request of the Shareholder, an amount of \$150m was paid out of the contributed equity, in August 2001.

32 PRUDENTIAL REQUIREMENTS

An unsecured Bank Guarantee of \$111.3m (\$76.9m in 2001) is given to the National Electricity Marketing Management Co. Ltd. (NEMMCO) by way of a New South Wales Treasury Corporation payment facility. The guarantee is a condition of Integral Energy Australia's Trading License.

End of Audited Financial Statements

> Statement by Members of the Board

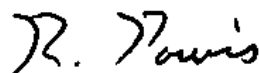
Pursuant to Section 41C of the Public Finance and Audit Act 1983, we state that in the opinion of the Directors of Integral Energy Australia:

- (a) The accompanying consolidated financial statements and notes on pages xx to xx are a general purpose financial report which has been prepared in accordance with Australian Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board, the State Owned Corporations Act 1989, the Public Finance and Audit Act 1983 and the Public Finance and Audit Regulation 2000, and give a true and fair view of the financial position of Integral Energy Australia and its controlled entities as at 30 June 2002 and its performance for the year ended on that date.
- (b) At the date of this statement, there are reasonable grounds to believe that the Corporation will be able to pay its debts as and when they become due and payable.
- (c) We are not aware of any circumstances at the date of this statement that would render any particulars included in the financial report to be misleading or inaccurate

Signed in accordance with a resolution of the Directors:



Michael McLeod
Director
4 September 2002



Richard Powis
Director
4 September 2002

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BUSINESS RESULTS

SUMMARY OF THE STATEMENT OF CORPORATE INTENT

Overview

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

Summary

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

Integral Energy's capital program constitutes two broad areas:

- establishment and replacement of system assets pertaining to the electricity network; and
- establishment and replacement of non-system assets including land, buildings, vehicles and information technology.

Capital expenditure is reviewed in terms of growth, renewal, and regulatory compliance, with due consideration of the impact of the investment on our customers, our business and our shareholders.

In addition, the SCI includes details of:

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

Integral Energy's performance against the 2001-2002 SCI financial targets is summarised in the Management Discussion and Analysis section on page 54.

REVIEW OF CONTESTABLE BUSINESS

Integral Energy's policy is to ensure that all internal services are provided effectively and efficiently to its core businesses. Where this cannot be achieved to a standard and at a cost available from external suppliers, competitive tenders are sought and evaluated. Where there is a clear economic and service standard advantage to Integral Energy, outsourcing is pursued.

During the last 12 months, Integral Energy further developed its processes associated with contestability with the aim of establishing a level playing field between internal crews and external service providers (ESPs).

In the year under review, Integral Energy entered bids for design and construction of customer-funded projects that were open to competition. The percentage of projects won by external service providers during the year is given in the table below. These projects involved 20 design contractors and 18 construction contractors currently accredited and active within Integral Energy's franchise area.

Type of work or project type % of contestable projects won by ESPs

	Design 2001-2002	2000-2001	Construction 2001-2002	2000-2001
New subdivisions	47%	54%	48%	55%
Non-urban extensions	37%	57%	38%	50%
Industrial & commercial customers	23%	50%	24%	60%
Asset relocation	30%	10%	26%	52%

INTEGRAL ENERGY BUSINESS UNITS

Integral Energy Gas Pty Limited

During the last financial year Integral Energy Gas Pty Limited completed the conversion of its gas network in Nowra from a town gas network to a network that was suitable for the transport of natural gas.

The conversion completed a four-year project to deliver the benefits of natural gas to more than 1,700 customers around the urban area of Nowra and Bomaderry.

Following a review of its future corporate direction and after taking into account the changing dynamics of the national energy market it was decided to sell the gas network assets to ActewAGL. The sale was completed on 30 June 2002.

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As at 30 JUNE 2002

Directors of Integral Energy Gas Pty Limited, 2001-2002

Directors	Date appointed	Comment	Meetings attended	Meetings held during 2001-2002
Michael McLeod	19 April 2000	Current Director and Chair	4	4
Terry Downing	26 March 2002	Current Director	1	1
Richard Powis	21 January 2000	Current Director	4	4
John Wallace	1 July 2000	Current Director	4	4
Craig James	28 September 2000	Current Director	4	4
Neil McDermott	21 June 2000	Ceased to hold office on 22 March 2002	3	3

InfoMet Pty Limited

Integral Energy's metering business, InfoMet, specialises in the provision of metering services within the National Electricity Market, and in Tasmania. The business has 65 staff engaged in the key functions of meter installation, maintaining remote metering assets, meter data retrieval and data forwarding services to retailers.

The focus of InfoMet this year has been to implement systems and processes to meet the metering challenges associated with the introduction of FRC. These changes now mean that InfoMet is responsible for the management of all meter data on behalf of Integral Energy. This includes the receipt and transmission of meter data associated with domestic customers that have changed retailers.

The challenge for InfoMet in the year ahead will be to refine the systems and processes associated with FRC together with the development of a comprehensive asset management plan for Integral Energy's meters and associated equipment.

Due to the convergence of metering technologies and the role InfoMet has in the management of all meter data on behalf of Integral Energy, it has been decided to reintegrate the operations of InfoMet within Integral Energy effective 1 July 2002.

Integral Energy Nightwatch

Integral Energy Nightwatch Service markets, installs and maintains security and promotional lighting for customers with premises in the Integral Energy franchise area.

Existing street lighting fixtures provide the means for the installation of luminaires to illuminate a wide range of customer premises from dusk to dawn at reasonable rates.

The business again performed extremely well during the year, combining innovative approaches to lighting with internal process improvement to attract new customers throughout Integral Energy's franchise area. The total number of lights installed as part of the Nightwatch service was 2,695, an increase of 3% on 1999-2000. These include security lighting at factories, promotional and car park lighting at licensed clubs, and security lighting for small business premises.

Directors of InfoMet Pty Ltd 2001-2002

Name	Date appointed	Ceased to hold office	Comment	Meetings attended	Meetings held during term of office
Richard Powis	21/01/2000	Current Director	Chair	5	5
Craig James	28/09/2000	Current Director		4	5
Simon Draper	16/10/2000	Current Director		5	5

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As at 30 JUNE 2002

FIVE YEAR STATISTICAL TABLE

	(1)	1997-98	1998-99	1990-00	2000-01	2001-02
EFFICIENCY						
EMPLOYMENT	(2)	2039	1845	1668	1765	1944
OUTPUT / EMPLOYEE (GWh)	(3)	6.0	6.9	7.9	8.8	8.1
SALES REVENUE (\$'000)	(4)	1,021,682	1,079,413	1,010,965	1,013,028	1,012,394
CUSTOMER / EMPLOYEE RATIO	(5)	349.1	385.3	422.0	443.4	411.8
OPERATING COST / UNIT	(6)					
SOLD (\$/MWh)		22.6	21.9	23.8	25.6	27.1
OPERATING COSTS / CUSTOMER	(7)	387.5	398.2	436.3	507.5	530.9
SYSTEM LOSS INDEX (%)	(8)	4.6	5.6	5.5	5.0	5.6
DAYS SICK LEAVE/EMPLOYEE	(9)	4.2	4.4	5.0	6.1	5.8
LOST TIME INJURY						
FREQUENCY RATE	(10)	12.2	13.1	14.2	12.8	13.3
EFFECTIVENESS						
OUTPUT (GWh)	(11)	12,579	13,346	13,896	15,100	14,975
SUPPLY RELIABILITY (MINUTES)	(12)	139.4	137.7	123.7	136.3	133.68
NOMINAL AVERAGE PRICE		81.2	80.9	72.8	67.1	67.6
CUSTOMER SATISFACTION INDEX						
DOMESTIC	(13)	87.5	80.0	78.0	NA	NA
BUSINESS	(14)	80.0	77.5	74.0	NA	NA
CUSTOMER SERVICE INDICATOR	(15)					
TARGET (%)		-	-	-	NA	45
RESULT (%)		-	-	-	NA	50
FINANCIAL INDICATORS (\$M)						
EBIT	(16)	225.2	104.2	146.2	182.6	181.5
OPERATING PROFIT AFTER TAX	(17)	100.4	19.0	112.5	73.5	56.3
SIGNIFICANT ITEMS	(18)					
REVENUE	(19)	1,087.5	1,195.8	1,162.3	1,145.4	1,140.8
RETURN ON NET						
OPERATING ASSETS (%)	(20)	11.5	5.5	7.8	8.2	7.0
RETURN ON EQUITY (%)	(21)	14.3	2.7	15.5	7.6	5.2
ASSET BASE	(22)	1,977.1	1,843.8	1,903.4	2,558.8	2,658.9
ASSET SALES (\$M)	(23)	24.2	20.5	24.1	11.4	10.6
FINANCIAL DISTRIBUTION	(24)	106.4	45.9	29.7	269.3	283.5
TAX EQUIVALENT	(25)	14.3	0.0	0.0	16.5	42.9
DIVIDEND PAYMENT	(26)	92.1	45.9	29.7	52.8	90.6
PAYMENT OF CAPITAL						
FROM EQUITY	(27)	0.0	0.0	0.0	200.0	150.0
GEARING RATIO						
(DEBT/ASSETS) (%)	(28)	41.0	37.6	36.8	35.5	40.2
TIMES INTEREST EARNED	(29)	3.6	1.6	2.3	2.5	2.4
SOCIAL PROGRAMS (\$m)	(30)	13.0	13.1	13.4	14.2	17.0

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As at 30 JUNE 2002

- (1) All dollar amounts are reported in real dollars.
- (2) Full time equivalent staff as at 30 June.
- (3) GWh sold per average number of electricity employees.
- (4) Sales revenue includes total electricity sales and network use of system income only.
- (5) Average customers per average number of employees.
- (6) Operating expenditure including depreciation and amortisation but excluding borrowing expenses, divided by number of units sold.
- (7) Operating expenditure including depreciation and amortisation but excluding borrowing expenses, divided by the average number of customers.
- (8) Energy purchased less energy sold, divided by energy purchased.
- (9) Total sick leave days per average number of electricity employees.
- (10) Number of lost time accidents per million hours worked.
- (11) Electricity sales (GWh), excluding accruals and off peak bulk transfers. Output for 1997-98 slightly adjusted.
- (12) Average minutes per customer per year without supply, including planned and unplanned outages.
- (13) &
- (14) Results from 1997-98 to 1989-90 are based on a customer satisfaction study specifically commissioned to meet Integral Energy's business needs. Research was conducted by AC Nielsen
- and provides a score out of 100 to indicate the positive perception of customers to the service provided by distributors. The customer satisfaction index measure was replaced by a customer service indicator as per note (15).
- (15) Factors contributing to the calculation include the number of issues with EWON, the percentage of complaints closed within 30 days and the percentage of customer service guarantee breaches.
- (16) EBIT is defined as profit from ordinary activities before income tax expense (including items previously treated as abnormal and capital contributions), less borrowing expenses. All figures have been restated on the basis of this definition.
- (17) Operating profit after tax is defined as profit from ordinary activities after income tax expense (including items previously treated as abnormal and capital contributions). All figures have been restated on the basis of this definition.
- (18) For the purposes of consistency, significant items previously subject to separate disclosure have been included within the measures of EBIT, operating profit after tax and revenue.
- (19) Revenue includes revenue from operating activities and revenues from non-operating activities, including capital contributions and any revenue items previously treated as abnormal. All figures have been restated on the basis of this definition.
- (20) Redefined as EBIT (including capital contributions), divided by the average asset base. All figures have been restated on the basis of this definition.
- (21) Redefined as operating profit after tax (including capital contributions), divided by average equity. All figures have been restated on the basis of this definition.
- (22) Asset base includes all current and non-current assets.
- (23) Total proceeds from asset sales.
- (24) Financial distribution includes tax equivalent, dividend payment and payment of capital from equity.
- (25) From 1995-96 onwards tax equivalent has been based on the income tax payable (after taking into account deferred income tax and future income tax benefits).
- (26) Includes special dividends.
- (27) Involves a special payment to the Government.
- (28) Redefined as debt divided by the asset base. All figures have been restated on the basis of this definition.
- (29) Times interest earned calculated by adding the net interest expense to the profit from ordinary activities before income tax (including abnormal and capital contributions), and dividing by the net interest expense. All figures have been restated on the basis of this definition.
- (30) Based on reimbursement of CSO's.

BUSINESS PROCESSES, PRODUCTS & SERVICES

MAJOR WORK IN PROGRESS

Description	Cost to date 2000-2001	2001-2002	Cost Total	Estimated overruns	completion date	Comments
North Richmond						
ZS Upgrade	\$1,340,000	\$2,065,830	\$3,405,830	Nil	June 2003	Works commenced to augment North Richmond ZS to a 2 x 25MVA
Power Factor	Nil	\$7,903,843	\$7,903,843	-	Ongoing	42 x 11kV 5MVAR units were installed in 27 zone substations to address issues with Integral Energy's power factor as seen by Transgrid.
Bow Bowling						
ZS augment	Nil	\$1,460,532	\$1,460,532	-	December 2002	Installation of equipment to improve system capacity and reliability.
Albion Park ZS	Nil	Nil	Nil	-	December 2002	Installation equipment to improve reliability.
Quarries ZS	Nil	Nil	Nil	-	September 2003	Initial planning and site acquisition carried out.

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As at 30 JUNE 2002

EXPANSION OF THE DISTRIBUTION SYSTEM

Any proposals involving major expansion of the distribution network are carefully considered through a value based management process that incorporates the following options:

1. Whether the expansion is needed.
2. If so, is the expansion economically justified.
3. Alternative strategies.

Evaluation includes assessment of the risk of increased demand on existing infrastructure and calculation of any excess energy supply, that is, the energy at risk.

Demand Side Management (DSM) is investigated as an alternative to major network expansion in all cases. DSM initiatives primarily involve working with customers to reduce or modify their load profile via voluntary or controlled mechanisms. If the peak demand can be sufficiently reduced, the major network expansion can often be deferred and sometimes avoided. DSM is appropriate when the network limitation is due to customer load growth. DSM strategies are compared with network expansion options with the economically superior option being adopted.

At 30 June 2002, DSM projects continued to operate in Wetherill Park, Seven Hills, Fairfield, Kandos and Rooty Hill, as well as a targeted power factor correction program. As a result of the new Demand Management Code of Practice, a DM plan was prepared giving details of areas where input will be sought from the public and other stakeholders into non-network options. Penrith transmission substation will be the first, with a further three planned for 2002-2003 for the development of DM programs in other areas.

OVERSEAS TRAVEL

Name/s	Dates	Location	Purpose
Alan Flett John Wallace	2/9/01-21/9/01	South Africa/UK	Benchmarking infrastructure
Rod Howard Michael Tauber	24/9/01-28/9/01	New Zealand	Information on New Zealand electricity industry/market
Robert Moore	9/10/01-14/10/01	China	ZE relay project
Michael Tauber Stephen Lowe	10/11/01-24/11/01	UK	Energy market operations
Craig James	16/4/02-1/5/02	Singapore/UK	Insurance arrangements
Richard Powis	22/4/02-28/4/02	Singapore/UK	Insurance arrangements
John Wallace Gary Brennan	13/5/02-18/5/02	Indonesia/Thailand	Transformer company performance and quality audit

CONSULTANTS

Consultancy projects in 2001-2002 cost a total of \$2.22m. Major projects costing a total of \$1.35m were:

Brand research

1. Millward Brown Australia – Brand research
2. Novaction Australasia Pty Ltd – Quantitative market research on residential customers

Engineering

1. Austpac Consultants Pty Ltd – Network business strategy, regulatory review, organisational audit and realignment
2. Illawarra Technology Group Ltd – Participation in national power quality survey

IT&T

1. Gartner Australasia Pty Ltd – IT&T outsourcing

Management services

1. Commonwealth Bank of Australia – FRC market research initiatives
2. ANZ Investment Bank – Consultancy on sale of gas assets
3. Marsh Pty Ltd – FRC contingency planning
4. Peppers + Rogers Group – Review of readiness for the competitive retail market
5. National Economic Research Association – Regulation and WACC report consultancy

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As at 30 JUNE 2002

DISCLOSURE OF APPROVED EXEMPTIONS

Approval was granted for the following reporting exemptions for this annual report following changes to legislation. The expanded list of exemptions, some with conditions attached, was approved by the Treasury to overcome concerns of statutory State Owned Corporations (SOCs) about the loss of commercial confidentiality in the increasingly competitive electricity market in NSW.

Reference	Requirement	Comment
s41B(c) PF&AA	Financial statements	Exemption from preparing manufacturing, trading and profit and loss statements. Required to prepare a summarised Operating Statement (ie summarising major categories of revenues and expenses).
Schedule 1, Part 1: PF&FA (General) Reg Item 2	Notes - Income & Expenditure Amounts set aside for renewal or replacement of fixed assets	
Item 4	Amounts set aside to any provision for known commitments	
Item 6	Amount appropriated for repayment of loans/advances/debentures/deposits	
Item 13	Material items of income and expenditure on a program or activity basis	Required to summarise the material items of revenues and expenses on a program or activity basis.
S.7(1)(a)(iii)ARSBA	Budgets - detailed budget for the year reported on - outline budget for next year	
cl 6 ARSBR	- particulars of material adjustments to detailed budget for the year reported on	
s.7(1)(a)(iv)ARSBA	Summary Review of Operations	Exemption subject to a condition. The condition is that comments and information relating to the summary review of operations are to be disclosed in a summarised form.
Schedule 1 ARSBR	Management & Activities	Exemption subject to a condition. The condition is that comments and information relating to "management & activities" are to be disclosed in a summarised form.
Schedule 1 ARSBR	Research & Development	
Schedule 1 ARSBR	Human Resources	Exemption subject to a condition. The condition is that overseas visits with the main purposes highlighted are required to be disclosed.
Schedule 1 ARSBR	Consultants	Exemption subject to a condition. The condition is that the total amount spent on consultants is to be disclosed along with a summary of the main purposes of the engagements.
Schedule 1 ARSBR	Land Disposal	
Schedule 1 ARSBR	Consumer Response	Exemption subject to a condition. The condition is that comments and information relating to consumer response are to be disclosed in a summarised form.
Schedule 1 ARSBR	Payment of accounts	This exemption only applies to statutory SOCs as they are not subject to the payment of accounts provisions in s 18 of the Public Finance and Audit Regulation.
Schedule 1 ARSBR	Time for Payment of Accounts	As above
Schedule 1 ARSBR	Report on Risk Management & Insurance Activities	Exemption subject to a condition. The condition is that the comments and information are to be disclosed in a summarised form.
Schedule 1 ARSBR	Disclosure of Controlled Entities	Exemption subject to a condition. The condition is that the names of the controlled entities are to be disclosed along with a summarised disclosure of the controlled entities' objectives, operations and activities and measures of performance.
cl 12 ARSBR	Investment Management Performance	
cl 13 ARSBR	Liability Management Performance	
s.7(1)(a)(ia) ARSBA	Financial Statement of Controlled Entities	Exemption from preparing manufacturing and trading statements. Required to prepare a summarised Operating Statement (ie summarising major categories of revenues and expenses).

Abbreviations:

ARSBA Annual Reports (Statutory Bodies) Act 1984
ARSBR Annual Reports (Statutory Bodies) Regulation 1995
PF&AA Public Finance & Audit Act 1983

ABBREVIATIONS

ACCC	Australian Competition and Consumer Commission
CSG	Customer Service Guarantees
CS	Customer Service System
DIFR	Disabling injury frequency rate (lost time accidents per million hours worked).
DSM	Demand side management (utilising existing infrastructure to increase supply capacity as an alternative to capital investment in network assets)
FRC	Full Retail Contestability (staged development of the electricity market to include residential customers in NSW)
GIS	Geographic information system (data base of all physical assets)
GST	Goods and services tax
IAIMS	Integrated Asset Information Management Strategy
IPART	NSW Independent Pricing and Regulatory Review Tribunal
IT&T	Information technology and telecommunications
LTA	Lost time accident (one which results in the loss of at least one full shift)
LTIFR	Lost time injury frequency rate
LTISR	Lost time injury severity rate
MIMS	Mincom information management system (computer based management of organisational functions – payroll, human resources, stationery supplies etc.)
SEDA	Sustainable Energy Development Authority
SCADA	Supervisory control and data acquisition (computer program for remote control of the supply network)
A	Ampere (or amp) - unit in which electrical current flow is measured
Ohm	unit in which the resistance to the flow of an electric current is measured
V	volt - the unit of electrical potential or electromotive force
W	watt - a measure of the power present when a current of one ampere flows under a pressure of one volt through a resistance of 1 ohm
kW	kilowatt - one kW = 1,000 watts
kWh	kilowatt hour - the standard unit of energy which represents the consumption of electrical energy at the rate of one kilowatt over a period of one hour
kV	kilovolt - one kV = 1,000 volts
kVA	kilovolt ampere a unit of apparent power in an alternating current circuit, equal to 1,000 volt amperes
MVA	megavolt ampere - a unit commonly used when expressing the rating of a transformer
MW	megawatt - one MW = 1,000 kilowatts or one million watts
MWh	megawatt hour - one MWh = 1,000 kilowatt hours
GWh	gigawatt hour - one GWh = 1,000 megawatt hours or one million kilowatt hours

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As at 30 JUNE 2002

CUSTOMER & MARKET

CUSTOMER SERVICE GUARANTEES (CSG)

The Electricity Supply (General) Amendment Regulation was gazetted on 12 June 1998, requiring the standard form customer contracts of NSW network and/or retail electricity licence holders to contain guaranteed customer service standards. The regulation required 24-hour telephone hotlines, and introduced monetary penalties for failure to meet required standards for planned interruptions, connection and disconnection, faulty streetlights and punctuality in keeping appointments.

The new customer service guarantees took effect from 12 September 1998 and were communicated to staff and customers in September and October 1998. They were included in standard form customer contracts from 12 December 1998, and reviewed last year as part of the customer service strategy.

During the year, CSG payments of \$79,580 were made, mostly associated with planned outages, a significant reduction on the total of \$113,200 paid in 2000-2001.

A payment of \$20 is made to a customer where:

- insufficient notice is provided to the customer of a planned outage; or,
- the outage is for a longer period than that indicated in the notification.

Efforts continued to reduce the impact of significantly higher capital expenditure on the network, which had resulted in more planned

customer interruptions and, consequently, greater exposure to this type of payment. Initiatives being undertaken or planned to minimise these payments include:

- Increased scrutiny of requests for outages, including a process whereby outages of more than 4 hours require approval from line supervisors.
- Extending work party switching, thus reducing restoration delays due to operators being unavailable.

Payments of \$3,300 (220 incidents) were also made for failure to repair street lighting by the agreed date. Due to a review of the process to determine eligibility for this category of payment, the amount does not include the last two months of the year.

In 2002-2003, Integral Energy plans to improve performance under the guarantees to a level that will result in a 10% reduction in payments.

Customer comments

Customer comments, complaints and compliments are managed through a centralised Customer Comments System established in August 1994 and developed in line with Australian Standard AS 4269

Complaints handling

We provide a single point of contact for complaint resolution in most cases. This has helped manage complaints in a more efficient and effective way, thus increasing customer satisfaction.

All information on comments, complaints and compliments is recorded and managed on a system operated by our Customer Care

branch within Commercial Services. This data is recognised as a key form of customer satisfaction research. When information is captured it is classified and analysed, with systemic and recurring problems being identified and rectified.

A monthly report is prepared summarising and analysing the results, clearly identifying issues requiring management attention. Managers work with the Customer Care branch to focus on trends that may be developing and devise strategies to improve processes and services accordingly.

During 2001-2002 there were 7,563 complaints and compliments recorded, a decrease from last year's total of 11,393. Included in these figures were 555 compliments for staff, mainly related to the restoration of services during storms and bushfires. Complaints continued to focus on debt recovery issues, payments and unplanned outages.

Procedures for complaints, appeals and dispute resolution

Customers who wish to make an enquiry, comment or complaint about any of Integral Energy's services can contact Customer Care staff on 1800 806 698, submit an on-line feedback form on our Internet site, or write a letter.

If a customer considers the complaint has not been addressed to their satisfaction, they may:

- speak directly to the Manager, Customer Care;
- refer the matter to the Energy & Water Ombudsman of New South Wales; or,
- choose to resolve the matter under the dispute resolution procedures outlined in Integral Energy's "Procedures for Complaints, Appeals and Dispute Resolution". This procedure is available to the public by calling our customer service representatives on 131 081.

The breakdown of CSG payments is as follows:

	No. of occasions	Customers affected	Payments
Late restoration	75	3,566	\$71,320
Early interruption	2	8	\$160
No notification	94	371	\$7,420
Late notification	6	34	\$680
Total	177	3,979	\$79,580

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Energy & Water Ombudsman Scheme (EWON)

The Energy and Water Ombudsman NSW (EWON) is an independent dispute resolution body whose services are available to our customers at no cost.

In any dispute relating to services provided under the Customer Supply Contract or the Customer Connection Contract, Integral Energy agrees to comply with any direction or decision of the Energy and Water Ombudsman NSW. The Energy and Water Ombudsman NSW may be contacted on 1800 246 545.

Copies of the Customer Supply Contract or the Customer Connection Contract are available from our customer service representatives on 131 081.

Electronic Service Delivery (ESD)

In March 1999 the NSW Government made a commitment for all appropriate government services to be available electronically via the Internet by 31 December 2001. As a state-owned corporation, Integral Energy put in place a program of activities to meet progressive deadlines. The program outlined the organisations' high volume transactions, services and publications that could be developed online, together with funding requirements.

Critical dates established by the Office of Information Technology to ensure compliance across NSW Government agencies are shown below, along with Integral Energy's progress against these dates for those activities that had funding approved.

Although the ESD reporting requirement ceased on 31 December 2001, Integral Energy maintains a comprehensive eCommerce strategy that captures the intent of the electronic service delivery program. The strategy works to ensure a continued program that offers greater customer choice, as well as delivering reduced costs to serve for the organisation.

Target Area	Due Date	Progress
1 ESD Survey completed	9 June 2000	Complete
2 ESD Assessment completed	11 August 2000	Complete
3 Tender information on the Internet	31 December 2000	Complete
3 All appropriate Government publications on the Internet	31 December 2000	Complete
4 All appropriate high volume transactions on the Internet	30 September 2001	Complete
5 All other appropriate transactions on the Internet	31 December 2001	Complete
6 Services delivered on other appropriate electronic delivery channels	Ongoing	Planned

PUBLICATIONS

Information for the Public

Annual Report
Appliance running costs*
Assistance for users of life support machines
Building a better future for us all (Sustainability report)*
Customer Service Standards
Customer Service Charter*
Direct debit payment of electricity accounts
Efficiency with energy
Electric and magnetic fields fact sheet
Electrical appliance running costs
Electrical safety
Electricity concessions for pensioners
Electricity outdoors
Electricity prices
Electricity production and distribution
Emergency situations
Energy efficiency products and services
Energy price guide
Environmental policy
General terms and conditions for underground residential distribution of electricity
Guide to energy safety
Handypersons guide to powerline safety
Help our environment by supporting Wyuna Water power
Help our kids use the sun to save our environment and reduce electricity costs
Look, learn and live
Nightwatch service
Now you have the power to choose your electricity supplier*
Power line safety

Safety at home
Safety clearances
Safety stickers (school program)
Safety switches
Saving energy at home
Services and information guide
Services and installation rules
Solar for schools*
Solutions to heating problems
Standard form customer contract for electricity connection and supply
The energy efficient home
Tree trimming
Integral Energy easements
What to do in an emergency

Fact sheets

Cooling your home
Heating your home
Hot water systems
Insulation, lighting
Solar energy systems

Fact sheets for business

Power factor correction
Downstream metering
Energy management
Pricing analysis
Quality of supply
Energy studies

For Integral Energy staff

Code of ethics*
Customer service standards
Employee assistance program
Equal Employment Opportunity
Harassment
Incident response card*
Service awards scheme

* Publications introduced this year or re-issued after substantial revision and editing

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FUNDS GRANTED TO NON-GOVERNMENT ORGANISATIONS

Integral Energy does not grant funds to non-government organisations. Rather, through a Board-approved policy and annual program of sponsorships and donations, the corporation lends support to a limited number of community organisations that meet a set of predetermined criteria outlined in the Board policy. Requests for support are considered on their ability to:

- Increase awareness of the organisation and its products and services.
- Enhance its image and involvement in the community.
- Contribute to achieving strategic directions.
- Contribute to organisational development.
- Fulfil regional development obligations.

Organisations that met the criteria in 2001-2002 included the Department of Education and Training's ArtExpress and Schools Spectacular; the Australia Day Council of NSW; regional arts programs; NSW Sports Council for the Disabled; Illawarra surf lifesaving; the NSW Cancer Council; environment programs; business, sporting and community events; and, the Children's Hospital, Westmead.

Integral Energy also sponsored 16 community organisations in 2001-2002, with amounts ranging from \$200 to \$110,000.

SUMMARY OF LEGISLATIVE CHANGES

Integral Energy Australia's operations are subject to numerous laws, both at a State and at a Federal level. During the financial year ended 30 June 2002, new laws affecting Integral Energy Australia were introduced and a number of the existing laws affecting it were amended or repealed. Sections 1 and 2 of this summary contain an outline of the material changes (if any) to the following Acts and their subordinate legislation:

- *Electricity Safety Act 1945* (NSW);
- *Electricity Supply Act 1995* (NSW);
- *Energy Services Corporations Act 1995* (NSW);
- *Independent Pricing and Regulatory Tribunal Act 1992* (NSW);
- *Public Authorities (Financial Arrangements) Act 1987* (NSW);
- *Renewable Energy (Electricity) Act 2000* (Cth);
- *State Owned Corporations Act 1989* (NSW);
- *Sustainable Energy Development Act 1995* (NSW); and
- *Trade Practices Act 1974* (Cth).

Integral Energy Australia considers these to be amongst the principal Acts affecting it or the users of services provided by it. Section 3 of this summary concerns significant judicial decisions.

1. Acts

1.1 New South Wales

Civil Liability Act 2002

In New South Wales, government initiatives have resulted in the introduction of the *Civil Liability Act 2002*. It is anticipated that the other States and Territories of Australia will adopt similar provisions over the next few months.

The Act has retrospective operation which commenced on 20 March 2002. It was on this date that the NSW Government announced in a ministerial statement that it was considering a range of legislative reforms to personal injury law.

The Act aims to tighten controls on awards of damages and impose additional requirements on lawyers to discourage unmeritorious claims and over-servicing. It sets out to achieve these objectives by making a number of changes to the legislation governing the legal profession and the law in respect of civil actions for damages.

State Owned Corporations Act 1989

The *State Owned Corporations Act 1989* was amended by the *Financial Services Reform (Consequential Amendments) Act 2002*, which commenced on 21 June 2002.

The *Financial Services Reform (Consequential Amendments) Act 2002* repealed the *State Owned Corporations (National Electricity Market) Regulation 1996* with the result that Integral Energy Australia's dealings in the futures industry will be affected, in particular electricity futures trading. Under the *Financial Services Reform Act 2001* an entity presently covered by the *Corporations (Exempt Futures Market - National Wholesale Electricity) Declaration 1999* that is carrying on a business of entering derivatives (e.g. electricity futures trading) will need either an Australian markets licence, an Australian financial services licence, or to be within the scope of an exemption under the Act, by the end of the transition period. The transition period will end on the earlier of:

- the entity obtaining one of the above licences; or
- the entity beginning to be covered by an exemption under the *Financial Services Reform Act 2001*; or
- 11 March 2004.

1.2 Commonwealth

Privacy Act 1988

Amendments to the *Privacy Act 1988* require that organisations comply with either an approved privacy code, or (if no code applies) the National Privacy Principles. These amendments came into effect on 21 December 2001 (the "**private sector regime**").

With some exceptions, the private sector regime only applies to personal information collected by an organisation after 21 December 2001. Organisations are defined to exclude State or Territory authorities so that, before 1 June 2002, the effect of the exclusion was that Integral Energy Australia was not required to comply with the private sector regime.

Since 1 June 2002, by changes to regulations made under the *Privacy Act*, the four NSW Government-owned distributors/retailers (including Integral Energy Australia) have been required to comply with the private sector regime.

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Prior to 1 June 2002, a range of obligations affected Integral Energy Australia's handling of personal information by electricity retailers and distributors in NSW. Most relevantly, this included a requirement that electricity retail license holders comply with the Marketing Code of Conduct for electricity which in turn required retailers to comply with the National Principles for the Fair Handling of Personal Information (broadly similar but not identical to the National Privacy Principles). This obligation no longer applies, following amendments to the Marketing Code of Conduct.

Trade Practices Act 1974

A number of amendments have been made to the *Trade Practices Act 1974* (the "TPA"), however the most significant for Integral Energy Australia is the amendment by the *Trade Practices Amendment Act (No 1) 2001* (the "TPA Act") which commenced in part on 26 July 2001 and the balance on 15 December 2001. The TPA Act strengthens the enforcement and remedy provisions of the TPA which relate to the consumer protection provisions.

The TPA Act clarifies and expands the types of sanctions the Court may impose. New provisions allow the Court to order a variety of non-punitive orders such as community service orders, probation orders, corrective advertising orders and adverse publicity orders.

The TPA Act improves access to the available remedies. The period of limitation for commencing actions for damages contained in section 82(2) has been extended from 3 to 6 years. The new section 79B ensures that where courts are able to order both compensation for a victim and a fine or pecuniary penalty, the court must give preference to making an order for compensation if the defendant has insufficient financial resources to pay both.

The transactional limit in relation to the unconscionable conduct provisions contained in section 51AC has been raised from \$1million to \$3million.

1.3 Other Acts

There have been no significant amendments to any of the other Acts listed above which are not mentioned in sections 1.1 and 1.2.

2. Subordinate legislation, codes and determinations

2.1 New South Wales

Electricity Supply (General) Regulation 2001

- The *Electricity Supply (General) Regulation 2001* was made under the *Electricity Supply Act 1995*, and commenced on 1 July 2001. It repealed and replaced the *Electricity Supply (General) Regulation 1996*. The Regulation contains provisions to facilitate retail customers' selection of their electricity supplier and, specifically, provisions:
 - setting out conditions of endorsement of standard retail suppliers, that is, retail suppliers who are required to provide electricity to small retail customers and other customers located in their supply districts;
 - prescribing the electricity consumption levels for classification as a small retail customer and conferring rights on small retail customers;
 - relating to the discontinuance of electricity supply and the disconnection of customers from distribution systems;
 - setting out requirements relating to the establishment of customer consultative groups by distribution network service providers and standard retail suppliers;
 - setting out requirements for standard form customer contracts between distribution network service providers or suppliers and customers, and for negotiated customer contracts between service providers or suppliers and small retail customers;
 - prescribing additional decisions for which review may be sought by small retail customers and setting out procedures for reviews of decisions by licence holders;
- prescribing matters for the purposes of the operation of electricity industry ombudsman's schemes and the exercise of functions by the approved electricity industry ombudsman;
- detailing arrangements relating to electricity suppliers that are licensed to provide electricity in the event of a default by another supplier, including provisions setting out the terms and conditions that are to apply in respect of customers who are subject to the arrangements;
- relating to exemptions from provisions of the *Electricity Supply Act*;
- relating to social programs for energy;
- containing a scheme for accreditation for contestable services to be provided in relation to connection services and appeals relating to applications for accreditation; and
- relating to the preservation of trees.
- The *Electricity Supply (General) Amendment Regulation 2001* commenced on 1 January 2002, and amended the *Electricity Supply (General) Regulation 2001*. The amending Regulation impacts Integral Energy Australia's business in the following ways:
 - Integral Energy Australia is now required to provide (in its notices, bills, application forms and contracts) information relating to the availability of interpreter services;
 - the minimum period for customers to pay electricity bills has been reduced from 15 business days to 12 business days; and
 - Integral Energy Australia's customers will now be able to make an oral application for review of decisions by suppliers or service providers.

The amending Regulation clarifies that arrangements relating to retailers of last resort apply in respect of certain customers under exempt electricity supply arrangements, and last resort supply fees cannot be charged to customers who were previously under a standard form customer supply contract.

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Finally, the amending Regulation has enabled market operations rules to be made about the transfer of information between licence holders.

Orders under the Electricity Supply Act 1995

- The Minister for Energy made an Order under the *Electricity Supply Act 1995*, cited as the *Electricity Supply (First Termination of Transitional Retail Customer Status) Order 2001*, the purpose of which was to declare that an electricity customer who, at 1 July 2001, consumed more than 40 Megawatt hours (MWh) of electricity annually and was a transitional retail customer under the Act, ceased to be a transitional retail customer. Relevant to Integral Energy Australia's business operations, the effect of a customer being subject to the Order is that the customer may elect to purchase their electricity supply from a licensed retail supplier of their choice.
- The Minister for Energy made an Order under the *Electricity Supply Act 1995*, cited as the *Electricity Supply (Second Termination of Transitional Retail Customer Status) Order 2001*, the purpose of which was to declare that all customers, who at 31 December 2001 were transitional retail customers, ceased to be transitional retail customers in accordance with the Order. The effect of a customer being subject to the Order is that the customer may now elect to purchase their electricity supply from a licensed retail supplier of their choice.

Marketing Code of Conduct

The former Marketing Code of Conduct for electricity is now revoked and has been replaced by a new Marketing Code of Conduct (the "Code") which applies to the retail marketing of electricity by "Marketers" (including Integral Energy Australia and its contractors) in NSW.

Changes to the Code were the result of proposals intended to accomplish the following:

- convergence of the Marketing Codes of Conduct for gas and electricity into a single "Energy" Marketing Code of Conduct;
- changes to ensure consistency with current statutory requirements including the *Electricity Supply (General) Regulation 2001* and the *Gas Supply (Natural Gas Retail Competition) Regulation 2001*;
- general changes to improve the functionality, clarity and accuracy of wording of the Code;
- changes to ensure consistency with the new *Privacy Act 1988* (Cth) and National Privacy Principles;
- changes to ensure consistency with the *Electronic Transactions Act 2000*; and
- provision of a transition period for Marketers to comply with the new Code.

Market Operations Rules

The following Market Operations Rules were made under the *Electricity Supply Act 1995* and, with the exception of the *Market Operations (NSW Transfer Rules for Retail Electricity Supply) Rules No.4*, all commenced on 1 January 2002:

Market Operations (Arranged Connection Services) Rule No.1 of 2001

This Rule sets out requirements:

- for the arrangement by retail suppliers of the provision of connection services to the premises of customers in accordance with the *Electricity Supply Act 1995* and the *Electricity Supply (General) Regulation 2001*;
- for payments of charges for connection services by a retail supplier to the distribution network service provider where the customer is not liable to pay such charges directly to the distribution network service provider under their connection contract;
- for the co-ordination of delivery of connection services to customers between retail suppliers and distribution network service providers;
- for record keeping by the distribution network service provider; and

- for the exchange of information between retail suppliers and distribution network service providers.

Market Operations Rule (Network Use of System Agreements) No.2 of 2001

The Rule puts in place arrangements between distribution network service providers and retail suppliers in relation to Network Use of System services, and applies to such services that are provided by a distribution network service provider to a retail supplier. The distribution network service provider and the retail supplier may enter into alternative arrangements, in which case most of the provisions of this Rule will not apply to them.

Market Operations Rule (NSW Rules for Electricity Metering) No.3 of 2001

Electricity metering for the purposes of wholesale market settlement is regulated by the National Electricity Code or the Metrology Procedure. The purpose of this Rule is to regulate electricity metering to the extent that it is not regulated by the National Electricity Code or the Metrology Procedure.

Market Operations (NSW Transfer Rules for Retail Electricity Supply) Rule No.4 of 2001

This Rule commenced on 30 November 2001, and revoked the *Market Operations (NSW Transfer Rules for Retail Electricity Supply) Rules 2001*.

NEMMCO operates Transfer Systems to provide a framework for the orderly transfer of a customer's electricity account from one retailer to another retailer, under the contestable market for customers who are eligible to choose their electricity retailer. The purpose of this Rule is to integrate the NSW transfer requirements for efficient operation of the NSW retail electricity supply market with the NEMMCO Transfer Systems.

Specifically, this Rule establishes requirements for the following matters:

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- limiting the manner in which licence holders may use the NEMMCO Transfer Systems for enabling, initiating or effecting the transfer of a small retail customer or other changes to information stored in the NEMMCO Transfer Systems;
- evidencing consent to negotiated supply arrangements for small retail customers who are able to choose their retail supplier;
- providing for the use by licence holders of dispute management systems in relation to matters arising under the NEMMCO Transfer Systems;
- requiring distribution network service providers to provide NMI discovery services for retail suppliers, marketers and small retail customers;
- ensuring that transfers are timed to be consistent with the cooling-off period allowed to small retail customers entering into new supply contracts; and
- protecting the interests of small retail customers.

Market Operations Rule (Retailer of Last Resort) No.5 of 2001

This Rule provides for implementation of last resort supply for a customer in the event that the customer's retailer's licence is cancelled or if NEMMCO issues a suspension notice to the customer's retailer (a last resort supply event). The Rule facilitates information flows to a retailer of last resort following a last resort supply event, and to facilitate arrangements between retail suppliers, retailers of last resort, distribution network service providers, NEMMCO and other parties for last resort supply.

Ministerial Determination in relation to Retailer of Last Resort

Under the Ministerial Determination in relation to Retailer of Last Resort made in November 2001, Integral Energy Australia is a retailer of last resort for customers within its supply district. The determination requires Integral Energy Australia to have the necessary systems and resources to carry out its obligations. This obligation applies for an initial period of 2 years.

Independent Pricing and Regulatory Tribunal ("IPART") determinations

The following IPART determinations may impact on Integral Energy Australia's business operations:

Capital Contributions in the Electricity Industry

This IPART determination commenced on 1 July 2002. This determination governs the payment of contributions required by new customers who connect to the electricity network. IPART's determination means that new customers will pay for connection works that are used only by them and (in some cases) common connection works.

New customers who are Large load or rural customers may also have to pay for assets that need to be replaced or upgraded because of the additional demand placed on the network by the new customers.

Large load or rural customers will be reimbursed when other customers connect to the network and use the works for which the original contributor had paid.

Mid-term review of regulated retail prices for electricity to 2004

From 1 August 2002, new electricity retail prices for domestic and small business customers across NSW (who are on standard form customer supply contracts) will take effect following an IPART determination released under the *Electricity Supply Act 1995* on 24 June 2002.

The determination aims to ensure that consumers will be protected from price shocks as full retail competition in the electricity market unfolds in NSW over the next few years.

The determination:

- sets new targets for regulated retail tariffs to apply from 1 August 2002;
- introduces a separate target for "extended Off-Peak" tariffs;
- renames the "controlled load" tariff the "Off-Peak" tariff;
- introduces a new price constraint where regulated retail tariffs, on average, cannot increase by

more than inflation;

- maintains that there will be no nominal price increases for those customers on tariffs that are on or above the target level;
- changes the existing price constraint for residential customers where, for those tariffs below cost reflective levels (i.e. below target), a maximum increase of the greater of the percentage change in CPI + 2% or \$25 is allowed; and
- maintains the price constraint for business customers where, for those tariffs below cost reflective levels (i.e. below target), a maximum increase of the greater of the percentage change in CPI + 5% or \$50, is allowed.

The regulated retail charges do not apply to customers who are on negotiated customer supply contracts.

Occupational Health & Safety Regulation 2001

The *Occupational Health and Safety Regulation 2001* ("OH&S Regulation") came into force on 1 September 2001, and took effect in September 2002.

As a result, to the extent Integral Energy Australia is the "controller" of premises, it will be under an obligation to:

- identify all foreseeable hazards arising from the relevant premises and the physical work environment; and
- provide other persons having responsibilities under the OH&S Regulation (including any contractors which Integral Energy Australia engages in connection with the performance of construction, supply or installation work) with all available information that is necessary to enable that person to fulfil their obligations with respect to the identification, control and provision of information in relation to risks and hazards.

Chapter 8 of the OH&S Regulation applies to "construction work" and sets out a variety of specific requirements in relation to the performance of "construction work". The term "construction work" includes the "construction, structural

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alteration, repair, maintenance and demolition of energy supplies" and the manufacture of prefabricated items to form part of a building.

Where the value of the construction work is greater than \$250,000, or the work involves demolition, asbestos removal or other "high risk construction work", the OH&S Regulation requires the "owner" of the place of work to appoint a person who is responsible for the construction work at all times as the "principal contractor". If no such appointment is made, the owner of the place of work is deemed to be the "principal contractor".

Therefore, to the extent that Integral Energy Australia is the "owner" of any place of work at which construction work is being carried out, Integral Energy Australia will either have to appoint its main contractor as the "principal contractor" or fulfil the functions and obligations of the "principal contractor" (and assume liability accordingly) itself.

The "principal contractor" is required by Chapter 8 of the OH&S Regulation to:

- ensure each person carrying out construction work on the site (including subcontractors and their employees) participates in OH&S induction training and keep records of all such training carried out;
- prepare site specific occupational health and safety management plans prior to work commencing;
- ensure that each subcontractor prepares a safe work method statement for the work it is to carry out;
- ensure that subcontractors are directed to comply with their safe work method statements and the requirements of the Occupational Health and Safety Act 2000 and OH&S Regulation and ensure that subcontractors' activities are monitored to determine compliance; and
- keep a register of hazardous substances present on the site.

2.2 Commonwealth

Integral Energy Australia is unaware of any significant amendments to Commonwealth subordinate legislation during the financial year which affect it in its capacity as an energy services corporation, or affects the users of its services, in their capacity as customers of an energy services corporation

3. Significant judicial decisions

Integral Energy Australia is unaware of any significant judicial decisions during the financial year which affect it in its capacity as an energy services corporation, or affects the users of its services, in their capacity as customers of an energy services corporation.

FREEDOM OF INFORMATION

During 2001-2002 Integral Energy received two requests for information under the Freedom of Information Act 1989. Of the two requests processed, one was granted access in full to the documents requested whilst the other was granted access to the documents in part.

There were no formal appeals to the Ombudsman or Administrative Decisions Tribunal.

PEOPLE, LEARNING & GROWTH

CODE OF ETHICS

A review of the Code of Ethics was conducted in May 2002 to ensure alignment of the text with changes in the organisation's values, customer, staff and management expectations, and developments in the method of identifying and reporting breaches of the code. The revised code was distributed to staff in September 2002, and included training on ethical issues for all senior managers and, in turn, their staff. It also accommodated the introduction of new values identified by the Executive – safety excellence, accountability and responsibility – and further development of existing values.

1. Our principles and values

Our corporate values provide a set of principles that guide our behaviour and business operations.

In pursuit of our corporate goals, our Board, management and staff have adopted seven key statements to describe the core values of Integral Energy.

Safety excellence

Integral Energy's safety commitment is to zero accidents, injuries and occupational illnesses. This commitment is supported by making safety our first priority; a belief that all accidents are preventable; working safely is a condition of employment; not taking shortcuts; not

accepting unsafe behaviour; and, expecting personal accountability for safety from everyone.

We will be expected to live this value by learning appropriate safety and health requirements and how to work safely; maintaining awareness in all tasks; having a clear and orderly work area; checking for, and fixing, hazards; coming to work free of drugs and alcohol that could impair you doing your job or cause danger to yourself or others; taking action when you see unsafe working practices; looking for opportunities to improve safety and health performance; taking part in safety and health activities; and, immediately reporting all near misses, incidents, injuries and occupational illnesses.

Integrity

At all levels of the organisation and in all its business dealings, Integral Energy aims to act with honesty and to achieve the highest level of integrity. This means setting consistent policy with no exceptions, and maintaining soundness of moral principle and character, thus enhancing the organisation's image and reputation among all stakeholders. We each have a responsibility to ensure there is no misuse of Integral Energy's resources; that our business dealings do not lead to any compromise or conflict of interest; that we take ownership and responsibility for our actions; and

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As at 30 JUNE 2002

that we demonstrate outstanding leadership as an example to others. The Board, Executive and staff will be guided at all times by the principles set out in the organisation's Code of Ethics.

Management by fact

Management by fact forms the backbone of our approach to planning and decision making. It encompasses the use of all available information to make objective, impartial and confident business decisions and open and honest disclosure of relevant information to shareholders and customers. We also respect the confidentiality of certain business information and do not use this inappropriately.

Customer commitment

Integral Energy's vision is to be Australia's best performing energy business by focusing on delivering superior value to our customers and our shareholders now and into the future. This means taking personal responsibility to deliver a standard of service that goes beyond customer expectations and exceeds the service provided by our competitors. In providing this service we have a responsibility to deal in a fair, open and honest way with all our customers; to review, challenge and improve work practices and processes which stand in the way of better standards of customer service; and to recognise that, in the end, customer loyalty depends on individual relationships with our customers.

Respect for people

At Integral Energy we respect a 'fair go for all'. This value is crucial to the personal and professional standards expected in our workplace. It means we respect the principles of equal employment opportunity; acknowledge and value diversity in culture and opinion; offer opportunities for promotion on merit; cultivate an environment of trust through open and honest communication; promote self-improvement and skills development; encourage effective empowerment, teamwork and participative decision making; and continually review our safety standards

to ensure a healthy and safe environment for our staff, customers and the community.

Sustainability and commercial success

Integral Energy recognises the significant corporate responsibilities we carry as a leading energy business. As a responsible corporate citizen we must set and achieve goals for a sustainable future. Sustainability means balancing "triple bottom line" interests of financial, environmental and social responsibilities in order to ensure long-term business success. We will therefore operate in a way that meets the needs of the present without compromising the ability of future generations to meet their own needs.

In valuing commercial success on behalf of our shareholders, our people, our customers and the community, we ensure a sustainable economic future for all stakeholders. Commercial success is also an important measure of how efficiently we are managing the business on behalf of our shareholders. Commercial success means satisfying the needs of our customers in a manner which delivers ongoing business profitably. Profitability for the network business can be measured as our return on regulated assets. Profitability for the retail business can be measured as the margin we make between the cost of supplying electricity and the price we can sell it for to customers.

Accountability and responsibility

Complementing the value of "Respect for people", and the personal and professional workplace standards it demands, our people are expected to take responsibility and accountability for their actions, and to maintain the integrity of performance within their area of responsibility. In all our business dealings, we will promote trust, openness, teamwork, professionalism and pride in what we do. This includes an expectation that our people will accept accountability for any gaps in their performance, and will raise their standards by seeking advice or appropriate training.

2. Standards of personal and professional conduct

To maintain customer confidence in the integrity of our employees it is essential that you be seen to exhibit the highest ethical standards in carrying out your duties. You need to take pride in your work and must act and be seen to act in line with the values and principles outlined in this booklet.

Also as an Integral Energy employee, you need to operate within all laws and regulations applicable to Integral Energy's business operations.

If you do not deal fairly or honestly with customers, this may result in a breach of the Trade Practices Act. A customer complaint, if proved, could lead to a heavy fine for both the organisation and the staff member involved. More importantly, this will have a negative impact on our Corporate reputation and your personal reputation.

Ultimately you are responsible for your own conduct and behaviour and you should understand:

- what your job is;
- how your job is to be performed, including what principles you need to operate within; and
- the results you are to achieve.

Performing your duties

In performing your duties, you must:

- act professionally at all times and never make (written or verbal) representations without first checking the underlying facts;
- act impartially, with integrity, be fair and do not mislead people;
- operate in a safe manner and observe the safety guidelines provided to protect you and your colleagues;
- provide efficient and effective service to your customers;
- be honest in all your dealings and never be a party to anti-competitive behaviour;
- be prepared to demonstrate the reasons for your decisions;
- be alert for any conflicts of interest, real or perceived, and take appropriate steps to deal with them;
- make the best use of your knowledge and experience when

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exercising your technical or professional judgement;

- maintain and develop knowledge of your professional field;
- protect the confidentiality of all information made available to you or to Integral Energy;
- look after and do not misuse Integral Energy's assets;
- do not commit fraud or engage in corrupt conduct;
- comply with Integral Energy's policies and procedures and the organisation's operating licences; and
- always protect the good name of Integral Energy.

Delegated authority

When making business decisions for Integral Energy, or taking actions by exercising a delegated authority, you should ensure that:

- the decision or action is within your delegation;
- it complies with all decision-making requirements and procedures required by the delegation and any relevant legislation; and
- the decision and the evidence upon which it is based are properly documented.

If you are in any doubt about the limits of your delegated authority, you should seek advice from your supervisor or manager. A copy of the delegations policy can be accessed through the Intranet or obtained from the Manager Corporate Governance.

The once removed principle

When making decisions about activities or purchases where there is a likelihood that people might think you are gaining some kind of personal benefit, or where it may be perceived that there could be a conflict of interest, you need to inform your direct manager and obtain approval, before you make the decision.

This principle applies to approval of expenditure that is within your delegated authority on items from which you gain some kind of personal benefit. Some examples of this include approving expenditure related to attendance at a function or course, acceptance of an invitation or gift, or the purchase of work materials.

It is better for all if you tell someone in higher authority that you plan to do something – before you do it.

Behaviour towards others

In responding to our value of Respect for People, ethics plays a major part in the way you behave towards others.

You need to:

- treat customers and other employees with respect and sensitivity to their rights, provide appropriate assistance and, if necessary, guidance;
- lead by example and encourage your colleagues to exercise similar qualities of personal and professional behaviour to those outlined above;
- ensure that staff and resources are managed in a way that will, to the greatest extent possible, avoid the opportunity for unethical behaviour by others; and
- follow all health and safety policies and procedures, ensuring that you work in a safe manner while not putting yourself or others at risk.

Alcohol and other drugs

You should not come to work or return to work if you are under the influence of alcohol or other drugs that could impair you in doing your job or cause danger to yourself or others. If you are taking prescribed medication that could affect your work performance, you should discuss this with your direct manager or your Human Resources Manager.

3. Conflicts of interest

What is a conflict of interest?

A conflict of interest arises when your personal interests, or those of people close to you, conflict with the impartial performance of your public or professional duties.

A conflict of interest could exist where you have a personal interest, or a family member, relative or anybody close to you has an interest, that could lead you to be influenced in the way you carry out your duties. The perception of a conflict of interest could arise where circumstances exist which lead a reasonable person to think that you could be influenced.

Some examples of situations that may give rise to a conflict of interest include:

- financial interests in a matter Integral Energy is dealing with or having friends or relatives with such an interest that you are aware of;
- personal relationships with people Integral Energy is dealing with that go beyond the level of a professional working relationship;
- personal beliefs or attitudes that influence the impartiality of advice that you give;
- use of business information acquired through your work with Integral Energy for personal gain;
- secondary employment that compromises your integrity or impacts on your ability to perform your full-time job with Integral Energy; and,
- party political activities or making adverse political comments that relate to Integral Energy's business.

What should I do?

It is important that customers, suppliers and colleagues can be confident that all decisions made by Integral Energy are fair and impartial. An individual employee may often be the only person aware of the potential for conflict. Therefore, the responsibility is on you to identify any real or perceived conflict of interest and disclose it. If you think you have a conflict of interest, or that others may perceive there is a conflict of interest, you must talk to your manager about ways to resolve the situation.

Conflicts of interest that lead to decision making that is not impartial may constitute corrupt conduct.

4. Acceptance of gifts or benefits

You must never solicit or request any gift or benefit for yourself or anyone else in connection with your employment. You must not accept any personal benefits that are offered under frequent flyer schemes, Fly Buys or other promotions as a result of the expenditure of Integral Energy's funds or in connection with any official travel.

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Do not accept any gift or benefit if you think, or a reasonable person could think, that you would be influenced in the way you do your job as a result of the gift or benefit.

Token gifts may only be accepted if the gift is not likely to be seen to be compromising. Token gifts are those that do not have a significant monetary value, are inconsequential or trivial, and are not offered on a frequent basis.

If you consider a gift or benefit that is more than token is acceptable, you must seek permission from your manager in order to protect both you and Integral Energy. Non-token gifts could include sporting tickets or invitations to a restaurant. Your manager must forward tangible non-token gifts to the Manager Corporate and Government Affairs. These gifts will be donated to a charity.

If you are uncertain if a gift is token or not you should discuss it with your manager.

Gifts of cash (any amount) are never considered acceptable.

If a substantial gift or benefit is offered to you to influence the way you do your work, you should report this immediately in accordance with the procedure for reporting fraud, corruption, maladministration and serious and substantial waste.

5. Public comment

It is not appropriate for you to make public comment about or on behalf of Integral Energy. This includes statements to the media. If you are asked to do so, please refer the caller to the Corporate and Government Affairs Group.

If in your own time you undertake speaking engagements, express views in letters to newspapers, in books or on notices that appear in the public arena, you must ensure that you are not seen to be commenting on behalf of Integral Energy.

6. Corporate information

Information relating to our commercial activities is an important factor in our business success and should be protected. You should not use information about Integral Energy, its staff, customers or business relationships to gain personal advantage for yourself or other people, or to damage Integral Energy, other people or organisations. You must also protect information from, or about, third parties.

Business information that is not confidential should be communicated in an honest and unbiased manner. If you are unsure as to the confidentiality of information, please ask your manager or supervisor.

Dealings with former employees of Integral Energy

You should take care when dealing with former employees of Integral Energy that you do not give them, or appear to give them, access to privileged information.

What are my obligations to Integral Energy after I leave?

Once you leave Integral Energy you are obliged not to divulge any confidential information about the organisation or your job, or pass on any information which may be detrimental to Integral Energy, its staff, suppliers or customers. You must not use, or take advantage of, any confidential information obtained in the course of your employment with Integral Energy in any new employment or business venture.

7. Integral Energy's resources

Our resources are vital to our business, helping us meet our customers' needs. You are expected to be careful, efficient and economical in your use and management of Integral Energy's resources, including your own work time. Integral Energy's resources include:

- material, equipment and vehicles;
- cash, cheques, credit cards, accounts and securities;
- documents, records, data and information; and,
- time and staff.

As a general rule Integral Energy's resources cannot be used for private purposes without specific permission. However, minimal use of the telephones, faxes, photocopiers and desktop computers, including E-mail and Internet access, for private purposes is acceptable. Unauthorised interstate and international telephone calls should not be made and you should be aware of the organisation's policy on the use of E-mail and Internet facilities.

You may also make minimal use of portable computers and issued tools for private purposes. Certain tools and minor items of equipment may be borrowed, if you obtain permission from the relevant manager responsible for the resources and the loan is appropriately recorded.

Motor vehicles are to be used in accordance with the policies and procedures dealing with the use of vehicles.

Integral Energy's resources and equipment shall not be used in relation to a second job or business without the specific permission of the Chief Executive Officer.

8. Secondary employment

You cannot work in any capacity for, or as, our competitor while employed by Integral Energy. This is a condition of your employment. If you do undertake other paid work, you should:

- let your manager know about the other paid work;
- avoid revealing information about Integral Energy's business strategies; and,
- ensure the quality of your work for Integral Energy is not affected.

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Integral Energy can require you to cease any secondary employment that adversely affects your employment with Integral Energy.

9. Political and community participation

You are free to be involved in any activities outside working hours so long as these activities do not interfere with your normal working operations. You should not use working hours or Integral Energy resources to conduct political or other business or social activities, or involve Integral Energy in outside activities, unless authorised to do so.

If you nominate as a candidate in a state or federal election, you should take leave from the day of nomination in order to conduct your campaign without risking conflict between your employment and political interests.

Under no circumstances are Integral Energy funds to be used to make political donations.

Integral Energy encourages employees to get involved in volunteer and community work in their own time. However, you should not use Integral Energy's assets in this, or any other type of work, unless authorised to do so.

10. Reporting possible fraud and corruption

All staff have a responsibility not only to act honestly but also to disclose any instances of possible fraud, corruption, maladministration or serious and substantial waste. This includes acts of dishonest or unethical behaviour that can not only damage the reputation of Integral Energy but also that of its employees.

In accordance with our procedure for dealing with fraud, corruption, maladministration and serious and substantial waste you can make a disclosure of suspected instances to the:

- Manager Audit and Business Performance – (02) 9853 4908
- Chief Executive Officer – (02) 9853 6101
- Independent Commission Against Corruption, for disclosures on

corrupt conduct – (02) 9318 5999

- NSW Ombudsman, for disclosures of maladministration – (02) 9286 1000
- NSW Auditor General, for disclosures of serious or substantial waste – (02) 9285 0155.

We will treat all information given to us in the strictest confidence.

If you voluntarily make a report in accordance with this procedure you may be entitled to protection under the Protected Disclosures Act 1994. This law makes it a criminal offence for anyone to take detrimental action in reprisal against a person who makes a protected disclosure. Integral Energy is committed to ensuring that employees are not victimised as a result of such a disclosure.

If you report fraud, corrupt conduct, maladministration or serious and substantial waste you will be treated fairly.

Protection is not available for disclosures that are frivolous or vexatious or primarily question the merits of Government policy, or are made in an attempt to avoid dismissal or disciplinary action.

11. Breaches of the code

Integral Energy is committed to the standards and principles outlined in this Code. Minor breaches of the Code would normally be resolved internally and may result in counselling or the clarification of procedures to avoid further breaches. More serious breaches may lead to disciplinary action, up to and including termination of employment and/or the bringing of civil or criminal proceedings. Criminal matters may be reported to the Police.

Breaches that appear to involve corrupt behaviour by one or more members of staff must be reported to the Independent Commission Against Corruption, which may then decide to investigate the incident.

An ICAC investigation may result in criminal charges against individuals and findings against Integral Energy if shortcomings are evident in its policies and procedures.

If you are aware of any breach of this Code or any involvement in fraud or corrupt conduct by others, you should make a report as outlined in section 10.

All information given will be treated in the strictest confidence.

12. An ethics quick test

For those not-so-easy-to-answer questions

Not all ethical decisions are clearly right or wrong. In fact, many complex situations we face in business fall somewhere in between. Your own values and judgments are an excellent resource to use in making 'grey area' choices. So are our corporate values.

If, after considering all the issues, you're still uncertain about what to do, use these questions to test your decisions:

- Does it conflict with our values?
- If you do it, will you feel bad? What are the consequences of making this decision?
- How will you feel explaining this to your colleagues?
- Would you be confident in explaining your actions to external authorities?
- How will it look in a newspaper?
- How will it affect the organisation as a whole?
- What is my manager's view?

If your decision passes this test and you feel confident about the decision you have made, it is probably the right thing to do. If you're still in doubt give your supervisor or manager a chance to talk through the issues with you or ask the Manager Audit and Business Performance.

To sum up, if you are not comfortable in any situation, it probably requires more thought.

Remember that you are responsible for your own actions and decisions and you are the one who must live with them.

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EQUAL EMPLOYMENT OPPORTUNITY

Ratio of female to male employees according to NSW Public Sector rate ranges, as required by the Office of the Director of Equal Opportunity in Public Employment (ODEOPE).

	All employees				Female employees				Male employees			
	Number of staff		% of total staff		Number of staff		% of total staff		Number of staff		% of total staff	
Salary ranges	01/02	00/01	01/02	00/01	01/02	00/01	01/02	00/01	01/02	00/01	01/02	00/01
< \$26,802	35	24	1.8	1.4	2	2	0.1	0.1	33	22	1.7	1.2
\$26,802 - \$35,202	42	240	2.2	13.6	6	88	0.3	5.0	36	152	1.9	8.6
\$35,203 - \$39,354	290	342	15.0	19.4	79	108	4.1	6.1	211	234	10.9	13.3
\$39,355 - \$49,799	750	599	38.8	33.9	187	113	9.7	6.4	563	486	29.1	27.5
\$49,800 - \$64,400	407	236	21.0	13.4	76	42	3.9	2.4	331	194	17.1	11.0
\$64,401 - \$80,499	139	151	7.2	8.6	37	38	1.9	2.2	102	113	5.3	6.4
> \$80,499	271	173	14.0	9.8	47	26	2.4	1.5	224	147	11.6	8.3
Totals	1934	1765	100	100	434	417	22.4	23.6	1500	1348	77.6	76.4

All figures quoted are full time equivalents (FTE)

EMPLOYEE NUMBERS

	1997/98	1998/99	1999-2000	2000-2001	2001-2002
Total staff	2,039	1,845	1,668	1,765	1,934
% (reduction)/increase	(5.5)	(9.6)	(9.6)	5.8	9.6
% cumulative reduction (2)	35.0	41.0	46.7	43.6	38.2

Note:

(1) Staff numbers are based on full time equivalents. Significant reductions in staff numbers occurred as a result of voluntary exit programs in June-July 1998.

(2) These figures represent the change in employee numbers since the creation of Integral Energy in 1995 through the merger of Prospect and Illawarra Electricity. At the time of the merger the total employee number was 3,127.

EXECUTIVE MANAGEMENT REMUNERATION

Title	Name	Remuneration paid to 30 June 2002	Performance pay	Performance criteria
Chief Executive Officer	Richard Powis	\$382,083	\$48,000	Successfully reorganised the organisation to deal with the financial and operational issues confronting Integral Energy in the lead-up to Full Retail Contestability.
General Manager Asset Management	Alan Flett	\$220,351	\$28,228	Network reliability and storm performance.
General Manager Commercial	Simon Draper	\$213,463	\$24,175	Review of supply procedures and call centre upgrade (10 months pro rata).
General Manager Corporate Development	Karen Waldman	\$215,504	29,610	Regulatory issues and further development of corporate governance.
General Manager Engineering Performance	John Wallace	\$209,135	\$28,200	Reliability and storms. Development of SAMP.
General Manager Finance	Craig James	\$224,700	\$28,300	Managing a strong financial result.
General Manager Full Retail Contestability	Rodney Howard	\$215,587	\$30,366	Delivery of FRC systems in preparation for competition.
General Manager Human Resources	Alan Priestley	\$232,299	\$11,706	Development of HR strategy.
General Manager Sales and Marketing	Michael Tauber	\$225,249	n/a	Commenced with corporation on 31 July 2001.
General Manager Trading	Stephen Lowe	\$179,850	n/a	Commenced with corporation on 10 September 2001.
General Manager IT&T	Sandra Trudgett	\$198,525	\$24,164	Managing conflicting issues associated with various IT projects.
Acting General Manager Retail	Brian Lloyd	\$111,937		Acting executive team member from 1 July 2000 to 7 September 2001.

> Location of operations



Integral Energy's franchise area

Integral Energy's network franchise area spans 24,500 square kilometres and forms the organisation's platform into the National Electricity Market for energy and energy related products and services.

The franchise includes some of Australia's fastest-growing residential and commercial areas, spread across Sydney's greater west, the Illawarra and Southern Highlands.

Field service depots are located at key points, helping meet the needs of our customers and the network.

The expertise and skill of our staff not only help repair, maintain and develop our network: they also enable us to win construction and maintenance contracts and engineering consultancies in Australia.

Our Retail business plays a pivotal role in meeting the needs of more than 789,000 Integral Energy customers located within our scope of operations, as well as customers beyond our franchise.

Transmission details

Drawing on our arrangements with generators in NSW and Victoria – along with supply generated by independent sources such as cogeneration, coal bed methane extraction plants, wind and water plants – we purchase wholesale electricity in bulk for our customers.

Supply is taken from TransGrid's transmission network at either 132,000 or 66,000 volts and reduced to 33,000, 22,000 or 11,000 volts through a network of transmission and zone substations. Distribution substations further reduce the supply to 415/240 volts to suit customer requirements.

> Directory

MAIN OFFICE

51 Huntingwood Drive
Huntingwood NSW 2148

SOUTH COAST OFFICE

Bridge Street, Coniston NSW 2500

POSTAL ADDRESS

PO box 6366, Blacktown NSW 2148

TELEPHONE

General inquiries
02 9853 6666

24-hour emergency service
131 003

Account enquiries, connections,
disconnections
131 002

FACSIMILE

02 9853 6000

E-MAIL

integral@integral.com.au

WEBSITE

www.integral.com.au

CUSTOMER SERVICE HOURS

Account enquiries
131 002
(cost of a local call)
24 hours, 7 days a week

CREDIT CARD PAYMENTS

1300 361 104
(24 hours, cost of a local call)

24-HOUR EMERGENCY SERVICE

131 003
(cost of a local call)

HOT WATER HOTLINE

131 003

TO REPORT STREETLIGHTS OUT

131 003

GENERAL ENQUIRIES

02 9853 6666

CUSTOMER COMMENTS OR COMPLAINTS

1800 806 698

FIELD SERVICE DEPOTS

Bowral

Bong Bong Street

Hoxton Park

Hoxton Park Road

Penrith

Blaikie Road, Jamisontown

Katoomba

Cnr Camp and Whitton Streets

Bowenfels

Cooerwull Drive

Kandos

Cnr Davies Road and White Crescent

Seven Hills

Powers Road

Parramatta

Cnr Fennell and Macarthur Streets

Coniston

Bridge Street

Shellharbour

Buckley Road

Nowra

Cnr Yalwa and Depot Roads

Ulladulla

Deering Street

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> About this year's Annual Performance Report

Integral Energy's Annual Performance Report for 2001-2002 presents critical information about the organisation's activities in a candid, transparent and reader-friendly manner. In addition to meeting the requirements of a broad range of legislation, our report is also prepared against the criteria set out by Australasian Reporting Awards, Inc, and is benchmarked against reports from other leading Australian organisations.

We printed 3,000 copies of the 2001-2002 Annual Performance Report at an estimated cost of \$29.50 per copy (GST inclusive).

The 2001-2002 Annual Performance Report was produced by the Corporate and Government Affairs Branch.

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The power is in your hands

