

production
demand
buy
emissions
sell
output
environment
people
trading
buy
energy

bid
sell
production
demand
people
buy
trading
buy
sell
emissions
environment

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

- Achieved a record consolidated profit of \$98.1 million which exceeded the budgeted figure for the third consecutive year
- Derivative trading performance substantially exceeded budget
- Average spot price for electricity in the NEM fell for the third consecutive year making the profit result even more creditable
- Total generation for the period was 14,764 GWh of electrical energy
- 1.2% of total energy production was derived from renewable energy sources (wind and hydro)
- Successfully completed the first stage of a major program to upgrade the unit control systems at Eraring Power Station
- Thermal efficiency for the Eraring Power Station was 38.2%, which exceeded target
- Production of 129,086 NSW Greenhouse Abatement Certificates from efficiency improvements
- The Eraring Power Station Environmental Management System received ISO 14001 accreditation
- Developed and commenced roll out of the Eraring Competency Model staff development program
- Introduction of a new regulatory regime for the energy sector in Australia
- Successfully completed capability testing on first unit at Eraring Power Station for increased overload capacity
- Eraring's Pacific Western subsidiary recorded a profit of \$0.54 million

This year has produced a record result for Eraring Energy.

The consolidated profit of \$98.1 million is 69% higher than the previous year's result and the organisation is performing well and above expectation at this relatively early stage.

More than anything this year's performance reflects positively on the foundations that were laid when Eraring Energy commenced operation in 2000 and the philosophies that were adopted at that time.

It is worth briefly restating some of these here.

First, the organisation was established as a trading entity that was backed by physical production assets. Great effort was expended in creating a trading division staffed by people of outstanding talent who could respond to a brief of exceptional performance within strict risk parameters. The various industry awards our trading people continue to accumulate are testimony to the skills and dedication across this vital division.

On the production side we inherited a mid-life asset with an excellent performance record but with a fuel cost structure that meant we could never aspire to be a base load generator. We set about developing and promoting

operational and management procedures that centred on agility and market responsiveness but also a philosophy of continuing improvement in operational performance. Put another way, it was clear that for Eraring Energy to achieve its full potential the organisation would have to excel at all aspects of the business.

At the same time great thought and effort has been applied to nurturing our key asset. The adoption of a rigorous maintenance regime combined with continuous improvement in operations has seen the station's yield consistently at the high end of expectations.

The \$35 million program to renew the station's control systems and introduce a screen-based operating platform, which commenced in the last reporting period, is an example of this philosophy in action.

A further important contributing factor to our performance record has been the refinement of communications processes between the two key operating divisions, Trading and Production, in order to maximise our response to emerging market opportunities.

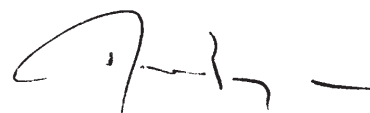
The close of the financial year saw the establishment of a new regulatory framework comprising the Australian Energy Regulator (AER) and the Australian Energy

Markets Commission. Eraring is most supportive of these developments that should contribute to regulatory certainty. Nevertheless we do have some areas of concern regarding the potential lack of clarity in terms of how these new organisations interact with the ACCC. We have been, however, greatly encouraged by the engagement of the various jurisdictions in this process.

Notwithstanding recent policy statements on greenhouse gas emissions Eraring Energy remains very concerned at the lack of certainty as to what will be expected of the Australian energy sector in response to this critical issue in the future.

To everyone in our production and trading divisions, and to our corporate team who have provided guidance and support across the business, congratulations and thank you for another successful year.

Eraring needs to continue to pursue improvements across all aspects of the business to ensure we continue to perform above expectation.



Ross Bunyon

The achievement of a profit that was both above budget and a record result, in a year that was characterised by long periods of low market prices, highlights the health of the organisation and the commitment and ability of our people.

The key contributing factors to this result were a combination of excellent cost control across the whole business, well developed and well executed trading strategies and outstanding plant availability, particularly when the market presented opportunities for a generator of our profile.

One of the key events of the year was a major planned outage to allow the first stage of the installation of digital, screen-based controls on all four units at Eraring Power Station. The new system was the result of an in-house design process in conjunction with the supplier.

The installation of the new control system and the unit recommissioning were highly successful and the operational experience since has confirmed the benefits of drawing heavily on the skills and experience of our staff in the development of this important technological upgrade. Work on the second unit is scheduled to be well advanced at the time of publication of this report.

Special mention should be made of the continued success of our trading division, which is fundamental to our bottom line performance. For the second year running one of our traders has been named 'Spot Trader of the Year' by the industry. In addition, another trader has been named 'Contract Trader of the Year'. There can be nothing more rewarding, nor more telling, than peer acknowledgement. Both recipients have credited their colleagues for their success, which is a sign of the strengths of this outstanding team and the humility of its individual members.

Leadership continues to be a focus of the organisation across all sectors. Eraring Energy's role at the forefront of industry preparations for the adoption of IAS 39, involving new accounting standards for dealing with derivatives, is symptomatic of this commitment. Our General Manager Finance has been extremely active in this regard, both at an industry and government level.

A disappointing Lost Time Injury Frequency Rate figure this year belies the industry leadership role we have taken in the key area of safety. Eraring's safety management procedures are now seamlessly integrated across our internal operations and those of our many contractors. We believe we are unique in the sector in that all reporting, procedures and statistics flow to the 'one ledger', ours! We deliberately set the bar as high as we can when it comes to safety. Meanwhile "B-Safe" continues to embed itself as a program driving behavioural change in relation to safety and progress towards achieving a zero work accidents environment.

During the year foundations were laid for the implementation of the Eraring Energy Competency Model for the continuing development of our people. Through a consultative process staff have developed five key competencies and defined standard benchmarks for each competency. The roll out of the competency model has commenced. The reporting period also saw the completion of a Culture Survey that has confirmed the appropriateness of the direction of our organisational development and suggested further ways of achieving our goals.

Eraring Energy is committed to continual environmental improvements in our operations. A notable accomplishment of the past year has been the accreditation of our Environmental Management System for Eraring Power Station under the international ISO 14001 standard, and we continue to work towards achieving accreditation to ISO 14001 for the Hydro and Wind sites.

By any measure the past year has been a successful one for the organisation and I am confident we are well placed to meet any challenges the market may place before us.

I take this opportunity to thank the staff in all areas of the business for their contribution to these excellent results.

A handwritten signature in black ink, reading 'G F Grove-White'.

Gerry Grove-White

Managing Director

Non-Executive Directors

Ross Bunyon

Chairman and Director

BComm (UNSW), CIE Aust,
Director/Consultant

Appointed 21st July 2000
continuing with reappointment to
30th June 2006

Beverley Hoskinson-Green

Director

LLB (UNSW), LL, M (Harvard)

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

Appointed 21st July 2000
continuing with reappointment to
30th June 2005

John Maitland

Director

National Secretary, Construction,
Forestry, Mining and Energy Union

Appointed 21st July 2000
continuing with reappointment to
30th June 2003

Reappointed on 22nd March 2004
for 12 months

Michael Nugent

Director

F CPA

Director

Appointed 1st July 2001 to
30th June 2004

Reappointed to 30th June 2007

Dean Pritchard

Director

BE, FIE Aust, CP Eng., FAICD.

Director

Appointed 22nd August 2001 to
30th June 2004

Reappointed to 30th June 2007

Michael Vertigan

Director

AC, B.Ec (Hons) Tasmania,
PhD California, FAICD

Director/Consultant

Appointed 21st July 2000
continuing with reappointment to
30th June 2005

Executive Director

Gerry Grove-White

Managing Director

BSc (MechEngr) Hons,
Chartered Engineer MI Mech.E,
Cert. Diploma in Accountancy
and Finance

Appointed Executive Director
2nd January 2001

Steven Graham

Secretary

Dip Tech (Comm), GAICD

Appointed Secretary
11th September 2000



REBECCA ADAMS ANNE-MARIE AKLE LINDSAY ALLAN ADELA AN NEIL ANDERSON RAYMOND ANSELL METHSIRI ARATCHIGE ERNEST ARMSTRONG
STEPHEN AUSTON BRETT BALDWIN ALAN BALDWIN JEFFERY BALKWILL KEVIN BARKER CLARK BATH VOLKER BAUMGART ASHWIN BAWEJA
RONALD BEATTIE ERIC BENDER FABIO BETTINZOLI SUSAN BIRDSALL STEPHEN BLOOD STEPHAN BORAS CHAD BOUTILLIER RAYMOND BOYCE
JUAN BRADBERRY BARRY BRADFELD FRANK BRAJLIH MATTHEW BRANCH ELSA BRAUN NEIL BREEZE ERNEST BROOKS CALLENA BROOKS
KENNETH BROWN BRUCE BROWN CHRISTOPHER BRUCKI WAYNE BRYANT LEIGH BRYDSON SCOTT BRYDSON ROSS BUNYON
ALLAN BURGESS ROBERT BURNS TERENCE BYRNES GEOFFREY BYRNES MICHAEL CAIRNEY IAN CAMPBELL

output demand
negotiate production hedge emissions
offer output environment
people trading buy
safety energy sell

An outstanding trading performance was again a major contributor to a record profit result

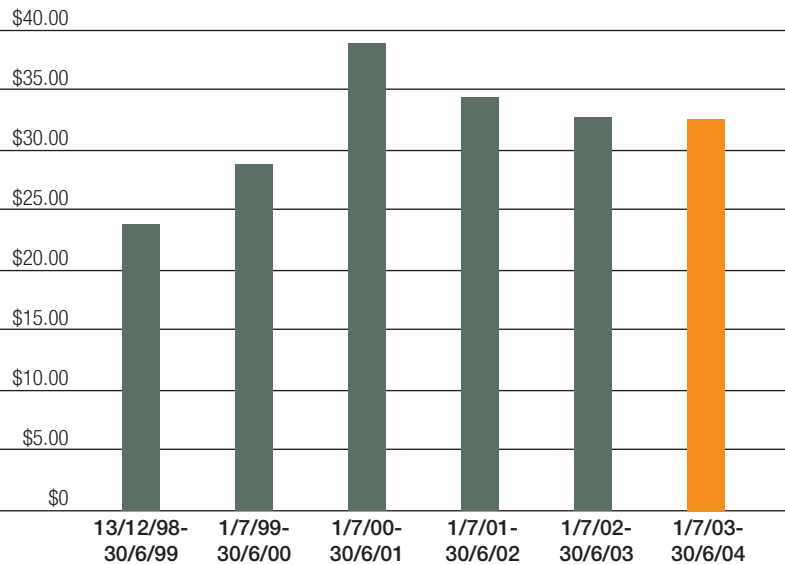
Energy Trading is a core business activity of Eraring Energy and produces the majority of the organisation’s income.

The principal tasks carried out by the ‘front office’ include the management of the organisation’s contract portfolio in the electricity derivatives market, daily bidding and rebidding for spot electricity and ancillary services in the National Electricity Market, and the management of coal contracts including procurement and deliveries of coal. The ‘middle office’ is involved in energy trading risk management activities, forecasting & modelling, business operations and information technology systems for energy trading, and market development issues.

Industry Recognition

For the second consecutive year, the Senior Pool Trader was voted by his industry peers as the “Spot Trader of the Year”. In addition, the Senior Derivatives Trader was voted the “Contract Trader of the Year”. These successes emanate from industry recognition of the strong performance and contribution to market

NSW time-weighted average spot price
\$/MWh



development by the Energy Trading team, well supported by the services of other Business Units.

Electricity Derivatives Performance

Derivative contracts provide revenue certainty to the organisation and a very significant share of revenue is covered by derivative contracts. Derivative contracts are traded under ISDA Master Agreements which have been executed with a wide range of market participants.

Regulatory risks and risks from supply failures are two important issues that have been discussed with trading counterparties with the view to incorporating premiums for

retaining such risks or of passing through such risks within electricity derivative transactions.

Spot Trading Performance

The average spot price in the NEM fell for the third year in a row, and continues to be at a level below the long-run marginal cost of generation.

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

feature of the electricity spot market. A major development in the operation of the market in the past year was the implementation by the National Electricity Code Administrator (NECA) of new codes for bidding and rebidding. These changes were approved by the Australian Competition and Consumer Commission (ACCC). In response Eraring Energy undertook a rigorous process to ensure that its bidding and rebidding activities complied in all respects with the spirit and intent of the code changes.

Fuel

A key achievement this year was the completion of a process undertaken to lower the fuel cost at Eraring Power Station. This process sought the supply of additional coal from both new and existing suppliers and involved negotiations with several parties.

A new Commercial Agreement between Eraring Energy and an existing supplier was signed in April 2004 varying existing Coal Supply Agreements and creating

an additional one. Coal price reductions across all these contracts will improve the competitiveness of Eraring Power Station.

Risk Management

Risk management principles govern the Energy Trading activities at Eraring Energy. There continues to be a rigorous energy trading risk management framework in place, incorporating the Energy Trading Risk Management Committee that has the oversight of all key Energy Trading risk issues. In addition, the Board approved Energy Trading Risk Management Policy was reviewed during the year. There was a continual review of key procedures and updates to work instructions as required. External audit reviews of various elements of risk management continue to give a very high rating in this area.

Market Review and Developments

A significant number of developments and market reforms have taken place this year. The Ministerial Council on Energy, (MCE) comprising all National

Electricity Market (NEM) State and Territory Ministers as members, and non-NEM State and Territory Ministers as observers, was set up as a single energy market governance body having the key policy making role.

Significant MCE initiatives include:

- The establishment of the Australian Energy Market Commission (AEMC) as the body responsible for rule making and development of the Australian energy market
- The establishment of the Australian Energy Regulator (AER) as the body responsible for the regulation and enforcement of the National Electricity Law and Code. The AER will also replace NECA, which will be abolished; while the ACCC will retain the responsibility for competition regulation under the Trade Practices Act.

The MCE has set in place six major work streams to progress reforms in various aspects of the electricity market:

- Governance and Institutions (work includes Inter-Governmental Agreement formalising the MCE reform program, establishment of the regulatory bodies referred to above)
- Economic Regulation (developing evaluation criteria for assessing a national energy access framework)
- Electricity Transmission (development of Annual National Transmission Statement, boundary review)
- User Participation (user participation covering demand side response, interval metering and retail pricing)
- Gas Market Development (review of gas access regime, gas market development)
- Greenhouse Gas (unified approach to addressing greenhouse gas issues)

Regulation and Compliance

Eraring Energy has a culture of regulatory compliance at all levels. To support this there was refresher training on Commonwealth Trade Practices and Corporations laws,

and legal reviews of certain work practices. In addition, all regulatory reporting requirements were met in a timely manner.

The two year transition period for compliance with the new Financial Services Reform Act 2001 ended on 11th March 2004. Eraring Energy lodged its application for an Australian Financial Services Licence (AFSL) in December 2003. However, following application by the NSW Treasury on behalf of all the State-Owned Energy Corporations, the Australian Security and Investments Commission (ASIC) granted an exemption from the need to hold an AFSL to the Energy Corporations for a period of one year (to 11th March 2005).

Training and Development

In addition to compliance training, the Energy Trading Group had significant participation in industry conferences not only as attendees but also as presenters. Attendance at a number of Energy Industry Conferences, AFMA workshops, and completion of AFMA's Diploma in Financial Services by the majority of Energy

Trading staff reflects the importance given by Eraring Energy to ensuring that staff remain up to date with industry developments and practices.

Market Trading Systems

During the year there was continual refinement of IT systems and software to ensure Energy Trading activities were fully supported. New software included a market analysis tool and option pricing software.

NANCY CARROLL GREGORY CARRUTHERS JOE CENERE ANTHONY CHAMBERS COLIN CHARLES CHRISTOPHER CHASTON PHILLIP CHITTICK
KEITH CLARK SELWYN CLEVERLEY PHILIP CLEWS KATHRYN COATES PATRICK COLE MARK COLEMAN ANTHONY COLGAN ROBERT COLLARD
BARRY COLLINS IAN CONLON MICHAEL COOPER MARK CORKETT ANTONY COTIC GEOFFREY COULTER CHRISTOPHER COX GARRY CRAIG
BRUCE CROSS DONNA CROSSAN GLENN CURRINGTON JAMES DAVIES ROBERT DAVIES SCOTT DAVIS COLIN DAVY STEPHEN DAVY
IAN DAWSON PETER DEDDEN MATHEW DENNIS NEVILLE DODDS MICHAEL DOHERTY STEPHEN DONOGHUE ROSS DUMBRELL
LINDSAY DUMBRILL JOE DUNDAS STUART DURIE SHAUN EDWARDS MARK EDWARDS DONALD EDWARDS DAVID ELLIS ROBERT EMERY



A range of significant improvements to Eraring Power Station were commenced or completed during the year. At the same time the station achieved an above target availability.

MARK ETHERTON GARY FAINT RAYMOND FAINT ROBERT FARLEIGH ROBERT FEIGHAN MICHAEL FENECH BARRY FERNANCE
ROBERT FERNANDEZ SHANE FIELD HENRY FILIP PHILLIP FISHER ALAN FITZGERALD MICHAEL FORRESTER ROBERT FOWELL GARY FOX
DARREN FRENCH WARREN FREW FRANCES FROST YVONNE FULLER GRANT GAMAGE STEPHEN GAMBRILL COLIN GAVENLOCK KEVIN GAVENLOCK
ROGER GETHINGS GERARD GIBBON TIMOTHY GILES ALAN GILLESPIE GIANNI GIUSTI ANDREW GIUSTI GRAZIA GOUGH
STEVEN GRAHAM BELINDA GRAY GERALD GROVE-WHITE GLENN GUILFOYLE PETER HAHN NICOLE HAIGH TONY HAIN
STEVEN HALL KEVIN HAMILTON KEVIN HAMILTON THOMAS HAMILTON EMILY HARPER GRAHAM HARROD MICHAEL HART PETER HARVEY

demand
production

emissions

environment
GWh
buy

offer
people

demand

safety

GWh

energy

sell

Eraring Energy manages a diverse set of generating assets that are located throughout NSW. The capacity of these facilities ranges from the 2,640 MW coal fired Eraring Power Station on Lake Macquarie, down to the 4 MW Brown Mountain Hydro Power Station near Bega. Their combined generating capacity is 3,041 MW.

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

Eraring Energy generated 14,764 GWh of electrical energy for the year ending 30th June 2004. Renewable energy sources accounted for 1.2% of this generation.

Eraring Power Station

The financial year 2003/04 saw the beginning of Eraring Energy's control system upgrade at Eraring Power Station. The original analogue control system on Unit 1 was replaced with the latest generation Centum CS 3000

Integrated Control and Monitoring System (ICMS). The original control system was 22 years old. Spare parts have become difficult to acquire and component failure rates have been increasing. It is expected that the ICMS will also provide improvements in market response, thermal efficiency, availability and reliability. Unit 1's ICMS was successfully installed ahead of program and established a new benchmark for ICMSs in NSW.

During the Unit 1 control system outage the last row (LO) and third last row (L-2) of blades of the LP steam turbine were replaced. The replacement of these blades was identified as critical to continuing unit reliability. The new blades, combined with the associated turbine overhaul, have provided a noticeable thermal efficiency improvement. A significant number of condenser tubes were also replaced during the outage, leading to increased unit efficiency and increased load flexibility.

Despite five boiler tube failures Eraring Power Station recorded an availability factor of 89.6% compared to a target of 87.7%. This above target availability was



helped by an Equivalent Forced Outage Factor (EFOF) of only 1.2% compared to a target of 2.8%.

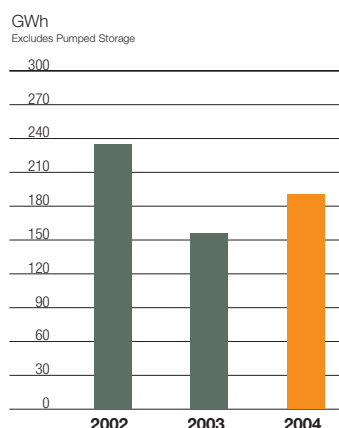
Five unit trips were recorded during the year, a significant improvement over the previous two years of nine occurrences in each period.

Generated thermal efficiency was above target at 38.2% due to continued high output factors.

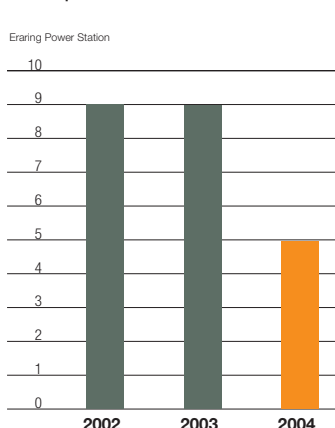
Capability testing for increased overload capacity from 680 MW to 700 MW continued in 2003/04.

The increase has been approved for Unit 3 and it is expected to be applied to Units 2 and 4 in the coming financial year.

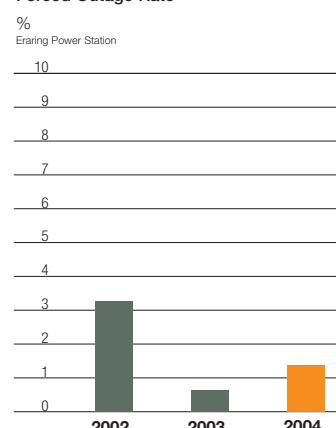
Green Production



Unit Trips



Forced Outage Rate



Eraring Power Station	
Capacity Factor	65.6%
Output Factor	69.5%
Availability Factor	89.6%
Thermal Efficiency Generated	38.2%
Forced Outage Rate	1.3%
Coal Consumed	5,954 kT

Eraring Power Station remains committed to implementing plant improvement projects that will increase thermal efficiency and reduce the station's environmental impact.

Hydro and Wind Power Stations

The continuing drought in NSW resulted in lower than normal generation from most hydro power stations. The start reliability of Shoalhaven continued to be world class with only one failure to start in the year. The Shoalhaven Scheme was used extensively to provide supplementary water to the Sydney water supply.

Station	Units	Capacity	Energy Source
Eraring	4 x 660 MW	2,640 MW	Black coal
Keepit	1 x 6 MW	6 MW	Water catchment
Warragamba	1 x 50 MW	50 MW	Water catchment
Bendeela	2 x 40 MW	80 MW	Pumped storage
Kangaroo Valley	2 x 80 MW	160 MW	Pumped storage
Burrinjuck	2 x 6 MW + 1x16 MW	28 MW	Water catchment
Brown Mountain	5 units	4 MW	Water catchment
Hume	2 x 29 MW	58 MW	Water catchment
Crookwell	8 x 600 kW	5 MW	Wind
Blayney	15 x 660 kW	10 MW	Wind
Total	43 units	3,041 MW	

Kangaroo Valley Unit 3 underwent a major outage with the refurbishment of both the pump discharge and turbine main inlet valves. To reduce the effect on the availability of the Shoalhaven scheme, a blanking plate was manufactured to enable the operation of Unit 4 during the outage.

Tenders for the refurbishment of Brown Mountain Hydro Power Station were in the process of being evaluated at the end of the year. The plan is to replace four of the five existing units (total capacity of 3.5 MW) with a single 4.2 MW unit.

Generation from the Blayney and Crookwell wind farms was marginally less than the previous year. The Blayney wind farm achieved an availability of 96.3% for the year.

Occupational Health and Safety

The health and safety of employees and contractors remains the organisation's highest priority.

Building on the achievements of the previous year Eraring Energy has focused on improving the OHS Management System, the level of involvement in, and ownership of, OHS activities and contractor performance.

The OHS Management System

The Eraring Power Station Safety Manual was rewritten to reflect changes in the way Eraring now manages OHS. The OHS Management System procedures were modified and updated and guidelines for the management of key safety activities developed or refined.

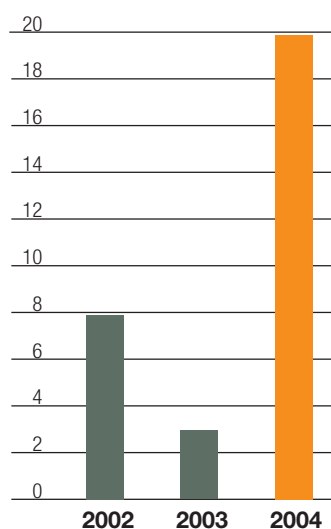
An emergency exercise involving the Police, Fire Brigade and Ambulance Services was conducted in November 2003 and the Emergency Services Plan was amended as a result of recommendations from the exercise.

The Hydro and Wind Operations group have developed a new risk management based OHS Manual, which reflects the special needs of this group and their widely different work environments.

During the year there was a focus on improving the quality of the risk assessments and on extending the process to lower risk areas. A Plant Isolation Review Committee was established to determine if Production's current isolation procedures are "best practice" or if there are areas that can be improved. Committee members will visit a number of companies in the coming months to examine their plant isolation systems.

The audit of a number of the elements of the Eraring OHS Management System and audits of the entire system at a number of hydro locations were carried out during the year. The auditor also examined Eraring Energy's compliance with the requirements of the OHS Act and Regulation and commended the improvement in a number of areas including improvement in safety culture.

Average Time Lost Per Injury
Days lost per incident (includes contractors)



NOTE 2004 graph exceptionally high due to one contractor having extensive period of workers compensation.

Employee Involvement

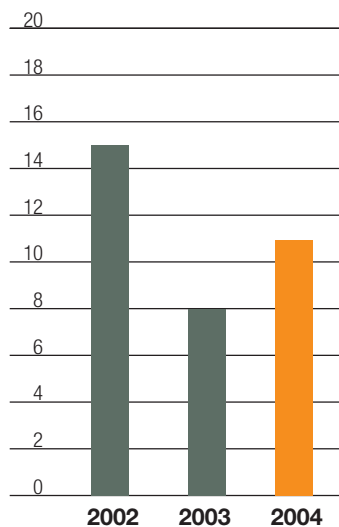
Work in this area focused on improving consultation with employees about OHS issues and the involvement of employees and contractors in safety activities.

A Safety Committee Development program was conducted and committee members were asked to identify areas for improvement at Eraring Power Station. Safety Committee sub committees have been established to focus on these improvement opportunities.

Within the Hydro and Wind Operations Group it was decided

Lost Time Injury Frequency Rate

Injuries per million hours worked (includes contractors)



that a Group OHS Committee with representatives from all locations would replace committees that operated at Shoalhaven and Hume. This new approach means that OHS Committee Meetings are now held periodically at all Hydro and Wind sites.

The behaviour based safety program “B-Safe” continues to operate with more observers being trained throughout the year. The program has identified a number of plant and system improvements as well as “at risk” behaviours.

There was also an increased focus on Management and Team Leader development within the year, with Personal Development, Front Line Management, Leaders and Mentors programs all focusing on leadership skills in the area of OHS.

Contractor Performance

Contractors carry out a significant amount of the maintenance work at Eraring.

Contractor OHS performance is now measured as one of Eraring Energy's OHS performance indicators. Contractor lost time injuries are included in Eraring Energy's Lost Time Injury Frequency Rate Calculations.

Contractor OHS Management Systems and OHS performance are now key factors in the selection process of new contracts.

Contractor representatives from seven of the main contracting firms now participate on the Eraring Power Station OHS Committee and in “B-Safe”.

Contractors were required to provide OHS Management Plans for significant projects or where significant hazards are associated with work being carried out. They were also required to provide Safe Work Method Statements (risk assessments for every task they undertook).

During the major plant outage on Unit 1 a Safety Consultant was employed to provide continuous monitoring of the contractors and to confirm that they were working within the OHS Management System they provided. This role complimented the monitoring carried out by Eraring Energy's own staff.

OHS Performance

There were 11 lost time injuries reported during the year. There were five lost time injuries involving Eraring Energy employees and six involving contractor employees. The Lost Time Injury Frequency Rate for the year for employees and contractors was 11.

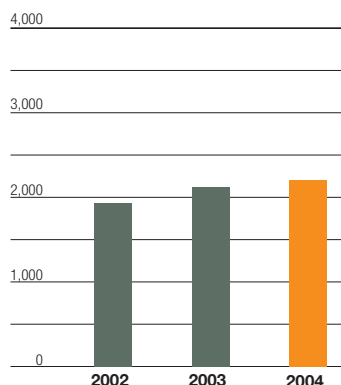
TREVOR BARKER ROBERT BERRY MARK CIRASA STUART DAY STEVE DEONCK PETER DINSDALE TRACEY DOOLAN SIMON DOWNS
KEITH EASTCOTT GARY FLATT BRETT GLUYAS PETER HARRISON KEVIN HAY PETER HEAD STEVE HEIL GEOFF HOWELLS
TERRY HOY RICK KENYON DAVID KING NEIL KNIGHT HON LYE JOHN MCDONALD BRIAN MCKENRY WARREN MITCHELL
GLENN MURRAY CLEMENT NG KRYSZYNA NOWAK NEEMA PREMJI PETER SCHMIDT TODD SHEPHERDSON DANIEL SNELGAR
JASON STANLEY MICHEAL STONE BRIAN TODD PAUL TRICHET CASSIE UREN KIM VANKEY ROBERT WALKER EMMA WASYLKEWYCZ

reliability GWh *safety*
Pacific Western *demand*
environment *efficiency*

Pacific Western met every challenge before it during the
period and added to an already outstanding safety record

Production

GWh Gen

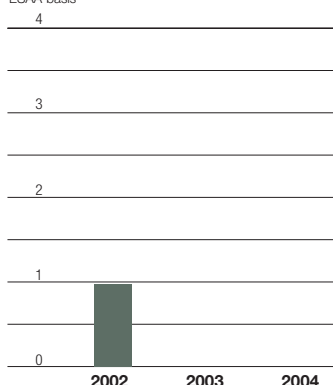


Pacific Western Pty Limited is a wholly owned subsidiary of Eraring Energy. The company operates and maintains, under contract to Western Power Corporation, the Collie Power Station in Western Australia.

Pacific Western had another successful year reporting a profit after tax of \$544,905 on total revenue of \$16,031,425.

For the second year in succession the Collie site had no lost time injuries. Pacific Western has now achieved six years LTI free.

The station achieved 100% availability during the peak summer period of November – March.

SafetyLost time injury frequency rate
ESAA basis

However, the overall availability of the unit was 93.23%, 0.97% below the target of 94.2%. This shortfall was due to a maintenance outage carried out before the summer to ensure reliability during the peak period.

A forced outage factor of 0.97% was a pleasing result for the year, indicating that many of the design faults and errors witnessed in previous years have been resolved.

The dispatched output of 2,226 GWhr for the year was 2.32% above target. Average load for the year was 272 MW, very similar to last year's result of 270 MW.

Pacific Western successfully undertook triennial audits in June to maintain its accreditations to ISO AS/NZS 14001 and 9002, and the safety management standard AS 4801.

Pacific Western's contract with Western Power Corporation is due to expire in May 2005. However, Western Power and Pacific Western failed to reach agreement on an extension to the contract resulting in Pacific Western issuing a termination notice to Western Power, effectively bringing the termination of the contract forward to 26th March 2005.

NEIL HARVEY LESLIE HAYWARD TONY HEARNE IAN HEATH KEN HENDERSON BRENT HENDERSON PETER HENNESSY MARK HEYMANS
PETER HOBSON GREGORY HOCKINGS JEFFREY HOGAN DAVID HOLLIS CHRISTOPHER HOLMES BEVERLEY HOSKINSON-GREEN PETER HOUSTON
PETER HOWELLS TERESA HUDSON NOEL HURRELL MICHAEL HUTCHINSON MICHAEL HUTHNANCE WILLIAM HUYNH PAUL HYDE JULIE HYDE
TRACIE IRVINE ADAM JACKSON PETER JACKSON GARY JOHNSON GREGORY JOHNSTONE ROBERT JONES STEPHEN JONES DAVID JONES
PAUL JUDD YUNG KAO ANNETTE KEEGAN PHILLIP KEEVERS BARRY KELLY PAUL KELLY JOHN KENNEDY IAIN KENNEDY PAUL KIDCAFF
YATISH KUMAR JOHN LA GRECA PETER LAIDLAW BERNARD LANDI RUDOLF LANDSIEDEL GEORGE LANE BRETT LARKIN STEVEN LAWLESS



JEFFREY LAWSON NEVILLE LEE YEW LEOW SIMON LIPERT ANDREW LISTER TROY LOCKE PETER LYONS KATHLEEN MACDONALD JEREMY MADSEN
RODNEY MAHOOD JOHN MAITLAND GREGORY MALLABY CAREL MARECHAL ROBERT MARTIN KENNETH MASSEY PAUL MASSON PAUL MATTHEWS
WILLIAM MCARTHUR KEITH MCBURNEY MARK MCDONALD RODNEY MCGILL GARY MCINTOSH KENNETH MCLEAN DANIEL MCNALLY STEWART MCPHERSON
JANE MCWILLIAM FRANK MIESZALA WILLIAM MILLER JARRED MILLER DANIEL MILLER RAYMOND MILLIGAN SHAE MILLIGAN FRANK MITCHELL
LEVI MITCHELL PHILIP MORIARTY STEVEN MORRIS KENNETH MORRIS NEIL MORRIS MICHAEL MORTISS RODNEY MOULDER ROY MURPHY
ANTHONY MURPHY BRETT MURPHY TERRY MURRAY IAN NEWTON GRANT NICHOLLS IAN NICOL DENNIS NIGHTINGALE ANDREW NORTH CHEYNE NOWLAND



Developing, rewarding and recognising our people is
fundamental to Eraring Energy's ongoing success.

Eraring Energy's vision of achieving industry leadership through growth and development of its people continues to drive the organisation's people strategies, activities and initiatives. Highlights of our progress are reported through three main areas:

Shaping our Culture

Eraring Energy is pursuing a culture that values fairness, honesty, integrity, safety, diversity, equity and working together.

During the past year Eraring Energy conducted a Culture Survey, the second since its inception. A high response rate of 71% was achieved with findings indicating positive changes since the previous survey. The results were further supplemented with qualitative information provided during feedback sessions held with all staff. Common themes have been consolidated into an action plan of 10 items relating to individual and team development, communication and consultation, reward and recognition, succession planning and across business information sharing and learning.

Developing Our People

The development of Eraring Energy's people has been further articulated through the development of a custom designed innovative education program aligned to the Eraring Energy Competencies. It is dedicated specifically to growing and developing the leadership capability of our people.

The program was successfully piloted during May and June 2004. It is intended that modules of the "Leaders" program will be available to all staff as it is recognised that leadership can be encouraged and practiced at all levels of the organisation.

As the program evolves it will be supplemented with our existing mentor and coaching program – Achievement Through People, Front Line Management and whole of team development activities.

Health, Safety and Technical development activities continue to be provided to ensure people maintain and update skills. For example, an extended series of special training programs and workshops have been conducted during the period in relation to the

introduction and implementation of the Production Business Unit's Integrated Control and Monitoring System (ICMS).

Rewarding and Recognising Our People

Over the next ten years many of our older employees will be retiring. Succession and transition planning and how we will reward, recognise and motivate existing and new employees has become an important part of planning for the future.

A review of Eraring Energy's reward and recognition mechanisms has been conducted during the period. The review has included consultation with a diverse cross section of staff and will provide a platform for changes in the way Eraring Energy will value and recognise the contributions and performance of employees.

The Eraring Energy Employee's Consent Award 2002 was replaced in February 2004. The new award will be effective until 28th February 2006.

At the close of the reporting period staff numbers were 363, compared with 364 at the close of 2002/03.

Community

Eraring Energy focuses its community support towards programs and events in the various regional areas associated with our business operations. It is also pleasing to acknowledge that a range of sponsorship support is based on the contribution and efforts of our people.

In addition, meetings of the Eraring Energy Community Forum, based at Eraring Power Station, were held on a three monthly basis. A strong and active representation of community groups and of government at local and state level have exchanged information and engaged in discussion with Eraring Energy on a wide range of environmental issues associated with the Power Station. The meetings have provided an opportunity for tours of key areas of the plant operation together with special presentations on issues of significance to the Forum.

Sponsorship grants were provided to a number of the community groups represented at the Forum, which have assisted in their specific operations. Eraring Energy was also a key sponsor of the Lake Macquarie Environmental Grants 2004.

Community events supported by Eraring Energy included the Southlake Business Excellence Awards 2003, the Christmas Party for Special Children held in Albury, NSW, the Lake Macquarie City Council Australia Day Celebrations 2004, Crookwell Country Weekend Festival 2004, Morisset Community Festival Day 2004 and the Dobell Festival of Art 2004.

A Safety Performance Reward Program was established during the year. It involves Eraring Energy committing to donations to charities as determined by staff, based on the achievement of various safety performance targets. In 2003/04, a total of \$15,000 was achieved, for even distribution between the Westpac Rescue Helicopter Service and CanTeen.

In recognition of the commitment of staff to support various charitable organisations via payroll deductions, Eraring Energy also provided an additional amount of \$5,000, which was distributed to five charities nominated by staff.

Staff of Eraring Energy also gave generously to the Barnardos Star of Wonder Christmas Gift Appeal 2003.

In conjunction with the University of Newcastle, Eraring Energy is proud to be a corporate sponsor of the University of Newcastle Industry Scholarship Scheme (UNISS). Currently, three engineering students are sponsored through this UNISS program.

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

Schools in the vicinity of Eraring Power Station have benefited from the donation of surplus redundant personal computers, which have been acknowledged as being of considerable assistance in improving the learning resources available to the respective schools.

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

MICHAEL NUGENT	PETER OAKES	IAN O'BRIEN	MICHAEL O'CONNOR	ROBERT OGDEN	GEOFFREY O'NEALL	COLIN O'REILLY	MICHAEL PALMER	BARRY PAREKH
KEVIN PARKER	DOUGLAS PAYNE	AUSTIN PEARSALL	WARREN PENFOLD	DANIEL PERICART	BRUCE PERRIN	RUSSELL PETCH	TERRENCE PHILLIPS	
PETER PICKEN	GEOFFREY PONT	BRETT PORTER	MICHAEL POWELL	LORRAINE PRESCOTT	FRANCIS PRESTON	KARYN PRICE	ANTHONY PRIEST	
DEAN PRITCHARD	PAUL PROSSER	DENNIS PRYDE	GLENN PURCELL	ANTHONY PURCIVAL	ARTHUR RADFORD	PETER RAKE		
CHRISTOPHER RALPH	GLENN RAMSAY	NEIL RANDALL	STEPHEN READETT	JOHN REEVES	JOHN REGO	ALAN REYNOLDS	ROCHELLE REYNOLDS	
KERRY RICHARDS	IAN RICHARDSON	EDWARD RIDING	GARRY RILEY	SHANNON RILEY	ELISE RING	MANFRED ROBL		



Industry leadership in environmental performance continues to be a key objective. Towards this end all Eraring Energy generating assets are on track to be ISO 14001 accredited by 2005

COLIN RODD RAYMOND ROLPH HELEN ROOKE CHELSEA ROSE LESLIE ROWLANDSON PHILIP RUSSELL DAVID RUSSELL TREVOR RUSSELL IAN RUST
BRIAN SAGER NICK SAVONOV MICHAEL SCHOFIELD WARWICK SCHOLES LUKE SEARL ROBERT SEMMENS ROBERT SEMMENS FREDERICK SEYSNER
PRIYANK SHAH BRYAN SHARMAN STEPHEN SHAWCROSS FREDERICK SHELLEY CRAIG SHERIDAN MARK SHERRY NEIL SIMPSON PAUL SINCLAIR
DARREN SINCLAIR PETER SKERRY LESLIE SKINNER NEIL SMITH COLIN SMITH ROBERT SMITH GRANT SMITH STUART SMITH RAYMOND SMITH
SHANE SMITH JOANNE SMITH BRIAN STAPLES NEIL STEPHENS SIMON STEVENS BENJAMIN STEVENS RAYMOND STEVENSON FRANCIS STOBBS
JOSEPHINE STORER TERENCE STRACHAN RICHARD STUART ADAM STYMAN GARRY SULLIVAN BRIAN SUTTON GEOFFREY SUTTON



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

Industry leadership in Environmental Performance is a key objective and target of the organisation and is based upon an ongoing improvement process with our integration of certification of our Environmental Management System with ISO 14001 and our Business Planning cycle.

Eraring Energy recognises that there are legislative requirements under which an organisation operates but an equally important endorsement is that from communities surrounding our power station sites.

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

ISO 14001 Accreditation

Eraring Power Station achieved ISO 14001 accreditation for its Environmental Management System (EMS) in October 2003.

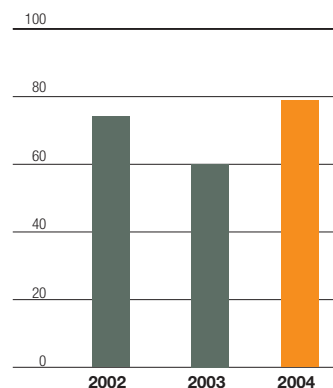
All generating assets are targeted for accreditation to ISO 14001 by December 2004.

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

- On-going development and implementation of the Environment Management System Database that identifies, assesses and controls environment risks of the organisation by establishment of management plans to address identified significant risks.
- Delivery of specialised training modules to over 80% of Eraring Energy employees to date and contractors with follow up refresher training and further specialised modules being planned in the future.
- Implementation of a defined internal and external audit schedule of environmental systems and legislative requirements.
- Strengthening our relationship with our stakeholders by routine meetings with the Community and the Regulators (most notably the Department of Environment and Conservation).

Effluent Recycling

% of Fresh Water Replaced



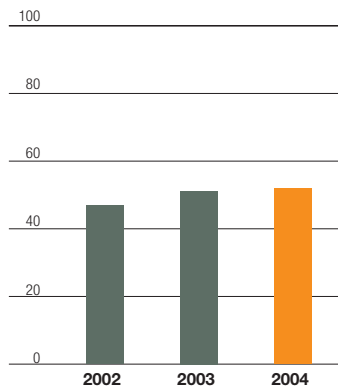
- Clearly defined regime of senior management and Board review of the organisation's environment performance and emerging issues.
- Release of an inaugural Community and Environment publication for 2003 to all site employees, contractors and stakeholders.

Significant Environmental Issues and Achievements

- The Load Based Licensing (LBL) and National Pollutant Inventory (NPI) returns to Department of Environment and Construction (DEC) were completed for the calendar year 2003.
- An oil on water boom deployment exercise was carried out at Bendeela Power Station (Lake Yarrunga) in 2004.
- The Turtle Embayment area in the inlet canal at Eraring Power Station was completed in early 2004. The area was constructed utilising expert external advice and community consultation and is used for the safe handling and relocation of marine turtles.
- Eraring Energy planted another 4,500 trees during the year.
- The capping of Area C (approximately 30 hectares) and drainage segregation works of Eraring Ash Dam is nearing

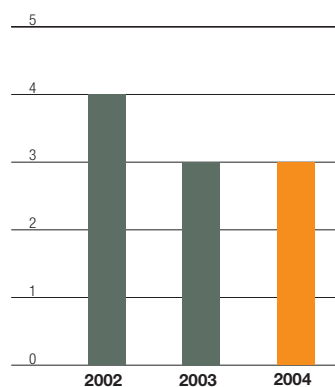
Ash Recycling

% of Production



Environment

Reportable Environmental Incidents



completion. Capping and revegetation of the area will be completed by end of calendar year 2004.

- Eraring Energy has committed to the Generator Efficiency Standards program and has developed a strategic plan, approved by the Australian Greenhouse Office (AGO) for reducing greenhouse gas emissions.
- Eraring Energy has produced 129,086 NSW Greenhouse Abatement Certificates (NGACs) in accordance with NSW Greenhouse Gas Reduction Scheme.
- Eraring Power Station Environment Protection Authority (EPA) operating licence 1429 was reviewed and updated in late 2003.
The Licence reflects our commitment to tighter environment compliance and leadership in environmental performance.
- The Wind Hydro group developed a Blue Green Algae protocol in conjunction with the Sydney Catchment Authority to manage the shared responsibilities and risks of Blue Green Algae contamination of the Shoalhaven System.

- A successful application to the EPA was made to remove redundant emission discharge points from the Warragamba site operating licence. The site last generated electricity and operated in 1997.

Waste Management

Eraring Energy Waste Management and Purchasing Plan (WRAPP) received an award in the Waste Management and Minimisation category of the Newcastle City Council Environment Achievement Awards in 2003. Additionally the WRAPP received a letter of commendation from DEC for the successful management of waste issues and the achievements of set targets.

Approximately 52% of the ash produced in 2003/04 was recycled, amounting to over 750,000 tonnes.

Effluent water recycling was 76% of fresh water replaced in 2003/04. This figure could have been higher with recent plant improvements but continuing drought conditions has meant that less effluent was available to Eraring and has reduced the quoted figure.

Land Management

A comprehensive and integrated Land Management Plant (LMP) has

been developed for Eraring Power Station.

The LMP focuses on a clearly defined plan with achievable and quantifiable actions for weed and feral animal management, bushfire control and the enhancement of site flora and fauna biodiversity.

Environmental Reportable Incidents And Complaints

There were eight complaints in 2003/04. The majority of these complaints dealt with littering at the outlet canal.

There were three externally reportable incidents in 2003/04.

Licence exceedences were recorded and reported to the EPA in 2003 at Hume Power Station. Two exceedences occurred during heavy rainstorm events and no environmental harm occurred. Run-off from landscape works adjacent to Eraring Energy's site contributed to these exceedences. To avoid a reoccurrence, Eraring Energy has undertaken drainage segregation works to divert natural rainwater run-off away from the containment system. A test of the containment system was undertaken to ensure that it operates correctly.

MICHAEL SYLVESTER MARK TAYLOR MARK THOMAS DAVID THOMPSON LAURENCE THOMPSON CHAD THOMPSON KENNETH THORNTON
TERRY TIMMS PETER TOBIN DAVID TOD ROCHELLE TODD MARTIN TONKS STEPHEN TRANTER KELLY TUIMAUALUGA BARRY TULK MICHAEL TURNBULL
JOHN VENTURA MICHAEL VERTIGAN RAYMOND WALKER ABBEY WALKER KENNETH WALTON ROBERT WATERMAN PAUL WATERS
JOHN WATSON DAVID WATTERS ALISTAIR WEBB GEORGE WELLS JOHN WETHERED WALLACE WETZLER MICHAEL WHEELAHAN STEPHEN WHEELER
NEIL WILLIAMS MATTHEW WILLIAMS JOHN WILLOTT BRUCE WILSON WARWICK WILTON WAYNE WINTERBINE GREGORY WONG
GRAHAM WOOD CHRISTOPHER WOOD DAVID WOODROOF JOHN WOODWARD IVOR WRIGHT MARK WYBURN REUBIN YOUNG



Established systems of governance set parameters for the way in which the organisation and its people conduct business

The management of significant business risk

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

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

Each Business Unit has a Risk Register and this is used to develop the business plan. The monitoring and reporting of actions to mitigate risks is also aligned with the monthly reporting.

The Risk Management process allows Eraring to provide the right focus on the key risk areas by dedicating Executive Committees to oversee the management of the risk. For example in the high risk areas such as Occupational Health and Safety and Environment Management, an Executive Committee has been established. The Board also has dedicated sub-Committees for Occupational Health and Safety and Environment.

The outcomes of the risk management process are also communicated to Eraring Energy's shareholders on an annual basis. Some of the key risks the organisation addressed during 2003/04 included: effective management of environment issues; minimisation of financial exposure in the energy market; optimising financial management; fuel management; minimising plant and asset failure; and effective Occupational Health and Safety management.

The Board

The Board is responsible for ensuring the long-term success of the corporation, the achievement of the shareholders' objectives of efficient operation, maximisation of

shareholder wealth, social responsibility, compliance with the principle of ecological sustainable development, support of regional development, and being a successful participant in the wholesale electricity market.

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

The role of the Board is to –

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

The Board actively pursues the highest standards of corporate governance and promotes sound

commercial practice ensuring Eraring's business activities are conducted not only within all applicable legislation but also in an ethical manner.

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

Board Membership

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

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

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

Remuneration of Directors

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

any additional remuneration for being an executive director.

Changes in Board Membership

The appointment of Director John Maitland expired on 30/6/2003. Director John Maitland was re-appointed on 22/3/2004 for a period of one year. The appointment of Directors Michael Nugent and Dean Pritchard expired on 30/6/2004 and they were re-appointed for a further three years.

Board Committees

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

Audit & Risk Management Committee

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

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

- Audit outcomes and actions; and
- Performance of auditors.

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

Environment Committee

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

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

Remuneration Committee

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

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

Human Resource and Safety Committee

This Committee meets quarterly to assist the Board on:

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

Burrinjuck Committee

This Special Purpose Committee was established to assist the Board in managing claims for extra costs from contracts involved in the construction of the new and refurbished hydro facilities at Burrinjuck.

Australian Financial Services Licence Committee

This Special Purpose Committee was established in September 2003 to assist the Board in reviewing documentation and advice from management in relation to the obtaining of an Australian Financial Services Licence.

Conflicts of Interest

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

Board if they have any personal interest in the matters. (Note 32 to the accounts details related parties' transactions.)

Meetings of the Board

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

A Attended E Eligible meetings

	A	E
Board		
Ross Bunyon	11	11
Beverley Hoskinson-Green	11	11
John Maitland	2	3
Michael Nugent	11	11
Dean Pritchard	10	11
Michael Vertigan	10	11
Gerry Grove-White	11	11

Audit and Risk Management

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

Environment

Beverley Hoskinson-Green	3	4
Ross Bunyon	4	4
John Maitland	1	1

Remuneration

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

Burrinjuck Project

Ross Bunyon	1	1
Beverley Hoskinson-Green	1	1
Dean Pritchard	1	1

Human Resource and Safety

Dean Pritchard	6	6
Ross Bunyon	6	6
John Maitland	0	1

Australian Financial Services Licence

Michael Nugent	4	4
Beverley Hoskinson-Green	4	4

Executive Management

Organisation Structure

Managing Director

Gerry Grove-White

General Manager Production	Peter Jackson
General Manager Trading	Stephan Boras
General Manager Finance	Philip Russell
General Manager Organisational Development	Grazia Gough
Secretary*	Steven Graham

*Rochelle Reynolds acting Secretary from April to June 2004.

Remuneration and Performance of Executive and Senior Officers

The number of executives and senior officers with remuneration packages (excluding incentive payments) equal to or exceeding \$100,000 at the end of this reporting period and comparison with the previous reporting year are disclosed over:

Executive and Senior Officers

	As at 30/6/03	As at 30/6/04
No. above \$100,000	29	28
No. of females above \$100,000	4	4
Total package remuneration for the period was:	\$4,903,166	\$5,016,378

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

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

Managing Director

Gerry Grove-White

B.Sc (Mech Engr) Hons, Chartered Engineer MI Mech.E, Cert. Diploma in Accountancy and Finance

Appointed: 2/1/01

Package Payments: \$329,633

Performance Payment: \$86,767 *

Performance Statement:

Assessed by the Board against business plan targets including financial performance, strategic advice and strategy implementation, stakeholder relationships, safety and environmental performance.

General Manager Trading

Stephan Boras

Degree in Business Administration (Hamburg), MAICD

Appointed: 6/11/00

Package Payments: \$225,098

Performance Payment: \$60,554*

Performance Statement:

Assessed by the Managing Director against business plan

targets including market strategy, trading performance, coal purchases and other performance targets.

Secretary

Steven Graham

DipTech (Comm), GAICD

Appointed: 11/9/00

Package Payments: \$210,795

Performance Payment: \$49,321*

Performance Statement:

Assessed by the Managing Director against business plan targets including stakeholder relationships, governance, corporate services and other performance targets.

General Manager Production

Peter Jackson

B.Sc, B.E., M.E.M., GAICD

Appointed: 18/5/02

Package Payments: \$220,535

Performance Payment: \$56,438 *

Performance Statement:

Assessed by the Managing Director against business plan targets including plant performance, financial management, safety, environment and other performance targets.

General Manager Finance

Philip Russell

Comm Acct Cert, Dip Chartered Sec, FCPA, FCIS, GAICD, MFTA, AFAIPMM

Appointed: 18/6/02

Package Payments: \$186,317

Performance Payment: \$47,669 *

Performance Statement:

Assessed by the Managing Director against business plan targets including financial management and projects,

stakeholder relationships and other performance targets.

General Manager

Organisational Development

Grazia Gough

Graduate Diploma in Business (HRM), MBA

Appointed: 11/11/02

Package Payments: \$156,071

Performance Payment: \$22,400*

Performance Statement:

Assessed by the Managing Director against business plan targets including succession planning, leadership development programs and enhanced communications.

Manager Energy Derivatives

Stephen Davy

B.Sc (1st Class Hons)

Appointed: 14/12/00

Package Payments: \$186,686

Performance Payment: \$29,120*

Performance Statement:

Assessed by the General Manager Trading against performance agreement targets including contract trading strategy implementation.

*Amount shown relates to performance payments for 2002/03 made in 2003/04. Determinations under this policy for 2003/04 will be concluded in 2004/05 and reported in the 2004/05 annual report.

Executive Committee

Meets monthly to monitor corporate performance, review audit reports, agree and monitor the implementation of actions arising from those reports, develop and review implementations of business strategy, and promote the development of business

improvement initiatives. Key strategies in areas such as information technology are also addressed within this Committee.

Members

Managing Director

Gerry Grove-White

General Manager Trading

Stephan Boras

Secretary*

Steven Graham

General Manager Production

Peter Jackson

General Manager Finance

Philip Russell

General Manager

Organisational Development

Grazia Gough

***Acting Secretary**

Rochelle Reynolds April-June 2004

Environment Committee

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

Members

Managing Director

Gerry Grove-White

General Manager Production

Peter Jackson

Secretary*

Steven Graham

Wind, Hydro & Environment Manager

Frank Mieszala

***Acting Secretary**

Rochelle Reynolds April-June 2004

Executive Safety Committee

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

Members

Managing Director

Gerry Grove-White

General Manager Production

Peter Jackson

General Manager

Organisational Development

Grazia Gough

Asset Manager

Wayne Winterbine

Production Manager

Shaun Edwards

Wind, Hydro &

Environment Manager

Frank Mieszala

Special Projects Manager

Peter Harvey

Projects Manager

George Wells

Commercial Manager

David Woodroof

Organisational Development Consultant

Jane McWilliam

Occupational Health and Safety Manager

Steve Gambrell

Chairperson Eraring Occupational Health & Safety Committee

Leigh Brydson

Shift Manager on Duty.

PACIFIC WESTERN

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

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

The Board

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

Board Membership

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

Ross Bunyon, Chairman

John Maitland, Director

Michael Vertigan, Director

Gerry Grove-White, Director

Brian Todd, Secretary

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

Remuneration of Directors

No remuneration is currently paid to Directors by Pacific Western.

Changes in Board Membership

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

Meetings of the Board

A Attended E Eligible meetings

	A	E
Board		
Ross Bunyon	5	5
John Maitland	4	5
Michael Vertigan	5	5
Gerry Grove-White	4	5

Executive Management

Organisation Structure

Executive Management

General Manager

Bob Morgan

Production Manager

Brian McKenry

Commercial Manager/

Secretary

Brian Todd

Remuneration and Performance of Executive and Senior Officers

The number of executives and senior officers with remuneration packages (excluding incentive payments) equal to or exceeding \$100,000 at the end of this reporting period and comparison with the previous reporting year are disclosed following:

	As at 30/6/03	As at 30/6/04
No. of executive officers above \$100,000	3	3
No. of female executive officers above \$100,000	-	-
Total package remuneration for the period was:	\$464,337	\$491,138

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

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

General Manager

Bob Morgan

BEng (Mech Eng) Hons UNSW. MEng Sci UNSW

Appointed: 9/2/98

Package Payments: \$196,903

Performance Payment: \$14,093*

Performance Statement:

Assessed by the Board against business plan targets including financial, contract, safety, environmental performance and stakeholder relationships.

Production Manager

Brian McKenry

BBus (Production & Operations Mgt and HR Mgt) USQ

Appointed: 6/4/98

Package Payments: \$154,969

Performance Payment: \$10,892*

Performance Statement:

Assessed by the General Manager against the business plan objectives and targets including contract, financial, safety, environmental and quality performance. Preparation of the station's plans and procedures, including the establishment of the intranet based information systems package.

Commercial Manager/Secretary

Brian Todd

CPA

Date Appointed: 20/4/98

Package Payments: \$139,266

Performance Payment: \$9,808*

Performance Statement:

Assessed by the General Manager against business plan objectives and targets covering information technology, purchasing and warehousing, financial accounting, safety and environmental targets relative to his area of responsibility.

*Amount shown relates to performance payments for 2002/03 made in 2003/04. Determinations under this policy for 2003/04 will be concluded in 2004/05 and reported in the 2004/05 annual report.



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36 Eraring Energy Statement of Financial Performance

For the year ended 30th June, 2004

Beginning of the Financial Statements audited by the Auditor-General

	Note	Consolidated		Parent Entity	
		2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Revenues from ordinary activities	2	571,501	533,659	557,186	540,962
Insurance provision writeback	2	8,048	-	8,048	-
Total revenue		579,549	553,659	565,234	540,962
Raw materials and consumables used		(315,565)	(331,679)	(314,080)	(329,925)
Employee benefits expense		(48,331)	(43,128)	(42,760)	(38,783)
Depreciation expense		(46,694)	(44,745)	(46,319)	(44,248)
Borrowing costs expense		(12,361)	(7,151)	(12,361)	(7,151)
Other expenses from ordinary activities		(58,497)	(68,774)	(51,000)	(63,372)
Profit from ordinary activities before income tax expense	3	98,101	58,182	98,714	57,483
Income tax expense relating to ordinary activities	4	(29,258)	(18,090)	(29,026)	(17,232)
Net profit		68,843	40,092	69,688	40,251
Non owner transaction changes in equity					
Increase in asset revaluation reserve arising on revaluation of non-current assets	22	156,564	55,131	156,564	55,131
Total revenue, expense and valuation adjustments recognised		156,564	55,131	156,564	55,131
Total changes in equity other than those resulting from transactions with owners as owners	22	225,407	95,223	226,252	95,382

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

		Consolidated		Parent Entity	
		2004	2003	2004	2003
	Note	\$'000	\$'000	\$'000	\$'000
Current Assets					
Cash assets	5	128	1,215	108	1,005
Receivables	6	52,509	92,494	53,358	92,664
Inventories	7	31,423	43,283	26,056	37,924
Current tax assets	8	2,119	2,533	1,886	2,533
Other	9	3,465	5,519	3,334	5,444
Total Current Assets		89,644	145,044	84,742	139,570
Non-Current Assets					
Property, plant and equipment	11	1,379,069	1,229,020	1,378,734	1,228,388
Deferred tax assets	12	14,117	12,645	13,548	12,347
Other	13	39,960	18,971	39,960	18,971
Total Non-Current Assets		1,433,146	1,260,636	1,432,242	1,259,706
Total Assets		1,522,790	1,405,680	1,516,984	1,399,276
Current Liabilities					
Payables	14	49,778	79,002	48,513	77,026
Interest bearing liabilities	15	33,800	41,991	33,800	41,991
Current tax liabilities	16	26,643	21,480	26,643	21,253
Provisions	17	67,206	45,699	64,852	43,713
Other	18	1,030	5,127	1,030	5,127
Total Current Liabilities		178,457	193,299	174,838	189,110
Non-Current Liabilities					
Interest bearing liabilities	19	128,201	48,693	128,201	48,693
Deferred tax liabilities	20	7,264	1,093	7,264	1,093
Provisions	21	82,964	65,035	82,946	64,989
Total Non-Current Liabilities		218,429	114,821	218,411	114,775
Total Liabilities		396,886	308,120	393,249	303,885
Net Assets		1,125,904	1,097,560	1,123,735	1,095,391
Equity					
Contributed equity	22	895,481	1,032,481	895,481	1,032,481
Reserves	22	211,695	55,131	211,695	55,131
Retained profits	22	18,728	9,948	16,559	7,779
Total Parent Entity Interest		1,125,904	1,097,560	1,123,735	1,095,391
Total Equity		1,125,904	1,097,560	1,123,735	1,095,391

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

38 Eraring Energy Statement of Cash Flows

For the year ended 30th June, 2004

	Note	Consolidated		Parent Entity	
		2004	2003	2004	2003
		\$'000	\$'000	\$'000	\$'000
		Inflows	Inflows	Inflows	Inflows
		(Outflows)	(Outflows)	(Outflows)	(Outflows)
Cash flows from operating activities					
Cash received in the course of operations		672,867	608,386	655,989	591,970
Interest and bill discount received		249	50	462	214
Cash paid in the course of operations		(484,605)	(470,266)	(468,642)	(457,058)
GST refunded		(20,856)	(32,007)	(20,856)	(32,007)
Interest and other finance costs paid		(8,977)	(9,166)	(9,016)	(9,182)
Dividend received		-	-	1,390	2,150
Income tax paid		(18,984)	(7,661)	(18,021)	(6,476)
Net cash provided by operating activities	27	139,694	89,336	141,306	89,611
Cash flows from investing activities					
Proceeds from sale of equipment		302	338	302	310
Proceeds from sale of investments		-	-	-	-
Payments for property, plant & equipment		(40,568)	(19,511)	(40,490)	(19,370)
Net cash used in investing activities		(40,266)	(19,173)	(40,188)	(19,060)
Cash flows from financing activities					
Proceeds from borrowings		687,946	602,696	683,946	598,926
Repayment of borrowings		(751,095)	(641,966)	(748,595)	(638,696)
Repayment (borrowing) of loans & advances by related parties		(1,538)	(516)	(1,538)	(516)
Dividend paid		(35,828)	(29,337)	(35,828)	(29,337)
Net cash used in financing activities		(100,515)	(69,123)	(102,015)	(69,623)
Net increase in cash held		(1,087)	1,040	(897)	928
Cash at beginning of the financial year		1,215	175	1,005	77
Cash at the end of the financial year	5	128	1,215	108	1,005

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

Note 1 Summary of Significant Accounting Policies

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

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

Despite current liabilities exceeding current assets at balance date, Eraring Energy is able to pay its debts as and when they fall due owing to Public Authorities Financial Arrangements Act approved facilities with NSW Treasury Corporation including a working capital facility that allows Eraring Energy to hold minimum cash and no investment balances.

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

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

Where a group of assets work together to generate net cash inflows, the recoverable amount test is applied to that group of assets as a whole. The recoverable amount test is undertaken annually. Eraring Energy has a number of cash generation units at different

sites, all of which are within the one asset class (Plant & Equipment – Power Stations).

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

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

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

- Buildings
 - Power Stations: Up to 50 Years
 - Other: Up to 40 Years
- Plant and Equipment
 - Power Stations: Up to 50 Years
 - Other: Up to 10 Years
- Leasehold Improvements: 10 Years

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

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

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

Pacific Western exercised the termination provisions of its existing contract with Western Power, with termination effective 26th March 2005. Following an expression of interest process for a new contract with Western Power, Pacific Western lodged a formal tender in September 2004. A decision is to be made on the successful tenderer by December 2004. Eraring Energy guarantees the performance of its subsidiary company.

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

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

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

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

(g) Interest Rate Contracts Gains and losses on forward interest rate contracts are deferred and amortised over the period of the underlying borrowing. Gains and losses on interest rate swaps are included in the determination of interest expense.

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

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

40 Eraring Energy Notes to & forming part of the Financial Statements

For the year ended 30th June, 2004

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

(i) Covered Calls and Option Premiums

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

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

(k) Liability Management Eraring Energy actively manages its liabilities against a benchmark in accordance with Board approved policies and the Treasury Management Guidelines issued by New South Wales Treasury. In accordance with the accounting policy adopted for the underlying debt instruments, all gains and losses incurred in the use of derivative instruments are recognised as interest income/ expense in the Statement of Financial Performance as incurred.

(l) Discount and Premium on Loans

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

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

Sale of Electricity Revenue from the sales of electricity is recognised based on metered

energy sent out from generation facilities adjusted for transmission line losses at the regional reference node.

Interest Revenue Interest revenue is recognised as it accrues.

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

Goods and Services Tax Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except: a) where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or (b) for receivables and payables which are recognised inclusive of GST.

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

(n) Segment Reporting Eraring Energy operates predominantly in one business segment, that being electricity generation, and within one geographical segment, that being Australia.

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

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

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

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

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

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

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

(t) Employee Entitlements Eraring Energy's present obligation in respect of employee entitlements, namely salaries, wages and annual leave, are recorded as liabilities, having been calculated at nominal amounts based on remuneration rates that are expected to be paid including related on-costs.

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

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

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

(w) Rounding of Amounts Amounts shown in these financial statements have been rounded to the nearest thousand dollars, unless otherwise stated.

(x) Comparatives The comparative information contained in these financial statements relating to the year ended 30th June 2003 has been adjusted. Insurance liabilities were shown on a net of recovery basis in 2003. In 2004, insurance liabilities and recoveries have been shown separately in the Statement of Financial Position. This basis of presentation has been used in amending the comparative figures for 2003.

(y) Impact of Adopting Australian Equivalents to International Financial Reporting Standards Eraring Energy will apply the Australian Equivalents to International

Financial Reporting Standards (AIFRS) from the reporting period beginning 1st July 2005.

Eraring Energy is managing the transition to the new standards by allocating internal resources and the engagement of a consultant to analyse the pending standards and Urgent Issues Group Abstracts to identify key areas regarding policies, procedures, systems and financial impacts affected by the transition. NSW Treasury is assisting NSW agencies in managing the transition.

A steering committee and a project team, both chaired by the Chief Financial Officer have been established including consultant representatives. Progressive reporting to the Board Audit Committee and the Board of Eraring Energy at six monthly intervals, together with presentations to the Shareholder have highlighted the major AIFRS implementation issues. Each Standard, considered to have relevance to Eraring Energy, has been reviewed and action plans are being developed to address implementation issues. Eraring Energy considers that AASB139 will have the greatest impact on its financial position. Progress to date has involved an analysis of each derivative type, designation and effectiveness issues, valuation methodologies and system requirements. Eraring Energy expects to be fully compliant by 1st January 2005.

Eraring Energy has identified a number of significant differences in accounting policies that will arise from adopting AIFRS. Some differences arise because AIFRS requirements are different from existing AASB requirements. Other differences could arise from options in AIFRS. To ensure consistency at the whole of government level, NSW Treasury has advised Eraring Energy of options it is likely to mandate, and will confirm these during 2004/05. This disclosure reflects these likely mandates.

Eraring Energy's accounting policies may also be affected by a proposed standard designed to harmonise accounting standards with Government Finance Statistics (GFS). This standard is likely to change the impact of AIFRS and significantly affect the presentation of the income statement. However, the impact is uncertain, because it depends on when this standard is finalised and whether it can be adopted in 2005/06.

Based on current information, the following key differences in Eraring Energy's accounting policies are expected to arise from adopting AIFRS:

AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards – requires retrospective application

of the new AIFRS from 1st July 2004, with limited exemptions. Similarly, AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors requires voluntary changes in accounting policy and correction of errors to be accounted for retrospectively by restating comparatives and adjusting the opening balance of accumulated funds. This differs from current Australian requirements, because such changes must be recognised in the current period through profit or loss, unless a new standard mandates otherwise.

AASB 110 Events after the balance sheet date – states that only dividends “declared” or appropriately “authorised” before the reporting date can be recognised. This is more restrictive than the current approach which is based on “valid expectations”. However, this change is not expected to impact on dividend recognition as the signing of the Statement of Corporate Intent before the reporting date, “authorises” the dividend and any change in the amount of the dividend after the reporting date constitutes an “adjusting event after the reporting date”. However, the amount of the dividend may be affected by other AIFRS, such as AASB 139 Financial Instrument Recognition and Measurement and AASB 119 Employee Benefits (refer below) as these standards may impact on retained earnings (on first adoption) and the amount and volatility of profit/loss.

AASB 112 Income Taxes – requires a balance sheet approach where the entity must identify differences between the accounting and tax value of assets and liabilities. The previous approach was to account for tax by adjusting accounting profit for temporary and permanent differences to derive taxable income. The AASB 112 approach may alter the quantum of tax assets and liabilities recognised. In addition, the income tax expense and deferred tax assets and liabilities may be affected by other AIFRS to the extent that they impact on the balance sheet and profit or loss.

AASB 116 Property, Plant and Equipment – requires the cost and fair value of property, plant and equipment to be increased to include restoration costs, where restoration provisions are recognised under AASB 137 Provisions, Contingent Liabilities and Contingent Assets where a legal or constructive obligation exists. Major inspection costs must be capitalised and this will require the fair value and depreciation of the related asset to be re-allocated. It is uncertain whether Eraring Energy will have a legal or constructive obligation under this Accounting Standard. Also, Eraring Energy must account for asset revalu-

ation increments and decrements on an individual asset basis, rather than on a class basis.

AASB 117 Leases – requires operating lease contingent rentals to be recognised as an expense on a straight-line basis over the lease term rather than expensing in the financial year incurred.

AASB 119 Employee Benefits – requires the defined benefit superannuation obligation to be discounted using the government bond rate as at each reporting date rather than the long-term expected rate of return on plan assets. This change will increase the amount of any underfunded superannuation liability.

AASB 123 Borrowing Costs – provides the option to expense or capitalise borrowing costs. NSW Treasury is expected to mandate expensing of borrowing costs to harmonise with GFS. Previously, borrowing costs relating to qualifying assets were capitalised.

AASB 136 Impairment of Assets – requires an entity to assess at each reporting date whether there is any indication that an asset (or cash generating unit) is impaired and if such indication exists, the entity must estimate the recoverable amount. However, the effect of this Standard should be minimal because all the substantive principles in AASB 136 are already incorporated in NSW Treasury's policy Valuation of Physical Non-Current Assets at Fair Value.

AASB 139 Financial Instrument Recognition and Measurement – results in the recognition of financial instruments that were previously off balance sheet, including derivatives. The standard adopts a mixed measurement model and requires financial instruments held for trading and available for sale to be measured at fair value and valuation changes to be recognised in profit or loss or equity, respectively. Previously they were recognised at cost. This may increase the volatility of the operating result and balance sheet. The standard also includes stricter rules for the adoption of hedge accounting, and where these are not satisfied, movements in fair value will impact the income statement. To achieve full harmonisation with GFS, entities would need to designate all financial instruments at fair value through profit or loss. However, at this stage it is unclear whether this option will be available under the standard and, if available, whether NSW Treasury will mandate this option for all agencies.

42 Eraring Energy Notes to & forming part of the Financial Statements

For the year ended 30th June, 2004

	Consolidated		Parent Entity	
	2004	2003	2004	2003
	\$'000	\$'000	\$'000	\$'000
Note 2. Revenue from Ordinary Activities				
Revenue from operating activities				
Electricity sales	548,929	535,512	548,929	535,512
Services rendered	16,018	15,079	-	-
	564,947	550,591	548,929	535,512
Other revenue from operating activities				
Superannuation movement	3,696	287	3,696	287
Rentals	44	49	44	49
Interest received	149	50	136	36
Interest – Pacific Western	-	-	226	178
Dividends received relating to last year	-	-	1,390	2,150
CSO NSW Treasury	67	110	67	110
Miscellaneous	2,296	2,234	2,396	2,330
Other revenue from outside operating activities				
Proceeds from sale of property, plant & equipment	302	338	302	310
Insurance provision writeback	8,048	-	8,048	-
	10,906	2,781	12,609	5,163
Total revenue from ordinary activities	579,549	553,659	565,234	540,962

Insurance Provision Writeback

The insurance provision writeback relates to the provision for other than Eraring Energy employees (see Note 21).

Note 3. Expenses

Expenses				
Raw material and consumables used	315,565	331,679	314,080	329,925
Depreciation:				
Buildings	795	615	795	615
Plant and equipment	45,833	44,064	45,458	43,567
Leasehold improvements	66	66	66	66
	46,694	44,745	46,316	44,248
Depreciated value of assets sold and/or written off	392	392	389	353
Superannuation contribution	-	10,000	-	10,000
Borrowing costs				
Interest and finance charges paid/payable	12,856	7,151	12,856	7,151
Interest capitalised	(495)	-	(495)	-
	12,361	7,151	12,361	7,151
Operating lease rentals:				
Minimum lease payments	486	445	423	383
Consultants	491	567	290	355
Doubtful debts	(12)	(245)	(12)	(245)

Consultants

Expenditure on consultants totalled \$290,488 (consolidated \$490,588). The main purpose of the engagements related to the provision of tax and accounting advice particularly relating to the adoption of International Accounting Standards.

	Consolidated		Parent Entity	
	2004	2003	2004	2003
	\$'000	\$'000	\$'000	\$'000
Note 4. Income Tax				
Income tax on profit from ordinary activities differs from the prima facie tax on that profit as follows:				
Prima facie income tax on operating profit at 30%	29,430	17,455	29,614	17,245
Tax effect of permanent differences which reduce tax payment due to:				
Rebatable dividend	-	-	-	(645)
Actuary assessment of defined superannuation funds	(1,109)	(86)	(1,109)	(86)
Research and development concession	(1)	(1)	(1)	(1)
	(1,110)	(87)	(1,110)	(732)
Increase tax payable due to non-deductible:				
Asset revaluation decrement	-	149	-	149
Incremental depreciation expense on revaluation of non-current assets	516	573	516	573
Inter-company dividend rebate	416	-	-	-
Entertainment expenses	5	8	5	5
Fringe Benefits Tax expense	15	-	15	-
Donations and sponsorships	1	2	1	2
Legal expenses	7	3	7	3
	960	735	544	732
Prima facie tax adjusted for permanent differences	29,280	18,103	29,048	17,245
Prior year adjustments	(22)	(13)	(22)	(13)
Income tax attributable to profit from ordinary expenses	29,258	18,090	29,026	17,232
Aggregate income tax expense comprises:				
Income tax payable	27,250	12,538	26,748	11,640
Deferred income tax provision	2,834	4,401	2,833	4,401
Future income tax benefits	(826)	1,151	(555)	1,191
	29,258	18,090	29,026	17,232
Note 5. Current Assets – Cash Assets				
Cash at bank and on hand	128	1,215	108	1,005

44 Eraring Energy Notes to & forming part of the Financial Statements

For the year ended 30th June, 2004

	Consolidated		Parent Entity		
	2004	2003	2004	2003	
	\$'000	\$'000	\$'000	\$'000	
Note 6. Current Assets – Receivables					
Trade debtors	52,010	91,957	49,747	90,554	
Less: Allowance for doubtful debts	(151)	(163)	(151)	(163)	
	51,859	91,794	49,596	90,391	
Loan to Pacific Western	-	-	3,112	1,573	
Other debtors	650	700	650	700	
	52,509	92,494	53,358	92,664	
Note 7. Current Assets – Inventories					
Stores and materials	6,452	6,535	1,085	1,176	
Coal stocks	23,126	35,748	23,126	35,748	
Oil stocks	1,845	1,000	1,845	1,000	
	31,423	43,283	26,056	37,924	
Note 8. Current Assets – Current Tax Assets					
Future income tax benefit	2,119	2,533	1,886	2,533	
Future Income Tax Benefit					
The amount of the future income tax benefit which is expected to be realised within the next operating cycle, ie 12 months.					
Note 9. Current Assets – Other					
Insurance recoveries	(see Note 21)	645	2,318	645	2,318
Prepayments		599	579	468	504
Superannuation – overfunded liability	(see Note 31)	2,221	2,622	2,221	2,622
		3,465	5,519	3,334	5,444
Note 10. Non-Current Assets – Shares in Controlled Entities					
Shares in controlled entities	-	-	.001	.001	
Unlisted Shares in Controlled Entities					
As at balance date, Eraring Energy held 100% of the shareholding in Pacific Western Pty Ltd, being one \$1.00 ordinary share.					

	Consolidated		Parent Entity	
	2004	2003	2004	2003
	\$'000	\$'000	\$'000	\$'000
Note 11. Non-Current Assets – Property, Plant and Equipment				
Freehold land				
At valuation	32,790	26,514	32,790	26,514
Total Freehold Land	32,790	26,514	32,790	26,514
Buildings – Power Stations				
Operating power stations – at valuation	19,904	19,938	19,904	19,938
Less: Accumulated depreciation	-	(585)	-	(585)
Total Buildings – Power Stations	19,904	19,353	19,904	19,353
Buildings – Other				
Other – at valuation	1,219	1,219	1,219	1,219
Less: Accumulated depreciation	(61)	(30)	(61)	(30)
Total Buildings – Other	1,158	1,189	1,158	1,189
Total Buildings	21,062	20,542	21,062	20,542
Plant and Equipment – Power Stations				
Operating power stations – at valuation	1,318,560	1,212,382	1,318,560	1,212,382
Less: Accumulated depreciation	(5,262)	(42,930)	(5,262)	(42,930)
Total Plant and Equipment – Power Stations	1,313,298	1,169,452	1,313,298	1,169,452
Plant and Equipment – Other				
Other – at cost	19,685	16,623	17,174	14,056
Less: Accumulated depreciation	(8,268)	(4,638)	(6,092)	(2,703)
Total Plant and Equipment – Other	11,417	11,985	11,082	11,353
Total Plant and Equipment	1,324,715	1,181,437	1,324,380	1,180,805
Leasehold improvements				
At cost	699	659	699	659
Less: Accumulated depreciation	(197)	(132)	(197)	(132)
Total Leasehold Improvements	502	527	502	527
Total Property, Plant and Equipment	1,379,069	1,229,020	1,378,734	1,228,388

46 Eraring Energy Notes to & forming part of the Financial Statements

For the year ended 30th June, 2004

Valuation of Freehold Land

Valuation of freehold land is based on the fair market value of the property. The valuation was based on an open market basis. The valuation was conducted by BEM Consultants Pty Ltd as at 1st July 2003. The valuation increased the carrying amount of the class of assets to \$32,790,000 the increment being \$6,268,600.

Valuation of Power Station Equipment and Power Station Buildings

The classes of power station equipment and associated building assets are measured on a fair value basis. An independent review of the written down replacement value of the Eraring power station and hydro and wind assets was conducted by Rodney Hyman Asset Services as at 30th June 2004. The discounted cash flow valuation was conducted as at 30th June 2004. The revaluation resulted in an increment to the power station building and plant and equipment power station classes of \$150,295,979

Property, plant and equipment was written down to \$1,379 million recoverable amount and has been determined using the expected net cash flows discounted to their present value using Eraring Energy's weighted average cost of capital.

Reconciliations

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

	Freehold Land \$'000	Power Station Building \$'000	Other Buildings \$'000	Plant & Equipment Power Stn \$'000	Plant & Equipment Other \$'000	Leasehold Improvement \$'000	Total \$'000
Parent Entity							
Balance @ 01/07/03	26,514	19,353	1,188	1,169,453	11,353	527	1,228,388
Parent plant spares transfer	-	-	-	6,997	-	-	6,997
Capital spares transfer	-	-	-	548	-	-	548
Asset additions	7	33	-	29,221	3,642	41	32,944
Asset disposals	-	-	-	(75)	(314)	-	(389)
Depreciation expense	-	(574)	(30)	(42,050)	(3,599)	(66)	(46,319)
Prior year asset revaluation adjustment	-	(191)	-	191	-	-	-
Asset revaluation increase	6,269	1,283	-	149,013	-	-	156,565
Balance @ 30/06/04	32,790	19,904	1,158	1,313,298	11,082	502	1,378,734

Work in progress amounting to \$28,647,279 (2003 – \$13,094,805) is included in the carrying amount of property, plant and equipment.

	Freehold Land \$'000	Power Station Building \$'000	Other Buildings \$'000	Plant & Equipment Power Stn \$'000	Plant & Equipment Other \$'000	Leasehold Improvement \$'000	Total \$'000
Consolidated Entity							
Balance @ 01/07/03	26,514	19,353	1,188	1,169,453	11,985	527	1,229,020
Parent plant spares transfer	-	-	-	6,997	-	-	6,997
Capital spares transfer	-	-	-	548	-	-	548
Asset additions	7	33	-	29,221	3,723	41	33,025
Asset disposals	-	-	-	(75)	(317)	-	(392)
Depreciation expense	-	(574)	(30)	(42,050)	(3,974)	(66)	(46,694)
Prior year asset revaluation adjustment	-	(191)	-	191	-	-	-
Asset revaluation increase	6,269	1,283	-	149,013	-	-	156,565
Balance @ 30/06/04	32,790	19,904	1,158	1,313,298	11,417	502	1,379,069
					Consolidated 2004 \$'000	2003 \$'000	Parent Entity 2004 \$'000
							2003 \$'000
Note 12. Non-Current Assets – Deferred Tax Assets							
Future income tax benefit				14,117	12,645	13,548	12,347
Note 13. Non-Current Assets – Other							
Insurance recoveries			(see Note 21)	39,960	18,971	39,960	18,971
Note 14. Current Liabilities – Payables							
Trade creditors				22,519	57,756	21,254	55,780
Other creditors				27,259	21,246	27,259	21,246
				49,778	79,002	48,513	77,026
Note 15. Current Liabilities – Interest Bearing Liabilities							
Borrowings				33,800	41,991	33,800	41,991
Current Borrowings							
Short term loans – face value			10,000				
Come and go – face value			20,800				
Short term loans – Pacific Western Pty Ltd			3,000				
			33,800				
Note 16. Current Liabilities – Current Tax Liabilities							
Income tax				18,937	10,437	18,937	10,210
Current deferred income tax liability				7,706	11,043	7,706	11,043
				26,643	21,480	26,643	21,253

48 Eraring Energy Notes to & forming part of the Financial Statements

For the year ended 30th June, 2004

		Consolidated		Parent Entity	
		2004	2003	2004	2003
		\$'000	\$'000	\$'000	\$'000
Note 17. Current Liabilities – Provisions					
Dividend	(see Note 26)	60,064	35,828	59,519	34,438
Employee entitlements	(see Note 31)	2,830	3,053	2,217	2,457
Redundancy		1,812	-	616	-
Insurances	(see Note 21)	2,500	6,818	2,500	6,818
		67,206	45,699	64,852	43,713

Reconciliation of provision classes - see Note 21

Note 18. Current Liabilities – Other					
Superannuation – underfunded liability	(see Note 31)	1,030	5,127	1,030	5,127

Note 19. Non-Current Liabilities – Interest Bearing Liabilities					
Borrowings		128,201	48,693	128,201	48,693

Non-Current Borrowings

Non-current borrowings	123,138
Premium on domestic loans issued by NSW Tcorp	5,063
	128,201

Total Debt

Current	(see Note 15)	33,800
Non-current	(see Note 19)	128,201
		162,001

Total Debt and Maturity Analysis

Total debt outstanding at 30th June 2004, and maturity pattern is:

Up to one year	33,800
Over one and up to two years	36,750
Over two and up to five years	34,103
Over five years	57,348
Total	162,001

Finance Facilities Available

Bank overdraft	2,000
NSW Treasury Corporation loans and come and go	305,000
Total	307,000

Finance Facilities Used as at 30th June 2004

NSW Treasury Corporation loans and come and go	162,001
Total	162,001

Eraring Energy also utilises the Commonwealth Bank of Australia facilities for contingent liabilities associated with dust diseases liabilities (\$10,000,000), intra day cash management (real time gross settlements – \$10,000,000) and credit card facilities (\$1,000,000) as approved by the Governor under Public Authorities Finance Act legislation. With the exception of the Commonwealth Bank of Australia facilities, all new borrowings are arranged through NSW Treasury Corporation. The come and go facility of \$30,000,000 is used for short term working capital and other discrete (rather than continuous) requirements. The principal is repaid and redrawn at any time within approved limits.

Capital Restructure

Eraring Energy repaid capital of \$137 million in October 2003 via a non cash equity to debt swap.

	Consolidated		Parent Entity	
	2004	2003	2004	2003
	\$'000	\$'000	\$'000	\$'000
Note 20. Non-Current Liabilities – Deferred Tax Liabilities				
Provision for deferred income tax	7,264	1,093	7,264	1,093
Note 21. Non-Current Liabilities – Provisions				
Employee entitlements	12,824	9,238	12,806	9,192
Insurance	70,140	55,797	70,140	55,797
	82,964	65,035	82,946	64,989

Reconciliations

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

	Current Employee		Non-Current Employee		Total	
	Dividend	Entitlements	Redundancy	Insurances	Entitlements	Insurances
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Parent Entity						
Balance @ 01/07/03	34,438	2,457	-	6,818	9,192	55,797
Additional provisions recognised	59,519	5,693	-	291	-	34,000
Provision payments	(34,438)	(2,319)	616	(2,379)	-	-
Provision remeasurement	-	-	-	(598)	-	-
Prior year adjustment	-	-	-	(2,318)	-	(18,971)
Current v non-current transfer	-	(3,614)	-	686	3,614	(686)
Balance @ 30/06/04	59,519	2,217	616	2,500	12,806	70,140
Consolidated Entity						
Balance @ 01/07/03	35,828	3,053	-	6,818	9,238	55,797
Additional provisions recognised	60,064	6,037	1,812	291	(28)	34,000
Provision payments	(35,828)	(2,646)	-	(2,379)	-	-
Provision remeasurement	-	-	-	(598)	-	-
Prior year adjustment	-	-	-	(2,318)	-	(18,971)
Current v non-current transfer	-	(3,614)	-	686	3,614	(686)
Balance @ 30/06/04	60,064	2,830	1,812	2,500	12,824	70,140

		Consolidated		Parent Entity	
		2004	2003	2004	2003
		\$'000	\$'000	\$'000	\$'000
Insurances					
Current	(see Note 17)	2,500	6,818	2,500	6,818
Non-current	(see Note 21)	70,140	55,797	70,140	55,797
		72,640	62,615	72,640	62,615

50 Eraring Energy Notes to & forming part of the Financial Statements

For the year ended 30th June, 2004

		Consolidated		Parent Entity	
		2003	2002	2003	2002
		\$'000	\$'000	\$'000	\$'000
Recoveries					
Current	(see Note 9)	645	2,318	645	2,318
Non-current	(see Note 13)	39,960	18,971	39,960	18,971
		40,605	21,289	40,605	21,289

The insurance provision comprises workers' compensation claims for employees, and existing and future dust diseases insurance liabilities for third party contractors and employees associated with:
Former decommissioned Power Stations of the former Electricity Commission;
Delta Electricity and Macquarie Generation Power Stations prior to their formation; and
Pacific Power prior to 2nd August 2000 were transferred to Eraring Energy with the WorkCover licence under the Ministerial Order. The total insurance provision is made up of a provision for current workers compensation and dust diseases claims liability at \$4,640,000 (2003 - \$5,133,562) which is the minimum amount certified by the actuary in accordance with Clause 3.3 (a) (iv) of the Self Insurer licence provisions. The remaining balance of the insurance provision is \$68,000,000 (2003 - \$57,481,645) and represents future dust diseases claims liability. The insurance provision includes a provision for \$71,350,000 which relates to other than Eraring Energy employees and contractors.

Eraring Energy has created an asset in these financial statements for anticipated insurance recoveries from third parties. The value of this asset is \$40,605,176 (2003 - \$21,289,000), and is in accordance with independent actuarial advice.

		Consolidated		Parent Entity	
		2004	2003	2004	2003
		\$'000	\$'000	\$'000	\$'000

Note 22. Contributed Equity, Reserves and Retained Profits

Contributed equity	895,481	1,032,481	895,481	1,032,481
Reserves	211,695	55,131	211,695	55,131
Retained profits	18,728	9,948	16,559	7,779
	1,125,904	1,097,560	1,123,735	1,095,391

Movements in Contributed Equity

Opening balance	1,032,481	1,032,481	1,032,481	1,032,481
NSW Treasury Corporation debt repayment	(137,000)	-	(137,000)	-
	895,481	1,032,481	895,481	1,032,481

Movements in Asset Revaluation Reserve

Opening balance	55,131	-	55,131	-
Asset revaluation increment	156,564	55,131	156,564	55,131
	211,695	55,131	211,695	55,131

Movements in Retained Profits

Opening balance	9,948	5,684	7,779	4,116
Net profit after tax	68,843	40,093	69,688	40,252
Dividends	(61,453)	(37,979)	(60,908)	(36,589)
Prior year dividend elimination	1,390	2,150	-	-
	18,728	9,948	16,559	7,779

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

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

	Consolidated		Parent Entity	
	2004	2003	2004	2003
	\$'000	\$'000	\$'000	\$'000

Note 23. Capital Expenditure Commitments

Capital commitments payable:

Within one year	31,147	24,079	31,144	24,079
Later than one year but not later than five years	5,491	27,225	5,491	27,225
	36,638	51,304	36,635	51,304

Eraring Energy expects to receive input tax credits from the Australian Taxation Office totalling \$3,330,475 (consolidated – \$3,330,737) for Goods and Services Tax paid with these commitments.

Note 24. Lease Commitments

Operating lease rentals payable:

Within one year	407	334	333	310
Later than one year but not later than five years	192	465	139	460
	599	799	472	770

Operating Leases

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

Eraring Energy expects to receive input tax credits from the Australian Taxation Office totalling \$42,928 (consolidated – \$55,628) for Goods and Services Tax paid with these commitments.

Note 25. Operating Expenditure Commitments

Operating expenditure commitments payable:

Within one year	22,454	23,810	22,175	23,525
Later than one year but not later than five years	4,659	8,392	4,419	8,085
	27,113	32,202	26,594	31,610

Eraring Energy expects to receive input tax credits from the Australian Taxation Office totalling \$2,417,654 (consolidated – \$2,469,576) for Goods and Services Tax paid with these commitments.

Note 26. Dividends & Community Service Obligations

In accordance with the share dividends scheme determined by the voting shareholders, and as required by the Energy Services Corporation Act, 1995 and State Owned Corporations Act, 1989, the Board has provided for a consolidated dividend payment of \$60,063,626 (2003 – \$35,828,049) from its normal operations, ignoring the accounting impact of the insurance provision writeback (see Note 2). This will be paid during the course of the 2004/2005 year and is represented by the balance of the provision at balance date (see Note 17). The dividend provision has been reduced by the amount of \$731,435 (2003 – \$4,264,698) for net payments for worker's compensation and dust disease Court determinations for other than Eraring Energy employees. This liability was transferred from the NSW Government to Eraring Energy on corporatisation with agreement for the matter to be treated as a community service obligation and deducted from dividends.

52 Eraring Energy Notes to & forming part of the Financial Statements

For the year ended 30th June, 2004

	Consolidated		Parent Entity	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Note 27. Notes to the Statement Cash Flows				
Cash at bank and on hand (see Note 5)	128	1,215	108	1,005
Reconciliation of profit from ordinary activities after income tax expense to net cash provided by operating activities:				
Profit from ordinary activities after income tax expense	68,843	40,092	69,688	40,251
Add/(less):				
(Profit)/loss on repayment of borrowings	-	348	-	348
Amortisation of fixed interest borrowings	(1,034)	(497)	(1,034)	(497)
Allowance for doubtful debts	(12)	(245)	(12)	(245)
(Profit)/loss on sale of property, plant and equipment	4	15	1	43
Add/(less): Non-cash items				
Depreciation	46,694	44,723	46,319	44,248
Depreciation on assets written off	86	53	86	31
Parent plant spares transfer	-	(33,819)	-	(33,819)
(Increase)/decrease in accrued interest income	38	16	-	-
Increase/(decrease) in income tax payable	10,544	10,469	11,004	10,756
(Increase)/decrease in accrued interest expense	3,345	(2,031)	3,345	(2,031)
Net cash provided by operating activities before changes in assets and liabilities	128,508	59,124	129,397	59,085
Net changes in assets and liabilities during the financial year:				
(Increase)/decrease in receivables	(489)	6,689	265	6,808
(Increase)/decrease in other debtors	40,591	(14,891)	40,591	(14,891)
(Increase)/decrease in inventories	11,860	15,693	11,868	15,880
(Increase)/decrease in other assets	(6,897)	298	(6,568)	327
Increase/(decrease) in payables and borrowings	129	80	(250)	248
Increase/(decrease) in other liabilities	(34,008)	22,343	(33,997)	22,154
Net cash provided by operating activities	139,694	89,336	141,306	89,611

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

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

Note 28. Contingent Liabilities

Eraring Energy has received a claim for additional costs from a contractor for work performed at Burrinjuck in the order of \$16 million. Eraring Energy will contest the quantum of the claim and its own assessment is under \$1 million which has been provided for in its accounts. The dispute is in the discovery stage of arbitration.

Note 29. Financial Instruments

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

Forward Foreign Exchange Contracts

In the normal course of business, Eraring Energy enters into contracts required for goods or services from overseas which are settled in the suppliers currency. Under Board approval, Eraring Energy hedges specific commitments by use of forward foreign exchange contracts. The contracts are timed to mature when settlement of the goods and services are due, and any gain or loss realised being included in the measurement of the purchase. At balance date Eraring Energy had 6 (2003 - 5) forward foreign exchange contracts as detailed below:

	Contracts	2004 Average Exchange Rate	Principal Amount AUD	Contracts	2003 Average Exchange Rate	Principal Amount AUD
Japanese Yen duration less than one year	5	79.47	4,150,134	5	62.28	3,462,481
Japanese Yen duration greater than one year	1	73.88	339,158	-	-	-

The contracts as at 30th June 2004 are showing an unrealised gain of \$456,551 (2003 – \$419,373 unrealised loss).

a) Interest Rate Risk

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

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

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For the year ended 30th June, 2004

	Floating Interest Rate \$'000	Fixed Interest Rate Maturing In 1 Year or less \$'000	1 to 5 Years \$'000	Over 5 Years \$'000	Non- Interest Bearing \$'000	Total Carrying Amount \$'000	Weighted Average Effective Interest Rate pa %
Consolidated 2004							
Financial Assets							
Cash	128	-	-	-	-	128	4.65%
Trade Debtors	-	-	-	-	52,656	52,656	-
Received from Related Entities	-	-	-	-	-	-	-
Other	-	-	-	-	48	48	-
Total Financial Assets	128	-	-	-	52,704	52,832	-
Financial Liabilities							
Accounts Payable	-	-	-	-	46,588	46,588	-
Debt	20,800	13,000	70,853	57,348	-	162,001	5.35%
Other	-	-	-	-	60,064	60,064	-
Total Financial Liabilities	20,800	13,000	70,853	57,348	106,652	268,653	-
Parent Entity 2003							
Financial Assets							
Cash	1,005	-	-	-	-	1,005	3.61%
Trade Debtors	-	-	-	-	91,250	91,250	-
Received from Related Entities	-	1,573	-	-	-	1,573	5.26%
Other	-	-	-	-	183	183	-
Total Financial Assets	1,005	1,573	-	-	91,433	94,011	-
Financial Liabilities							
Accounts Payable	-	-	-	-	70,575	70,575	-
Debt	27,700	14,291	25,239	23,454	-	90,684	5.43%
Other	-	-	-	-	35,011	35,011	-
Total Financial Liabilities	27,700	14,291	25,239	23,454	105,586	196,270	-
Consolidated 2003							
Financial Assets							
Cash	1,215	-	-	-	-	1,215	3.61%
Trade Debtors	-	-	-	-	92,758	92,758	-
Received from Related Entities	-	-	-	-	-	-	-
Other	-	-	-	-	183	183	-
Total Financial Assets	1,215	-	-	-	92,941	94,156	-
Financial Liabilities							
Accounts Payable	-	-	-	-	72,561	72,561	-
Debt	27,700	14,291	25,239	23,454	-	90,684	5.43%
Other	-	-	-	-	36,401	36,401	-
Total Financial Liabilities	27,700	14,291	25,239	23,454	108,962	199,646	-

b) Credit Risk – Recognised Financial Instruments

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

	Government \$'000	Banks \$'000	Others \$'000	Total \$'000
Parent Entity 2004				
Financial Assets				
Cash	-	108	-	108
Trade Debtors	44,620	-	5,773	50,393
Received from Related Entities	-	-	3,112	3,112
Other	-	-	48	48
Total Financial Assets	44,620	108	8,933	53,661

Consolidated 2004				
Financial Assets				
Cash	-	128	-	128
Trade Debtors	46,835	-	5,783	52,618
Received from Related Entities	-	-	-	-
Other	-	-	48	48
Total Financial Assets	46,835	128	5,831	52,794

Parent Entity 2003				
Financial Assets				
Cash	-	1,005	-	1,005
Trade Debtors	84,483	-	6,767	91,250
Received from Related Entities	-	-	1,573	1,573
Other	-	-	183	183
Total Financial Assets	84,483	1,005	8,523	94,011

Consolidated 2003				
Financial Assets				
Cash	-	1,215	-	1,215
Trade Debtors	85,984	-	6,774	92,758
Received from Related Entities	-	-	-	-
Other	-	-	183	183
Total Financial Assets	85,984	1,215	6,957	94,156

c) Net Fair Value

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

56 Eraring Energy Notes to & forming part of the Financial Statements

For the year ended 30th June, 2004

	Total Carrying Amount \$'000	Aggregate Net Fair Value \$'000
Parent Entity 2004		
Semi-Government Bonds	162,001	161,796
Consolidated 2004		
Semi-Government Bonds	162,001	161,796
Parent Entity 2003		
Semi-Government Bonds	90,684	93,025
Consolidated 2003		
Semi-Government Bonds	90,684	93,025

d) Credit Risk Exposure - Unrecognised Financial Instruments

Electricity Hedging Contracts

The corporation is an active manager of its credit risk exposure to electricity hedging contracts. Following Board approved policy, exposure limits are applied to each respective counterparty. This is done by reference to an acceptable public credit rating assigned by an approved credit rating agency, or in the absence of an acceptable public rating, by assessing internally the credit rating of that counterparty using a methodology consistent with the approach of an approved credit rating agency. Credit limits and exposures are monitored regularly and reported monthly to the Board. It is preferred policy to seek an ISDA master agreement with all trading counterparts, and when necessary, the ISDA may require a Bank Guarantee or other acceptable security exercisable in the State of New South Wales. The total credit exposure for electricity hedging contracts as at 30th June 2004 was \$32,502,049 (2003 – \$97,021,260).

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

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

e) Electricity Derivatives Disclosure Note

	2004 Face Value \$'000	2003 Face Value \$'000
Electricity Hedging Contracts		
Duration less than one year	308,103	329,919
Duration later than one year but not later than five years	366,050	548,077
Duration later than five years	11,108	23,880
	685,261	901,876

The contracts as at the 30th June 2004 have a net mark to market value of negative \$227 million (2003 – negative \$153 million).

The table includes predominantly swap contracts where the face value is calculated by multiplying the MW volume by the contract price. In addition to the above derivatives, Eraring has purchased CAP contracts which may be exercised depending

on the spot price in relation to the strike price. Whilst the value of CAP contracts have been included in the credit risk exposure and mark to market disclosures, CAP contracts have been excluded in the face value disclosures because CAPS are not firm contracts and have a distortionary affect on face value disclosures.

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

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

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

As these contracts can be settled other than by physical delivery of the underlying commodity, they are classified as financial instruments. In entering into these contracts for the purpose of hedging the risks associated with future generation, the gains and costs of entering these contracts and any realised or unrealised gains and losses are deferred until the underlying generation occurs. On maturity, the contracted price is compared to the spot price on that date and the price differential is applied to the contracted quantity. A net amount is paid or received by the entity.

Note 30. Events Occurring After Balance Date

An agreement was reached for settlement of a contractors claim relating to work performed at Burrinjuck. The claim is separate to the contingent liability disclosed under Note 28.

Agreement was reached for Eraring Energy to repay capital of \$16 million during 2004/2005 via a non cash equity to debt swap.

		Consolidated		Parent Entity	
		2004	2003	2004	2003
		\$'000	\$'000	\$'000	\$'000
Note 31. Employee Entitlements					
Provision for employee entitlements					
Current	(see Note 17)	2,830	3,053	2,217	2,457
Non-current	(see Note 21)	12,824	9,238	12,806	9,192
		15,654	12,291	15,023	11,649

Long Service Leave

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

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

Superannuation

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

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

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

58 Eraring Energy Notes to & forming part of the Financial Statements

For the year ended 30th June, 2004

	SASS \$'000	SANCS \$'000	SSS \$'000	Total \$'000
2004				
Accrued liability assessed by actuaries at 30th June 2004	16,494	6,681	53,249	76,424
Investment reserve balance	16,157	7,418	52,219	77,615
Superannuation balance - brackets indicate underfunded position	1,484	737	(1,030)	1,191
2003				
Accrued liability assessed by actuaries at 30th June 2003	14,199	5,901	49,949	70,049
Investment reserve balance	16,157	6,565	44,822	67,544
Superannuation balance - brackets indicate underfunded position	1,958	664	(5,127)	(2,505)
The following assumptions were adopted in measuring present values of superannuation:				
Consumer price index	2.5%			
Investment return	7.0%			
Salary increase	4.0%			

Note 32. Related Parties

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

Note 33. Directors

Terms and Remuneration of Directors

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

Name & Position	Appointed	Qualifications
Non-Executive Directors		
Mr RM Bunyon* Chairman and Director	21st July 2000 to 30th June 2003 Reappointed to 30th June 2006	BComm (UNSW), CIE Aust, Director/Consultant
Ms BA Hoskinson-Green Director	21st July 2000 to 30th June 2005	LLB (UNSW), LL.M (Harvard) Solicitor/Director, Suzie Broome & Company Pty Ltd, Strata Lawyers
Mr J Maitland* Director	21st July 2000 to 30th June 2003 Reappointed on 22nd March 2004 for 12 months	National Secretary, Construction, Forestry, Mining & Energy Union
Dr MJ Vertigan* Director	21st July 2000 to 30th June 2005	AC, B.Ec (Hons) Tasmania PhD California, FAICD Director/Consultant
Mr M Nugent Director	21st July 2001 to 30th June 2004 Reappointed to 30th June 2007	FOPA Director
Mr D Pritchard Director	22nd August 2001 to 30th June 2004 Reappointed to 30th June 2007	BE, FIE Aust, CP Eng., FAICD Director
Executive Director		
Mr G Grove-White* Managing Director	2nd January 2001	BSc (MechEngr) Hons, Chartered Engineer MI Mech E, Cert Diploma in Accountancy and Finance

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

	Parent Entity	
	2004	2003
	\$'000	\$'000
Income paid or payable, or otherwise made available, to directors in connection with the management of the affairs of the entity	741	745
Superannuation benefits payable	74	75
Total remuneration payable to directors	815	820

		Parent Entity	
		2004	2003
	\$	\$'000	\$'000
The number of directors whose total income from the entity was within the following bands are as follows:			
	10,000 - 19,999	1	-
	50,000 - 59,999	-	2
	60,000 - 69,999	4	3
	110,000 - 119,999	1	1
	390,000 - 399,999	-	1
	410,000 - 419,999	1	-

	Consolidated		Parent Entity	
	2004	2003	2004	2003
	\$'000	\$'000	\$'000	\$'000

Note 34. Remuneration to External Auditors

Remuneration paid or payable for the audit of the financial report

197	186	180	171
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Note 35. Exemptions

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

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

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

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

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

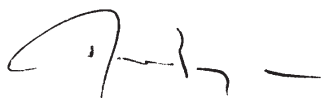
60 Eraring Energy Statement by Members of the Board

For the year ended 30th June, 2004

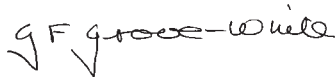
Pursuant to Section 41C of the Public Finance and Audit Act 1983, and in accordance with a resolution of the Board of Eraring Energy, we declare on behalf of Eraring Energy that in our opinion:

1. The Financial Statements exhibit a true and fair view of the financial position of Eraring Energy as at 30th June 2004.
2. The Financial Statements are a general purpose financial report which has been prepared in accordance with applicable Australian Accounting Standards and other mandatory professional reporting requirements, the provisions of the State Owned Corporations Act 1989, including Part 3 of the Public Finance and Audit Act 1983, the Public Finance and Audit Regulation 2000, except where the Treasurer's exemption has been granted.
3. At the date of this statement, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
4. We are not aware of any circumstances at the date of this declaration that would render any particulars included in this financial report to be misleading or inaccurate.

Dated at Sydney this 21st day of September 2004.



RM Bunyon
Chairman



GF Grove-White
Managing Director



BOX 12 GPO
SYDNEY NSW 2001

To Members of the New South Wales Parliament

Audit Opinion

In my opinion, the financial report of Eraring Energy:

- (a) presents fairly the Corporation's and the consolidated entity's financial position as at 30 June 2004 and their financial performance and cash flows for the year ended on that date, in accordance with applicable Accounting Standards and other mandatory professional reporting requirements in Australia, and
- (b) complies with section 41B of the *Public Finance and Audit Act 1983* (the Act). The opinion should be read in conjunction with the rest of this report.

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

The Board's Role

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

The Auditor's Role and the Audit Scope

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

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

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

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

My opinion does not provide assurance:

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

Audit Independence

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

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

R J Sendt
Auditor-General

SYDNEY
21 September 2004

The Directors present their report together with the financial statements of Pacific Western Pty Limited for the period 1st July 2003 to 30 June 2004 and the auditor's report thereon.

Directors

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

Principal Activities

The principal continuing activity of the company for the year is operation and maintenance of the Collie Power Station.

Trading Results

The profit from ordinary activities after tax was \$544,905 (2003 - \$1,991,190) on total revenue of \$16,031,425 (2003 - \$15,121,330). The operating result was significantly lower than the previous year due to the cost of planned outages (\$2.4 million). Also, as negotiations for an extension of the contract with Western Power were not successful, Pacific Western terminated the contract effective 26th March 2005, two months prior to its natural expiry. The company has implemented a strategy to retain staff at least until termination of the contract which resulted in the recognition of a provision for a redundancy/loyalty payment of \$1.2 million.

Dividends

The dividend provided for in the prior year was paid to the parent entity

during the year. The directors have recommended the payment of a final dividend of \$544,905, which is expected to be paid out of retained profits at 30th June 2004.

Directors' Benefits

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

Review of Operations

The plant achieved availability for the year of 92.23% with a forced outage factor of 0.19% and a maintenance outage factor of 2.34%. This resulted in a small bonus payment from Western Power for the year.

Two planned outages were conducted during the year, one due to a design limitation of the air-heater and the other to carry out required statutory inspections, to develop the work scope for the major outage scheduled for 2005 and to enable maintenance necessary to ensure plant reliability until that outage.

Despatched output for the year was 2226GW which was 2.32% above budget. Average load was 272MW for the year which was consistent with last year. There were no lost time injuries to staff or contractors for the year.

The Company successfully undertook a compliance audit in

January 2004 and recertification audit in June 2004 and has retained its accreditation for safety, environmental and quality.

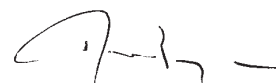
Likely Developments

Since the termination of the contract, Western Power have gone to the market with a new form of contract and, following submission of an expression of interest, Pacific Western was chosen as one of the parties to be invited to submit a tender. The tender was submitted on 3rd September 2004 with award of the new contract expected to be made prior to the end of December 2004.

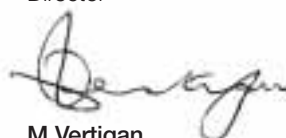
Further information about likely developments in the operations of the company and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the company.

Dated at Sydney this 21st day of September 2004.

Signed in accordance with a resolution of the Directors:



R M Bunyon
Director



M Vertigan
Director

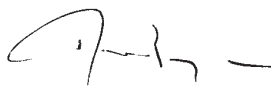
Beginning of the Pacific Western Pty Limited Financial Statements audited by the Auditor-General

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

- a) the accompanying financial statements of the company are drawn up so as to give a true and fair view of the profit and cash flows of the company for the period 1 July 2003 to 30 June 2004 and the state of affairs of the company at 30 June 2004;
- b) at the date of this statement there are reasonable grounds to believe that the company will be able to pay its debts as and when they fall due;
- c) the financial statements have been made out in accordance with Corporations Act 2001;
- d) the financial statements of the company have been made out in accordance with applicable accounting standards, authoritative pronouncements of the Australian Accounting Standards Board and Urgent Issues Consensus Group Views, and
- e) the financial statements have been prepared in accordance with the provisions of the NSW Public Finance and Audit Act, 1983 and the NSW Public Finance and Audit Regulation, 2000.

Dated at Sydney this 21st day of September 2004.

Signed in accordance with a resolution of the Directors:



R M Bunyon
Director



M Vertigan
Director

64 Pacific Western Pty Limited Statement of Financial Performance

For the year ended 30th June, 2004

	Note	2004 \$	2003 \$
Revenue from rendering services	2a	15,997,950	15,075,951
Other revenues from ordinary activities	2b	33,475	45,379
Materials and consumables used		(1,484,870)	(1,753,892)
Depreciation		(374,818)	(496,716)
Borrowing cost expenses		(225,609)	(178,276)
Employee benefits expense		(5,570,661)	(4,345,225)
Other expenses from ordinary activities		(7,598,124)	(5,497,829)
Profit from ordinary activities before income tax expense	3	777,343	2,849,392
Income tax expense relating to ordinary activities	4	(232,438)	(858,202)
Profit from ordinary activities after income tax expense		544,905	1,991,190
Net profit attributable to members of the parent entity	12	544,905	1,991,190
Total changes in equity other than those resulting from transactions with owners as owners		544,905	1,991,190

The statement of financial performance is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 67-75.

	Note	2004 \$	2003 \$
Current Assets			
Cash assets		19,618	210,044
Current tax assets	4b	232,668	-
Receivables	5	2,263,304	1,508,461
Inventories		5,367,262	5,359,387
Other	6	131,503	74,468
Total Current Assets		8,014,355	7,152,360
Non-Current Assets			
Plant and equipment	7	335,142	632,333
Deferred tax assets	4c	568,516	298,214
Total Non-Current Assets		903,658	930,547
Total Assets		8,918,013	8,082,907
Current Liabilities			
Payables	8	1,264,961	2,081,928
Interest bearing liabilities	9	3,111,583	1,573,383
Provisions	10	2,354,191	1,985,935
Current tax liabilities	4b	-	227,130
Total Current Liabilities		6,730,735	5,868,376
Non-Current Liabilities			
Provisions	10	18,197	45,450
Total Non-Current Liabilities		18,197	45,450
Total Liabilities		6,748,932	5,913,826
Net Assets		2,169,081	2,169,081
Equity			
Contributed equity	11	1	1
Retained profits	12	2,169,080	2,169,080
Total Parent Entity Interest		2,169,081	2,169,081
Total Equity		2,169,081	2,169,081

The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 67-75.

66 Pacific Western Pty Limited Statement of Cash Flows

For the year ended 30th June, 2004

	Note	2004 \$	2003 \$
Cash flows from operating activities			
Cash receipts in the course of operations		17,387,801	16,416,442
Interest received		12,668	14,198
Cash payments in the course of operations		(16,473,688)	(13,208,222)
Borrowing costs paid		(187,409)	(161,903)
Income taxes paid		(962,538)	(1,184,775)
Net cash provided by operating activities	14 (ii)	(223,166)	1,875,740
Cash flows from investing activities			
Payments for property, plant and equipment		(77,628)	(141,287)
Proceeds from sale of property, plant and equipment		-	27,530
Net cash used in investing activities		(77,628)	(113,757)
Cash flows from financing activities			
Proceeds from borrowings		4,000,000	3,770,000
Repayment of borrowings		(2,500,000)	(3,270,000)
Dividends paid	14 (iii)	(1,389,632)	(2,150,000)
Net cash provided by /(used in) financing activities		110,368	(1,650,000)
Net increase/(decrease) in cash held		(190,426)	111,983
Cash at the beginning of the financial year		210,044	98,061
Cash at the end of the financial year	14 (i)	19,618	210,044

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 67-75.

Note 1. Summary of Significant Accounting Policies

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

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

They have also been prepared in accordance with the historical cost convention and do not take account of changes in the general purchasing power of the dollar except where stated. The accounting policies have been consistently applied by the Company and are consistent with those of the previous year. The financial report has been prepared on a going concern basis, which presumes the realisation of assets and discharge of liabilities in the normal course of business for the foreseeable future. The directors confirm, on an ongoing basis, that the company continues to meet this criteria. As negotiations for an extension of the contract with Western Power were not successful, Pacific Western terminated the contract effective 26th March 2005, two months prior to its natural expiry. Western Power has now gone to the market with a new form of contract and, following submission of an expression of interest, Pacific Western was chosen as one of the parties to be invited to submit a tender. The tender was submitted on 3rd September 2004 with award of the new contract expected to be made prior to the end of December 2004. The company has implemented a strategy to retain staff at least until termination of the existing contract.

b) Income Tax Tax effect accounting procedures are followed whereby the income tax expense in the statement of financial performance is matched with the accounting profit after allowing for permanent differences. The future income tax benefits are not brought to account

unless realisation of the asset is assured beyond reasonable doubt. Income tax on cumulative timing differences is set aside to the deferred income tax or future income tax benefits accounts at the rates which are expected to apply when those timing differences reverse. Income tax is paid to the NSW Office of State Revenue under the National Tax Equivalent Regime.

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

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

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

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

f) Revenue recognition Revenues are recognised at fair value of the consideration received net of the amount of goods and services tax (GST) payable to the taxation authority. Exchanges of goods and services of the same nature and value without any cash consideration are not recognised as revenues. Revenue from rendering services represents revenue earned for the provision of services under the Operating and Maintenance Agreement with the station owner. Revenue is recognised in proportion to the stage of completion of the contract when the stage of completion can be reliably measured.

g) Receivables Trade accounts receivable, amounts due from related parties and other receivables represent the principal amounts due at balance date

plus, where applicable, accrued interest and less any unearned in-come and provisions for doubtful debts. Trade debtors are normally settled within 30 days.

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

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

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

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

j) Employee Entitlements

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

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

(iii) Termination benefits: Liabilities for termination benefits, not in connection with the acquisition of an entity or operation, are recognised when a detailed plan for the terminations has been developed and a valid expectation has been raised in those employees affected that the terminations will be carried out. The liabilities for termination benefits are recognised in other creditors unless the amount or timing of the payment is uncertain, in which case they are recognised as provisions. Liabilities for termination benefits expected to be settled within 12 months are measured at their amounts expected to be paid when they are settled.

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

Pacific Western will apply the Australian Equivalents to International Financial Reporting Standards (AIFRS) from the reporting period beginning 1st July 2005. Pacific Western is managing the transition to the new standards by allocating internal resources and the engagement of a consultant to analyse the pending standards and Urgent Issues Group Abstracts to identify key areas regarding policies, procedures, systems and financial impacts affected by the transition. NSW Treasury is assisting NSW agencies in managing the transition. Our Parent Company, Eraring Energy, has established a steering committee and a project team, both chaired by the Chief Financial Officer and includes consultant representatives. Progressive reporting to the Board Audit Committee and the Board of Eraring Energy at six monthly intervals, together with presentations to the Shareholder have highlighted the major AIFRS implementation issues. Each Standard, considered to have relevance to Pacific Western, has been reviewed and action plans are being developed to address implementation issues. Pacific Western expects to be fully compliant by 1 January 2005. Pacific Western has identified a number of significant differences in accounting policies that will arise from adopting AIFRS. Some differences arise because AIFRS requirements are different from existing AASB requirements. Other differences could arise from options in

AIFRS. To ensure consistency at the whole of government level, NSW Treasury has, through Eraring Energy, advised Pacific Western of options it is likely to mandate, and will confirm these during 2004/05. This disclosure reflects these likely mandates.

Pacific Western's accounting policies may also be affected by a proposed standard designed to harmonise accounting standards with Government Finance Statistics (GFS). This standard is likely to change the impact of AIFRS and significantly affect the presentation of the income statement. However, the impact is uncertain, because it depends on when this standard is finalised and whether it can be adopted in 2005/06. Based on current information, the following key differences in Pacific Western's accounting policies are expected to arise from adopting AIFRS: AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards - requires retrospective application of the new AIFRS from 1st July 2004, with limited exemptions. Similarly, AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors requires voluntary changes in accounting policy and correction of errors to be accounted for retro-spectively by restating comparatives and adjusting the opening balance of accumulated funds. This differs from current Australian requirements, because such changes must be recognised in the current period through profit or loss, unless a new standard mandates otherwise.

AASB 110 Events after the balance sheet date - states that only dividends "declared" or appropriately "authorised" before the reporting date can be recognised. This is more restrictive than the current approach which is based on "valid expectations". However, this change is not expected to impact on dividend recognition as the signing of the Statement of Corporate Intent before the reporting date, "authorises" the dividend and any change in the amount of the dividend after the reporting date constitutes an "adjusting event after the reporting date.

AASB 112 Income Taxes - requires a balance sheet approach where the

entity must identify differences between the accounting and tax value of assets and liabilities. The previous approach was to account for tax by adjusting accounting profit for temporary and permanent differences to derive taxable income. The AASB 112 approach may alter the quantum of tax assets and liabilities recognised. In addition, the income tax expense and deferred tax assets and liabilities may be affected by other AIFRS to the extent that they impact on the balance sheet and profit or loss.

AASB 116 Property, Plant and Equipment - requires the cost and fair value of property, plant and equipment to be increased to include restoration costs, where restoration provisions are recognised under AASB 137 Provisions, Contingent Liabilities and Contingent Assets where a legal or constructive obligation exists. Major inspection costs must be capitalised and this will require the fair value and depreciation of the related asset to be re-allocated. It is uncertain whether Pacific Western will have a legal or constructive obligation under this Accounting Standard. Also, Pacific Western must account for asset revaluation increments and decrements on an individual asset basis, rather than on a class basis.

AASB 117 Leases - requires operating lease contingent rentals to be recognised as an expense on a straight-line basis over the lease term rather than expensing in the financial year incurred.

AASB 123 Borrowing Costs - provides the option to expense or capitalise borrowing costs. NSW Treasury is expected to mandate expensing of borrowing costs to harmonise with GFS. Previously, borrowing costs relating to qualifying assets were capitalised.

AASB 136 Impairment of Assets - requires an entity to assess at each reporting date whether there is any indication that an asset (or cash generating unit) is impaired and if such indication exists, the entity must estimate the recoverable amount. However, the effect of this Standard should be minimal because all the substantive principles in AASB 136 are already incorporated in NSW Treasury's policy Valuation of Physical Non-Current Assets at Fair Value.

	2004 \$	2003 \$
Note 2. Revenue		
Revenue from Ordinary Activities		
Operating results have been arrived at after including:		
a) Revenue from Operating Activities		
Rendering of services	15,997,950	15,075,951
	15,997,950	15,075,951
b) Other Revenue from Non Operating Activities		
Interest	12,668	14,197
Proceeds on disposal of plant and equipment	-	27,530
Other	20,807	3,652
	33,475	45,379
Total Revenue from Ordinary Activities	16,031,425	15,121,330

Note 3. Profit from Ordinary Activities before Income Tax Expense

Operating results have been arrived at after including:

Expenses

Depreciation	374,818	496,716
Borrowing costs – loan from parent entity	225,609	178,276
Consultant costs	200,100	212,461
Amounts paid or payable to Auditors for audit of the Annual Report	17,000	10,000
Redundancy/Loyalty payment	1,196,407	-
Contractor costs	4,584,916	3,691,488

Consultants – Expenditure on consultants totalled \$200,100. The main purpose of the engagements relate to continued maintenance of accreditation for Environment ISO14001:1991 and Quality under ISO 9001:2000, recruitment services and specialist technical advice.

Redundancy/Loyalty Payment – This provision has been determined in accordance with the Company's approved Redundancy Policy.

Note 4. Income Tax**a) Income Tax Expense**

The income tax expense for the financial year differs from the amount calculated on the profit. The differences are reconciled as follows:

Profit from ordinary activities before income tax expense	777,343	2,849,392
Income tax calculated at 30%	233,203	854,817
Tax effect of permanent differences:		
Sundry items	(765)	3,385
Income tax expense	232,438	858,202

70 Pacific Western Pty Limited Notes to & forming part of the Financial Statements

For the year ended 30th June, 2004

	2004 \$	2003 \$
Aggregate income tax expense comprises:		
Current taxation provision	502,739	898,072
Future income tax benefit	(270,301)	(39,870)
Deferred income tax provision	-	-
	232,438	858,202
b) Current Tax – Assets/Liabilities		
Balance at beginning of year	227,130	513,833
Less income tax paid	(962,537)	(1,184,775)
Current year's income tax expense on operating profit	502,739	898,072
	(232,668)	227,130
c) Deferred Tax Assets		
Future income tax benefit comprises the estimated future benefit at current income tax rates on the following items:		
Provisions and accruals not currently deductible	568,516	298,214
	568,516	298,214
Note 5. Receivables		
Trade debtors	2,263,304	1,508,461
	2,263,304	1,508,461
Note 6. Prepayments		
Prepayments	131,503	74,468
	131,503	74,468
Note 7. Plant and Equipment		
Plant and equipment at cost	2,511,318	2,567,115
Less accumulated depreciation	(2,176,176)	(1,934,782)
Written down value	335,142	632,333
Reconciliation		
Reconciliation of the carrying amount of the above plant and equipment at the beginning and end of the current financial year are set out below:		
Carrying amount at 1 July 2003	632,333	
Additions	77,628	
Disposals	(3,261)	
Depreciation expense	(371,558)	
Carrying amount at 30th June 2004	335,142	

	2004 \$	2003 \$
Note 8. Payables		
Current		
Trade creditors and accruals	1,264,961	1,985,830
Other owing to Parent Entity	-	96,098
	1,264,961	2,081,928
Note 9. Interest Bearing Liabilities		
Loans from Parent Entity (including interest accrued: 2004 – \$111,583, 2003 – \$73,383)	3,111,583	1,573,383
	3,111,583	1,573,383
Note 10. Provisions		
Current		
Employee provision – long service leave	281,336	263,255
Employee provision – annual leave	331,543	333,048
Employee provision – redundancy/loyalty payment	1,196,407	-
Dividend to Parent Entity	544,905	1,389,632
	2,354,191	1,985,935
Non Current		
Employee provision – long service leave	18,197	45,450
	18,197	45,450
Note 11. Contributed Equity		
Authorised Capital		
100,000,000 Ordinary shares of \$1 each	100,000,000	100,000,000
Issued and Paid up Capital		
1 Ordinary share of \$1 each, fully paid	1	1
Note 12. Retained Profits		
Retained profits at the beginning of the financial year	2,169,080	1,567,522
Net profit attributable to members of the parent entity	544,905	1,991,190
Dividends provided for or paid	(544,905)	(1,389,632)
Retained profits at the end of the financial year	2,169,080	2,169,080

72 Pacific Western Pty Limited Notes to & forming part of the Financial Statements

For the year ended 30th June, 2004

Note 13. Related Party Disclosures

Directors

The names of each person holding the position of Director of the company during the financial year were:

RM Bunyon, J Maitland, MJ Vertigan and G Grove-White. All of these persons were also directors during the year ended 30th June 2003.

Ultimate Parent Entity

The ultimate parent entity of the company as at balance date is Eraring Energy.

Transactions with Ultimate Parent Entity

Expenses incurred for services provided by Eraring Energy totalled \$100,303. These were primarily in relation to insurance services and were on normal terms and conditions. Other transactions included borrowing costs of \$225,609. As at the 30th June 2004, the company owed Eraring Energy \$3,656,488, for a provision for a dividend of \$544,905 and a short term loan of \$3,111,583 (including accrued interest).

	2004	2003
	\$	\$

Note 14. Notes to the Statement of Cash Flows

i) Reconciliation of Cash

For the purposes of the Statement of Cash Flows, cash includes cash on hand and at bank. Cash at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

Cash assets	19,618	210,044
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ii) Reconciliation of profit from ordinary activities after income tax expense to net cash provided by operating activities

Profit from ordinary activities after income tax	544,905	1,991,191
Add/(less) ; Non-cash items		
Depreciation	371,558	474,507
Depreciation on assets sold/written off	3,261	22,208
Proceeds from sale of non-current assets	-	(27,530)
Increase/ (decrease) in interest payable	38,200	16,373
Increase/ (decrease) in income taxes payable	(459,798)	(286,704)
Net cash provided by operating activities before changes in assets and liabilities	498,126	2,190,045
Net changes in assets and liabilities during the financial year:		
(Increase)/decrease in debtors	(754,843)	(118,944)
(Increase)/decrease in inventories	(7,874)	(187,172)
(Increase)/decrease in prepayments	(57,036)	10,803
(Increase)/decrease in future income tax benefit	(270,302)	(39,870)
Increase/(decrease) in trade creditors and accruals	379,439	(168,311)
Increase/(decrease) in other liabilities	(10,676)	189,189
Net cash provided by operating activities	(223,166)	1,875,740

iii) Dividends

The dividend of \$1,389,632 relating to the year ended 30th June 2003 which was paid on the 28th November 2003 was not franked.

	2004 \$	2003 \$
Note 15. Commitments for Expenditure		
Capital Commitments		
Commitments for the acquisition of plant and equipment contracted for at the reporting date but not recognised as liabilities, payable:		
Within one year	2,616	-
Later than 2 years but not later than 5 years	-	-
Later than 5 years	-	-
Operating Leases		
The Company has a number of motor vehicle operating leases none of which have any contingent rentals, renewal options, conditions or restrictions. Minimum lease payments in any year are dependent on the term of each lease.		
Total amount of rental expense during the year relating to operating leases including GST of \$6,255 (2003 – \$5,653):	68,808	62,179
Commitments and minimum payments in relation to these operating leases contracted for at the reporting date but not recognised as liabilities, payable:		
Within one year – including GST of \$6,748 (2003 – \$2,188)	74,224	24,063
Later than one year but not later than 5 years – including GST of \$4,798 (2003 – \$413)	52,780	4,546
Later than 5 years	-	-
	127,004	28,609
Novated Leases		
The Company has commitments under Deeds of Novation in respect of employee motor vehicle leases. The Company's commitment under a Deed of Novation ceases on termination of employment of the employee concerned. All costs paid by the Company in respect of these leases are fully recovered from the employees salaries. Minimum lease payments in any year are dependent on the term of each lease and the continued employment of the relevant employees.		
Total amount of rental payments during the year relating to novated leases including GST of \$31,186 (2003 – \$27,437):	343,043	301,803
Commitments and minimum payments in relation to these novated leases contracted for at the reporting date but not recognised as liabilities, payable:		
Within one year – including GST of \$25,392 (2003 – \$25,938)	279,316	285,324
Later than one year but not later than 5 years – including GST of \$21,809 (2003 – \$27,891)	239,902	306,807
Later than 5 years	-	-
	519,218	592,131
The Company has no finance leases.		

Note 16. Contingent Liabilities

Pacific Western Pty Limited had no contingent liabilities as at 30th June 2004

74 Pacific Western Pty Limited Notes to & forming part of the Financial Statements

For the year ended 30th June, 2004

	2004 \$	2003 \$
Note 17. Employee Benefit and Related on-costs Liabilities		
Provision for employee benefits – current (note 10)	612,879	596,303
Provision for employee benefits – non-current (note 10)	18,197	45,450
Aggregate employee benefit and related on-costs liabilities	631,076	641,753
Employee Numbers		
Number of employees at reporting date	43	44

Note 18. Financial Instruments

Financial instruments give rise to positions that are financial assets or liabilities of either Pacific Western or its counterparties. For Pacific Western these include cash, receivables, creditors and borrowings.

In accordance with AASB1033 “Presentation and Disclosure of Financial Instruments”, information is disclosed in this Note in respect of the risks entailed in the use of financial instruments. All such amounts are carried in the accounts at net fair value unless otherwise stated. The specific accounting policy in respect of each class of such financial instrument is stated hereunder.

Classes of instruments recorded at cost comprise Cash, Receivables and Payables. Borrowings are recorded at the principal sum repayable at maturity. All financial instruments including revenue, expenses or other cash flows arising from instruments are recognised on an accrual basis.

(a) Interest Rate Risk

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

Pacific Western’s exposure to interest rate risks and the effective interest rate of financial assets and liabilities, both recognised and unrecognised at balance date, are as follows:

	Floating Interest Rate	Fixed Interest Rate 1 Year or less	Maturing In 1 to 5 years	Over 5 years	Non Interest Bearing	Total Carrying Amount	Weighted Average Effective Interest Rate
2004							
Financial Assets							
Cash	19,618	-	-	-	-	19,618	3.70%
Receivables	-	-	-	-	2,263,304	2,263,304	N/A
Total Financial Assets	19,618	-	-	-	2,263,304	2,282,922	
Financial Liabilities							
Borrowings: (a) Parent Entity	-	3,111,583	-	-	-	3,111,583	10.31%
Payables: (a) Parent Entity	-	-	-	-	-	-	N/A
(b) Other	-	-	-	-	1,264,961	1,264,961	N/A
Total Financial Liabilities	-	3,111,583	-	-	1,264,961	4,376,544	

	Floating Interest Rate	Fixed Interest Rate 1 Year or less	1 to 5 years	Maturing In Over 5 years	Non Interest Bearing	Total Carrying Amount	Weighted Average Effective Interest Rate
2003							
Financial Assets							
Cash	210,044	-	-	-	-	210,044	3.70%
Receivables	-	-	-	-	1,508,461	1,508,461	N/A
Total Financial Assets	210,044	-	-	-	1,508,461	1,718,505	
Financial Liabilities							
Borrowings: (a) Parent Entity	-	1,573,383	-	-	-	1,573,383	8.61%
Payables: (a) Parent Entity	-	-	-	-	96,098	96,098	N/A
(b) Other	-	-	-	-	1,985,830	1,985,830	N/A
Total Financial Liabilities	-	1,573,383	-	-	2,081,928	3,655,311	

(b) Credit Risk

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

	Governments	Banks	Other	Total
2004				
Financial Assets				
Cash	-	19,618	-	19,618
Receivables	2,214,898	-	9,885	2,224,783
Total Financial Assets	2,214,898	19,618	9,885	2,244,401
2003				
Financial Assets				
Cash	-	210,044	-	210,044
Receivables	1,500,927	-	7,534	1,508,461
Receivables – related entities	-	-	-	-
Total Financial Assets	1,500,927	210,044	7,534	1,718,505

(c) Net Fair Value

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

Note 19. Standby Arrangements and Credit Facilities**Loan Facilities**

Short term advances from Eraring Energy – \$9 million limit.

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For the year ended 30th June, 2004



BOX 12 GPO
SYDNEY NSW 2001

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

Audit Opinion

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

(a) the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the company's financial position as at 30 June 2004 and financial performance for the year ended on that date, and
- (ii) complying with Accounting Standards in Australia, and the *Corporations Regulations 2001*,

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

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

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

The Directors' Role

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

The Auditor's Role and the Audit Scope

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

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

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

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

My opinion does not provide assurance:

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

Audit Independence

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

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

R J Sendt
Auditor-General

SYDNEY
21 September 2004

Action Plan for Women

Eraring Energy operates a Women in Eraring Strategy, which includes active participation in and commitment to the Public Sector Spokeswomen's Program. Achievements include specific activities and initiatives developed for women including targeted development activities, a library and a monthly newsletter.

Code of Conduct

Eraring Energy introduced a new Code of Conduct in May 2003.

Education and training relating to the new code has commenced and is to be delivered to all staff in two stages. The first stage has included an overview of the Code and the Code of Conduct Procedure and the associated responsibilities of the Board, Executive, Managers, Team Leaders and staff. It has also included training on the first objective under the code and the prevention of discrimination, harassment and bullying. The second stage of training is scheduled to be delivered by the end of 2004. The focus of this training is on Ethics and Integrity and relates to the remaining five code objectives. The objectives are outlined below:

Specifically our objectives are to ensure:

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

Cost of Annual Report

Eraring Energy has produced 600 copies of the annual report in printed format at a total cost of \$29,000 including all external costs.

Departures from Financial and Other SCI Targets

Eraring Energy exceeded all financial targets agreed with Government in the 2003/04 Statement of Corporate Intent. The major explanations for the out-performance are outlined below:

- higher average realised sales prices;
- actuarial adjustments for insurance, superannuation and long service leave;
- lower financing costs due to lower debt levels which resulted from higher sales; and
- an accounting treatment change to capitalise spares.

Disability Plan

Eraring Energy continues to be pro-active in the provision of assistance and access to meet the needs of people with a disability.

A dedicated Disability Action Plan has been drafted and will be implemented during the 2004/05 reporting period. The Workforce Diversity Section of this report includes actions and outcomes that relate to meeting the needs of EEO Group members including people with a disability.

Disclosure of Controlled Entities

Eraring Energy has a wholly owned subsidiary, Pacific Western Pty Limited. The specific activity of the company is the operation and maintenance of Collie Power Station in Western Australia, under contract to Western Power. Pacific Western has issued a termination notice to Western Power bringing the termination of the operation and maintenance contract forward to the 26th March 2005. (Operations of the Company have been included in the Financial Statements forming part of the Annual Report.)

Ethnic Affairs Statement

Eraring Energy's Ethnic Affairs Priority Statement (EAPS) includes strategies and actions, which ensure that the operation and conduct of our business reflects, accommodates and considers cultural diversity. This year for the first time, a site induction video was reproduced in another language that has a high representation in our client/contractor base. EAPS related actions and outcomes are incorporated in the Workforce Diversity Section of this report.

Exemptions from Reporting

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

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

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

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

Further exemptions were approved subject to specific conditions:

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

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

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

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

EEO Statistical Tables

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

EEO Group	% of Total Staff (2)				
	NSW Government Benchmark or Target	2001	2002	2003	2004
Women	50%	7%	8%	9%	9%
Aboriginal people and Torres Strait Islanders	2%	0.7%	0.4%	0%	0.3%
People whose first language was not English	20%	7%	7%	7%	7%
People with a disability	12%	11%	10%	9%	9%
People with a disability requiring work-related adjustment	7%	5%	4%	4%	4.1%

B. Trends in the Distribution of EEO Groups

EEO Group	Distribution Index (3 & 4)				
	NSW Government Benchmark or Target	2001	2002	2003	2004
Women	100	92	90	97	99
Aboriginal people and Torres Strait Islanders	100	n/a	n/a	n/a	n/a
People whose first language was not English	100	115	117	112	113
People with a disability	100	102	104	100	100
People with a disability requiring work-related adjustment	100	n/a	n/a	n/a	n/a

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

Freedom of Information

Eraring Energy received its first Freedom of Information application since its incorporation in August 2000 in this reporting period July 2003 to June 2004. This request was completed within 21 days with access being granted in part as some of the information requested was considered to be covered as exempt by Clause 4A, Schedule 1(2) of the Freedom of Information Act 1989.

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

No internal review was requested concerning the exempt information by the applicant.

During the 2003/04 year:

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

Funds Granted to Non-Government Community Organisations

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

More than 20 organisations and community groups benefited from donations and sponsorships from Eraring Energy totalling approximately \$43,000 during the year.

Heritage Management

Eraring Energy maintains a register of heritage items in accordance with Section 170 of the Heritage Act. The following items are included:

- Eraring Wetland
- Brown Mountain Hydro Power Station
- Burrinjuck No. 1 Power Station
- Burrinjuck No. 2 Power Station
- Burrinjuck Terminal Station

The register is reviewed and updated in accordance with Eraring Energy procedures for management of heritage items.

Legal Change

The regulatory environment in which participants in the National Electricity Market operate continues to change, with the establishment of the Ministerial Council on Energy and the implementation by the National Electricity Code Administrator of new codes for bidding and rebidding. In addition, there have been changes occurring in the NEM rules, Corporations Law and related financial services regulations and in areas affecting the commercial undertakings more generally such as Trade Practices, Occupational Health and Safety, and Environmental Law.

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

Occupational Health & Safety Performance

Safety Frequency Rate – 6.9

Occupational Health Performance Table

	Number of LTI's	Total Days Lost	Frequency Rate	Duration Rate
Sydney Office	0	0	0	0
Eraring Power Station	5	36	9	7.2
Hydro & Wind Operations	0	0	0	0
Total Eraring Energy	5	36	6.9	7.2

Overseas Visits

During 2003/04, the following officers travelled overseas.

Name	Destination	Date	Purpose
Wayne Winterbine Asset Manager	London	14 Nov-13 Dec 2003	Senior Development Program, London Business School
Michael Mortiss ICMS Project Manager	Zurich	28 Nov-7 Dec 2003	Inspection and testing at CCI Factory
Peter Jackson GM/Production	Japan	21-25 Apr 2004	Meeting Toshiba Management, Unit 1 Turbine Casing
Peter Jackson GM/Production	Korea	14-18 Jun 2004	Inspection of KPS facilities
Steve Shawcross Turbine Plant Owner	Korea	14-18 Jun 2004	Inspection of KPS facilities

Promotion

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

- Annual Reports
 - Environmental Report
 - Environment Policy
 - Code of Conduct
 - Brochures – Environmental
Eraring Power Station
 - Fact Sheets – Cooling Water
Emissions
Land Management
-

Social Program

Eraring Energy has not been involved in any social programs as defined under the Annual Reports (Statutory Bodies) Regulation 2000 for reporting period 2003/04.

Workforce Diversity

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

Achievements for the reporting period:

Planning Outcome Achievements

EEO related data has been collected for 91% of staff.

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

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

- Six monthly small group staff briefings with the Managing Director.
- Culture Survey and related feedback/action planning workshops for all staff.
- Employee Consent Award Negotiations
- Monthly Site Consultative Committee Meetings, Team Meetings and Tool Box Talks.
- Consultations with random samples of staff relating to specific initiatives via focus groups, surveys, and feedback workshops.

A presentation is made to the executive team as part of the Strategic Planning Cycle to ensure diversity and equity initiatives and responsibilities are included in Business Plans.

Action Outcome Achievements

During the period a number of policies and procedures were either reviewed or developed to supplement our Code of Conduct Policy and Procedure including:

- Achievement Through People Policy
- Performance Improvement Procedure
- Capability Improvement Procedure
- Diversity & Equity Policy & Procedure
- Grievance Handling & Complaint Resolution Procedure
- Disciplinary Procedure

Growth and development of our people is a fundamental element of Eraring Energy's vision. Diversity & Equity Education designed specifically for Managers and Team Leaders was delivered during the period. This has reinforced the need to consider equity and diversity when providing opportunities to their staff.

Eraring Energy presently operates a Women in Eraring Strategy. During the period a number of targeted development activities were offered to our women.

Half-day Code of Conduct workshops commenced for all staff in April 2004. The main focus of the workshop is to ensure all staff understand the value of diversity and their role and responsibilities in ensuring that the workplace is free from discrimination, harassment and bullying.

Diversity considerations have also been incorporated into all aspects of mainstream training, particularly our leadership. development programs and half-day workshop on giving and receiving feedback that all staff attended during the period.

Program Outcome Achievements

- Recruitment processes have been reviewed during the period. The review has included reviewing and refining recruitment and selection processes and procedures to ensure they are free from discrimination. Changes have been made to make sure external vacancies are promoted and advertised to attract a diverse pool of applicants to apply for Eraring Energy positions.
- Nine people were recruited during the period with 100% responding to the EEO data request form. Of the nine one person identified as being an Aboriginal or Torres Strait Islander and two were women.
- Twelve internal appointments occurred, four of which were women.
- Six men and six women left the organisation during the period. Of the twelve separations one was an employee who had identified as being from a Racial, Ethnic, Ethno-Religious Minority Group.
- Eraring Energy's progress towards Government targets and benchmarks for the representation of EEO Groups has remained the same in the Women, People Whose first language was not English and People with a disability EEO Groups. It has increased from zero to 0.3% in the Aboriginal & Torres Strait Islander and from 3.8% to 4.1% in the people with a disability requiring work-related adjustment EEO Groups.

Key Initiatives July 1 2004 - June 30 2005

The following activities are planned for the next reporting period:

- Continue to reinforce and educate Eraring Energy Executive, management and employees on the value of diversity and their role and responsibilities in ensuring that the workplace is free from harassment and discrimination
 - Continued communication, education and examples of the value, benefits and business outcomes to be realised by respecting and increasing the diversity of our workplace.
 - Review Executive and Senior Management Performance Agreements for the inclusion of Diversity/EEO Accountabilities.
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WRAPP

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

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

During the last year achievements include:

- Eraring Energy won the Newcastle City Council Environment Award for its achievement in Waste Management.
 - Implemented a Data Base to track and record purchases, recycling and other waste issues.
 - Information section on Waste Management in Eraring Energy's Newsletter.
 - Secondary sewerage treated for use in electricity remained static due to drought conditions.
 - The disposal of all fluorescent light tubes carried out in an environmental safe manner.
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