
Integral Energy Australia

AUDIT OPINION

The audit of the financial report of Integral Energy Australia (Integral) for the year ended 30 June 2005 resulted in an unqualified Independent Audit Report.

KEY ISSUES

Growth of Network and Demand Management

Integral's ten-year infrastructure blueprint "Network 2015" was released in June 2005. This plan forecasts that demand on Integral's network will increase by 45 per cent over the next ten years, with customer numbers increasing by 29 per cent.

A significant driver of demand is the release of previously rural and semi-rural land into new urban developments. Additionally, consumption levels have doubled in some suburbs. It is estimated that 70 per cent of Integral's Western Sydney customers now have air conditioners compared to 25 per cent 10 years ago.

To meet future electricity demand, Integral plans to spend \$1.2 billion on upgrading its electricity infrastructure in the five years to 2009. Complementing the infrastructure expenditure, Integral has a number of demand management plans to reduce demand in areas such as Castle Hill and Blacktown-Seven Hills. Other demand management programs are being rolled out in Parramatta, Wetherill Park and Nowra.

PERFORMANCE ISSUES

Integral has published fully integrated sustainability reporting within its Annual Performance Report since 2003-04. The Corporation uses performance indicators proposed in the guidelines issued by the Electricity Supply Association of Australia (ESAA). Some of the Corporation's indicators are outlined below.

Operational Performance

Statistics provided by Integral show:

Year ended 30 June	Target 2005	Actual			
		2005	2004	2003	2002
Supply of electricity - gigawatt hours	17,013	16,903	15,570	15,212	14,975
Total customer connections	837,496	822,446	819,496	808,767	789,923
Network reliability - average minutes customers were without supply	145.0	115.0	147.0	155.1	133.7
Customer satisfaction index (%)	65.0	78.0	56.0	55.1	50.3
Public serious electrical accidents	2	3	2	2	4
Lost time - accidents per one million hours worked	6.0	6.3	7.2	8.0	13.3

The below target performance for customer connections reflects the increasing difficulty in acquiring new customers in the current competitive market.

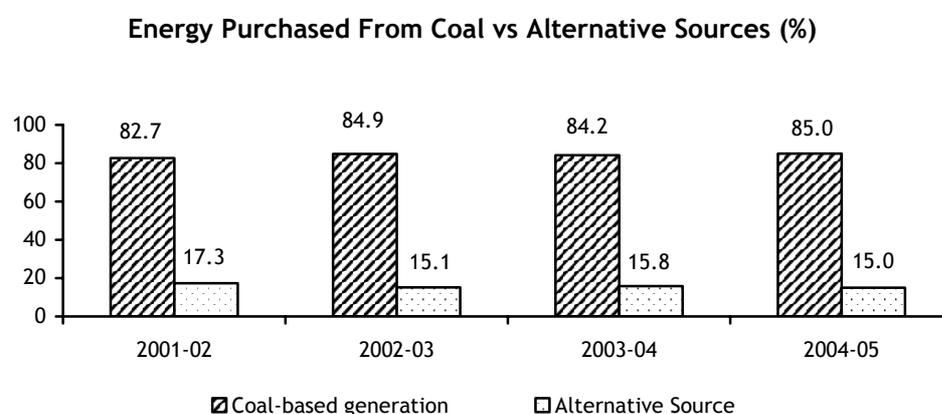
The sharp improvement in network reliability resulted from increased investment in the network and a strong focus on maintenance, assisted by unusually mild weather conditions. Network reliability covers both planned and unplanned interruptions to supply, but excludes major storms, because the number of staff available to make repairs is limited. This measure is also affected by the size, age and condition of the network, the extent of undergrounding and unstable weather.

The customer satisfaction index in 2004-05 was 78 per cent. This is the percentage of customers who rated Integral Energy as 'excellent' or 'very good' for certain parameters in customer surveys.

The ESAA's average for NSW distributors' lost time injuries is 9.9 accidents per one million hours worked. Integral's performance although below target, has continued to improve for the last three financial years. Safety continues to be a key focus for the Board and Executive team.

Environmental Performance

Integral's energy purchases from alternative sources have been relatively stable over the last few years, although purchases are expected to increase as requirements under the carbon credit schemes grow.



Currently the cost of energy from alternative sources is higher than energy from coal based energy sources. Even so, Integral is exceeding the industry average performance under ESAA's Code of Environmental Practice.

Integral is meeting its target obligations under the Commonwealth's *Renewable Energy Electricity Act 2000*. This has been achieved through wholesale purchases of renewable energy certificates from a variety of eligible sources (i.e. wind, hydro, waves, solar and biomass).

The NSW Greenhouse Abatement scheme came into force on 1 January 2003. All electricity retailers are obliged to reduce their greenhouse gas emissions to meet the benchmark targets. Integral Energy meets the obligations under this scheme through existing generation contracts with the Smithfield Energy Facility and the Appin Tower collieries.

Financial Performance

Some financial performance indicators for Integral are:

Year ended 30 June	Target 2005	Actual		
		2005	2004	2003
Earnings before interest and tax (\$m)	224.3	276.8	249.7	162.2
Return on equity (%)	7.9	11.6	9.8	4.2
Return on assets (%)	7.8	9.6	9.2	6.1
Debt to equity (%)	105.2	104.5	103.8	106.1
Interest cover (times)	2.5	3.3	2.9	2.0
Total distributions to Government (\$m)	133.6	178.7	164.1	76.9
Capital expenditure (\$m)	253.8	256.8	224.8	163.4

Financial ratios were above target due to earnings before interest and tax being \$52.5 million above budget. Higher earnings resulted from capital contributions from developers of \$65.6 million exceeding budget by \$23.5 million, and energy purchases of \$471.9 million falling below budget by \$27.7 million.

The Annual Performance Report of Integral Energy Australia can be found on its website. This explains how these indicators are measured, in addition to providing other statistics.

Integral's capital expenditure during 2004-05 was focused on increasing capacity to meet high summer load growth rates and ensuring the ageing network can cope with increasing demand. Major projects include:

- establishment of a new zone substation at Mamre
- augmentation of Shellharbour zone substation
- installation of a third transformer and construction of a new switchyard at Mt Druitt
- rebuild of Werrington zone substation
- construction of a zone substation within Baulkham Hills transmission substation
- establishment of the new Aerodrome zone substation at Hoxton Park
- augmentation of Tahmoor and Maldoon zone substations
- augmentation of Liverpool zone substation

CONTROL ISSUES

We identified opportunities for improvement in internal control/procedures. These were minor, and we reported them to management.

COMPLIANCE ISSUES

We examined whether Integral complied with the *State Owned Corporations Act 1989* regarding the appointment of directors and operations of the board. The result of the review was satisfactory.

OTHER ISSUES

Bushfires

A Coronial inquest confirmed that sparking powerlines along Appin Road caused a grassfire at Appin in December 2001. Integral has set up a special taskforce to enable compensation to be paid, to modify the network to avoid fires in the future, and to establish practices to mitigate future losses. There have been 353 claims lodged to 30 June 2005, amounting to \$34.5 million.

Australian Equivalents to International Financial Reporting Standards (AEIFRS)

Integral reported that the 30 June 2005 operating profit after tax under AEIFRS would have been \$116.1 million, \$10.7 million lower than that reported under current accounting standards. This does not include the material impact that the AEIFRS standard on financial instruments will have as this standard does not apply until 1 July 2005.

FINANCIAL INFORMATION

Abridged Statement of Financial Performance

Year ended 30 June	2005 \$'000	2004 \$'000
TOTAL REVENUE	<u>1,369,761</u>	<u>1,342,043</u>
OPERATING PROFIT BEFORE BORROWING COSTS, DEPRECIATION AND TAX	405,149	368,656
Borrowing costs	<u>85,361</u>	85,527
Depreciation	<u>128,385</u>	118,988
OPERATING PROFIT BEFORE TAX	191,403	164,141
Income tax equivalent	<u>64,590</u>	<u>61,817</u>
OPERATING PROFIT AFTER TAX	126,813	102,324
Increase in asset revaluation reserve	44,972	40,478
Dividend provided	<u>114,132</u>	<u>102,324</u>
INCREASE IN EQUITY	<u>57,653</u>	<u>40,478</u>

Total revenue included \$962 million in electricity sales (\$982 million in 2003-04).

Abridged Statement of Financial Position

At 30 June	2005 \$'000	2004 \$'000
Current assets	317,130	322,965
Non-current assets	<u>2,690,287</u>	<u>2,458,397</u>
TOTAL ASSETS	<u>3,007,417</u>	<u>2,781,362</u>
Current liabilities	896,690	673,311
Non-current liabilities	<u>987,588</u>	<u>1,042,565</u>
TOTAL LIABILITIES	<u>1,884,278</u>	<u>1,715,876</u>
NET ASSETS	<u>1,123,139</u>	<u>1,065,486</u>

Not included in liabilities is the Smithfield 30-year energy purchase contract. This contract is due to expire in 2027 and expenditure commitments at 30 June 2005 were \$1,921 million.

CORPORATION ACTIVITIES

See the 'Overview of the Electricity Industry' section earlier in this report for general industry comment.

Integral Energy Australia is a statutory State owned corporation constituted by the *Energy Services Corporations Act 1995*. Its principal functions are to establish, maintain and operate facilities for the distribution and supply of electricity and other forms of energy. The voting shareholders are the Minister for Finance and the Assistant Treasurer.

For more information on Integral, refer to www.integral.com.au.