
EnergyAustralia

AUDIT OPINION

The audits of the financial reports of EnergyAustralia (the Corporation) and its controlled entities for the year ended 30 June 2007 resulted in unqualified Independent Auditor's Reports.

Unless otherwise stated, the following commentary relates to the consolidated entity.

KEY ISSUES

Wholesale Electricity Costs

During the last quarter of 2006-07, the Corporation recognised significant losses on electricity sales due to a three-fold increase in the wholesale electricity price. A tightening of the supply in the wholesale market and record demand contributed to the price increase.

The Corporation manages market volatility by entering into swaps and options as cash flow hedges against movements in spot prices. Due to the recent volatility in the wholesale market, the Corporation has adopted strategies to manage and reduce the risk inherent in volatile markets.

Sale of Energy Australia Pty Ltd

On 18 May 2007, International Power exercised its option rights under the Partnership Agreement to buy the corporation's remaining 50 per cent share of the partnership business for \$142 million. This sale was completed by selling the shares in the Corporation's partnership subsidiary company, Energy Australia Pty Ltd (EAPL) to International Power. The consolidated entity realised \$49.3 million profit on loss of control of EAPL in 2006-07.

With this transaction, the Corporation ceased operations in the Victorian and South Australian electricity retail markets.

Electricity Network System

The Corporation will spend \$650 million of capital investment up to 2009 to meet its reliability of service licence conditions. The Independent Pricing and Regulatory Tribunal approved price increases from 1 July 2006, which will enable the Corporation to recover some of these additional costs.

The Corporation plans to spend almost \$4.2 billion on capital works over the next four years to 2010-11. During 2006-07, the Corporation spent \$697 million (\$525 million in 2005-06) on electricity network system capital works program.

The Minister for Energy and Utilities approved new reliability of service conditions to be effective from 1 August 2005. The reliability of service conditions should improve reliability of the network in NSW.

A significant portion of the network is over 30 years old and the estimated cost to replace these assets is between \$5.0 billion and \$6.0 billion.

New Gas Peaking Generation Plant

The Corporation has received in principle approval for the development of a 350 megawatt open cycle gas turbine power station. The plant will provide peaking capacity and will be built in Marulan. The target commissioning date is June 2010. Final approval is subject to meeting certain conditions.

Critical Information Technology Systems

The Corporation reported on the adequacy of backup and recovery of its 21 most critical information technology systems at 30 July 2007. The report considered:

- the robustness of the current data and applications backup arrangements and processes. It assessed the risk profile for the majority of the systems as low, metering systems as medium and the technical drawing management system as significant
- a combined assessment of the likelihood of a disaster and the consequence of a disaster occurring. In the event of a datacentre site disaster, the recovery risk is likely to be significantly higher due to unclear priority for application restoration and the need to establish a comprehensive restoration plan including end to end process testing.

The Corporation's Critical IT Exposures Remediation Program is currently addressing these issues. The program will be completed by the end of October 2007. There are ten major remediation projects within the current program which are scheduled for completion by the end of December 2007. In addition, there are 13 Review and Assessment projects being completed which will define further remediation projects for implementation.

PERFORMANCE INFORMATION

The Corporation provided the following information regarding its performance.

Operational Performance

A prime objective of the Corporation is to deliver a safe and reliable supply of energy to its customers. The following table shows the performance of the Corporation in relation to customer satisfaction, employee safety and customer gains and losses.

Year ended 30 June	Actual			Target (i)
	2005	2006	2007	2007
Customer satisfaction index (%)	96	95	94	>60
Minutes customers were without supply (ii)	90	90	102	98-112
Lost time injury frequency - (hours per million hours worked)	3.8	3.8	2.9	<5.0
Customers at year end (000's)	1,539	1,557	1,568	1,228

Source: EnergyAustralia Annual Report 2006-07.

(i) Target agreed with shareholder Ministers in the Statement of Corporate Intent (SCI).

(ii) 2007 results follow the "Design, Reliability and Performance Licence Conditions" method in accordance with the Institute of Electrical and Electronic Engineers guidelines. Prior year results have been reinstated on this basis.

The Corporation achieved most of its performance targets for the year. The volatility of wholesale electricity market, suspension of sales of electricity contracts in April 2007 and increasing competition within the industry affected the Corporation's performance in retaining and gaining customers.

Environmental Performance

The Corporation met Commonwealth Renewable Energy targets under the *Renewable Energy (Electricity) Act 2000* and achieved its NSW Greenhouse Gas abatement target under the *Electricity Supply Amendment (Greenhouse Gas Emission Reduction) Act 2002* for the calendar year ended 31 December 2006.

During the year the Corporation supplied 30,335 (30,259) gigawatt hours of electricity. The Corporation purchased green power rights guaranteeing the generation of 634 (538) gigawatt hours of renewable electricity from accredited Green Power generators.

Financial Performance

Year ended 30 June	Actual				Target(i)
	2004	2005	2006	2007	2007
Earnings before interest and tax (\$m)	426.2	378.9	527.2	594.1	483.5
Return on average equity (%)	8.2	8.6	14.4	12.4	10.8
Return on average assets (%)	7.8	6.5	8.4	7.6	7.1
Debt to equity (%)	110.7	159.6	162.8	144.6	191.1
Total distributions to government (\$m) (ii)	184.2	144.2	304.0	277.7	215.0
Capital expenditure (\$m) (excluding capital contribution)	344.4	483.7	603.9	783.5	719.4

Source: EnergyAustralia SCI.

(i) Target agreed with shareholder Ministers in the SCI adjusted to include capital contributions.

(ii) Reflects Income tax equivalent, and dividend expenses.

The Corporation's results for 2006-07 exceeded all financial performance targets outlined in its Statement of Corporate Intent and showed significant movements since 2004.

OTHER INFORMATION

We identified opportunities for improvement to accounting and internal control procedures and have reported them to management.

FINANCIAL INFORMATION

The following information relates to the Corporation's consolidated finances.

Abridged Consolidated Income Statement

Year ended 30 June	Consolidated		Parent	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
TOTAL REVENUE	<u>2,968,800</u>	2,853,800	<u>2,886,100</u>	<u>2,903,800</u>
PROFIT BEFORE FINANCE COSTS, DEPRECIATION, AND TAX	<u>861,800</u>	785,100	<u>779,100</u>	825,400
Finance costs	<u>220,000</u>	181,100	<u>220,000</u>	181,100
Depreciation and amortisation	<u>267,700</u>	<u>257,900</u>	<u>267,700</u>	<u>257,900</u>
PROFIT BEFORE TAX	<u>374,100</u>	346,100	<u>291,400</u>	386,400
Income tax equivalent	<u>115,400</u>	<u>98,800</u>	<u>102,900</u>	<u>102,500</u>
PROFIT AFTER TAX	<u>258,700</u>	<u>247,300</u>	<u>188,500</u>	<u>283,900</u>
Dividend provided	<u>162,300</u>	205,200	<u>162,300</u>	205,200

Total revenue included \$2.7 billion (\$2.6 billion) for the sale and delivery of energy (electricity and gas) to retail customers, public lighting system charges and community service obligation refunds. Costs associated with the distribution of energy totalled \$2.4 billion (\$2.3 billion).

Profit before tax increased due to share of profit of partnership of \$33.4 million and gain on sale of EAPL \$49.3 million which were offset by the large increase in wholesale electricity costs in the last quarter of the year.

Abridged Consolidated Balance Sheet

At 30 June	Consolidated		Parent	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Current assets	<u>1,976,000</u>	800,400	<u>1,976,000</u>	860,500
Non-current assets	<u>6,971,900</u>	<u>5,788,900</u>	<u>6,984,500</u>	<u>5,773,700</u>
TOTAL ASSETS	<u>8,947,900</u>	<u>6,589,300</u>	<u>8,960,500</u>	<u>6,634,200</u>
Current liabilities	<u>2,605,100</u>	1,839,500	<u>2,605,100</u>	1,843,200
Non-current liabilities	<u>3,885,500</u>	<u>3,024,800</u>	<u>3,885,500</u>	<u>3,024,800</u>
TOTAL LIABILITIES	<u>6,490,600</u>	<u>4,864,300</u>	<u>6,490,600</u>	<u>4,868,000</u>
NET ASSETS	<u>2,457,300</u>	<u>1,725,000</u>	<u>2,469,900</u>	<u>1,766,200</u>

Assets increased due to a significant movement in energy debtors and derivative assets of \$1.7 billion the anticipated proceeds of \$142 million from the sale of EAPL and an increase in property, plant and equipment of \$561 million approximately.

Liabilities increased mainly due to additional borrowings of \$700 million, to fund capital expenditure, and significant increase in energy creditors and derivative liabilities of \$789 million.

ENTITY ACTIVITIES

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

EnergyAustralia, a statutory State owned corporation, was established in March 1996 under the *Energy Services Corporations Act 1995*. Its principal function is to distribute electricity in the national electricity market.

For further information on EnergyAustralia, refer to www.energy.com.au.

CONTROLLED ENTITIES

The following controlled entities have not been reported separately on as they are not considered material by their size or the nature of their operations to the consolidated entity.

Entity Name

Energy Management International Pty Ltd
Downtown Utilities Pty Ltd
