



Financial Review '06

for the period from 1 April to 30 June 2006

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Corporate directory

DIRECTORS

P J MANSELL
Chairperson

D ABERLE
Managing Director

M DAVIES
S FARRIER
K FIELD
J A SEABROOK

GENERAL COUNSEL AND COMPANY SECRETARY

J PEASE

DIVISIONAL GENERAL MANAGERS

GENERAL MANAGER SYSTEM MANAGEMENT
K BROWN

GENERAL MANAGER FIELD SERVICES
A M CLARK

GENERAL MANAGER ASSET MANAGEMENT
M DE LAETER

GENERAL MANAGER HUMAN RESOURCES
G MONKHOUSE

CHIEF FINANCIAL OFFICER
M PEACOCK

ACTING GENERAL MANAGER BUSINESS TRANSFORMATION
M SIMS

GENERAL MANAGER STRATEGY AND CORPORATE AFFAIRS
P SOUTHWELL

GENERAL MANAGER WORKS DELIVERY
R WHITE

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Directors' report

The Board of Directors of Electricity Networks Corporation ('the Corporation') trading as Western Power, appointed by the Governor on the nomination of the Minister for Energy ('the Minister') under section 8(1) of the Electricity Corporations Act 2005 (WA) ('the Act'), present this report for the three months to 30 June 2006.

DIRECTORS

The names and details of the Directors in office during the entire three months to 30 June 2006 are:

D Aberle

M Davies

S Farrier

K Field

P J Mansell

J A Seabrook

PRINCIPAL ACTIVITIES

The principal continuing functions of the Corporation are to:

- manage, plan, develop, expand, enhance, improve and reinforce electricity transmission and distribution;
- provide and improve electricity transmission and distribution services;
- provide access to services of network infrastructure facilities as required and authorised by the Electricity Industry Act 2004 Part 8 and any regulations or market rules made under that Part (which relates to network access);
- provide services in relation to the wholesale electricity market as required and authorised by the Electricity Industry Act 2004 Part 9 and any regulations or market rules made under that Part;
- provide services that improve the efficiency of electricity supply and the management of demand on electricity transmission and distribution systems; and
- provide services ancillary to the above principal activities.

There have been no significant changes in the nature of the principal activities during the three months to 30 June 2006.

DIVIDENDS

There were no dividends paid by the Corporation during the three months ended 30 June 2006.

OPERATING RESULTS

For the three months to 30 June 2006, the Corporation achieved a net profit after income tax of \$17.1 million.

REVIEW OF OPERATIONS

The operations of the Corporation during the three months to 30 June 2006 and the result of those operations are discussed in the Operations Review section of the Annual Report.

CHANGE IN STATE OF AFFAIRS

There were no significant changes in the state of affairs of the Corporation during the three months to 30 June 2006, except as noted below:

- On 1 April 2006 the assets, liabilities and operations of Western Power Corporation were transferred to four separate state-owned entities. The Corporation is one of those entities. The new Board was selected to provide the commercial and industry expertise required for the Corporation's areas of operation, as well as strong experience in customer-focused organisations.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

The Wholesale Electricity Market (WEM) was due to commence operations on 1 July 2006. However, the Independent Market Operator has since confirmed that the WEM commenced in September 2006.

Since 30 June 2006, no other matter or circumstance has occurred that has significantly, or may significantly, affect the:

- a) Corporation's operations in future financial years; or
- b) results of those operations in future financial years; or
- c) Corporation's state of affairs in future financial years.

Directors' report (continued)

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

Likely developments in the operations of the Corporation that were not finalised at the date of this report included:

- The Economic Regulation Authority (ERA) is yet to deliver its final determination in relation to the Corporation's proposed Access Arrangement (AA) for the purposes of the Electricity Networks Access Code 2004. When approved, this initial AA will regulate the Corporation's affairs for a three-year period. The AA was submitted to the ERA on 19 May 2006. The long-term viability of the Corporation is similarly subject to price setting by the ERA.
- The Corporation has committed to a significant capital investment program in order to meet its safety, reliability and efficiency requirements. The Corporation is reliant on debt funding from the shareholder in order to meet these and any additional regulatory requirements.

The Directors have not included in this report any further information on the likely developments in the operations of the Corporation and the expected results of those operations in future years as they believe it would be likely to disadvantage the Corporation.

ENVIRONMENTAL REGULATION

The Corporation is subject to significant environmental regulations in respect of its activities. In particular, the Environmental Protection Act 1986 (WA) (State regulation) and the Environment Protection and Biodiversity Conservation Act 1999 (Commonwealth regulation).

During the three-month period these regulations were complied with.

INFORMATION ON DIRECTORS

D Aberle

Age 52

Experience and expertise

Mr Aberle was appointed to the Board as Managing Director on 1 April 2006. He has a detailed knowledge of all aspects of the electricity industry having formerly filled the positions of General Manager for Networks, Chief Operating Officer, General Manager for Generation and General Manager for Transmission within Western Power Corporation. He was also Chairperson of Integrated Power Services, a company jointly owned by Western Power Corporation and Halliburton, and was Chief Executive Officer of the South West Development Commission during a six-month secondment.

He has a Masters in Engineering Science and a Bachelor of Engineering with honours in Power Systems from the University of Western Australia, and is a graduate of the Advanced Management Program at Harvard University. He is a Fellow of the Institution of Engineers Australia and a Chartered Professional Engineer and is also a clinical member of the Australian Association of Relationship Counsellors, is a College Member of Gestalt Australia and New Zealand, and a Fellow of the Australian Institute of Company Directors.

Other current directorships

South West Counselling Incorporated

Special responsibilities

Managing Director

M Davies

Age 62

Experience and expertise

Mr Davies was appointed to the Board as a Non-Executive Director on 1 April 2006. He has worked in all areas of electricity distribution and has extensive experience in managing both the financial and technical performance of the business. He has held senior management positions at Energy Australia, Australia's largest electricity distribution company. Mr Davies is formally qualified in both Engineering and Economics (UNSW), and has experience at the business level in implementing the National Competitive Reform Agenda for electricity.

Since leaving Energy Australia, Mr Davies has established and operated an engineering consultancy practice, specialising in electricity distribution system management. He has worked for electricity distributors in New South

Directors' report (continued)

Wales and Queensland, for the Independent Pricing and Regulatory Tribunal in New South Wales and for the Australian Competition and Consumer Commission.

Other current directorships

Chairperson for Anrig Pty Ltd and for Girna Engineering Management Services Pty Ltd.

Former directorships in last three years

Mr Davies was a Non-Executive Director of Western Power Corporation until March 2006.

Special responsibilities

Member of the Finance and Risk Committee.

S Farrier

Age 42

Experience and expertise

Ms Farrier was appointed to the Board as a Non-Executive Director on 1 April 2006. She commenced her career as a consulting engineer before moving on to general management consulting and corporate advisory, specialising in utilities industries. In recent years, she has focused on economic regulation, risk allocation and market incentives.

Ms Farrier is a member of the Victoria Water Trust Advisory Council, and a member of the Independent Panel for the Central Region Sustainable Water Strategy.

Ms Farrier has a Bachelor of Chemical and Process Engineering, a Masters of Business Administration and a Post Graduate Diploma in Finance and Investment Analysis.

Other current directorships

Ms Farrier is a Director of Farrier Swier Consulting and a Director of Hydro Tasmania.

Special responsibilities

Member of the Finance and Risk Committee.

K Field

Age 58

Experience and expertise

Ms Field was appointed as a Non-Executive Director on 1 April 2006. She spent more than three decades in the mining industry and has a strong background in human resources and project management.

She has held executive roles in a variety of mining industry sectors throughout Australia and in South America. Prior to returning to Australia to develop consultancy and directorship roles, Ms Field was President of Minera Alumbrera Ltd, an Argentine based management company established to develop and operate a large scale copper/gold mining project in north western Argentina.

Other current directorships

Ms Field is a Non-Executive Director of Sipa Resources Ltd, the Water Corporation and the Centre for Sustainable Resource Processing. She is also involved with a number of community organisations and is a voluntary director of Anglican Homes Inc, a member of the WA Advisory Board of Starlight Children's Foundation and on the WA Council of the Australian Air Force Cadets.

Special responsibilities

Chairperson of the People and Performance Committee.

P J Mansell

Age 59

Experience and expertise

Mr Mansell was appointed to the Board as a Non-Executive Director and as Chairperson on 1 April 2006.

Mr Mansell has practiced as a business lawyer for 34 years, and has a wide range of experience in corporate matters. He was a corporate and resources partner of legal firm Freehills from 1988 to 2004 and at various times was the Freehills National Chairman (1995-2000), Managing Partner of the Perth Office (1992-2002) and a member of the firm's National Board (1989-2002). He is a Fellow of the Australian Institute of Company Directors.

Mr Mansell has had extensive experience in the corporate/commercial sector.

Other current directorships

Mr Mansell is currently a Director of West Australian Newspaper Holdings Ltd, The Hoyts Corporation Pty Ltd, Great Southern Plantations Ltd, Hardman Resources Ltd, Zinifex Ltd, Ferngrove Vineyards Ltd and Bunnings Property Management Ltd, the responsible entity for the Bunnings Warehouse Property Trust.

Former directorships in last three years

Mr Mansell was a Non-Executive Director of Western Power Corporation until March 2006 and was a director of Foodland Associated Ltd, Progressive Enterprises Holdings Ltd, JDV Ltd and Tethyan Copper Company Ltd.

Special responsibilities

Chairperson;

Chairperson of the Remuneration and Nominations Committee; and

Member of the People and Performance Committee.

Directors' report (continued)

J A Seabrook

Age 49

Experience and expertise

Ms Seabrook was appointed to the Board as a Non-Executive Director and Deputy Chairperson on 1 April 2006. She has a Bachelor of Commerce and is a Member of the Institute of Chartered Accountants, a Fellow of the Australian Institute of Company Directors and a Fellow of the Financial Services Institute of Australasia (FINSIA).

Other current directorships

Ms Seabrook is an Executive Director of Gresham Advisory Partners Limited, a Non-Executive Director of West Australian Newspapers Holdings Limited, a member of the Federal Government's Takeovers Panel and the Markets Policy Group for FINSIA.

Former directorships in last three years

Ms Seabrook was a Non-Executive Director and Deputy Chair of Western Power Corporation until March 2006.

Special responsibilities

Deputy Chairperson;
Chairperson of Finance and Risk Committee; and
Member of Remuneration and Nominations Committee.

COMPANY SECRETARY

J Pease

Age 45

Mr Pease was appointed General Counsel and Company Secretary on 1 April 2006. He obtained a Master of Laws with distinction from the University of Western Australia. He has been practicing law since the mid 1980's as a barrister and solicitor and held various in-house, private practice and government positions prior to his appointment with the Corporation.

MEETINGS OF DIRECTORS

The number of meetings of the Board (including meetings of Committees) and number of meetings attended by each of the Directors for the three months to 30 June 2006 are as follows:

MEETINGS OF DIRECTORS									
Attendees	Board Meetings		Remuneration and Nominations		Finance and Risk		People and Performance		
	A	B	A	B	A	B	A	B	
D Aberle	6	8	2*	2*	3*	3*	2*	2*	
M Davies	8	8	-	-	3	3	-	-	
S Farrier	7	8	-	-	2	3	-	-	
K Field	8	8	-	-	-	-	2	2	
P J Mansell	8	8	2	2	-	-	2	2	
J A Seabrook	8	8	2	2	3	3	-	-	

A Number of meetings attended.

B Number of meetings eligible to attend during the time the Director held office.

* Attended by invitation.

Directors' report (continued)

REMUNERATION REPORT

The remuneration report is set out under the following main headings:

- A. Principles used to determine the nature and amount of remuneration;
- B. Details of remuneration; and
- C. Service agreements.

A. PRINCIPLES USED TO DETERMINE THE NATURE AND AMOUNT OF REMUNERATION

Remuneration approval protocols are as follows:

Non-Executive Directors	The Minister approves the remuneration of all Non-Executive Directors.
Managing Director	The Board, subject to the concurrence of the Minister, approves the remuneration of the Managing Director.
General Managers and Chief Financial Officer	The Board, on recommendation of the Managing Director, approves the remuneration of all General Managers and the Chief Financial Officer.

The Corporation's remuneration policy is to:

- provide market competitive remuneration to employees having regard to both the level of work assigned and the employees' performance;
- allocate remuneration to employees on the basis of merit and performance; and
- adopt individual performance measures that are linked to the Corporation's objectives.

Non-Executive Directors

The remuneration framework for Non-Executive Directors incorporates a fixed remuneration and superannuation component.

Managing Director and Executives

The Managing Director and Executives' Remuneration Framework is based on a Total Remuneration Structure, which consists of two components:

1. a fixed remuneration component administered as Total Fixed Remuneration (TFR); and
2. a variable remuneration component administered as Short-Term Incentive (STI).

Total Fixed Remuneration

TFR includes a base salary plus the value of superannuation, company motor vehicle and other benefits and includes fringe benefits tax. Employee TFR reflects the level of work responsibility and personal competency. TFR is reviewed annually on the basis of competitive market movement and personal performance.

Short-Term Incentive

STI is the Corporation's short-term incentive plan and is a cash-based incentive designed to drive successful performance outcomes and team congruence. STI payments are not guaranteed; they are contingent on meeting performance targets agreed by the Board and Senior Management. Qualifying STI payments are made annually in September.

STI for the three month period to 30 June 2006

The Board has assessed management's overall performance in the period to 30 June 2006 taking into account corporate performance against key operational KPI's and progress in establishing the new Western Power business. It has determined to award a proportional payment under the Corporation's Short-Term Incentive Plan. At the date of this report, the STI award values were not determined.

STI for the period commencing 1 July 2006

The STI is based on a three-tier performance target and assessment. Performance will be assessed at three levels in determining qualification for STI payments. These include:

- corporate performance;
- division performance; and
- individual performance.

Directors' report (continued)

B. DETAILS OF REMUNERATION

Details of the remuneration of the Directors are set out in the following table.

01/04/06-30/06/06 Name and Position	Short-Term Benefits			Post Employment Benefits	Other Long-Term Benefits	Termination Benefits	Total Benefits
	Salary and Fees \$	STI \$	Non-monetary \$	Super-annuation \$	\$	\$	\$
D Aberle Managing Director	64,945	-	7,432	11,669	-	-	84,046
M Davies Non-Executive Director	13,750	-	-	1,237	-	-	14,987
S Farrier Non-Executive Director	13,750	-	-	1,237	-	-	14,987
K Field Non-Executive Director	13,750	-	-	1,237	-	-	14,987
P J Mansell ¹ Chairperson	21,628	-	166	26,949	-	-	48,743
J A Seabrook Deputy Chairperson	18,584	-	166	1,688	-	-	20,438
Total Directors	146,407	-	7,764	44,017	-	-	198,188

¹ \$16,042 of the total are payments relating to Western Power Corporation.

Directors' report (continued)

B. DETAILS OF REMUNERATION (CONTINUED)

Details of the remuneration of Executives are set out in the following table.

01/04/06-30/06/06	Short-Term Benefits			Post Employment Benefits	Other Long-Term Benefits	Termination Benefits	Total Benefits
	Salary and Fees \$	STI \$	Non-monetary \$	Super-annuation \$	\$	\$	\$
Name and Position							
K Brown ² General Manager System Management	50,175	-	6,497	12,916	-	-	69,588
A M Clark ³ General Manager Field Services	60,936	-	-	8,841	-	-	69,777
M de Laeter General Manager Asset Management	48,412	-	166	5,468	-	-	54,046
G Monkhouse General Manager Human Resources	57,095	-	166	3,035	-	-	60,296
M Peacock Chief Financial Officer	60,419	-	632	5,495	-	-	66,546
J Pease General Counsel and Company Secretary	39,712	-	5,062	4,025	-	-	48,799
M Sims Acting General Manager Business Transformation	36,317	-	166	6,188	-	-	42,671
P Southwell ⁴ General Manager Strategy and Corporate Affairs	61,887	-	166	6,472	-	-	68,525
R White General Manager Works Delivery	67,766	-	166	6,114	-	-	74,046
Total Executive	482,719	-	13,021	58,554	-	-	554,294

² \$9,292 of the total are payments relating to Western Power Corporation.

³ \$3,358 of the total are payments relating to Western Power Corporation.

⁴ \$8,230 of the total are payments relating to Western Power Corporation.

Directors' report (continued)

C. SERVICE AGREEMENTS

Remuneration and other terms of employment for the Directors, Managing Director and the other Executives are formalised in service agreements. The terms of the agreements relating to remuneration are set out below.

P J Mansell, Chairperson and Non-Executive Director

Term of agreement commencing on 1 April 2006 and expiring on 30 June 2008.

J A Seabrook, Deputy Chairperson and Non-Executive Director

Term of agreement commencing on 1 April 2006 and expiring on 31 March 2008.

M Davies, Non-Executive Director

Term of agreement commencing on 1 April 2006 and expiring on 30 June 2007.

S Farrier, Non-Executive Director

Term of agreement commencing on 1 April 2006 and expiring on 30 June 2008.

K Field, Non-Executive Director

Term of agreement commencing on 1 April 2006 and expiring on 30 June 2008.

D Aberle, Managing Director

Fixed term contract of employment operating for five years, commencing 1 April 2006.

K Brown, General Manager System Management

M de Laeter, General Manager Asset Management

P Southwell, General Manager Strategy and Corporate Affairs

A M Clark, General Manager Field Services

G Monkhouse, General Manager Human Resources

M Peacock, Chief Financial Officer

R White, General Manager Works Delivery

J Pease, General Counsel and Company Secretary

Ongoing term of employment commencing 1 April 2006.

M Sims, Acting General Manager Business Transformation

Fixed term contract of employment operating for three years from 17 March 2005.

Loans to Directors and Executives

No loans or advances to or from Directors and Executive Officers were made during the three months to 30 June 2006.

Insurance of officers

The Directors' and Officers' Liability Insurance policy commenced on 31 March 2006. This cover will pay on behalf of the Corporation, or Directors and Officers of the Corporation, losses arising from a claim or claims made against them jointly or severally during the period of insurance by reason of any wrongful act (as defined by the policy) in the capacity of Director or Officer of the Corporation.

At the date of this report no claims have been made against the Directors and Officers component of the policy.

Non-audit services

Under the Corporation's enabling legislation, the Parliament has appointed the Auditor General for Western Australia as its independent auditor.

The Auditor General is appointed under the Electricity Corporations Act 2005. This Act provides that the Auditor General can conduct audits in the manner he sees fit and is not subject to direction by any person about the way in which those powers are exercised.

The Auditor General does not perform non-audit services.

During the three months ended 30 June 2006, the following fees were paid or payable for services provided by the Office of the Auditor General.

Audit services	\$
Office of the Auditor General	
Audit and review of financial report	220,000

This report is made in accordance with a resolution of the Board of Directors.

Signed in Perth this 22nd day of September 2006.



Peter Mansell, Chairperson of the Board



Doug Aberle, Managing Director

Corporate Governance Statement

On 31 March 2003 the Australian Stock Exchange (ASX) Corporate Governance Council issued 'Ten Principles of Good Corporate Governance and Best Practice Recommendations'. The Corporation, whilst not obliged to follow the ASX guidelines, is adopting recognised best practice principles for publicly listed companies where it is relevant to do so and therefore acknowledges the recommendations.

The following practices form part of the framework that ensures the business acts with high standards of corporate behaviour and in the best interests of its stakeholders.

BOARD OF DIRECTORS

Role of the Board

The Board of Directors is the governing body of the Corporation and is responsible to the Minister for the performance of the Corporation. Subject to the provisions of the Act, the Board has the authority to perform the functions, determine policies and control the affairs of the Corporation.

The Corporation's operating activities focus on ensuring safe, reliable and secure transmission and distribution of electricity, delivering consistently high levels of customer service and increasing the value of the Corporation. In undertaking these activities, an acceptable balance will be sought between the Corporation's three fundamental priorities:

- **Reliability and safety requirements:** The Act, related legislation and regulations require the Corporation to transmit and distribute electricity in a safe and reliable manner. Since it was established, the Corporation has placed the safety of the public and its employees as its overarching value and has consistently sought to maximise reliability and security of electricity transmission and distribution consistent with its other obligations.
- **Government policy:** As a state-owned enterprise, the Corporation is mindful and supportive of Government policies that will impact on the Corporation's business operations. Accordingly, the Corporation assists the Government to implement its policies and acts in accordance with the policies to the maximum extent possible, subject to other legislated requirements.
- **Commercial requirements:** Subject to the following, the Act requires the Corporation to act in accordance with prudent commercial principles and endeavour to make a profit consistent with maximising its long-term value. In relation to the Corporation's function in terms of the WEM, the Act requires the Corporation to ensure, so far as practicable, that the reasonable cost of performing the function does not exceed its revenue from doing so.

Composition of the Board

In accordance with the Act, the Corporation's Board of Directors must comprise not less than four, and not more than six persons appointed by the Governor of Western Australia, on the nomination of the Minister. In making the appointments, the Governor also nominates a Board Chairperson and Deputy Chairperson.

During the three months since the Corporation's inception, at all times the Board has been constituted by six persons, including the Managing Director. The latter is not eligible to be appointed Chairperson or Deputy Chairperson.

Corporate Governance Statement (continued)

BOARD OF DIRECTORS (continued)

Composition of the Board (continued)

The Board is scheduled to meet at least ten times per year to address the strategic issues of the Corporation and as needed, special meetings are held to address urgent issues.

When a Non-Executive Director position is vacant, the Board may recommend a candidate to the Minister. If the Minister chooses to make a nomination to the Governor, the Minister must ensure that:

- each nomination is made only after consultation with the Board (except where the nominee was recommended by the Board); and
- the nominee is not a member of the Corporation's staff.

Non-Executive Directors are appointed for periods of up to three years and are eligible for reappointment. The Governor may, at any time, remove a Director from office. The Governor need not give any reason for doing so. A Director may resign from office by notice in writing delivered to the Minister.

The Act requires all Directors to act honestly, and to exercise reasonable care and diligence, in the performance of their functions. The Act prohibits Directors from:

- making improper use of information or their position;
- voting in matters where they have a material personal interest; and
- furnishing false information.

The Act also prevents Directors and their relations from receiving loans from the Corporation.

ROLE OF THE COMMITTEES

The Corporation's Board has established three Committees, namely the:

- Finance and Risk Committee;
- People and Performance Committee; and
- Remuneration and Nominations Committee.

The roles of the respective Committees are detailed in their terms of reference.

Finance and Risk Committee

The purpose of the Finance and Risk Committee is to assist the Board to fulfil its corporate governance and oversight responsibilities in relation to the Corporation's financial reporting, treasury management, policies and procedures for ensuring compliance with relevant regulatory requirements, risk management systems, compliance framework and the internal and external audit functions.

The Finance and Risk Committee:

- is authorised by the Board to investigate any activity within its terms of reference;
- is a non-executive committee and is tasked with recommending to the Board appropriate actions emanating from these investigations;
- has unrestricted access to personnel, records, internal and external auditors, risk assessment and assurance and senior management as appropriate; and
- is authorised by the Board to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

Membership of the Finance and Risk Committee consists of not less than two and up to three independent Non-Executive Directors, at least one of whom must be a financial 'expert'.

Corporate Governance Statement (continued)

ROLE OF THE COMMITTEES (continued)

People and Performance Committee

The purpose of the People and Performance Committee is to assist the Board to fulfil its corporate governance and oversight responsibilities in relation to the Corporation's corporate governance framework and policies; the determination of the remuneration and other terms and conditions of service of the Corporation's staff, other than in relation to the Managing Director and his or her direct reports; and quality assurance relating to the integrity and probity of the Corporation's remuneration and human resources management policies, strategies and practices.

The People and Performance Committee:

- is authorised by the Board to investigate any activity within its terms of reference, and also to evaluate different human resources management policies and strategies, including in relation to remuneration methods and philosophies;
- is a non-executive committee and is tasked with recommending to the Board appropriate actions emanating from these investigations;
- has unrestricted access to senior management as appropriate; and
- is authorised by the Board to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

Membership of the People and Performance Committee consists of not less than two and up to three independent Non-Executive Directors.

Remuneration and Nominations Committee

The purpose of the Remuneration and Nominations Committee is to assist the Board to fulfil its corporate governance and oversight responsibilities in relation to remuneration and terms and conditions of employment for the Managing Director; remuneration for Non-Executive Directors and the direct reports of the Managing Director; succession planning and nomination of Directors and the Managing Director in accordance with sub-sections 8(5) and 14(2) of the Act, as well as succession planning in relation to the Managing Director's direct reports; and performance evaluation of the Board, its Committees and the Managing Director.

The Remuneration and Nominations Committee:

- is authorised by the Board to investigate any activity within its terms of reference, and also to evaluate different remuneration methods and philosophies;
- is a non-executive committee and is tasked with recommending to the Board appropriate actions emanating from these investigations;
- has unrestricted access to senior management as appropriate; and
- is authorised by the Board to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

Membership of the Remuneration and Nominations Committee consists of not less than two and up to three independent Non-Executive Directors. The Board Chairperson also chairs this committee.

On 4 August 2006 the Board resolved to merge the functions of the People and Performance Committee and the Remuneration and Nominations Committee in to a single People and Performance Committee.

Corporate Governance Statement (continued)

RISK MANAGEMENT

Processes and systems are in place to manage the Corporation's strategic, operational, regulatory and reporting risks in accordance with the principles of the Corporate Risk Management Policy and Framework. Consistent with Australian Standard "AS4360 Risk Management", the Framework provides a methodology and process for the identification of risks and outlines the accountability for the management and reporting of risk throughout the Corporation. General Managers are responsible for identifying risks and implementing strategies to mitigate risks. The Finance and Risk Committee oversees the Framework and reviews the effectiveness of key mitigation strategies. Risk reviews will be conducted at least annually to ensure emerging risks, such as those from changes in market structure and design, organisational restructures, and operational issues are identified and responses developed.

Financial risk issues are managed through a Treasury Policy Statement that requires regular reporting to the Finance and Risk Committee on treasury activities.

INTERNAL CONTROL FRAMEWORK

The Board is responsible for the overall internal control framework. While recognising that no cost effective internal control system can preclude all errors and irregularities, the rigour of regular assessment ensures performance is kept under review.

To monitor the performance and management of the Corporation, the Board has instigated an internal control framework covering financial reporting, expenditure guidelines, internal and external audit and quality of personnel.

The Corporation's internal control system is based on:

- written procedures, policies and guidelines;
- organisational structures that provide an appropriate level of responsibility;
- a program of internal audit; and
- the careful selection and training of qualified personnel.

Financial reporting

Actual financial results are reviewed against budget each month. Reports on performance are produced quarterly and submitted to the Minister. Revised forecasts for the year are also prepared each quarter.

A five-year budget is produced annually from a comprehensive budgeting system and approved by the Directors. This is included in the Strategic Development Plan produced by the Corporation each year and submitted to the Minister.

General Managers, Manager Treasury, Manager Corporate Accounting and Tax, Taxation Manager and Manager Risk Assurance and Audit are required to sign-off on a detailed questionnaire that covers: management of risks, overall control environment, regulatory areas and financial reporting. These support the sign-off by the Managing Director and Chief Financial Officer in the assurances provided to the Board for the annual results.

Expenditure guidelines

The Corporation has clearly defined guidelines and policies for operating and capital expenditure. These include annual budgets, detailed appraisal and review procedures, as well as formally stated levels of delegated financial authority approved by the Board. The Corporation must obtain the approval of the Minister before entering into transactions with a value greater than the sum of one per cent of the written down value of the Corporation's fixed assets or twenty million dollars.

Corporate Governance Statement (continued)

INTERNAL CONTROL FRAMEWORK (continued)

Internal and external audit

The Manager Risk Assurance and Audit is accountable to the Finance and Risk Committee but administratively reports to the General Manager Strategy and Corporate Affairs. The Manager Risk Assurance and Audit also has a direct line of communication to the Chairperson of the Finance and Risk Committee, the Managing Director and other Board Members. Internal audit reports are made available to the Finance and Risk Committee, so that the internal audit objectives, plans and resources provide for adequate support to the Committee's objectives. The internal audit function is independent of the external audit and has full access to the personnel and records of the Corporation.

The Act requires the Auditor General to complete an audit of the Corporation by 30 September each year. If this is not undertaken, an interim report is to be submitted to the Minister setting out the reasons for his inability to complete the audit by that date.

Quality of personnel

The Corporation has a formal employee appraisal framework designed to see the cascading of the Corporation's vision and goals, its strategic plan, linked into individuals' achievement plans with the objective of ensuring that the Corporate goals are translated into action.

Special attention has been given to identifying skill gaps ensuring appropriate resourcing and succession-planning processes are implemented via the Workforce Planning project, which is currently being implemented. This process will assist in attracting and retaining employees within some specific skill areas.

ETHICAL STANDARDS

The Corporation is mindful of its duties outlined in the Act and has adopted the set of behavioural standards, incorporating leadership principles and minimum standards applicable to the management of the staff, previously developed by Western Power Corporation. The Corporation has also developed a Code of Conduct setting out minimum standards of conduct for all staff.

Conflicts of interest

Directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Corporation. Directors are provided with a register of all disclosed material personal interests as part of the agenda for every meeting. Disclosure of material personal interests is also a standing agenda item for every Board and committee meeting.

Where the Board believes that any conflict exists for a Director on a Board matter being considered, the Director concerned must not be present during the Board's consideration of the matter, nor exercise any vote in respect of it.

ENVIRONMENT

Environmental standards

The Corporation recognises that rigorous environmental management is critical to the sustainability of the business. Corporate policies and strategies are in place encompassing environmental management principles administered through a formal Environmental Management System (EMS). These principles include community consultation, planning, compliance and sustainable development with continuous improvement objectives. Adherence to environmental policies and implementation of the EMS are audited.

Corporate Governance Statement (continued)

ENVIRONMENT (continued)

Environmental regulation performance

All Corporation sites are subject to a range of environmental regulations, both state and federal, and some are also covered by specific Ministerial conditions and environmental operating licences issued by the State Government. All performance obligations under these regulations, conditions and licences are monitored, audited and reported, and may be subject to Government agency audit or inspection from time to time.

COMMUNICATION WITH SHAREHOLDERS

The Corporation's key stakeholder is the company's shareholder, the Minister, and therefore the Government. A formal protocol has been developed to ensure that the most comprehensive levels of governance apply to communications with the Minister and his Office. The protocol specifically reflects the particular relationship that exists between a corporatised Government Trading Enterprise and the Government.

Overall, the protocol recognises that the Minister must receive information to enable him to discharge his duties. It seeks to ensure that this will be factual, timely and reflect the best available information at the time.

OTHER ACCOUNTABILITY MEASURES

It is a requirement under the Act that the Corporation produces, annually, both a Statement of Corporate Intent (a one-year plan) and a Strategic Development Plan (a five-year plan). After endorsement by the Board, these documents are subject to approval by the Minister with the concurrence of the Treasurer.

Strategic Development Plan

The Strategic Development Plan (SDP) is a confidential document. It sets out the Corporation's five-year economic and financial objectives, strategic result areas and associated performance targets as well as strategies.

Statement of Corporate Intent

The Statement of Corporate Intent (SCI) sets out the Corporation's scope of activities, objectives and performance targets for the financial year ahead and is consistent with the SDP. The SCI is tabled in Parliament after agreement with the Minister and the Treasurer's concurrence.

In addition, the Corporation provides written quarterly and annual reports to the Minister detailing its performance and progress made in fulfilling the agreed targets set in the SCI.

Financial report

Income statement

for the three months ended 30 June 2006

	NOTES	30/06/06 \$'000
Revenue from continuing operations	2	182,928
Other income	3	1,629
Expenses excluding finance costs	4	(129,774)
Finance costs	4	(30,444)
Profit before income tax expense		24,339
Income tax expense	5	(7,272)
Profit for the period		17,067

This statement should be read in conjunction with the attached Notes to the Financial Statements

Balance sheet

as at 30 June 2006

	NOTES	30/06/06 \$'000
ASSETS		
Current assets		
Cash and cash equivalents	6	50,619
Trade and other receivables	7	95,568
Inventories	8	61,274
Derivative financial instruments	9	814
Current tax assets		18,117
Other current assets	10	8,004
Total current assets	1 (a)	234,396
Non-current assets		
Trade and other receivables	7	4,029
Property, plant and equipment	11	3,031,552
Intangible assets	12	12,663
Deferred tax assets	15	27,461
Derivative financial instruments	9	367
Total non-current assets		3,076,072
Total assets		3,310,468
LIABILITIES		
Current liabilities		
Trade and other payables	13	126,348
Provisions	16	16,890
Derivative financial instruments	9	586
Other liabilities	17	134,471
Total current liabilities	1 (a)	278,295
Non-current liabilities		
Other payables	13	11,992
Borrowings	14	2,150,486
Provisions	16	13,321
Retirement benefit obligations	18	32,655
Derivative financial instruments	9	915
Other liabilities	17	14,238
Total non-current liabilities		2,223,607
Total liabilities		2,501,902
Net assets		808,566
EQUITY		
Contributed equity	19	790,210
Reserves	20	351
Retained profits	20	18,005
Total equity		808,566
<i>This statement should be read in conjunction with the attached Notes to the Financial Statements</i>		

Statement of recognised income and expense

for the three months ended 30 June 2006

	NOTES	30/06/06 \$'000
Changes in the fair value of cash flow hedges, net of tax	20	351
Actuarial adjustment to Retirement Benefit Obligations, net of tax	20	938
Net income recognised directly in equity		1,289
Profit for the period		17,067
Total recognised income and expense for the period		18,356

This statement should be read in conjunction with the attached Notes to the Financial Statements

Cash flow statement

for the three months ended 30 June 2006

	NOTES	30/06/06 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers (inclusive of goods and services tax)		105,391
Payments to employees and suppliers (inclusive of goods and services tax)		(91,700)
Other revenue		29,451
Interest received		233
Borrowing costs paid		(7,047)
Lease expenses		(1,098)
Net cash flow from operating activities	25	35,230
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for property, plant and equipment		(169,953)
Proceeds from sale of property, plant and equipment		1,215
Net cash outflow from investing activities		(168,738)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings		270,015
Repayment of borrowings		(135,352)
Contributory Extension Scheme, customers' and contractors' deposits		8,022
Proceeds from contributed equity		6,000
Net cash inflow from financing activities		148,685
NET INCREASE IN CASH AND CASH EQUIVALENTS		
Cash contribution		35,442
Cash and cash equivalents at end of period	6	50,619

This statement should be read in conjunction with the attached Notes to the Financial Statements

Contents - Notes

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Notes to and forming part of the financial statements

for the three months ended 30 June 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial report are set out below.

Corporate information

The financial report of the Corporation for the three months ended 30 June 2006 was authorised for issue by the Board on 23rd September 2006. The Corporation is domiciled in the country of incorporation, being Australia.

In September 2005 legislation was passed in Parliament to allow for the disaggregation of Western Power Corporation into four separate state-owned entities. The new successor entities were established on 1 April 2006 and the assets, liabilities and operations of Western Power Corporation were transferred to the four separate state-owned entities. The Corporation is one of those entities.

(a) Basis of preparation

The financial statements are a general purpose financial report prepared in accordance with the requirements of Australian Accounting Standards, Urgent Issues Group Interpretations, the disclosure requirements of Schedule 4 of the Electricity Corporations Act 2005 and other authoritative pronouncements of the Australian Accounting Standards Board. The Corporation has been determined to be a not-for-profit entity and accordingly applies the not-for-profit elections available in the Australian Accounting Standards, where applicable. The financial statements cover the Corporation and its subsidiary, Bright Telecommunications Pty Ltd. Bright Telecommunications Pty Ltd is a dormant company with no financial transactions at 30 June 2006.

The financial statements for the three months ended 30 June 2006 have been prepared on a historical cost basis except for derivative financial instruments carried at fair value and certain non-current financial assets and liabilities that have been measured at amortised cost.

The financial statements are presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$'000) unless otherwise stated.

Critical accounting estimates

The preparation of financial statements in conformity with Australian equivalents to International Financial Reporting Standards (AIFRS) requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Corporation's accounting policies. There are no areas considered to require a high degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements.

Working capital

Current liabilities include deferred revenue to the value of \$125.7 million, which will not require an outflow of cash resources. Excluding this value from a working capital analysis will show current assets exceeding current liabilities by \$81.8 million.

Notes to and forming part of the financial statements

for the three months ended 30 June 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Statement of compliance

The financial statements comply with Australian Accounting Standards.

The following amendments and Australian Accounting Standards are available for early adoption but have not been applied to the Corporation's financial statements for the three months ended 30 June 2006.

The Corporation's assessment of the impact of these new standards and interpretations is set out below:

AASB Amendment	Affected Standards	Nature of Change to Accounting Policy	Application Date of Standard *
2005-10	AASB 132 "Financial Instruments: Disclosure and Presentation", AASB 101 "Presentation of Financial Statements", AASB 114 "Segment Reporting", AASB 117 "Leases", AASB 133 "Earnings per Share", AASB 139 "Financial Instruments: Recognition and Measurement", AASB 1 "First-time Adoption of AIFRS", AASB 4 "Insurance Contracts", AASB 1023 "General Insurance Contracts", AASB 1038 "Life Insurance Contracts"	No change to accounting policy required. Therefore no impact.	01/01/07
2006-1	AASB 121 "The Effects of Changes in Foreign Exchange Rates"	No change to accounting policy required. Therefore no impact.	31/12/06
New standard	AASB 7 "Financial Instruments: Disclosures"	No change to accounting policy required. Therefore no impact other than possible disclosure changes.	01/01/07
2006-2	AASB 1 "First-time Adoption of AIFRS"	No change to accounting policy required. Therefore no impact.	30/06/06

* Application date is for the annual reporting period beginning on or after the date shown in the above table.

(c) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Corporation and the revenue can be reliably measured. It is valued at the fair value of the consideration received, or to be received, net of the amount of goods and services tax. The following specific recognition criteria must also be met before revenue is recognised:

Notes to and forming part of the financial statements

for the three months ended 30 June 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Revenue recognition (continued)

(i) Rendering of services

Revenue is recognised when the service is provided unless otherwise stated below.

Developer and customer contributions

The Corporation receives developer and customer contributions toward the extension of electricity infrastructure to facilitate network connection. Contributions can be in the form of either cash or assets and consist of:

- **Work performed for developers:** developers make cash contributions to the Corporation for the construction of electricity infrastructure within a subdivision.
- **Handover works:** developers have the option to independently construct electricity infrastructure within a subdivision. Upon approval by the Corporation of the completed work, these network assets are vested to the Corporation.
- **Upgrade and new connections:** customers (including generators) make cash contributions for the upgrade or extension of electricity infrastructure to existing lots, or for the construction of electricity infrastructure to new lots in existing areas.

Cash contributions received are recognised as revenue when the customers/developers are connected to the network in accordance with the terms of the contributions. Vested assets are recognised as revenue at the point of handover and are measured at their fair value. The network assets resulting from contributions received are recognised as property, plant and equipment and depreciated over their useful life.

(ii) Network access charges

The Corporation earns income by allowing regulated access to the South West Interconnected System (SWIS) networks. Revenue is recognised based on actual access provided.

(iii) External chargeable works

There are two types of external chargeable works. Under the first type, contract revenue and expenses are recognised on an individual contract basis using the percentage of completion method when the stage of completion can be reliably determined, the costs to date can be clearly identified and total contract revenue and costs to complete can be reliably estimated. The stage of completion is based on actual expenditure to date as a percentage of the budgeted project costs, being the best reliable estimate of stage of completion.

Under the second type of external chargeable works, income is earned based on service level agreements which are contracts between the Corporation and the three other separate state-owned entities that were formed on disaggregation of Western Power Corporation. Revenue is recognised when the services are provided.

(iv) Other income

Other revenue comprises revenue earned from the provision of activities incidental to the core activities of the Corporation and includes:

- Change in fair value of derivatives;
- Net gain on sale of non-current assets; and
- Property rent.

Revenue is recognised when the activity is provided.

(v) Interest income

Interest income is recognised on a time proportion basis using the effective interest method.

Notes to and forming part of the financial statements

for the three months ended 30 June 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Community service obligations

Community Service Obligations (CSO) are obligations to perform functions, on behalf of the State Government, that are not in the commercial interests of the Corporation to perform. Where the Government agrees to reimburse the Corporation for the cost of CSO, the entitlement to reimbursement is netted off against the associated CSO expenses.

(e) Repairs and maintenance

Maintenance, repair costs and minor renewals are recognised as expenses in the income statement as incurred.

(f) Borrowing costs

Borrowing costs are recognised in the income statement as an expense when incurred, except where they are included in the costs of qualifying assets as described in Note 1 (l). Borrowing costs are capitalised where they relate to the financing of projects under construction up to the date of commissioning or sale.

Borrowing costs are capitalised at the weighted average interest rate applicable to the Corporation's outstanding borrowings during the period of capitalisation.

Borrowing costs may include:

- amortisation of ancillary costs incurred in connection with the arrangement of borrowings;
- amortisation of discounts or premiums relating to borrowings;
- discount rate adjustment for the movement in present value over time in connection with the contributory extension scheme payables and decommissioning costs;
- exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs;
- finance charges in respect of finance leases recognised; and
- interest on bank overdrafts, short-term and long-term borrowings.

(g) Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank, deposits held at call with financial institutions, other short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash, and bank overdrafts. Bank overdrafts are shown within interest bearing liabilities in current liabilities on the balance sheet.

For the purposes of the cash flow statement, cash assets consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(h) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost, less a provision for doubtful debts.

Trade and other receivables generally have 14 day terms for contract customers.

Collectability of trade receivables is reviewed on an ongoing basis. Bad debts are written off when identified. A provision for doubtful receivables is raised when there is objective evidence that the Corporation will not be able to collect all amounts due. The amount of the provision is the difference between the carrying value of the receivable and the net present value of estimated future cash flows discounted at the original effective interest rate. The amount of the provision is reflected in the income statement.

Notes to and forming part of the financial statements

for the three months ended 30 June 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Inventories

Inventories are valued at the lower of cost and current replacement cost. The cost incurred in bringing inventories to their present location and condition is based on the purchase cost on a first-in, first-out basis.

A provision to allow for the expected diminution in value of materials inventory, due to obsolescence and items being surplus to requirements, has been determined by periodic review.

(j) Intangible assets

Intangible assets acquired separately are capitalised at cost at the date of acquisition. Following initial recognition they are stated at cost less accumulated depreciation and accumulated impairment losses.

Amortisation

The useful lives of intangible assets are assessed to be either finite or infinite. For intangible assets with finite useful lives an amortisation expense is recognised in the income statement over the useful lives of the assets.

Certain computer software is classified as an intangible asset and has a finite useful life. Amortisation is calculated using the straight-line method.

The useful life of computer software is deemed to be 30 months.

Amortisation rates are reviewed annually, and if necessary adjusted to reflect the most recent assessment of the useful lives of the assets.

Research and development costs

Research costs are recognised in the income statement when incurred. Development expenditure (expenditure where research findings are applied to a plan or design for the production of new or substantially improved products) incurred on an individual project is carried forward if the product or process is technically and commercially feasible and the Corporation has sufficient resources to complete the development.

Following the initial recognition of development expenditure, the asset is stated at cost less accumulated amortisation and accumulated impairment losses.

Disposal of assets

An intangible asset is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising from the derecognition of an intangible asset is measured as the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in the income statement when the asset is derecognised.

(k) Prepayments

Current prepayments include insurance and other payments. Prepaid expenses are recognised in the income statement in the reporting period in which the associated benefit is consumed.

Notes to and forming part of the financial statements

for the three months ended 30 June 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Acquisition of assets

The cost method of accounting is used for all acquisitions of assets. Cost is determined as the fair value of the asset given at the date of acquisition plus costs incidental to the acquisition.

Direct costs together with associated indirect costs in respect of assets being constructed are capitalised.

Works Under Construction assets are transferred to property, plant and equipment when they are in the location and condition necessary for them to be capable of operating in the manner intended by management.

The Corporation is a statutory corporation subject to the requirements of the Electricity Corporation Act 2005 and came into existence on 1 April 2006. The electricity networks functions and assets of Western Power Corporation were transferred to the Corporation on this date. The assets transferred were brought to account at their written down accounting value from Western Power Corporation at 31 March 2006 by virtue of a transfer order issued by the Minister for Energy under sub-section 147(1) of the Electricity Corporations Act 2005 (WA).

Capitalisation of borrowing costs

Borrowing costs are capitalised during the construction of capital projects that have construction periods extending beyond one year and budgeted costs greater than \$5 million. Capitalised borrowing costs are determined as the amount of borrowing costs that would have been avoided but for the construction of the asset.

Depreciation

Discrete assets that are not subject to continual extension and modification are depreciated using the straight-line method. Such assets include the transmission network, buildings and motor vehicles.

Other assets, primarily the electricity distribution network that are continually extended and modified are depreciated using the reducing balance method. Land is not depreciated.

The useful lives of the Corporation's major property, plant and equipment classes are as follows:

Buildings	40 years
Plant and Equipment	20 - 45 years
Leasehold Improvements	10 years
Motor Vehicles	5 years

Depreciation rates are reviewed annually and, if necessary, adjusted to reflect the most recent assessment of the useful lives of the assets.

Notes to and forming part of the financial statements

for the three months ended 30 June 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Property, plant and equipment (continued)

Disposal of assets

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising from the derecognition of an asset is measured as the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in the income statement when the asset is derecognised.

(m) Impairment of assets

At each reporting date the Corporation assesses whether there is any indication that an asset may be impaired, that is, events or changes in circumstances that indicate the carrying value may not be fully recoverable. Where an indicator of impairment exists, the Corporation makes a formal estimate of the recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount. Impairment losses are recognised in the income statement.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the individual asset's value in use cannot be estimated to be close to its fair value less costs to sell, and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Where the future economic benefits of an asset are not primarily dependent on the asset's ability to generate net cash inflows and where the Corporation would, if deprived of the asset, replace its remaining future economic benefits, the value in use is the depreciated replacement cost.

(n) Trade and other creditors

These amounts represent liabilities for goods and services provided to the Corporation prior to the end of the reporting period that are unpaid. The amounts are unsecured and are settled within prescribed periods.

The liability for contributory extension schemes represents contributions received from customers to extend specific electricity supplies. These deposits are progressively refunded as other customers are connected to existing supply extension schemes.

Other payables include annual leave benefits accumulated as a result of employees rendering services up to the reporting date.

Liabilities arising in respect of employee benefits due within twelve months from the reporting date are measured at their nominal amount based on remuneration rates that are expected to be paid when the liability is settled.

(o) Interest-bearing liabilities

All interest-bearing liabilities are initially recognised at fair value net of transaction costs incurred. Subsequent to initial recognition interest-bearing liabilities are measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs and any discount or premium on settlement.

Any difference between the cost and the redemption amount is recognised in the income statement over the period of the interest bearing liabilities using the effective interest method.

Notes to and forming part of the financial statements

for the three months ended 30 June 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. The Corporation's operating lease payments are representative of the pattern of benefits derived from the leased assets and accordingly are recognised in the income statement in the reporting periods in which they are incurred.

(q) National Taxation Equivalent Regime

The Corporation's taxation liability is assessed according to the National Taxation Equivalent Regime (NTER). While tax equivalent payments continue to be remitted to State Treasury, the Corporation's tax is subject to Australian Taxation Office (ATO) administration. The calculation of the liability in respect of these taxes is governed by the Income Tax Administration Acts and the NTER guidelines as agreed by the State Government.

Income tax on the profit or loss for the reporting period comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the reporting period using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using tax rates enacted or substantially enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

(r) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST) except where the GST incurred on a purchase of goods and services is not recoverable from the ATO. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or current liability in the balance sheet.

Cash flows are included in the cash flow statement on a gross basis. The GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the ATO, are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the ATO.

Notes to and forming part of the financial statements

for the three months ended 30 June 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Provisions

Provisions are recognised when the Corporation:

- has a present obligation (legal or constructive) as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. The discount rate used to determine the present value reflects the market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

Dividends

A provision for dividends payable is recognised in the reporting period in which the dividends are appropriately authorised by the Board and no longer at the discretion of the Corporation, but which are not yet distributed.

Employee Benefits

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. This benefit relates to long service leave.

Liabilities arising in respect of long service leave due within 12 months from the reporting date are measured at their nominal amount based on remuneration rates that are expected to be paid when the liability is settled. Long service leave due after 12 months is measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, the market yield at the reporting date on selected Commonwealth government securities, which have terms to maturity approximating the terms of the related liability, are used.

Notes to and forming part of the financial statements

for the three months ended 30 June 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Retirement benefit obligations

All employees of the Corporation are entitled to benefits upon retirement, disablement or death from one of many superannuation plans, which may include a defined contribution section, a defined benefit section, or both.

Defined contribution superannuation plans

Obligations for contributions to defined contribution plans are recognised in the income statement as incurred.

Defined benefit superannuation plans

A provision in respect of the defined benefit superannuation plans is recognised in the balance sheet and is measured at the present value of the defined benefit obligations, based upon services provided up to the reporting date, plus/less unrecognised actuarial gains/losses less the fair value of the superannuation plans' assets at that date and any unrecognised past service cost.

The present value of the defined benefit obligations is based upon expected future payments and is calculated using discounted cashflows consistent with the Projected Unit Credit method. Consideration is given to the expected future wages and salaries level, experience of employee departures and periods of service.

Expected future payments are discounted using the market yield, as at the reporting date, on selected Commonwealth government securities with terms to maturity approximating the terms of the related liability.

The defined benefits obligations are wholly unfunded. The Corporation meets the cost of these benefits when the employee leaves the service of the Corporation.

Actuarial gains and losses arising from experience adjustments and changes in actuarial adjustments are recognised directly in equity.

Future taxes are not met by the Corporation (as the benefit is paid as an untaxed amount to the employee) and so no allowance has been made for future taxes in measuring the net asset or liability.

The balance of the retirement benefit obligations provision is actuarially reviewed annually. An actuary review was performed as at 30 June 2006 that confirmed the Corporation's provision for retirement benefit obligations was adequate.

(u) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The functional and presentation currency of the Corporation is Australian dollars (A\$).

(ii) Translation and balances

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and monetary liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date. All currency translation differences in the financial statements are recognised in the income statement.

Notes to and forming part of the financial statements

for the three months ended 30 June 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) Derivative financial instruments

Through its operations, the Corporation is exposed to changes in interest rates, foreign exchange rates and commodity prices. These risks are managed with the prudent use of derivative financial instruments such as interest rate swaps and forward foreign exchange contracts. The Corporation only uses derivatives in liquid markets and all hedge activities are conducted within the Corporation's Board approved policy. Comprehensive systems are in place and compliance is monitored closely.

The Corporation uses derivatives solely for hedging and not for speculative purposes.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to fair value. The fair value of interest rate swap contracts is measured by discounting the expected future cash flows based on market forward interest rates. The fair value of forward foreign exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Corporation designates certain derivatives as either:

- fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or recognised liability; or
- cash flow hedges when they hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or recognised liability or a forecasted transaction.

The Corporation documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Corporation also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative financial instruments used for hedging purposes are disclosed in Note 9. Movements in the hedging reserve in equity are shown in Note 20.

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in the income statement, together with any changes in the fair value of the hedged asset or hedged liability that are attributable to the hedged risk. There is no impact on the equity reserves.

The Corporation has not accounted for any derivative financial instruments that qualify for hedge accounting as fair value hedges.

Cash flow hedges

The effective portion of changes in fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the hedging reserve. The gains or losses relating to the ineffective portion are recognised immediately in the income statement.

Amounts accumulated in equity are recycled in the income statement in the period when the forecast purchase that is hedged takes place. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (ie qualifying assets) or non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the measurement of the acquisition cost or carrying amount of the asset or liability.

Notes to and forming part of the financial statements

for the three months ended 30 June 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) Derivative financial instruments (continued)

Cash flow hedges (continued)

When a hedging instrument expires, is sold, is terminated or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the net cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

The Corporation has accounted for derivative financial instruments that qualify for hedge accounting as cash flow hedges.

Derivatives that do not qualify for hedge accounting

For derivatives that do not qualify for hedge accounting, any changes in fair value are recognised immediately in the income statement.

Embedded derivatives

Derivatives embedded in contracts that change the nature of the host contract's risk are separately recorded at fair value with movements recorded in the income statement.

There are no derivatives embedded in contracts entered into by the Corporation that require separation and valuation from the host contract at 30 June 2006.

(w) Derecognition of financial instruments

The derecognition of a financial instrument takes place when the Corporation no longer controls the contractual rights that comprise the financial instrument. This is normally when the instrument is sold, or all the cash flows attributable to the instrument are passed through to an independent third party.

(x) Contributed equity

Contributed equity is in respect of contributions made by the State Government. No shares have been allotted or issued.

Notes to and forming part of the financial statements

for the three months ended 30 June 2006

	30/06/06 \$'000
2. REVENUE FROM CONTINUING OPERATIONS	
Developer and customer contributions	39,542
Network access charges - Distribution	47,600
Network access charges - Transmission	74,588
	<u>161,730</u>
Other revenue	
External chargeable works (including sale of scrap and materials)	20,926
Interest income	227
Network access charges - unregulated	45
	<u>21,198</u>
Total Revenue from continuing operations	<u><u>182,928</u></u>
3. OTHER INCOME	
Foreign exchange gain	11
Net gain on sale of non-current assets	155
Property rent	912
Other	551
	<u><u>1,629</u></u>

Notes to and forming part of the financial statements

for the three months ended 30 June 2006

	30/06/06 \$'000
4. EXPENSES	
Expenses, excluding finance costs:	
Labour expense	
Wages and salaries	23,589
Workers' compensation costs	702
Superannuation costs (Defined Contribution)	3,604
Materials and services	65,277
Research and Development costs	520
Leasing costs	
Operating lease rentals	1,098
Bad debts	
Increase in provision for doubtful debts	926
Other	6,374
	<hr/> 102,090
Depreciation	
Plant and equipment	25,660
Buildings	1,021
Capitalised	(686)
Total Depreciation	<hr/> 25,995
Amortisation	
Intangible assets	1,677
Leasehold improvements	12
Total Amortisation	<hr/> 1,689
Total Expenses, excluding finance costs	<hr/> 129,774
Finance costs	
Interest on borrowings	30,999
Change in fair value of receivables	422
Net loss on derivatives not qualifying as hedges	25
Change in fair value of Contributory Extension Scheme	370
Capitalised interest on Work in Progress	(2,183)
Government loan guarantee charge	811
Total Finance costs	<hr/> 30,444
Total Expenses	<hr/> 160,218

Notes to and forming part of the financial statements

for the three months ended 30 June 2006

		30/06/06 \$'000
5. INCOME TAX EXPENSE		
(a) Income tax expense		
Current tax		13,030
Deferred tax		(5,758)
		<u>7,272</u>
Deferred income tax (revenue)/expense included in income tax expense comprises:		
Increase in deferred tax assets (Note 15)		(6,195)
Increase in deferred tax liabilities (Note 15)		437
		<u>(5,758)</u>
(b) Numerical reconciliation of income tax to prima facie tax payable (continuing operations):		
Profit from continuing operations before income tax expense		24,339
Tax at the Australian tax rate of 30%		7,302
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income		
Research and Development Costs		(66)
Sundry items		36
		<u>(30)</u>
Income tax expense		<u>7,272</u>
(c) Amounts recognised directly in equity		
Aggregate current and deferred tax arising in the reporting period and not recognised in the net profit or loss but directly debited or credited to equity		
Net deferred tax-debited directly to equity (Note 15)		2,201
		<u>2,201</u>

Notes to and forming part of the financial statements

for the three months ended 30 June 2006

	30/06/06 \$'000
6. CURRENT ASSETS - CASH AND CASH EQUIVALENTS	
Cash at bank	11,019
Deposits at call	39,600
	50,619
(a) Reconciliation to cash at the end of the year	
Balance per statement of cash flows	50,619
(b) Cash at bank and on hand	
Cash at bank earns interest at floating rates based on daily bank deposit rates.	
(c) Deposits at call	
Short-term domestic and foreign currency deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Corporation, and earn interest at the respective short-term deposit rates.	
7. TRADE AND OTHER RECEIVABLES	
Current assets	
Trade receivables	95,467
Provision for doubtful debts	(1,557)
	93,910
Other receivables	1,658
	95,568
Non-current assets	
Trade receivables	4,029
Trade receivables are non-interest bearing and are generally on 14 day terms for open access customers. Other receivables are non-interest bearing and are generally on 30 day terms.	
8. CURRENT ASSETS - INVENTORIES	
Material stores - at cost	61,125
Provision for obsolete stock	(178)
	60,947
Work in progress - at cost	327
	61,274

Notes to and forming part of the financial statements

for the three months ended 30 June 2006

30/06/06
 \$'000

9. DERIVATIVE FINANCIAL INSTRUMENTS

Current assets

Interest rate swaps - cash flow hedges	140
Forward exchange contracts - cash flow hedges	674
Total current derivative financial instrument assets	<u>814</u>

Non-current assets

Interest rate swaps - cash flow hedges	202
Forward exchange contracts - cash flow hedges	165
Total non-current derivative financial instrument assets	<u>367</u>

Current liabilities

Forward exchange contracts - cash flow hedges	586
Total current derivative financial instrument liabilities	<u>586</u>

Non-current liabilities

Interest rate swaps - cash flow hedges	814
Forward exchange contracts - cash flow hedges	101
Total non-current derivative financial instrument liabilities	<u>915</u>

For further information on Derivative Financial Instruments refer to Note 1 (v) and Note 24.

10 CURRENT ASSETS - OTHER CURRENT ASSETS

Prepayments	<u><u>8,004</u></u>
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Notes to and forming part of the financial statements

for the three months ended 30 June 2006

30/06/06

\$'000

11. NON-CURRENT ASSETS - PROPERTY, PLANT AND EQUIPMENT

Plant and equipment

Cost	2,387,052
Accumulated depreciation	(25,614)
Net book amount	2,361,438

Land - at cost

43,765

Buildings

Cost	43,372
Accumulated depreciation	(1,021)
Net book amount	42,351

Leasehold improvements

Cost	275
Accumulated depreciation	(12)
Net book amount	263

Works under construction - at cost

583,735

3,031,552

Plant and equipment

Transfer from Western Power Corporation (WPC) at 1 April 2006	2,197,367
Additions	190,791
Disposals	(1,060)
Depreciation charge	(25,660)
Carrying amount at 30 June 2006	2,361,438

Land

Transfer from WPC at 1 April 2006	43,173
Additions	592
Carrying amount at 30 June 2006	43,765

Buildings

Transfer from WPC at 1 April 2006	43,124
Additions	248
Depreciation charge	(1,021)
Carrying amount at 30 June 2006	42,351

Leasehold improvements

Transfer from WPC at 1 April 2006	275
Amortisation charge	(12)
Carrying amount at 30 June 2006	263

Notes to and forming part of the financial statements

for the three months ended 30 June 2006

30/06/06

\$'000

11. NON-CURRENT ASSETS - PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Works under construction

Transfer from WPC at 1 April 2006	594,567
Additions	179,771
Capitalised interest	2,183
Transferred to property, plant, equipment and intangible assets	(192,786)
Carrying amount at 30 June 2006	583,735
	3,031,552

12. NON-CURRENT ASSETS - INTANGIBLE ASSETS

Computer software

Cost	14,340
Accumulated amortisation	(1,677)
Net book amount	12,663

Computer software

Transfer from WPC at 1 April 2006	13,185
Additions	1,155
Amortisation charge	(1,677)
Carrying amount at 30 June 2006	12,663

13. TRADE AND OTHER PAYABLES

Current

Trade payables and accruals	96,454
Other payables	27,841
Contributory Extension Scheme (CES)	2,053
	126,348

Trade payables are non-interest bearing and are generally settled on 30 day terms. Other payables are non-interest bearing and generally have settlement terms between seven and 30 days. Current contributory extension scheme payables have an average term of six months (refer to the non-current payables note for more details).

Non-Current

Contributory Extension Scheme (CES)	11,992
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Contributory Extension Scheme payables represent contributions received from customers to extend specific electricity supplies. These are progressively refunded as other customers are connected to existing supply extension schemes. By 2023, when the scheme finishes, all scheme members will have their contributions refunded.

Notes to and forming part of the financial statements

for the three months ended 30 June 2006

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\$'000

14. BORROWINGS

Non-Current

Domestic currency borrowings	2,150,486
Total secured non-current borrowings	2,150,486

All domestic currency loans are governed by a facility agreement that provides the Corporation with the full discretion to refinance all or any part of maturing debt. Accordingly, borrowings with a maturity date of less than 12 months have been classified as non-current borrowings. For domestic currency loans maturing over the next 12 months it is the intention to refinance all maturing debt under the facility agreement.

The Corporation has a A\$ fixed rate borrowing facility with Western Australian Treasury Corporation with a limit of \$3,000 million. As at 30 June 2006 the unused portion of the A\$ facility was \$876.4 million. The planned usage of the facility is governed by the Strategic Development Plan agreed with the Minister of Energy.

Refer to Note 24 for additional disclosure on financial instruments.

15. NON-CURRENT ASSETS - DEFERRED TAX ASSETS

The balance comprises temporary differences attributable to:

Amounts recognised in the income statement

Property, plant and equipment	(5,433)
Contributory Extension Scheme	(4,283)
Provisions for employee benefits	28,088
Provision for doubtful debts	468
Provision for obsolete stock	54
Provision for interest payable	8,081
Deferred Income	2,346
Other	341
	<u>29,662</u>

Amounts recognised directly in equity

Actuarial adjustment to Retirement Benefit Obligations	(2,050)
Hedging reserve	(151)
	<u>(2,201)</u>

Net deferred tax assets

27,461

Movements:

Transfer from WPC at 1 April 2006	23,904
Credited to Income Statement (Note 5) - deferred tax assets	6,195
Credited to Income Statement (Note 5) - deferred tax liabilities	(437)
Credited to Equity (Note 5)	(2,201)
Closing balance at 30 June 2006	27,461

Notes to and forming part of the financial statements

for the three months ended 30 June 2006

30/06/06

\$'000

16. PROVISIONS

Current

Employee benefits	16,165
Restoration costs	725
	<u>16,890</u>

Non-Current

Employee benefits	9,799
Restoration costs	3,522
	<u>13,321</u>

The restoration costs provision relates to committed safety expenditure and is expected to be incurred over the forthcoming three years.

Reconciliation

Movements in provisions

Movements in each class of provisions during the financial year, other than employee benefits, are set out below:

Current

Restoration costs

Carrying amount at start of period	725
Carrying amount at end of period	<u>725</u>

Non-Current

Restoration costs

Carrying amount at start of period	3,522
Carrying amount at end of period	<u>3,522</u>

17. OTHER LIABILITIES

Current

Deferred income - developer and customer contributions	117,648
Deferred income - other	8,082
Sundry	8,741
	<u>134,471</u>

Non-Current

Deferred income - developer and customer contributions	14,238
	<u>14,238</u>

Notes to and forming part of the financial statements

for the three months ended 30 June 2006

30/06/06

\$'000

18. RETIREMENT BENEFIT OBLIGATIONS

(a) Superannuation plans

The defined contribution sections of the Corporation's superannuation plans, being the main portions of the Gold State Superannuation Scheme and the Western Power Superannuation Fund, receive fixed contributions and the Corporation's legal and constructive obligation is limited to these contributions.

The defined benefit sections provide either a pension or lump sum benefit based upon years of service and final salary, averaged over a number of years in accordance with the relevant governing rules. Each of the defined benefit sections, being the Pension Scheme and a portion of each of the Gold State Superannuation Scheme and the Western Power Superannuation Fund, is closed to new members. Additionally, the Western Power Superannuation Fund was closed to further contributions from its existing members from 18 May 2006. Thereafter, contributions for these members were made to either Superannuation Trust of Australia (STA) or the relevant fund for those employees who have elected to exercise their choice under the new superannuation legislation.

The Pension Scheme and Gold State Superannuation Scheme are State plans and are wholly unfunded. The Corporation meets the cost of these benefits when the employee leaves the service of the Corporation.

A provision in respect of the defined benefit superannuation plans is recognised in the balance sheet and is measured at the present value of the defined benefit obligations, based upon services provided up to the reporting date, plus/less unrecognised actuarial gains/losses less the fair value of the superannuation plans' assets at that date and any unrecognised past service cost.

The following sets out details in respect of the defined benefit section only.

(b) Balance sheet amounts

The amounts recognised in the balance sheet are determined as follows:

Present value of the defined benefit obligation	32,655
Net liability in the balance sheet	32,655

(c) Reconciliations

Reconciliation of the present value of the unfunded defined benefit obligations:

Transfer from WPC at 1 April 2006	38,965
Opening balance adjustment	(5,494)
Current service cost	211
Interest cost	454
Actuarial (gains) for the period	(1,341)
Benefits paid	(140)
Closing balance at the end of the year	32,655

Expected Contributions

Employer contributions are made to meet the cost of the retirement benefit obligations as they fall due. For more detail regarding the policy in respect of provision for retirement benefit obligations refer to Note 1 (t).

Notes to and forming part of the financial statements

for the three months ended 30 June 2006

30/06/06

\$'000

18. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

(d) Amounts recognised in the income statement

The amounts recognised in the income statement are as follows:

Current service cost	211
Interest cost	454
Total included in employee benefits expense	665

(e) Amounts recognised in equity

Net actuarial gains recognised in the period	(1,341)
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(f) Principal actuarial assumptions

The principal actuarial assumptions used (expressed as weighted averages) were as follows:

Discount rate	5.81%
Expected future salary increases	4.50%
Expected future pension increases	2.50%

19. CONTRIBUTED EQUITY

Movements in contributed equity

Contributed equity at beginning of period	-
Contributions received on 1 April 2006 (refer Note 28)	773,973
Adjustment to provision for tax refund in WPC	6,391
Actuarial adjustment to Retirement Benefit Obligation in WPC	3,846
Contributions received	6,000
Contributed equity as at 30 June 2006	790,210

Contributed equity is in respect of contributions made by the State Government. No shares have been allotted or issued.

Notes to and forming part of the financial statements

for the three months ended 30 June 2006

30/06/06
 \$'000

20. RESERVES AND RETAINED PROFITS

(a) Reserves

Hedging reserve - cash flow hedges

Balance as at 1 April 2006	-
Revaluation-gross	502
Deferred tax (Note 15)	(151)
Reserves as at 30 June 2006	351

Nature and purpose of reserves

Hedging reserve - cash flow hedges

The hedging reserve is used to recognise the change in fair value (ie gains or losses) for the effective portion of derivatives that are designated and qualify as cash flow hedges as described in Note 1 (v).

(b) Retained profits

Movements in retained profits were as follows:

Balance 1 April 2006	-
Net profit after income tax expense	17,067
Actuarial adjustment to Retirement Benefit Obligations (net of tax)	938
Balance as at 30 June 2006	18,005

21 REMUNERATION OF AUDITORS

(a) Assurance services

Audit services

Office of the Auditor General	
Audit of financial reports under the Electricity Corporations Act 2005	220
Total remuneration for audit services	220

Notes to and forming part of the financial statements

for the three months ended 30 June 2006

30/06/06

\$'000

22. COMMITMENTS

(a) Lease commitments

Operating leases

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

Within one year	3,056
Later than one year and not later than five years	7,272
Later than five years	791
	<u>11,119</u>

The Corporation leases computers and minor technology equipment. The lease rental is paid quarterly in arrears.

The Corporation leases a property containing a warehouse, offices and yard space. The lease rental comprises a base value plus an escalation factor equal to the average Australian consumer price index (per annum) and a component for rates and taxes. The lease rental is paid monthly. The lease renewal is five years with at least three to six months notice of termination required.

(b) Capital commitments

Total capital commitments contracted for at the reporting date but not recognised as liabilities are as follows:

Property, plant and equipment

Within one year	158,099
Later than one year and not later than five years	17,200
	<u>175,299</u>

Notes to and forming part of the financial statements

for the three months ended 30 June 2006

23. CONTINGENCIES

The Corporation's policy is to disclose details of contingent liabilities and contingent assets where there is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

Contingent Liabilities

Black and Others

This matter relates to compensation claims by owners of land where the former Western Power Corporation resumed parts of land for the Kemerton 330kV line. Claims lodged to date are in the order of \$4.6 million. These claims are being challenged on appeal.

With regards to the following two classes of claims, given the ongoing negotiations, it is not practicable to disclose an estimated value of the following contingent liabilities. However, it is confirmed that:

- settlement of the respective claims will not have a material impact on the Corporation;
- timing of the final resolution of all claims is uncertain and will depend on the progress of negotiations with individual claimants;
- the final value of the settlement with each claimant will vary based on individual circumstances. In the case of the Bridgetown bushfire claims, it will also vary based the allocation of responsibility between Western Power and the other two parties; and
- all claims are covered by insurance.

Tenterden bushfire claimants

Claimants are seeking compensation for damages sustained in a bushfire allegedly started by a clashing conductor. In two cases, litigation has been commenced. However, resolution of all claims is being negotiated (of the original 98 claimants, 17 remain under negotiation).

Bridgetown bushfire claimants

Claimants are seeking compensation for damages sustained in a bushfire at Bridgetown. Western Power is one of three parties allegedly responsible for the claims. Resolution of the claims, including Western Power's ultimate contribution to each, is being negotiated without recourse to litigation (of the original 85 claimants, 17 remain under negotiation).

Notes to and forming part of the financial statements

for the three months ended 30 June 2006

24. FINANCIAL INSTRUMENTS

Risk management objectives and policies

The Corporation's financial risk management objective is to act in accordance with prudent commercial principles and deliver outcomes consistent with maximising its long-term value. Financial risk management is undertaken by the Treasury Branch, which is governed by a Treasury Policy approved by the Board. The principal financial risks arising from the normal course of the Corporation's activities are interest rate risk, liquidity risk, currency risk and credit risk.

The Corporation's principal financial instruments are short-term deposits, debt (both fixed and floating), interest rate swaps and forward foreign exchange contracts.

The Corporation enters into derivative transactions, principally interest rate swaps and forward exchange contracts, to manage exposures arising from the Corporation's operations. Speculative trading of derivatives is prohibited under the Corporation's Treasury Policy.

Foreign currency risk

The Corporation's exposure to foreign currency risk results from the forward purchase of equipment and services in foreign currencies. These purchases are hedged using external forward exchange contracts to fix a future price and cash flow at a fixed future date. When a mismatch of payment dates occur, the forward exchange contracts are pre-delivered or extended to match the timing of the cash flows in the underlying exposure.

Forward exchange contracts - cash flow hedges

The following table summarises, by currency, the Australian dollar value of forward foreign exchange contracts designated as cash flow hedges. The amounts disclosed below represent the currencies purchased, measured at the contract rate and the periods in which the contracts settle. The amounts represent the Australian dollar equivalent of commitments to purchase or sell foreign currencies.

30/06/06 Currencies	Weighted Average Exchange Rate	Less than 1 Year \$'000	1-2 Years \$'000	2-3 Years \$'000	Total \$'000
Canadian Dollars	0.8961	409	-	-	409
Euro	0.5745	12,943	20,001	2,706	35,650
Swedish Kroner	5.6612	664	-	-	664
United States Dollar	0.7110	11,841	-	-	11,841
Total		25,857	20,001	2,706	48,564

The portion of the gain or loss on the forward exchange contracts that is determined to be an effective hedge is recognised directly in equity. Ineffective portions are taken directly to the income statement.

When the cash flows occur, the Corporation accounts for the amount deferred to equity in the same manner as the underlying exposure. Ineffective portions are taken directly to the income statement.

Foreign currency bank accounts

The Corporation established foreign currency bank accounts on 30 June 2006. At 30 June 2006, no transactions had occurred in the accounts.

Notes to and forming part of the financial statements

for the three months ended 30 June 2006

24. FINANCIAL INSTRUMENTS (CONTINUED)

Risk management objectives and policies (continued)

Liquidity risk

It is the Corporation's policy to ensure adequate funding is available, at all times, to meet the commitments of the Corporation, as they arise, through the active control of cash flows, and ensuring facilities are in place that will satisfy the ongoing funding requirements of the Corporation.

Borrowing instruments maturing within one year have been classified as non-current liabilities as the Corporation has the expectation and the discretion to refinance these obligations for at least twelve months after the reporting date under the existing loan facility.

Interest rate risk

The Corporation's objective is to minimise the cost of the Corporation's borrowings, through the active management of interest rate exposures. Floating rate notes and interest rate swaps are utilised to reduce the cost of fixed rate borrowings.

The subsequent table summarises the Corporation's exposure to interest rate risk, and the effective weighted average interest rates on financial instruments at the reporting date. The following financial instruments, where they are not interest bearing, are omitted: receivables, payables and Contributory Extension Scheme.

30/06/06	Weighted Floating		Fixed Interest Rate Maturing						Total
	Average Interest Rate ¹	Interest Rate \$'000	Within 1 Year \$'000	1-2 Years \$'000	2-3 Years \$'000	3-4 Years \$'000	4-5 Years \$'000	Over 5 Years \$'000	
FINANCIAL ASSETS									
Cash at Bank	5.56%	11,019	-	-	-	-	-	-	11,019
Domestic Currency Deposits	5.65%	39,600	-	-	-	-	-	-	39,600
Total Assets		50,619	-	-	-	-	-	-	50,619
FINANCIAL LIABILITIES									
Domestic Currency Borrowings	6.22%	-	476,675	260,106	316,651	241,502	92,961	617,357	2,005,252
Floating Rate Notes ¹	5.81%	118,300	-	-	-	-	-	-	118,300
Interest Rate Swaps ²	-0.22%	(118,300)	65,000	-	10,000	25,000	8,300	10,000	-
Total Liabilities		-	541,675	260,106	326,651	266,502	101,261	627,357	2,123,552

¹ For floating interest rates, this represents the most recently determined rate converted to the effective annual rate. The frequency of renegotiation for floating rates varies from daily to half-yearly depending on the instrument.

² The interest rate is determined using notional principal. The weighted average interest rate represents the net position of both sides of the swap. It is shown as above to indicate the reduction in interest costs as a result of hedging. The notional principal included in the floating interest column indicates the floating leg of the swaps, whilst the fixed leg is shown in the fixed interest columns.

Notes to and forming part of the financial statements

for the three months ended 30 June 2006

24. FINANCIAL INSTRUMENTS (CONTINUED)

Risk management objectives and policies (continued)

Interest rate risk (continued)

The majority of the Corporation's interest rate swaps qualify as cash flow hedges. The portion of the gain or loss on the interest rate swaps that is determined to be an effective hedge is recognised directly in equity. Ineffective portions are taken directly to the income statement.

Commodity risk

The Corporation is indirectly exposed to commodity price risk for aluminium and copper. Due to the significant difficulty in ascertaining future aluminium and copper exposures, the current policy is to allow these exposures to remain unhedged.

Credit risk

The Corporation has implemented credit review procedures to minimise the risk of counterparty default.

Financial assets

In respect of investments, credit risk is minimised by the Corporation's practice to deal only with major banks that are rated AA- and above by Standard and Poor's or Moody's Investor Services and are regulated by the Australian Prudential Regulation Authority.

The Corporation is exposed to credit risk on trade receivables. This is managed through a rigorous debt collection procedure.

Derivative financial instruments

The Corporation's Treasury Policy limits dealing in derivatives to only those counterparties that are recognised financial intermediaries and possess a credit rating of A (Standard and Poor's) or A2 (Moody's Investor Services) or better. The policy also specifies counterparty limits based on these ratings, which are reviewed regularly.

The following table summarises the Corporation's credit risk on derivative financial instruments at the reporting date. The maximum credit risk on derivative financial instruments is represented by the fair value of contracts with a positive fair value at the reporting date.

Derivative Financial Instruments	30/06/06 \$'000
Interest Rate Swaps	342
Forward Exchange Contracts	839
Total	1,181

Notes to and forming part of the financial statements

for the three months ended 30 June 2006

24. FINANCIAL INSTRUMENTS (CONTINUED)

Fair values

The fair value of a financial asset or a financial liability is the amount at which the asset could be exchanged, or liability settled in a current transaction between willing parties after allowing for transaction costs. The carrying amounts and estimated fair values of financial assets and financial liabilities, including derivative contracts, held at the reporting date are provided in the next table.

	Carrying Amount 30/06/06 \$'000	Net Fair Value 30/06/06 \$'000
Financial Assets		
Cash at Bank	11,019	11,019
Domestic Currency Deposits	39,600	39,600
Receivables	99,597	99,597
Cash Flow Hedges		
Interest Rate Swaps	342	342
Forward Exchange Contracts	839	839
Total Assets	151,397	151,397
Financial Liabilities		
Payables	124,295	124,295
Contributory Extension Scheme	14,045	19,313
Domestic Currency Loans		
Long Term	2,005,252	2,004,317
Interest on principal	26,934	26,934
Floating Rate Notes		
Long Term	118,300	119,842
Cash Flow Hedges		
Interest Rate Swaps	814	814
Forward Exchange Contracts	687	687
Total Assets	2,290,327	2,296,202

Fair values of financial instruments are determined on the following basis:

- Forward exchange contracts are valued at prevailing market prices.
- The fair value of interest rate swaps and commodity swaps has been calculated by discounting future cash flows at prevailing market rates applicable at the reporting date.
- The Contributory Extension Scheme consists of a large number of non-interest bearing 30 year refundable deposits, the last of which is due to expire in 2023. The net fair value of the scheme has been calculated by discounting the expected future payment at the same interest rates used to value domestic currency loans.
- Domestic currency loans are arranged through Western Australian Treasury Corporation. The fair value of these loans has been calculated by discounting future cash flows using prevailing interest rates currently offered to the Corporation for debt of the same remaining maturities plus costs expected to be incurred when the liability is settled.

Notes to and forming part of the financial statements

for the three months ended 30 June 2006

30/06/06

\$'000

25. RECONCILIATION OF NET PROFIT AFTER INCOME TAX EXPENSE TO NET CASH INFLOWS FROM OPERATING ACTIVITIES

Profit for the year	17,067
Net gain on sale of non-current assets	(155)
Net exchange differences	(11)
Depreciation and amortisation	27,684
Fair value adjustment to derivatives	(148)
Contributed assets	(9,130)
Change in operating assets and liabilities:	
Increase in receivables	(44,986)
Decrease in prepayments	3,767
Increase in trade payables	16,405
Increase in inventories	(8,909)
Decrease in employee provisions	(2,011)
Increase in other provisions	3,160
Increase in other financial assets	(1)
Decrease in accrued interest receivable	5
Increase in accrued interest payable	22,951
Increase in other deferred income	2,119
Increase in income taxes payable	7,423
Net cash inflow from operating activities	35,230

26. INTERESTS IN CONTROLLED ENTITIES

Bright Telecommunications Pty Ltd, a wholly owned subsidiary of the Corporation, was formed to develop a broadband access network. As at 30 June 2006 a process for the sale of the Bright Telecommunications project is in progress.

As at 30 June 2006, the assets and liabilities of Bright Telecommunications Pty Ltd are held by the Corporation. The subsidiary has undertaken no transactions and therefore has no impact on the financial statements of the Corporation.

27. EVENTS SUBSEQUENT TO BALANCE DATE

The Wholesale Electricity Market (WEM) was due to commence operations on 1 July 2006. However, the Independent Market Operator has since confirmed that the WEM commenced in September 2006.

There is no other matter or circumstance that has arisen in the interval between the end of the reporting period and the date of this report that is likely, in the opinion of the Directors, to affect significantly the operations of the Corporation, the results of those operations, or the state of affairs of the Corporation in subsequent financial years.

Notes to and forming part of the financial statements

for the three months ended 30 June 2006

28. CONTRIBUTION FROM OWNER (DISAGGREGATION)

Transfer order

In September 2005 legislation was passed in Parliament to allow for the disaggregation of WPC into four separate state owned entities. These entities were created under the Electricity Corporations Act 2005 and established on 1 April 2006. The entities are:

- Electricity Generation Corporation (Verve Energy);
- Electricity Networks Corporation (Western Power);
- Regional Power Corporation (Horizon Power); and
- Electricity Retail Corporation (Synergy Energy).

On disaggregation the assets, rights and liabilities of WPC were contributed to the Minister for Energy. The Minister for Energy, under a Transfer Order prepared under Section 147 (1) of the Electricity Corporations Act 2005 (Gazetted on 31 March 2006), specified the subsequent allocation of these assets, rights and liabilities among the four separate state owned entities.

The Transfer Order designated the allocation described above as a contribution by the owner of WPC to the four separate state owned entities and that the contribution form part of the entities contributed equity. The transfer of the opening balances of assets and liabilities from WPC to the four successor entities has been reported in the WPC financial statements as at 30 June 2006. The WPC financial statements include a reconciliation of the WPC 31 March 2006 closing balances to the opening balances allocated to the four successor entities on 1 April 2006.

The Transfer Order specified that the values of the assets, rights and liabilities of WPC vested in the Corporation at the transferor's valuation ("book value").

Taxation treatment

WPC, and the four separate state owned entities are subject to the NTER administered by the ATO. Under agreement with the ATO the disaggregation of WPC was completed on a tax neutral basis. Hence there was no NTER tax consequence for WPC. Instead the four separate state owned entities inherited the tax attributes of WPC in relation to the assets, rights and liabilities allocated on disaggregation.

Notes to and forming part of the financial statements

for the three months ended 30 June 2006

28. CONTRIBUTION FROM OWNER (DISAGGREGATION) (CONTINUED)

Reconciliation: 31/03/06 Western Power Corporation Net Assets to 01/04/06

Contribution by Owner (Disaggregation)

	Contribution by Owner 01/04/06 \$'000	Other AIFRS Reclass- ifications 01/04/06 \$'000	Adjustments 01/04/06 \$'000	Revised Contribution by Owner 01/04/06 \$'000
CURRENT ASSETS				
Cash and cash equivalents	35,442	-	-	35,442
Trade and other receivables	47,470	-	-	47,470
Inventories	52,363	-	-	52,363
Derivative financial instruments	937	-	-	937
Current tax assets a)	-	26,104	6,391	32,495
Other current assets	11,769	-	-	11,769
Total current assets	147,981	26,104	6,391	180,476
NON-CURRENT ASSETS				
Property, plant and equipment	2,878,506	-	-	2,878,506
Intangible assets	13,185	-	-	13,185
Deferred tax assets b)	-	23,905	(1,648)	22,257
Derivative financial instruments	380	-	-	380
Total non-current assets	2,892,071	23,905	(1,648)	2,914,328
Total assets	3,040,052	50,009	4,743	3,094,804
CURRENT LIABILITIES				
Trade and other payables	87,067	-	-	87,067
Tax liabilities a)	(26,104)	26,104	-	-
Provisions	41,873	-	-	41,873
Derivative financial instruments	630	-	-	630
Other liabilities	132,434	-	-	132,434
Total current liabilities	235,900	26,104	-	262,004
NON-CURRENT LIABILITIES				
Other payables	12,096	-	-	12,096
Borrowings	1,988,901	-	-	1,988,901
Deferred tax liabilities b)	(23,905)	23,905	-	-
Provisions c)	51,582	(38,965)	-	12,617
Retirement benefit obligations c)	-	38,965	(5,494)	33,471
Derivative financial instruments	1,505	-	-	1,505
Total non-current liabilities	2,030,179	23,905	(5,494)	2,048,590
Total liabilities	2,266,079	50,009	(5,494)	2,310,594
NET ASSETS (REFER NOTE 19)	773,973	-	10,237	784,210

- a) Reclassification of the tax receivable from Current Liabilities to Current Assets: \$26.104m and adjustment to provision for tax refund: \$6.391m.
- b) Reclassification of the deferred tax asset from Non-Current Liabilities to Non-Current Assets: \$23.905m and tax effect of actuarial adjustment to retirement benefit obligations: \$1.648m.
- c) Reclassification of the retirement benefit obligation from Provisions to Retirement Benefit Obligations: \$38.965m and the actuarial adjustment to retirement benefit obligations: \$5.494m.

Directors' declaration

In the directors' opinion:

- (a) the financial statements and notes comply with the accounting standards; and
- (b) the financial statements and notes give a true and fair view; and
- (c) there are reasonable grounds to believe that the Corporation will be able to pay its debts as and when they become due and payable; and
- (d) the financial statements comply with Schedule 4 of the Electricity Corporations Act 2005.

This declaration is made in accordance with a resolution of the directors dated 22 September 2006.



Peter Mansell
Chairperson



Doug Aberle
Managing Director

22 September 2006



AUDITOR GENERAL

INDEPENDENT AUDIT REPORT ON ELECTRICITY NETWORKS CORPORATION

To the Parliament of Western Australia

Audit Opinion

In my opinion, the financial report of the Electricity Networks Corporation is in accordance with:

- (a) schedule 4 of the Electricity Corporations Act 2005, including:
 - (i) giving a true and fair view of the Electricity Networks Corporation's financial position at 30 June 2006 and of its performance for the financial year ended on that date; and
 - (ii) complying with Accounting Standards in Australia; and
- (b) other mandatory professional reporting requirements in Australia.

Scope

The Board of Directors is responsible for the financial report.

The financial report consists of the Income Statement, Balance Sheet, Statement of Recognised Income and Expense, Cash Flow Statement, accompanying Notes and Directors' Declaration.

Summary of my Role

As required by the Electricity Corporations Act 2005, I have independently audited the financial report to express an opinion on it. This was done by testing selected samples of the evidence. Further information on my audit approach is provided in my audit practice statement. Refer "<http://www.audit.wa.gov.au/pubs/Audit-Practice-Statement.pdf>".

An audit does not guarantee that every amount and disclosure in the financial report is error free, nor does it examine all evidence and every transaction. However, my audit procedures should identify errors or omissions significant enough to adversely affect the decisions of users of the financial report.

D D R PEARSON
AUDITOR GENERAL
22 September 2006