

07

> Financial Review

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FINANCIAL REVIEW 2007

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> Directors' report

The 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 their report for the year to 30 June 2007.

DIRECTORS

The names and details of the Directors in office during the year to 30 June 2007 are:

D Aberle
M Davies
S Farrier
K Field
P Mansell
J Seabrook

PRINCIPAL ACTIVITIES

The principal continuing functions of the Corporation are:

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

It is also the function of the Corporation to use or exploit its fixed assets for profit so long as the proper performance of its functions are not affected.

The Corporation can do anything that it determines to be conducive or incidental to the performance of its function mentioned above.

The Corporation, in performing its functions, must act in accordance with prudent commercial principles and endeavour to make a profit consistent with maximising its long-term value.

There have been no significant changes in the nature of the principal activities in the year to 30 June 2007.

OPERATING RESULTS

The Corporation achieved a net profit after income tax of \$69,407,000 for the year to 30 June 2007 (three months to 30 June 2006: \$17,067,000).

DIVIDENDS

The Corporation paid a final dividend of \$8,533,500 on 18 December 2006 in respect of the three months ended 30 June 2006 (three months to 30 June 2006: \$nil) and an interim dividend of \$17,130,000 on 29 June 2007 in respect of the year to 30 June 2007. In addition to the above dividends, since the end of the financial year the Directors have recommended, subject to the approval of the Minister, the payment of a final dividend of \$17,573,500 in respect of the year to 30 June 2007.

REVIEW OF OPERATIONS

Information on the operations and financial position of the Corporation and its business strategies and prospects is set out in the review of operations and activities on pages 13 to 35 of this Annual Report.

> Directors' report (continued)

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

Except as noted below, there were no significant changes in the state of affairs of the Corporation during the year.

Bright Telecommunications Pty Ltd, a wholly owned subsidiary of the Corporation, was formed to develop a broadband access network. The subsidiary has not undertaken any transactions during the period. The assets and liabilities of the company were held by the Corporation and therefore the activities of the company do not have any material impact on the financial statements of the Corporation. The Corporation sold its shareholding in Bright Telecommunications Pty Ltd on 1 December 2006.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL PERIOD

Since 30 June 2007, no matter or circumstance has occurred that has significantly, or may significantly, affect:

- The Corporation's operations in future financial years, or
- The results of those operations in future financial years, or
- The Corporation's state of affairs in future financial years.

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 Corporation has committed to a significant investment program in order to meet its safety, reliability and efficiency requirements. The Corporation is reliant on debt funding from the shareholder 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 result in unreasonable prejudice to 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 legislation) and the Environment Protection and Biodiversity Conservation Act 1999 (Commonwealth legislation). There were no breaches of regulations under these legislations in the year to 30 June 2007.

QUALIFICATIONS AND EXPERIENCE OF DIRECTORS

Peter Mansell

Year of birth: 1946 (Board chair, independent, non-executive director). Appointed with effect from 1 April 2006.

Qualifications and professional memberships

- Bachelor of Commerce
- Bachelor of Laws
- Australian Institute of Company Directors
- Law Society of Western Australia

Experience and expertise

Mr Mansell has practised 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).

Other current directorships

- West Australian Newspaper Holdings Ltd (Board chair)
- Great Southern Plantations Ltd
- Zinifex Ltd (Board chair)
- Ferngrove Vineyards Ltd (Board chair)
- ThinkSmart Ltd (Board chair)
- Bunnings Property Management Ltd, the responsible entity for the Bunnings Warehouse Property Trust.

Former directorships in last three years

- Foodland Associated Ltd until November 2005
- Progressive Enterprises Holdings Ltd until November 2005
- JDV Limited until August 2005
- Tethyan Copper Company Ltd until May 2006
- The Hoyts Corporation Pty Ltd until December 2006
- Hardman Resources Ltd until December 2006
- Western Power Corporation until March 2006.

Special responsibilities

- Chair of the Remuneration and Nominations Committee (now the People and Performance Committee) to 4 August 2006.
- Member of the People and Performance Committee.

> Directors' report (continued)

Jenny Seabrook

Year of birth: 1957 (Board deputy chair, independent, non-executive director). Appointed with effect from 1 April 2006.

Qualifications and professional memberships

- Bachelor of Commerce
- Member of the Institute of Chartered Accountants Australia
- Fellow of the Australian Institute of Company Directors
- Senior Fellow of Financial Services Institute of Australia

Experience and expertise

Ms Seabrook is an investment banker. She is also a member of the Federal Government's Takeovers Panel and the Markets Policy Group for the Financial Services Institute of Australia. Before joining Gresham Partners in 1998, she worked with Hartley Poynton, HSBC Group and Touche Ross on a range of transactions that gave her exposure to capital markets, debt markets and valuation issues. Subsequent to joining Gresham Partners she has worked on a variety of mergers, acquisitions and capital structuring advisory transactions.

Other current directorships

- West Australian Newspapers Holdings Limited (non-executive director)
- Gresham Advisory Partners Limited (executive director)
- Gresham Partners Limited (executive director)

Former directorships in last three years

- Western Power Corporation - non-executive director and deputy chair until March 2006.

Special responsibilities

- Chair of the Finance and Risk Committee.
- Member of the People and Performance Committee.

Doug Aberle

Year of birth: 1953 (Chief Executive Officer and Managing Director). Appointed with effect from 1 April 2006.

On 8 May 2007 the Governor reappointed Mr Aberle as a director for a three-year term commencing on 1 July 2007.

Qualifications and professional memberships

- Bachelor of Engineering (Hons)
- Master in Engineering Science
- Chartered Professional Engineer

- Fellow of the Institution of Engineers Australia
- Fellow of the Australian Institute of Company Directors
- Clinical Member of the Australian Association of Relationship Counsellors
- Member of Gestalt Australia and New Zealand

Experience and expertise

Mr Aberle 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 the former Western Power Corporation. He was also Chairman of Integrated Power Services, a company jointly owned by Western Power Corporation and Halliburton, and was CEO of the South West Development Commission during a six-month secondment. He is also a clinical member of the Australian Association of Relationship Counsellors and a College Member of Gestalt Australia and New Zealand.

Other current directorships

- South West Counselling Inc. (not for profit)
- Australian National Committee for CIGIRE.

Former directorships in last three years

- Bright Telecommunications Pty Ltd until December 2006.

Mervyn Davies

Year of birth: 1944 (independent, non-executive director). Appointed with effect from 1 April 2006.

On 8 May 2007 the Governor reappointed Mr Davies as a director for a three-year term commencing on 1 July 2007.

Qualifications and professional memberships

- Bachelor of Engineering (Hons)
- Masters in Engineering Science
- Bachelor of Commerce

Experience and expertise

Mr. Davies 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 and is formally qualified in both Engineering and Economics from the University of New South Wales and has experience at the business level in implementing the National Competition Reform Agenda for electricity.

> Directors' report *(continued)*

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

Other current directorships

- Anrig Pty Ltd (Board chair)
- Girna Engineering Management Services Pty Ltd (Board chair).

Former directorships in last three years

- Western Power Corporation - non-executive director until March 2006.

Special responsibilities

- Member of the Finance and Risk Committee.

Sally Farrier

Year of birth: 1963 (independent, non-executive director).
Appointed with effect from 1 April 2006.

Qualifications and professional memberships

- Bachelor of Engineering
- Masters of Business Administration
- Post-Graduate Diploma in Finance and Investment Analysis
- Member of the Institute of Company Directors
- Fellow of the Financial Services Institute of Australia

Experience and expertise

Ms. Farrier commenced her career as a consulting engineer before moving on to general management consulting and corporate advisory specialising in the utilities sector. In recent years she has focused on design, evolution and implementation of economic regulation, risk allocation, market incentives and mechanisms, and strategic decision making, particularly in relation to infrastructure. She 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

- Farrier Swier Consulting Pty Ltd
- Hydro Electric Corporation (Hydro Tasmania).

Special responsibilities

- Member of the Finance and Risk Committee.

Karen Field

Year of birth: 1948 (independent, non-executive director).
Appointed with effect from 1 April 2006.

Qualifications and professional memberships

- Bachelor of Economics

Experience and expertise

Ms Field has 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 she 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

- Sipa Resources Ltd
- Water Corporation
- Centre for Sustainable Resource Processing
- Anglican Homes Inc.

Special responsibilities

- Chair of the People and Performance Committee.

> Directors' report (continued)

QUALIFICATIONS AND EXPERIENCE OF COMPANY SECRETARIES

Company Secretary – J Pease LLM

Mr. Pease has a Master of Laws with Distinction from the University of Western Australia and prior to his appointment with the Corporation has been practising law as a barrister since the mid 1980's and held various in-house, private practice and government positions.

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 year to 30 June 2007 are as follows:

Attendee	Board Meetings		People and Performance Committee		Finance and Risk Committee	
	A	B	A	B	A	B
DT Aberle	15	15	7	7	7	7
MJ Davies	15	15	-	-	7	7
S Farrier	14	15	-	-	7	7
K Field	15	15	6	6	-	-
PJ Mansell	15	15	7	7	-	-
JA Seabrook	14	15	6	7	7	7

A Number of meetings attended.

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

REMUNERATION REPORT

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

- Principles used to determine the nature and amount of remuneration
- Details of remuneration
- 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 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 personal effectiveness in its performance
- Allocate remuneration to employees on the basis of merit and performance
- 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:

- A fixed remuneration component administered as total fixed remuneration
- A variable remuneration component administered as short-term incentives.

Fixed Remuneration Component

This includes a base salary, superannuation and benefits to reflect the level of work, responsibility and personal competency in the role which may be delivered as a combination of cash and prescribed non-financial benefits at the individual's discretion. Total Fixed Remuneration is reviewed annually on the basis of competitive market movement and personal performance.

There are no guaranteed Fixed Remuneration increases included in any senior executives' contracts.

Variable Remuneration Component

This component is a cash-based incentive based on a three-tier performance target (two-tier in respect of the Managing Director) designed to drive successful performance outcomes and team congruence. Incentive payments are not guaranteed and are contingent on meeting the pre-determined performance targets agreed by the Board and senior management. Qualifying incentive payments are made annually in September.

Each year the Board will assess managements' overall performance in meeting agreed performance targets and determine the level of payment to be awarded.

> Directors' report (continued)

REMUNERATION REPORT (continued)

B. Details of Remuneration

Details of the remuneration of the Directors and Key Executives are set out in the following tables.

Remuneration of Directors

Name	Year	Salary and fees \$	Short-term incentive [#] 2006 \$	Short-term incentive [#] 2007 \$	Non-monetary \$	Post Employment Superannuation \$	Other long-term benefits \$	Termination benefits \$	Total Benefits \$
DT Aberle	2007	298,959	14,140	110,681	31,772	49,105	-	-	504,657
	2006*	64,945	-	-	7,432	11,669	-	-	84,046
MJ Davies	2007	7,404	-	-	-	52,546	-	-	59,950
	2006*	13,750	-	-	-	1,237	-	-	14,987
S Farrier	2007	55,000	-	-	-	4,950	-	-	59,950
	2006*	13,750	-	-	-	1,237	-	-	14,987
K Field	2007	7,404	-	-	-	52,546	-	-	59,950
	2006*	13,750	-	-	-	1,237	-	-	14,987
PJ Mansell [†]	2007	65,400	-	-	663	64,737	-	-	130,800
	2006*	21,628	-	-	166	26,949	-	-	48,743
JA Seabrook	2007	73,183	-	-	663	6,646	-	-	80,492
	2006*	18,584	-	-	166	1,688	-	-	20,438
	2007	507,350	14,140	110,681	33,098	230,530	-	-	895,799
	2006*	146,407	-	-	7,764	44,017	-	-	198,188

[†] \$16,042 of Total Benefits in 2006 relates to payments made by Western Power Corporation

[#] The short-term incentive payments for 2006 are in respect of amounts paid for the three month period to 30 June 2006 that were determined after the approval of the 2006 financial report. The short-term incentive payments for 2007 are in respect of amounts earned for the year to 30 June 2007. The amount included for Mr D T Aberle is subject to the approval of the Minister.

* for the three month period to 30 June 2006

Remuneration of Key Executives

Name	Year	Salary and fees \$	Short-term incentive [#] 2006 \$	Short-term incentive [#] 2007 \$	Non-monetary \$	Post Employment Superannuation \$	Other long-term benefits \$	Termination benefits \$	Total Benefits \$
K Brown	2007	128,475	8,523	54,664	22,189	110,630	-	-	324,481
	2006*	50,175	-	-	6,497	12,916	-	-	69,588
AM Clark	2007	245,171	8,325	59,541	32,900	23,491	-	-	369,428
	2006*	60,936	-	-	-	8,841	-	-	69,777
M de Laeter	2007	300,917	6,555	50,578	14,687	25,060	-	-	397,797
	2006*	48,412	-	-	166	5,468	-	-	54,046
GJ Monkhouse	2007	157,686	6,088	51,391	3,255	100,355	-	-	318,775
	2006*	57,095	-	-	166	3,035	-	-	60,296
M Peacock	2007	236,757	8,055	58,817	27,485	23,548	-	-	354,662
	2006*	60,419	-	-	632	5,495	-	-	66,546
J Pease	2007	185,889	2,970	24,769	26,089	18,845	-	-	258,562
	2006*	39,712	-	-	5,062	4,025	-	-	48,799
M Sims	2007	163,434	4,325	-	3,371	26,270	-	-	197,400
	2006*	36,317	-	-	166	6,188	-	-	42,671
P Southwell	2007	201,158	8,523	55,083	33,667	29,374	-	-	327,805
	2006*	61,887	-	-	166	6,472	-	-	68,525
R White	2007	233,787	8,955	-	2,616	21,088	-	328,565	595,011
	2006*	67,766	-	-	166	6,114	-	-	74,046
	2007	1,853,274	62,319	354,843	166,259	378,661	-	328,565	3,143,921
	2006*	482,719	-	-	13,021	58,554	-	-	554,294

[#] The short-term incentive payments for 2006 are in respect of amounts paid for the three month period to 30 June 2006 that were determined after the approval of the 2006 financial report. The short-term incentive payments for 2007 are in respect of amounts earned for the year to 30 June 2007.

* for the three month period to 30 June 2006

> Directors' report (continued)

REMUNERATION REPORT (continued)

C. Service Agreements

The remuneration and other terms of employment for the Directors, Managing Director and key management personnel are formalised in fixed term service agreements. The terms of these agreements relating to remuneration are set out below.

PJ Mansell, *Board Chair and Non-Executive Director.*

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

JA Seabrook, *Deputy Chair of the Board and Non-Executive Director.*

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

MJ Davies, *Non-Executive Director.*

On 8 May 2007 the Governor reappointed Mr Davies as a director for a three-year term commencing on 1 July 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 T Aberle, *Managing Director.*

On 8 May 2007 the Governor reappointed Mr Aberle as a director for a three-year term commencing on 1 July 2007.

K Brown, *General Manager System Management.*

M de Laeter, *General Manager Asset Management.*

P Southwell, *General Manager Strategy and Corporate Affairs.*

AM Clark, *General Manager Field Services.*

GJ Monkhouse, *General Manager Human Resources.*

M Peacock, *Chief Financial Officer.*

R White, *General Manager Works Delivery (resigned 20 April 2007)*

J Pease, *General Counsel and Company Secretary*

Ongoing term of employment commencing 1 April 2006.

M Sims, *Acting General Manager Business Transformation and Acting General Manager Works Delivery (with effect from 21 April 2007)*

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

INSURANCE OF OFFICERS

The Corporation holds a Directors' and Officers' Liability Insurance Policy. 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.

AUDITOR

Under the Corporation's enabling legislation, the Parliament has appointed the Office of the Auditor General for Western Australia as its independent auditor. The independent auditor is appointed under the Electricity Corporations Act 2005. This Act provides that the auditor 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.

NON-AUDIT SERVICES

Details of the amounts paid or payable to the auditor and other audit practices engaged for audit services of the Corporation during the period are set out below. Neither of these audit firms has provided any non-audit services during period.

	Year to 30 June 2007	Three months to 30 June 2006
Audit services:		
Office of the Auditor General		
Audit and review of financial reports	\$250,000	\$220,000

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

Signed in Perth this 31st day of August 2007.



P Mansell
Board Chair



D Aberle
Managing Director

> Corporate governance statement

1. CORPORATE GOVERNANCE AT WESTERN POWER

Western Power is committed to a high level of corporate governance and fostering a culture that values safety, ethical behaviour, integrity and respect.

This Statement reports on Western Power's key governance principles and practices. These principles are reviewed regularly and revised as appropriate to reflect changes in law and best practice in relation to corporate governance.

Western Power must comply with the Electricity Corporations Act 2005 (WA) (the 'Act') and other Australian laws. While Western Power is not listed on the Australian Securities Exchange ('ASX'), it seeks to comply, to the extent applicable and not inconsistent with the requirements of the Act, with the ASX 'Principles of Good Corporate Governance and Best Practice Recommendations' ('ASX Principles') released by the ASX Corporate Governance Council.

The ASX Principles require the Board to consider the development and adoption of appropriate governance policies and practices founded on the ASX Principles. This year Western Power updated its governance policies and procedures to better reflect the ASX Principles. Details of Western Power's compliance with the ASX Principles are set out below and in the ASX Principles compliance checklist found on pages 55 to 57 of this report and are published in the corporate governance section of the corporation's website (www.westernpower.com.au).

2. BOARD OF DIRECTORS

2.1 Board role and responsibilities (ASX Principle 1.1)

As a statutory corporation, the Board's and management's respective duties and responsibilities are substantially set out in the Act. Further details are provided below.

Subject to the provisions of the Act, the Board has overall responsibility for performing the functions, determining the policies and controlling the affairs of Western Power. Its

central role is to set Western Power's strategic direction and to oversee its management and commercial activities.

The Board has approved a Board Charter (a copy of which is available in the corporate governance section of Western Power's website) that details its role, powers, duties and functions. In addition to matters required by law to be approved by the Board, the following powers are reserved to the Board:

- appointments to the position of the Chief Executive Officer ('CEO'), subject to the Minister's endorsement, and oversight of appointments of the CEO's direct reports
- providing strategic direction, approving policies and reviewing major decisions, including capital expenditure proposals
- approving budgets and monitoring management and financial performance
- overseeing compliance with internal processes and regulatory requirements
- assessing Board performance to ensure the Board's effectiveness.

Responsibility for the management of Western Power's day-to-day operations is delegated to the CEO, who is accountable to the Board. The Board has also delegated a number of responsibilities to its committees. The responsibilities of these committees are detailed in section 3 of this report.

2.2 Board composition (ASX Principles 2.1, 2.2, 2.3 & 2.5)

In accordance with the Act, the Board must comprise not less than four and not more than six directors. Directors are appointed by the Governor of Western Australia on the nomination of the Minister. In making nominations, the Minister is required to consult with the Board. The Board may also recommend new directors to the Minister if a Board vacancy occurs.

At the date of this report the Board has six members, of whom five are non-executive Directors. All of the current Directors were appointed on 1 April 2006 following the

> Corporate governance statement (continued)

disaggregation of the former Western Power Corporation. The names and biographical details of the Directors in office at the date of this report, the date they were first appointed, their status as non-executive, independent or executive Directors and whether they are retiring by rotation and seeking re-appointment are set on page 42 to 44 of this Annual Report.

The Board considers that all of the non-executive directors, including those offering themselves for reappointment, collectively bring the range of skills, knowledge and experience necessary to direct Western Power.

In assessing the composition of the Board, the Directors have regard to the following criteria:

- the Chair and the Deputy Chair must be independent, non-executive, Directors
- the role of the Chair and the CEO cannot be filled by the same person
- the CEO is to be resident in, or near, the town in which Western Power's head office is located
- the majority of the Board should comprise independent directors
- the Board should have the required blend of qualifications, experience and expertise.

Further details of the process for evaluating the range of skills, experience and expertise that will best complement Board effectiveness, with a view to ensuring that it has a proper understanding of, and the competence to deal with, the current and emerging issues of Western Power's business are available in the corporate governance section of Western Power's website.

2.3 Director independence (ASX Principle 2.1)

The structure and composition of the Board is prescribed by the Act. The independence of Directors is, therefore, not a matter entirely in control of the Board. However, the Board Charter provides that in nominating candidate directors to the Minister, the Board will have regard to the independence of prospective directors.

The Board Charter further outlines the criteria to be considered in assessing Director independence, which are based on the premise that a director must be independent of management and free of any business or other relationship that could materially interfere, or could reasonably be perceived to interfere, with the exercise of the Director's unfettered and independent judgment.

In considering a Director's independence, the Board also has regard to the period of time during which the director has served on the Board, and whether that period could interfere with his or her ability to act in the best interests of Western Power. In this regard, the Board notes that the ASX Corporate Governance Council proposes to amend the ASX Principles by, among other things, removing length of tenure from the list of relationships affecting Director independence.

The test of whether a business, or other, relationship is material is based on the nature of the relevant relationship and on the circumstances of the individual director. Materiality is considered from the perspective of Western Power, the persons or organisations with which the director has an association and from the perspective of the director. The Board considers that a customer, or supplier, is material where the amount receivable or payable, respectively, by Western Power in any 12 month period exceeds \$1.5 million. However, this threshold is not conclusive and the Board will examine both the qualitative and quantitative nature of a director's relationship with any particular customer or supplier when assessing director independence if the threshold is exceeded, the Board will consider whether or not that materially affects the impartiality of the judgment of the director.

The Board has considered the independence of each of the directors in office at the date of this report and its determination is set out in director profiles on pages 42 to 44 of this annual report. None of the non-executive directors is considered to have a business, or other, relationship that could materially interfere, or could reasonably be perceived to interfere, with the exercise of the director's unfettered and independent judgment.

2.4 Conflicts of interest

Directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with Western Power's interests. The Board has developed procedures to assist directors on disclosing potential conflicts of interest.

A director with an actual or potential conflict of interest in relation to a matter before the Board withdraws from the meeting while the matter is considered.

2.5 Board succession planning (ASX Principle 2.5)

The People & Performance Committee ('P&PC') assists the Board with succession planning. The P&PC reviews the size and composition of the Board and the mix of existing and desired competencies across members and reports its conclusions to the Board annually.

> Corporate governance statement (continued)

Non-executive directors are appointed for a period of up to three years and are eligible for reappointment, but may be removed from office by the Governor at any time.

When a non-executive director position is vacant, the Board may recommend a candidate to the Minister who may then nominate the candidate to the Governor.

Criteria considered by the P&PC when evaluating prospective candidates are contained in the Board Charter, which is available in the corporate governance section of Western Power's website.

2.6 Terms of appointment, induction training and continuing education (ASX Principles 1.1 & 8.1)

Under the Act, a director holds office for such period, not exceeding three years, as is specified in the instrument of his or her appointment, and is eligible for reappointment. Periods of appointment will be structured to ensure that approximately one-third of directors retire each year.

All non-executive directors are provided with a letter of appointment that sets out the terms of their appointment. For new appointments, Western Power intends that each letter of appointment will contain all of the information recommended by the ASX Principles (including duties, rights and responsibilities, the time commitment envisaged and the Board's expectations regarding involvement with committee work). However, not all of the letters of appointment provided to the existing non-executive directors contained all of the recommended content. This is because either:

- at the time of appointment of the relevant directors, Western Power's policy of compliance with the ASX Principles had not been fully implemented
- being the inaugural directors of Western Power, the information did not exist at the relevant time, e.g. details of meetings, committee work required, details of fellow directors
- as Western Power is a statutory corporation, the information is contained in its enabling legislation, namely the Act, or is not relevant e.g. it does not have a constitution, disclosure of material person interests, powers and duties and trading policy (see part 4.2 of this governance statement).

The existing non-executive directors have since been given this information where it is relevant to Western Power as a statutory corporation.

The P&PC oversees establishment and implementation of an effective induction process for new directors and reviews that process regularly. The induction process includes discussions with the CEO, senior management and the external and internal auditors and provision of information on key corporate and Board policies and strategic plans.

All directors are expected to undertake professional development to maintain the skills required to discharge their duties. Where this involves industry seminars and approved education courses, Western Power pays the cost, subject to the Chair's approval. In addition, where skill gaps are identified, directors will be provided with appropriate resources and training.

2.7 Performance evaluation (ASX Principle 8.1)

The performance of the Board as a whole and each of its committees are reviewed on a regular basis (at least annually) against the requirements of their respective charters. In addition, the individual performances of the Board Chair and the directors are also reviewed. The P&PC determines the evaluation process for the Board and individual directors.

The performance evaluation of the Board as a whole and individual directors was conducted between June and July 2007 and comprised:

- a self-evaluation survey completed by individual directors
- a questionnaire/feedback from senior executives in relation to their dealings and interface with the Board
- individual discussions between the Board Chair and all directors and senior executives, using the summarised results of the completed surveys
- a confidential report to the Board of the collated results of the process for discussion/consideration.

Further details of the Board and director evaluation process are available in the corporate governance section of Western Power's website.

The Board reviews the performance of its committees annually, at its last meeting for each calendar year. In this reporting period, the Board reviewed reports from each of its committees in December 2006. The reports included the respective committee's:

- assessment of its performance against the requirements of its charter
- goals and objectives for the coming year
- recommendations for any improvements to its charter deemed necessary or desirable.

> Corporate governance statement (continued)

The Board also informally reviews its performance on an ongoing basis, by way of a meeting critique conducted by a member of the Board at the close of each Board and Board committee meeting.

The P&PC reviews and makes recommendations to the Board on the process for reviewing the performance of the CEO. The CEO's performance is judged against the approved strategic plan and the corporate and personal key performance indicators established for the CEO on an annual basis.

A description of the process for performance evaluation of the Board, its committees, individual directors and key executives appears in the corporate governance section of Western Power's website.

2.8 Board access to information and professional advice (ASX Principle 2.5)

Directors have direct access to members of Western Power's management and information.

Directors may, in carrying out their duties owed to Western Power, seek external professional advice. They are entitled to reimbursement of all reasonable costs where a request for advice is approved by the Board Chair. Where the Board Chair proposes to seek external advice, he, or she will consult the Chair of the P&PC.

2.9 Directors' remuneration (ASX Principle 9)

The P&PC is responsible for, among other matters, assisting the Board in establishing remuneration policies and reviewing their effectiveness. The remuneration of non-executive directors is determined by the Minister.

Western Power has a remuneration policy that distinguishes between the structure of non-executive and executive directors' remuneration. Details of remuneration policy, together with details of the remuneration paid to directors (executive and non-executive) and all executive officers of Western Power can be found on page 46 of this annual report.

2.10 Board Chair (ASX Principles 2.2 & 2.3)

The Board Chair, Mr P Mansell, is an independent non-executive director. Under the Act, the Governor appoints the Board Chair and Deputy Chair from the non-executive directors on nomination of the Minister.

In compliance with the Act, the Board Chair and the CEO are not the same person.

The Board Chair is responsible for leadership of the Board, for the efficient organisation and conduct of the Board's function and for the promotion of relations between Board members and between the Board and management that are open, cordial and conducive to productive co-operation. The Board Chair's responsibilities are set out in more detail in the Board Charter.

Mr Mansell is also Chair/director of West Australian Newspaper Holdings Ltd, Zinifex Ltd, ThinkSmart Limited and Ferngrove Vineyards Ltd. The Board considers that neither his chairmanship of these companies, nor any of his other commitments listed on page 42 of this annual report, interfere with the discharge of his duties to Western Power. The Board is satisfied that he commits the time necessary to discharge his role effectively.

2.11 Company Secretary (ASX Principle 8.1)

Western Power's Company Secretary is Mr J Pease who is also its General Counsel. The qualifications and experience of Mr Pease are set out on page 45. The appointment and removal of the Company Secretary is a matter for decision by the Board. The Company Secretary is responsible for ensuring that Board procedures are complied with and that governance matters are addressed. All directors have access to the Company Secretary's advice and services.

2.12 Board meetings (ASX Principle 2.5)

The Board meets at least 10 times per year to address strategic issues and as needed to address urgent issues. During the year ended 30 June 2007, the Board held 15 Board meetings. Details of directors' attendance at these meetings are set out on page 45 of this annual report.

The Board has adopted rules and procedures that govern the proceedings of Board meetings in addition to the provisions in Schedule 1 of the Act.

In summary the procedure is as follows. The Board Chair sets the agenda for each meeting in consultation with the CEO. Any director may request additional matters to be placed on the agenda. Members of senior management attend meetings of the Board by invitation, but sessions are also scheduled at the beginning of each formal Board meeting for non-executive directors to meet without management present.

Copies of Board papers are circulated electronically in advance of meetings. Directors are entitled to request additional information where they consider the information is necessary to support informed decision-making.

> Corporate governance statement (continued)

3. BOARD COMMITTEES

3.1 Committees, membership and charters (ASX Principles 2.4, 2.5, 4.2, 4.3, 4.4, 4.5, 9.2 & 9.5)

The Board has established two committees to assist in the discharge of its responsibilities. These are:

- the Finance & Risk Committee ('F&RC')
- the People & Performance Committee ('P+PC').

Each of the committees has its own terms of reference that describe its role and duties. The Company Secretary provides secretariat services for each committee.

Minutes of all committee meetings are provided to the Board and the proceedings of each meeting are reported by the respective committee chair at the next Board meeting. A director may attend committee meetings even if he or she is not a member of the committee.

The number of committee meetings held during the year, and members' attendances at these meetings, are set out in the Director's Report.

3.2 Finance & Risk Committee (ASX Principles 4.2, 4.3, 4.4 & 4.5)

The role of the Finance & Risk Committee is to assist the Board to meet its oversight responsibilities in relation to Western Power's financial reporting, application of accounting policies, financial management and treasury function, internal control, risk management and compliance systems and the internal and external audit function. In doing so, the committee is to maintain free and open communication with the WA Auditor General, the internal auditors and management of Western Power.

The committee's terms of reference, detailing its duties, are available in the corporate governance section of Western Power's website.

The members of the Finance & Risk Committee are Ms J Seabrook (Chair), Mr M Davies and Ms S Farrier.

The Auditor General, CEO, Chief Financial Officer ('CFO'), Manager Risk Assurance and Audit and General Counsel & Company Secretary attend committee meetings by invitation.

3.3 People & Performance Committee (ASX Principles 2.4, 2.5, 9.2 & 9.5)

The role of the People & Performance Committee is to assist the Board to meet its oversight responsibilities in relation to Western Power's governance practices, review Board composition and succession planning for the Board and CEO and assist the Board in establishing remuneration, incentives and human resources policies and a performance review framework.

The committee's terms of reference, detailing its duties, are available in the corporate governance section of Western Power's website.

The members of the People & Performance Committee are Ms K Field (Chair), Mr P Mansell and Ms J Seabrook.

The CEO, General Manager Human Resources and General Counsel & Company Secretary attend committee meetings by invitation.

4. PROMOTING RESPONSIBLE AND ETHICAL BEHAVIOUR

4.1 Code of conduct and whistleblower policy (ASX Principles 3.1, 3.3 & 10.1)

The Board has approved a code of conduct for directors and executive officers to promote ethical and responsible decision-making. A copy of the code is available in the corporate governance section of Western Power's website.

The Board has also approved a code of conduct setting out minimum standards of conduct for all officers and employees of Western Power, as well as a legislative and regulatory compliance policy. The code of conduct outlines Western Power's position on a range of ethical and legal issues and summarises its policies on matters such as compliance with laws, occupational health and safety, conflicts of interest, corporate opportunity, confidentiality, protection of corporate assets and diversity in the workplace and responsibility for the environment. A copy of the code of conduct is available in the corporate governance section of Western Power's website.

The codes of conduct and the legislative and regulatory compliance policy:

- guide compliance with Western Power's legal and other obligations to its stakeholders, including the Minister and the Government, employees, customers, the community, unions and regulatory authorities

> Corporate governance statement (continued)

- are designed to reflect Western Power's commitment to appropriate corporate practices.

Compliance with the principles contained within these documents will also assist Western Power in effectively managing risks and meeting its legal and compliance obligations.

Western Power also has a policy on whistleblowing. The purpose of the policy is to help detect and address misconduct, help provide an environment in which persons feel able to raise issues of concern to them and Western Power and help protect people who report misconduct in good faith.

In accordance with the Act, the Board has also adopted minimum standards of merit, equity and probity applicable to management of Western Power's staff and a joint policy on staff transfers. The latter has been approved by the Minister and ensures that staff of Western Power and the other electricity corporations created by the Act have the opportunity to move between the corporations and their respective subsidiaries without loss of entitlements.

4.2 Ownership and dealing in securities (ASX Principles 3.2 & 3.3)

Western Power is not a listed entity and has no transferable securities. The potential for issues in relation to trading in other companies' shares while in possession of inside information is addressed in the statutory duties contained in the Act and further explained in an outline of the duties and obligations of directors and executive officers, a copy of which is provided to all directors and officers of Western Power.

5. SHAREHOLDER

5.1 Shareholder communication (ASX Principles 6.1 & 6.2)

The Minister for Energy is the only shareholder of Western Power. As Western Power's governing body, the Board is responsible to the Minister for its performance. The Minister has various rights set out in the Act in relation to certain aspects of Western Power, such as Board nominations, approvals for certain transactions and access to information about Western Power.

The Act also imposes certain reporting obligations on Western Power. It must produce a strategic development plan ('SDP') and a statement of corporate intent ('SCI') each year. The SDP sets out Western Power's five-year economic and financial objectives, strategic result areas and associated performance targets, as well as strategies.

The SCI sets out Western Power's scope of activities, objectives and performance targets for the coming financial year and is consistent with the SDP. The SCI is tabled in Parliament after it has been agreed with the Minister and has received the Treasurer's endorsement. In addition:

- Western Power provides quarterly and annual written reports to the Minister detailing its performance and progress made in fulfilling the agreed targets set in the SCI
- the Minister and the Board must, at the request of either, consult on any aspect of Western Power's operation.

Western Power has established a formal protocol to ensure comprehensive and effective communication with the Minister and the Minister's office. The protocol reflects the particular relationship between Western Power (being a statutory corporation) and the Government and recognises that the Minister must receive information to enable the Minister to discharge the Minister's duties.

5.2 Continuous disclosure and market communications (ASX Principles 5.1 & 5.2)

Western Power is not a listed company and is, therefore, not subject to disclosure obligations under the ASX Listing Rules. However, the Act imposes requirements on Western Power to report on a range of matters to the Minister.

The Finance & Risk Committee monitors the systems and processes Western Power has in place to achieve compliance with, among other matters, its reporting requirements. In December 2006 the Board approved a legislative and regulatory compliance policy that is designed to ensure that all Western Power employees are aware of its various legislative obligations, including those relating to disclosure and reporting. The policy establishes a framework that, when fully implemented, will:

- identify the relevant obligations and allocate responsibility for compliance
- provide education for all affected staff to ensure that there is an awareness of the compliance requirement
- ensure that compliance breaches are reported and remedial action monitored
- review the effectiveness of the framework on a regular basis.

> Corporate governance statement (continued)

6. FINANCIAL REPORTING (ASX PRINCIPLES 4.1 & 7.2)

The Act requires the Board to declare annually that Western Power's financial statements give, in all material respects, a true and fair view of its financial position and that its financial condition and operating results are in accordance with relevant accounting standards.

The CEO and CFO have stated in writing to the Board that:

- Western Power's financial reports present a true and fair view, in all material respects, of its financial condition and operational results and are in accordance with relevant accounting standards
- the statement they have given relating to the integrity of Western Power's financial statements and notes is founded on a sound system of risk management and internal compliance and control which implements the policies approved by the Board
- Western Power's risk management and internal compliance and control systems, to the extent they relate to financial reporting, are operating efficiently and effectively in all material respects.

7. EXTERNAL AUDITOR RELATIONSHIP (ASX PRINCIPLE 4.5)

The Act requires that Western Power's financial statements be audited by the Auditor General by 30 September each year. The Auditor General also reports to the Minister on whether he or she is of the opinion that the financial report is in accordance with the Act.

The Finance & Risk Committee oversees communications between the Board, senior financial management, Risk Assurance and Audit and the Auditor General in order to ensure that all assistance that is necessary to complete the audit by the Auditor General is provided.

Western Power does not have control over the appointment (or selection) of the external auditor because this is a matter prescribed by the Act.

8. RISK MANAGEMENT (ASX PRINCIPLES 7.1, 7.2 & 7.3)

Western Power has a comprehensive framework to manage its strategic, operational, regulatory and reporting risks. The corporate risk management policy sets out a methodology and process for identification of risks, outlines the accountabilities of management and contains procedures for reporting on risk issues throughout Western Power. A description of the corporate risk management policy and internal control systems is available in the Corporate Governance section of Western Power's website.

Divisional general managers are responsible for identifying risks and implementing strategies to mitigate them. The Finance & Risk Committee oversees the risk management framework and reviews the effectiveness of key mitigation strategies. Risk reviews are 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.

In accordance with the Act, Western Power's Treasury Branch makes recommendations to the Board on the appropriate level of insurance cover for Western Power. Financial risk issues are managed through a treasury policy statement that requires regular reporting to the Finance & Risk Committee on treasury activities.

9. ENVIRONMENTAL RESPONSIBILITY

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

All of Western Power's 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. 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.

> Corporate governance statement (continued)

10. ASX PRINCIPLES CHECKLIST

As Western Power has chosen to comply with the ASX Principles, it will also report on the extent that it has complied with them. The following table reports on the extent to which Western Power has complied with the ASX Principles and explains the reasons for any non-compliance.

ASX Principle	Reference	Comply
Principle 1	Lay solid foundations for management and oversight	
1.1	Formalise and disclose the functions reserved to the board and those delegated to management.	2.1, 2.6 Note 1
Principle 2	Structure the Board to add value	
2.1	A majority of the board should be independent directors.	2.2, 2.3 <input checked="" type="checkbox"/>
2.2	The board chair should be an independent director.	2.2, 2.3, 2.10 <input checked="" type="checkbox"/>
2.3	The roles of the board chair and CEO should not be exercised by the same individual.	2.2, 2.10 <input checked="" type="checkbox"/>
2.4	The board should establish a nomination committee.	3.1, 3.3 Note 2
2.5	Provide the information indicated in the guide to reporting on ASX Principle 2.	2.2, 2.3, 2.5, 2.8, 2.12, 3.1, 3.3 <input checked="" type="checkbox"/>
Principle 3	Promote ethical and responsible decision-making	
3.1	Establish a code of conduct to guide the directors, the CEO, CFO, and any other key executives as to:	
3.1.1	the practices necessary to maintain confidence in the company's integrity	4.1 <input checked="" type="checkbox"/>
3.1.2	the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.	
3.2	Disclose the policy concerning trading in company securities by directors, officers and employees.	4.2 Note 3
3.3	Provide the information indicated in the guide to reporting on ASX Principle 3.	4.1, 4.2 <input checked="" type="checkbox"/>
Principle 4	Safeguard integrity in financial reporting	
4.1	Require the CEO and the CFO to state in writing to the board that the company's financial reports present a true and fair view, in all material respects, of the company's financial condition, and operational results and are in accordance with relevant accounting standards.	6 <input checked="" type="checkbox"/>
4.2	The board should establish an audit committee.	3.1, 3.2 <input checked="" type="checkbox"/>
4.3	Structure the audit committee so that it consists of: (i) only non-executive directors; (ii) a majority of independent directors; (iii) an independent chair, who is not the board chair; and (iv) at least three members.	3.1, 3.2 <input checked="" type="checkbox"/>
4.4	The audit committee should have a formal charter.	3.1, 3.2 <input checked="" type="checkbox"/>
4.5	Provide the information indicated in the guide to reporting on ASX Principle 4.	3.1, 3.2, 7, Note 4 <input checked="" type="checkbox"/>
Principle 5	Make timely and balanced disclosure	
5.1	Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance.	5.1, 5.2 Note 5
5.2	Provide the information indicated in the guide to reporting on ASX Principle 5.	5.1, 5.2 Note 5

> Corporate governance statement (continued)

10. ASX PRINCIPLES CHECKLIST (continued)

ASX Principle	Reference	Comply
Principle 6		
Respect the rights of shareholders		
6.1 Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings.	5.1, 7, Note 6	<input checked="" type="checkbox"/>
6.2 Request the external auditor to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.	5.1, 7, Note 6	<input checked="" type="checkbox"/>
Principle 7		
Recognise and manage risk		
7.1 The Board or appropriate board committee should establish policies on risk oversight and management.	8	<input checked="" type="checkbox"/>
7.2 The CEO and the CFO should state to the board in writing that:	6, 8	<input checked="" type="checkbox"/>
7.2.1 the statement given in accordance with best practice recommendation 4.1 (integrity of financial statements) is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board.		
7.2.2 the company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.		
7.3 Provide the information indicated in the guide to reporting on ASX Principle 7.	8	<input checked="" type="checkbox"/>
Principle 8		
Encourage enhanced performance		
8.1 Disclose the process for performance evaluation of the board, its committees and individual directors, and key executives.	2.6, 2.7, 2.8, 2.11, Remuneration report	<input checked="" type="checkbox"/>
Principle 9		
Remunerate fairly and responsibly		
9.1 Provide disclosure in relation to the company's remuneration policies to enable investors to understand: (i) the costs and benefits of those policies; and (ii) the link between remuneration paid to directors and key executives and corporate performance.	Remuneration report	<input checked="" type="checkbox"/>
9.2 The board should establish a remuneration committee.	3.1, 3.3	<input checked="" type="checkbox"/>
9.3 Clearly distinguish the structure of non-executive directors' remuneration from that of executives.	Remuneration report	<input checked="" type="checkbox"/>
9.4 Ensure that the payment of equity-based executive remuneration is made in accordance with thresholds set in plans approved by shareholders.		Note 7
9.5 Provide the information indicated in the guide to reporting on ASX Principle 9.	3.1, 3.3, Remuneration report	<input checked="" type="checkbox"/>
Principle 10		
Recognise the legitimate interests of stakeholders		
10.1 Establish and disclose a code of conduct to guide compliance with legal and other obligations to legitimate stakeholders.	4.1	<input checked="" type="checkbox"/>

> Corporate governance statement (continued)

10. ASX PRINCIPLES CHECKLIST (continued)

Notes

1. The letter of appointment given to the current, inaugural, directors of Western Power did not contain all of the information recommended in this ASX Principle (see section 2.6 of the Corporate Governance Report).
2. Parts of recommendation 2.4 of the ASX Principles are not applicable to Western Power to the extent that the composition of the Board is ultimately controlled by the Governor.
3. ASX Principle 3.2 has no relevance to Western Power as it is not a publicly listed entity (see section 4.2 of the corporate governance report).
4. The independence of committee members is influenced by the process of appointment of the directors to the Board by the Governor and, therefore, the committee may not always have a majority of independent members. However, it currently does have the required majority. Under the Act, Western Power's external auditor is the WA Auditor General. Therefore, recommendations in the ASX Principles as to independence and evaluation of the external auditor are not relevant.
5. ASX Principle 5 has no relevance to Western Power as it is not a publicly listed entity and therefore is not subject to the ASX Listing Rules (see section 5.2 of the Corporate Governance Report).
6. Western Power does not hold annual general meetings. However, the Auditor General reports directly to the Minister in respect of the audit of Western Power's financial reports.
7. ASX Principle 9.4 has no relevance to Western Power as it is a statutory corporation and there is no equity-based executive remuneration in place.

> Financial Statements

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Electricity Networks Corporation is incorporated and domiciled in Australia. Its registered office and principal place of business is:

363 Wellington Street
Perth
Western Australia 6000

A description of the nature of the Corporation's operations and its principal activities is included in the review of operations and activities on pages 13 to 35 of the Annual Report and in the Directors' Report on pages 41 to 47, neither of which are part of these financial statements.

These financial statements were authorised for issue by the Directors on 31 August 2007. The Corporation has the power to amend and reissue the financial report.

Through the use of the internet we have ensured that our corporate reporting is timely, complete and available globally at minimum cost to the Corporation. All press releases, financial reports and other information are available by request at the above address and at our website www.westernpower.com.au.

> Income statement

	Notes	Year to 30 June 2007 \$'000	Three months to 30 June 2006 \$'000
Revenue	1	797,187	182,928
Other income		5,064	1,629
Total income		802,251	184,557
Raw materials and consumables used		(312,736)	(65,277)
Employee benefit expenses		(78,078)	(24,291)
Payments to defined contribution plans		(16,558)	(3,604)
Cost of defined benefit plans	6(c)	(2,611)	(665)
Operating lease payments		(4,297)	(1,098)
Payments for audit services		(250)	(220)
Impairment of inventories		(2,421)	-
Other expenses		(10,550)	(6,935)
Total expenses		(427,501)	(102,090)
Earnings before interest, taxes, depreciation and amortisation		374,750	82,467
Depreciation and amortisation expense		(134,399)	(27,684)
Finance costs		(141,015)	(30,444)
Profit before income tax expense		99,336	24,339
Income tax expense	2(a)	(29,929)	(7,272)
Profit for the period		69,407	17,067

All activities relate to continuing operations.

> Statement of recognised income and expense

	Notes	Year to 30 June 2007 \$'000	Three months to 30 June 2006 \$'000
Net (losses)/gains taken to equity in respect of cash flow hedges	7	(1,348)	351
Actuarial (losses)/gains on retirement benefit obligations	7	(3,099)	938
Net income recognised directly in equity		(4,447)	1,289
Profit for the period		69,407	17,067
Total recognised income and expense for the period		64,960	18,356

These statements should be read in conjunction with the attached notes to the accounts set out on pages 62 to 73.

> Balance sheet

	Notes	2007 \$'000	2006 \$'000
Current assets			
Cash and cash equivalents	3	5,785	50,619
Trade and other receivables	3	84,278	103,572
Inventories		66,974	61,274
Derivative financial instruments	3	193	814
Current tax assets		6,642	8,253
Total current assets		163,872	224,532
Non-current assets			
Trade and other receivables	3	1,819	4,029
Property, plant and equipment	4	3,606,473	3,031,552
Intangible assets	4	21,655	12,663
Deferred tax assets	2(d)	21,866	48,276
Derivative financial instruments	3	507	367
Total non-current assets		3,652,320	3,096,887
Total assets		3,816,192	3,321,419
Current liabilities			
Trade and other payables	3	126,423	126,348
Provisions	5	20,988	16,890
Derivative financial instruments	3	2,604	586
Deferred income		158,633	134,471
Total current liabilities		308,648	278,295
Non-current liabilities			
Borrowings	3	2,551,980	2,150,486
Retirement benefit obligations	6	37,165	32,655
Trade and other payables	3	11,815	11,992
Provisions	5	9,795	13,321
Derivative financial instruments	3	879	915
Deferred income		31,097	14,238
Total non-current liabilities		2,642,731	2,223,607
Total liabilities		2,951,379	2,501,902
Net assets		864,813	819,517
Equity			
Contributed equity	7	807,161	801,161
Reserve	7	(997)	351
Retained profits	7	58,649	18,005
Total equity		864,813	819,517

This statement should be read in conjunction with the attached notes to the accounts set out on pages 62 to 73.

> Cash flow statement

	Notes	Year to 30 June 2007 \$'000	Three months to 30 June 2006 \$'000
Cash flows from operating activities			
Receipts from customers, inclusive of goods and services tax		649,233	105,391
Payments to employees and suppliers, inclusive of goods and services tax		(430,926)	(91,700)
Other revenue		191,517	29,451
Interest received		787	233
Borrowing costs paid		(142,654)	(7,047)
Leasing expenses		(4,297)	(1,098)
Net cash inflow from operating activities	13	263,660	35,230
Cash flows from investing activities			
Payments for property, plant and equipment		(695,812)	(169,953)
Proceeds from sale of property, plant and equipment		6,551	1,215
Proceeds from sale of subsidiary entity		4,000	-
Net cash outflow from investing activities		(685,261)	(168,738)
Cash flows from financing activities			
Proceeds from borrowings		2,143,300	270,015
Repayment of borrowings		(1,747,008)	(135,352)
Contributory Extension Scheme deposits		139	8,022
Proceeds from contributed equity		6,000	6,000
Distributions to equity holder		(25,664)	-
Net cash inflow from financing activities		376,767	148,685
Net (decrease)/increase in cash and cash equivalents		(44,834)	15,177
Cash and cash equivalents at start of period		50,619	35,442
Cash and cash equivalents at end of period	3	5,785	50,619

This statement should be read in conjunction with the attached notes to the accounts set out on pages 62 to 73.

> Notes to the accounts

1. Revenue

REVENUE FROM CONTINUING ACTIVITIES

	Year to 30 June 2007	Three months to 30 June 2006
	\$'000	\$'000
Sales revenue		
Network services revenue	648,845	143,159
Developer and customer contributions	147,509	39,542
Interest received	833	227
Total revenue	797,187	182,928

UNDERLYING EARNINGS

Annual network target revenue (primarily made up of Electricity Transmission Revenue and Developer and Customer Contribution Revenue) is derived each year by the Corporation. Electricity Transmission Revenue is earned at tariff rates approved by the Economic Regulatory Authority. Variations from this target revenue can occur as a result of variations in:

- volume of electricity transported across the network
- actual capital expenditure
- actual developer and customer contributions received

The financial impacts of these variations are adjusted in future network charges.

The revenue reported in these financial statements does not include any revenue adjustments arising from variations occurring in the current financial year, as these price adjustments are included in the distribution and transmission charges to customers in future periods. These adjustments are included in the Underlying Earnings of the Corporation, which are reported in the Performance Review section of the Annual Report.

> Notes to the accounts

2. Income tax

(A) INCOME TAX EXPENSE

	Year to 30 June 2007	Three months to 30 June 2006
	\$'000	\$'000
Current tax	9,609	13,030
Deferred tax	20,320	(5,758)
	29,929	7,272

(B) NUMERICAL RECONCILIATION OF INCOME TAX TO PRIMA FACIE TAX PAYABLE

	Year to 30 June 2007	Three months to 30 June 2006
	\$'000	\$'000
Profit from continuing operations before income tax expense	99,336	24,339
Tax at the Australian rate of 30%	29,801	7,302
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Research costs	-	(66)
Sundry items	128	36
	29,929	7,272

(C) AMOUNTS RECOGNISED DIRECTLY IN EQUITY

Deferred tax	1,906	(2,201)
	1,906	(2,201)

(D) DEFERRED TAX

The balance in deferred tax assets comprises temporary differences attributable to:

	2007	2006
	\$'000	\$'000
Provisions for employee benefits	27,280	28,088
Property, plant and equipment	(4,824)	15,382
Contributory Extension Scheme	(3,821)	(4,283)
Other temporary differences	1,325	11,290
Amounts recognised in the income statement	19,960	50,477
Actuarial adjustment to retirement benefit obligations	1,328	(2,050)
Other temporary differences	578	(151)
Amounts recognised directly in equity	1,906	(2,201)
Total amounts recognised	21,866	48,276

> Notes to the accounts

3. Financial instruments

(A) FINANCIAL ASSETS AND LIABILITIES

	Note	2007		2006	
		Current \$'000	Non-current \$'000	Current \$'000	Non-current \$'000
Financial assets					
Cash and cash equivalents		5,785	-	50,619	-
Trade and other receivables	3(b)	84,280	1,819	103,572	4,029
Derivative financial instruments		193	507	814	367
Total financial assets		90,258	2,326	155,005	4,396
Financial liabilities					
Trade payables and accruals		96,271	-	96,454	-
Other payables		27,783	-	27,841	-
Contributory Extension Scheme	3(c)	2,369	11,815	2,053	11,992
Trade and other payables		126,423	11,815	126,348	11,992
Borrowings	3(d)	-	2,551,980	-	2,150,486
Derivative financial instruments		2,604	879	586	915
Total financial liabilities		129,027	2,564,674	126,934	2,163,393

(B) TRADE AND OTHER RECEIVABLES

Trade and other receivables are non-interest bearing and are stated net of a provision for doubtful debts of \$1,490,000 (30 June 2006: \$1,557,000) against current balances.

(C) CONTRIBUTORY EXTENSION SCHEME

Contributory Extension Scheme payables represent contributions received from customers to extend specific electricity supplies. These contributions are progressively refunded as other customers are connected to these extensions.

By 2023, when the Scheme finishes, all Scheme members will have their contributions refunded.

(D) BORROWINGS

Borrowings include accrued interest and 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. It is intended to refinance all domestic currency loans maturing over the next 12 months under the facility agreement.

The Corporation has a borrowing facility with Western Australian Treasury Corporation with a limit of \$3000 million. As at 30 June 2007 the unused portion of this facility was \$480 million (30 June 2006: \$876 million). This was \$134 million below the forecast borrowings in the Strategic Development Plan. The planned usage of the facility is governed by the Strategic Development Plan agreed with the Minister of Energy.

> Notes to the accounts

3. Financial instruments (continued)

(E) RISK MANAGEMENT POLICY

Exposure to credit, interest rate, currency and commodity risks arises in the normal course of business. The Corporation enters into derivative transactions to hedge exposures to these risks.

The following table summarises the fair value of derivative financial instruments used to manage these risks.

	2007		2006	
	Current \$'000	Non-current \$'000	Current \$'000	Non-current \$'000
Cash flow hedges				
Interest rate swaps	-	507	140	202
Forward exchange contracts	193	-	674	165
Total financial assets	193	507	814	367
Cash flow hedges				
Interest rate swaps	-	90	-	814
Forward exchange contracts	2,604	789	586	101
Total financial liabilities	2,604	879	586	915

The Corporation's maximum credit risk on derivative financial instruments is taken as those contracts that have a positive fair value at the reporting date.

Liquidity Risk

The policy of the Corporation is to ensure that adequate funding is available at all times to meet commitments as they arise through the active control of cash flows and borrowing facilities.

Interest Rate Risk

The Corporation aims to reduce volatility in the cost of borrowings through the active management of interest rate exposures. Interest rate risk management is performed through the use of Board-approved financial instruments and portfolio guidelines. The following tables summarise the Corporation's exposure to interest rate risk in financial deposits and borrowings.

Financial deposits

	Cash at bank \$'000	Domestic deposits \$'000	Total \$'000
Weighted average interest rate	5.8%	6.2%	
Floating interest rates maturing within one year	1,885	3,900	5,785
Cash and cash equivalents 30 June 2007	1,885	3,900	5,785
Cash and cash equivalents at 30 June 2006	11,019	39,600	50,619

> Notes to the accounts

3. Financial instruments (continued)

(E) RISK MANAGEMENT POLICY (CONTINUED)

Interest Rate Risk (continued)

Borrowings

	Domestic borrowings \$'000	Floating rate notes \$'000	Interest rate swaps \$'000	Total \$'000
Weighted average interest rate	6.3%	6.3%	0.1%	
Floating interest rates	-	173,300	(53,300)	120,000
Fixed interest rates maturing:				
within one year	510,209	-	-	510,209
between 2-5 years	1,071,370	-	53,300	1,124,670
in more than 5 years	797,101	-	-	797,101
Borrowings at 30 June 2007	2,378,680	173,300	-	2,551,980
Borrowings at 30 June 2006	2,005,252	118,300	-	2,123,552

Credit Risk

The Corporation has a credit policy in place in respect of its trade receivables and the exposure to credit risk is monitored on an ongoing basis.

Commodity Risk

The Corporation is indirectly exposed to commodity price risks. The Corporation is reviewing its commodity price risk exposures and risk management strategy.

The following table summarises the derivative financial instruments used to manage these risks.

Currency Risk

The Corporation aims to provide certainty of foreign exchange by managing foreign currency exposures at the most efficient cost through use of Board-approved financial instruments.

All figures are Australian dollar values

	Euro \$'000	US Dollar \$'000	Swedish Krone \$'000	Canadian Dollar \$'000	Total \$'000
Weighted average exchange rate	0.5665	0.8331	5.4286	0.8908	
Forward exchange contracts maturing					
within one year	24,908	11,933	1,324	2,492	40,657
between 2-5 years	9,749	-	-	-	9,749
At 30 June 2007	34,657	11,933	1,324	2,492	50,406
At 30 June 2006	35,650	11,841	664	409	48,564

> Notes to the accounts

4. Property, plant and equipment and intangible assets

	Land \$'000	Buildings \$'000	Plant and equipment \$'000	Works under construction \$'000	Property, Plant & Equipment \$'000	Intangible assets \$'000
Cost at 1 April 2006	43,173	43,124	2,197,642	594,567	2,878,506	13,185
Additions	-	-	-	181,954	181,954	-
Disposals	-	-	(1,060)	-	(1,060)	-
Transferred during the period	592	248	190,791	(192,786)	(1,155)	1,155
Cost at 30 June 2006	43,765	43,372	2,387,373	583,735	3,058,245	14,340
Additions	-	-	-	728,279	728,279	-
Transferred during the period	22,464	9,325	703,550	(756,965)	(21,626)	21,626
Disposals	(1)	-	(8,747)	-	(8,748)	(33)
Cost at 30 June 2007	66,228	52,697	3,082,176	555,049	3,756,150	35,933
Accumulated depreciation at 1 April 2006	-	-	-	-	-	-
Depreciation charge for the period	-	1,021	25,672	-	26,693	1,677
Accumulated depreciation at 30 June 2006	-	1,021	25,672	-	26,693	1,677
Depreciation charge for the period	-	4,260	120,318	-	124,578	12,601
Disposals	-	-	(1,594)	-	(1,594)	-
Accumulated depreciation at 30 June 2007	-	5,281	144,396	-	149,677	14,278
Net book value at 30 June 2007	66,228	47,416	2,937,780	555,049	3,606,473	21,655
Net book value at 30 June 2006	43,765	42,351	2,361,701	583,735	3,031,552	12,663
Net book value at 1 April 2006	43,173	43,124	2,197,642	594,567	2,878,506	13,185

The Corporation is a statutory corporation subject to the requirements of the Electricity Corporations Act 2005 ('the Act'). The electricity networks, functions, and assets of Western Power Corporation were transferred, on disaggregation, to the Corporation on 1 April 2006 at written-down value by virtue of a transfer order issued by the Minister for Energy under section 147(1) of the Act.

(A) CAPITALISED BORROWING COSTS

Additions include borrowing costs of \$7,325,000 (three months to 30 June 2006: \$2,183,000) attributable to assets in the course of construction and capitalised in the period at a weighted average interest rate of 6.3 per cent (three months to 30 June 2006: 6.2 per cent).

(B) CONTRIBUTED ASSETS

The Corporation receives non-cash capital contributions in the form of gifted network assets. The fair value of the non-cash capital contributions included in additions to works under construction in the period was \$21,993,000 (June 2006: \$9,130,000).

> Notes to the accounts

5. Provisions

	Employee benefits \$'000	Environmental provisions \$'000	Total \$'000
At 1 April 2006	25,721	4,247	29,968
Additions in period	950	-	950
Utilised in period	(707)	-	(707)
At 30 June 2006	25,964	4,247	30,211
Additions in period	5,567	1,135	6,702
Utilised in period	(5,919)	(211)	(6,130)
At 30 June 2007	25,612	5,171	30,783

Provisions have been analysed between current and non-current as follows:

	2007 \$'000	2006 \$'000
Current	20,988	16,890
Non-current	9,795	13,321
	30,783	30,211

The environmental provisions relate to estimate costs on essential safety expenditure. The assessment of these costs is subject to periodic reviews that may result in the amount being revised. It is currently estimated that substantially all of this provision will be utilised within the next two years.

6. Retirement benefit obligations

(A) SUPERANNUATION PLANS

The Corporation contributes to both defined contribution and defined benefit sections of the Pension Scheme, the Gold State Superannuation Scheme and the Western Power Superannuation Fund.

Contributions to the defined contribution sections of these schemes are fixed 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 average salary, averaged over a number of years in accordance with the relevant governing rules. Each of the defined benefit sections is closed to new members and the Western Power Superannuation Fund was closed to further contributions from its existing members from 18 May 2006. Employees now have the choice of superannuation fund to contribute to.

The defined benefit sections in each scheme have both funded and unfunded liabilities. The Corporation's only liability in respect of these defined benefits sections is in respect of the cost of unfunded benefits payable as they fall due on the retirement of plan members.

The Corporation also funds a defined benefit scheme for 15 members administered by AustralianSuper. At 1 June 2006 the scheme assets of \$3.8 million exceeded its obligations by \$1.2 million. The Corporation is currently not contributing to the plan and has no means of recovering the surplus. Accordingly no amounts have been included in the assets or liabilities of the Corporation in respect of this scheme.

> Notes to the accounts

6. Retirement benefit obligations (continued)

(B) MOVEMENTS IN THE BALANCE SHEET AMOUNTS

Changes in the present value of the unfunded defined benefit obligations are as follows:

	Year to 30 June 2007 \$'000	Three months to 30 June 2006 \$'000
Balance at the beginning of the period	32,655	-
Amounts transferred on disaggregation	-	33,471
Current service cost	811	211
Interest cost	1,800	454
Actuarial losses/(gains) for the period	4,428	(1,341)
Benefits paid	(2,529)	(140)
Net liability in the balance sheet	37,165	32,655

(C) AMOUNTS RECOGNISED IN THE INCOME STATEMENT

Current service cost	811	211
Interest cost	1,800	454
Total included in employee benefit expenses	2,611	665

(D) AMOUNTS RECOGNISED DIRECTLY IN EQUITY

Net actuarial (losses)/gains recognised in the period	(4,428)	1,341
Total included in employee benefits expense	(4,428)	1,341

(E) PRINCIPAL ACTUARIAL ASSUMPTIONS

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

	2007 \$'000	2006 \$'000
Discount rate	6.1%	5.8%
Expected future salary increases	4.5%	4.5%
Expected future pension increases	2.5%	2.5%

> Notes to the accounts

7. Contributed equity and reserves

	Contributed equity \$'000	Hedging reserve \$'000	Retained profits \$'000	Total \$'000
Contributions received on disaggregation:				
At 1 April 2006 as previously reported	773,973	-	-	773,973
Adjustment to provision for tax refund in WPC	6,391	-	-	6,391
Adjustment to retirement benefit obligations in WPC	3,846	-	-	3,846
Adjustment to reallocate current tax assets (see note 8)	(9,864)	-	-	(9,864)
Adjustment to deferred tax assets in WPC (see note 8)	20,815	-	-	20,815
At 1 April 2006 as restated	795,161	-	-	795,161
Contributions received in the period	6,000	-	-	6,000
Profit for the financial period	-	-	17,067	17,067
Gains/(losses) on cash flow hedges	-	351	-	351
Actuarial adjustments to retirement benefit obligations	-	-	938	938
At 30 June 2006	801,161	351	18,005	819,517
Profit for the financial period	-	-	69,407	69,407
Contributions received in the period	6,000	-	-	6,000
Distributions to equity holders	-	-	(25,664)	(25,664)
Gains/(losses) on cash flow hedges	-	(1,348)	-	(1,348)
Actuarial adjustments to retirement benefit obligations	-	-	(3,099)	(3,099)
At 30 June 2007	807,161	(997)	58,649	864,813

CONTRIBUTED EQUITY

Contributed equity represents contributions made by the State Government. No shares have been allotted or issued. The adjustment to Opening Equity arises from an amendment to the Disaggregation Transfer Order as a result of the reallocation of a portion of the opening income tax asset to the other disaggregated corporations.

HEDGING RESERVE

The hedging reserve represents the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

RETAINED PROFITS

Distributions to equity holders are in respect of dividends declared in the period on retained profits for the three-month period to 30 June 2006 and an interim dividend on 29 June 2007 in respect of the year to 30 June 2007.

> Notes to the accounts

8. Restatement of prior period

CORRECTION OF ERRORS IN THE RECORDING OF OPENING TAX ASSETS ON DISAGGREGATION

On 29 September 2006 an amendment to the Transfer Order required that the recoverable tax assets allocated to the Corporation on disaggregation of Western Power Corporation be reallocated in a proportion of 70.68 per cent to the Corporation and 29.32 per cent to the other entities. The effect of this is to reduce the value of the recoverable current tax assets and related contributed equity at 30 June 2006 and 1 April 2006 by \$9,864,000.

The tax written down value of assets taken on at disaggregation has been understated by \$69,383,000. The effect of this adjustment is to increase the value of the future tax benefits of the Corporations assets by \$20,815,000 and the corresponding value of the equity contributed at 1 April 2006.

These errors have been corrected by restating each of the affected financial statement line items for the prior period as described above.

9. Contingencies

CONTINGENT LIABILITIES

Black et al

This matter refers to compensation claims by landowners from whom the former Western Power Corporation resumed parts of land for the Kemerton 330 kV line in 2004. Liability has been denied in respect of the claims. An appeal has been heard against a preliminary ruling and a decision is pending. The amount of claims lodged to date is in the order of \$4.6 million.

Toodyay bushfire

Western Power has received a number of claims for compensation arising from a bushfire at Toodyay. An investigation report into the cause of the fire was provided to EnergySafety in late July 2007. While the report concluded that a number of factors, including extreme weather conditions, contributed to clashing conductors which, in turn, started the fire, there were no findings that support a claim of negligence on Western Power's part.

Western Power is engaged in without prejudice negotiations with claimants on the basis that there is no finding of negligence, but it acknowledges that the fire was started by its asset. Given the ongoing negotiations, it is not practicable to disclose an estimated value of the contingent liability. 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
- all claims are covered by insurance

> Notes to the accounts

10. Commitments

LEASE COMMITMENTS

Operating Leases

The Corporation leases premises under a non-cancelable operating lease expiring within five years. The Corporation also leases motor vehicles and equipment under cancelable operating leases requiring no more than six months notice of termination.

Commitments to minimum lease payments in relation to non-cancelable operating leases are as follows:

	2007	2006
	\$'000	\$'000
Payable within one year	736	629
Payable later than one year but not later than 5 years	2,002	2,812
Payable in more than 5 years	558	-
	3,296	3,441

CAPITAL COMMITMENTS

Capital expenditure on Property, Plant and Equipment contracted for at the reporting date but not recognised as liabilities is as follows:

Payable within one year	288,018	158,099
Payable later than one year but not later than 5 years	15,864	17,200
	303,882	175,299

OTHER EXPENDITURE COMMITMENTS

The Corporation has the following commitments to pay Tariff Equalisation Contributions:

Payable within one year	71,600	-
Payable later than one year but not later than 5 years	72,000	-
	143,600	-

11. Interests in controlled entities

Bright Telecommunications Pty Ltd, a wholly owned subsidiary of the Corporation, was formed to develop a broadband access network. The subsidiary has not undertaken any transactions during the period. The assets and liabilities of the company were held by the Corporation and therefore the activities of the company do not have any material impact on the financial statements of the Corporation.

The Corporation sold its shareholding in Bright Telecommunications Pty Ltd on 1 December 2006.

> Notes to the accounts

12. Events occurring after the balance sheet date

There are no matters or circumstances that have arisen in the interval between the end of the reporting period and the date of this report that are 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.

13. Reconciliation of net profit after income tax expense to net cash inflows from operating activities

	Year to 30 June 2007 \$'000	Three months to 30 June 2006 \$'000
Profit for the year	69,407	17,067
Net gain on sale of non-current assets	(1,242)	(155)
Net exchange differences	-	(11)
Depreciation and amortisation	134,399	27,684
Fair value adjustment to derivatives	535	(148)
Non-cash capital contributions	(21,993)	(9,130)
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	17,328	(41,219)
(Decrease)/increase in trade and other payables	(5,836)	16,405
(Increase) in inventories	(5,699)	(8,909)
(Decrease) in employee provisions	(269)	(2,011)
Increase in other provisions	924	3,160
(Decrease) in other financial assets	-	(1)
(Increase)/decrease in accrued interest receivable	(46)	5
Increase in accrued interest payable	5,202	22,951
Increase in other deferred income	41,021	2,119
Increase in provision for income taxes payable	9,609	13,030
Increase/(decrease) in deferred tax liabilities	20,320	(5,607)
Net cash inflow from operating activities	263,660	35,230

> Summary of significant accounting policies

The accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the reporting periods presented unless otherwise stated.

CORPORATE INFORMATION

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 these entities. The Corporation is one of these entities.

(A) BASIS OF PREPARATION

The financial report is a general purpose financial report, which has been prepared in accordance with Australian Accounting Standards ('AIFRS') and Urgent Issue Group Interpretations adopted by the Australian Accounting Standards Board ('AASB') and the disclosure requirements of Schedule 4 of the Electricity Corporations Act 2005. 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 entity, Bright Telecommunications Pty Ltd ('BTPL'). BTPL is a company with no material financial transactions to 1 December 2006. The Corporation sold its entire shareholding in Bright Telecommunications Pty Ltd, a wholly owned subsidiary, on 1 December 2006.

Historical cost convention

These financial statements have been prepared under the historical cost convention except for derivative financial instruments, that are measured at fair value, and certain non-current financial assets and liabilities that are measured at amortised cost.

Critical accounting estimates

The preparation of financial statements in conformity with 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.

Functional and presentation currency

This financial report is presented in Australian dollars, which is the functional and presentation currency of the Corporation.

Rounding

All financial information presented in Australian dollars has been rounded to the nearest thousand unless otherwise stated.

Comparative amounts

Comparative amounts are for the three-month period from disaggregation on 1 April 2006 to 30 June 2006.

Working capital

At 30 June 2007 the Corporation reported a working capital deficiency of \$144,776,000 (30 June 2006: \$53,763,000). Current liabilities include deferred income relating to developer and customer contributions to the value of \$158,633,000 (30 June 2006: \$125,730,000), which will not require an outflow of cash resources. When these amounts are excluded, working capital shows current assets exceeding current liabilities by \$13,857,000 (30 June 2006: \$71,967,000).

> Summary of significant accounting policies

(B) FOREIGN CURRENCIES

Transactions in currency other than the functional currency of the Corporation are translated at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at closing exchange rates. All foreign currency translation differences are recognised in the income statement except when deferred in equity for translation differences of qualifying cash flow hedges.

(C) REVENUE RECOGNITION

Revenues primarily represent the sales value derived from the transmission and distribution of electricity and the provision of related services and is measured at the fair value of the consideration received or receivable.

The Corporation is subject to a regulatory agreement, which determines the revenues receivable for its services. No liabilities are recognised when revenues received or receivable exceed the maximum amount permitted by regulatory agreement and adjustments will be made to future prices to reflect this over-recovery. Similarly, no assets are recognised when a regulatory agreement permits adjustments to be made to future prices in respect of an under-recovery of permitted revenues.

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 contributions or handover works (vested assets). Cash contributions received are initially deferred and subsequently recognised as revenue when the customers or 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 or handover works are recognised as property, plant and equipment and depreciated over their expected useful life.

(D) INCOME TAX

Income taxes on the profit or loss for the reporting period comprise 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. Current tax is the expected tax payable on the taxable income for the reporting period 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.

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.

Current and deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the tax balances relate to the same taxation authority.

(E) GST

Amounts in the income statement are shown excluding GST. Amounts in the balance sheet and cash flow statement are shown inclusive of any related GST.

(F) LEASES

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

> Summary of significant accounting policies

(G) INVENTORIES

Inventories are stated at the lower of weighted average purchase cost and current replacement cost.

(H) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at historical cost less accumulated depreciation and any impairment losses. Historical cost includes all expenditure directly attributable to the acquisition or construction of the asset.

No depreciation is provided on freehold land and assets in the course of construction. Depreciation is calculated on all other assets at rates estimated to write off their costs over their estimated useful economic lives. Discrete assets that are not subject to continual extension and modification are depreciated using the straight-line method. Other assets are depreciated using the reducing balance method.

The depreciation periods for the principal categories of property, plant and equipment are as follows.

Depreciation periods for categories of assets	Years
Buildings	40
Substation plant, overhead lines and cables	40-50
Protection, control and communication equipment	40
Plant and equipment	10
Leasehold improvements	10
Computer equipment	3
Office equipment	up to 10
Motor vehicles	5

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. Gains and losses on disposal are recognised in the income statement.

(I) INTANGIBLE ASSETS

Intangible assets represent identifiable internal capitalised software costs and are recorded at historic cost less accumulated amortisation and any provision for impairment.

Internally generated intangible assets are recognised only if an asset is created that can be identified; it is probable that the asset created will generate future economic benefits; and that the development cost of the asset can be measured reliably. Where no internally generated asset can be recognised the development expenditure is recorded in the income statement.

Capitalised software is amortised on a straight-line basis over two and a half years. This rate is reviewed on an annual basis.

An intangible asset is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Gains and losses on disposals are recognised in the income statement.

> Summary of significant accounting policies

(J) IMPAIRMENT OF ASSETS

At each reporting date, the Corporation considers any indicators of impairment to its assets. Impairments are calculated as the difference between the carrying value of each individual asset and its recoverable amount, if lower. Where such an asset does not generate cash flows that are independent from other assets an estimate of recoverable amount is determined for the cash-generating unit to which that asset belongs. Impairment losses are recognised in the income statement and, where material, are disclosed separately.

Recoverable amount is defined as the higher of fair value, less cost to sell, and the estimated value in use at the date the impairment review is undertaken. Value in use represents the present value of expected future cash flows, discounted using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. 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 deemed to be the depreciated replacement cost.

(K) FINANCIAL ASSETS AND LIABILITIES

Cash and cash equivalents comprise cash at bank and other short-term deposits that have an original maturity of three months or less and bank overdrafts.

Trade and other receivables are unsecured and are initially recognised at fair value and subsequently measured at amortised cost less provision for doubtful debts. Collectability of trade receivables is reviewed on an ongoing basis. Bad debts are written off when identified.

A provision for doubtful debts 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.

Trade and other payables are unsecured and are initially recognised at fair value and subsequently measured at amortised cost.

Borrowings are initially recognised at fair value net of transaction costs incurred and are then subsequently measured at amortised cost using the effective interest method.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets (being assets that necessarily take a substantial period of time to get ready for their intended use or sale) are added to their cost. Such additions cease when the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised in the income statement as an expense when incurred.

Derivative financial instruments are initially recognised at fair value and are subsequently remeasured to their fair value at each reporting date. Changes in the fair value of derivative financial instruments are included in the income statement to the extent that hedge accounting is not applied. Fair value is based on quoted market prices at the reporting date.

Financial instruments are derecognised when the Corporation no longer controls the contractual rights that comprise the financial instrument.

(L) HEDGE ACCOUNTING AND DERIVATIVE FINANCIAL INSTRUMENTS

For all derivative transactions designated as a cash flow hedge, the portion of gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity. The ineffective portion is recognised in the income statement immediately. When the cash flows occur, the amount that has been deferred is released to equity or the income statement as appropriate.

> Summary of significant accounting policies

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss recognised in equity is immediately transferred to the income statement.

(M) PROVISIONS

Provisions are recognised when the Corporation has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources 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.

(N) EMPLOYEE BENEFITS

Wages and salaries, annual leave

Liabilities arising in respect of employee benefits that are expected to be settled within 12 months of the reporting date are recognised in other payables and are measured at their nominal amount based on remuneration rates that are expected to be paid when the liabilities are settled.

Long service leave

The liability for long service leave is recognised in the provision for employee benefits (note 5) and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Expected future payments are discounted using the Commonwealth Bond rates whose terms most closely match the terms of the related liabilities.

Retirement benefit obligations

Contributions to defined contribution plans are recognised in the income statement as they become payable.

A liability or asset in respect of funded defined benefit superannuation plans is recognised in the balance sheet and is measured as the present value of the defined benefit obligation at the reporting date less the fair value of the funds assets at that date and any unrecognised past service cost.

The retirement benefit obligations recognised in the balance sheet represent the present value of the defined benefit obligations at the reporting date. The cost of providing benefits in respect of defined benefit superannuation plans is determined using the projected unit credit method with actuarial valuations being carried out at each balance sheet date. Current service cost is recognised in full in the income statement in the period in which the obligation increases as a result of employee services. Actuarial gains and losses are recognised directly in equity.

(O) DIVIDENDS

Dividends approved but not distributed at the reporting date are recognised in the reporting period in which the dividends are authorised by the Board and are no longer at the discretion of the Corporation.

(P) NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

AASB 7 Financial Instruments: Disclosures (application date 1 July 2007)

No changes to accounting policy are required and therefore there is no impact other than possible disclosure changes.

> Directors' declaration

In the directors' opinion:

- (a) the financial statements and notes comply with the accounting standards
- (b) the financial statements and notes give a true and fair view
- (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
- (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 31 August 2007.



Mr P Mansell
Board Chair

31 August 2007



Mr D Aberle
Managing Director

31 August 2007

> Corporate directory

Directors

P Mansell, *Board Chair*
D Aberle, *Managing Director*
M Davies
S Farrier
K Field
J Seabrook

General Counsel and Company Secretary

J Pease

Divisional General Managers

K Brown, *General Manager System Management*
AM Clark, *General Manager Field Services*
M de Laeter, *General Manager Asset Management*
G Monkhouse, *General Manager Human Resources*
M Peacock, *Chief Financial Officer*
M Sims, *Acting General Manager
Business Transformation
(and Acting General Manager Works
Delivery from 21 April 2007)*
P Southwell, *General Manager Strategy and
Corporate Affairs*
R White, *(resigned 20 April 2007)
General Manager Works Delivery*

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Auditor

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AUDITOR GENERAL

INDEPENDENT AUDIT REPORT ON ELECTRICITY NETWORKS CORPORATION

To the Parliament of Western Australia

I have audited the financial report of the Electricity Networks Corporation, which comprises the Balance Sheet as at 30 June 2007, and the Income Statement, Statement of Recognised Income and Expense and Cash Flow Statement for the year ended on that date, a summary of significant accounting policies, other explanatory Notes and the Directors' Declaration.

Directors' Responsibility for the Financial Report

The directors of the Electricity Networks Corporation are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Electricity Corporations Act 2005. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Summary of my Role

As required by the Electricity Corporations Act 2005, my responsibility is to express an opinion on the financial report based on my audit. This was done by testing selected samples of the audit evidence. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion. 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.

Audit Opinion

In my opinion, the financial report of the Electricity Networks Corporation is in accordance with Schedule 4 of the Electricity Corporations Act 2005, including:

- (a) giving a true and fair view of the Electricity Networks Corporation's financial position as at 30 June 2007 and of its performance for the year ended on that date; and
- (b) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

COLIN MURPHY
AUDITOR GENERAL
31 August 2007