



# financial review 2005

## FINANCIAL REVIEW 2005

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**Western Power**

# STATISTICAL SUMMARY

Five Year Financial Summary						
	UNIT	30/06/05	30/06/04	30/06/03	30/06/02	30/06/01
Sales Revenue	\$'000	1,615,888	1,542,806	1,482,099	1,433,760	1,415,685
Total Revenue	\$'000	1,874,626	1,773,207	1,697,900	1,601,236	1,573,833
Total Expenditure	\$'000	1,430,949	1,273,858	1,234,597	1,148,083	1,126,464
Borrowing Costs	\$'000	146,745	148,164	144,337	154,089	161,057
Income Tax Expense	\$'000	90,797	109,604	96,901	91,342	98,121
EBIT	\$'000	443,677	499,349	463,303	453,153	447,369
EBITDA	\$'000	673,100	728,133	691,396	673,509	658,540
Net Profit after Income Tax Expense	\$'000	206,135	241,581	222,065	207,722	188,191
Current Assets	\$'000	416,068	366,693	347,239	332,937	345,749
Non-Current Assets	\$'000	4,422,672	4,222,747	4,131,499	3,906,638	3,764,311
Total Assets	\$'000	4,838,740	4,589,440	4,478,738	4,239,575	4,110,060
Current Liabilities	\$'000	345,342	334,096	309,001	283,174	261,056
Non-Current Liabilities	\$'000	2,794,594	2,663,904	2,717,596	2,609,220	2,593,586
Total Liabilities	\$'000	3,139,936	2,998,000	3,026,597	2,892,394	2,854,642
Total Debt	\$'000	2,450,569	2,325,855	2,416,341	2,332,777	2,363,884
Total Equity	\$'000	1,698,804	1,591,440	1,452,141	1,347,181	1,255,418
Return on Assets <i>(EBITDA/average non-current assets)</i>	%	15.6	17.4	17.2	17.6	17.6
Return on Equity <i>(Net profit after income tax/total equity)</i>	%	12.1	15.2	15.3	15.4	15.0
Debt to Equity Ratio <i>(Capital structure geared to debt)</i>		59/41	59/41	62/38	63/37	65/35
Returns to Government	\$'000	181,824	211,873	203,669	203,278	184,422

Where necessary, comparative information has been reclassified to achieve consistency in disclosure with current financial year statistics.

# DIRECTORS' REPORT

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# DIRECTORS' REPORT

The Board of Directors of Western Power Corporation ("the Corporation") present their report for the financial year ended 30 June 2005.

## 1. Directors

The names and details of the Directors in office at any time during the year or at the date of this Report are:

### Neil Douglas Hamilton LLB - Chairman (Age 53)

Mr Hamilton was appointed to the Board as a Non-Executive Director in May 2002, Deputy Chair in February 2003 and as Chairman in February 2004. Mr Hamilton holds several chairman and director positions in both public and private companies, and the AFL Players Association Advisory Board. Mr Hamilton's term expires on 31 December 2007.

During the past three years, Mr Hamilton has served as a director of the following listed companies:

- Integrated Group Limited \*
- Iress Market Technology Ltd \*
- Insurance Australia Group Ltd \*
- Chieftain Securities Limited
- Sons of Gwalia Limited

\* denotes current directorship

### Jennifer Anne Seabrook BComm, CA - Deputy Chair (Age 48)

Ms Seabrook was appointed to the Board as a Non-Executive Director in September 2001 and Deputy Chair in March 2004. Ms Seabrook is a member of the Federal Government's Takeovers Panel and the Western Australian Government's Pearling Industry Advisory Committee. Ms Seabrook's term expires on 30 June 2007.

### Antonino (Tony) Mario Iannello BComm, FCPA, FAICD – Managing Director (Age 47)

Mr Iannello was appointed as Managing Director in July 2004. Mr Iannello had a distinguished career at BankWest holding many senior positions, with most recently General Manager Finance and Corporate Services. Mr Iannello's term concludes on 30 June 2007.

### Alan James Mulgrew BA - Director (Age 58)

Mr Mulgrew was appointed to the Board as a Non-Executive Director in September 2003. Mr Mulgrew is Chairman of Western Australian Tourism Commission and Western Carbon Pty Ltd. He is also Director of Strategic Solutions Pty Ltd, BAC Holdco Pty Ltd and Doric Group Pty Ltd. Mr Mulgrew also held a number of senior executive positions in airport management both in Australia and overseas. Mr Mulgrew's term expires on 30 June 2006.

### John Joseph O'Connor - Director (Age 67)

Mr O'Connor was appointed to the Board as a Non-Executive Director in December 2003. Mr O'Connor served as a Commissioner on the Australian Industrial Relations for eight years and is also a Director of Fremantle Port Authority. Mr O'Connor's term expires on 31 December 2006.

### Charlotte Ellen Stockwell BA, B.Ed (Hons), MLM - Director (Age 44)

Ms Stockwell was appointed to the Board as a Non-Executive Director in December 2003. Ms Stockwell until June 2005 was Chief Executive Officer Town of Kwinana and until November 2004 a Director of Daughters of Charity Ltd. Ms Stockwell's term expires on 31 December 2006.

## DIRECTORS' REPORT continued

### Harvey Russell Collins BBus, FCPA, FAICD, FSIA - Director (Age 56)

Mr Collins was appointed to the Board as a Non-Executive Director in September 2004. He was also Interim Managing Director for five months concluding on 21 July 2004. Mr Collins is Chairman of HBF, a Director of the Government Employees Superannuation Board and holds directorship in both public and private companies. Mr Collins' term expires on 30 June 2007.

During the past three years, Mr Collins has served as a director of the following listed companies:

- IBT Education Limited \*
- Abra Mining Limited \*
- Chieftain Securities Limited
- iiNet Limited.

\* denotes current directorship

### Mervyn J Davies BE (Hons), M Eng Sc, B Comm - Director (Age 61)

Mr Davies was appointed to the Board as a Non-Executive Director in September 2004. Mr Davies has more than 40 years experience working in engineering and senior management positions within the Electricity Supply Industry in NSW. Mr Davies' term expires on 30 June 2007.

### Sue Alison Wilson LLB - Director (Age 45)

Ms Wilson was appointed to the Board as a Non-Executive Director in September 2003. Ms Wilson is General Counsel and Company Secretary for the HBOS Australia Group which includes BankWest having previously worked as a partner in a major Western Australian law firm. Ms Wilson resigned from Western Power with effect from 30 June 2005.

## 1.1 Company Secretary

### Ian Gilbert Paterson (Age 55)

Mr Paterson was appointed Company Secretary in February 2003. Prior to holding this position, Mr Paterson held the role of Executive Officer Management for nineteen years.

## 2. Committees

The Corporation has the Governance and Remuneration Committee and the Audit and Risk Management Committee consisting of the following Directors:

Governance and Remuneration:	ND Hamilton (Chairman), JJ O'Connor and AJ Mulgrew.*
Audit and Risk Management:	JA Seabrook (Chair), CE Stockwell, HR Collins** and MJ Davies**.

\* AJ Mulgrew was a member of the Audit and Risk Committee until October 2004.

\*\* HR Collins and MJ Davies were appointed on 14 September 2004.

## DIRECTORS' REPORT continued

### 3. Directors' Meetings

The number of meetings of the Board (including meetings of committees) and number of meetings attended by each of the Directors during the financial year ended 30 June 2005 are as follows:

	Board Meetings		Governance & Remuneration Committee Meetings		Audit and Risk Management Committee Meetings	
	A	B	A	B	A	B
ND Hamilton	22	24	4	4	-	-
JA Seabrook	22	23	-	-	11	11
AJ Mulgrew	22	22	2	3	3	3
SA Wilson	13	22	4	4	-	-
JJ O'Connor	20	22	4	4	-	-
CE Stockwell	19	22	-	-	8	11
HR Collins <sup>1</sup>	17	21	-	-	8	8
MJ Davies <sup>2</sup>	18	20	-	-	7	8
AM Iannello <sup>3</sup>	23	24	-	-	-	-

A Number of meetings attended.

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

<sup>1</sup> HR Collins: Managing Director until 21 July 2004 and Director since 14 September 2004;

<sup>2</sup> MJ Davies: Director since 14 September 2004.

<sup>3</sup> AM Iannello: Managing Director since 19 July 2004;

### 4. Corporate Governance Statement

This statement outlines the principle corporate governance practices that were followed during the 2004/05 financial year. These practices form the framework that ensure that the business acts with high standards of corporate behaviour and in the best interests of its stakeholders.

On 31 March 2003 the ASX Corporate Governance Council issued "Ten Principles of Good Corporate Governance and Best Practice Recommendations". The Corporation, whilst not obliged to follow the ASX guidelines, seeks to adopt recognised best practice for publicly listed companies where it is relevant to do so and therefore acknowledges the recommendations and has included details of progress towards compliance with the ASX Best Practice Principles, as detailed below.

The Corporation complies with all the 10 ASX Principles and is currently developing a web presence to disclose its corporate governance information.

# DIRECTORS' REPORT continued

## ASX Corporate Governance Principles

Best Practice Recommendation	Western Power Governance Practices
1. Lay solid foundations for management and oversight	<ul style="list-style-type: none"> <li>• The role and responsibilities of the Board and Committees of the Board are clearly defined in Charters for each body.</li> <li>• A comprehensive Corporate Governance Framework defines the system by which the Corporation is directed and managed. It influences how objectives are set and achieved, how risk is monitored and assessed and performance optimised. It supports directors and senior managers in undertaking their governance responsibilities.</li> <li>• Management's responsibilities are well defined and documented through formal position descriptions, performance agreements and Board-approved delegation of authority policies.</li> </ul>
2. Structure the Board to add value	<ul style="list-style-type: none"> <li>• All Non-Executive Directors (including the Chairman) are considered to be independent.</li> <li>• Details of Director's experience, expertise and attendance at Board and Committee meetings are disclosed in the Annual Report.</li> <li>• Each director has access to all relevant company information and personnel. Subject to prior consultation with the Chairman, directors may seek independent professional advice on any matter, at the Corporation's expense. A copy of the independent advice received is available to all other members of the Board.</li> </ul>
3. Promote ethical and responsible decision-making	<ul style="list-style-type: none"> <li>• The Corporation has a set of behavioural standards incorporating leadership principles and minimum standards applicable to the management of its personnel as well as a Code of Conduct setting out minimum standards of conduct for all personnel.</li> </ul>
4. Safeguard integrity in financial reporting	<ul style="list-style-type: none"> <li>• The Managing Director and General Manager Finance, Risk Management and Service Delivery certify that the financial statements give a true and fair view to the Board.</li> <li>• The Board has an Audit and Risk Management Committee that operates under a formal Charter. The committee comprises of only independent directors with a Chair who is not the Chairman of the Board. Membership and attendance of the Audit and Risk Management Committee is disclosed in the Annual Report.</li> <li>• The Risk Assurance and Audit branch performs the internal audit function.</li> <li>• The Office of the Auditor General performs the external audit function.</li> </ul>
5. Make timely and balanced disclosure	<ul style="list-style-type: none"> <li>• Western Power is a statutory corporation. As such, the ASX Listing Rules do not apply.</li> <li>• Nonetheless, an extensive continuous reporting regime is in place in relation to the Corporation's shareholder, the Minister for Energy (including quarterly reporting in relation to the Statement of Corporate Intent which is negotiated and completed with the Minister on an annual basis). The Minister tables the Statement of Corporate Intent in both Houses of Parliament within 14 days of its approval.</li> </ul>
6. Respect the rights of shareholders	<ul style="list-style-type: none"> <li>• The Corporation has developed a formal protocol to ensure that a comprehensive level of governance applies to all communications with the Minister and his Office.</li> <li>• Legislation requires the Corporation to consult the Minister on major initiatives or courses of action that are likely to be of significant public interest. The Corporation must obtain the approval of the Minister for major strategic initiatives and any project involving expenditure greater than one per cent of the written down value of the Corporation's fixed assets.</li> </ul>
7. Recognise and manage risk	<ul style="list-style-type: none"> <li>• The Board Audit and Risk Management Committee oversees risk related issues. The committee oversees the Risk Management Framework and its implementation plan.</li> <li>• The Managing Director and General Manager Finance, Risk Management and Service Delivery certify to the Board that the financial statements are founded on a sound system of risk management and internal compliance and control, which implements the policies adopted by the Board.</li> </ul>
8. Encourage enhanced performance	<ul style="list-style-type: none"> <li>• A performance framework is established and overseen by the Board's Governance and Remuneration Committee (as reflected in its Charter).</li> <li>• Board has an induction process in place for directors and on-going education.</li> <li>• Board has a comprehensive performance evaluation regime in place that covers the evaluation of the Board, its Committees, Business Units and members of staff.</li> <li>• During 2005 the Board undertook a formal performance assessment evaluation of the Board, its Committees and associated processes.</li> </ul>

## DIRECTORS' REPORT continued

Best Practice Recommendation	Western Power Governance Practices
9. Remunerate fairly and responsibly	<ul style="list-style-type: none"> <li>• The Minister for Energy approves the remuneration of all non-executive directors.</li> <li>• The Board subject to the concurrence of the Minister for Energy approves the remuneration of the Managing Director.</li> <li>• The Board on recommendation of the Managing Director approves the remuneration of all Executive Officers.</li> <li>• The directors and senior executive remuneration is disclosed in the Annual Report.</li> </ul>
10. Recognised the legitimate interests of stakeholders	<ul style="list-style-type: none"> <li>• The Corporation has a clear view of its wider group of stakeholders (including but not limited to the Minister and Government, employees, customers, the community, unions and regulatory authorities).</li> </ul>

### 4.1 Board of Directors

#### **Role of the Board**

The Board of Directors is the governing body of the Corporation and is responsible to the Minister for Energy ("the Minister") for the performance of the Corporation. Subject to the *Electricity Corporation Act 1994* ("the Act"), the Board has the authority to perform the functions, determine policies and control the affairs of the Corporation.

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

- **Commercial requirements:** The Act requires the Corporation to act in accordance with prudent commercial principles and endeavour to make a profit consistent with maximising its long-term value.
- **Reliability and safety requirements:** The Act, related legislation and regulations require the Corporation to supply electricity in a safe and reliable manner. Since it was established, the Corporation has placed the safety of the public and its employees as its overarching value and has consistently sought to maximise reliability and security of supply consistent with its other obligations.
- **Government policy:** As a State-owned enterprise, the Corporation is mindful and supportive of Government policies that will impact on the Company's business operations. Accordingly, the Corporation assists the Government to implement its policies and acts in accordance with the policies to the maximum extent possible, subject to other legislated requirements.

#### **Composition of the Board**

Legislation passed through Parliament in 2003 increased the maximum number of non-executive directors by two. The Corporation's Board of Directors now comprises:

- The Managing Director;
- No less than four and no more than eight non-executive directors appointed by the Governor of Western Australia ("the Governor") on the nomination of the Minister;
- The Governor appoints the Chairman and Deputy Chairman, appointments in each case are made on the nomination of the Minister; and
- The Managing Director may not hold the positions of Chairman or Deputy Chair.

## DIRECTORS' REPORT continued

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

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

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

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

The Act prohibits directors from:

- Making improper use of information or their position;
- Voting in matters where they have a material personal interest; and
- Furnishing false information.

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

### 4.2 Role of the Committees

#### ***Governance and Remuneration Committee***

The Governance and Remuneration Committee's role is to:

- Develop and review the Corporation's corporate governance framework and policies;
- Quality assurance relating to the integrity and probity of the Corporation's remuneration policies and practices;
- Power to determine the remuneration and other terms and conditions of service for Western Power staff;
- Succession planning and nomination of directors and the Managing Director in accordance with Section 7(3) and Section 13(2)(b) of the Act; and
- Review the performance of the Board and its Committees and the Managing Director.

The Governance and Remuneration Committee is authorised by the Board to evaluate different remuneration methods and philosophies, and investigate any activity within its terms of reference. The Governance and Remuneration Committee is a non-executive Committee. It has unrestricted access to personnel records and senior management as appropriate. The Governance and Remuneration Committee is authorised to obtain outside independent professional advice and if it considers it necessary, to secure the attendance of outsiders with relevant experience and expertise.

The Governance and Remuneration Committee consist of not less than two and up to four non-executive directors. The Chairman of Western Power will be the Chairman of the Governance and Remuneration Committee.

## DIRECTORS' REPORT continued

### **Audit and Risk Management Committee**

The purpose of the Audit and Risk Management Committee is to assist the Board to fulfil its corporate governance and oversight responsibilities in relation to financial reporting, capital investment, internal control structure, risk management systems, compliance framework and the internal and external audit function.

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

The Audit and Risk Management Committee consist of not less than two and up to four independent non-executive Directors, each of whom is financially literate.

## 4.3 Remuneration Report

### **A. Principles Used to Determine the Nature and Amount of Remuneration**

Remuneration approval protocols are as follows:

Specified Non-Executive Directors:	The Minister for Energy approves the remuneration of all Non-Executive Directors.
Managing Director:	The Board subject to the concurrence of the Minister for Energy approves the remuneration of the Managing Director (also referred to as the CEO).
Specified Executive Officers:	The Board on recommendation of the Managing Director approves the remuneration of all Specified Executive Officers.

The Remuneration Policy is to:

- remunerate individuals in accordance with performance and responsibility;
- ensure consistent decision making on individual remuneration adjustments;
- establish flexible remuneration arrangements; and
- establish and maintain salary ranges comparable to other companies of similar size and industry.

### **Specified Non-Executive Directors**

Payment to Specified Non-Executive Directors consists of Base Remuneration, a Committee Fee and superannuation.

### **Managing Director and Specified Executives**

The Managing Director and Specified Executives remuneration framework is based upon:

Total Target Remuneration that includes:

- Total Fixed Remuneration structured with:
  - Cash;
  - Selection of prescribed non-financial benefits;
  - Superannuation; and
  - Cost of the fringe benefit tax.
- An annual at risk remuneration element

## DIRECTORS' REPORT continued

### **Total Fixed Remuneration**

The remuneration framework is market competitive, performance based with flexibility for the package to be structured at the executive's discretion upon a combination of cash, a selection of prescribed non-financial benefits, superannuation and cost of the fringe benefit tax.

External remuneration consultants provide analysis and advice to ensure remuneration is set to reflect the market for a comparable role. Remuneration for executives is reviewed annually to ensure the level is market competitive. There are no guaranteed remuneration increases included in any executive contracts.

**Non-financial Benefits** – selection available: cost of novated or associated leasing of selected motor vehicle, electricity (to a maximum tax allowable figure), laptop computer, salary continuance insurance, life insurance, health checkup and the cost of the fringe benefits tax.

**Superannuation** - is paid at not less than the amount that is required under the *Superannuation Guarantee (Administration) Act 1992 (Cth)*, on the Executive's behalf to a superannuation fund which is a Complying Superannuation Fund within the meaning of that Act.

**Annual At Risk Remuneration Element** - At the Board's absolute discretion with the concurrence of the Minister, the Managing Director is eligible for up to 10% of remuneration for the achievement of specific performance targets in the following areas: Strategic Leadership, Operational Management, Team Building and Leadership, Commercial Acumen and Customer Management, Strong Financial Analysis Ability, Media and Public Relations and Shareholder Relationship.

### **Review of Remuneration Arrangements**

A review of remuneration strategies was undertaken during 2005 and the Board has adopted effective for 2005/06 a more strategic, performance based remuneration program to underpin a high performance work culture, and assist attraction and retention of a talented workforce.

# DIRECTORS' REPORT continued

## B. Details of Remuneration

Details of the nature and amount of each element of the emolument for Specified Directors<sup>(1)</sup> during 2004/05 are detailed below:

	Primary Benefits			Post Employment Benefits	Other Benefits	Total Benefits
	Salary & Fees \$	Bonus \$	Non-Monetary <sup>a</sup> \$	Superannuation <sup>b</sup> \$	Retirement & Termination Benefits \$	Total \$
<b>Non-Executive Specified Directors</b>						
ND Hamilton	Chairman					
2004/05	104,006	-	666	9,147	-	113,819
2003/04	63,719	-	668	5,866	-	70,253
JA Seabrook	Deputy Chair					
2004/05	66,813	-	666	5,829	-	73,308
2003/04	45,915	-	668	4,206	-	50,789
AJ Mulgrew	Director					
2004/05	51,868	-	-	4,395	-	56,263
2003/04	40,152	-	-	3,429	-	43,581
SA Wilson	Director					
2004/05	16,441	-	-	37,815	-	54,256
2003/04	33,157	-	-	9,590	-	42,747
Mr JJ O'Connor	Director					
2004/05	30,272	-	-	22,365	-	52,637
2003/04	19,869	-	-	6,867	-	26,736
Ms CE Stockwell	Director					
2004/05	48,290	-	-	4,347	-	52,637
2003/04	24,563	-	-	2,173	-	26,736
HR Collins	Director (Appointed 14 September 2004)					
2004/05	37,619	-	528	3,436	-	41,583
MJ Davies	Director (Appointed 14 September 2004)					
2004/05	38,146	-	-	3,436	-	41,582
Others reported in 2003/04	113,737	-	556	10,288	-	124,581
<b>Executive Specified Directors</b>						
AM Iannello	Chief Executive Officer (Appointed 19 July 2004)					
2004/05	400,093	-	584	32,209	-	432,886
Mr HR Collins	Chief Executive Officer (Resigned 21 July 2004)					
2004/05	19,431	-	187	1,709	10,382	31,709
2004/03	120,523	-	743	10,598	-	131,864
Others reported in 003/04	230,898	-	41,181	32,421	-	304,500
<b>Total Specified Directors</b>						
2004/05	812,979	-	2,631	124,688	10,382	950,680
2003/04	692,533	-	43,816	85,438	-	821,787

<sup>a</sup> Non-monetary benefits represent motor vehicle benefits and electricity benefits.

<sup>b</sup> Superannuation represents employer and employee contributed superannuation.

<sup>(1)</sup> Specified Executive means a person who who was, at any time during the reporting period, a director of the Corporation.

## DIRECTORS' REPORT continued

Details of the nature and amount of each element of the emolument for Specified Executives<sup>(2)</sup> during 2004/05 are detailed below:

	Primary Benefits			Post Employment Benefits	Other Benefits	Total Benefits
	Salary & Fees \$	Bonus \$	Non-Monetary <sup>a</sup> \$	Superannuation <sup>b</sup> \$	Retirement & Termination Benefits \$	Total \$
<b>Specified Executives</b>						
DT Aberle	General Manager Networks					
2004/05	264,328	-	30,326	39,156	-	333,810
2003/04	211,567	6,850	21,604	36,077	-	276,098
JE Lillywhite	General Manager Generation					
2004/05	230,766	-	19,498	44,354	-	294,618
2003/04	196,651	6,850	25,689	42,186	-	271,376
N Ninkov	General Manager Finance, Risk Management and Service Delivery					
2004/05	233,177	-	25,695	30,020	-	288,892
2003/04	221,949	6,850	29,361	26,824	-	284,984
TH James	General Manager Retail					
2004/05	187,849	-	20,626	35,196	-	243,671
2003/04	148,356	6,850	19,090	31,356	-	205,652
KD Bowron	General Manager Regional					
2004/05	192,247	-	16,931	32,537	-	241,715
2003/04	145,795	6,850	16,872	30,379	-	199,896
Others reported in 2003/04	576,153	32,400	111,705	118,631	562,360	1,401,249
<b>Total Specified Executives</b>						
2004/05	1,108,367	-	113,076	181,263	-	1,402,706
2003/04	1,500,471	66,650	224,321	285,453	562,360	2,639,255

<sup>a</sup> Non-monetary benefits represent motor vehicle benefits and electricity benefits.

<sup>b</sup> Superannuation represents employer and employee contributed superannuation.

<sup>(2)</sup> Specified Executive means one of the five or more executives who:

<sup>a</sup> have the highest emoluments/greatest authority for managing the economic entity;

<sup>b</sup> are employed at any time during the reporting period by the entity; and

<sup>c</sup> are not specified directors.

Executive means a person who is directly accountable and responsible for the strategic direction and operational management of the entity.

## DIRECTORS' REPORT continued

### 4.4 Risk Management

Processes and systems are in place to manage the Corporation's business, environmental and operational risks. This process was formalized during the year with the endorsement of the Risk Management Framework and implementation plan. The Framework, which is consistent with Australian Standard "AS4360 Risk Management", provides a methodology and process for the identification, allocation and management of risk throughout the Corporation. Business Unit managers are responsible for implementing strategies to mitigate risks that have been classified as extreme or high. The Audit and Risk Management Committee oversees the 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, organizational restructures, and operational issues are identified and responses developed.

The Risk Management Branch provides advice to business unit management and coordinates the findings of the various risk reviews undertaken.

The Treasury Branch makes recommendations to the Board on the appropriate level of insurance cover for the Corporation. Financial risk issues are managed through a Treasury Policy Statement that requires regular reporting to the Audit and Risk Management Committee on treasury activities.

### 4.5 Internal Control Framework

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

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

The Corporation's internal control system is based on:

- Written procedures, policies and guidelines;
- Organisational structures that provide an appropriate division of responsibility;
- A program of internal audit; and
- The careful selection and training of qualified personnel.

#### ***Financial Reporting***

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

A five-year budget is produced annually from a comprehensive budgeting system and approved by directors. This is included in the Strategic Development Plan (SDP) produced by the Corporation each year.

Management is required to sign-off on a detailed questionnaire that covers: management of risks, overall control environment, regulatory areas and financial reporting. These support the sign-off by the Managing Director and General Manager Finance, Risk Management and Service Delivery in the assurances provided to the Board for the half-year and full-year results.

## DIRECTORS' REPORT continued

### ***Business Unit Controls***

On a quarterly basis, business unit finance managers confirm the reasonableness and accuracy of their financial records. Half yearly, business unit finance managers confirm compliance with financial controls and procedures to support the Board's certification of the accounts.

### ***Expenditure Guidelines***

The Corporation has clearly defined guidelines for operating and capital expenditure. These include annual budgets, detailed appraisal and review procedures as well as formally stated levels of delegated financial authority approved by the Board. The Corporation must obtain the approval of the Minister for major strategic initiatives and any project involving expenditure greater than one per cent of the written down value of the Corporation's fixed assets.

### ***Internal and External Audit***

The internal audit function of the Corporation reports directly to the Executive Manager Governance and Audit and pursuant to a second reporting line, reports are made available to the Audit and Risk Management Committee, so that the internal audit objectives, plans and resources provide for adequate support of the Committee's own goals and objectives. The internal audit function is independent of the external audit and has full access to the Audit and Risk Management Committee, and to the staff and records of the Corporation.

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

### ***Quality of Personnel***

The Corporation has a formal employee appraisal framework designed to see the cascading of the company's vision and goals – its strategic plan, linked into individual's achievement plans so ensuring the corporate goals are translated into action.

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

## 4.6 Ethical Standards

The Corporation is mindful of its duties outlined in the Act and has developed a set of behavioural standards incorporating leadership principles and minimum standards applicable to the management of the staff as well as a Code of Conduct setting out minimum standards of conduct for all staff.

### ***Conflicts of Interest***

Directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Corporation. The Board has developed procedures to assist directors to disclose potential conflicts of interest.

Where the Board believes that any conflict exists for a director on a board matter being considered, the director concerned does not receive the relevant board papers and is not present at the meeting whilst the item is considered.

## DIRECTORS' REPORT continued

### 4.7 Environment

#### ***Environmental Standards***

The Corporation recognises that rigorous environmental management is critical to the sustainability of the business. Corporate policies and strategies are in place encompassing environmental management principles administered through a formal Environmental Management System (EMS). These principles include community consultation, planning, compliance and sustainable development with continuous improvement objectives. Adherence to environmental policies and implementation of the EMS are audited. A steady decline in the greenhouse intensity of energy supplied and enhancement of environmental reputation are included in the Corporation's corporate performance targets.

#### ***Environmental Regulation Performance***

All Corporation sites are subject to a range of environmental regulations, both State and Federal, and some are also covered by specific Ministerial conditions and environmental operating licences issued by the State. 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. No actions have been taken against the Corporation by any Government agency for any breaches of environmental regulation, Ministerial condition or licence conditions in the financial year ended 30 June 2005.

### 4.8 Communication with Shareholders

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

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

### 4.9 Other Accountability Measures

It is a requirement under the Act that the Corporation produces, annually, both a Statement of Corporate Intent, a one-year plan and a Strategic Development Plan, a five-year plan. These are to be agreed between the Minister and the Board with the concurrence of the Treasurer.

#### ***Strategic Development Plan***

The Strategic Development Plan (SDP) is a confidential document. It sets out the Corporation's five-year economic and financial objectives, Strategic Result Areas and associated performance targets as well as strategies. The 2005/06 SDP has been submitted to the Minister.

#### ***Statement of Corporate Intent***

The Statement of Corporate Intent (SCI) sets out the Corporation's scope of activities, objectives and performance targets for the financial year ahead and is consistent with the SDP. The SCI is tabled in Parliament after agreement with the Minister and the Treasurer's concurrence. The 2005/06 SCI has been submitted to the Minister.

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

## DIRECTORS' REPORT continued

### 5. Principal Activities

The functions of the Corporation are:

- to generate, acquire, exchange, transport, distribute, market and otherwise supply electricity to commercial, industrial and residential customers throughout Western Australia;
- to undertake, maintain and operate any works, systems, facilities, apparatus or equipment required for such purposes;
- to use its expertise and resources to provide consultative, advisory or other services for profit;
- to develop and turn to account any technology, software or other intellectual property that relates to activities referred to above; and
- to manufacture and market any product that relates to these activities including the retailing of gas.

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, consistently with maximizing its long term value.

There have been no significant changes in the nature of the principal activities during the financial year.

### 6. Operating Results

For the financial year ended 30 June 2005, the Corporation achieved a net profit after income tax of \$206.1 million.

### 7. Dividends Paid or Recommended

Dividends paid or recommended by the Corporation since the end of the previous financial year were:

- An interim dividend of \$ 54.2 million in respect of the period ended 31 December 2004, paid on 30 June 2005.
- A final dividend of a further \$ 51.6 million in respect of the financial year ended 30 June 2005, recommended to be paid during December 2005.

### 8. Review of Operations

The operations of the Corporation during the financial year and the result of those operations are discussed in the Chairman's and Managing Director's Review, Financial Review section and Review of Operations section of the Annual Report.

### 9. Change in State of Affairs

There were no significant changes in the state of affairs of the Corporation during the financial year, except as noted below:

- In July 2004, Tony Iannello was appointed Managing Director of Western Power. In August, Mr Iannello instituted significant structural changes to Western Power in preparation for the eventual disaggregation of the company. As part of the re-structure, four Strengthened Business Units were created, representing the four operational arms of the business.
- In August 2004, Western Power announced StateWest Power was the successful bidder in the MidWest Power Procurement program and would build power stations in five remote towns. Similar procurement programs are delivering efficient, modern generation solutions helping Western Power to meet customer expectations, comply with environmental licensing provisions and reduce losses in regional areas of the State.

## DIRECTORS' REPORT continued

- In early October 2004, an innovative way of achieving renewable energy certificated (RECs) targets was formalized with the signing of a biomass agreement with Western Australian pallet manufacturer Pinetec Ltd. In displacing some 45,000 tonnes of coal each year, with a corresponding reduction of greenhouse gas emissions, this agreement will produce more than 70,000 RECs a year. The agreement runs until 2010.
- In October 2004, Western Power signed a gas transportation agreement with the eventual new owners of the Dampier to Bunbury Natural Gas Pipeline. The agreement sealed a gas transportation price and an agreed mechanism for access to future expansion of gas pipeline capacity.
- Industrial action by the workforce of the Western Power maintenance contractor at Muja Power Station caused considerable delay to the completion of the company's generation portfolio maintenance schedule.
- In the lead-up to summer, Western Power initiated a number of programs to increase generation capacity and improve fuel flexibility in order to safeguard power supplies over the high demand summer period. This included installing cooling sprays at Pinjar Power Station to offset the effect of hot weather and provide 40-50 MW additional capacity, repairs of the two Muja Stage C units, which were damaged during 2003 and the rental of four mobile distillate-fuelled turbines. Together these projects realised a 185-205MW increase in generating capacity over the previous summer.
- On completion of a \$7 million, 132,000-volt transmission link between the Parkestone Power Station and the State's main power grid in Kalgoorlie-Boulder, Western Power signed a power purchase agreement with the Parkeston Power Station in December 2004 increasing available capacity by 35MW.
- Western Power has increased its oil stocks to achieve greater flexibility and security in fuel arrangements and to offset occasional constraints on the Dampier to Bunbury Natural Gas Pipeline. The impact of these measures, in the short-term, has been that higher fuel costs have been experienced.
- Deregulation to 5.7kW of the retail electricity market in WA on 1 January 2005 resulting in 60% of Western Power sales being able to change supplier.
- In early March 2005, the State Coroner handed down findings in relation to the death of two women in the Tenterden bushfire of 2003. The findings included a comprehensive set of recommendations for Western Power to implement regarding network operation and bushfire risk mitigation. Western Power has made major inroads into a number of the areas raised by the Coroner and has given an undertaking to report to the Coroner on steps taken to action the recommendations.
- Western Power also faced prosecution in the Perth Magistrate's Court in April 2005 over a series of safety incidents that occurred in 2002 and 2003. Western Power pleaded guilty to these offences and was fined a total of \$80,500. Actions to remedy this situation have been put in place.
- As part of preparation for the disaggregation of Western Power and a future as stand-alone businesses, the Networks Business Unit recognised the need to move from being internally regulated to being externally regulated with a strong desire to improve customer experience and many of the business unit's operational activities. To achieve this, Networks has embarked on an integrated program of major change related initiatives known as the One Step Ahead Implementation Program.
- The Electricity Corporations Bill 2005 has been amended to give the Minister powers to give directions to the Corporation either generally or in relation to a particular matter, with respect to the performance of its functions.

### 10.Events Subsequent to Balance Date

Other than as disclosed below, there has not arisen in the interval between the end of the financial year and the date of this report any matter or circumstance 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.

## DIRECTORS' REPORT continued

- On 9 August 2005, the Corporation announced an unconditional agreement with Energy Developments Limited to construct five new power stations in the West Kimberley. The West Kimberley Power Procurement program will deliver new power stations in the towns of Broome, Derby, Fitzroy Crossing, Halls Creek and Camballin-Looma. The Corporation has agreed a new schedule for construction of the power stations. The Corporation will continue to supply power to the five towns until the new plants are commissioned. The expected dates for the commercial operation are as follows: Broome – March/April 2007, Looma – April 2007, Derby – May 2007, Fitzroy Crossing – June 2007 and Halls Creek – July 2007.
- On 16 August 2005, the Corporation announced, following approval of the Western Power Board and State Cabinet, that the successful bidder to construct a new baseload power station for the SWIS was Wambo Power Ventures Pty Ltd (Wambo). Under the proposal, Wambo will provide an additional 320 megawatts of power to the SWIS from a new gas-fired combined-cycle power station to be built adjacent to Western Power's Cockburn Power Station, which will enter commercial service by end of November 2008.
- On 16 August 2005, the Corporation also announced, following approval of the Western Power Board and State Cabinet, details of a 25-year contract to supply coal to the Corporation's existing power stations. Wesfarmers Premier Coal was the successful bidder to supply low-ash coal for the Muja C and D and Collie Power Stations until 2030. Supply arrangements with Griffin Coal will remain in place until 2010. Current arrangements with Wesfarmers Premier Coal are incorporated in the new arrangements.

### 11. Likely Developments and Expected Results of Operations

The most significant future developments for the Corporation are noted below:

- The Minister for Energy has signalled a clear intention for Western Power to be disaggregated by 31 March 2006. Disaggregation will result in the formation of four new state-owned businesses, each with their own brand and Board of Directors. A networks business, a generation business and a retail business will carry out the functions currently carried out by Western Power in the SWIS. A regional power business will be formed to provide integrated energy services in the NWIS and 28 non-interconnected towns in regional WA.
- The Independent Market Operator (IMO) will conduct the first capacity auctions in 2006. While Western Power will retain responsibility for ensuring adequate system capacity, the IMO will take on this responsibility in 2007 with the capacity auctions the first step in this process. Western Power has been directed by the Minister to cap its generation capacity at 3,000MW.
- Kemerton Power Station is expected to be commissioned during 2005 providing an additional 260MW of peaking capacity for the summer of 2005/06.
- An upgrade of the Dampier to Bunbury Natural Gas Pipeline for the summer of 2005/06 is expected to provide an additional 23tj/day of firm gas transport.
- In 2005/06, Western Power's total capital works program will increase \$135 million to almost \$600 million – a 29 per cent increase on the estimated outturn for 2004/05. Western Power's total capital works program amounts to \$2.1 billion over the 2005/06 to 2008/09 budget period. The Government has approved a significant increase in capital works for the State's electricity system, with \$488 million of additional capital works being approved for Western Power over the four-year budget period.
- The Certified Agreement 2002 concludes in 2005. The new agreement is expected to be signed in 2005/06.

## DIRECTORS' REPORT continued

- The Corporation is embarking on a comprehensive Information Technology (IT) plan that has been developed with independent external assistance that will support the planned disaggregation of Western Power. The plan is aimed at meeting the requirements of the electricity reform process and the future strategic direction of the successor entities in a competitive market. In response to the IT plan, the Government had approved additional funding of \$66 million over the next four years.
- The Electricity Networks Access Code, which came into force on 30 November 2004, requires Western Power to prepare a proposed Access Arrangement under the Code for an initial 3 year period, and submit (by 24 August 2005) to the Economic Regulation Authority for approval. The Authority will review Western Power's proposal in detail, including a formal process for public consultation, with a view to approving an Access Arrangement for commencement on 1 July 2006. Existing arrangements and conditions for network access remain in effect until then.
- The Government has given a commitment that small business and domestic tariffs will remain unchanged until 2009.

The Directors have not included in this report any further information on the likely developments in the operations of the Corporation, the carrying value of the Corporation assets and the expected results of those operations in future years due to the uncertainty surrounding the potential impact of the electricity reform program discussed above.

### 12. Directors' Benefits

During the financial year, no Director (other than those disclosed above) has received or become entitled to receive a benefit, other than benefits disclosed in the financial statements as emoluments or the fixed salary of a full-time employee of the Corporation, by reason of a contract made by the Corporation with the Director or with a firm of which he/she is a member, or with an entity in which he/she has a substantial financial interest.

### 13. Indemnification of Directors and Officers

During the financial year the Directors' and Officers' Liability Insurance Policy was renewed to ensure that the Directors and Officers of the Corporation had adequate coverage. The 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.

The Directors' and Officers' Liability Insurance Policy forms part of the Corporation's Third Party Liability Policy, and it is therefore not possible to determine the premium applicable.

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

### 14. Auditor Independence and Non-Audit Services

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

The Auditor General is appointed under the *Financial Administration and Audit Act 1985*, which provides for the independence of the position. This Act provides that the Auditor General can conduct audits in the manner he sees fit and is not subject to direction by any person about the way in which those powers are exercised.

The Auditor General does not perform non-audit services.

## DIRECTORS' REPORT continued

### 15. Rounding of Amounts

The Corporation satisfies the requirements of clause 32 of Schedule 3 contained in the *Electricity Corporation Act 1994* and accordingly, amounts in the financial statements and Directors' Report have been rounded to the nearest thousand dollars unless specifically stated to be otherwise.

Signed in accordance with a resolution of the Board of Directors.



Mr ND HAMILTON  
*Chairman*  
22 August 2005



Mr AM IANNELLO  
*Managing Director*

# STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 30 JUNE 2005

	NOTES	30/06/05 \$'000	30/06/04 \$'000
Sales of Electricity		1,615,888	1,542,806
Less: Cost of Sales	<a href="#">2</a>	1,258,249	1,077,060
<b>Gross Profit</b>		<b>357,639</b>	<b>465,746</b>
<i>Plus:</i> Other Revenue from Ordinary Activities	<a href="#">3</a>	258,738	230,401
<i>Less:</i> Other Expenditure from Ordinary Activities	<a href="#">4</a>	172,700	196,798
<i>Less:</i> Borrowing Costs	<a href="#">5</a>	146,745	148,164
<b>Profit from Ordinary Activities Before Income Tax Expense</b>	<a href="#">6</a>	<b>296,932</b>	<b>351,185</b>
<i>Less:</i> Income Tax Expense	<a href="#">7</a>	90,797	109,604
<b>NET PROFIT</b>		<b>206,135</b>	<b>241,581</b>

This Statement should be read in conjunction with the attached Notes to the Financial Statements set out on the following pages. For ease of use the numbers in the above 'notes' column are hyperlinked to the relevant notes pages.

# STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2005

	NOTES	30/06/05 \$'000	30/06/04 \$'000
<b>CURRENT ASSETS</b>			
Cash Assets	<a href="#">9</a>	18,743	29,549
Receivables	<a href="#">10</a>	238,150	216,722
Inventories	<a href="#">11</a>	145,931	103,416
Other	<a href="#">12</a>	13,244	17,006
<b>Total Current Assets</b>		<b>416,068</b>	<b>366,693</b>
<b>NON-CURRENT ASSETS</b>			
Property, Plant and Equipment	<a href="#">13</a>	4,335,605	4,130,296
Future Income Tax Benefit		74,523	76,497
Other Financial Assets	<a href="#">14</a>	752	1,342
Other	<a href="#">12</a>	11,792	14,612
<b>Total Non-Current Assets</b>		<b>4,222,672</b>	<b>4,222,747</b>
<b>Total Assets</b>		<b>4,838,740</b>	<b>4,589,440</b>
<b>CURRENT LIABILITIES</b>			
Payables	<a href="#">15</a>	162,458	124,590
Tax Liabilities	<a href="#">17</a>	7,105	56,696
Provisions	<a href="#">18</a>	107,164	112,462
Other	<a href="#">19</a>	68,615	40,348
<b>Total Current Liabilities</b>		<b>345,342</b>	<b>334,096</b>
<b>NON-CURRENT LIABILITIES</b>			
Payables	<a href="#">15</a>	31,272	32,783
Interest Bearing Liabilities	<a href="#">16</a>	2,450,569	2,325,855
Tax Liabilities	<a href="#">17</a>	157,778	144,096
Provisions	<a href="#">18</a>	154,951	149,984
Other	<a href="#">19</a>	24	11,186
<b>Total Non-Current Liabilities</b>		<b>2,794,594</b>	<b>2,663,904</b>
<b>Total Liabilities</b>		<b>3,139,936</b>	<b>2,998,000</b>
<b>NET ASSETS</b>		<b>1,698,804</b>	<b>1,591,440</b>
<b>EQUITY</b>			
Contributed Equity	<a href="#">20</a>	17,769	10,757
Retained Profits	<a href="#">20</a>	1,681,035	1,580,683
<b>TOTAL EQUITY</b>		<b>1,698,804</b>	<b>1,591,440</b>

This Statement should be read in conjunction with the attached Notes to the Financial Statements set out on the following pages. For ease of use the numbers in the above 'notes' column are hyperlinked to the relevant notes pages.

# STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2005

	NOTES	30/06/05 \$'000	30/06/04 \$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts in the Course of Operations		1,787,898	1,705,058
Other Operating Revenue from Ordinary Activities		124,018	145,690
Interest Received		1,338	1,447
Payments to Employees and Suppliers		(1,326,891)	(1,065,108)
Borrowing Costs Paid		(150,933)	(191,677)
Lease Expenses		(15,714)	(6,482)
Income Tax Paid		(120,257)	(93,638)
Goods & Services Tax Paid		(47,131)	(66,938)
<b>NET CASH INFLOWS FROM OPERATING ACTIVITIES</b>	<b>25</b>	<b>248,328</b>	<b>428,352</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from Investments in Other Entities		(15)	1,773
Payment for Property, Plant and Equipment		(422,906)	(315,947)
Proceeds from Sale of Property, Plant and Equipment		7,874	13,316
<b>NET CASH OUTFLOWS FROM INVESTING ACTIVITIES</b>		<b>(415,047)</b>	<b>(300,858)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Dividends Paid		(95,395)	(117,900)
Proceeds from Interest Bearing Liabilities		1,317,304	1,014,612
Repayment of Interest Bearing Liabilities		(1,188,589)	(1,101,365)
CES, Customers' and Contractors' Deposits		(1,038)	(1,104)
Developer and Customer Contributions to Capital Works		116,516	77,618
Proceeds from Contributed Equity		7,013	1,231
<b>NET CASH INFLOWS/(OUTFLOWS) FROM FINANCING ACTIVITIES</b>		<b>155,811</b>	<b>(126,908)</b>
<b>NET INCREASE IN CASH ASSETS HELD</b>		<b>(10,908)</b>	<b>586</b>
<b>CASH ASSETS AT BEGINNING OF FINANCIAL YEAR</b>		<b>29,549</b>	<b>29,101</b>
Effects of Exchange Rate Changes on Cash Assets		102	(138)
<b>CASH AT END OF THE FINANCIAL YEAR</b>	<b>25</b>	<b>18,743</b>	<b>29,549</b>

This Statement should be read in conjunction with the attached Notes to the Financial Statements set out on the following pages. For ease of use the numbers in the above 'notes' column are hyperlinked to the relevant notes pages.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 1.1 Basis of Preparation

The financial statements are a general purpose financial report which has been prepared in accordance with relevant Australian Accounting Standards, Urgent Issues Group (UIG) Consensus Views and the disclosure requirements of Schedule 3 of the Electricity Corporation Act 1994.

These financial statements have been prepared on the basis of historical costs and, except where stated, do not take into account changing money values or current valuations of non-current assets.

### 1.2 Revenue Recognition

#### 1.2.1 Sales of Electricity

Sales of electricity comprises revenue earned from the provision of electricity to entities outside the economic entity and is recognised when the electricity is provided. As at each reporting date, sales and trade debtors incorporate amounts attributable to 'unread sales', which are an estimate of electricity delivered to customers, which has not been billed at the reporting date.

#### 1.2.2 Developer and Customer Contributions

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

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

Cash contributions received are recognised as revenue consistent with the percentage completion of the asset construction being funded. Vested assets are recognised as revenue at the point of handover and are measured at their fair value. The network assets resulting from contributions received are recognised as property, plant and equipment and depreciated over their useful life.

# NOTES TO THE FINANCIAL STATEMENTS continued

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

### 1.2 Revenue Recognition continued

#### 1.2.3 Other Revenue from Ordinary Activities

Revenue is recognised to the extent it is probable the economic benefits will flow to the Corporation and that it can be reliably measured. It is valued at the fair value of the consideration received, or to be received net of the amount of goods and services tax.

Other revenue from ordinary activities includes:

- Account Fees
- Business Ventures
- External Chargeable Works
- Generation Fuel Sales
- Grant Received
- Interest
- Lease Renewal Incentive
- Network Access Charges
- Proceeds on Sale of Non-Current Assets
- Property Rent
- Renewable Energy Certificates, and
- Tariff Migration Reimbursement.

### 1.3 Goods and Services Tax

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

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recovered from, or paid to, the ATO are classified as operating cash flows.

### 1.4 Receivables

Trade debtors to be settled within 30 days are carried at amounts due. A provision for doubtful debts is raised where some doubt as to collection exists. The provision for doubtful debts is based on an analysis of bad debts experience and current economic conditions.

Collectability of trade debtors is reviewed on an ongoing basis. Debts, which are known to be irrecoverable, are written off.

# NOTES TO THE FINANCIAL STATEMENTS continued

## 1.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

### 1.5 Cost of Sales

Cost of sales represents the costs attributable to the integrated manufacturing process involved in the generation and transformation of electricity into a saleable good.

#### 1.5.1 Fuel Costs

Costs for coal and liquid fuels are assigned on the basis of weighted average cost. Gas costs comprise payments made under the sale and purchase agreement and the drawdown of prepaid gas. Prepaid gas is assigned at its holding cost.

### 1.6 Borrowing Costs

Borrowing costs are recognised as expenses in the reporting period in which they are incurred, except where they are included in the costs of qualifying assets as described in Note 1.9.1.

Borrowing costs are capitalised at the weighted average interest rate applicable to the Corporation's outstanding borrowings during the period of capitalisation. The weighted average interest rate used during the reporting period was 6.4% (June 04: 6.5%). Capitalisation ceases when the activities necessary to prepare the asset for use are substantially completed.

Borrowing costs include:

- Interest on bank overdrafts, short-term and long-term borrowings
- Amortisation of discounts relating to borrowings
- Amortisation of ancillary costs incurred in connection with the arrangement of borrowings
- Finance lease charges
- Exchange differences arising from foreign currency borrowings
- Unrealised and realised gains and losses on bond futures contracts, and
- Amortisation of realised gains and losses on forward rate agreements.

### 1.7 Current Assets and Current Liabilities

Current assets and current liabilities are recognised on the basis of assets expected to be realised or consumed and liabilities expected to be settled within the next twelve months.

### 1.8 Cash Assets

For purposes of the statement of cash flows, cash assets include deposits at call which are readily convertible to cash on hand and which are used in the cash management function on a day-to-day basis, net of any outstanding bank overdraft.

# NOTES TO THE FINANCIAL STATEMENTS continued

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

### 1.9 Property, Plant and Equipment

#### 1.9.1 Capitalisation of Borrowing Costs

Borrowing costs are capitalised during the construction of major capital projects that have construction periods extending beyond one year. Capitalised borrowing costs are broadly determined as the amount of borrowing costs that would have been avoided, but for the construction of the asset.

#### 1.9.2 Acquisition of Assets

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

The Corporation is a statutory corporation subject to the requirements of the Electricity Corporation Act 1994 and came into existence on 1 January 1995. The electricity functions and assets of the State Energy Commission of Western Australia (SECWA) were transferred to the Corporation on this date. The assets acquired were brought to account at their written down accounting value in the books as at 31 December 1994.

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

#### 1.9.3 Recoverable Amount of Non-Current Assets

The carrying amounts of non-current assets are reviewed annually to determine whether they are in excess of their recoverable amount. If the carrying amounts of non-current assets exceed the recoverable amount, the assets are written down to the lower amount. The recoverable amount of an asset is the net amount expected to be recovered through the net cash inflows arising from its continued use and subsequent disposal.

In assessing recoverable amount of non-current assets the relevant cash flows are based on projected financial results and an assumed terminal value. These cashflows are discounted to their present value using rates that reflect asset specific risk. The range used is from a minimum of 6.4% to a maximum of 10.3%.

# NOTES TO THE FINANCIAL STATEMENTS continued

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

### 1.9 Property, Plant and Equipment continued

#### 1.9.4 Depreciation

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

Other assets, primarily the electricity distribution network, which are continually extended and modified, are depreciated using the reducing balance method.

The useful lives of the Corporation's major asset classes are as follows:

Plant and Equipment	240-540 months
Buildings	480 months
Leasehold Improvements	120 months

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

#### 1.9.5 Leased Assets

Leases of plant and equipment under which the Corporation assumes substantially all the risks and benefits of ownership are classified as finance leases. Other leases are classified as operating leases.

Finance leases are brought to account by recording an initial asset and liability equal to the present value of the minimum lease payments including any guaranteed residual values. Leased assets are amortised over their expected useful lives. Lease payments are allocated between interest expense in the statement of financial performance and reduction of lease liability in the statement of financial position.

Operating lease payments are representative of the pattern of benefits derived from the leased assets and accordingly are charged to the statement of financial performance in the reporting periods in which they are incurred.

### 1.10 Inventories

Inventories are valued at the lower of cost and net realisable value. Cost is assigned on the basis of weighted average cost. A provision is maintained to allow for the diminution in value of inventories due to obsolescence and items being surplus to requirements.

# NOTES TO THE FINANCIAL STATEMENTS continued

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

### 1.11 Controlled Entities

#### 1.11.1 Joint Venture Operations

The Corporation's interests in unincorporated joint ventures are brought to account by including amounts in the following categories in the statement of financial performance and the statement of financial position:

- Each of the individual assets employed in the joint ventures
- Liabilities incurred by the Corporation in relation to the joint ventures
- Expenses incurred in relation to the joint ventures, and
- Revenue from the sale of output.

#### 1.11.2 Joint Venture Entities

The investment in joint venture entities is carried at the lower of cost and recoverable amount.

#### 1.11.3 Associate Entities

The investment in associates is carried at the lower of cost and recoverable amount. Dividend income is brought to account at the time it is declared.

### 1.12 Trade and Other Creditors

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

### 1.13 Provisions

A provision is recognised when there is a legal, equitable or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation.

#### 1.13.1 Dividends

A provision for dividends payable is recognised in the reporting period in which they are declared, for the entire amount declared but undistributed, regardless of the extent to which they will be paid in cash.

#### 1.13.2 Employee Entitlements

Provision is made for employee entitlements accumulated as a result of employees rendering services up to the reporting date. These entitlements include annual leave and long service leave including relevant on-costs.

# NOTES TO THE FINANCIAL STATEMENTS continued

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

### 1.13 Provisions continued

#### 1.13.2 Employee Entitlements continued

Liabilities arising in respect of annual leave, long service leave and any other employee entitlements expected to be settled within twelve months of the reporting date are measured at their nominal amount based on remuneration rates which are expected to be paid when the liability is settled. All other employee entitlement liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, the market yield as at the reporting date on selected commonwealth government securities, which have terms to maturity approximating the terms of the related liability, are used.

#### 1.13.3 Superannuation

The Corporation has a liability in respect to employees who are members of the Superannuation and Family Benefits Act Scheme. This scheme is closed to new members. The Corporation's liability is in respect of the employer portion of any amounts that are payable to scheme members in their retirement.

The balance of the provision is actuarially reviewed at the conclusion of each financial year; PriceWaterhouseCoopers performed an actuarial review as at 30 June 2005.

#### 1.13.4 Decommissioning Costs

As generation plant nears the end of its useful life a provision is made for anticipated costs of restoration and rehabilitation. Restoration and rehabilitation costs are calculated and spread over the remaining life of the asset on a straight-line method.

### 1.14 Foreign Exchange

As a policy objective, the Corporation has eliminated its exposure to foreign currencies, except for minor exposures arising through the normal course of business.

Foreign exchange transactions are brought to account to conform to Accounting Standard AASB 1012 "Foreign Currency Translation". Specific treatment of these transactions is stated below:

#### 1.14.1 Transactions

Foreign currency transactions are initially translated into Australian currency at the rate of exchange at the date of the transaction. At the reporting date, amounts payable and receivable in foreign currencies are translated into Australian currency at rates of exchange current at that date and the resulting exchange differences are brought to account in determining the profit or loss for the reporting period.

# NOTES TO THE FINANCIAL STATEMENTS continued

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

### 1.14 Foreign Exchange continued

#### 1.14.2 Specific Commitments

Gains or losses arising upon entry into a hedging transaction intended to hedge the purchase or sale of goods or services, together with subsequent exchange gains or losses resulting from those transactions are deferred and included in the measurement of the purchase or sale. In the case of hedges of monetary items, exchange gains or losses are brought to account in the reporting period in which the exchange rate changes.

#### 1.14.3 General Commitments

Exchange gains or losses on hedge transactions, other than those covered above, are brought to account in the statement of financial performance in the reporting period in which exchange rates change.

#### 1.14.4 Speculative Commitments

The Corporation does not undertake speculative transactions.

### 1.15 Derivative Financial Instruments

Through its operations, the Corporation is exposed to changes in foreign exchange rates, interest rates and commodity prices. These risks are managed with the prudent use of derivative products. The Corporation only uses derivatives in highly liquid markets and all hedge activities are conducted within Board approved policy. Comprehensive systems are in place and compliance is monitored closely. The Corporation uses derivatives solely for hedging and not for speculative purposes.

Gains and losses on derivatives used as hedges are accounted for on the same basis as the underlying physical exposures they are hedging. Accordingly, hedge gains and losses are included in the statement of financial performance when the gains and losses arising on the related primary exposures are recognised.

Gains and losses related to hedges for qualifying assets in respect of firm commitments are deferred and recognised as adjustments of carrying amounts when the hedged transaction occurs.

The Corporation uses the following derivative financial instruments to hedge risks - interest rate swaps, cross currency swaps, commodity swaps, forward foreign exchange contracts, forward rate agreements, foreign currency and commodity options, and bond futures contracts.

#### 1.15.1 Interest Rate Swaps

Interest payments and receipts under interest rate swap contracts are recognised on an accrual basis in the statement of financial performance as an adjustment to borrowing costs during the reporting period.

# NOTES TO THE FINANCIAL STATEMENTS continued

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

### 1.15 Derivative Financial Instruments continued

#### 1.15.2 Cross Currency Swaps

Interest payments and receipts under cross currency swaps are recognised on an accrual basis in the statement of financial performance. The carrying amounts of cross currency swaps, which comprise net receivables and payables are included in the statement of financial position.

#### 1.15.3 Commodity Swaps

Gains or losses arising upon entering into commodity swaps intended to hedge the purchase of commodities are recognised as adjustments to the carrying amount of the asset.

#### 1.15.4 Forward Foreign Exchange Contracts

The accounting for forward foreign exchange contracts is set out in Note 1.14.

#### 1.15.5 Forward Rate Agreements

Realised gains or losses on forward rate agreements are deferred in the statement of financial position and amortised to the statement of financial performance over the underlying term of the agreement.

#### 1.15.6 Foreign Currency and Commodity Options

The premium paid on foreign currency and commodity options is amortised over the period of the contracts and together with any realised gains or losses on exercising the options, is included in the measurement of the purchase.

#### 1.15.7 Bond Futures Contracts

Unrealised and realised gains and losses arising from entering into bond futures contracts are recognised in the statement of financial performance as an adjustment to borrowing costs in the reporting period they arise.

### 1.16 National Taxation Equivalent Regime

The Corporation entered into the National Taxation Equivalent Regime (NTER) environment on 1 July 2001 having previously operated under the state-based Taxation Equivalent Regime. While tax equivalent payments will continue to be remitted to State Treasury, the Corporation's tax is subject to Australian Taxation Office administration. The calculation of the liability in respect of these taxes is governed by the Income Tax Assessment Acts and the NTER guidelines as agreed by the State Government.

The Corporation has adopted the liability method of tax effect accounting procedures whereby the income tax expense shown in the statement of financial performance is based on the net profit before income tax adjusted for permanent differences.

# NOTES TO THE FINANCIAL STATEMENTS continued

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

### 1.16 National Taxation Equivalent Regime continued

Timing differences, which arise due to the different accounting periods in which items of revenue and expense are included in the determination of net profit before income tax and taxable income, are brought to account as either a provision for deferred income tax or as an asset described as future income tax benefit at the rate of income tax applicable to the reporting period in which the benefit will be received or the liability will become payable.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt. Future tax benefits in relation to tax losses are not brought to account unless the benefit can be regarded as being virtually certain of realisation.

### 1.17 Prepayments

Current and non-current prepayments comprise fuel for generation, lease and other payments. Prepaid expenses are charged to the statement of financial performance in the reporting period in which the associated benefit is consumed.

### 1.18 Community Service Obligations

Community Service Obligations (CSO's) are obligations to perform functions, on behalf of the State Government, that it is not in the commercial interests of the Corporation to perform. Where the Government agrees to reimburse the Corporation for the cost of CSO's, the entitlement to reimbursement is recognised in the statement of financial performance on a basis consistent with the associated CSO expenses. As at 30 June 2005 the Corporation recognised an entitlement of \$42.7 million (June 2004: \$34.7 million) for the reimbursement of CSO's including:

- Supply charge rebates
- Tariff migration reimbursement
- Interval Electricity Meter subsidy
- Caravan park rebates, and
- Air conditioning subsidy for seniors.

### 1.19 Repairs and Maintenance

Maintenance, repair costs and minor renewals are charged as expenses as incurred.

### 1.20 Comparatives

Where necessary, comparative information has been reclassified to achieve consistency in disclosure with current reporting period amounts and other disclosures.

# NOTES TO THE FINANCIAL STATEMENTS continued

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

### 1.21 Renewable Energy Certificates

The *Renewable Energy (Electricity) Act* which took effect on 1 April 2001, requires electricity wholesale purchasers to source specified amounts of electricity from Renewable Energy (RE) sources. The Act imposes an annual liability, on a calendar year basis, by applying the specified Renewable Power Percentage to relevant wholesale acquisitions.

The RE liability is extinguished by annual surrender of an equivalent number of Renewable Energy Certificates (RECs), with a penalty applying for any shortfall. The Corporation's liability is recognised at a value equivalent to the REC penalty. For the financial year ended 30 June 2005, \$7.7 million (June 2004: \$4.9 million) has been recognised as an expense in relation to the Corporation's renewable energy obligation.

The Corporation extinguishes its REC liability by the surrender of RECs that are either self produced or purchased in the open market. Self-produced RECs are recognised as an asset at a value equivalent to its net realisable value. RECs purchased from external sources are recognised as an asset at their purchase price.

### 1.22 Revision of Accounting Estimate

At the beginning of the financial year all developer and customer funded capital activity in the electricity distribution network was estimated to be complete. This was based on a historically short completion period for such capital work. Increased capital activity on the electricity distribution network is however leading to increases in the time taken to complete capital jobs and in the number of jobs incomplete at period end. Through enhanced information systems the Corporation can now more accurately estimate the actual percentage of completion for the large volume of jobs involved. For the financial year ended 30 June 2005 this has resulted in an additional \$30.1 million of developer and customer contributions revenue being deferred to future accounting periods to be matched with construction progress on the related electricity distribution network assets. The size of the amount deferred may vary in future periods subject to the level of customer and developer demand for capital work, the scope of works, and the lead time and duration of those works.

## NOTES TO THE FINANCIAL STATEMENTS continued

### 2. COST OF SALES

	30/06/05 \$'000	30/06/04 \$'000
Fuel and Electricity Purchases	636,323	524,809
Labour, Materials and Services	386,119	321,386
Depreciation	223,161	220,415
Other	12,646	10,450
	<u>1,258,249</u>	<u>1,077,060</u>

### 3. OTHER REVENUE FROM ORDINARY ACTIVITIES

Revenue from Operating Activities		
Developer and Customer Contributions*	109,839	87,727
External Chargeable Works	38,525	32,793
Network Access Charges	16,936	17,050
Account Fees	11,871	11,500
Revenue from Non-Operating Activities		
Generation Fuel Sales	32,467	26,588
Tariff Migration Reimbursement **	8,620	-
Business Ventures	8,078	8,891
Proceeds on Sale of Non-Current Assets	7,874	13,522
Grant Received	3,474	2,164
Renewable Energy Certificates	2,372	2,459
Lease Renewal Incentive	2,023	2,838
Interest	1,110	1,659
Property Rent	425	422
Other	15,124	22,788
	<u>258,738</u>	<u>230,401</u>

\* Developer and Customer Contributions revenue recognised is in respect of electricity network assets vested to the Corporation or constructed using cash contributions. As at 30 June 2005 cash contributions of \$58.9 million (comprising of \$34.8 million for Distribution and \$24.1 million for Transmission) have also been recognised as Deferred Income in the balance sheet and will be recognised as revenue in future reporting periods as construction of the related electricity network asset progresses. Contributions are taxable in the period they are recognised as revenue. In future reporting periods the Corporation will incur depreciation and interest costs in relation to the assets constructed.

The Corporation's Developer and Customer Contributions accounting policy is disclosed in Note 1.2.2. This should be read in conjunction with Note 1.22.

\*\* New revenue item representing reimbursement by the State Government of revenue losses resulting from the transfer of selected State Government agencies, conducting commercial activities in the Pilbara and remote areas, to the general business tariff.

## NOTES TO THE FINANCIAL STATEMENTS continued

### 4. OTHER EXPENDITURE FROM ORDINARY ACTIVITIES

	30/06/05	30/06/04
	\$'000	\$'000
Labour, Materials and Services	102,559	105,081
Generation Fuel Costs	29,843	19,857
Operating Lease Rentals	15,714	6,482
Renewable Energy Certificates	7,686	4,919
Depreciation	6,262	8,369
Written Down Value on Sale of Non-Current Assets	4,360	9,826
Bad Debts Written Off	2,351	1,968
Write Down of Other Financial Assets	609	1,646
Write Down of Plant and Equipment to Recoverable Amount	-	23,081
(Write Up)/Write down of Power Station Fuel Inventory	(2,035)	5,825
Other	5,351	9,744
	<u>172,700</u>	<u>196,798</u>

### 5. BORROWING COSTS

Domestic Currency Loans	147,078	151,038
Currency and Interest Rate Swaps	(675)	(3)
Forward Rate Agreements	289	(291)
Finance Lease Interest	150	-
Other	68	406
	<u>146,910</u>	<u>151,150</u>
Government Loan Guarantee Charge	3,854	4,046
	<u>150,764</u>	<u>155,196</u>
Less: Capitalised Borrowing Costs	4,019	7,032
	<u>146,745</u>	<u>148,164</u>

## NOTES TO THE FINANCIAL STATEMENTS continued

### 6. PROFIT FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE

	30/06/05 \$'000	30/06/04 \$'000
Profit Before Income Tax Expense is Arrived at After:		
<b>Crediting the Following Items</b>		
Net Profit/(Loss) on Sale of Non-Current Assets		
- Property, Plant and Equipment	3,514	3,712
- Investments	-	(16)
<b>Charging the Following Items</b>		
Bad Debts		
- Written off to the Statement of Financial Performance	2,351	1,968
- (Decrease)/Increase in Provision for Doubtful Debts	(146)	315
Depreciation and Amortisation		
- Plant and Equipment	219,686	219,775
- Buildings	11,465	10,639
- Capitalised	(2,162)	(1,676)
- Leasehold Improvements	46	46
- Leased Assets	388	-
Leasing Costs		
- Operating Lease Rentals	15,714	6,482
Auditors' Remuneration		
Audit Services for Annual Accounts		
- External Auditors of the Corporation	247	230

### Significant Items

#### 2004/2005

As at the reporting date there are no significant items.

#### 2003/2004

##### **Fuel Price Renegotiation**

During the financial year ended 30 June 2004 fuel and electricity purchases increased from \$522.3 million to \$524.3 million. This increase was less than proportional to the rate of increase in sales, due mainly to renegotiated contracts, some of which related to the prior year. The financial impact was brought to account in 2003/2004.

## NOTES TO THE FINANCIAL STATEMENTS continued

### 6. PROFIT FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE continued

#### Significant Items continued

##### 2003/2004 continued

##### **Write-Down of Plant and Equipment to Recoverable Amount**

Since late 1999 the Corporation has been trialling a telecommunications initiative under the name "Bright Telecommunications". The aim of the pilot project was to develop a new broadband access network providing customers with fully independent telephony services, affordable high-speed internet access and other advanced services. The pilot project involved the deployment of a broadband access network in conjunction with the undergrounding of low voltage distribution assets. This included conducting service trials in the suburbs of South Perth and Como. In addition, a low visibility aerial deployment trial was completed in the suburb of Victoria Park.

The pilot phase of this project was completed during 2003/2004 and the results assessed, including the requirements to progress to a full commercial operation. On 21 July 2004 the Directors decided to close the project. Directors subsequently assessed the disposal value of the assets as up to \$1 million, but because the costs associated with an orderly wind up of operations were anticipated to exceed the sale proceeds, the recoverable amount of these assets was assessed as zero. Based on this assessment the Directors wrote down the assets by \$23.1 million to their recoverable amount.

The financial impact for the year ended 30 June 2004 was a \$23.1 million increase in other expenditure from ordinary activities.

A detailed assessment of disposal options was conducted during 2004/2005 from which it was concluded that a sale of the Bright business as a going concern may yield a higher return than a sale of the assets of the project. As at 30 June 2005 a sale of the Bright Telecommunications project is in progress.

### 7. INCOME TAX EXPENSE

	30/06/05 \$'000	30/06/04 \$'000
The Prima Facie Tax on Profit is Reconciled to Income Tax Provided in the Accounts as follows:		
Profit Before Income Tax Expense	296,932	351,185
Income Tax Calculated at 30%	89,080	105,356
Tax Effect of Permanent Differences		
- Provision for Decommissioning Costs	2,669	3,238
- Non-Assessable Profit on Sale of Non-Current Assets	(551)	(424)
- Research and Developments Costs	(451)	(450)
- Non-Deductible Depreciation of Buildings	576	580
- Non-Deductible Depn/Amortn/Bright/Other	197	579
- Other	(723)	725
Total Tax Effect of Permanent Differences	1,717	4,248
Income Tax Expense	90,797	109,604
Total Income Tax Expense Comprises the Following:		
<i>Additions to:</i> Provision for Income Tax	75,141	106,871
Provision for Deferred Income Tax	13,682	15,940
Future Income Tax Benefit	-	(13,207)
<i>Reduction to:</i> Future Income Tax Benefit	1,974	-
	90,797	109,604

# NOTES TO THE FINANCIAL STATEMENTS continued

## 8. Segment Information

	GENERATION		NETWORKS		RETAIL		PILBARA		REGIONAL POWER		UNALLOCATED		CONSOLIDATED	
	30/06/05 \$'000	30/06/04 \$'000	30/06/05 \$'000	30/06/04 \$'000	30/06/05 \$'000	30/06/04 \$'000	30/06/05 \$'000	30/06/04 \$'000	30/06/05 \$'000	30/06/04 \$'000	30/06/05 \$'000	30/06/04 \$'000	30/06/05 \$'000	30/06/04 \$'000
<b>STATEMENT OF FINANCIAL PERFORMANCE</b>														
External Revenue	69,063	60,376	170,155	152,572	1,512,572	1,445,418	51,555	43,040	70,320	66,185	828	5,616	1,874,626	1,773,207
Inter-Segment Revenue	851,091	803,549	483,716	474,580	5,093	4,887	143	1,716	66	449	25,859	36,937	1,365,968	1,322,118
<b>Total Revenue</b>	<b>920,154</b>	<b>863,925</b>	<b>653,871</b>	<b>627,152</b>	<b>1,517,798</b>	<b>1,450,305</b>	<b>51,698</b>	<b>44,756</b>	<b>70,386</b>	<b>66,634</b>	<b>26,687</b>	<b>42,553</b>	<b>3,240,594</b>	<b>3,095,325</b>
External Expenditure	(800,392)	(696,633)	(306,035)	(253,947)	(119,112)	(107,385)	(23,356)	(20,240)	(116,246)	(99,270)	(65,808)	(96,383)	(1,430,949)	(1,273,858)
Inter-Segment Expenditure	(48,497)	(45,503)	(24,177)	(37,218)	(1,270,819)	(1,207,468)	(8,740)	(11,152)	(9,155)	(10,639)	(4,580)	(10,138)	(1,365,968)	(1,322,118)
<b>Total Expenditure</b>	<b>(848,889)</b>	<b>(742,136)</b>	<b>(330,212)</b>	<b>(291,165)</b>	<b>(1,389,931)</b>	<b>(1,314,853)</b>	<b>(32,096)</b>	<b>(31,392)</b>	<b>(125,401)</b>	<b>(109,909)</b>	<b>(70,388)</b>	<b>(106,521)</b>	<b>(2,796,917)</b>	<b>(2,595,976)</b>
<b>Segment Results</b>	<b>71,265</b>	<b>121,789</b>	<b>323,659</b>	<b>335,987</b>	<b>127,867</b>	<b>135,452</b>	<b>19,602</b>	<b>13,364</b>	<b>(55,015)</b>	<b>(43,275)</b>	<b>(43,701)</b>	<b>(63,968)</b>	<b>443,677</b>	<b>499,349</b>
Borrowing Costs													(146,745)	(148,164)
<b>Profit from Ordinary Activities before Income Tax Expense</b>													<b>296,932</b>	<b>351,185</b>
Income Tax Expense													(90,797)	(109,604)
<b>NET PROFIT</b>													<b>206,135</b>	<b>241,581</b>
Depreciation	124,937	128,819	88,711	83,013	969	2,752	3,396	3,354	7,417	7,440	3,993	3,406	229,423	228,784

# NOTES TO THE FINANCIAL STATEMENTS continued

## 8. Segment Information continued

	GENERATION		NETWORKS		RETAIL		PILBARA		REGIONAL POWER		UNALLOCATED		CONSOLIDATED	
	30/06/05	30/06/04	30/06/05	30/06/04	30/06/05	30/06/04	30/06/05	30/06/04	30/06/05	30/06/04	30/06/05	30/06/04	30/06/05	30/06/04
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>STATEMENT OF FINANCIAL POSITION</b>														
Segment Assets	1,699,507	1,762,704	2,675,941	2,368,004	201,290	187,259	108,233	104,198	125,964	114,614	27,805	52,661	4,838,740	4,589,440
Segment Liabilities	(292,419)	(285,879)	(292,913)	(265,249)	(58,667)	(67,486)	(6,532)	(5,879)	(28,636)	(25,211)	(10,200)	(22,441)	(689,367)	(672,145)
<b>Net Assets Before Borrowings</b>	<b>1,407,088</b>	<b>1,476,825</b>	<b>2,383,028</b>	<b>2,102,755</b>	<b>142,623</b>	<b>119,733</b>	<b>101,701</b>	<b>98,319</b>	<b>97,328</b>	<b>89,403</b>	<b>17,605</b>	<b>30,220</b>	<b>4,149,373</b>	<b>3,917,295</b>
Borrowings													(2,450,569)	(2,325,855)
<b>NET ASSETS</b>													<b>1,698,804</b>	<b>1,591,440</b>
Acquisitions of Non-Current Assets	29,543	36,280	373,678	256,982	1,630	1,102	6,691	4,737	8,347	12,784	10,072	(1,595)	429,961	310,290

### Segment Reporting

Segment revenues, expenditures, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise corporate office and Information Technology Group revenues, expenditures, assets and liabilities.

Western Power Corporation operates as a vertically integrated business, but in accordance with the disclosure requirements of the Electricity Corporation Act 1994 the following segments are presented -

#### Industry Segment

The major products/services from which the above segments derive revenue are:

Generation - Generates and sells electricity to the Retail segment;

Networks - Transports and distributes electricity from generators to the Retail segment and third party users of the network.

Retail - Purchases and sells electricity to customers in the South West Interconnected System.

Pilbara Power - Purchases, transports, distributes and sells electricity in Western Australia's Pilbara System; and

Regional Power - Generates, purchases, distributes and sells electricity in Western Australia's remote areas.

#### Geographical Segments

The Corporation operates entirely in Australia.

Significant inter-segment revenues are earned by the Generation and Network segments. Inter-segment Generation revenues are based on an internal pricing mechanism and inter-segment Network revenues are based on published network access price schedules. The result of the Retail segment is significantly influenced by inter-segment expenditure in respect of electricity purchases from the Generation segment and access charges from the Network segment.

The State Government has announced a plan to separate Western Power Corporation into four new corporations from 1 April 2006. The process of establishing these new entities will require the allocation of the Corporation's assets, liabilities, revenues, expenses, and contracts. The resulting financial arrangements may differ significantly from those presented above as arrangements such as vesting contracts, tariff equalisation funds, service level agreements and other such mechanisms will be finalised during the course of 2005/06.

## NOTES TO THE FINANCIAL STATEMENTS continued

### 9. CASH ASSETS

	30/06/05 \$'000	30/06/04 \$'000
Cash at Bank	13,686	26,390
Domestic Currency Deposits	5,000	3,000
Foreign Currency Deposits	57	159
	<u>18,743</u>	<u>29,549</u>

### 10. RECEIVABLES

Trade Debtors	233,391	208,368
Less: Provision for Doubtful Debts	3,259	3,405
	<u>230,132</u>	<u>204,963</u>
Other Debtors	8,018	11,759
	<u>238,150</u>	<u>216,722</u>

### 11. INVENTORIES

Power Station Fuels - at Cost	62,493	38,550
Power Station Fuels - at Net Realisable Value *	-	9,684
	<u>62,493</u>	<u>48,234</u>
Material Stores - at Cost	79,659	53,184
Less: Provision for Obsolete Stock	272	884
	<u>79,387</u>	<u>52,300</u>
Work in Progress - at Cost	575	363
Renewable Energy Certificates	3,394	2,519
Other	82	-
	<u>145,931</u>	<u>103,416</u>

\* In the financial years ended 30 June 2003 and 30 June 2004 coal stocks held for delivery against firm sales contracts were written down to their net realisable value. These sale contracts expired on 30 June 2005. The unsold quantity of coal has been restated back to cost of \$5.2 million. This has resulted in a write up of \$2.0 million.

# NOTES TO THE FINANCIAL STATEMENTS continued

## 12. OTHER ASSETS

	30/06/05 \$'000	30/06/04 \$'000
<b>Current</b>		
Prepayments	13,244	17,006
<b>Non-Current</b>		
Prepayments	8,086	13,936
Other	3,706	676
	<u>11,792</u>	<u>14,612</u>

## 13. PROPERTY, PLANT AND EQUIPMENT

<b>Plant and Equipment</b>		
Plant and Equipment - at Cost	6,139,933	5,818,396
Less: Accumulated Depreciation	2,551,971	2,340,982
Plant and Equipment - at Cost	3,587,962	3,477,414
Plant and Equipment - at Recoverable Amount	8,077	8,077
Less: Accumulated Depreciation	1,775	731
Plant and Equipment - at Recoverable Amount	6,302	7,346
<b>Plant and Equipment - Net Book Value</b>	<u>3,594,264</u>	<u>3,484,760</u>
<b>Land - Net Book Value</b>	48,160	39,554
<b>Buildings</b>		
Buildings	309,648	308,100
Less: Accumulated Depreciation	133,860	122,847
<b>Buildings - Net Book Value</b>	<u>175,788</u>	<u>185,253</u>
<b>Leasehold Improvements</b>		
Leasehold Improvements	458	458
Less: Accumulated Depreciation	161	115
<b>Leasehold Improvements - Net Book Value</b>	<u>297</u>	<u>343</u>
<b>Works under Construction - Net Book Value</b>	517,096	420,386
<b>TOTAL PROPERTY, PLANT AND EQUIPMENT</b>	<u>4,335,605</u>	<u>4,130,296</u>

### Valuations

During the financial year ended 30 June 2004 an independent valuation of land and buildings on the basis of current use for land and market value for buildings was conducted. The independent valuation valued land and buildings at \$426.0 million as at 30 June 2004.

# NOTES TO THE FINANCIAL STATEMENTS continued

## 13.PROPERTY, PLANT AND EQUIPMENT continued

### Reconciliation

Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below:

	30/06/05 \$'000	30/06/04 \$'000
<b>Plant and Equipment</b>		
Opening Balance	3,484,760	3,283,172
Additions	333,159	435,076
Disposals	(3,969)	(7,239)
Depreciation	(219,686)	(219,775)
Write Down to Recoverable Amount	-	(6,474)
<b>Plant and Equipment - Net Book Value</b>	<b>3,594,264</b>	<b>3,484,760</b>
<b>Land</b>		
Opening Balance	39,554	27,478
Additions	8,699	12,686
Disposals	(93)	(610)
<b>Land - Net Book Value</b>	<b>48,160</b>	<b>39,554</b>
<b>Buildings</b>		
Opening Balance	185,253	127,843
Additions	2,298	68,236
Disposals	(298)	(187)
Depreciation	(11,465)	(10,639)
<b>Buildings - Net Book Value</b>	<b>175,788</b>	<b>185,253</b>
<b>Leasehold Improvements</b>		
Opening Balance	343	389
Amortisation	(46)	(46)
<b>Leasehold Improvements - Net Book Value</b>	<b>297</b>	<b>343</b>
<b>Works under Construction</b>		
Opening Balance	420,386	602,900
Additions	96,710	(165,907)
Write Down to Recoverable Amount	-	(16,607)
<b>Works Under Construction - Net Book Value</b>	<b>517,096</b>	<b>420,386</b>
<b>TOTAL PROPERTY, PLANT AND EQUIPMENT</b>	<b>4,335,605</b>	<b>4,130,296</b>

## NOTES TO THE FINANCIAL STATEMENTS continued

### 14. OTHER FINANCIAL ASSETS

	30/06/05 \$'000	30/06/04 \$'000
<b>Non-Current</b>		
Other *	752	1,342

\* In the financial year ended 30 June 2005 the investment shares in Ceramic Fuel Cells Limited were written down by \$0.6 million (June 2004 \$1.0 million) to its market share price of \$0.56.

### 15. PAYABLES

<b>Current</b>		
Trade Creditors	141,040	113,107
Other Creditors	21,418	11,483
	<u>162,458</u>	<u>124,590</u>
<b>Non-Current</b>		
Contributory Extension Scheme (CES) *	31,272	32,783

\* This represents contributions received from customers to extend specific electricity supplies. These deposits are progressively refunded as other customers are connected to existing supply extension schemes. By 2022, when the scheme finishes, all scheme members will have their contributions refunded.

### 16. INTEREST BEARING LIABILITIES

<b>Non-Current</b>		
Domestic Currency Loans	2,40,569	2,325,855

The above liabilities are ultimately secured by Government Guarantee.

All domestic currency loans are governed by a facility agreement, which provides the Corporation with the full discretion to refinance all or any part of maturing debt. Therefore the amount of any current domestic currency loans represents the total debt expected to be repaid within twelve months, with all remaining debt classified as non-current. For domestic currency loans maturing over the next twelve months it is the intention of the Corporation to refinance all maturing debt under the facility agreement.

## NOTES TO THE FINANCIAL STATEMENTS continued

### 17. TAX LIABILITIES

	30/06/05	30/06/04
	\$'000	\$'000
<b>Current</b>		
Income Tax Provision	(2,939)	42,177
Goods and Services Tax	9,609	13,357
Other	435	1,162
	<u>7,105</u>	<u>56,696</u>
<b>Non-Current</b>		
Deferred Income Tax	<u>157,778</u>	<u>144,096</u>

### 18. PROVISIONS

<b>Current</b>		
Provision for:		
Dividends		
Opening Balance	41,213	55,600
Provisions		
Final Dividend	51,601	41,213
Interim Dividend	54,182	62,300
Payments	(95,395)	(117,900)
Closing Balance	<u>51,601</u>	<u>41,213</u>
Employee Entitlements	51,615	58,356
Decommissioning Costs *		
Opening Balance	11,839	7,273
Provisions	113	5,149
Payments	(8,378)	(583)
Closing Balance	<u>3,574</u>	<u>11,839</u>
Other		
Opening Balance	1,054	-
Provisions	330	1,318
Payments	(1,010)	(264)
Closing Balance	<u>374</u>	<u>1,054</u>
	<u>107,164</u>	<u>112,462</u>

\* This item represents estimated costs of rehabilitation and disposal of the decommissioned East Perth, Bunbury and South Fremantle Power Stations; and an estimate for the decommissioning costs of Kwinana Stage B and specific Regional generating assets.

## NOTES TO THE FINANCIAL STATEMENTS continued

### 18. PROVISIONS continued

	30/06/05 \$'000	30/06/04 \$'000
<b>Non-Current</b>		
Provision for:		
Employee Entitlements	19,603	19,342
Superannuation		
Opening Balance	54,676	51,045
Provisions	24,548	21,633
Payments	(19,834)	(18,002)
Closing Balance	59,390	54,676
Decommissioning Costs *		
Opening Balance	71,965	55,814
Provisions	256	16,151
Payments	-	-
Closing Balance	72,221	71,965
Other		
Opening Balance	4,001	4,529
Provisions	(264)	(528)
Payments	-	-
Closing Balance	3,737	4,001
	<u>154,951</u>	<u>149,984</u>

\* This item represents estimated costs of rehabilitation and disposal of the decommissioned South Fremantle Power Station; an estimate for the decommissioning costs of Kwinana Stages A and B, Muja Stages A and B and specific Pilbara and Regional generating assets.

### 19. OTHER LIABILITIES

<b>Current</b>		
Deferred Income - Developer & Cust. Contributions	58,854	28,841
Deferred Income - Other	5,167	4,543
Accrued Interest	2,342	2,479
Lease Renewal Incentive	-	2,830
Other	2,252	1,655
	<u>68,615</u>	<u>40,348</u>
<b>Non-Current</b>		
Deferred Income - Developer & Cust. Contributions	-	4,790
Lease Renewal Incentive	-	2,765
Other	24	3,631
	<u>24</u>	<u>11,186</u>

## NOTES TO THE FINANCIAL STATEMENTS continued

### 20.EQUITY

	30/06/05	30/06/04
	\$'000	\$'000
Retained Profits at the Beginning of the Financial Year	1,580,683	1,442,615
Net Profit After Income Tax Expense	206,135	241,581
Less: Dividends Provided for or Paid	105,783	103,513
<b>Retained Profits at the End of the Financial Year</b>	<b>1,681,035</b>	<b>1,580,683</b>
Contributed Equity *	17,769	10,757
<b>Total Equity</b>	<b>1,698,804</b>	<b>1,591,440</b>

\* This amount represents the State Government's equity contribution to the Corporation in support of the Mid West Gas Lateral and Tubridgi to Onslow Gas Pipeline projects, the Rural Power Improvement Program, the undergrounding of a 132kV transmission line to Burswood and the Esperance nine mile beach wind farm. No shares have been allotted or issued for the equity contribution.

### 21.LEASE LIABILITY AND LEASE COMMITMENTS

Future Lease Commitments		
Operating Leases:		
Not later than one year	3,300	6,342
Later than one year and not later than five years	5,722	6,745
Later than five years	652	1,082
	<u>9,674</u>	<u>14,169</u>

### 22.CAPITAL EXPENDITURE COMMITMENTS

Total capital commitments contracted for at balance date, including the retrospective underground project and other major capital expenditure programs, but not provided for in the accounts is as follows:

Future Capital Commitments		
Not later than one year	140,046	78,754
Later than one year and not later than five years	4,310	5,596
Later than five years	-	-
	<u>144,356</u>	<u>84,350</u>

# NOTES TO THE FINANCIAL STATEMENTS continued

## 23. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The Corporation's policy is to disclose details of contingent liabilities and contingent assets where the probability of future payments/receipts is not considered remote, as well as details of contingent liabilities and contingent assets, which although considered remote, the Directors of the Corporation consider should be disclosed. The Directors are of the opinion that provisions are not required in respect of these matters as it is unlikely that a future sacrifice/inflow of economic benefits will be required.

### **Contingent liabilities**

#### *General and Civil (Australia) Pty Ltd (in liquidation)*

An action is to be commenced against the Corporation by General and Civil (Australia) Pty Ltd (in liquidation). It is alleged the Corporation is in breach of contract as a result of the Corporation terminating its contract with General and Civil (Australia) Pty Ltd. The claim is for \$7,000,000 and also relates to services provided under the contract. The allegation is denied and the action will be defended.

#### *Pacific Western Pty Ltd*

Pacific Western Pty Ltd have lodged a claim for \$2,470,000 against the Corporation. Pacific Western Pty Ltd claim this is money owed for work completed under the operation and maintenance agreement for Collie Power Station. The Corporation has also made a claim against Pacific Western Pty Ltd. Refer to the contingent assets section.

#### *Ericsson Australia Pty Ltd*

Ericsson Australia Pty Ltd have lodged a claim for approximately \$310,000 against the Corporation. The claim relates to a dispute with Bright Telecommunications over services and equipment.

#### *Contractual Breach*

An action against the Corporation has been undertaken by the former Chief Executive Officer, Dr WS van der Mye seeking additional employment payments of \$462,011 and unquantified amounts for breach of contract, interest and legal costs. The allegation is denied and the action is being defended.

#### *Newmont Power Pty Ltd*

An action against the Corporation as fifth defendant has been undertaken by Newmont Power Pty Ltd for damage to a power station as a result of alleged breach of the Interim Access Agreement. At the time of making this statement we are unable to ascertain the quantum.

#### *Bush Fires*

Two actions against the Corporation have been undertaken for losses and damages as a result of bush fires in the Serpentine (2 February 2002) and Gingin (20 December 2002) areas. It is alleged the bush fires were the result of the Corporation's negligence. Both allegations are denied and the actions are being defended.

On 2 December 2004 bush fires occurred in Esperance and Badjebup. The Corporation's liability cannot be determined until all investigations, including those by insurers, are complete. Insurance arrangements provide for a cap on the Corporation's liability in respect of each event.

# NOTES TO THE FINANCIAL STATEMENTS continued

## 23. CONTINGENT LIABILITIES AND CONTINGENT ASSETS continued

### Contingent Assets

*Pacific Western Pty Ltd*

On 24 March 2005 Pacific Western terminated the operations and maintenance contract in respect of Collie A Power Station. The Corporation has lodged a claim against Pacific Western Pty Limited for \$4,992,000 being for the amount of loss or damage directly attributable to the early termination.

## 24. REMUNERATION OF DIRECTORS AND EXECUTIVE DISCLOSURES

### Principles Used to Determine the Nature and Amount of Remuneration

Remuneration approval protocols are as follows:

Specified Non-Executive Directors:	The Minister for Energy approves the remuneration of all Non-Executive Directors.
Managing Director:	The Board subject to the concurrence of the Minister for Energy approves the remuneration of the Managing Director (also referred to as the CEO)..
Specified Executive Officers:	The Board on recommendation of the Managing Director approves the remuneration of all Specified Executive Officers.

The Remuneration Policy is to:

- remunerate individuals in accordance with performance and responsibility;
- ensure consistent decision making on individual remuneration adjustments;
- establish flexible remuneration arrangements; and
- establish and maintain salary ranges comparable to other companies of similar size and industry.

### Specified Non-Executive Directors

Payment to Specified Non Executive Directors consists of a Base Fee, a Committee Fee and superannuation of 9% of the Base Fee. The fees must be approved by the Minister for Energy annually.

### Managing Director and Specified Executives

The Managing Director and Specified Executives pay and reward framework has three components:

- Base pay and benefits;
- Superannuation; and
- Performance incentive (for the Managing Director only).

### Performance Incentive

At the Board's absolute discretion with the concurrence of the Minister, the Managing Director is eligible for up to 10% of Remuneration for the achievement of specific performance targets in the following areas: Strategic Leadership, Operational Management, Team Building and Leadership, Commercial Acumen and Customer Management, Strong Financial Analysis Ability, Media and Public Relations and Shareholder Relationship.

# NOTES TO THE FINANCIAL STATEMENTS continued

## 24.REMUNERATION OF DIRECTORS AND EXECUTIVE DISCLOSURES continued

Details of the nature and amount of each element of the emolument for Specified Directors<sup>(1)</sup> during 2004/05 are detailed below:

	Primary Benefits			Post Employment Benefits	Other Benefits	Total Benefits
	Salary & Fees \$	Bonus \$	Non-Monetary <sup>a</sup> \$	Superannuation <sup>b</sup> \$	Retirement & Termination Benefits \$	Total \$
<b>Non-Executive Specified Directors</b>						
ND Hamilton	Chairman					
2004/05	104,006	-	666	9,147	-	113,819
2003/04	63,719	-	668	5,866	-	70,253
JA Seabrook	Deputy Chair					
2004/05	66,813	-	666	5,829	-	73,308
2003/04	45,915	-	668	4,206	-	50,789
AJ Mulgrew	Director					
2004/05	51,868	-	-	4,395	-	56,263
2003/04	40,152	-	-	3,429	-	43,581
SA Wilson	Director					
2004/05	16,441	-	-	37,815	-	54,256
2003/04	33,157	-	-	9,590	-	42,747
JJ O'Connor	Director					
2004/05	30,272	-	-	22,365	-	52,637
2003/04	19,869	-	-	6,867	-	26,736
CE Stockwell	Director					
2004/05	48,290	-	-	4,347	-	52,637
2003/04	24,563	-	-	2,173	-	26,736
HR Collins	Director (Appointed 14 September 2004)					
2004/05	37,619	-	528	3,436	-	41,583
MJ Davies	Director (Appointed 14 September 2004)					
2004/05	38,146	-	-	3,436	-	41,582
Others Reported in 2003/04	113,737	-	556	10,288	-	124,581
<b>Executive Specified Directors</b>						
AM Iannello	Chief Executive Officer (Appointed 19 July 2004)					
2004/05	400,093	-	584	32,209	-	432,886
HR Collins	Chief Executive Officer (Resigned 21 July 2004)					
2004/05	19,431	-	187	1,709	10,382	31,709
2003/04	120,523	-	743	10,598	-	131,864
Others Reported in 2003/04	230,898	-	41,181	32,421	-	304,500
<b>Total Specified Directors</b>						
<b>2004/05</b>	<b>812,979</b>	<b>-</b>	<b>2,631</b>	<b>124,688</b>	<b>10,382</b>	<b>950,680</b>
<b>2003/04</b>	<b>692,533</b>	<b>-</b>	<b>43,816</b>	<b>85,438</b>	<b>-</b>	<b>821,787</b>

<sup>a</sup> Non-monetary benefits represent motor vehicle benefits and electricity benefits.

<sup>b</sup> Superannuation represents employer and employee contributed superannuation.

<sup>(1)</sup> Specified Director means a person who was, at any time during the reporting period, a director of the Corporation.

# NOTES TO THE FINANCIAL STATEMENTS continued

## 24.REMUNERATION OF DIRECTORS AND EXECUTIVE DISCLOSURES continued

Details of the nature and amount of each element of the emolument for Specified Executives<sup>(2)</sup> during 2004/05 are detailed below:

	Primary Benefits			Post Employment Benefits	Other Benefits	Total Benefits
	Salary & Fees \$	Bonus \$	Non-Monetary <sup>a</sup> \$	Superannuation <sup>b</sup> \$	Retirement & Termination Benefits \$	Total \$
<b>Specified Executives</b>						
DT Aberle	General Manager Networks					
2004/05	264,328	-	30,326	39,156	-	333,810
2003/04	211,567	6,850	21,604	36,077	-	276,098
JE Lillywhite	General Manager Generation					
2004/05	230,766	-	19,498	44,354	-	294,618
2003/04	196,651	6,850	25,689	42,186	-	271,376
N Ninkov	General Manager Finance, Risk Management and Service Delivery					
2004/05	233,177	-	25,695	30,020	-	288,892
2003/04	221,949	6,850	29,361	26,824	-	284,984
TH James	General Manager Retail					
2004/05	187,849	-	20,626	35,196	-	243,671
2003/04	148,356	6,850	19,090	31,356	-	205,652
KD Bowron	General Manager Regional					
2004/05	192,247	-	16,931	32,537	-	241,715
2003/04	145,795	6,850	16,872	30,379	-	199,896
Others reported in 2003/04	576,153	32,400	111,705	118,631	562,360	1,401,249
<b>Total Specified Executives</b>						
<b>2004/05</b>	<b>1,108,367</b>	<b>-</b>	<b>113,076</b>	<b>181,263</b>	<b>-</b>	<b>1,402,706</b>
<b>2003/04</b>	<b>1,500,471</b>	<b>66,650</b>	<b>224,321</b>	<b>285,453</b>	<b>562,360</b>	<b>2,639,255</b>

<sup>a</sup> Non-monetary benefits represent motor vehicle benefits and electricity benefits.

<sup>b</sup> Superannuation represents employer and employee contributed superannuation.

<sup>(2)</sup> Specified Executive means one of the five or more executives who:

<sup>a</sup> have the highest emoluments/greatest authority for managing the economic entity;

<sup>b</sup> are employed at any time during the reporting period by the entity; and

<sup>c</sup> are not specified directors.

Executive means a person who is directly accountable and responsible for the strategic direction and operational management of the entity.

## NOTES TO THE FINANCIAL STATEMENTS continued

### 25. RECONCILIATION OF NET PROFIT AFTER INCOME TAX TO NET CASH PROVIDED BY OPERATING ACTIVITIES

	30/06/05 \$'000	30/06/04 \$'000
<b>Net Profit</b>	206,135	241,581
<i>Add/(less) items classified as investing/financing activities:</i>		
Proceeds on Sale of Non-Current Assets	(7,874)	(13,522)
Written Down Value on Sale of Non-Current Assets	4,360	9,826
Share of Associates Net Loss	-	225
Developer and Customer Contributions	(93,411)	(74,501)
Foreign Exchange (Gains)/Losses	(84)	3,446
Capitalised Borrowing Costs	(4,019)	(7,032)
<i>Add/(less) non-cash items:</i>		
Depreciation	228,989	228,738
Amortisation - Leased Assets	434	46
Write down of Other Financial Assets and PP&E	609	24,727
Write up of Inventory	(2,035)	-
Contributed Assets	(16,185)	(13,031)
<i>Change in assets and liabilities:</i>		
(Increase)/Decrease in Debtors	(21,790)	(7,987)
(Increase)/Decrease in Prepayments	9,611	(5,107)
Increase/(Decrease) in Accounts Payable	28,921	16,847
(Increase)/Decrease in Inventories	(40,480)	2,386
Increase/(Decrease) in Employee Provisions	(1,450)	14,830
Increase/(Decrease) in Other Provisions	(8,952)	13
(Increase)/Decrease in Accrued Interest Receivable	228	(212)
Increase/(Decrease) in Accrued Interest Payable	(137)	(31,240)
Increase/(Decrease) in Deferred Income	(5,081)	22,353
Increase/(Decrease) in Income Taxes Payable	(29,461)	15,966
<b>Net Cash Provided by Operating Activities</b>	<b>248,328</b>	<b>428,352</b>
<b>Reconciliation of Cash Assets at the End of the Financial Year</b>		
Cash at Bank	13,686	26,390
Domestic Currency Deposits	5,000	3,000
Foreign Currency Deposits	57	159
<b>Cash Assets at End of the Financial Year</b>	<b>18,743</b>	<b>29,549</b>

#### Credit Standby Facilities

The Corporation has in place two borrowing facilities with Western Australian Treasury Corporation, a AUD fixed rate facility with a limit of \$3,100 million, and a short term US facility with a limit of \$205 million USD. As at 30 June 2005 the unused portion of the AUD facility was \$649.5 million and the USD facility was undrawn.

The planned usage of the facilities is governed by the Corporation's Strategic Development Plan agreed with the Minister of Energy.

The Corporation has an intraday credit arrangement of \$6.0 million with its bankers. As at 30 June 2005 the credit facility was undrawn.

In addition to the above the Corporation has arranged a stand-by overdraft facility of \$2.0 million with its bankers. As at 30 June 2005 the overdraft facility was undrawn.

# NOTES TO THE FINANCIAL STATEMENTS continued

## 26. FINANCIAL INSTRUMENTS

### (a) Interest Rate Risk

The Corporation is exposed to interest rate risk through primary financial assets and liabilities, modified through derivative financial instruments such as interest rate swaps, forward rate agreements, bond futures contracts and cross currency swaps.

Interest rate swap contracts are used to manage interest rate exposures. Under an interest rate swap contract, the Corporation agrees to exchange at specified intervals, the differences between fixed rate and floating rate interest amounts calculated by reference to an agreed notional principal amount. These contracts convert a portion of floating interest rate exposures to fixed interest rate exposures to reduce the volatility of interest costs between reporting dates.

Forward rate agreements are used to manage interest rate exposures on domestic currency loans. Under a forward rate agreement, the Corporation agrees to exchange on a specified settlement date, the difference between an agreed interest rate and a floating interest rate calculated by reference to an agreed notional principal amount. These agreements fix interest rates on domestic currency loans to provide protection against increasing interest rates. No forward rate agreements were outstanding as at 30 June 2005 (June 04: nil).

Bond futures contracts are used to manage the strategic positioning of the domestic currency loans portfolio. Under a bond futures transaction, the Corporation agrees to buy or sell a specific quantity of bond futures contracts at an agreed price on a fixed settlement date. The Corporation only transacts in financial bond futures through the Sydney Futures Exchange. These contracts allow a physical debt position to be replicated at a lower cost than is possible by buying and selling physical bonds. No bond futures contracts were outstanding as at 30 June 2005 (June 04: nil).

Cross currency swap contracts are used to hedge foreign currency loans. Under cross currency swaps, the Corporation initially exchanges a principal amount in foreign currency for a principal amount in Australian dollars. At specified intervals the Corporation pays interest amounts in Australian dollars and receives interest in foreign currency. The principal and interest exchanges are matched to the exchanges on foreign currency loans. Cross currency swaps allow the Corporation to borrow offshore and minimise exposure to foreign interest rates and exchange rate fluctuations. Cross currency swaps are normally arranged for a period of three years. No cross currency swaps were outstanding as at 30 June 2005 (June 04: nil).

The subsequent tables summarise the Corporation's exposure to interest rate risk, and the weighted average interest rates on financial instruments at the reporting date. The following financial instruments, where they are not interest bearing, are omitted: receivables, accounts payable, dividends payable and annual leave employee entitlements.

# NOTES TO THE FINANCIAL STATEMENTS continued

## 26. FINANCIAL INSTRUMENTS continued

### (a) Interest Rate Risk continued

30/06/05	Weighted Average Interest Rate <sup>1</sup>	Floating Interest Rate \$'000	Fixed Interest Rate Maturing			Total \$'000
			Within One Year \$'000	One to Five Years \$'000	Over Five Years \$'000	
<b>Financial Assets</b>						
Cash at Bank	5.25%	13,686	-	-	-	13,686
Domestic Currency Deposits	5.40%	5,000	-	-	-	5,000
Foreign Currency Deposits	-	57	-	-	-	57
Interest Rate Swaps <sup>2</sup>	5.78%	229,700	-	-	-	229,700
<b>TOTAL ASSETS</b>		<b>248,443</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>248,443</b>
<b>Financial Liabilities</b>						
Employee Entitlements						
Long Service Leave	5.03%	39,333	-	-	-	39,333
Domestic Currency Loans						
Short Term	5.59%	-	80,000	-	-	80,000
Long Term <sup>3</sup>	6.46%	-	361,118	1,486,151	345,000	2,192,269
Floating Rate Notes <sup>4</sup>	5.70%	178,300	-	-	-	178,300
Interest Rate Swaps <sup>2</sup>	5.35%	-	60,000	159,700	10,000	229,700
<b>TOTAL LIABILITIES</b>		<b>217,633</b>	<b>501,118</b>	<b>1,645,851</b>	<b>355,000</b>	<b>2,719,602</b>

30/06/04	Weighted Average Interest Rate <sup>1</sup>	Floating Interest Rate \$'000	Fixed Interest Rate Maturing			Total \$'000
			Within One Year \$'000	One to Five Years \$'000	Over Five Years \$'000	
<b>Financial Assets</b>						
Cash at Bank	5.00%	26,390	-	-	-	26,390
Domestic Currency Deposits	5.17%	3,000	-	-	-	3,000
Foreign Currency Deposits	-	159	-	-	-	159
Interest Rate Swaps <sup>2</sup>	5.66%	245,400	-	-	-	245,400
<b>TOTAL ASSETS</b>		<b>274,949</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>274,949</b>
<b>Financial Liabilities</b>						
Employee Entitlements						
Long Service Leave	5.47%	37,794	-	-	-	37,794
Domestic Currency Loans						
Short Term	5.50%	215,300	-	-	-	215,300
Long Term <sup>3</sup>	6.61%	-	308,286	1,206,268	596,001	2,100,555
Interest Rate Swaps <sup>2</sup>	5.14%	-	67,1000	135,000	43,300	245,400
<b>TOTAL LIABILITIES</b>		<b>253,094</b>	<b>375,386</b>	<b>1,341,268</b>	<b>639,301</b>	<b>2,609,049</b>

<sup>1</sup> For floating interest rates this represents the most recent determined rate converted to the effective annual rate. The frequency of renegotiation for floating rates varies from daily to half yearly depending on the instrument. For fixed interest rates this represents the effective annual interest rate.

<sup>2</sup> Notional principal.

<sup>3</sup> Long term debt has an initial maturity period of greater than one year.

<sup>4</sup> A Floating Rate Note facility has replaced short term borrowings previously rolled every quarter.

# NOTES TO THE FINANCIAL STATEMENTS continued

## 26.FINANCIAL INSTRUMENTS continued

### (b) Foreign Exchange Risk

The Corporation is exposed to foreign exchange risk through foreign currency loans and anticipated future transactions.

#### Foreign Currency Loans

Foreign currency loans are used by the Corporation as an additional source of finance. Cross currency swaps are used to manage foreign currency exposure on foreign currency loans. No foreign currency loans were outstanding as at 30 June 2005 (June 04: nil).

#### Hedges of Anticipated Future Transactions

The purpose of the Corporation's foreign currency hedging activities is to protect against the risk that the eventual Australian dollar outflows for purchases of equipment and services will be adversely affected by changes in exchange rates.

The Corporation hedges this risk by purchasing foreign currency and holding it on deposit or by entering into forward foreign exchange agreements and foreign currency options.

The following table summarises the foreign currency amounts held on deposit, in Australian dollar equivalents using rates current at the reporting date.

	30/06/05	30/06/04
	\$'000	\$'000
<b>Currency</b>		
Europe Euro	57	110
United States Dollar	-	49
<b>Total Foreign Currency Deposits</b>	<b>57</b>	<b>159</b>

The foreign currency deposits are utilised to pay invoices from foreign suppliers. The deposits are replenished when a firm order has been placed with the supplier or the future commitment can be reliably measured. In line with Note 1.14.2, any gain or loss on these hedges has been deferred and will be recognised in the financial statements at the time the underlying transaction occurs. No hedges were outstanding as at 30 June 2005 (June 04: nil).

The following tables summarise, by currency, the Australian dollar value of forward foreign exchange agreements. Foreign currency amounts are translated at rates current at the reporting date. The 'Buy' amount represents the Australian dollar equivalent of commitments to purchase foreign currencies, and the 'Sell' amount represents the Australian dollar equivalent of commitments to sell foreign currencies.

## NOTES TO THE FINANCIAL STATEMENTS continued

### 26. FINANCIAL INSTRUMENTS continued

#### (b) Foreign Exchange Risk continued

30/06/05	Weighted Average Exchange Rate		Buy \$'000	Sell \$'000
	Buy	Sell		
<b>Within one year:</b>				
Canadian Dollars	0.9259	-	3,723	-
Swiss Franc	0.8592	-	1,684	-
Europe Euro	0.5824	-	16,568	-
British Pounds	0.3888	-	277	-
Swedish Kroner	5.4605	-	1,536	-
United States Dollar	0.7074	-	9,606	-
Japanese Yen	79.710	-	5,926	-
<b>Within two years</b>				
Japanese Yen	79.710	-	12,764	-
<b>Total</b>			<b>52,084</b>	<b>-</b>

30/06/04	Weighted Average Exchange Rate		Buy \$'000	Sell \$'000
	Buy	Sell		
<b>Within one year:</b>				
Swiss Franc	0.9770	-	362	-
Europe Euro	0.5954	-	2,052	-
United States Dollar	0.6006	-	2,635	-
Japanese Yen	0.4114	-	2,238	-
<b>Total</b>			<b>7,287</b>	<b>-</b>

In line with Note 1.14.2, any gain or loss on these hedges has been deferred and will be recognised in the financial statements at the time the underlying transaction occurs. The net deferred loss on these hedges as at 30 June 2005 was \$3.7 million (June 04: loss of \$0.5 million).

No foreign currency options were outstanding as at 30 June 2005 (June 04: nil).

# NOTES TO THE FINANCIAL STATEMENTS continued

## 26.FINANCIAL INSTRUMENTS continued

### (b) Foreign Exchange Risk continued

#### Commodity Price Exposures

The Corporation is exposed to fluctuations in the price of commodities associated with the purchase of materials. In addition, as these commodities are priced in United States dollars, a foreign exchange risk also exists.

The Corporation manages these risks by the use of commodity swaps and commodity options. Where these derivatives are settled in United States dollars the foreign currency risk is managed by entering into forward foreign exchange contracts and foreign currency options.

The notional amounts and maturity dates for the commodity hedge contracts are as follows:

	30/06/05	30/06/04
	\$'000	\$'000
<b>Hedging of Commodity Purchases</b>		
3 months or less	-	10,590
Over 3 to 12 months	-	4,348
<b>Total</b>	-	<b>14,938</b>

In line with note 1.14.2, any gain or loss on these hedges has been deferred and will be recognised in the financial statements at the time the underlying transaction occurs. The Corporation did not have any commodity hedges, and therefore no net deferred gain or loss on commodity hedges as at 30 June 2005. (June 04: gain of \$3.4 million).

### (c) Credit Risk

Credit risk represents the extent of credit related losses that the Corporation may be subject to on amounts to be received from financial assets or exchanged under derivative financial instruments.

#### Financial Assets

The Corporation's maximum credit risk on current receivables is the carrying amount net of the provision for doubtful debts. The Corporation's electricity customer base consists of customers who are billed on a tariff based system, and customers billed under specific contract terms. Tariff customers include both domestic and commercial customers who are billed either monthly or every two months, and are required to settle accounts within 21 days. Contract customers are billed monthly and are required to settle their accounts in the time period specified by the individual contract, with most customers on 14 day terms.

To minimise credit risk on large contract customers, collateral in the form of a bank guarantee or a security deposit equivalent to one electricity consumption period is obtained. Due to the Corporation's large customer base of over 888,000 customers, the Corporation is not materially exposed to any individual customer or group of customers.

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

# NOTES TO THE FINANCIAL STATEMENTS continued

## 26.FINANCIAL INSTRUMENTS continued

### (c) Credit Risk continued

#### Derivative Financial Instruments

The credit risk on derivative financial instruments is represented by the net fair value of contracts with a positive fair value at the reporting date. The notional amounts of derivatives are not a measure of this exposure.

The following table summarises the Corporation's credit risk on derivative financial instruments at the reporting date.

	30/06/05	30/06/04
	\$'000	\$'000
<b>Derivative Financial Instruments</b>		
Commodity Swaps	-	3,409
Foreign Exchange Contracts	46	307
Bond Futures Contracts	-	-
Interest Rate Swaps	1,350	3,320
<b>Total</b>	<b>1,396</b>	<b>7,036</b>

<sup>1</sup> The credit risk associated with bond futures contracts is negligible as contracts are collateralised by cash, with any changes in the market value of contracts being settled on a daily basis with the clearing house.

The Corporation does not expect any counterparty to fail given the policy to deal in derivatives only with counterparties that are recognised financial intermediaries and possess a credit rating of A (Standard & Poor's) or A2 (Moody's Investor Services) or better.

### (d) Net Fair Value of Financial Instruments

The net fair value of a financial asset or a financial liability is the amount at which the asset could be exchanged, or liability settled in a current transaction between willing parties after allowing for transaction costs. The carrying amounts and estimated net fair values of financial assets and financial liabilities, including derivative contracts, held at the reporting date are provided in the next table. The following financial instruments, where carrying amounts approximate net fair values, are omitted: cash at bank, domestic and foreign currency deposits, receivables, accounts payable and employee entitlements.

# NOTES TO THE FINANCIAL STATEMENTS continued

## 26. FINANCIAL INSTRUMENTS continued

### (d) Net Fair Value of Financial Instruments continued

	Carrying Amount 30/06/05 \$'000	Net Fair Value 30/06/05 \$'000	Carrying Amount 30/06/04 \$'000	Net Fair Value 30/06/04 \$'000
<b>Financial Assets</b>				
Interest Rate Swaps	-	1,350	-	3,320
Commodity Swaps	-	-	3,423	3,409
Foreign Exchange Contracts	24	46	208	307
<b>TOTAL ASSETS</b>	<b>3,631</b>	<b>7,036</b>	<b>3,631</b>	<b>7,036</b>
<b>Financial Liabilities</b>				
Contributory Extension Scheme	32,483	20,492	33,357	18,911
Foreign Exchange Contracts	3,706	2,914	677	399
Domestic Currency Loans				
Short Term	80,000	80,002	215,300	217,732
Long Term	2,192,269	2,279,396	2,110,555	2,180,240
Floating Rate notes	178,300	180,191	-	-
Interest Rate Swaps	-	2,082	-	1,360
Commodity Swaps	-	-	-	-
Commodity Options	-	-	-	-
<b>TOTAL LIABILITIES</b>	<b>2,486,758</b>	<b>2,565,077</b>	<b>2,359,889</b>	<b>2,418,642</b>

The Corporation has not written its financial liabilities up or financial assets down, to their estimated fair value as it expects to realise the carrying amount fully, by holding them to maturity.

Net fair values of financial instruments are determined on the following basis:

- Foreign exchange contracts are valued at quoted market prices.
- The net fair value of interest rate swaps and commodity swaps has been calculated by discounting future cash flows at market rates applicable at the reporting date.
- The contributory extension scheme consists of a large number of non-interest bearing 30 year refundable deposits, the last of which is due to expire in 2022. The net fair value of the scheme has been calculated by discounting the expected future payment at the same interest rates used to value domestic currency loans.
- Domestic currency loans are arranged through Western Australian Treasury Corporation. The net fair value of these loans has been calculated by discounting future cash flows using interest rates currently offered to the Corporation for debt of the same remaining maturities plus costs expected to be incurred were the liability to be settled.

# NOTES TO THE FINANCIAL STATEMENTS continued

## 26. FINANCIAL INSTRUMENTS continued

### (e) Miscellaneous

#### Put option

Uecomm Operations Pty Ltd has a put option to the Corporation. The option can be exercised up to 23 April 2008 should a significant change in the control environment of Uecomm Limited occur. If the option is exercised, the Corporation will be required to purchase customer contracts from Uecomm Operations Pty Ltd.

If the option was exercised on the 30 June 2005 it would not have a material value.

## 27. INTERESTS IN JOINT VENTURES

The South West Cogeneration Joint Venture is a joint venture between Origin Energy SWC Ltd and the Corporation, who own, as equal tenants-in-common, a 120MW cogeneration facility on the site of the Worsley Alumina Refinery in the South West of Western Australia. Within the terms of the joint venture agreement a pre-emption right exists in regard to the disposal of either parties' interest. The output of the facility, thermal energy and electricity, is sold to the refinery and other energy customers.

APT Pipelines (WA) Pty Ltd and the Corporation, own as equal tenants-in-common, and share in output (29.2% WPC/70.8% APT) a gas pipeline taking gas from the Dampier Bunbury Natural Gas Pipeline (DBNGP) to the power station at Vanadium Australia Pty Ltd's (VAPL) mine at Windimurra and other nearby destinations. AGL Power Generation (Mid West) Pty Ltd and the Corporation own and operate the power station at Windimurra, as equal tenants-in-common. The power station is currently in care and maintenance mode. AGL Gas Trading Pty Ltd and the Corporation formed a joint venture as equal tenants-in-common to facilitate the transportation of gas via the DBNGP to the Mid West pipeline, then sell the gas to VAPL. Within the terms of the joint venture agreements a pre-emption right exists in regard to the disposal of either parties' interest.

Included in the assets and liabilities of the Corporation are the following items which represent the Corporation's interest in the assets and liabilities employed in the joint ventures, recorded in accordance with the accounting policies described in Note 1.11.1.

## NOTES TO THE FINANCIAL STATEMENTS continued

### 27.INTERESTS IN JOINT VENTURES continued

	30/06/05	30/06/04
	\$'000	\$'000
<b>Current Assets</b>		
Cash Assets	171	88
Trade Debtors	1,180	1,298
Less: Provision for Doubtful Debts	-	-
	1,180	1,298
Inventories	286	266
Prepayments	-	-
<b>Total Current Assets</b>	<b>1,637</b>	<b>1,652</b>
<b>Non-Current Assets</b>		
Works Under Construction	87	78
Plant and Equipment - at Cost	65,015	65,015
Less: Accumulated Depreciation	37,597	34,900
	27,418	30,115
Plant and Equipment - at Recoverable Amount	8,077	8,077
Less: Accumulated Depreciation	1,775	731
	6,302	7,346
<b>Total Non-Current Assets</b>	<b>33,807</b>	<b>37,539</b>
<b>TOTAL ASSETS</b>	<b>35,444</b>	<b>39,191</b>
<b>Current Liabilities</b>		
Payables	1,242	1,178
<b>Total Current Liabilities</b>	<b>1,242</b>	<b>1,178</b>
<b>TOTAL LIABILITIES</b>	<b>1,242</b>	<b>1,178</b>

There are no contingent liabilities and capital expenditure commitments relating to the joint ventures as at 30 June 2005.

## NOTES TO THE FINANCIAL STATEMENTS continued

### 28. ASSOCIATE AND JOINT VENTURE ENTITIES

Halliburton Australia Pty Ltd and the Corporation each held a 50% ownership interest in Integrated Power Services Pty Ltd (IPS). The company was formed in February 1998, as a provider of energy services to the mining process industry, and utilities service sector. During the financial year ended 30 June 2004 the Corporation sold its 50% ownership interest in IPS.

The information relating to IPS is set out below.

	30/06/05	30/06/04
	\$	\$
<b>Share of Associate's Results</b>		
Share of Net Profit/(Loss) Before Income Tax Expense	-	(36,058)
Share of Income Tax Expense	-	-
<b>Share of Net Profit/(Loss) After Income Tax Expense</b>	-	(36,058)

	30/06/05	30/06/04
	\$	\$
<b>Summary of Performance and Financial Summary of Associate</b>		
Total Assets	-	-
Total Liabilities	-	-
Net Profit/(Loss) After Income Tax Expense	-	(72,115)

Enercon Power Corporation and the Corporation each hold a 50% ownership in Wind Energy Corporation. Within the terms of the shareholder agreement a pre-emption right exists in regard to the disposal of either parties' interest. The company was formed in August 2000 to focus on business opportunities relating to large-scale wind farms operating in parallel with an interconnected electricity grid, and hybrid power systems for remote and regional applications that utilise renewable energy technologies.

In June 2004 the Directors of the Corporation re-assessed the recoverable amount of Wind Energy Corporation and based on the assessment wrote down the investment by \$675,000 to its recoverable amount of zero.

United KG Pty Ltd and the Corporation jointly agreed in June 2004 to provide design and construction services of high voltage electrical equipment to Electranet Transmission Services Pty Ltd for the Mannum Substation upgrade in South Australia. The equity method has not been adopted as at 30 June 2005 because the Corporation's interest in the joint venture entity was immaterial in the context of the Corporation's operations.

# NOTES TO THE FINANCIAL STATEMENTS continued

## 29. INTERESTS IN CONTROLLED ENTITIES

The Corporation formed a wholly owned subsidiary Western Carbon Pty Ltd in July 2002 to pursue the development of new and existing technologies associated with a demonstration integrated wood processing plant. Commissioning of the demonstration plant is expected to occur in September 2005. When complete the plant will process plantation grown mallee trees to produce activated carbon, eucalyptus oil and electricity.

As at 30 June 2005 the assets and liabilities of the integrated wood processing plant project are held by the Corporation. The subsidiary has undertaken no transactions and therefore there is no impact on the financial statements of the Corporation.

The Corporation formed a wholly owned subsidiary Bright Telecommunications Pty Ltd in December 2002 to develop a broadband access network, subject to the successful completion of a pilot project being conducted by the Corporation. The pilot phase of this project was completed during 2003/2004 and the results assessed, including the requirements to progress to a full commercial operation. On 21 July 2004 the Directors of the Corporation decided to close the project and write the assets down to their assessed recoverable amount of zero. For further details refer to the 30 June 2004 Annual Report.

A detailed assessment of disposal options was conducted during 2004/2005 from which it was concluded that a sale of the Bright business as a going concern may yield a higher return than a sale of the assets of the project. As at 30 June 2005 a sale of the Bright Telecommunications project is in progress.

As at 30 June 2005 the assets and liabilities of the "Bright Project" are held by the Corporation. The subsidiary has undertaken no transactions and therefore has no impact on the financial statements of the Corporation.

## 30. RELATED PARTY DISCLOSURES

### Transactions with Related Parties

For the purposes of these financial statements the following entity is deemed to be a related party:

- Wind Energy Corporation

The value of transactions between the Corporation and Wind Energy Corporation during the financial year to 30 June 2005 is \$18,000 (June 2004 nil). Trading between the Corporation and the related party is undertaken on an arm's length basis, on commercial terms and conditions.

## 31. ECONOMIC DEPENDENCY

The Corporation has a significant economic dependency on gas supply and transportation capacity from North West Shelf Joint Ventures and Duet Alinta Alcoa Consortium respectively. In addition, the Corporation is solely dependent on coal supplies from Wesfarmers Premier Coal Ltd and Griffin Coal Mining Company Pty Ltd.

## NOTES TO THE FINANCIAL STATEMENTS continued

### 32. EVENTS SUBSEQUENT TO BALANCE DATE

Other than as disclosed below, there has not arisen in the interval between the end of the financial year and the date of this report any matter or circumstance 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.

#### **Construction of new power stations**

On 9 August 2005, the Corporation announced an unconditional agreement with Energy Developments Limited to construct five new power stations in the West Kimberley. The West Kimberley Power Procurement program will deliver new power stations in the towns of Broome, Derby, Fitzroy Crossing, Halls Creek and Camballin-Looma. The Corporation has agreed a new schedule for construction of the power stations. The Corporation will continue to supply power to the five towns until the new plants are commissioned. The expected dates for the commercial operation are as follows: Broome – March/April 2007, Looma – April 2007, Derby – May 2007, Fitzroy Crossing – June 2007 and Halls Creek – July 2007.

On 16 August 2005, the Corporation announced, following approval of the Western Power Board and State Cabinet, that the successful bidder to construct a new baseload power station for the SWIS was Wambo Power Ventures Pty Ltd (Wambo). Under the proposal, Wambo will provide an additional 320 megawatts of power to the SWIS from a new gas-fired combined-cycle power station to be built adjacent to Western Power's Cockburn power station, which will enter commercial service by end of November 2008.

On 16 August 2005, the Corporation also announced, following approval of the Western Power Board and State Cabinet, details of a 25-year contract to supply coal to the Corporation's existing power stations. Wesfarmers Premier Coal was the successful bidder to supply low-ash coal for the Muja C and D and Collie power stations until 2030. Supply arrangements with Griffin Coal will remain in place until 2010. Current arrangements with Wesfarmers Premier Coal are incorporated into the new arrangements.

The financial impact for the above transactions have not been recognised in the financial statements for the year ended 30 June 2005.

### 33. IMPACT OF ADOPTING AASB EQUIVALENTS TO IASB STANDARDS

The Corporation is in the process of transitioning its accounting policies and financial reporting from Australian Generally Accepted Accounting Principles (AGAAP) to Australian equivalents to International Financial Reporting Standards (AIFRS). The Corporation will prepare its first fully AIFRS compliant financial statements for the financial year ended 30 June 2006. This includes the restatement of the AGAAP 2004/2005 comparatives to comply with AIFRS. To facilitate this, priority has been given to the preparation of the Corporation's 1 July 2004 AIFRS compliant opening balance sheet, the Corporation's transition date to AIFRS. This will form the basis of accounting for AIFRS in the future. In preparing the AIFRS compliant opening balance sheet, it is evident the adjustments required to retrospectively apply AIFRS will be reflected as either a reclassification of assets or liabilities or an adjustment to retained earnings.

## NOTES TO THE FINANCIAL STATEMENTS continued

### 33.IMPACT OF ADOPTING AASB EQUIVALENTS TO IASB STANDARDS continued

The transitional adjustments relating to the standards for which 2004/2005 comparatives are not required will be made on 1 July 2005. Comparatives are not required for AASB 132 "Financial Instruments: Disclosure and Presentation" and AASB 139 "Financial Instruments: Recognition and Measurement".

In 2004, the Corporation commenced a project to achieve transition to AIFRS reporting. Internal resources were allocated and expert consultants engaged to perform diagnostics and conduct impact assessments to isolate key areas impacted by the transition to AIFRS. As a result of this work, the Corporation graded the impact areas as either high, medium or low and established work streams to address each of the areas in order of their priority. An AIFRS project team was established to manage the progress of these work streams. To date, the team has largely completed the diagnostic, design and planning and solution development phases and is progressing with implementation.

Set out overleaf are the key areas where the Corporation's accounting policies are expected to change on adoption of AIFRS and the best estimate of the quantitative impact of the changes on total equity as at the date of transition and 30 June 2005, and on net profit for the year ended 30 June 2005.

The figures disclosed are management's best estimate of the quantitative impact of the changes as at the date of preparing the 30 June 2005 financial statements. The actual effects of transition to AIFRS may differ from the estimates disclosed due to:

- ongoing AIFRS work being undertaken by the project team;
- potential amendments to AIFRSs and interpretations thereof being issued by the standard-setters and the International Financial Reporting Interpretations Committee (IFRIC); and
- emerging accepted practice in the interpretation and application of AIFRS and UIG Interpretations.

For the purposes of applying AIFRS to the financial statements the Corporation has adopted a not-for-profit classification. This is as a result of the Corporation's principal objective, per the "Function and Powers" requirements of the Electricity Corporation Act 1994, being the provision of electricity services and not the generation of profit. Therefore, although the generation of profit is important to the Corporation and decisions are predominantly made on this basis, it is not the primary objective.

For the purposes of applying AIFRS to the financial statements the Corporation has determined the assets of the Corporation are principally not cash flow dependant. This is a result of the service orientation of the Corporation's principal objective. It is the Corporation's view that the future economic benefits of its assets are not primarily dependent on their ability to generate net cash inflows, and if deprived of an asset, the Corporation would replace that assets remaining service potential.

# NOTES TO THE FINANCIAL STATEMENTS continued

## 33. IMPACT OF ADOPTING AASB EQUIVALENTS TO IASB STANDARDS continued

### (a) Reconciliation of Equity as Presented under AGAAP to that under AIFRS

	Notes	30/06/05 \$'000	01/07/04 \$'000
<b>Total Equity under AGAAP</b>		1,698,804	1,591,440
<b>Adjustments to Retained Profits</b>			
Derecognition of Internally Generated Renewable Energy Certificates	1	(1,143)	(1,654)
Derecognition of Provision for Final Dividend	2	51,601	41,213
Derecognition of AGAAP Provision for Decommissioning Costs	3	9,943	9,574
Recognition of AIFRS Provision for Decommissioning Costs	3	522	-
Derecognition of Amortisation of AGAAP Decommissioning Costs	3	52,295	43,397
Recognition of Borrowing Costs (Decommissioning Provision)	3	(106,493)	(98,553)
Recognition of Depreciation of AIFRS Decommissioning Costs	3	(12,259)	(12,435)
Recognition of Impairment of Collie Power Station (CPS)	4	(30,530)	(30,530)
Tax Effect of Impairment of CPS	4	9,159	9,159
Derecognition of Depreciation for CPS Impairment	4	1,517	-
Tax Effect of Derecognition of Depreciation for CPS Impairment	4	(455)	-
Recognition of Contributions from the Contributory Extension Scheme	5	32,428	32,509
Recognition of Borrowing Costs (Contributory Extension Scheme)	5	(15,270)	(13,702)
Tax Effect of Contributory Extension Scheme Payables	5	(5,147)	(5,642)
Derecognition of Developer & Customer Contributions	6	(74,390)	(50,737)
Tax Effect of Derecognition of Developer & Customer Contributions	6	22,317	15,221
Recognition of Grant Income	7	-	1,600
Recognition of Net Defined Benefit Superannuation Expense	8	169	-
		(65,736)	(60,580)
<b>Total Equity under AIFRS</b>		1,633,068	1,530,860

### Reconciliation of Net Profit as Presented under AGAAP to that under AIFRS

<b>Net Profit under AGAAP</b>		206,135
<b>Adjustments to Net Profit</b>		
Derecognition of Internally Generated Renewable Energy Certificates	1	511
Derecognition of AGAAP Provision for Decommissioning Costs	3	369
Recognition of AIFRS Provision for Decommissioning Costs	3	522
Derecognition of Amortisation of AGAAP Decommissioning Costs	3	8,898
Recognition of Borrowing Costs (Decommissioning Provision)	3	(7,940)
Recognition of Depreciation of AIFRS Decommissioning Costs	3	176
Derecognition of Depreciation for CPS Impairment	4	1,517
Tax Effect of Derecognition of Depreciation for CPS Impairment	4	(455)
Recognition of Contributions from the Contributory Extension Scheme	5	(81)
Recognition of Borrowing Costs (Contributory Extension Scheme)	5	(1,568)
Tax Effect of Contributory Extension Scheme Payables	5	495
Derecognition of Developer & Customer Contributions	6	(23,653)
Tax Effect of Derecognition of Developer & Customer Contributions	6	7,096
Recognition of Grant Income	7	(1,600)
Recognition of Net Defined Benefit Superannuation Expense	8	169
		(15,544)
<b>Net Profit under AIFRS</b>		190,591

# NOTES TO THE FINANCIAL STATEMENTS continued

## 33.IMPACT OF ADOPTING AASB EQUIVALENTS TO IASB STANDARDS continued

### (a) Reconciliation of Equity and Net Profit as Presented under AGAAP to that under AIFRS continued

#### **1 Renewable Energy Certificates**

Under AASB 138 "Intangible Assets", the value inherent in internally generated Renewable Energy Certificates (RECs) is not recognised until the RECs are sold or surrendered. This results in a change to the Corporation's current accounting policy that allows for the immediate recognition of internally generated RECs in the balance sheet (ie inventory) and profit and loss statement (ie RECs).

Therefore, on adoption of AIFRS, the Corporation is required to derecognise internally generated RECs reported in the balance sheet (ie inventory) and profit and loss statement (ie RECs) until they are sold or surrendered.

#### **2 Dividends**

Under AASB 110 "Events After the Balance Sheet Date", a provision is recognised for a dividend when it is appropriately authorised as at the reporting date and no longer at the discretion of the entity. This results in a change to the Corporation's current accounting policy that allows for the recognition of a provision if there is a public recommendation for the dividend as at the reporting date despite the amount not being appropriately authorised.

Therefore, on adoption of AIFRS, the Corporation is required to derecognise dividends provided for in the financial statements where the dividend was approved by the Board after the reporting date.

#### **3 Decommissioning Costs**

##### ***Provision***

Under AASB 137 "Provisions, Contingent Assets and Contingent Liabilities", a provision for decommissioning costs is recognised when a legal or constructive obligation arises. Based on the Corporation's past payment practices in relation to power generating facilities this is typically when the asset is commissioned. The provision is measured as the present value of the expenditure required to settle the obligation. This results in a change to the Corporation's current accounting policy that allows for the recognition of a provision for decommissioning costs only as the generating plant nears the end of its useful life.

Therefore, on adoption of AIFRS, the Corporation is required to recognise a provision for decommissioning costs when there exists a legal or constructive obligation, and not simply when the asset nears the end of its useful life. The provision is measured as the present value of the expenditure required to settle the obligation. Any subsequent movement in the present value over time is expensed to the income statement (ie borrowing costs).

##### ***Property, Plant and Equipment***

Under AASB 116 "Property, Plant and Equipment", the original cost of an item of property, plant and equipment is to include the cost of dismantling and removing the asset, and restoring the site on which it is located, to the extent that these costs are also recognised as a provision under AASB 137 "Provisions, Contingent Assets and Contingent Liabilities". This results in a change to the Corporation's current accounting policy that allows for the recognition of decommissioning costs only as the generating plant nears the end of its useful life.

Therefore, on adoption of AIFRS, the Corporation is required to derecognise decommissioning costs previously provided for when the generating plant nears the end of its useful life and recognise, in the asset's original capital cost the decommissioning costs recognised as a provision under AASB 137. The impact of any subsequent changes in the assumptions used to provide for these costs must be prospectively recognised in the asset's original capital cost. The Corporation is also required to derecognise decommissioning costs previously amortised to the profit and loss statement and expense to the income statement (ie depreciation) the systematic allocation of the decommissioning costs recognised in the asset's original capital cost over the useful life of the asset.

# NOTES TO THE FINANCIAL STATEMENTS continued

## 33.IMPACT OF ADOPTING AASB EQUIVALENTS TO IASB STANDARDS continued

### (a) Reconciliation of Equity and Net Profit as Presented under AGAAP to that under AIFRS continued

#### 4 Impairment of Assets

Under AASB 136 "Impairment of Assets", the recoverable amount of current and non-current assets is determined as the higher of the depreciable replacement amount and the net selling price. This results in a change to the Corporation's current accounting policy that allows for the recoverable amount of non-current assets to be determined on the basis of discounted cash flows.

Therefore, on adoption of AIFRS, the Corporation is required to recognise an impairment loss for Collie Power Station of \$30.5 million. This is because the carrying amount exceeds the depreciable replacement amount. This in turn results in a reduction to the Corporation's deferred tax liability on adoption of AIFRS.

#### 5 Contributory Extension Scheme (CES)

Under AASB 1004 "Contributions", non-reciprocal contributions are recognised in the income statement (ie other revenue). (A non-reciprocal contribution is a transfer in which an entity receives assets or services or has liabilities extinguished without directly giving approximately equal value in exchange to the other party or parties to the transfer). The requirements of AASB 1004 "Contributions" result in a change to the Corporation's current accounting policy that allows for the recognition of a customer's non-reciprocal contribution for the extension of specific electricity supplies in the balance sheet (ie other payables).

Therefore, on adoption of AIFRS, the Corporation is required to reclassify from the balance sheet (ie CES payables) to the income statement (ie other revenue) the CES contributions that, at the customers' payment dates, represented non-reciprocal contributions. The impact of any subsequent changes in the assumptions used to calculate these contributions must be prospectively recognised in the income statement (ie other revenue). The Corporation is also required to expense to the income statement (ie borrowing costs) the movement in the present value over time of the CES payables.

A deferred tax liability arises on adoption of AIFRS due to the timing difference as a result of the above contributory extension scheme adjustments.

#### 6 Developer & Customer Contributions

Under UIG 1017 "Developer and Customer Contributions for Connection to a Price-Regulated Network", contributions received in advance are deferred to the balance sheet (ie other liabilities) until the developer or customer is connected to the service delivery network in accordance with the terms of the contributions. On connection, the contributions are recognised in the income statement (ie other revenue). This results in a change to the Corporation's current accounting policy that allows for the recognition of developer and customer contributions in the profit and loss statement in line with the estimated actual percentage of completion of the developer/customer funded jobs.

Therefore, on adoption of AIFRS, the Corporation is required to defer to the balance sheet (ie other liabilities) any developer and customer contributions recognised in the profit and loss statement for which the developer/customer has not been connected to the network.

A deferred tax asset arises on adoption of AIFRS due to the timing difference as a result of the above developer and customer contributions adjustment.

# NOTES TO THE FINANCIAL STATEMENTS continued

## 33. IMPACT OF ADOPTING AASB EQUIVALENTS TO IASB STANDARDS continued

### (a) Reconciliation of Equity and Net Profit as Presented under AGAAP to that under AIFRS continued

#### 7 Grant Income

Under AASB "Contributions", grant income is recognised immediately in the income statement (ie other revenue) when the Corporation gains control of, or has the right to receive the contribution; it is probable the economic benefits comprising the contribution will flow to the Corporation; and the amount of the contribution can be reliably measured. This results in a change to the Corporation's current accounting policy that allows for grants received to be recognised over the reporting periods in which the related costs the grant was intended to compensate are incurred.

Therefore, on adoption of AIFRS, the Corporation is required to recognise in the income statement (ie other income) the grant income previously deferred to the balance sheet (ie other liabilities) for the Narrogin Demonstration Integrated Wood Project.

#### 8 Superannuation

Under AASB 119 "Employee Benefits", employee sponsors are required to recognise the net surplus or deficit in any employer sponsored defined benefit superannuation fund as an asset or liability in the balance sheet. This results in a change to the Corporation's current accounting policy that does not seek to recognise the net assets or liabilities of a defined benefit superannuation fund.

Therefore, on adoption of AIFRS, the Corporation is required to recognise in the balance sheet the net defined superannuation benefit in the Western Power Superannuation Fund. Any movements in the net benefit are recognised in the income statement. As at 30 June 2004 the value of the plan assets in the Western Power Superannuation Fund was immaterial.

### (b) Restated AIFRS Statement to Cash Flows for the Year Ended 30 June 2005

No material impacts are expected to the cash flows presented under AGAAP on adoption of AIFRS.

### (c) Other Impacts of Adopting AIFRS

Other key areas where accounting policies are expected to change on adoption of AIFRS but for which there is no quantitative impact to total equity and net profit as at 30 June 2005 are set out below.

#### Income Taxes

Under AASB 112 "Income Taxes", the balance sheet liability method is used to calculate the tax effect balances. This method recognises deferred tax balances when there is a difference between the carrying value of an asset or liability and its tax base. This results in a change to the Corporation's current accounting policy that allows for the calculation of the tax effect balances using the profit and loss liability method.

AASB 112 "Income Taxes" also permits conditions in which the deferred tax liabilities can be disclosed on the face of the balance sheet net of deferred tax assets. The application of this as at 1 July 2004 and 30 June 2005 results in the reclassification of \$76.5 million and \$74.5 million respectively from future income tax benefits in the balance sheet to deferred tax liabilities.

# NOTES TO THE FINANCIAL STATEMENTS continued

## 33.IMPACT OF ADOPTING AASB EQUIVALENTS TO IASB STANDARDS continued

### (c) Other Impacts of Adopting AIFRS continued

#### **Employee Benefits**

##### *Leave Entitlements*

Under AASB 101 "Presentation of Financial Statements", unconditional leave entitlements due within one year from the reporting date are disclosed in the balance sheet (ie provisions) as current. This results in a change to the Corporation's current accounting policy that allows for the recognition of only those unconditional long service leave entitlements due and to be settled within one year from the reporting date as current. The application of this standard as at 1 July 2004 and 30 June 2005 results in the reclassification of \$3.1 million and \$4.4 million respectively from non-current leave entitlements in the balance sheet (ie provisions) to current leave entitlements.

##### *Employment On-Costs*

Under AASB 119 "Employee Benefits", where the settlement of employee entitlements gives rise to the payment of employment on-costs, such as payroll tax and workers' compensation insurance, a provision is recognised for the on-costs separate to the provision for the employee entitlements. This results in a change to the Corporation's current accounting policy that allows for the recognition of employment on-costs in the same provision as the employee entitlements. The application of this standard as at 1 July 2004 and 30 June 2005 results in the reclassification of the following from employee entitlements to other provisions in the balance sheet:

- \$3.3 million and \$3.7 million respectively of current employment on-costs; and
- \$1.1 million and \$1.0 million respectively of non-current employment on-costs.

#### **Intangible Assets**

Under AASB 138 "Intangible Assets", the recognition, measurement and disclosure requirements for identifiable non-monetary assets without physical substance are prescribed. This provides a specific criteria against which the Corporation can identify and recognise intangible assets. The application of this standard as at 1 July 2004 and 30 June 2005 results in the reclassification of the following to intangible assets in the balance sheet:

- \$1.9 million and \$3.4 million respectively of externally purchased renewable energy certificates previously reported in inventory (ie current); and
- \$4.0 million and \$7.4 million respectively of computer software and exclusive rights previously reported in plant and equipment (ie non-current).

Despite this reclassification, the Corporation is to continue expensing to the income statement (ie depreciation) the systematic allocation of the depreciable amount over the useful lives of the intangible assets.

# NOTES TO THE FINANCIAL STATEMENTS continued

## 33.IMPACT OF ADOPTING AASB EQUIVALENTS TO IASB STANDARDS continued

### (d) Future Impacts of Adopting AIFRS

#### Financial Instruments

The requirements of AASB 132 "Financial Instruments: Disclosure and Presentation" and AASB 139 "Financial Instruments: Recognition and Measurement" are first mandatory in the financial year ended 30 June 2006. As a result of this delayed application date the Corporation's comparative financial year ended 30 June 2005 does not require compliance with AASB 132 and AASB 139. Despite this, a narrative of the expected impact to the Corporation on adoption of these standards, ie 1 July 2005 is provided below.

#### *Classification of Financial Instruments*

Under AASB 139 "Financial Instruments: Recognition and Measurement", financial instruments are required to be classified into one of five categories which, in turn, determines the accounting treatment of the item. The classifications are:

- loans and receivables (measured at amortised cost);
- held to maturity (measured at amortised cost);
- held for trading (measured at fair value with fair value changes charged to net profit or loss);
- available for sale (measured at fair value with fair value changes taken to equity); and
- non-trading liabilities (measured at amortised cost).

All derivatives contracts, whether used as hedging instruments or otherwise, are carried at fair value on the balance sheet. This results in a change to the Corporation's current accounting policy that does not seek to classify financial instruments. Current measurement is at amortised cost, with certain derivative financial instruments not recognised in the balance sheet.

#### *Hedge Accounting*

Under AASB 139 "Financial Instruments: Recognition and Measurement" in order to achieve a qualifying hedge, the entity is required to meet the following criteria:

- identify the type of hedge (fair value or cash flow);
- identify the hedged item or transaction;
- identify the nature of the risk being hedged;
- identify the hedging instrument;
- demonstrate that the hedge has and will continue to be highly effective; and
- document the hedging relationship, including the risk management objectives and strategy for undertaking the hedge and how effectiveness will be tested.

AIFRS recognises cash flow hedge accounting, fair value hedge accounting and hedges of investments in foreign operations. Cash flow and fair value hedge accounting can only be considered where effectiveness tests are met and stringent documentation and identification requirements under AASB 139 have been satisfied. Ineffectiveness resulting from hedge accounting can result in volatility in the income statement.

#### Cash flow hedge accounting

Where a derivative qualifies for cash flow hedge accounting the standard requires the hedging instruments to be measured and reported on the balance sheet at fair value, with the effective portion of fair value movements in derivatives deferred to equity, and any ineffective portions and the fair value of risks excluded from hedge assessment to be recognised in the income statement. Deferred gains and losses held in equity will affect the profit and loss at the time that the hedged item affects earnings.

# NOTES TO THE FINANCIAL STATEMENTS continued

## 33.IMPACT OF ADOPTING AASB EQUIVALENTS TO IASB STANDARDS continued

### (d) Future Impacts of Adopting AIFRS continued

#### **Financial Instruments continued**

##### *Hedge Accounting continued*

#### **Fair value hedge accounting**

Where a derivative qualifies for fair value hedge accounting the standard requires the hedging instruments to be measured at fair value, with any fair value changes recognised in the income statement. The carrying value of the corresponding hedged asset or liability is also adjusted by the change in the fair value of the hedging instrument, with this adjustment being recognised in the income statement to offset the effect of the gain or loss on the hedging instrument. There is no impact on equity reserves.

Where a derivative does not qualify for hedge accounting at all the entire change in fair value of the derivative will impact on profit and loss. Where a derivative ceases to be effective under the hedge accounting rules, the changes in fair value from that point forward will also impact on profit and loss.

The Corporation expects to account for the majority of its interest rate, foreign exchange risk and commodity derivatives as cash flow hedges and is reviewing its processes to ensure that they meet the enhanced requirements for hedge accounting. Ineffectiveness will result from oil commodity derivatives (due to basis risk), and also foreign exchange derivatives in limited circumstances. Ineffectiveness is not expected for interest rate risk derivatives. Excluded risks, which include the time value component of option valuations and forward point movements on oil commodity contracts will impact the profit and loss.

##### *Embedded Derivatives*

Under AASB 139 "Financial Instruments: Recognition and Measurement", embedded derivatives not closely related to the host contract are required to be disclosed separately in the balance sheet with any changes in the fair value recognised in the income statement. In most instances an embedded derivative exists when the price of the commodity in the host contract is not directly linked to the commodity. Likely indications of embedded derivatives include fluctuations in the commodity price based on the occurrence of an unrelated event or for which there is a sliding scale or index.

The Corporation is currently reviewing contractual arrangements to determine the extent of any embedded derivatives. In the event such derivatives are identified, this will result in a change to the Corporation's current accounting policy that does not seek to recognise embedded derivatives.

#### **Leases**

The requirements of UIG Interpretation 4 "Determining Whether an Arrangement Contains a Lease" are first mandatory from the financial year ended 30 June 2007. Despite this, a narrative of the expected impact on adoption of this interpretation, ie 1 July 2006 is provided below.

Under UIG Interpretation 4 "Determining Whether an Arrangement Contains a Lease", arrangements that do not take the legal form of a lease but convey a right to the use of an item for an agreed period of time in return for a payment or series of payments is an indication that the substance of the arrangement is, or contains a lease and must be accounted for accordingly. This results in a change to the Corporation's current accounting policy that does not seek to recognise these arrangements as leases.

## NOTES TO THE FINANCIAL STATEMENTS continued

### 33.IMPACT OF ADOPTING AASB EQUIVALENTS TO IASB STANDARDS continued

#### (d) Future Impacts of Adopting AIFRS continued

##### **Leases continued**

###### *Finance Leases*

For arrangements deemed a finance lease, the Corporation is required, on adoption of AIFRS, to recognise an asset and liability in the balance sheet equal to the present value of the minimum lease payments including any guaranteed residual values. In addition the Corporation is required to recognise in the income statement:

- the amortisation of the leased asset over the expected useful life of the asset (ie depreciation); and
- the interest allocation of the lease payments (ie borrowing costs). (The remainder of the lease payments are recognised as a reduction against the lease liability in the balance sheet).

###### *Operating Leases*

For arrangements deemed an operating lease, the Corporation is required, on adoption of AIFRS, to recognise in the income statement the lease payments in a pattern representative of the benefits derived from the leased assets (ie operating lease rentals).

The Corporation is currently reviewing contractual arrangements to determine the extent of any deemed to be leases under the requirements of UIG Interpretation 4 "Determining Whether an Arrangement Contains a Lease"

## DIRECTORS' DECLARATION

In accordance with a resolution of the Directors of Western Power Corporation, we declare that -

In the opinion of the Directors:

- (a) the financial statements and associated notes comply with the accounting standards and Urgent Issues Group Consensus Views;
- (b) the statement of financial performance is drawn up so as to give a true and fair view of the net profit of the Corporation for the financial year ended 30 June 2005;
- (c) the statement of financial position is drawn up so as to give a true and fair view of the state of affairs of the Corporation as at 30 June 2005, and;
- (d) at the date of this statement there are reasonable grounds to believe that the Corporation will be able to pay its debts as and when they fall due, in accordance with the structure of the Corporation existing at 30 June 2005.

The Directors have received a declaration by the Managing Director and Chief Financial Officer that is consistent with the requirements for a Public Company under section 295A of the *Corporations Act 2001*.

For and on behalf of the Board,



Mr ND HAMILTON  
Chairman



Mr AM IANNELLO  
Managing Director

22 August 2005

# INDEPENDENT AUDIT REPORT



## AUDITOR GENERAL

### INDEPENDENT AUDIT REPORT ON WESTERN POWER CORPORATION

#### To the Parliament of Western Australia

#### **Audit Opinion**

In my opinion, the financial report of Western Power Corporation is in accordance with:

- (a) schedule 3 of the Electricity Corporation Act 1994, including:
  - (i) giving a true and fair view of the Corporation's financial position at 30 June 2005 and of its performance for the financial year ended on that date; and
  - (ii) complying with Accounting Standards in Australia ; and
- (b) other mandatory professional reporting requirements in Australia.

#### **Scope**

##### ***The Board's Role***

The Board of Directors is responsible for the financial report.

The financial report consists of the Statement of Financial Performance, Statement of Financial Position, Statement of Cash Flows, accompanying Notes and Directors' Declaration.

##### ***Summary of my Role***

As required by the Electricity Corporation Act 1994, I have independently audited the financial report to express an opinion on it. This was done by looking at a sample of the evidence.

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.

A handwritten signature in black ink, appearing to read 'D D R Pearson'.

D D R PEARSON  
AUDITOR GENERAL  
26 August 2005