



**Australian Inland Energy Water Infrastructure
Annual Report 2004-2005**

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Chairman and Managing Director's report

The year 2004-2005 saw great change for the employees of Australian Inland.

On 5 November 2004, the New South Wales Government announced that Australian Inland would merge with Country Energy.

An interim Board was appointed, comprising four members of Country Energy's Board, and arrangements allowing Country Energy to act on behalf of Australian Inland until 30 June 2005 were approved by both Boards.

Merger plans were put in place to ensure a smooth transition for both organisations. A merger project team was formed, with employees from both businesses working together to ensure a successful amalgamation.

In early 2005, it was announced that Country Energy's new Far West region would be headed by new regional general manager Guy Chick and the former Director-General of the New South Wales Ministry of Energy and Utilities, Brian Steffen, was appointed to the new role of general manager, water.

In March 2005, a new customer service centre was opened in Broken Hill, in line with Country Energy's strong customer focus and commitment to increasing its presence and improving services to country New South Wales.

In June 2005, 71 Australian Inland employees were recognised with Service Milestone Awards, celebrating both the hard work of the past, and the wealth of experience that these employees bring to Country Energy.

From 1 July 2005, the merger of Australian Inland and Country Energy took full effect.

The merger has provided each business with a renewed sense of purpose and strength, as we embark on a \$37 million investment in electricity, water and sewerage infrastructure in the Far West region in 2005-2006.

Country Energy is committed to providing job security and retaining a strong regional presence. Our employees live and work right across the Far West region, and their local knowledge helps the business to make decisions that reflect local priorities.

Finally and most importantly, we thank all Australian Inland employees for their dedication to the company's success and their willingness to embrace a new future with Country Energy.

A large, stylized handwritten signature in black ink spans across the middle of the page. The signature is written in a cursive, flowing style and appears to be the combined names of Barbara Ward and Craig Murray.

Barbara Ward
Chairman of the Board

Craig Murray
Managing Director

Company profile

Australian Inland provides electricity services to around 20,000 customers across 55,000 square kilometres of far west New South Wales – from Tibooburra to the north, Silverton to the west, Menindee and Wilcannia to the east and Wentworth and Balranald to the south.

Australian Inland provides water and sewerage services to around 10,000 customers. Water operations centre on Broken Hill and include Silverton, Menindee and Sunset Strip, Umberumberka and Stephens Creek reservoirs and the Menindee to Stephens Creek pipeline.

Australian Inland's product range also includes bottled gas in Broken Hill and internet services across the far west.

Electricity network

- 49,000 power poles
- 3,182 street lights
- 12 zone substations
- 2,986 distribution substations
- 7,858 kilometres of high voltage powerlines
- 583 kilometres of low voltage powerlines

Water network

- 11 service tanks
- two reservoirs
- one emergency dam supply
- seven water pumping stations
- two water treatment plants
- 577 kilometres of water and sewerage mains
- two sewerage treatment plants
- 11 sewerage pumping stations

At 30 June 2005, Australian Inland had 244 employees on a 'full time equivalent' basis. From 1 July 2005, Australian Inland will fully merge with Country Energy to form a business with around 3,300 employees, and operating a power supply network covering 95 per cent of New South Wales' land mass.

The year in review

Safety performance

A sustained focus on safety has resulted in our lost time injury frequency rate reducing from 2.42 last year to 1.98 into 2004-2005. This was achieved by:

- Making safety the top priority
- Reviewing worksite operating procedures
- Continuing to improve hazard identification and risk management processes.

LOST TIME INJURY FREQUENCY RATE (LTIFR) PER MILLION HOURS WORKED

2002-2003	2003-2004	2004-2005
9.73	2.42	1.98

Apprenticeships and traineeships

Ten new apprentices, one cadet and three trainees commenced in field services, information services, customer service and administration roles during the year. These positions help retain locally-based, qualified skills in regional communities, and created long-term employment and career opportunities for local people.

Community support

In addition to our employment initiatives, Australian Inland supported more than 40 local charity organisations and events through a community sponsorship program.

Infrastructure investment

Electricity

During 2004-2005, Australian Inland invested around \$8 million in the water and electricity networks to meet future capacity requirements, improve supply reliability and enhance service levels. Examples of capital works programs that were commenced or completed include:

- Bella Vista horticulture development – \$320,000
– Upgrade of powerlines and installation of new substation

- Westside Plaza commercial development – \$250,000
– Installation of additional 1000kVA substation
- Air break switch replacement program – \$146,000
– Replacement of open air break switches with enclosed gas switches in Broken Hill to reduce incidence of bird strikes causing momentary supply interruptions
- Balranald high voltage line upgrade – \$131,000
– Construction of alternative 22 kilovolt three-phase feeder
- Gol Gol high voltage line upgrade – \$133,000
– Construction of 22 kilovolt three-phase bypass feeder
- Insulated cable upgrade program – \$200,000
– Replace open low voltage mains with bundled insulated cable (ABC) at various locations across the region
- Circuit breaker upgrade program – \$90,000
– Upgrade of safety protection equipment (recloser) equipment
- Streetlight upgrade and replacement program, Broken Hill – \$40,000
- Customer meter replacement program – \$160,000.

A major project materialised late in the reporting year and involved a mineral sands development by Bemax Resources. A new mine south of Broken Hill, and west of Pooncarie, required the design and construction of 124 kilometres of 66 kilovolt overhead line, a new 66/22 kilovolt substation at the Ginkgo mine site and modifications to Australian Inland's Dareton zone substation. In addition, 22 kilovolt supply is required for a Mineral Separation Plant on the outskirts of Broken Hill. Work commenced in June 2005 and is expected to be completed in December 2005.

Water

Australian Inland delivered more than 4,800 megalitres of high quality drinking water to customers' taps, while 1,354 megalitres of sewage were delivered to sewerage treatment plants. Up to 70 per cent of sewage was recycled for reuse on parks, ovals and golf courses. Major water and sewer investments included:

- Sunset Strip Water Treatment Plant upgrade – \$287,000
– Required to treat and supply potable water to Sunset Strip residents

- Water mains renewal program – \$400,000
- Customer meter replacement program – \$120,000
- Mica Street Water Treatment Plant upgrade – \$14,000
- Initial consultancy phase commenced in 2004-2005
- Sewer vent renewal program – \$65,000
- Sewerage jet vacuum truck – \$442,000.

In addition to investing in new assets, we also invested in repair and maintenance of existing infrastructure to ensure supply reliability and quality. Investments in electricity and water repair and maintenance programs included:

- Water – \$7,347,000
- Sewer – \$1,570,000
- Electricity – \$9,388,000

Environment

In February 2005, Australian Inland achieved a four-star rating in the Australian Building Greenhouse Rating. The rating is due to our ongoing commitment to energy reduction and cost effective upgrades. During the reporting period, buildings were managed and maintained to high energy efficiency and greenhouse gas reduction standards.

Since achieving this rating, Australian Inland has implemented further initiatives including: installing shut-off switches on air conditioning systems; installing timers on all hot water units; installing manual operating switches in the Broken Hill office courtyard; and replacing existing light globes with energy efficient globes.

Throughout the year, raising employee awareness of energy and water efficiency was a major focus and achieved significant results. In addition, we instigated a purchasing policy to ensure all office equipment met the highest energy efficiency standards. We also upgraded our approach to ensuring all copy paper was recycled.

Pricing determinations

In July 2004, Australian Inland introduced a regulated retail and network price change for all electricity customers. All of the changes were within specific limits set by the Independent Pricing and Regulatory Tribunal (IPART) in June 2004. From July 2004, these determinations allowed for modest network price increases for five years, and regulated retail electricity price increases for three years. The price changes will help Australian Inland continue to deliver safe and reliable power supplies.

Pricing for water and sewerage services for 2004-2005 was approved by the Minister for Energy, Utilities and Sustainability.

Awards and agreements

During the year, Australian Inland consolidated five awards and agreements covering employees into two documents – the *Electrical Trades Union Industrial Enterprise Award 2004* and *Australian Inland Consent Award 2004*. This was carried out in an environment of co-operation and involved no industrial action.

The Board

The former Board of Australian Inland met on three occasions during 2004-2005.

Marion Browne *BA (Hons) Dip Ed*

Chairman

Term of appointment:

29 February 2004 to 5 November 2004

Meetings attended: 3

Joe Flynn *BEng, MBA*

Director and Managing Director, Australian Inland

Term of appointment:

4 September 2001 to 5 November 2004

Meetings attended: 3

Paul Keady *BLegS/be BLegS*

Term of appointment:

29 February 2004 to 5 November 2004

Meetings attended: 2

Frank Murphy

Term of appointment:

29 February 2004 to 5 November 2004

Meetings attended: 3

Earle Phillips

Trades and Labour Council nominee

Term of appointment:

2 August 2004 to 5 November 2004

Meetings attended: 2

Thomas Stanley Dineen

Term of appointment:

12 November 2002 to 5 November 2004

Meetings attended: 3

Matthew Tiddy

Term of appointment:

1 March 2002 to 5 November 2004

Meetings attended: 3

Ted Woodley *BSc, BE (Hons1), CDC, FAIM, FAICD, FIEAust, FAIE, CPEng*

Term of appointment:

12 November 2002 to 5 November 2004

Meetings attended: 3

Executive

Joe Flynn *BEng, MBA*

Managing Director

Kevin Sweeney

Interim Chief Operating Officer, Australian Inland

Brian Steffen

Interim Chief Operating Officer

General Manager Water, Australian Inland

Guy Chick

Acting Chief Operating Officer, Australian Inland

Colin Cowdrey *BA Acc*

Acting Chief Financial Officer

Linda Heane *BBus Com*

General Manager Risk and Compliance

Phil Lane

General Manager Corporate Development and Technology

Phil Maw *CivEng Cert*

General Manager Network Services

Clint McCully

Manager Retail

Keven Semple

General Manager Human Resources

Ray Thorn *BBus, ElecEng Cert*

Acting General Manager Network Assets

Chris Dalitz *BE(Elect.), Grad. Dip. Mgt., Assoc. Dip.*

Local Museum Studies, ME (Energy Policy & Planning),

SMIEAust, CPEng, NPER

General Manager Network Assets

Interim Board

The former Australian Inland Board was replaced by an interim Australian Inland Board on 5 November 2004, following the announcement of the Country Energy and Australian Inland merger.

Barbara Ward

Chairman

Craig Murray

Director and Managing Director, Country Energy

Michael Lee

Rowena Sylvester

Corporate Governance

Establishment

Australian Inland is the trading name of Australian Inland Energy Water Infrastructure, a Statutory State Owned Corporation (SOC) established by the *Energy Services Corporations Act 1995*. The principal legislative instruments controlling Australian Inland's operations are the *Electricity Supply Act 1995* and the *Water Management Act 2000*.

Shareholders

In accordance with the provisions of the *State Owned Corporations Act 1989* and the *Energy Services Corporations Act 1995*, Australian Inland has two shareholders each holding one share of \$1. The shareholders are the New South Wales Treasurer and the New South Wales Special Minister of State. Shares in an energy services corporation may not be sold or otherwise disposed of, except to eligible Ministers.

Board of directors

Directors are appointed for renewable fixed terms by the voting shareholders, with remuneration set by the voting shareholders in consultation with the Statutory and Other Officers Remuneration Tribunal. The Board is accountable to the voting shareholders in the manner set out in Part 4 of the *State Owned Corporations Act 1989* and the Constitution of Australian Inland Energy Water Infrastructure.

Board committees

The Board established three committees comprising directors and, where appropriate, members of the executive.

- Audit committee to monitor the adequacy and effectiveness of the financial and administrative control of the organisation's operations.
- Governance committee to develop best practice in governance procedures, ethical standards and operational policies, and review remuneration of senior officers.
- Risk committee to ensure the effective identification, analysis and treatment of the risks faced by the organisation and monitor compliance with statutory and regulatory requirements.

Ethical standards

Australian Inland's Ethical Standards Policy and Code of Conduct detail the standards which each director, manager and employee is required to observe. The requirements of these ethical standards were communicated to all employees. The standards address professional conduct, and dealing with: customers; suppliers; advisors and regulators; competitors; the community; and other employees.

Risk management and insurance

Potential risks to the business, our customers, the community and the environment were identified, reviewed, and documented by Australian Inland. Corporate risks were reported to management and the Board and controls are in place to mitigate or eliminate risks.

To minimise exposure to financial loss, Australian Inland held a number of insurance policies with appropriate cover and deductibles. We contribute to the electricity industry group liability and fire insurance program, which undertakes insurance on behalf of the industry.

Freedom of information

No requests for information under the *Freedom of Information Act 1989* were received during 2004-2005, compared to four requests received during 2003-2004.

Privacy

Australian Inland's privacy policy is operational and posted on the company website. There were no significant privacy issues raised during the year.

Overseas visits

There were no overseas visits undertaken during 2004-2005.

Equal employment opportunity

We remain committed to reflecting the cultural and gender diversity of our customer base. These principles are embedded in our Equal Employment Opportunity policy and Code of Conduct.

Trends in the representation of Equal Employment Opportunity (EEO) groups

EEO GROUP	PERCENTAGE OF TOTAL EMPLOYEES					
	BENCHMARK OR TARGET	2001	2002	2003	2004	2005
<i>Women</i>	50	14	<i>n.a.</i>	16	19	18
<i>Aboriginal people and Torres Strait Islanders</i>	2	<i>n.a.</i>	<i>n.a.</i>	2	2.9	2.7
<i>people whose first language was not english</i>	20	1	<i>n.a.</i>	4	3	3
<i>people with a disability</i>	12	6	<i>n.a.</i>	10	10	10
<i>people with a disability requiring work-related adjustment</i>	7	<i>n.a.</i>	<i>n.a.</i>	2	2.2	1.8

Trends in the distribution of Equal Employment Opportunity (EEO) groups

EEO GROUP	PERCENTAGE OF TOTAL EMPLOYEES					
	BENCHMARK OR TARGET	2001	2002	2003	2004	2005
<i>Women</i>	100	92	<i>n.a.</i>	83	88	95
<i>Aboriginal people and Torres Strait Islanders</i>	100	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>
<i>people whose first language was not english</i>	100	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>
<i>people with a disability</i>	100	<i>n.a.</i>	<i>n.a.</i>	104	108	108
<i>people with a disability requiring work-related adjustment</i>	100	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>

Notes relating to EEO tables:

1. Employee number are as at 30 June 2005.
2. Excludes casual employees.
3. A distribution index of 100 indicates that the centre of the distribution of the EEO group across salary levels is equivalent to that of other employees. Values less than 100 mean that the EEO group tends to be more concentrated at lower salary levels than is the case for other employees. The more pronounced this tendency the lower the index will be. In some cases the index may be more than 100, indicating that the EEO group is less concentrated at lower salary levels. The distribution index is automatically calculated by the software provided by ODEOPE.
4. The distribution index is not calculated where EEO group or non-EEO group numbers are less than 20.
5. 'n.a.' denotes figures not available.

Workplace diversity

Australian Inland adopted fair and unbiased recruitment and selection processes. Positions were advertised internally, to ensure employees have the opportunity to advance their careers, as well as externally.

Ethnic affairs

Australian Inland respected the principles of cultural diversity, and these principles are outlined in its Ethnic Affairs Priority Statement (EAPS) which encourages and promotes:

- Respect for the diversity of employees, clients and the community in developing and implementing policies and procedures
- Making decisions without bias
- Identifying the cultural demographics of the community
- Promoting the EAPS to employees through induction and training.

Trends in employment

	2002-2003	2003-2004	2004-2005
Permanent	205	210	208
Part-time	7	7	5
Temporary	8	13	4
Casual	12	10	13
Apprentices/ Trainees	10	11	27

Executive remuneration

Eleven executive officers had total remuneration packages equal to or exceeding the New South Wales Senior Executive Service Level 1.

Only one executive officer received a total remuneration package equal to or exceeding New South Wales Senior Executive Service Level 5 – Managing Director, Joe Flynn (\$258,350).

Financial report contents

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15	Notes to and Forming Part of the Financial Statements

Australian Inland Energy Water Infrastructure
Statement by the Members of the Board
for the year ended 30 June 2005

Pursuant to Section 41 of the Public Finance and Audit Act 1983 we state that:

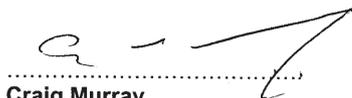
1. The accompanying financial statements are a general purpose financial report which have been prepared in accordance with the Public Finance and Audit Act 1983, the Public Finance and Audit Regulation 2000, the State Owned Corporation Act 1989, applicable Accounting Standards and other mandatory professional reporting requirements.
2. The accompanying financial statements exhibit a true and fair view of the financial position of Australian Inland Energy Water Infrastructure (Australian Inland) as at 30 June 2005 and of the profit and cash flows of the corporation for the year ended 30 June 2005.
3. At the date of this statement, there are reasonable grounds to believe that Australian Inland Energy Water Infrastructure (Australian Inland) will be able to pay its debts as and when they become due and payable.
4. We are not aware of any circumstances which would render any particulars included in these statements to be misleading or inaccurate.

Signed in accordance with a resolution of Directors.



Barbara Ward
Chairman

6/10/2005
Dated



Craig Murray
Director

6/10/2005
Dated



GPO BOX 12
Sydney NSW 2001

INDEPENDENT AUDIT REPORT
AUSTRALIAN INLAND ENERGY WATER INFRASTRUCTURE

To Members of the New South Wales Parliament

Audit Opinion

In my opinion, the financial report of Australian Inland Energy Water Infrastructure:

- (a) presents fairly the Corporation's financial position as at 30 June 2005 and its financial performance and cash flows for the year ended on that date, in accordance with applicable Accounting Standards and other mandatory professional reporting requirements in Australia, and
- (b) complies with section 41B of the *Public Finance and Audit Act 1983* (the Act).

My opinion should be read in conjunction with the rest of this report.

The Board's Role

The financial report is the responsibility of the members of the Board of Australian Inland Energy Water Infrastructure. It consists of the statement of financial position, the statement of financial performance, the statement of cash flows and the accompanying notes.

The Auditor's Role and the Audit Scope

As required by the Act, I carried out an independent audit to enable me to express an opinion on the financial report. My audit provides *reasonable assurance* to Members of the New South Wales Parliament that the financial report is free of *material* misstatement.

My audit accorded with Australian Auditing and Assurance Standards and statutory requirements, and I:

- evaluated the accounting policies and significant accounting estimates used by the Board in preparing the financial report, and
- examined a sample of the evidence that supports the amounts and other disclosures in the financial report.

An audit does *not* guarantee that every amount and disclosure in the financial report is error free. The terms 'reasonable assurance' and 'material' recognise that an audit does not examine all evidence and transactions. However, the audit procedures used should identify errors or omissions significant enough to adversely affect decisions made by users of the financial report or indicate that Board members had not fulfilled their reporting obligations.

My opinion does *not* provide assurance:

- about the future viability of the Corporation,
- that it has carried out its activities effectively, efficiently and economically, or
- about the effectiveness of its internal controls.

Audit Independence

The Audit Office complies with all applicable independence requirements of Australian professional ethical pronouncements. The Act further promotes independence by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General, and
- mandating the Auditor-General as auditor of public sector agencies but precluding the provision of non-audit services, thus ensuring the Auditor-General and the Audit Office are not compromised in their role by the possibility of losing clients or income.


R Hegarty FCA
Director, Financial Audit Services

SYDNEY
28 October 2005

Australian Inland Energy Water Infrastructure
Statement of Financial Performance
for the year ended 30 June 2005

	Notes	2005 \$'000	2004 \$'000
Revenue from ordinary activities	3.1	63,582	61,789
Expenses from Ordinary Activities			
Cost of Sales	3.2	(24,093)	(26,670)
Operations and Maintenance		(26,523)	(24,078)
Administration and Management		(32,425)	(11,035)
		(83,041)	(61,782)
Profit/(Loss) from ordinary activities before income tax expense		(19,459)	7
Income Tax Credit	18	6,194	456
Profit/(Loss) from ordinary activities after income tax expense		(13,265)	463
Net profit/(loss)		(13,265)	463
Net increase / (decrease) in asset revaluation reserve	11(c)	(62,892)	(51)
Contribution by Owners	11(b)	-	5,500
Total changes in equity other than those resulting from transactions with owners as owners		(76,157)	5,912

The above Statement of Financial Performance should be read in conjunction with the accompanying notes.

Australian Inland Energy Water Infrastructure
Statement of Financial Position
as at 30 June 2005

	Notes	2005 \$'000	2004 \$'000
CURRENT ASSETS			
Cash Assets	17(a)	3,502	4,230
Receivables	5	11,501	10,924
Inventories	6	2,195	2,503
Other	4	5,075	3,814
TOTAL CURRENT ASSETS		22,273	21,471
NON-CURRENT ASSETS			
Receivables	5	-	149
Inventories	6	570	589
Other Financial Assets	22	10,086	10,096
Property, Plant and Equipment	7	47,098	128,522
Deferred Tax Assets	19	8,880	2,767
TOTAL NON-CURRENT ASSETS		66,634	142,123
TOTAL ASSETS		88,907	163,594
CURRENT LIABILITIES			
Payables	10	6,626	7,067
Current Tax Liabilities	20	248	-
Provisions	9	4,271	3,293
TOTAL CURRENT LIABILITIES		11,145	10,360
NON-CURRENT LIABILITIES			
Payables	10	182	215
Deferred Tax Liabilities	20	4,096	4,671
Provisions	9	6,280	5,135
TOTAL NON-CURRENT LIABILITIES		10,558	10,021
TOTAL LIABILITIES		21,703	20,381
NET ASSETS		67,204	143,213
EQUITY			
Contributed Equity	11 (a)	34,922	34,922
Asset Revaluation Reserve	11 (c)	-	62,892
Retained Profits	11 (b)	32,282	45,399
TOTAL EQUITY		67,204	143,213

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

Australian Inland Energy Water Infrastructure
Statement of Cash Flows
for the year ended 30 June 2005

		2005	2004
		\$'000	\$'000
	Notes	Inflows/ (Outflows)	Inflows/ (Outflows)
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers (inclusive of GST)		55,081	60,227
Payments to suppliers and employees (inclusive of GST)		(56,905)	(60,321)
Interest received		825	756
Interest paid		-	-
Net Income taxes refunded / (paid)		458	(410)
GST receipts from/(payments to) the ATO		(217)	270
Government funded operating subsidy		7,319	7,620
NET CASH PROVIDED BY OPERATING ACTIVITIES	17(d)	6,561	8,142
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for purchase/construction of property, plant and equipment	16	(7,347)	(9,773)
Proceeds from sales of property, plant and equipment		58	183
Purchase of Investments		-	11
NET CASH USED IN INVESTING ACTIVITIES		(7,289)	(9,579)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		-	-
Repayment of Loans		-	-
NET CASH USED IN FINANCING ACTIVITIES		-	-
NET INCREASE/(DECREASE) IN CASH HELD		(728)	(1,437)
CASH ASSETS AT THE BEGINNING OF THE FINANCIAL YEAR		4,230	5,667
CASH ASSETS AT THE END OF THE FINANCIAL YEAR	17(a)	3,502	4,230

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

Note 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Australian Inland Energy Water Infrastructure (Australian Inland) is responsible for electricity distribution in Broken Hill, Wentworth, Balranald, Menindee, Wilcannia, White Cliffs, Tibooburra, the south west area and the unincorporated area (areas beyond Local Government boundaries) in far west New South Wales. It is also responsible for water supply in Broken Hill, Silverton and Menindee and sewer services in Broken Hill.

This general purpose financial report has been presented in accordance with Accounting Standards, the Public Finance and Audit Act 1983, the State Owned Corporations Act 1989, Public Finance and Audit Regulations 2000 and Urgent Issues Group Consensus Views.

It is prepared on a full accrual accounting basis and according to the historical cost convention with the exception of some non-current physical assets.

On 1 July 2005, pursuant to section 84 of the Electricity Supply Act 1995, the boundaries of Country Energy were altered to include the distribution of the former Australian Inland.

Also on that date, pursuant to section 14 of the Energy Services Corporations Act 1995, the State Owned Corporation of Australian Inland was removed from Schedule 5 of the State Owned Corporations Act 1989. This resulted in the dissolution of that corporation. Also from that date, Country Energy replaced Australian Inland as the State Owned Corporation listed as a water supply authority under Part 3 of Schedule 3 of the Water Management Act 2000.

As a result of these administrative changes to Australian Inland, the basis of the preparation of the financial report changed and has been performed in accordance with NSW Treasury Circular TC 01/11 Contributions by Owners made to Wholly-Owned Public Sector Entities and advice from Treasury. The material impacts on the statement of financial performance and position are detailed as follows:

	Note	Impact \$'000
Write down of water and sewer assets	3.2	17,559
Depreciation expense	3.2	1,640
		19,199
Bad & doubtful debts - trade debtors	3.2	1,066
Other expenses	3.2	1,795
Income tax credit	18	(5,267)
Asset revaluation reserve	11(c)	62,745

With the dissolution of Australian Inland on 1 July 2005, the entity will not transition to AIFRS. Accordingly, the balances to be transferred and the subsequent re-measurement of these balances under AIFRS will be the responsibility of Country Energy. Note 1.15 details the responsibility of the management of the transition to AIFRS by Country Energy and any known quantification of reliably estimable information of Australian Inland that would be material to Country Energy.

Note 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

(continued)

1.1 Leases

A distinction is made between finance leases which effectively transfer from the lessor to the lessee substantially all the risks and benefits incident to ownership of leased non-current assets, and operating leases under which the lessor effectively retains substantially all such risks and benefits.

Finance leases are capitalised. A lease asset and liability are established at the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the interest expense.

The leased asset is amortised on a straight line basis over the term of the lease, or where it is likely that the entity will obtain ownership of the asset, the life of the asset.

Other operating lease payments are charged to the Statement of Financial Performance in the periods in which they are incurred, as this represents the pattern of benefits derived from the leased assets.

1.2 Property, Plant and Equipment

Property, plant and equipment, other than buildings, electricity subtransmission and distribution, water and sewer infrastructure assets are carried at historical cost.

At 1 July 2000 upon the application of Accounting Standard *AASB 1041 Revaluation of Non-Current Assets*, the entity elected to revert to deemed cost for classes of assets previously carried at revalued amounts. During the year a revised Treasury policy and guidelines *Valuation of Physical Non-Current Assets at Fair Value* was issued to apply Accounting Standard *AASB 1041 Revaluation of Non-Current Assets* to the New South Wales public sector for the years ending on or after 30 June 2004.

Under the revised Treasury policy and guidelines, the entity is considered to be a transitional entity, and as such has continued to adopt deemed cost for the infrastructure asset class. As a result, the entity only apply the recoverable amount test to its cash generating assets, which is the electricity subtransmission and distribution infrastructure assets.

The carrying value of electricity subtransmission and distribution infrastructure assets are reviewed to determine that they are not in excess of their recoverable amount. Any decrement in the carrying amount is recognised as an expense in net profit or loss in the reporting period in which the recoverable write down occurs.

Any gain or loss on the disposal of assets is determined as the difference between the carrying amount of the asset at the time of disposal and the proceeds of disposal and is included in the results of the Statement of Financial Performance.

The network system assets and water business assets were valued as at 30 June 2005 by Carnegie, Wylie & Company (CWC) using a "Discounted Cash Flow" (DCF) Methodology.

The carrying value of the network system assets at balance date are supported by the independent valuation.

The water business assets in the opinion of Carnegie, Wylie & Company did not support the carrying value of the asset at balance date. In addition NSW Treasury had further confirmed that the water business assets be written down to \$nil. Accordingly the water business assets were written down to \$nil with \$62.756 million taken from the Asset Revaluation Reserve and the balance of \$17.559 million to the Statement of Financial Performance (before tax).

Note 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1.2 Property, Plant and Equipment (continued)

Assets other than freehold land are depreciated at rates based upon their expected useful lives, using the straight line method. Costs of renewal and replacement of non subtransmission and distribution assets, valued at less than \$300 are charged directly against revenue.

The expected useful lives are as follows:

Buildings	40 years
Plant and equipment	7-10 years
Computer equipment	4 years
Electricity network assets	20-45 years
Water and sewer infrastructure assets	25-80 years

The cost of property, plant and equipment constructed by the entity includes the cost of materials, direct labour and an appropriate proportion of overheads.

Contributions from owners are accounted for in accordance with Treasury Circular 01/11.

1.3 Inventories

Inventories have been valued at the lower of cost and net realisable value. Cost is determined using the rolling average purchase price of each item, and comprises the cost of purchase including the cost of bringing the inventories to their appropriate location.

Items held as capital spares not used for greater than 12 months are classified as non-current.

1.4 Employee Benefits

a) Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, annual leave and sick leave are recognised, and are measured at the amounts expected to be paid when the liabilities are settled.

b) Long service leave

The liability for long service leave expected to be settled within 12 months of the reporting date is recognised in the provision for employee benefits and is measured in accordance with (a) above. The liability for long service leave expected to be settled more than 12 months from the reporting date is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

c) Superannuation

A liability or asset in respect of defined benefit superannuation is recognised in the provision for employee benefits, and is measured as the difference between the present value of employees' accrued benefits at the reporting date and the net market value of the superannuation fund's assets at that date. The present value of accrued benefits is based on expected future payments which arise from membership of the fund to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows. The amount charged to the statement of financial performance in respect of superannuation represents the contributions made by the entity to the superannuation fund, adjusted by the movement in the liability or asset.

Note 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

(continued)

d) Employee benefits on-costs

Employee benefits on-costs, including payroll tax, are recognised and included in employee benefit liabilities and costs when the employee benefits to which they relate are recognised as liabilities.

1.5 Electricity Purchases

Wholesale market contracts have been entered into with electricity market counterparties to manage the risk associated with fluctuations in the purchase price of electricity from the National Electricity Market (NEM). It is the policy of the entity to manage its exposure in line with forecast retail exposures over the following 3 years. In doing so, the entity has entered into various electricity contracts.

Uncontracted positions expose the entity to pool price variation. The entity's risk management policy is to limit exposure and consequent price risk to within Policy prescribed limits.

As these contracts can be settled other than by physical delivery of the underlying commodity, they are classified as financial instruments. The entity has entered into electricity options and load nomination contracts which have not been valued as at 30 June 2005 as a reliable and generally accepted valuation methodology is not currently available and the value is not considered material.

1.6 Insurance

The entity's share of premium paid to the New South Wales Electricity Authorities Group Liability Insurance Program for 2005 was \$492,215 (2004: \$366,987).

1.7 Rounding of Amounts

Figures presented in tabular form are rounded to the nearest thousand dollars (ie. \$'000), however where an amount is quoted within text it is rounded to the nearest whole dollar.

1.8 Income Tax

Tax effect accounting procedures are followed whereby the income tax expense in the Statement of Financial Performance is matched with the accounting profit after allowing for permanent differences. Income tax on cumulative timing differences is set aside to the deferred income tax or the future income tax benefit accounts at the rates which are expected to apply when those timing differences reverse.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt.

1.9 Cash

For the purpose of the statement of cash flows, cash includes deposits at call which are readily converted to cash on hand and are subject to an insignificant risk of change in value.

1.10 Investments

Interest income is recognised as revenue in the Statement of Financial Performance as it is earned.

1.11 Receivables

All trade debtors are recognised at the amounts receivable as they are due for settlement no more than 30 days after recognition. Long term debtors income is brought to account as revenue and is paid over the period of the agreement. A provision for doubtful debts is recognised when collection of the full nominal amount is no longer probable.

Note 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1.12 Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the amount of revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised

Electricity Usage Charges:

When usage readings are taken plus revenue from meters unread at 30 June.

Water Usage Charges:

When customers are billed.

Water/Electricity/Sewerage Access Charges:

As services are made available and billed quarterly.

1.13 Trade and Other Creditors

These amounts represent liabilities for goods and services provided prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

1.14 Maintenance and Repairs

Routine operating maintenance, repair and minor renewal costs are charged as expenses as incurred.

1.15 International Accounting Standards

As set out in Note 1, the dissolution of the Australian Inland on 1 July 2005 will result in AI not transitioning to AIFRS. Accordingly, the balances to be transferred and the subsequent re-measurement of these balances under AIFRS will be the responsibility of Country Energy.

(i) Management of the transition:

Country Energy have engaged external consultants to analyse the standards and Urgent Issue Group Interpretations to identify key areas regarding policy, procedures, systems and financial impacts affected by the transition.

A project plan has been prepared by Country Energy. The plan identifies the steps required to design and implement the necessary processes, procedures and policies to achieve transition.

The Audit and Risk Committee of Country Energy is overseeing the transition. The Group General Manager, Finance and Business Development of Country Energy is responsible for the project and reports regularly to the Committee on progress to plan.

(ii) Impact on the adoption of Australian equivalents IFRS:

The differences between AGAAP and AIFRS on AI's balances have been identified and quantified based on Country Energy and Australian Inland management's best estimate, knowledge of expected standards and interpretations and current facts and circumstances. It is anticipated that the impact of AIFRS on AI's balances would not materially impact Country Energy's financial statements.

Note 2. SEGMENT INFORMATION

Business Segments

Australian Inland contains the following segment divisions by product type.

Electricity

Includes network distribution activities relating to the planning, maintenance, operation, construction and augmentation of electricity reticulation assets from bulk supply purchase points to customers meters. It also includes electricity retail activities and customer services.

Water

Responsible for planning system maintenance, system operation, system construction and the augmentation of water reticulation assets, meter reading and community service obligations.

Sewerage

Planning system maintenance, system operation, system construction and augmentation of sewer collection and treatment assets and community service obligations.

Other

Is represented by business development, its focus being to identify, develop or pursue business opportunities that will contribute to the employment and economic growth prospects of the region, internet trading and service operations of PcPronet, and from 1 July 2002, other general unallocated activities. None of these activities constitutes a separately reportable segment.

Australian Inland Energy Water Infrastructure

Notes to and Forming Part of the Financial Statements

for the year ended 30 June 2005

Note 2. SEGMENT INFORMATION (continued)

	Electricity	Water	Sewerage	Other	Inter-segment Eliminations	Consolidated
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
2005						
Sales to external customers	37,346	8,958	2,449	-		48,753
Intersegment sales (note (b))	1,676	7	3	-	(1,686)	-
Total sales revenue	39,022	8,965	2,452	-	(1,686)	48,753
Other revenue	11,299	3,347	183	-	-	14,829
Total segment revenue	50,321	12,312	2,635	-	(1,686)	63,582
Segment result	(1,976)	(14,485)	(2,998)		-	(19,459)
Unallocated revenue less unallocated expenses						-
Profit from ordinary activities before income tax credit/ (expense)						(19,459)
Income tax credit						6,194
Profit from ordinary activities after income tax credit/ (expense)						(13,265)
Net Profit						(13,265)
Segment assets	76,638	5,119	2,985	(2,298)		82,444
Unallocated assets						6,463
Total assets						88,907
Segment liabilities	(12,612)	(2,094)	(272)	(262)		(15,240)
Unallocated liabilities						(6,463)
Total liabilities						(21,703)
Acquisitions of property, plant and equipment, intangibles and other non current segment assets	5,108	2,131	704	1,753	-	9,696
Unallocated acquisitions						(2,349)
Total acquisitions						7,347
Depreciation expense	3,655	2,155	778	1,642	-	8,230
Other non cash expenses	1,762	711	327	-	-	2,800
Net cash inflow/(outflow) from operating activities	6,799	692	515	(1,245)	-	6,761
Unallocated cash flow						(200)
Total net cash inflow/(outflow) from operating activities						6,561

Note 2. SEGMENT INFORMATION (continued)

	Electricity \$'000	Water \$'000	Sewerage \$'000	Other \$'000	Inter-segment Eliminations \$'000	Consolidated \$'000
2004						
Sales to external customers	37,752	8,112	2,580	-	-	48,444
Intersegment sales (note (b))	1,170	4	2	-	(1,176)	-
Total sales revenue	38,922	8,116	2,582	-	(1,176)	48,444
Other revenue	9,936	3,343	66	-	-	13,345
Total segment revenue	48,858	11,459	2,648	-	(1,176)	61,789
Segment result	112	(76)	(29)	-	-	7
Unallocated revenue less unallocated expenses						-
Profit from ordinary activities before income tax expense						7
Income tax expense						456
Profit from ordinary activities after income tax expense						463
Net Profit						463
Segment assets	74,078	61,880	20,396	486	-	156,840
Unallocated assets						6,755
Total assets						163,595
Segment liabilities	(11,871)	(1,733)	(300)	(1)	-	(13,905)
Unallocated liabilities						(6,477)
Total liabilities						(20,382)
Acquisitions of property, plant and equipment, intangibles and other non current segment assets	2,534	5,592	280	(121)	-	8,285
Unallocated acquisitions						945
Total acquisitions						9,230
Depreciation expense	3,606	2,191	778	2	-	6,577
Other non cash expenses	1,310	293	(23)	-	-	1,580
Net cash inflow/(outflow) from operating activities	(315)	5,092	569	(7)	-	5,339
Unallocated cash flow						2,803
Total net cash inflow/(outflow) from operating activities						8,142

Note 2. SEGMENT INFORMATION (continued)

Notes to and forming part of the segment information

a) Accounting policies

Segment information is prepared in conformity with the accounting policies of Australian Inland as disclosed in note 2 and accounting standard, *AASB 1005 Segment Reporting*.

Segment revenues, expenses, assets and liabilities are those that are directly attributable to a segment and the relevant portion that can be allocated to the segment on a reasonable basis. Segment assets include all assets used by a segment and consist primarily of operating cash, receivables and property, plant and equipment, net of related provisions. While most of these assets can be directly attributable to individual segments, the carrying amount of certain assets used jointly by segments are allocated based on reasonable estimates of usage. Segment liabilities consist primarily of trade and other creditors, and employee provisions.

b) Inter-segment transfers

Segment revenues, expenses and results include transfers between segments. Such transfers are priced at an "arm's-length" basis and are eliminated on consolidation.

Note 3. REVENUE AND EXPENDITURE ITEMS

3.1 Revenue

	2005	2004
	\$'000	\$'000
Revenue from outside operating activities		
Electricity sales	37,346	37,752
Water rates and charges	8,958	8,112
Sewer services	2,449	2,580
	48,753	48,444
Revenue from outside the operating activities		
Interest	909	843
Sales of non current assets	500	270
Other	4,659	2,890
Operating subsidies	7,319	7,620
Capital contributions	1,442	1,722
	14,829	13,345
Revenue from ordinary activities	63,582	61,789

Note 3. REVENUE AND EXPENDITURE ITEMS (continued)

3.2 Profit from ordinary activities

Net gains and expenses

Profit from ordinary activities before income tax expense includes the following specific net gains and expenses:

	2005 \$'000	2004 \$'000
Net gains		
Prepaid employer contributions - defined benefits Superannuation Fund	1,363	1,643
Expenses		
Cost of sales - purchase of electricity	24,093	26,670
Depreciation - buildings	264	246
Depreciation - plant and equipment	7,966	6,331
Bad and doubtful debts - trade debtors	1,066	7
Provision/(writeback) for doubtful debts - trade debtors	-	110
Written down value of disposed property, plant and equipment	678	132
Write down of water and sewer assets	17,559	-
Other expenses	31,415	28,286
	83,041	61,782

3.3 Grants and Subsidies

Water

A subsidy of \$2 million was received from the NSW Treasury (2004: \$2.3m) relating to the water segment.

Electricity

A subsidy of \$5.3 million is received annually from the NSW Treasury (2004: \$5.3m) relating to the electricity segment.

3.4 Interest Expense

There was no interest expense on loans from T-Corp (2004 Nil).

3.5 Depreciation Expense

Depreciation has been calculated on a straight line basis over the estimated useful life of the fixed asset.

Additions for the current year have been depreciated for an average of 6 months.

The electricity subtransmission and distribution assets, water and sewer infrastructure assets are depreciated based on remaining life, in accordance with industry guidelines. Land is not depreciated. The depreciation expense is as shown below.

	2005 \$'000	2004 \$'000
Depreciation expense per Statement of Financial Performance	8,230	6,577

Note 3. REVENUE AND EXPENDITURE ITEMS (continued)

3.6 Capital Contributions

Capital contributions were charged where extensions were required to the electricity and water reticulation and sewer collection systems to connect customers or in the case of electricity where customers sought to increase the load beyond which the existing mains were able to supply.

Where there were no benefits to other customers, the customer paid full costs associated with that connection or upgrading of load supply.

Total capital contributions recognised during the year were \$1,441,749 (2004: \$1,722,357).

Note 4. OTHER

	2005 \$'000	2004 \$'000
Current		
Sundry prepayments	259	361
Prepaid employer superannuation contributions	4,816	3,453
	5,075	3,814

Note 5. RECEIVABLES

	2005 \$'000	2004 \$'000
Current		
Electricity, water and sewer debtors	6,998	5,870
Provision for doubtful debts	(1,376)	(1,065)
	5,622	4,805
Estimated revenue from unread meters	2,713	2,491
Other debtors	3,224	3,648
Provision for doubtful debts	(58)	(20)
	3,166	3,628
Total	11,501	10,924
Non-Current		
Other debtors	-	149

Note 6. INVENTORIES

The majority of Australian Inland's inventories are held for distribution works. Inventories are maintained on a cyclical stocktake, a complete stocktake was carried out during the course of the year.

	2005 \$'000	2004 \$'000
Current		
Inventories	2,195	2,503
Non-Current		
Inventories	570	589

Australian Inland Energy Water Infrastructure

**Notes to and Forming Part of the Financial Statements
for the year ended 30 June 2005**

Note 7. PROPERTY, PLANT AND EQUIPMENT

System Plant and Equipment	2005	2004
	\$'000	\$'000
<i>Electricity Sub-Transmission & Distribution System</i>		
At Cost / Deemed Cost	50,724	47,620
Accumulated Depreciation	(15,216)	(13,215)
Total	35,508	34,405
<i>Water and Sewer Infrastructure Assets</i>		
At Cost / Deemed Cost	92,180	86,810
Accumulated Depreciation/write down	(92,180)	(15,918)
Total	-	70,892
<i>Assets in the Course of Construction</i>		
Write down	2,994	7,897
	(2,085)	-
Total	909	7,897
Total System Plant and Equipment	36,417	113,194
<i>Freehold Land</i>		
At Cost / Deemed Cost	661	661
Write down	(351)	-
Total	310	661
<i>Buildings</i>		
At Cost / Deemed Cost	9,724	9,161
Accumulated Depreciation/write down	(5,261)	(2,420)
Total	4,463	6,741
Total Freehold Land and Buildings	4,773	7,402
<i>Plant and Equipment</i>		
At Cost / Deemed Cost	20,791	21,087
Accumulated Depreciation / write down	(14,883)	(13,161)
Total Plant and Equipment	5,908	7,926
Total	47,098	128,522

Australian Inland Energy Water Infrastructure

Notes to and Forming Part of the Financial Statements for the year ended 30 June 2005

Note 7. PROPERTY, PLANT AND EQUIPMENT (continued)

Reconciliations

Reconciliations of the carrying amounts of each class of property, plant and equipment at the beginning and end of the current financial year are set out below:

	Freehold land \$'000	Buildings \$'000	Plant & Equipment \$'000	Infrastructure Assets \$'000	Assets in the Course of Construction \$'000	Total \$'000
Opening Carrying Amount	661	6,741	7,926	105,297	7,897	128,522
Additions	-	5	2,865	(44)	4,963	7,788
Disposals	-	-	(582)	(55)	-	(636)
Transfers - WIP	-	558	658	8,648	(9,864)	-
Transfer to Inventory	-	-	-	(42)	-	(42)
Write down water & sewer assets	(351)	(2,577)	(1,474)	(73,815)	(2,087)	(80,304)
Depreciation		(264)	(3,485)	(4,481)	-	(8,230)
Closing Carrying Amount	310	4,463	5,908	35,508	909	47,098

Assets that are fully depreciated have a cost value of \$7,248,416 (2004: \$8,587,878). The majority of these assets relate to the water assets that have been written down.

Note 8. CHARGE OVER ASSETS

Australian Inland has no liabilities or contingent liabilities which are secured by a charge on the assets of Australian Inland.

Note 9. PROVISIONS

	2005 \$'000	2004 \$'000
Current		
Social program dividends	-	405
Merger Provisions	1,081	-
Employee benefits and on-costs	3,190	2,888
	4,271	3,293
Non-Current		
Employee benefits and on-costs	6,280	5,135

Notes to and Forming Part of the Financial Statements
for the year ended 30 June 2005

Note 9. PROVISIONS (continued)

	Current \$'000	Non-Current \$'000	Total \$'000
Employee benefits:			
Annual Leave	2,945	-	2,945
Sick Leave	-	1,989	1,989
Long Service Leave	245	4,291	4,536
Total	3,190	6,280	9,470

Employee Numbers:	2005	2004
Number of employees at balance date	252	239

Superannuation funds defined benefit schemes

	2005 \$'000				2004 \$'000			
	EISS	SASS	SANCS	SSS	EISS	SASS	SANCS	SSS
Estimated reserve account balance	8,014	6,695	612	159	6,429	5,922	527	167
Accrued liability	(6,156)	(3,793)	(548)	(167)	(5,210)	(3,688)	(521)	(173)
Surplus/(deficit)	1,858	2,902	64	(8)	1,219	2,234	6	(6)
Employer contributions to the funds	375	140	-	-	384	192	-	9
Movements in superannuation liability	-	-	-	-	-	-	-	(6)
Defined benefit superannuation expense	375	140	-	-	384	192	-	3

The above amounts are measured as at 30 June of each year, or in the case of employer contributions they relate to the years ended 30 June.

The excess of the present value of employees' accrued benefits over assets held to meet future benefit payments is recognised as a liability in accordance with the policy set out in note 1.4.

Note 10. PAYABLES

	2005 \$'000	2004 \$'000
Current:		
Trade Creditors	5,250	5,361
Other	1,376	1,706
	6,626	7,067
Non-Current:		
Other	182	215

Included in 'Other' are deposits from customers, comprising of a current portion of \$40,450 (2004 - \$110,500) and non-current portion of \$182,448 (2004 - \$193,400).

Note 11. EQUITY

a. Contributed Equity

	2005	2004
	\$'000	\$'000
Contributed Equity	34,922	34,922

Included in contributed equity is a Share Capital of \$2.00. Shares are held by the Minister for Finance and the Special Minister of State and Assistant Treasurer.

b. Retained Profits

	2005	2004
	\$'000	\$'000
Retained profits at 1 July 2004	45,399	39,554
Add: Acquisition of Gas Turbine Generators	-	5,500
Add: Net (loss)/profit for the financial year	(13,264)	463
Add: Transfer from Asset Revaluation Reserve	147	51
Less: Dividends provided for or paid	-	(169)
Retained profits at 30 June 2005	32,282	45,399

In 2004 Gas Turbines valued at \$5.5million were transferred from TransGrid to Australian Inland in accordance with NSW Treasury Directives. The transfer was treated as a contribution from owners.

c. Asset Revaluation Reserve

	2005	2004
	\$'000	\$'000
(i) Movements:		
Balance at 1 July 2004	62,892	62,943
Less: Transfer to retained profits	(147)	(51)
Write down of water and sewer assets	(62,745)	-
Balance at 30 June 2005	-	62,892

(ii) Nature and purpose of reserve

The asset revaluation reserve is used to record increments and decrements on the revaluation of non-current assets in respect of those non-current assets that were previously recorded at valuation.

Note 12. EXPENDITURE COMMITMENTS

	2005 \$'000	2004 \$'000
Capital expenditure commitments		
Capital expenditure contracted for at reporting date but not recognised as liabilities, payable:		
- not later than one year	315	112
Operating leases		
Non-cancellable operating leases contracted for are payable as follows:		
- not later than one year	104	-
- later than one year but not later than five years	415	-
- later than five years but not later than ten years	208	-
	727	-
Other		
Commitments for the payment of salaries and other remuneration under long term employment contracts in existence at the reporting date but not recognised as liabilities, payable:		
- not later than one year	1,091	1,048
- later than one year but not later than five years	2,171	1,290
	3,262	2,338
Commitments for the payment of electricity supply under electricity commodity contracts in existence at the reporting date but not recognised as liabilities, payable:		
- not later than one year	160	914
- later than one year but not later than five years	-	619
	160	1,533

Capital and expenditure commitments disclosed are net of GST.

Note 13. CONTINGENT LIABILITIES

There are no known contingent liabilities that would impact on the state of affairs of the economic entity or have a material effect on these financial statements.

Note 14. REMUNERATION OF DIRECTORS

	2005	2004
	\$	\$
Income paid or payable or otherwise made available, to the directors by the entity and related parties in connection with the management of the affairs of the entity, excluding salaries of full time officers.	194,874	219,393

The number of directors whose total income from the entity was within the following specified bands:-

\$	2005	2004
10,000 - 19,999	9	0
20,000 - 29,999	1	2
30,000 - 39,999	1	4
50,000 - 59,999	0	1

Note 15. REMUNERATION OF AUDITORS AND CONSULTANTS

Amounts received or due and receivable by:	2005	2004
	\$'000	\$'000
Auditors:		
The Audit Office of New South Wales	131	154
	108	22
	239	176

Consultants:

Engagements associated with drought management initiatives, pricing modelling, staff development and business process review.

465	870
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Note 16. AMOUNTS CHARGED TO CAPITAL EXPENDITURE

During the year \$7,346,936 (2004: \$9,351,714) was spent on capital expenditure for the Broken Hill and Wentworth regions.

Note 17. CASH FLOW

	2005 \$'000	2004 \$'000
a. Components of Cash		
Cash on Hand and Cash at Bank	320	168
On Call Deposits	3,182	4,062
	3,502	4,230
b. Non Cash Financing and Investing Activities		
Acquisition of plant and equipment by means of trade-in:	442	87
Acquisition of gas turbine generators (refer note 11(b))	-	5,500
	442	5,587
c.		
For the purpose of the Statement of Cash Flows, cash includes cash on hand and investments on call and other highly liquid investments with short periods to maturity which are readily convertible to cash on hand and are subject to an insignificant risk of changes in value, net of outstanding bank overdrafts.		
d.		
Reconciliation of profit/(loss) from ordinary activities after income tax to net cash inflow from operating activities.		
	2005 \$'000	2004 \$'000
Profit/(loss) from ordinary activities after capital contributions and income tax expense but before dividends	(13,264)	463
Net loss on sale of property, plant & equipment	178	132
Write down of water and sewer assets	17,559	-
Social program dividend	(405)	-
Depreciation	8,230	6,578
Superannuation surplus	(1,363)	(1,643)
Amortisation of premium on investment	11	-
Change in operating assets and liabilities:		
Decrease/(increase) in receivables	(354)	3,905
Decrease/(increase) in unread meters	(222)	(461)
Decrease/(increase) in stores/inventories	326	21
Decrease/(increase) in prepayments	101	(36)
Decrease/(increase) in future income tax benefits	(6,113)	(367)
Increase/(decrease) in provision for income tax payable	248	(457)
Increase/(decrease) in deferred tax liabilities	(574)	(41)
Increase/(decrease) in payables	(372)	(978)
Increase/(decrease) in deposits and guarantees	(70)	(61)
Increase/(decrease) in long term customer deposits	(33)	-
Increase/(decrease) in provisions	1,081	-
Increase/(decrease) in long term debtors	149	(21)
Increase/(decrease) in employees benefits provision	1,448	1,108
Net cash inflow from operating activities	6,561	8,142

Note 18. PRIMA FACIE TAX RECONCILIATION

	2005 \$'000	2004 \$'000
Profit from ordinary activities before income tax expense	(19,458)	7
Prima facie tax payable at 30% (2004 - 30%)	(5,838)	1
Income tax credit	(6,194)	(456)
Variation from prima facie tax	(356)	(457)
Tax effect of permanent differences:-		
Other depreciation/amortisation	223	164
Capital works deduction	(48)	(48)
Superannuation surplus	(1,363)	(1,643)
Total	(1,188)	(1,527)
Tax effect on the permanent difference at 30% (2004 - 30%)	(356)	(457)

Australian Inland operates under the national tax equivalent regime (NTER).

Note 19. TAX ASSETS

	2005 \$'000	2004 \$'000
Non-Current		
Future Income Tax Benefit	8,880	2,767

Note 20. TAX LIABILITIES

	2005 \$'000	2004 \$'000
Current		
Tax provision	248	-
Non-Current		
Deferred tax liabilities	4,096	4,671

Note 21. FINANCIAL INSTRUMENTS

(a) Credit Risk Exposures

The credit risk on financial assets which have been recognised on the Statement of Financial Position is generally the carrying amount, net of any provision for doubtful debts.

(b) Interest Rate Risk Exposures and Net Fair Values

Australian Inland's exposure to interest rate risk for financial instruments and the aggregate net fair values of financial assets and liabilities at balance date are:

	Floating Interest		Fixed Interest Maturing in: Up to 1 year		Fixed Interest Maturing in: 1 to 5 years		Non-Interest Bearing		Carrying Amount		Aggregate Net Fair Value	
	\$'000		\$'000		\$'000		\$'000		\$'000		\$'000	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
Financial Assets												
Cash	3,497	4,225	-	-	-	-	5	5	3,502	4,230	3,502	4,230
Electricity/Water Debtors	-	-	-	-	-	-	5,622	4,805	5,622	4,805	5,622	4,805
Other Debtors	-	-	-	-	-	-	3,166	3,628	3,166	3,628	3,166	3,628
Other Financial Assets	10,086	10,096	-	-	-	-	-	-	10,086	10,096	10,086	10,096
Long Term Debtors	-	-	-	-	-	149	-	-	-	149	-	149
Total Financial Assets	13,583	14,321	-	-	-	149	8,793	8,438	22,376	22,908	22,376	22,908
Financial Liabilities												
Payables	-	-	-	-	-	-	6,809	7,282	6,809	7,282	6,809	7,282
Interest bearing liabilities	-	-	-	-	-	-	-	-	-	-	-	-
Other Creditors	-	-	-	-	-	-	-	405	-	405	-	405
Total Financial Liabilities	-	-	-	-	-	-	6,809	7,687	6,809	7,687	6,809	7,687
Net Total	13,583	14,321	-	-	-	149	1,984	751	15,567	15,221	15,567	15,221

The interest exposure on financial assets are as follows:

	2005	2004
Cash	0.05 - 4.15%	0.05 - 4.80%
Other Financial Assets	4.80 - 6.26%	4.88 - 5.84%
Long Term Debtors	3.00%	3.00%

All carrying values approximate fair value for all recognised financial instruments. The net fair value of financial assets and financial liabilities were assessed upon market prices, where a market exists, or by discounting the expected future cash flows by the current interest rates for assets and liabilities with similar risk profiles.

No financial assets are carried at values in excess of their net fair value at balance date.

Australian Inland Energy Water Infrastructure

**Notes to and Forming Part of the Financial Statements
for the year ended 30 June 2005**

Note 22. OTHER FINANCIAL ASSETS

Australian Inland holds a floating rate note with Macquarie Bank Limited

	2005	2004
	\$'000	\$'000
Floating rate note	10,086	10,096

Note 23. EXEMPTIONS FROM THE REPORTING PROVISIONS

Approval has been given under delegation from the Treasurer, the Hon. Michael Egan, MLC, to exempt for the year ended 30 June 1999 and subsequent years, Australian Inland Energy Water Infrastructure from the following annual reporting requirements.

Item	Reference	Comments
Budgets		
* Detailed budget for the year reported on	s7(1)(a)(iii) ARSBA*	
* Outline budget for next year	s7(1)(a)(iii) ARSBA	
* Particulars of material adjustments to detailed budget for the year reported on	CI 6 ARSBR **	
Report of Operations		
	s7(1)(a)(iv) ARSBA	
Summary Review of Operations		
* Narrative summary of significant operations		Subject to a condition ***
* Selected financial and other quantitative information associated with the administration of programs or operations		
Management and Activities		
* Nature and range of activities	Schedule 1 ARSBR	Subject to a condition ***
* Measures and indicators of performance		
* Internal and external performance reviews		
* Benefits from management and strategy reviews		
* Management improvement plans and achievements		
* Major problems and issues		
* Major works in progress, cost to date, estimated dates of completion and cost overruns		
* Reasons for significant delays etc to major works or programs		
Research & Development		
* Completed research including resources allocated	Schedule 1 ARSBR	
* Continuing research including resources allocated		
* Developmental activities including resources allocated		

Note 23. EXEMPTIONS FROM THE REPORTING PROVISIONS (continued)

Item	Reference	Comments
Human Resources * Number of employees by category and comparison to prior three years * Exceptional movements in employee wages, salaries or allowances * Personnel policies and practices * Industrial relations policies and practices	Schedule 1 ARSBR	Subject to a condition ***
Consultants * For each engagement costing greater than \$30,000 (name of consultant, title of project and actual cost) * For each engagement costing less than \$30,000 (total number of engagements and total cost) * If applicable, a statement that no consultants were engaged	Schedule 1 ARSBR	Subject to a condition ***
Budgets Land Disposal * Properties disposed of during the year (total number and total value) * If value greater than \$5,000,000 and not by public auction or tender (list of properties and for each case, name of person who acquired the property and proceeds from disposal) * Details of family or business connections between the purchaser and the person responsible for approving the disposal * Statement giving reasons for the disposal * Purpose/s for which proceeds were used * Statement indicating that access to the documents relating to the disposal can be obtained under the Freedom of Information Act		
Consumer Response * Extent and main features of complaints * Services improved / changed in response to complaints and, or, suggestions	Schedule 1 ARSBR	Subject to a condition ***
Payment of Accounts * Performance in paying accounts, including action to improve payment performance	Schedule 1 ARSBR	
Time for Payment of Accounts * Reasons for late payments * Interest paid due to late payments	Schedule 1 ARSBR	

Note 23. EXEMPTIONS FROM THE REPORTING PROVISIONS (continued)

Item	Reference	Comments
Report on Risk Management and Insurance Activities	Schedule 1 ARSBR	Subject to a condition ***
Disclosure of Controlled Entities	Schedule 1 ARSBR	Subject to a condition ***
* Details of objectives, operations, activities of controlled entities and measures of performance		
Investment Management Performance	cl 12 ARSBR	
Liability Management Performance	cl 13 ARSBR	
Financial Statements of Controlled Entities	S7(1)(a)(ia) ARSBA	Subject to a condition ***

* ARSBA - Annual Reports (Statutory Bodies) Act 1985

** ARSBR - Annual Reports (Statutory Bodies) Regulation 2001

*** Conditions imposed by Treasury and conveyed to Australian Inland Energy in correspondence dated 11 July 1997.

Note 24. POST BALANCE SHEET EVENT

On 1 July 2005 pursuant to section 84 of the Electricity Supply Act 1995, the boundaries of Country Energy were altered to include the distribution district of the former Australian Inland.

Also on that date, pursuant to section 14 of the Energy Services Corporations Act 1995, the State Owned Corporation of Australian Inland was removed from Schedule 5 of the State Owned Corporations Act 1989. This resulted in the dissolution of that corporation. Also from that date Country Energy replaced Australian Inland as the State Owned Corporation listed as a water supply authority under Part 3 of Schedule 3 of the Water Management Act 2000.

As a result of these administrative changes, on 1 July 2005 the net assets and equity of Country Energy were increased by the amounts of net assets and equity held by Australian Inland on 30 June 2005. The operating activities of Country Energy also increased by a factor equivalent to the sum of the operating activities of Australian Inland.

End of Audited Financial Statements

General Enquiries

13 23 56

Supply Interruptions

13 20 80

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