Financial Statements

CONTENTS

Independent Audit Report

GPO BOX 12
Sydney NSW 2001

INDEPENDENT AUDITOR'S REPORT

Country Energy and controlled entities

To Members of the New South Wales Parliament

I have audited the accompanying financial report of Country Energy (the Corporation), and the Corporation and controlled entities (the consolidated entity), which comprises the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. The consolidated entity comprises the Corporation and the entities it controlled at the year's end or from time to time during the financial year.

Auditor's Opinion

In my opinion, the financial report:

- presents fairly, in all material respects, the financial position of the Corporation and the consolidated entity as of 30 June 2007, and of their financial performance and their cash flows for the year then ended in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations)
- is in accordance with section 41B of the *Public Finance and Audit Act 1983* (the PF&A Act) and the Public Finance and Audit Regulation 2005

Directors' Responsibility for the Financial Report

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

Auditor's Responsibility

My responsibility is to express an opinion on the financial report based on my audit. I conducted my audit in accordance with Australian Auditing Standards. These Auditing Standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

My opinion does *not* provide assurance:

- about the future viability of the Corporation or consolidated entity,
- that they have carried out their activities effectively, efficiently and economically, or
- about the effectiveness of their internal controls.

Independence

In conducting this audit, the Audit Office has complied with the independence requirements of the Australian Auditing Standards and other relevant ethical requirements. The PF&A 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 FCPA
Director, Financial Audit Services

11 October 2007
SYDNEY

Statement by Members of the Board

As at 30 June 2007

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 2005, the State Owned Corporations 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 Country Energy as at 30 June 2007 and of the profit and cash flows of the corporation for the year ended 30 June 2007.

3. At the date of this statement, there are reasonable grounds to believe that Country Energy 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.

10/10/2007

Barbara Ward
Chairman

Dated

10/10/2007

Craig Murray
Managing Director

Dated

Income Statements

For the year ended 30 June 2007

		Consolidated		Corporation	
	Note	**2007 $'000**	2006 $'000	**2007 $'000**	2006 $'000
Revenue	2	2,101,371	1,984,597	2,095,188	1,977,675
Other Income, excluding fair value movements in financial instruments	2	35,887	18,200	35,887	–
Finance Costs	2	(142,829)	(128,053)	(142,829)	(128,053)
Other Expenses, excluding actuarial superannuation gains	2	(1,819,515)	(1,642,218)	(1,817,815)	(1,641,725)
Profit before income tax, fair value movements in financial instruments, actuarial superannuation gains/(losses)		**174,914**	**232,526**	**170,431**	**207,897**
Income Tax on profit before income tax, fair value movements in financial instruments, actuarial superannuation gains/(losses)	3	(58,227)	(71,153)	(56,397)	(63,405)
Profit before fair value movements in financial instruments, actuarial superannuation gains/(losses)		**116,687**	**161,373**	**114,034**	**144,492**
Fair value gains/(losses) in financial instruments net of amortisation of contract premiums and transitional cash settlements	2	48,720	8,802	48,720	8,802
Superannuation actuarial gains/(losses)	27	12,029	26,430	12,029	26,430
Income Tax on gains/(losses) in financial instruments net of amortisation of contract premiums and transitional cash settlements, and actuarial superannuation gains/(losses)	3	(18,225)	(10,570)	(18,225)	(10,570)
Profit for the period		**159,211**	**186,035**	**156,558**	**169,154**

The accompanying notes form part of these Income Statements.

Balance Sheets

For the year ended 30 June 2007

		Consolidated		Corporation	
	Note	**2007 $'000**	2006 $'000	**2007 $'000**	2006 $'000
Current Assets					
Cash and Cash Equivalents	5	14,708	12,265	14,708	12,254
Trade and Other Receivables	6	214,550	206,826	216,412	210,039
Estimated Revenue from Unread Meters	1.8.2	243,239	236,184	243,239	236,184
Inventories	8	20,418	21,654	20,418	21,654
Current Tax Assets	4	–	478	–	478
Intangibles – Green Certificates	19	38,378	26,243	38,378	26,243
Derivative Financial Instruments	7	651,791	100,446	651,791	100,446
Other Assets	11	–	–	56,457	113,957
Total Current Assets		**1,183,084**	**604,096**	**1,241,403**	**721,255**
Non-Current Assets					
Trade and Other Receivables	6	34,170	22,876	34,170	22,876
Investments in Subsidiary Corporations	9	–	–	26,871	36,871
Available-for-sale investment	9	2,069	2,069	2,069	2,069
Investment Property	10	2,567	2,567	2,567	2,567
Property, Plant and Equipment	12	3,248,644	2,972,473	3,162,897	2,832,265
Intangible Assets	13	66,697	47,924	54,542	33,244
Deferred Tax Assets	4	77,600	74,209	77,429	74,119
Other Assets	11	1,130	1,179	1,130	1,179
Total Non-Current Assets		3,432,877	3,123,297	3,361,675	3,005,190
Total Assets		**4,615,961**	**3,727,393**	**4,603,078**	**3,726,445**

The accompanying notes form part of these Balance Sheets.

	Note	Consolidated 2007 $'000	Consolidated 2006 $'000	Corporation 2007 $'000	Corporation 2006 $'000
Current Liabilities					
Trade and Other Payables	14	289,502	269,149	289,853	287,593
Deposits	15	12,807	13,308	12,807	13,308
Interest Bearing Liabilities	16	488,210	533,853	488,210	533,853
Income Tax Payable	4	18,531	–	18,531	–
Provisions – Green Certificates	19	31,360	24,961	31,360	24,961
Provisions	17	216,221	233,429	216,221	233,429
Derivative Financial Instruments	7	36,348	13,298	36,348	13,298
Other Liabilities	18	12,808	14,735	12,452	14,379
Total Current Liabilities		1,105,787	1,102,733	1,105,782	1,120,821
Non-Current Liabilities					
Interest Bearing Liabilities	16	1,730,402	1,446,978	1,730,402	1,446,978
Deferred Tax Liabilities	4	514,942	354,918	512,282	340,827
Provisions	17	23,531	30,386	23,531	30,386
Other Liabilities	18	902	1,430	13	185
Total Non-Current Liabilities		2,269,777	1,833,712	2,266,228	1,818,376
TOTAL LIABILITIES		**3,375,564**	**2,936,445**	**3,372,010**	**2,939,197**
NET ASSETS		**1,240,397**	**790,948**	**1,231,068**	**787,248**
Equity					
Contributed Equity		130,485	130,485	130,485	130,485
Reserves		637,444	298,151	637,444	298,054
Retained Profits		472,468	362,312	463,139	358,709
Total Equity		**1,240,397**	**790,948**	**1,231,068**	**787,248**

The accompanying notes form part of these Balance Sheets.

Cash Flow Statements

For the year ended 30 June 2007

		Consolidated		Corporation	
	Note	**2007 $'000**	2006 $'000	**2007 $'000**	2006 $'000
Cash Flows from Operating Activities					
Receipts from customers		2,239,741	1,997,006	2,234,353	1,990,511
Payments to suppliers & employees		(1,811,100)	(1,613,645)	(1,809,397)	(1,611,385)
Interest received		2,696	1,382	2,681	1,380
Interest and other costs of finance paid		(156,363)	(135,643)	(156,363)	(135,643)
Income tax paid		(34,226)	(66,306)	(34,226)	(66,306)
Net Operating Cash Flows	21	240,748	182,794	237,048	178,557
Cash Flows from Investing Activities					
Payments for property, plant and equipment	1.11.5	(488,390)	(423,711)	(484,788)	(419,882)
Proceeds from sale of property, plant & equipment		7,060	7,047	7,060	7,047
Purchase of non-current intangible assets		(17,064)	(1,452)	(17,013)	(1,044)
Sales of other investments		84,827	10,000	84,885	10,000
Net Investing Cash Flows		(413,567)	(408,116)	(409,856)	(403,879)
Cash Flows from Financing Activities					
Proceeds from borrowings		238,864	255,894	238,864	255,894
Repayment of borrowings		(97)	(227)	(97)	(227)
Net community service obligations received/(paid)		6,841	(308)	6,841	(308)
Cash acquired from merger		–	3,502	–	3,502
Dividends paid	17	(76,756)	(18,100)	(76,756)	(18,100)
Net Financing Cash Flows		168,852	240,761	168,852	240,761
Net Increase/(Decrease) in Cash Held		(3,967)	15,439	(3,956)	15,439
Cash at the beginning of the financial year		12,265	(3,174)	12,254	(3,185)
Cash at the end of the financial year	21	**8,298**	**12,265**	**8,298**	**12,254**

The accompanying notes form part of these Cash Flow Statements.

Statements of Changes in Equity

For the year ended 30 June 2007

	Consolidated		Corporation	
	2007 $'000	2006 $'000	**2007 $'000**	2006 $'000
Opening Balances				
Contributed Equity	130,485	95,563	130,485	95,563
Asset Revaluation Reserve	276,378	276,281	276,281	276,281
Hedge Revaluation Reserve	21,773	–	21,773	–
Retained Profits	362,312	232,684	358,709	245,962
Total Equity – opening balance	**790,948**	**604,528**	**787,248**	**617,806**
Movements during the Year				
Contributed Equity				
Contribution by owners	–	34,922	–	34,922
Movement in Contributed Equity	**–**	**34,922**	**–**	**34,922**
Asset Revaluation Reserve				
Revaluation increment on land and buildings	–	138	–	–
Tax effect on revaluation increment on land and buildings	–	(41)	–	–
Balances of disposed assets transferred to Retained Earnings	826	–	826	–
Tax effect on balances transferred to Retained Earnings	(225)	–	(225)	–
Release of reserve relating to subsidiary sold	(97)	–	–	–
Movement in Asset Revaluation Reserve	**504**	**97**	**601**	**–**
Hedge Revaluation Reserve				
Transactions resulting from the adoption of AASB 132 and AASB 139 on 1 July 2005	–	23,746	–	23,746
Net change in fair value of cash flow hedges	483,984	(1,973)	483,984	(1,973)
Tax effect of net changes in fair value of cash flow hedges	(145,195)	–	(145,195)	–
Movement in Hedge Revaluation Reserve	**338,789**	**21,773**	**338,789**	**21,773**
Retained Profits				
Transactions resulting from the adoption of AASB 132 and AASB 139 on 1 July 2005	–	(7,357)	–	(7,357)
Retained profits contributed by owner	–	27,706	–	27,706
Net Profit From Continuing Operations Attributable to Members of the Parent Entity	159,211	186,035	156,558	169,154
Transfers from Asset Revaluation Reserve	(826)	–	(826)	–
Release of retained profits relating to subsidiary sold	3,073	–	–	–
Dividends Provided and Paid	(51,302)	(76,756)	(51,302)	(76,756)
Movement in Retained Profits	**110,156**	**129,628**	**104,430**	**112,747**
Closing Balances				
Contributed Equity	130,485	130,485	130,485	130,485
Asset Revaluation Reserve	276,882	276,378	276,882	276,281
Hedge Revaluation Reserve	360,562	21,773	360,562	21,773
Retained Profits	472,468	362,312	463,139	358,709
Total Equity – closing balance	**1,240,397**	**790,948**	**1,231,068**	**787,248**

The Asset Revaluation Reserve comprises increments and decrements resulting from revaluations of land and building $26.022 million ($25.421 million in 2006), and system assets $250.860 million ($250.957 million in 2006).

Gains recognised on hedging financial instruments that were recognised directly into the Hedge Revaluation Reserve are $484.36 million ($7.358 million in 2006). Net amounts of $0.380 million (nil in 2006) were removed from equity and recorded in the Income Statement.

Notes to the Financial Statements

For the year ended 30 June 2007

Note 1 Significant Accounting Policies

The significant policies which have been adopted in the preparation of the financial report are:

1.1 Reporting Entity

Country Energy (the Corporation) was formed on 1 July 2001 by the merger of three NSW electricity distributors. These distributors traded as Advance Energy, Great Southern Energy and NorthPower. On 1 July 2005 a further merger was undertaken between Country Energy and Australian Inland Energy Water Infrastructure (Australian Inland), a New South Wales State Owned Corporation.

Country Energy is incorporated under the State Owned Corporations Act 1989. Country Energy's capital comprises two (2) fully paid $1.00 ordinary shares issued to the Treasurer and another Minister, the Deputy Premier and Minister for Finance. The $2.00 share capital has been included in the amount of contributed equity disclosed in the Balance Sheet.

1.2 Financial Reporting Framework

The accompanying statements are a general purpose financial report which has been prepared in accordance with Australian Accounting Standards and the requirements of the Public Finance and Audit Act 1983, the Public Finance and Audit Regulation 2005 and the State Owned Corporations Act 1989. The financial report has been prepared on an accrual accounting and going concern basis.

1.3 Statement of Compliance

The statements are in conformity with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS), other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and Interpretations. The Corporation has elected to apply the relief from reporting of the parent, available under AASB 132: *Financial Instruments: Disclosure and Presentation*. Consequently in relation to the parent, the financial statements and accompanying notes, do not comply with International Financial Reporting Standards (IFRS). The statements have adopted NSW Treasury's mandates and indicative mandates.

1.4 Principles of Consolidation

The consolidated financial statements of the Corporation include the financial statements of the Corporation, being the parent entity, and its controlled entities (the Group). All controlled entities are incorporated in Australia and details of holdings by the parent entity appear in note 26.

The balances and effects of transactions with the controlled entities included in the financial statements have been eliminated.

The controlled entities are, NorthPower Energy Services Pty Limited and Country Energy Gas Pty Limited. NorthPower Energy Services Pty Limited did not operate during the year.

EMMLINK Pty Limited was a controlled entity in the prior year and was sold during the year. The subsidiary's balances are not included in the current year's Balance Sheet but are included in the comparatives.

1.5 Accounting Policies

The preparation of the financial report requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. These accounting policies have been consistently applied in Country Energy.

The accounting policies are consistent with those applied in the previous year.

1.6 Cost Measurement

The financial report is prepared on the historical costs basis, modified to be compliant with AIFRS in the cases of:

- assets measured at fair value, being available-for-sale financial assets, financial assets and liabilities at fair value through profit and loss, derivative financial instruments, investment property, and stated classes of property, plant and equipment.
- recognised assets and liabilities that are hedged with fair value hedges, where the carrying values are adjusted to record changes in the fair values attributable to the risks being hedged.
- property, plant and equipment whose cost was deemed to be fair value at the date of transition to AIFRS.
- loans and receivables classified as financial instruments are measured at amortised cost. Generally these are recorded as non-current assets and liabilities in the Balance Sheet and amortisation is applied if material.

1.6.1 Measurement of Derivatives at Market Price

In accordance with AASB 139: *Financial Instruments: Recognition and Measurement,* derivative assets and liabilities are recognised at fair value. The most appropriate valuation methodology for energy trading derivatives is the application of a price quoted in an active market where available. Assets and liabilities valued using this pricing methodology are described as being valued at 'mark-to-market' (MtM). The values that may be encountered using MtM methodology have a history of being highly volatile resulting in large unrealised gains and losses. This may have a material impact on the Income Statement and will have no effect on the cash flow. The consequential movements through the financial statements are largely outside the control of the Corporation's management.

1.7 Impairment

In accordance with AASB 136: *Impairment of Assets* and AASB 139 impairment testing is carried out to ensure that assets are carried at no more than their recoverable amount. Impairment is applied in the following circumstances:

1.7.1 Assessment for Impairment

Assets are assessed for any indicators that impairment may exist. If there is no indication of impairment, impairment testing is not carried out. If there is indication of impairment, the recoverable amount is estimated for the asset, or the cash generating unit group of assets (CGU). If the carrying values exceed the estimated recoverable amount, the assets or CGUs are written down to their recoverable amount. The recoverable amount of an asset is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax weighted average cost of capital (refer note 1.16). For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs. Impairment losses are recognised in the Income Statement.

1.7.2 Impairment without Assessment

Goodwill acquired in a business combination and intangible assets with indefinite useful lives are tested for impairment annually irrespective of any indication of impairment.

1.7.3 Reversals of Impairment

Impairment losses are reversed when there is an indication that impairment may no longer exist and there has been a change in the estimate used to determine the recoverable amount. An impairment loss is reversed only to the extent that an asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment had been recognised.

Impairment reversals are not applied to goodwill.

1.8 Recognition of Revenue

Revenue is measured at the fair value of the consideration or contribution received or receivable. Additional comments regarding the accounting policies for the recognition of revenue are set out below.

Revenue relating to the Corporation's core operations is classified as revenue from the sale and delivery of energy. Revenue from other business activities is classified as other revenue (refer note 2).

1.8.1 Sales revenue

Sales revenue comprises revenue earned (net of returns, discounts and allowances) from the provision of products or services and is recognised when the goods are provided or when the fee in respect of services provided is receivable.

1.8.2 Revenue from unread meters

Revenue from unread meters is calculated at balance date for those customers who, at balance date, did not have their meters read and invoiced. The calculation uses an estimate based on their historical consumption (refer note 1.9.4).

1.8.3 Finance Revenue

The following transactions are recognised as finance revenue and are recorded in the Income Statement.

- Interest realised and unrealised on interest rate futures contracts (refer note 22.2.2).
- Interest received or receivable on futures deposits (refer note 1.9.9).
- Discount revenue applied to provisions and amortised assets.
- Net gains on valuations of interest rate futures that are classified as financial instrument 'loans and receivables'.

1.8.4 Asset sales

Proceeds on the sale of assets are brought to account when control of the asset passes to the buyer. Net gains on the sale of assets are other income in the Income Statement. Net losses on the sale of assets are recognised as expenses in the Income Statement.

1.8.5 Capital contributions

Capital contributions are monies paid by customers, or prospective customers, seeking an augmentation of the electricity and gas distribution systems in circumstances where, in the ordinary course of events, such augmentation would not be undertaken by the Corporation.

Capital contributions are recognised in accordance with Interpretation 1017: *Developer and Customer Contributions for Connection to a Price-Regulated Network*. Capital contributions are recorded as liabilities when they are received for an asset that is not complete and ready for use. These liabilities are recognised as revenue upon completion of the asset.

Non-current assets that are contributed to the Corporation by customers, are recorded as capital contributions and are valued at fair value. For the purposes of the Cash Flow Statement these revenues are not recognised as cash inflows (refer note 1.11.5).

1.8.6 Changes in Valuation of TCorp Investments

All TCorp investments are held in TCorp's Hour-Glass facility (refer note 1.9.2). In accordance with a NSW Treasury mandate, movements in the value of this facility are disclosed as revenue in the Income Statement.

1.9 Valuation of Current Assets

1.9.1 Cash and Cash Equivalents

For the purposes of the Balance Sheet, cash assets include cash on hand and investments at call (refer note 5).

For the purposes of the Cash Flow Statement, cash includes cash assets net of bank overdraft (refer note 21).

1.9.2 Investments

Surplus funds are managed in accordance with the Corporation's investment policy. The objective of the policy is to achieve maximum return within defined risk parameters. Investments are held in a managed portfolio and in the form of a deposit (refer note 22.1).

- **TCorp Investments**

  Investments held in TCorp Hour-Glass Investment facility are managed and evaluated on a fair value basis in accordance with the Corporation's investment policy. These investments are designated as 'fair value through profit and loss' consistent with AASB 139 and in accordance with a NSW Treasury mandate.

- **Other Investments**

  Investments are held in the form of a deposit as security for margin calls on futures trade transactions. These investments are interest bearing and are measured at fair value.

1.9.3 Receivables

Receivables include trade, other and intercompany debtors, plus prepayments.

- **Debtors**

  Trade, other and intercompany debtors are measured at cost, being the original invoice amount where the effect of discounting is immaterial. Collectability of debt is assessed at balance date in accordance with AASB139. Allowances for doubtful debts are made after assessing any evidence that trade, other and intercompany debtors are impaired. The allowances are calculated as the difference between the carrying amount of the debtor and the expected future cash flows. The allowances are disclosed in note 6 as provisions for doubtful debts.

- **Prepayments**

  Prepayments are measured at cost and represent prepaid expenses that are expected to be realised within twelve months.

1.9.4 Estimated Revenue from Unread Meters

A current asset is recognised resulting from the estimate made for meters that are unread at balance date (refer note 1.8.2).

1.9.5 Inventories

Inventories have been valued at the lower of cost and net realisable value. Cost is determined using the average purchase price of each item and comprises the cost of purchase including the cost of bringing the inventories to their appropriate location. Net realisable value is the estimated selling price less the estimated cost to sell. The major components of inventories are capital stores and consumables used in the maintenance of the distribution network.

1.9.6 Intangible Assets

Current intangible assets relate to assets acquired from the purchase of renewable energy and are measured at cost (refer note 1.14).

1.9.7 Derivative Assets

Current derivative assets are recognised in the course of energy trading and debt management and are measured at fair value (refer notes 7 and 22).

1.9.8 Loans to Subsidiary

The subsidiary Country Energy Gas Pty Limited has borrowings with the parent. These are recorded at cost and are disclosed as current other financial assets in the parent's financial report (refer note 1.13.4). Borrowings held by EMMLINK Pty Limited were repaid to the parent prior to the sale of the subsidiary.

1.9.9 Interest Rate Futures

The New South Wales Treasury Corporation (TCorp) on behalf of the Corporation transacts all interest rate futures traded on the Sydney Futures Exchange. Where as a result of these transactions, cash is received by TCorp on behalf of the Corporation, the debt is recorded in the Corporation's balance sheet as an asset.

1.10 Valuation of Non-Current Assets

1.10.1 Receivables

Non-current receivables include debtors, prepayments and the balance of overfunded (prepaid) superannuation.

- **Other Debtors**

  Other non-current debtors are recognised when the debt due is payable in a period greater than twelve months from balance date. They are carried at amortised cost being the net present value of amounts due when the debt is payable. Collectability of debt is assessed at balance date. A provision for doubtful debts is determined after having considered the ageing of the debt and the credit risk of the debtors. The debts are a mixture of interest bearing and non-interest bearing (refer note 6).

- **Prepayments**

  Prepayments are measured at amortised cost and represent payments that are expected to be realised in a period longer than twelve months. Where the amortisation adjustment is not material, amortisation is not recorded (refer note 6).

- **Overfunded superannuation**

  Any excess between the market value and accrued benefits of defined benefit superannuation plans are recognised as non-current receivables (refer notes 1.13.6 and 27).

1.10.2 Available-For-Sale Investment

The Corporation has a 20% interest in a wind farm. This is classified as an available-for-sale investment in accordance with AASB 139. The investment was valued at balance date using a discounted cash flow (DCF) calculation. The calculation used estimated pre-tax cash flows for 10 years and applied a pre-tax discount rate of 10% (refer note 1.16). The carrying value of the asset is not materially different from the supporting cash flows.

Any gains or losses arising from a change in the fair value of the asset are recognised directly into equity. Upon de-recognition of the investment, the cumulative gains or losses recorded in equity are recognised in the Income Statement.

1.10.3 Investment Property

Investment properties are stated at fair value, which have been determined based on valuations performed by L.J Hooker Grafton (Hookers) as at 30 June 2007. Hookers used a registered valuer who holds relevant professional qualifications and recent experience in the category of property being valued. Fair values were determined having regard to recent market transactions for similar properties in the same location as Country Energy's investment properties (refer note 10).

1.10.4 Investments in Subsidiaries

Shares held by the Corporation in its subsidiaries are recorded at cost and are eliminated in the consolidated financial statements.

1.10.5 Leased assets

The Corporation has not entered into any finance leases. Operating leases are not capitalised and rental payments are charged against operating profit in the period in which they are incurred (refer note 23).

1.10.6 Other Assets

Non-current other assets are assets whose economic benefit is expected to be realised in a period longer than twelve months. These include non interest bearing repayable advances made to employees. These advances will be repaid when the employees leave the service of the Corporation. Consequently the repayment dates are not determinable and the asset has not been amortised (refer note 11).

1.11 Valuation of Property, Plant and Equipment

Purchased property, plant and equipment is initially recognised at acquisition costs. The cost of a new asset purchase comprises:

- its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.
- any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Assets that are constructed by Country Energy (using employees, third party contractors, or a combination of both) are capitalised. These assets are typically network related, but can include the construction of other assets such as leasehold improvements and specialised plant and equipment.

The cost of these assets may include: directly purchased physical assets and associated incidental costs; labour and supervision costs; costs of design and technical assistance; internal and external plant hire costs; transfers from inventories and directly attributable overheads.

All expenditure relating to the replacement of an asset is capitalised to the extent that the asset has reached the end of its useful life or has not reached the end of its useful life but the replacement will result in an increase or improvement to the asset's current service capacity, service quality or useful life.

Property, plant and equipment is assessed annually for impairment. Where impairment exists, the carrying values of the assets are written down to their recoverable amounts. The amount of write down is recorded in the Income Statement except to the extent that an amount of write down can be offset against an amount in the asset revaluation reserve identified for a specific asset. Independent valuations are undertaken at least every five years.

1.11.1 System assets

As at 30 June 2005 the system assets were valued by PricewaterhouseCoopers (PWC) using a DCF calculation.

The system assets of Australian Inland were valued as at 30 June 2005 by Carnegie Wylie & Company (CWC) Pty Ltd using a DCF methodology. The 30 June 2005 carrying values of the assets were supported by the independent valuation. Those carrying values were recorded at 1 July 2005 by Country Energy, as acquisition values.

The carrying values of assets comprise the independent valuations plus movements from the dates of those valuations, being acquisitions at cost, less disposals and depreciation. The assets are recorded at fair value.

The system assets combined with other assets of the network business to form a CGU. This CGU is the smallest identifiable group of assets that generate identifiable cash flows. The CGU was reviewed for indications of impairment. The assets of the CGU are not impaired.

1.11.2 Land and buildings

The 30 June 2005 land and building asset values of the Corporation were valued by Colliers International Consultancy and Valuation Pty Limited (Colliers) using a "Fair Value" methodology. In determining their valuations Colliers have assumed that the estimated amount that the properties would exchange between a willing buyer and a willing seller reasonably represent fair value.

The carrying values of assets comprise the independent valuations plus movements from the dates of those valuations, being acquisitions at cost, less disposals and depreciation. The assets are recorded at fair value.

The Corporation has assessed the position of the real estate market relating to the Corporation's property. They have formed the opinion that carrying values of land and buildings represent fair value.

1.11.3 Other plant and equipment.

The Corporation's other non-current physical assets comprise non-specialised assets with short useful lives. Examples are motor vehicles, office equipment and computer equipment. These assets are disclosed at fair value which is equivalent to their depreciated historical cost. For this class of asset depreciated historical cost is an acceptable measure or fair value because the difference between these valuations is unlikely to be material.

1.11.4 The assets of Country Energy Gas Pty Limited

These assets are carried at fair value and are combined with the other assets of Country Energy Gas Pty Limited to represent a CGU. This CGU is the smallest identifiable group of assets that generate identifiable cash flows.

The CGU was tested for impairment using market based valuation methodologies. The valuations supported the aggregated asset values of the CGU and the assets are not impaired.

1.11.5 Acquisition of Property, Plant and Equipment

The value of assets acquired during the year includes the cost of acquisition, the cost of materials, labour and an appropriate proportion of overheads.

Assets that are contributed by customers are recorded at fair value. In the Cash Flow Statement the acquisition of these assets are not recognised as purchases of property, plant and equipment (refer note 1.8.5).

1.11.6 Depreciation

The carrying value of property, plant and equipment is net of depreciation where applicable.

Depreciation is calculated for all items of property, plant and equipment, except freehold land, based on the estimated useful remaining life of the asset. The straight line method is used and the expense is recognised in the Income Statement.

The estimated remaining lives to the entity for each class of asset are as follows:

Buildings	1 – 40 years
Leasehold improvements	Term of lease
System assets	1 – 50 years
Other assets	1 – 20 years

Upon revaluation, accumulated depreciation of buildings is written back against the gross value of the asset, and accumulated depreciation of other assets is restated proportionately to the gross value.

1.12 Valuation of Intangible assets

Intangible assets, other than goodwill, are identifiable non-physical assets that have been acquired or developed by the Corporation. These are recorded at amortised cost (refer note 13). The intangible assets form part of the assets of a number of CGUs.

1.12.1 Franchise and fees

Franchise and alliance fees relate to business undertakings with external parties. The franchise fees have a finite life and are amortised over ten years. They have a remaining life of 2.8 years.

1.12.2 Natural Gas Business Licences.

The licences were acquired when the former Great Southern Energy purchased the Natural Gas Business from the Council of the City of Wagga Wagga. The difference between the cost of the Natural Gas Business and the value of the total assets is the value of the intangible asset, being Distribution and Retail licences. These licences entitle the Corporation to distribute and retail natural gas within the Wagga Wagga region, as well as to other contestable markets.

The retail licences are combined with other assets of the Corporation's retail business to form a CGU. The CGU was tested for impairment using market based valuation methodologies. The valuations supported the aggregated asset values of the CGU and the licences are not impaired.

The distribution licence combined with other assets of Country Energy Gas Pty Limited to form a CGU (refer note 1.11.4). The CGU was tested for impairment and the licence is not impaired.

1.12.3 Computer Software

Computer software has been classified as an intangible asset in accordance with AASB 138: *Intangible Assets*. The component assets that are complete have a finite life and are amortised over four years. Their remaining lives have been assessed as 2.1 years.

These assets are disclosed at fair value which is equivalent to their depreciated historical cost. For this class of asset depreciated historical cost is an acceptable measure for fair value because the difference between these valuations is unlikely to be material.

1.12.4 Goodwill

Goodwill was acquired when the former Great Southern Energy Group purchased natural gas assets from the Australian Gas Light Company.

The goodwill represents the excess of the cost of acquisition of the gas network purchased over the fair value of the identifiable net assets acquired. The assets were newly constructed at the time of acquisition. Goodwill is recorded at cost and is tested for impairment annually. Goodwill is combined with other assets of Country Energy Gas Pty Limited to form a CGU (refer note 1.11.4). The CGU was tested for impairment and goodwill is not impaired.

1.13 Liabilities and Equity

1.13.1 Payables

Trade and other payables are recognised when the Corporation is obliged to make a future payment for the purchase of goods or services. Payables are recorded at fair value (refer note 14).

1.13.2 Deposits

Deposits are received as security against payment of the Corporation's billing activities or use of the Corporation's assets (refer note 15). Customers and contractors pay a security against payment of the Corporation's billing or use of the Corporation's assets. Deposits are repaid when the customer's payment risk is removed or the Corporation's assets cease being used. Deposits are considered at call and are measured at cost and are not amortised.

1.13.3 Interest bearing liabilities

All interest bearing loans are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs and any discount or premium on settlement. Gains and losses are recognised in the Income Statement when the liabilities are derecognised as well as through the amortisation process (refer note 16).

1.13.4 Loan to Subsidiary

The parent has lent $56.5 million to Country Energy Gas Pty Limited. This loan is payable on demand, however due to a resolution taken by the Board of the Corporation, the loan will not place the solvency of the subsidiary in jeopardy.

The loan is recorded at cost and is disclosed as current other assets in the parent's financial report (refer notes 1.9.8 and 11).

1.13.5 Employee benefits

The provision for employee benefits to wages, annual leave, sick leave and long service leave represents the amount which the Corporation has a present obligation to pay resulting from employees' services provided up to balance date.

The amounts provided have been apportioned between current and non-current provisions. The current provisions being that portion which is expected to be paid within the ensuing twelve months or where there is no unconditional right to defer settlement of the obligation (refer note 17). Non-current provisions are those amounts that are expected to be paid after twelve months and where there exists an unconditional right to defer settlement after twelve months.

In calculating wages and annual leave, nominal amounts have been used based on expected future remuneration.

The amounts recognised for sick leave and long service leave are calculated in accordance with Australian Accounting Standard AASB 119: *Employee Benefits*. Sick leave for the current year was calculated by an independent actuary, Cumpston Sarjeant Pty Ltd. Long service leave was calculated at 30 June 2006 by Cumpston Sarjeant Pty Ltd. This was used as a basis for the calculating the current year's provision by applying a methodology supplied by the actuary. Long service leave has been discounted in accordance with AASB 119 using rates attaching to Commonwealth Government securities at balance date.

Employee benefits are recorded in the Balance Sheet as current liabilities where the Corporation has no unconditional right to defer settlement.

1.13.6 Defined Benefit Superannuation Plans

Country Energy contributes to several defined benefit employee superannuation plans. These are the Energy Industries Superannuation Scheme Pty Limited (EISS), State Super (SS) and the Electricity Supply Industry Superannuation Fund (Qld).

Employee contributions to the plans are based on various percentages of employee gross salaries. These percentages are at the employees' discretion. The employer contributions are based on the advice of the plans' actuaries and are generally at a rate of about twice the employees' contributions.

After serving a qualifying period all member employees are entitled to defined benefits on retirement, disability or death. The defined benefits are based on years of service and final average salary.

The plans' accrued benefits are those benefits which the plans are presently obliged to pay to members of the plans at some future date. The plans' assets are those assets held at net market value to satisfy the benefit obligations. Where a plan's net assets exceed the accrued benefits, the difference is recorded as an asset in the Corporation's Balance Sheet (refer note 1.10.1). Where the accrued benefits exceed the net assets, a liability is recorded in the Corporation's Balance Sheet (refer note 1.13.11). Movements during the period in these Balance Sheet values are recorded in the Income Statement.

The Trustees are responsible for ensuring that the plans are independently valued by suitably qualified valuers (refer note 27). The plans are funded.

1.13.7 Measurement of The Plans' Assets and Liabilities

A majority of the plans' assets comprise investments in Australian and overseas equities. Large movements in the value of these equities can have a material impact on the asset values of the plans. These movements can result in significant unrealised gains or losses being disclosed in the Income Statement. These gains or losses can be further effected by valuations of the plans' liabilities which in part are based on the length of time members remain in the plans. These valuations and consequential movements through the financial statements are largely outside the control of the Corporation's management.

1.13.8 Provisions

Liabilities are recorded as provisions, unless stated elsewhere, when there is uncertainty as to the timing or amount of future expenditure required for settlement. Provisions are discounted at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability. Where the discount adjustment is not material, amortisation is not recorded (refer note 17).

1.13.9 Dividends

Dividends are provided for in the Statement of Corporate Intent (SCI) approved by the Corporation and the Shareholders. Where the SCI has been signed before balance date, the dividends are deemed appropriately authorised and are recognised as a liability in the Balance Sheet (refer note 17).

1.13.10 Derivative Liabilities

Derivative liabilities are recognised in the course of energy trading and debt management (refer notes 7 and 22).

1.13.11 Other liabilities

Other liabilities include prepaid revenue and underfunded superannuation liability. The liabilities are classified as current or non-current, according to when their obligation for fulfilment is due.

- **Prepaid revenue**

  Prepaid revenue represents capital contribution revenue recorded as a liability in accordance with Interpretation 1017. The liability will be recorded in the Income Statement when the constructed asset is completed, which generally occurs within twelve months of receipt of the revenue. The liability is classified as current. It is measured at cost and is not amortised (refer note 18).

- **Underfunded superannuation**

  A liability is recorded when the accrued benefits of the defined benefits superannuation funds exceed the net assets of the funds (refer note 1.13.6). The liabilities are classified as non-current and are recorded at the value supplied by the actuary. This value is based on a net present value.

1.13.12 Asset Revaluation Reserve

The asset revaluation reserve is used to record increments and decrements in the fair value of all non-current physical assets.

1.13.13 Hedge Revaluation Reserve

The hedge revaluation reserve is used to record increments and decrements in the fair value of all effective cash flow hedges in accordance with AASB 139. Movements in the hedge revaluation reserve are disclosed in the Statement of Changes in Equity.

1.14 Accounting for Renewable Energy

A number of schemes operate under government legislations or administration. These schemes generate rights and obligations to supply specified targets of renewable energy. The instruments of these schemes are generically described as Green Certificates.

The Corporation generates and purchases Green Certificates in order to comply with the relevant legislation. Obligations to surrender certificates based on targets are of the nature of provisions and are disclosed in the Balance Sheet as current liabilities. These are recorded at weighted average cost. Rights held, are of the nature of intangible assets and are disclosed in the Balance Sheet as current assets. These are recorded at weighted average cost. The assets and liabilities held under each scheme are acquitted annually. Assets remaining after the acquittal process are expected to be realised within twelve months after the date of acquittal. These assets are not amortised because the amortisation adjustment would not be material.

- **Renewable Energy Certificates (RECS)**

  This scheme operates under Federal Government legislation which requires energy retailers to source a target proportion of their electricity purchases from renewable sources. Any excess assets held after acquittal are carried forward to future years.

- **NSW Greenhouse Abatement Certificates (NGACS).**

  This scheme operates under NSW legislation and places a liability on energy distributors to reduce greenhouse gas emissions by a specified target. Any excess assets held after annual acquittal are carried forward to future years.

- **Green Power Rights (GPRS)**

  This is a national voluntary scheme administered by the NSW Department of Water and Energy. The scheme accredits electricity retailers to sell electricity guaranteed to have been sourced from renewable energy. Excess assets held after annual acquittal cannot be carried forward to future years and are recorded in the Income Statement as an expense.

- **Gas Electricity Certificates (GECS)**

  This scheme operates under Queensland legislation and places an obligation on the Corporation to purchase specified volumes of electricity from eligible generation sources from within Queensland. Any excess assets held after annual acquittal are carried forward to future years.

  Green Certificate assets and liabilities are disclosed in note 19.

1.15 Finance Costs

The following transactions are recognised as finance costs. These are recorded in the Income Statement in accordance with NSW Treasury's mandate.

- Interest paid or payable on interest bearing loans.
- Loan guarantee fee paid to the NSW government for the guarantee of loans (refer note 16).
- The amounts of amortisation of discounts and premiums on interest bearing loans (refer note 1.13.3).
- Discount expense applied to provisions and amortised assets (refer note 17).
- Discounts applied to financial liabilities.
- Net losses on valuations of interest rate futures classified as financial instrument 'loans and receivables'.

Borrowing costs are not capitalised in accordance with NSW Treasury's mandate.

1.16 Future Cash Flows

Country Energy prepares forecasts covering a ten year period. These forecasts are a component of the Corporation's SCI which is a ten year business plan prepared by the Corporation's management and approved by its Shareholders. The use of ten years in a business plan is consistent with the business sector that the Corporation operates in.

Where an estimate is made of future cash flows in relation to asset valuation, ten year forecasts from the SCI are extrapolated to produce cash flow projections to the end of the asset's life. The discount rate used is the weighted average cost of capital of the relevant CGU.

1.17 Income Tax

The consolidated group operates within the National Tax Equivalent Regime (NTER) administered by the Australian Taxation Office on behalf of the NSW Government.

Income tax on the profit or loss for the year comprises current and deferred tax. Current tax is the expected tax payable on the taxable income for the year using tax rates that are applicable at balance date and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for:

- Goodwill.
- The initial recognition of assets or liabilities that affect neither accounting or taxable profit.
- Differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using tax rates applicable at balance date.

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

1.17.1 Tax Consolidation

Country Energy and its 100% owned subsidiaries are a tax consolidated group (tax group). The head entity of the tax group is Country Energy.

Current tax income and expense, deferred tax liabilities and deferred tax assets arising from temporary differences are recognised in each member of the group's financial statements using the 'separate taxpayer within group' approach. Deferred tax assets and deferred tax liabilities are measured by reference to the carrying amounts of assets and liabilities in the individual tax group members' Balance Sheets and their tax values applying under tax consolidation.

Any current tax liabilities/assets and deferred tax assets arising from unused tax losses of a group member are assumed by the head entity of the group. These are recognised as amounts payable/receivable to other group members in conjunction with any tax funding arrangement amounts.

The group members recognise deferred tax assets arising from unused tax losses to the extent that it is probable that the future taxable profits of the group will be available against which the asset can be utilised. A group member assesses the recovery of its unused tax losses and tax credits only in the period in which they arise, and before assumption by the head entity in accordance with AASB 112: *Income Taxes*.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability is recognised by the head entity only.

1.17.2 Tax Funding Arrangements

The head entity in conjunction with other members of the tax consolidated group, has entered into a tax funding arrangement which sets out the funding obligation of members of the group in respect of tax amounts. The tax funding arrangements require payments to/from the head entity equal to the current tax liability/assets assumed by the head entity and any tax loss deferred tax asset assumed by the head entity, resulting in the group members recognising an inter-entity payable/receivable equal in amount to the tax liability/asset assumed. The inter-entity payable/receivable balances are at call.

Contributions to fund the current tax liabilities are payables as per the tax funding arrangement and reflect the timing of the head entity's obligation to make payments for tax liabilities to the relevant tax authorities.

1.17.3 Tax Sharing Agreement

The head entity in conjunction with other members of the group has entered into a tax sharing agreement. The tax sharing agreement provides for the determination of the allocation of income tax liabilities between the group members should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement as the possibility of payment of any amount under this agreement is remote.

The Country Energy group has elected to consolidate for NTER purposes as part of a tax sharing arrangement which provides for the allocation of income tax expense and liabilities across the wholly owned subsidiaries and a tax funding agreement which provides intercompany funding to cover current and deferred tax balances contributed by the individual subsidiaries to the head entity.

Tax effect accounting principles are applied to the financial statements in accordance with AASB 112 (refer notes 3 and 4).

1.18 Goods and Services Tax

Revenue, expenses and assets (other than receivables) are recognised net of the 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 current liability in the Balance Sheet.

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

1.19 Electricity Purchases

The Corporation purchases electricity in the National Electricity Market (NEM) for resale to its customers. Changes in the spot market may generate adverse financial effects. In order to minimise the risk electricity trading positions are hedged. The gains and losses arising from these derivative transactions are brought to account in accordance with AASB 132 and AASB 139.

1.20 Construction Contracts

Profit is recognised on fixed price construction contracts in proportion to the progress on each contract when all of the following conditions are satisfied:

- Total contract revenues to be received and the costs to complete the contract can be reliably estimated.
- The stage of contract completion can be reliably determined.
- The costs attributable to the contract date can be clearly identified and can be compared with prior estimates.

Profit is recognised on cost plus construction contracts in proportion to the progress on each contract when all of the following conditions are satisfied:

- The costs attributable to the contract to date can be clearly identified.
- Costs to complete other than those that will be specifically reimbursable under the contract can be reliably estimated.
- Where relevant the stage of contract completion can be reliably determined.

Any material losses on construction contracts are brought to account as soon as they are foreseeable.

1.21 Segment Reporting

The Group operates in a single business segment being the distribution and retail of energy. The Group operates within a single geographic segment, Australia.

1.22 Comparative Data

Comparatives have been reclassified where necessary to enhance comparability in respect of changes in the current year. Where prior year information was not disclosed or where it is not practical to calculate the information comparatives have been omitted.

1.23 Presentation Currency

This financial report is presented in Australian dollars.

1.24 Foreign Currency

Foreign currency transactions are converted to Australian currency at the rates of exchange applicable at the dates of the transactions.

The treatment of foreign currencies that are hedged together with outstanding foreign currency balances is in accordance with AASB 132 and AASB 139 (refer note 22.2).

1.25 Rounding of Amounts

Amounts in the financial statements have been rounded to the nearest thousand dollars unless specifically stated otherwise.

1.26 Early Adoption of Standards

At reporting date a number of Australian Accounting Standards and Interpretations have been issued by the AASB but are not yet operative. These have not been early adopted by the Corporation or its subsidiaries. The following is a list of those Standards and Interpretations. It is anticipated that although the new standards may change some existing disclosures and introduce new disclosures, their application will have no material impact on the financial reports of the Group. The changes are not expected to be significant except for those arising from AASB 7: *Financial Instruments:* Disclosure and AASB 8: *Operating Segments*. The effects of these changes are noted after the following table.

AASB Standards and Interpretations Affected	AASB Amendments	Application Date for the Group *
AASB 7: Financial Instruments: Disclosure	2005-10	1/7/2007
AASB 8: Operating Segments	2007-3	1/7/2009
AASB 101: Presentation of Financial Statements	2005-10	1/7/2007
AASB 123: Borrowing Costs	2007-6	1/7/2009
Australian additions and deletions from AIFRS	2007-4	1/7/2007
AASB Interpretation 4: Determining Whether an Arrangement Contains a Lease		1/7/2007
AASB Interpretation 10: Interim Financial Reporting and Impairment		1/7/2007

** Application date refers to the annual reporting period commencing on or after this date.*

The Group falls outside the scope of AASB 8 therefore upon its application disclosures on operating segments will not be made.

Under AASB 132 the Corporation applies relief from reporting both the parent and consolidated group (refer note 1.3). This relief is not available under AASB 7 and upon its application financial instrument disclosures will be made for both the parent and the consolidated group.

The table above does not include those Standards and Interpretations that are not yet operative and have no application to the Group.

Notes to the Financial Statements

For the year ended 30 June 2007

1.27 Exemptions

Exemptions have been granted by the Treasurer under Section 41BA of the Public Finance and Audit Act 1983 (PF&AA) and Section 15 of the Public Finance and Audit Regulation 2005 (PF&A Reg) so that the financial reporting requirements which apply are broadly consistent with the Corporations Act reporting requirements given that the entity is competing in the NEM.

The following specific disclosures are not required to be made as a result of the exemptions:

Financial Reporting Exemptions

PF&AA – *Format of financial statements*

- Section 41B(c) PF&AA – Financial Statements

Schedule 1, Part 1: PF&A Reg – *Notes – Income and expenditure*

- Item 2 – Amounts set aside for renewal or replacement of fixed assets.
- Item 4 – Amounts set aside to any provision for known commitments.
- Item 6 – Amount appropriated for repayment of loans/ [a]advances / debentures / deposits.
- Item 13 – Material items of income and expenditure on a program or activity basis.

Schedule 1, Part 3: PF&A Reg – *Notes – Additional information*

- Item 13 – Excess of non-current asset value over replacement cost.

Annual Reporting Exemptions

Budgets	s.7 (1)(a)(iii) ARSBA cl 6 ARSBR
Report of Operations	s.7 (1)(a)(iv) ARSBA
Management & Activities	Schedule 1 ARSBR
Research & Development	Schedule 1 ARSBR
Human Resources	Schedule 1 ARSBR
Consultants	Schedule 1 ARSBR
Land Disposal	Schedule 1 ARSBR
Consumer Response	Schedule 1 ARSBR
Payment of Accounts	Schedule 1 ARSBR
Time for Payment of Accounts	Schedule 1 ARSBR
Report on Risk Management & Insurance Activities	Schedule 1 ARSBR
Disclosure of Controlled Entities	Schedule 1 ARSBR
Investment Management Performance	cl. 13 ARSBR
Liability Management Performance	cl. 12 ARSBR
Financial Statements of Controlled Entities	s.7 (1)(a)(ia) ARSBA

Reference
ARSBA – Annual Reports (Statutory Bodies) Act 1984
PF&AA – Public Finance & Audit Ac 1983
ARSBR – Annual Reports (Statutory Bodies) Regulation 2005
PF&A Reg – Public Finance and Audit Regulation 2005

Note 2: Components Of Revenue And Expenses

		Consolidated		Corporation	
	Note	**2007 $'000**	2006 $'000	**2007 $'000**	2006 $'000
Revenue from Continuing Operations					
Sale and delivery of energy		2,006,834	1,862,139	2,001,084	1,855,640
Developer and customer contributions	1.8.5	70,940	98,606	70,520	98,185
Rental income	1.10.3	419	206	419	206
Other revenue		21,197	17,700	21,199	17,700
Net interest on futures deposits	1.8.3	–	4,465	–	4,465
Discount revenue applied to provisions and amortised assets	1.8.3	779	525	779	525
Other finance revenue	1.8.3	1,202	956	1,187	954
Total Operating Revenue		**2,101,371**	**1,984,597**	**2,095,188**	**1,977,675**
Other Income					
Net gains on disposal of property, plant and equipment	1.8.4	–	–	–	–
Net gains on sale of subsidiary		35,887	–	35,887	–
Reversal of impairment loss	1.7.3	–	18,200	–	–
Total Other Income		**35,887**	**18,200**	**35,887**	**–**
Finance Costs					
Interest Expense		142,407	128,053	142,407	128,053
Net losses on valuation of interest rate futures		275	–	275	–
Discount expense applied to provisions and amortised assets		147	–	147	–
Total Finance Costs	**1.15**	**142,829**	**128,053**	**142,829**	**128,053**
Other Expenses					
Cost of sale and delivery of energy		1,793,682	1,621,952	1,791,982	1,621,459
Cost of other revenue		24,880	19,856	24,880	19,856
Net losses on disposal of property, plant and equipment		**953**	**410**	**953**	**410**
Impairment loss	1.7.1	–	–	–	–
Total Other Expenses		**1,819,515**	**1,642,218**	**1,817,815**	**1,641,725**

Note 2: Components Of Revenue And Expenses (continued)

		Consolidated		Corporation	
	Note	**2007 $'000**	2006 $'000	**2007 $'000**	2006 $'000
Fair value gains/(losses) in financial instruments net of amortisation of contract premiums and transitional cash settlements					
Net gains on re-measurement of energy purchase derivatives		78,990	5,745	78,990	5,745
Amortisation of premiums on energy purchases CAP contracts		21,494	22,791	21,494	22,791
Settlement of ineffective energy Contracts for Differences		(54,577)	(25,188)	(54,577)	(25,188)
Net gains on interest rate swaps.		2,059	5,028	2,059	5,028
Change in fair value of TCorp investments	1.8.6	715	426	715	426
Net gain on foreign exchange	1.24	39	–	39	–
Total Fair value gains/(losses) in financial instruments net of amortisation of contract premiums and transitional cash settlements		**48,720**	**8,802**	**48,720**	**8,802**
The Income Statement includes the following items of expense/(income)					
Amounts charged against provisions for employee benefits	17	43,363	52,977	43,363	52,977
Employee benefits expense		306,768	263,906	306,768	263,906
Depreciation of property, plant and equipment	12	146,130	132,111	142,151	126,488
Amortisation of intangible assets	13	13,041	13,736	11,443	12,096
Consultants expenses (Amounts capitalised $1.295 million ($0.965 million in 2006))		937	1,033	937	1,033
Inventories		23,457	23,372	23,457	23,372
Bad debts expense		5,525	3,947	5,525	3,947
Minimum lease payments on operating leases		7,689	7,558	7,689	7,558
Direct operating expenses that relate to income earning investment property	1.10.3	205	160	205	160
Foreign exchange differences	1.24	(39)	(21)	(39)	(21)
Research and development expenses		58	73	58	73

Other Business Activities

Country Energy carries out a number of commercial business activities which are incidental to, associated with, or are related to the supply and delivery of energy. Individually these activities are not of significant size, nature or incidence. The aggregate of revenue from these activities of $25.626 million ($21.845 million in 2006), including internal sales $4.427 million, ($4.448 million in 2006) is included in other revenue. The aggregate of expenses from these activities of $24.869 million ($19.856 million in 2006) is included in the cost of other revenue.

The accompanying notes form part of these Balance Sheets.

Note 3: Income Tax Expense

	Note	Consolidated 2007 $'000	Consolidated 2006 $'000	Corporation 2007 $'000	Corporation 2006 $'000
The major components of income tax expense are:					
Income Statement					
Current income tax					
– Current income tax charge		53,627	42,545	52,291	41,089
– Adjustments in respect of current income tax of previous years		(15)	(76)	(21)	57
Deferred income tax					
– Relating to origination and reversal of temporary differences	4	22,840	39,254	22,352	32,829
Income tax expense reported in the income statement		**76,452**	**81,723**	**74,622**	**73,975**
Statement of Changes in Equity					
Deferred income tax related to items charged or credited directly to equity					
– Reversal of revaluation		225	–	225	–
– Net gain on revaluation of plant and equipment		–	41	–	–
– Net gain on revaluation of cash flow hedges		145,195	–	145,195	–
Income tax expense reported in equity		**145,420**	**41**	**145,420**	**–**
Reconciliation of tax expense to pre-tax profit					
Profit before income tax, fair value movements in financial instruments, actuarial superannuation gains/(losses)		174,914	232,526	170,431	207,897
Income tax at rate of 30% (2006: 30%)		52,474	69,758	51,129	62,369
– Adjustment in respect of current income tax of previous years		(15)	(76)	(21)	57
– Sale of shares held in subsidiary		7,075	–	7,075	–
– Distribution from insurance fund		(2,608)	–	(2,608)	–
– Expenditure not allowable for income tax purposes		1,301	1,471	822	979
Income Tax on profit before income tax, fair value movements in financial instruments, actuarial superannuation gains/(losses)		**58,227**	**71,153**	**56,397**	**63,405**
Fair value gains/(losses) in financial instruments net of amortisation of contract premiums and transitional cash settlements		48,720	8,802	48,720	8,802
Superannuation actuarial gains/(losses)		12,029	26,430	12,029	26,430
		60,749	**35,232**	**60,749**	**35,232**
Income tax at rate of 30% (2006: 30%)					
Income Tax on gains/(losses) in financial instruments net of amortisation of contract premiums and transitional cash settlements, and actuarial superannuation gains/(losses)		**18,225**	**10,570**	**18,225**	**10,570**

Notes to the Financial Statements

For the year ended 30 June 2007

Note 4: Tax Assets and Liabilities

		Consolidated Balance Sheet		Consolidated Income Statement		Corporation Balance Sheet		Corporation Income Statement	
	Note	**2007 $'000**	2006 $'000	**2007 $'000**	2006 $'000	**2007 $'000**	2006 $'000	**2007 $'000**	2006 $'000
Current Tax Asset									
Tax asset		–	478			–	478		
Total tax asset		**–**	**478**			**–**	**478**		
Income Tax Payable									
Provision for income tax		18,531	–			18,531	–		
Total Income Tax Payable		**18,531**	**–**			**18,531**	**–**		
Deferred Tax Assets									
Provisions		58,134	55,080	(3,328)	(372)	57,963	55,071	(3,157)	(373)
Green emission rights		9,408	7,488	(1,920)	(3,966)	9,408	7,488	(1,920)	(3,966)
Unearned income		472	7,571	7,099	3,431	472	7,571	7,099	3,431
Expenses amortised		–	81	14	21	–	–	–	–
Underfunded superannuation		–	–	–	3,107	–	–	–	3,107
Application of AASB 139		9,586	3,989	1,198	3,348	9,586	3,989	1,198	3,348
Total Current Assets		**77,600**	**74,209**			**77,429**	**74,119**		
Deferred Tax Liabilities									
Property Plant and Equipment		248,725	263,770	(3,302)	6,660	246,065	249,679	(3,947)	257
Unbilled Income		66,358	64,432	1,926	16,365	66,358	64,432	1,926	16,365
Green emission rights		11,513	7,872	3,641	4,905	11,513	7,872	3,641	4,905
Overfunded Superannuation		8,945	5,336	3,609	4,821	8,945	5,336	3,609	4,821
Application of AASB 139		179,401	13,508	13,903	934	179,401	13,508	13,903	934
Total Deferred Tax Liabilities		**514,942**	**354,918**			**512,282**	**340,827**		
Total Deferred tax income/(expense)	3			**22,840**	**39,254**			**22,352**	**32,829**

Note 5: Cash and Cash Equivalents

		Consolidated		Corporation	
	Note	**2007 $'000**	2006 $'000	**2007 $'000**	2006 $'000
Cash and deposits	1.9.1	4,083	431	4,083	420
Investments at Call – TCorp	1.9.2	7,183	9,697	7,183	9,697
Investments at Call – Other	1.9.2	3,442	2,137	3,442	2,137
Total Cash and Cash Equivalents		**14,708**	**12,265**	**14,708**	**12,254**

Note 6: Trade and Other Receivables

		Consolidated		Corporation	
	Note	**2007 $'000**	2006 $'000	**2007 $'000**	2006 $'000
Current					
Trade debtors		153,647	156,358	153,647	156,159
Provision for doubtful debts		(4,347)	(4,530)	(4,347)	(4,530)
Trade debtors, net of provision	1.9.3	149,300	151,828	149,300	151,629
Other debtors		57,337	48,506	57,171	48,223
Provision for doubtful debts		(892)	(604)	(892)	(604)
Other debtors, net of provision	1.9.3	56,445	47,902	56,279	47,619
Prepayments		4,685	4,778	4,685	4,778
Deposits on futures trading	1.9.9	4,120	2,318	4,120	2,318
Subsidiary debtors		–	–	2,028	3,695
Total Current Trade and Other Receivables		**214,550**	**206,826**	**216,412**	**210,039**
Non-Current					
Other debtors		90	104	90	104
Prepayments		4,262	4,983	4,262	4,983
Over-funded superannuation	1.10.1	29,818	17,789	29,818	17,789
Total Non-Current Trade and Other Receivables		**34,170**	**22,876**	**34,170**	**22,876**

Current other debtors consist of non-energy debtors and accrued revenue. Some debt is interest bearing, however this is not material.

Non-current other debtors consist of non-interest bearing debt with an average maturity of 6.5 years.

Notes to the Financial Statements

For the year ended 30 June 2007

Note 7: Derivative Financial Instruments

Derivative Financial Assets – Current	Note	Consolidated 2007 $'000	Consolidated 2006 $'000	Corporation 2007 $'000	Corporation 2006 $'000
Energy Trading Derivatives					
Swap Derivatives		539,707	39,215	539,707	39,215
Option Derivatives		79,336	60,872	79,336	60,872
Futures Derivatives		32,709	359	32,709	359
Foreign Exchange Derivatives		39	–	39	–
Total Derivative Current Assets	1.9.7	**651,791**	**100,446**	**651,791**	**100,446**

Derivative Financial Liabilities – Current	Note	Consolidated 2007 $'000	Consolidated 2006 $'000	Corporation 2007 $'000	Corporation 2006 $'000
Energy Trading Derivatives					
Swap Derivatives		29,757	5,155	29,757	5,155
Option Derivatives		4,393	2,055	4,393	2,055
Futures Derivatives		121	18	121	18
Interest Rate Swap Derivatives					
– Mark to market of Interest rate swaps		2,077	6,070	2,077	6,070
Total Derivative Current Liabilities	1.13.10	**36,348**	**13,298**	**36,348**	**13,298**

Note 8: Inventories

	Note	Consolidated 2007 $'000	Consolidated 2006 $'000	Corporation 2007 $'000	Corporation 2006 $'000
Inventories – at lower of cost and net realisable value	1.9.5	20,418	21,654	20,418	21,654
Total Inventories		**20,418**	**21,654**	**20,418**	**21,654**

Note 9: Investments

	Note	Consolidated 2007 $'000	2006 $'000	Corporation 2007 $'000	2006 $'000
Available-for-sale investments					
Interest in Wind farm		2,069	2,069	2,069	2,069
Total Available-for-sale investments	1.10.2	**2,069**	**2,069**	**2,069**	**2,069**
Investments in Subsidiary Corporations					
Investments in subsidiary corporations		–	–	26,871	36,871
Total Investments in Subsidiary Corporations	1.10.4	**–**	**–**	**26,871**	**36,871**

Note 10: Investment Property

	Note	Consolidated 2007 $'000	2006 $'000	Corporation 2007 $'000	2006 $'000
Investment Property					
Property held for rental income and capital appreciation	1.10.3	2,567	2,567	2,567	2,567
Total Investment Property		**2,567**	**2,567**	**2,567**	**2,567**

Note 11: Other Assets

	Note	Consolidated 2007 $'000	2006 $'000	Corporation 2007 $'000	2006 $'000
Current					
Loans to subsidiaries	1.13.4	–	–	56,457	113,957
Total Other Current Assets		**–**	**–**	**56,457**	**113,957**
Non-Current					
Other assets	1.10.6	1,130	1,179	1,130	1,179
Total Other Non-Current Assets		**1,130**	**1,179**	**1,130**	**1,179**

Note 12: Property, Plant And Equipment

		Consolidated		Corporation	
	Note	**2007 $'000**	2006 $'000	**2007 $'000**	2006 $'000
System Assets:					
Opening carrying value					
At fair value		3,280,844	2,843,304	3,111,670	2,700,085
Accumulated depreciation		(655,936)	(548,917)	(626,970)	(529,360)
Net opening carrying value		**2,624,908**	**2,294,387**	**2,484,700**	**2,170,725**
Movements					
Additions		417,642	363,155	413,325	359,324
Disposals – gross		(71,871)	–	(697)	–
Disposals – accumulated depreciation		16,375	–	–	–
Depreciation expense		(95,355)	(88,017)	(91,376)	(82,394)
Revaluation – gross		–	22,124	–	–
Revaluation – accumulated depreciation		–	(3,786)	–	–
Assets contributed by owner					
– at fair value		–	52,261	–	52,261
– accumulated depreciation		–	(15,216)	–	(15,216)
Net movements		**266,791**	**330,521**	**321,252**	**313,975**
Closing carrying value					
– At fair value		3,626,615	3,280,844	3,524,298	3,111,670
– Accumulated depreciation		(734,916)	(655,936)	(718,346)	(626,970)
Net closing carrying value		**2,891,699**	**2,624,908**	**2,805,952**	**2,484,700**
Land and Buildings:					
Opening carrying value					
– At fair value		141,566	107,296	141,566	107,296
– Accumulated depreciation		(4,133)	(761)	(4,133)	(761)
Net opening carrying value		**137,433**	**106,535**	**137,433**	**106,535**
Movements					
Additions		15,511	27,837	15,511	27,837
Reclassification to plant – gross		(6,396)	–	(6,396)	–
Reclassification to plant – accum depn		2,444	–	2,444	–
Disposals – gross		(106)	(7)	(106)	(7)
Disposals – accumulated depreciation		3	–	3	–
Depreciation expense		(2,198)	(1,704)	(2,198)	(1,704)
Assets contributed by owner					
– at fair value		–	6,440	–	6,440
– accumulated depreciation		–	(1,668)	–	(1,668)
Net movements		**9,258**	**30,898**	**9,258**	**30,898**
Closing carrying value					
– At fair value		150,575	141,566	150,575	141,566
– Accumulated depreciation		(3,884)	(4,133)	(3,884)	(4,133)
Net closing carrying value		**146,691**	**137,433**	**146,691**	**137,433**

Note 12: Property, Plant And Equipment (continued)

		Consolidated		Corporation	
	Note	**2007 $'000**	2006 $'000	**2007 $'000**	2006 $'000
Plant and Equipment:					
Opening carrying value					
At fair value		488,301	422,053	488,301	422,053
Accumulated depreciation		(278,169)	(233,776)	(278,169)	(233,776)
Net opening carrying value		**210,132**	**188,277**	**210,132**	**188,277**
Movements					
Additions		67,690	65,473	67,690	65,473
Reclassification from L&B – gross		6,396	–	6,396	–
Reclassification from L&B – accum depn		(2,444)	–	(2,444)	–
Reclassification to intangibles – gross		(15,729)	–	(15,729)	–
Disposals – gross		(44,855)	(14,668)	(44,855)	(14,668)
Disposals – accumulated depreciation		37,641	7,218	37,641	7,218
Depreciation expense		(48,577)	(41,062)	(48,577)	(41,062)
Assets contributed by owner					
– at fair value		–	15,443	–	15,443
– accumulated depreciation		–	(10,549)	–	(10,549)
Net movements		**122**	**21,855**	**122**	**21,855**
Closing carrying value					
– At fair value		501,803	488,301	501,803	488,301
– Accumulated depreciation		(291,549)	(278,169)	(291,549)	(278,169)
Net closing carrying value		**210,254**	**210,132**	**210,254**	**210,132**
Net Carrying Value of Property, Plant and Equipment	1.11	**3,248,644**	**2,972,473**	**3,162,897**	**2,832,265**
Historical cost of revalued assets					
Carrying amount of revalued assets had they been carried under the cost model;					
System Assets		2,663,028	2,383,030	2,577,281	2,242,813
Land and Buildings		121,170	109,734	2,577,281	2,242,813

Note 13: Non-Current Intangible Assets

		Consolidated		Corporation	
	Note	**2007 $'000**	2006 $'000	**2007 $'000**	2006 $'000
Franchise Setup Fees					
Opening carrying value					
At cost		76	76	76	76
Accumulated amortisation		(46)	(38)	(46)	(38)
		30	**38**	**30**	**38**
Movements					
Amortisation expense		(8)	(8)	(8)	(8)
Closing carrying value					
At cost		76	76	76	76
Accumulated amortisation		(54)	(46)	(54)	(46)
Net closing carrying value	1.12.1	**22**	**30**	**22**	**30**
Natural Gas Distributor and Retail licences					
Opening carrying value					
At cost		24,740	24,740	10,552	10,552
Accumulated amortisation		(7,423)	(4,949)	(3,166)	(2,111)
		17,317	**19,791**	**7,386**	**8,441**
Movements					
Additions		86	–	86	–
Amortisation expense		(2,501)	(2,474)	(1,082)	(1,055)
Closing carrying value					
At cost		24,826	24,740	10,638	10,552
Accumulated amortisation		(9,924)	(7,423)	(4,248)	(3,166)
Net closing carrying value	1.12.2	**14,902**	**17,317**	**6,390**	**7,386**
Regulatory Pricing Submission					
Opening carrying value					
At cost		1,327	919	–	–
Accumulated amortisation		(221)	–	–	–
		1,106	**919**	**–**	**–**
Movements					
Additions		51	408	–	–
Disposals – gross		(1,378)	–	–	–
Disposals – accumulated amortisation		400	–		
Amortisation expense		(179)	(221)	–	–
Net movements		**(1,106)**	**187**	**–**	**–**
Closing carrying value					
At cost		–	1,327	–	–
Accumulated amortisation		–	(221)	–	–
Net closing carrying value		**–**	**1,106**	**–**	**–**

Note 13: Non-Current Intangible Assets (continued)

		Consolidated		Corporation	
	Note	**2007 $'000**	2006 $'000	**2007 $'000**	2006 $'000
IT software					
Opening carrying value					
At cost		70,517	66,001	70,517	66,001
Accumulated amortisation		(44,689)	(31,141)	(44,689)	(31,141)
		25,828	**34,860**	**25,828**	**34,860**
Movements					
Additions		16,927	1,044	16,927	1,044
Reclassification from property, plant and equipment		15,729	–	15,729	–
Disposals – gross		(8,750)	–	(8,750)	–
Disposals – accumulated amortisation		8,750	–	8,750	–
Amortisation expense		(10,354)	(11,033)	(10,354)	(11,033)
Assets contributed by owner					
– at cost		–	3,472	–	3,472
– accumulated amortisation		–	(2,515)	–	(2,515)
Net movements		**22,302**	**(9,032)**	**22,302**	**(9,032)**
Closing carrying value					
At fair value		94,423	70,517	94,423	70,517
Accumulated amortisation		(46,293)	(44,689)	(46,293)	(44,689)
Net closing carrying value	1.12.3	**48,130**	**25,828**	**48,130**	**25,828**
Goodwill closing carrying amount	1.12.4	**3,643**	**3,643**	**–**	**–**
Total Non-Current Intangible Assets		**66,697**	**47,924**	**54,542**	**33,244**

Impairment testing of goodwill

Goodwill is recorded in the Balance Sheet of the subsidiary Country Energy Gas Pty Limited (refer note 1.12.4). The recoverable amount of the CGU has been determined by a market value calculation.

Notes to the Financial Statements

For the year ended 30 June 2007

Note 14: Trade and Other Payables

		Consolidated		Corporation	
	Note	**2007 $'000**	2006 $'000	**2007 $'000**	2006 $'000
Current					
Trade creditors – unsecured	1.13.1	17,660	14,979	17,660	14,979
Other creditors – unsecured	1.13.1	30,219	27,813	30,219	27,764
Accrued interest expense		41,926	46,408	41,926	46,408
Accrued energy and transmission purchases		141,956	128,233	141,956	128,233
Accrued trade creditors		54,368	43,169	53,729	42,881
Accrued inventory purchases		2,215	7,286	2,215	7,286
Other accrued expenses		1,158	1,261	1,158	1,261
Subsidiary creditors – unsecured		–	–	990	18,781
Total Current Trade and Other Payables		**289,502**	**269,149**	**289,853**	**287,593**

Note 15: Deposits

		Consolidated		Corporation	
	Note	**2007 $'000**	2006 $'000	**2007 $'000**	2006 $'000
Current					
Electricity Customers		11,729	12,245	11,729	12,245
Contractors and Others		42	51	42	51
Energy Trading Counterparties		1,036	1,012	1,036	1,012
Total Current Deposits	1.13.2	**12,807**	**13,308**	**12,807**	**13,308**

Note 16: Interest Bearing Liabilities

		Consolidated		Corporation	
	Note	**2007 $'000**	2006 $'000	**2007 $'000**	2006 $'000
Current					
Bank Overdraft		6,410	–	6,410	–
Loans	1.13.3	481,800	533,853	481,800	533,853
Total Current Interest Bearing Liabilities		**488,210**	**533,853**	**488,210**	**533,853**
Non-Current					
Loans	1.13.3	1,730,402	1,446,978	1,730,402	1,446,978
Total Non-Current Interest Bearing Liabilities		**1,730,402**	**1,446,978**	**1,730,402**	**1,446,978**
Due to be repaid					
Not later than one year		488,210	533,853	488,210	533,853
Later than one year but not later than two years		339,172	513,646	339,172	513,646
Later than two years but not later than three years		175,450	61,977	175,450	61,977
Later than three years but not later than four years		389,657	36,977	389,657	36,977
Later than four years but not later than five years		172,934	332,873	172,934	332,873
Later than five years		653,189	501,505	653,189	501,505
Total Interest Bearing Liabilities		**2,218,612**	**1,980,831**	**2,218,612**	**1,980,831**

All loans are guaranteed by the NSW Government.

Note 17: Provisions

		Consolidated		Corporation	
	Note	**2007 $'000**	2006 $'000	**2007 $'000**	2006 $'000
Current					
Dividends	1.13.9	51,302	76,756	51,302	76,756
Employee benefits	1.13.5	153,768	149,171	153,768	149,171
Provision for environmental rectification		2,450	2,841	2,450	2,841
Provision for merger with Australian Inland		–	141	–	141
Provision for system asset rectification		500	–	500	–
Other provisions		8,201	4,520	8,201	4,520
Total Current Provisions		**216,221**	**233,429**	**216,221**	**233,429**
Non-Current					
Employee benefits	1.13.5	21,106	27,852	21,106	27,852
Provision for environmental rectification		2,425	2,534	2,425	2,534
Total Non-Current Provisions		**23,531**	**30,386**	**23,531**	**30,386**

Movement in Provisions

	Dividends	Employee Benefits	Environmental Rectification	Asset Remediation	Aust Inland Merger	Other	Total
	2007 $'000	**2007 $'000**	**2007 $'000**	**2007 $'000**	**2007 $'000**	**2007 $'000**	**2007 $'000**
Opening balance	76,756	177,023	5,375	–	141	4,520	263,815
Additional provision	51,302	43,363	1,776	500	–	4,271	101,212
Utilised during the period	(76,756)	(45,512)	(2,423)	–	(139)	(590)	(125,420)
Provisions reversed during the period	–	–	–	–	(2)	–	(2)
Unwinding discount	–	–	147	–	–	–	147
Closing balance	**51,302**	**174,874**	**4,875**	**500**	**–**	**8,201**	**239,752**

Provision for Environmental Rectification

Provisions for environmental rectification work are expected to be settled by 2008 and 2020. In respect of the obligations to be settled by 2008 the effect of the time value of money has been deemed to be immaterial and no discounting has been applied. Where settlement is expected by 2020 discounting has been applied using the market yield on Commonwealth government bonds with a comparable period as specified by NSW Treasury Circular NSW TC 06/16. The rate used is 6.25%.

Provision for Rectification of a System Asset

The Corporation has an obligation to rectify a system asset that was sold during the year. A provision has been raised for the estimated cost of the rectification, which is expected to be completed within twelve months.

Note 18: Other Liabilities

		Consolidated		Corporation	
	Note	**2007 $'000**	2006 $'000	**2007 $'000**	2006 $'000
Current					
Other liabilities		2,443	361	2,087	5
Prepaid Capital Contributions	1.8.5	10,365	14,374	10,365	14,374
Total Current Other Liabilities		**12,808**	**14,735**	**12,452**	**14,379**
Non-Current					
Other liabilities	1.13.11	902	1,430	13	185
Total Non-Current Other Liabilities		**902**	**1,430**	**13**	**185**

Note 19: Green Certificates

		Consolidated		Corporation	
	Note	**2007 $'000**	2006 $'000	**2007 $'000**	2006 $'000
Green Certificate Current Intangible Assets					
Renewable Energy Certificates (RECS)		14,838	11,587	14,838	11,587
NSW Greenhouse Abatement Certificates (NGACS)		21,566	12,674	21,566	12,674
Green Power Rights (GPRS)		644	512	644	512
Gas Electricity Certificates (GECS)		1,330	1,470	1,330	1,470
Total Green Certificate Current Intangible Assets	1.14	**38,378**	**26,243**	**38,378**	**26,243**
Green Certificate Current Liabilities					
Renewable Energy Certificates (RECS)		9,272	7,305	9,272	7,305
NSW Greenhouse Abatement Certificates (NGACS)		20,571	15,789	20,571	15,789
Green Power Rights (GPRS)		368	512	368	512
Gas Electricity Certificates		1,149	1,355	1,149	1,355
Total Green Certificate Current Liability	1.14	**31,360**	**24,961**	**31,360**	**24,961**

Movement in Provisions

	RECS	NGACS	GPRS	GECS	TOTAL
	2007 $'000	**2007 $'000**	**2007 $'000**	**2007 $'000**	**2007 $'000**
Opening balance	7,305	15,789	512	1,355	24,961
Additional provisions	15,891	34,267	400	1,819	52,377
Utilised during the year	(13,924)	(29,485)	(544)	(2,025)	(45,978)
Closing balance	**9,272**	**20,571**	**368**	**1,149**	**31,360**

Note 20: Finance Facilities

		Consolidated		Corporation	
	Note	**2007 $'000**	2006 $'000	**2007 $'000**	2006 $'000
At balance date the Corporation had access to the following finance facilities:					
Bank overdraft		15,000	15,000	15,000	15,000
Lines of credit		588,360	257,610	588,360	257,610
Loans		2,357,451	2,032,000	2,357,451	2,032,000
Lease facilities		5,800	5,800	5,800	5,800
Total available finance facilities		**2,966,611**	**2,310,410**	**2,966,611**	**2,310,410**
At balance date the unused amounts of those facilities listed above were:					
Bank overdraft		15,000	15,000	15,000	15,000
Lines of credit		83,292	72,907	83,292	72,907
Loans		145,249	51,169	145,249	51,169
Lease facilities		5,800	5,800	5,800	5,800
Total unused finance facilities		**249,341**	**144,876**	**249,341**	**144,876**

Finance facilities are reviewed and approved on an annual basis by NSW Treasury. The facilities are subject to the provisions of the Public Authorities (Financial Arrangements) Act 1987.

Note 21: Notes To The Cash Flow Statements

		Consolidated		Corporation	
	Note	**2007 $'000**	2006 $'000	**2007 $'000**	2006 $'000
(a) Components of Cash					
– Cash on Hand		4,083	431	4,083	420
– Cash at Bank/(Overdraft)		(6,410)	–	(6,410)	–
– Investment securities		10,625	11,834	10,625	11,834
		8,298	**12,265**	**8,298**	**12,254**
(b) Reconciliation of operating profit after income tax expense to cash provided by operating activities					
Profit from Ordinary Activities after Income Tax Expense		159,211	186,035	156,558	169,154
Non-cash items:					
– Gifted Assets		(13,100)	(34,080)	(13,100)	(34,080)
– Movement in provisions		20,397	(12,396)	20,397	(12,396)
– Depreciation		146,130	132,111	142,151	126,488
– Amortisation		13,042	13,736	11,444	12,096
– Reversal of impairment loss		–	(18,200)	–	–
– Prepaid superannuation		(12,029)	(26,430)	(12,029)	(26,430)
– Movement in AIFRS Trading balances		(185,473)	(35,294)	(185,473)	(35,294)
– Movement in AIFRS Treasury balances		(3,993)	(10,041)	(3,993)	(10,041)
Items classified as investing/finance activities:					
(Profit)/loss on sale of property, plant and equipment		(37,098)	409	(36,383)	409
– Net Community Service Obligation expense		(6,841)	308	(6,841)	308
– Deferred Interest		(7,396)	(9,145)	(7,396)	(9,145)
Changes in assets and liabilities:					
– (Increase)/decrease in unread meters		(7,055)	(62,643)	(7,055)	(62,643)
– (Increase)/decrease in receivables		(10,629)	4,962	(8,040)	13,521
– (Increase)/decrease in inventories		2,598	517	2,598	517
– (Increase)/decrease in prepayments and other current assets		117	(461)	–	(404)
– (Increase)/decrease green certificate assets/ liabilities		(5,736)	(3,129)	(5,736)	(3,129)
– (Increase)/decrease in operating non-current receivables		733	60	733	60
– (Increase)/decrease in other operating non-current assets		49	997	49	997
– Increase/(decrease) in operating payables		22,400	19,814	23,881	26,502
– Increase/(decrease) in customer deposits		(500)	(716)	(500)	(716)
– Increase/(decrease) in deferred taxes payable		168,415	45,724	167,921	31,771
– Increase/(decrease) in other operating liabilities		(2,494)	(9,344)	(2,138)	(8,988)
Net cash provided by operating activities		**240,748**	**182,794**	**237,048**	**178,557**

Changes have been made to the classification of a number items disclosed in last years report. The comparatives have been amended to be consistent with the new classifications. These are are as follows:

- Movements in green certificate balances are now aggregated and disclosed separately. In the prior year the increase in liability of $13.22 million was included in the movement in provisions and the increase in assets of $16.349 million was included in the movement in other current assets.
- Movements from the Income Statement processed to the hedge revaluation reserve are now disclosed separately. In the prior year the net movement of $21.773 million was included with movements in AIFRS trading balances.
- Movements in derivative options are now included in movements in AIFRS trading balances. In the prior year the net movement of ($12.987) million was included with movements in prepayments and other current assets.

Note 22: Financial Instruments – Consolidated

1.0 Financial Risk Management Objectives

The Corporation's treasury and energy trading functions provide services to the business, coordinates access to domestic financial markets, enters into wholesale market contracts in the National Electricity Market and manages the financial risk relating to operations of the Corporation. The Corporation does not enter into or trade in financial instruments for speculative purposes. The use of financial derivatives is governed by the Corporation's policies approved by the Board of Directors, which provide written principles on the use of financial derivatives. Compliance with policies and exposure limits are reviewed annually by the internal auditors and by the Middle Office on a continuous basis with any breaches reported to the Board of Directors.

The Corporation's principal financial instruments other than derivatives comprise borrowings, cash and investments. The main purpose of these financial instruments is to raise finance for the Corporation's operations. The Corporation has various other financial assets and liabilities such as trade receivables and trade payables which arise directly from its operations. The Corporation also enters into derivative transactions to hedge its risk in interest rates, foreign exchange rates and commodity prices.

Borrowings are interest bearing loans which are actively managed under a risk management agreement with New South Wales Treasury Corporation (NSW TCorp). Other financial assets and financial liabilities are not readily traded on organised markets in standardised form.

Derivative financial instruments are used to hedge the Corporation's exposure to changes in interest rates, foreign exchange rates and commodity prices from its activities. The instruments are in the form of: interest rate swaps, interest rate futures contracts, forward foreign exchange contracts and forward commodity price contracts. These derivative financial instruments are not held for speculative or trading purposes, however derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in the Income Statement except where the instrument is subject to hedge accounting principles whereby the unrealised gains and losses are recognised in equity. Upon realisation all gains and losses are recognised in the Income Statement.

Accounting policies in relation to financial instruments including the basis of recognition and measurement have not materially changed from last year.

1.1 Cash Flow Interest Rate Risk

The Corporation enters into contracts to manage cash flow risks associated with the interest rates on borrowings that are floating, or to alter interest rate exposures arising from mismatches in repricing dates between assets and liabilities.

The Corporation's debt portfolio is comprised of a mixture of fixed and variable rate borrowings with a range of maturities over a number of years. The balance and composition of the portfolio is governed by a Corporation policy document which establishes prudential limits on the amount of debt that can mature in a given financial period. The policy establishes that no more than 30% of the face value of the core portfolio can mature in any 12 month period. The core debt portfolio must maintain a modified duration of 2.8 to 3.2 years. The policy also limits the type of instruments that can be obtained.

Responsibility for management of the debt portfolio has been outsourced to NSW TCorp.

The Corporation's exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets and financial liabilities is set out on the following page:

Notes to the Financial Statements

For the year ended 30 June 2007

Note 22: Financial Instruments – Consolidated (continued)

		Floating interest rate*	Fixed interest rate maturing in: 1 year or less	1 to 2 years	2 to 3 years
	Note	$'000	$'000	$'000	$'000
2007 Financial Assets					
Cash and Deposits	5	4,083	–	–	–
Investments NSW TCorp	5	7,183	–	–	–
Investments Other	5	–	2,225	–	–
Receivables	6	–	–	–	–
Energy Trading Swap/Option derivatives	7	–	–	–	–
Energy Trading Futures derivatives	7	–	–	–	–
Available-for-sale-investments	9	–	–	–	–
Deposits on Interest Rate Futures trading	6	4,120	–	–	–
Other	7	–	–	–	–
Total Financial Assets		**15,386**	**2,225**	**–**	**–**
2006 Financial Assets					
Cash and Deposits	5	431	–	–	–
Investments NSW TCorp	5	9,697	–	–	–
Investments Other	5	–	2,087	–	–
Receivables	6	–	–	–	–
Energy Trading Swap/Option derivatives	7	–	–	–	–
Energy Trading Futures derivatives	7	–	–	–	–
Available-for-sale-investments	9	–	–	–	–
Deposits on Interest Rate Futures trading	6	2,318	–	–	–
Total Financial Assets		**12,446**	**2,087**	**–**	**–**

*Financial assets with a floating interest rate are at call or short term, and can be classified as maturing in 1 year or less.

3 to 4 years	4 to 5 years	More than 5 years	Non-interest bearing	Total	Weighted avg. interest rate
$'000	$'000	$'000	$'000	$'000	%
–	–	–	–	4,083	4.46
–	–	–	–	7,183	5.69
–	–	–	1,217	3,442	4.45
–	–	–	449,074	449,074	–
–	–	–	619,043	619,043	–
–	–	–	32,709	32,709	–
–	–	–	2,069	2,069	–
–	–	–	–	4,120	6.25
–	–	–	39	39	–
–	**–**	**–**	**1,104,151**	**1,121,762**	
–	–	–	–	431	5.19
–	–	–	–	9,697	5.69
–	–	–	50	2,137	4.45
–	–	–	436,018	436,018	–
–	–	–	100,087	100,087	–
–	–	–	359	359	–
–	–	–	2,069	2,069	–
–	–	–	–	2,318	5.75
–	**–**	**–**	**538,583**	**553,116**	

Note 22: Financial Instruments – Consolidated (continued)

		Floating interest rate*	Fixed interest rate maturing in: 1 year or less	1 to 2 years	2 to 3 years
	Note	$'000	$'000	$'000	$'000
2007 Financial Liabilities					
Overdraft	16	6,410	–	–	–
Payables	14	–	–	–	–
Customer deposits	15	–	–	–	–
Interest Bearing Liabilities	16	710,693	159,993	287	125,450
Energy Trading Swap/Option derivatives	7	–	–	–	–
Energy Trading Futures derivatives	7	–	–	–	–
Interest Rate Swaps	7	–	–	–	–
Call Loans on Interest Rate Futures trading	18	–	–	–	–
Other	18	–	–	–	–
Total Financial Liabilities		**717,103**	**159,993**	**287**	**125,450**
2006 Financial Liabilities					
Payables	14	–	–	–	–
Customer deposits	15	–	–	–	–
Interest Bearing Liabilities	16	484,259	109,594	513,645	1,977
Energy Trading Swap/Option derivatives	7	–	–	–	–
Energy Trading Futures derivatives	7	–	–	–	–
Interest Rate Swaps	7	–	–	–	–
Call Loans on Interest Rate Futures trading	18	–	–	–	–
Other	18	–	–	–	–
Total Financial Liabilities		**484,259**	**109,594**	**513,645**	**1,977**

*Financial assets with a floating interest rate are at call or short term, and can be classified as maturing in 1 year or less.

3 to 4 years	4 to 5 years	More than 5 years	Non-interest bearing	Total	Weighted avg. interest rate
$'000	$'000	$'000	$'000	$'000	%
–	–	–	–	6,410	8.85
–	–	–	289,502	289,502	–
–	–	–	12,807	12,807	–
389,657	172,934	653,188	–	2,212,202	6.31
–	–	–	34,150	34,150	–
–	–	–	121	121	–
–	–	–	2,077	2,077	–
–	–	–	2,087	2,087	–
–	–	–	1,258	1,258	–
389,657	**172,934**	**653,188**	**342,002**	**2,560,614**	
–	–	–	269,149	269,149	–
–	–	–	13,308	13,308	–
36,977	332,873	501,506	–	1,980,831	6.31
–	–	–	7,210	7,210	–
–	–	–	18	18	–
–	–	–	6,070	6,070	–
–	–	–	5	5	–
–	–	–	1,786	1,786	–
36,977	**332,873**	**501,506**	**297,546**	**2,278,377**	

Note 22: Financial Instruments – Consolidated (continued)

1.2 Liquidity Risk

The Corporation's objective is to maintain a balance between continuity of funding and flexibility through the use of cash and investment holdings in conjunction with interest bearing liabilities.

The Corporation's policy establishes prudential limits on the amount of debt that can mature in a 12 month period. The policy sets out that not more than 30% of its borrowings should mature in any 12 month period. At 30 June 2007 22.0% of the Corporation's debt will mature in less than one year (26.7% in 2006).

1.3 Credit Risk

Credit risk represents the loss that would be recognised if counterparties failed to meet their financial obligations.

The credit risk of financial assets excluding investments which have been recognised on the Balance Sheet is reflected in the carrying amount net of any provision for doubtful debts.

The Corporation minimises concentrations of credit risk by undertaking transactions with a large number of customers and counterparties in Australia. The majority of the Corporation's credit exposure is with government owned entities or other counterparties with an investment grade credit rating.

Credit risk related to derivative contracts is minimised by ensuring that contracts with counterparties are transacted under the International Swaps and Derivatives Association Inc (ISDA) Master Agreement.

Foreign exchange contracts are subject to credit risk in relation to the relevant counterparties which are principally large banks. The maximum credit risk exposure on foreign exchange contracts is the positive fair value of the contract.

Corporation policy establishes that 100% of contracted exposures to foreign exchange movements with a value of $0.05 million or greater must be hedged. All Foreign Exchange hedges are transacted through NSW TCorp. Foreign exchange contracts outstanding at balance date are disclosed in section 2.0.

Corporation policy requires credit evaluations be performed on customers requiring credit over certain amounts when specified circumstances exist.

1.4 Price Risk

The Corporation enters into wholesale market contracts to minimise exposure to fluctuations in wholesale market electricity prices. The Corporation's policy is to manage its exposure in line with forecast volumes of committed retail customers.

For its franchise load the Corporation operates under the Electricity Tariff Equalisation Fund (ETEF) administered by New South Wales Treasury. Under the ETEF, the Corporation pays a set price for its electricity purchases and is not exposed to pool price variation.

For its contestable load the Corporation's policy is to actively manage the exposure arising from its forecast contestable load. In doing so the Corporation has entered various derivative contracts (bought and sold swaps, options and futures) with individual market participants. Any unhedged position exposes the Corporation to pool price variation. The Corporation's policy is that the exposure and the consequent contract price risk are managed within Board approved limits.

As these contracts can be settled other than by physical delivery of the underlying commodity they are classified as financial instruments in accordance with Australian Accounting Standards AASB 132 and AASB 139. These contracts are taken for the purposes of managing the risks associated with retail sales. The realised and unrealised gains and losses relating to these contracts are measured and recorded in accordance with the Corporation's accounting policies. On settlement the contracted price is compared to the spot price on that date and the price differential is applied to the contracted quantity. A net amount is paid or received by the entity.

At balance date the Corporation's electricity derivative contracts generated a net unrealised gain of $515.09 million ($31.10 million gain in 2006) in the hedge revaluation reserve. As these contracts are held for the purpose of hedging contracted mass-market customer sales and contracted commercial and industrial customer load no ultimate net gain/loss is expected upon realisation. The market value of derivative assets and liabilities are measured utilising prices sourced from observable market quotations including the Australian Financial Markets Association (AFMA) and brokers. These price estimates are based on limited volume contracts and are therefore not necessarily representative of independent market price valuations for the larger volume contracts entered into by the Corporation, for which there are no readily available market price valuations.

All contracts are due to be settled within 15 years of the reporting date.

The Corporation also enters into futures contracts to buy or sell electricity at specified rates at a future date. These contracts are settled with cash. They are recorded at fair value which is a market value based on valuations sourced from the Sydney Futures Exchange.

The periods in which cash flow hedges are expected to occur and enter into the determination of profit and loss are listed in the following table:

	1 year or less	1 to 5 years
	2007 $'000	**2007 $'000**
Derivative assets	431,405	116,145
Derivative liabilities	14,859	14,685

Comparative data is not available.

2.0 Foreign Currency Contracts

The Corporation enters into forward foreign exchange contracts to hedge certain anticipated purchase commitments for goods and services denominated in foreign currencies.

The Corporation's policy is to enter into forward foreign exchange contracts to hedge 100% of foreign currency risk where the contract value exceeds $0.05 million. All Foreign Exchange hedges are transacted through NSW TCorp.

	2007 $'000	**2007** Weighted Exchange Rate	2006 $'000	2006 Weighted Exchange Rate
Settlement less than 12 months				
Buy NZ dollars	600	1.140	–	–
Buy NZ dollars	604	1.133	–	–
Buy NZ dollars	610	1.129	–	–
Buy Swiss Francs	138	0.995	–	–
Buy Swiss Francs	139	0.988	–	–
Buy Swiss Francs	28	0.978	–	–

2.1 Interest Rate Swaps

Interest rate swap transactions entered into by the Corporation exchange variable and fixed interest payment obligations to protect the fair value of long term borrowings from the risk of fluctuating interest rates. Variable and fixed interest rate debt is held and swap contracts are entered into to receive interest at both variable and fixed rates.

The Corporation's policy prescribes the instruments which can be transacted, having regard to legislative requirements and the potential risk faced by both the Corporation and those inherent in the instrument.

Responsibility for management of the debt portfolio and associated derivative instruments has been outsourced to NSW TCorp.

The details of interest rate swap contracts are listed in the following table:

	Notional Principal		Market Value Unrecognised Gains/(Losses)		Effective Avg Interest Rate Payable	
	2007 $'000	2006 $'000	**2007 $'000**	2006 $'000	**2007 %**	2006 %
Settlement due within 12 Months	35,000	–	(297)	–	5.71%	–
Settlement due in 1 to 2 years	39,000	35,000	(319)	(466)	6.56%	5.71%
Settlement due in 2 to 3 years	30,000	39,000	(291)	(680)	7.35%	6.56%
Settlement due in 3 to 4 years	163,000	30,000	(2,136)	(961)	6.34%	7.35%
Settlement due in 4 to 5 years	65,000	163,000	966	(2,998)	6.58%	6.34%
Settlement due after 5 years	–	65,000	–	(965)	–	6.74%
	332,000	**332,000**	**(2,077)**	**(6,070)**		

Note 22: Financial Instruments – Consolidated (continued)

2.2 Interest Rate Futures Contracts

Interest rate risk arises from an exposure to future movements in interest rates and Futures Contracts are undertaken in order to hedge against that risk. Futures contracts seek to position the Corporation's debt portfolio at a point where our debt managers believe interest rates will move.

There were no interest rate futures contracts at balance date.

2.3 Electricity Price Futures Contracts

Electricity price risk arises from an exposure to future movements in electricity prices and Futures Contracts are undertaken in order to hedge against that risk. Futures Contracts agree to buy and sell electricity at agreed prices and this minimises the risk to the Corporation of future price exposure and credit risk to counter parties.

3.0 Fair Values

Set out below is a comparison by category of carrying amounts and fair values of all the Corporation's financial instruments recognised in the financial statements. The fair values disclosed do not differ from the carrying amounts.

	Carrying Amount		Fair Value	
	2007 $'000	2006 $'000	**2007 $'000**	2006 $'000
Financial Assets				
– Cash and Deposits	4,083	431	4,083	431
– Investments NSW Tcorp	7,183	9,697	7,183	9,697
– Investments Other	3,442	2,137	3,442	2,137
– Receivables	453,194	438,336	453,194	438,336
– Energy Trading Swap/Option derivatives	619,043	100,087	619,043	100,087
– Energy Trading Futures derivatives	32,709	359	32,709	359
– Available-for-sale-investments	2,069	2,069	2,069	2,069
	1,121,723	**553,116**		
Financial Liabilities				
– Interest Bearing Liabilities incl overdraft	2,218,612	1,980,831	2,218,612	1,980,831
– Payables	289,502	274,056	289,502	274,056
– Customer deposits	12,807	13,308	12,807	13,308
– Energy Trading Swap/Option derivatives	34,150	7,210	34,150	7,210
– Energy Trading Futures derivatives	121	18	121	18
– Interest Rate Swaps	2,077	6,070	2,077	6,070
– Call Loans on Interest Rate Futures trading	2,087	5	2,087	5
– Other	1,258	1,601	1,258	1,601
	2,560,614	**2,283,099**		

Note 23: Commitments

	Consolidated		Corporation	
	2007 $'000	2006 $'000	**2007 $'000**	2006 $'000
(a) Capital expenditure commitments				
Estimated capital expenditure contracted for at balance date but not provided for				
– not later than one year	37,362	43,964	37,362	43,867
– later than one year and not later than five years	6,942	9,239	6,942	9,239
	44,304	**53,203**	**44,304**	**53,106**
Capital expenditure commitments include input tax credits	**4,028**	**4,837**	**4,028**	**4,828**
(b) Operating expenditure commitments excluding leases				
Estimated operating expenditure contracted for at balance date but not provided for				
– payable not later than one year	17,883	14,706	17,608	14,431
– later than one year and not later than five years	12,390	4,675	11,015	3,300
– later than five years	1,650	1,925	–	–
	31,923	**21,306**	**28,623**	**17,731**
Operating expenditure commitments include input tax credits	**2,902**	**1,937**	**2,602**	**1,612**
(c) Operating lease (equipment) expenditure commitments (refer note 1.10.5)				
– not later than one year	192	360	192	360
– later than one year and not later than five years	366	560	366	560
	558	**920**	**558**	**920**
Equipment lease expenditure commitments include input tax credits	**51**	**84**	**51**	**84**
(d) Operating lease (property) expenditure commitments (refer notes 1.10.5)				
– not later than one year	5,013	5,490	5,013	5,490
– later than one year and not later than five years	9,366	10,237	9,366	10,237
– later than five years	104	149	104	149
	14,483	**15,876**	**14,483**	**15,876**
Property lease expenditure commitments include input tax credits	**1,317**	**1,443**	**1,317**	**1,443**
(e) Operating lease (property) revenue commitments (refer note 1.10.5)				
– not later than one year	952	1,062	952	1,062
– later than one year and not later than five years	869	1,884	869	1,884
– later than five years	60	67	60	67
	1,881	**3,013**	**1,881**	**3,013**

There are 42 non-cancellable equipment leases referred to in section c above. This includes leases for 41 items of computer equipment. The majority of the leases have no contingent rentals, renewal options, conditions or restrictions. Minimum lease payments total $0.558 million ($0.920 million in 2006), including input tax credits of $0.051 million ($0.084 million in 2006).

There are 160 non-cancellable property leases referred to in section d above. The majority of the leases have contingent rentals either based on CPI or some other closely related increment and renewal options between 1 and 5 years. Minimum lease payments total $3.491 million ($5.056 million in 2006) including input tax credits of $0.317 million ($0.460 million in 2006). There are no conditions or restrictions.

Additional to the group noted above there are two leases with five year plus five year renewal options. Minimum lease payments are $10.810 million ($10.537 million in 2006), including input tax credits of $0.983 million ($0.958 million in 2006). Minimum lease payments upon renewal will be based on the market value applying at the time. The lease may be assigned in part or in whole and sublet in part or in whole with the consent of the lessor.

There are 90 property leases referred to in section e above.

Note 24: Auditors' Remuneration

	Consolidated		Corporation	
	2007 $'000	2006 $'000	**2007 $'000**	2006 $'000
Remuneration received, or due and receivable, by the auditor of the economic entity for:				
– An audit or review of the financial statements	**435**	**435**	**405**	**405**
Remuneration received, or due and receivable, by auditors, other than of the auditor of the economic entity for:				
– An audit or review of the financial statements	**42**	**55**	**42**	**55**

Note 25: Key Management Personnel Compensation

	Consolidated		Corporation	
	2007 $'000	2006 $'000	**2007 $'000**	2006 $'000
Short-term employee benefits	2,928	2,698	2,928	2,698
Other long-term benefits	117	98	117	98
Termination benefits	–	877	–	877
Total	**3,045**	**3,673**	**3,045**	**3,673**

Key management personnel comprise members of the Board of Directors and the Corporation's Group General Managers.

Note 26: Related Parties

Directors

The names of persons holding the position of Director of Country Energy during the financial year are:

Barbara Ward, Chairman

Craig Murray, Managing Director

The Hon. Michael Lee

Greg McLean

Tim Sullivan OAM

Dave Evans (appointed 24 November 2006)

Rowena Sylvester (resigned 28 February 2007)

Some Directors of Country Energy are also Directors of other companies or have a substantial interest in other companies or entities that may have had transactions with Country Energy during the year. A Register of Directors' interests is confirmed and noted at each meeting of the Board. During the year no Directors declared material interests in any matters discussed at the meetings.

Wholly-owned Group

The Country Energy Group consists of Country Energy and its wholly-owned subsidiaries, NorthPower Energy Services Pty Limited and Country Energy Gas Pty Limited. During the year the wholly-owned subsidiary EMMLINK Pty Limited was sold and is no longer a member of the Group. All entities are incorporated in Australia.

Shares and Interest Held

Entity	Shares Held	Interest
Country Energy	2 Ordinary shares – $1 each	
NorthPower Energy Services Pty Limited	2 Ordinary shares – $1 each	100%
Country Energy Gas Pty Limited	26,870,593 Ordinary shares – $1 each	100%

Other Related Parties

Country Energy has an interest in a wind farm. Details are set out in note 1.10.2.

Transactions and outstanding balances between Country Energy and EMMLINK Pty Limited

Transactions between the parent and the subsidiary were recorded in an intercompany account. The intercompany balance was repaid by Country Energy prior to the sale of the subsidiary. Material transactions related to income tax.

EMMLINK Pty Limited income tax

The subsidiary is a member of a tax consolidated group (refer note 1.17). The subsidiary's tax balances were recorded in the intercompany account. The total of these transactions for the year were $0.631 million ($6.333 million in 2006).

Balances outstanding with the parent

There were no outstanding balances with the parent ($18.781 million in 2006).

Transactions and outstanding balances between Country Energy and Country Energy Gas Pty Limited

The parent administers the subsidiary's business operations. This includes recording and receiving sales revenue. The parent also operates, maintains and constructs the gas assets, and pays the subsidiary's expenses.

Country Energy Gas Pty Limited Sales

Sales for the year that were passed through the intercompany account were $10.593 million ($11.166 million in 2006) and $8.993 million ($9.924 million in 2006) of these were to the parent.

Country Energy Gas Pty Limited administrative, operating and asset maintenance costs

Transactions recorded for administration, operating and maintenance costs were $6.991 million ($7.411 million in 2006).

Country Energy Gas Pty Limited asset construction.

Transactions recorded for asset construction were $3.602 million ($3.755 million in 2006).

Country Energy Gas Pty Limited income tax

The subsidiary is a member of a tax consolidated group (refer note 1.17). The subsidiary's tax balances were recorded in the intercompany account. These were $1.736 million during the period (not material in 2006).

Balances outstanding with the parent

The outstanding balance between the parent and subsidiary is $1.038 million ($3.695 million in 2006). This is disclosed in notes 6 and 14 with the subsidiary being a net debtor to the parent. The major components of the balance are tax balances $0.946 million ($2.626 million in 2006), sales, administration, operating, maintenance and construction costs $1.985 million ($6.321 million in 2006). The parent's debt is unsecured.

There is a further balance of $56.457 million ($56.457 million in 2006) between the parent and the subsidiary being the loan disclosed in note 11.

Transactions and outstanding balances between Country Energy and NorthPower Energy Services Pty Limited

There were no transactions between the parent and the subsidiary during the year. There were no material balances outstanding between the parent and subsidiary.

Note 27: Superannuation Plans

General description of the type of plan

The Energy Industries Superannuation Scheme – Division B

The Energy Industries Superannuation Scheme – Division C

The Energy Industries Superannuation Scheme – Division D

State Authorities Superannuation Scheme (SASS)

State Superannuation Scheme (SSS)

State Authorities Non – Contributory Superannuation Scheme (SANCS)

Electricity Supply Industry Superannuation Fund (Qld) (ESISF)

These schemes are all defined benefit schemes – at least a component of the final benefit is derived from a multiple of member salary and years of membership.

All the schemes are closed to new members.

Accounting policy for recognition of actuarial gains/losses

Actuarial gains and losses are recognised immediately in profit and loss in the year in which they occur.

	2007 $'000	2006 $'000
Employer contributions paid in relation to the defined contribution plan	219	193

Reconciliation of the present value of the defined benefit obligation

	Defined benefit obligation at start of year		Current service cost		Interest cost	
	2007 $'000	2006 $'000	**2007 $'000**	2006 $'000	**2007 $'000**	2006 $'000
Energy Industries Superannuation Scheme (EISS)	362,373	339,283	10,950	8,812	22,282	19,091
State Superannuation Scheme (SSS)	505	940	11	22	29	52
State Authorities Non-Contributory Superannuation Scheme (SANCS)	604	681	35	40	34	34
State Authorities Superannuation Scheme (SASS)	6,655	6,959	160	190	384	412
Electricity Supply Industry Superannuation Fund (Qld) (ESISF)	1,265	898	–	–	–	–
	371,402	**348,761**	**11,156**	**9,064**	**22,729**	**19,589**

Reconciliation of the fair value of scheme assets

	Fair value of scheme assets at start of year		Expected return on scheme assests		Actuarial gains/(losses)	
	2007 $'000	2006 $'000	**2007 $'000**	2006 $'000	**2007 $'000**	2006 $'000
EISS	378,738	329,064	28,319	24,666	27,921	33,028
SSS	858	826	65	62	55	(17)
SANCS	706	655	54	50	45	51
SASS	9,847	9,321	737	695	543	436
ESISF	1,389	922	–	–	–	467
	391,538	**340,788**	**29,175**	**25,473**	**28,564**	**33,965**

Contribution by scheme participants		Actuarial (gains)/losses		Benefits paid		Defined benefit obligation at end of year	
2007 **$'000**	2006 $'000	**2007** **$'000**	2006 $'000	**2007** **$'000**	2006 $'000	**2007** **$'000**	2006 $'000
4,886	4,598	22,111	13,866	(26,328)	(23,277)	396,274	362,373
5	9	(2)	(488)	(40)	(30)	508	505
–	–	(2)	(84)	(43)	(67)	628	604
88	104	(100)	(296)	(333)	(714)	6,854	6,655
–	–	–	367	–	–	1,265	1,265
4,979	**4,711**	**22,007**	**13,365**	**(26,744)**	**(24,088)**	**405,529**	**371,402**

Employer contributions		Contributions by scheme participants		Benefits paid		Fair value of scheme assets at end of year	
2007 **$'000**	2006 $'000	**2007** **$'000**	2006 $'000	**2007** **$'000**	2006 $'000	**2007** **$'000**	2006 $'000
11,288	10,659	4,886	4,598	(26,328)	(23,277)	424,824	378,738
1	8	5	9	(41)	(30)	943	858
1	17	–	–	(43)	(67)	763	706
29	6	88	104	(333)	(715)	10,911	9,847
–	–	–	–	–	–	1,389	1,389
11,319	**10,690**	**4,979**	**4,711**	**(26,745)**	**(24,089)**	**438,830**	**391,538**

Note 27: Superannuation Plans (continued)

Reconciliation of assets and liabilities recognised in the balance sheet

	Defined benefit obligation at end of year		Fair value of scheme assets at end of year		Surplus in excess of recovery available from scheme	
	2007 $'000	2006 $'000	**2007 $'000**	2006 $'000	**2007 $'000**	2006 $'000
EISS	396,274	362,373	(424,824)	(378,738)	–	–
SSS	508	505	(943)	(858)	327	227
SANCS	628	604	(763)	(706)	102	66
SASS	6,854	6,655	(10,911)	(9,847)	3,054	2,054
ESISF	1,265	1,265	(1,389)	(1,389)	–	–
	405,529	**371,402**	**(438,830)**	**(391,538)**	**3,483**	**2,347**

Expenses recognised in Income Statement

	Current service cost		Interest cost		Expected return on scheme assets	
	2007 $'000	2006 $'000	**2007 $'000**	2006 $'000	**2007 $'000**	2006 $'000
EISS	10,950	8,812	22,282	19,091	(28,319)	(24,666)
SSS	11	22	29	52	(65)	(62)
SANCS	35	40	34	34	(54)	(50)
SASS	160	190	384	412	(737)	(695)
ESISF	–	–	–	–	–	–
	11,156	**9,064**	**22,729**	**19,589**	**(29,175)**	**(25,473)**

No amounts have been recognised in the statement of changes in equity for actuarial gains and losses and changes in the surplus in excess of recovery available from the scheme.

Scheme assets

The percentage invested in each asset class at the balance sheet date

	Australian equities		Overseas equities		Australian fixed interest securities	
	2007 %	2006 %	**2007 %**	2006 %	**2007 %**	2006 %
EISS	39%	39%	37%	37%	7%	7%
SSS	34%	37%	27%	28%	7%	10%
SANCS	34%	37%	27%	28%	7%	10%
SASS	34%	37%	27%	28%	7%	10%
ESISF	0%	0%	0%	0%	0%	0%

Fair value of scheme assets

All EISS, SSS, SANCS, & SASS scheme assets are invested by the trustees at arm's length through independent managers.

Expected rate of return on assets

The expected return on assets assumption is determined by weighting the expected long term return for each asset class by the target allocation of assets to each class. The returns used for each class are net of investment tax and investment fees.

	Net (Asset)/Liability recognised in balance sheet at end of year	
	2007 $'000	2006 $'000
	(28,550)	(16,365)
	(108)	(126)
	(33)	(36)
	(1,003)	(1,138)
	(124)	(124)
	(29,818)	**(17,789)**

	Actuarial losses/(gains) recognised in year		Change in surplus in excess of recovery available from Scheme		Expenses/(Income) recognised	
	2007 $'000	2006 $'000	**2007 $'000**	2006 $'000	**2007 $'000**	2006 $'000
	(5,810)	(19,162)	–	–	(897)	(15,925)
	(57)	(471)	101	227	19	(232)
	(47)	(135)	36	66	4	(45)
	(643)	(731)	1,000	1,385	163	561
	–	(100)	–	–	–	(100)
	(6,557)	**(20,599)**	**1,137**	**1,678**	**(711)**	**(15,741)**

	Overseas fixed interest securities		Property		Cash		Other	
	2007 %	2006 %	**2007 %**	2006 %	**2007 %**	2006 %	**2007 %**	2006 %
	3%	3%	9%	9%	4%	4%	1%	1%
	6%	7%	10%	9%	10%	5%	7%	4%
	6%	7%	10%	9%	10%	5%	7%	4%
	6%	7%	10%	9%	10%	5%	7%	4%
	0%	0%	0%	0%	0%	0%	0%	0%

Note 27: Superannuation Plans (continued)

Actual return on scheme assets

	2007 $'000	2006 $'000
EISS	54,109	57,009
SSS	120	129
SANCS	98	101
SASS	1,419	1,413
ESISF	–	–
	55,746	**58,652**

Valuation method and principal actuarial assumptions at balance date

The Projected Unit Credit (PUC) valuation method was used to determine the present value of the defined benefit obligations and the related current service costs. This method sees each period of service as giving rise to to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

Actuarial assumptions are not available for the Electricity Supply Industry Superannuation Fund (Qld).

	EISS		SSS, SANCS, and SASS	
	2007 %	2006 %	2007 %	2006 %
Discount Rate	5.9%	5.4%	6.4%	5.9%
Expected return on plan assets	7.6%	7.6%	7.6%	7.6%
Expected salary increases	6.0% pa until June 2009; 4.0% pa thereafter	4.0%	4% pa to June 2008; 3.5% pa thereafter	4% pa to June 2008; 3.5% pa thereafter
Expected rate of CPI increase	2.5%	2.5%	2.5%	2.5%

	Present value of defined benefit obligation		Fair Value of scheme assets	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
EISS	396,274	362,373	(424,824)	(378,738)
SSS	508	505	(943)	(858)
SANCS	628	604	(763)	(706)
SASS	6,854	6,655	(10,911)	(9,847)
ESISF	1,265	1,265	(1,389)	(1,389)
	405,529	**371,402**	**(438,830)**	**(391,538)**

Expected contributions during annual reporting period beginning after the reporting date

	2008 $'000	2007 $'000
EISS	9,529	9,110
SSS	8	14
SANCS	38	42
SASS	–	–
ESISF	–	–
	9,575	**9,166**

	(Surplus)/Deficit in scheme		Experience Adjustments – Scheme liabilities		Experience Adjustments – Scheme assets	
	2007 $'000	2006 $'000	**2007 $'000**	2006 $'000	**2007 $'000**	2006 $'000
	(28,550)	(16,365)	22,111	13,866	(27,921)	(33,028)
	(435)	(353)	(2)	(487)	(55)	17
	(135)	(102)	(2)	(84)	(45)	(52)
	(4,057)	(3,192)	(100)	(295)	(543)	(436)
	(124)	(124)	–	–	–	–
	(33,301)	**(20,136)**	**22,007**	**13,000**	**(28,564)**	**(33,499)**

Note 27: Superannuation Plans (continued)

Summary of schemes financial positions in accordance with AAS25 "Financial Reporting by Superannuation Plans"

	Accrued Benefits		Net Market Value of scheme assets		Net (surplus)/deficit	
	2007 $'000	2006 $'000	**2007 $'000**	2006 $'000	**2007 $'000**	2006 $'000
EISS	374,348	327,063	(424,824)	(378,738)	(50,476)	(51,675)
SSS	455	414	(943)	(858)	(488)	(444)
SANCS	622	573	(763)	(706)	(141)	(133)
SASS	6,662	6,264	(10,911)	(9,847)	(4,249)	(3,583)
ESISF	1,265	1,265	(1,389)	(1,389)	(124)	(124)
	383,352	**335,579**	**(438,830)**	**(391,538)**	**(55,478)**	**(55,959)**

The AAS 25 surplus or deficit will vary from the AASB 119 net asset or net liability due to use of an expected rate of return under AAS 25 while a long-term government bond rate is used under AASB 119.

Recommended contribution rates for the Defined Benefit Schemes are:

Fund	EISS Division B	EISS Division C	EISS Division D	SASS	SANCS	SSS	ESISF (Qld)
	Multiple of member contributions	% Member Salary	Multiple of member contributions	Multiple of member contributions	% Member Salary	Multiple of member contributions	% Member Salary
Contribution Recommendations Rate	1.9	2.50%	1.64	–	–	–	–

In relation to the contribution recommendations for EISS, SASS, SANCS, and SSS, the method used to determine the employer contribution recommendations at the last actuarial review was the Aggregate Funding method. The method adopted affects the timing of the costs to the employer.

Under the Aggregate Funding method the employer contribution rate is determined so that sufficient assets will be available to meet benefit payments to existing members taking into account the current value of assets and future contributions.

The economic assumptions adopted to make funding recommendations are:

	2007	2006
Weighted – Average Assumptions – EISS		
Expected rate of return on Fund Assets	7.0%	7.5%
Expected salary increase rate	6.0% pa until June 2009; 4.0% pa thereafter	4.0%
Expected rate of CPI increase	2.5%	2.5%
Weighted – Average Assumptions – SASS, SANCS, & SSS		
Expected rate of return on Fund Assets	7.7%	7.3%
Expected salary increase rate	4.0%	4.0%
Expected rate of CPI increase	2.5%	2.5%

In relation to the nature of the asset/liability generated from EISS, SASS, SANCS, and SSS, if a surplus exists in the employer's interest in the Fund the employer may be able to take advantage of it in the form of a reduction in the required contribution rate depending on the advice of the Fund's actuary.

Where a deficiency exists the employer is responsible for any difference between the employer's share of fund assets and the defined benefit obligation.

The components of the amounts disclosed in the Income Statement are as follows:

	2007 $'000	2006 $'000
Contribution valuation adjustment	(12,029)	(26,430)
Superannuation cost	31,932	24,953
	19,903	(1,477)

Note 28: 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 29: Events Subsequent To Balance Date

The financial report of Country Energy for the year ended 30 June 2007 was authorised for issue in accordance with a resolution of the Directors on 10 October 2007.

Country Energy is subject to potentially large movements in the valuation of derivative assets and liabilities (refer note 1.6.1) and defined benefits superannuation plans (refer note 1.13.7). These movements can have a significant impact on the financial statements and are largely outside the control of the Corporation's management. If energy trading derivatives were valued at MtM on 31 July 2007 the $48.720 million AIFRS movement disclosed in the Income Statement would be amended to $17.652 million. This is an adverse MtM movement of $31.068 million in 31 days, thus highlighting the impact of AASB 139 on the financial statements.

There are no known other events that would impact on the state of affairs of the economic entity or have a material impact on these statements.

END OF AUDITED FINANCIAL STATEMENTS