

FINANCIALS

Financial Statements 2002

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Statement of Financial Position

AS AT 30 JUNE 2002

	Note	2002 \$'000	2001 \$'000
Current Assets			
Cash Assets	5	125,886	185,819
Receivables	6(a)	189,657	85,834
Inventories	7	85,485	79,404
Other Financial Assets	8	15,858	15,436
Other	9	6,255	26,446
Total Current Assets		423,141	392,939
Non-Current Assets			
Receivables	6(b)	59	78
Property, Plant and Equipment	10	1,156,241	1,139,430
Deferred Tax Assets	4(d)	18,251	22,189
Total Non-Current Assets		1,174,551	1,161,697
Total Assets		1,597,692	1,554,636
Current Liabilities			
Payables	11	170,309	92,980
Interest Bearing Liabilities	12(a)	63,022	41,347
Current Tax Liabilities	4(b)	7,330	39,871
Provisions	13(a)	92,674	134,280
Other		560	569
Total Current Liabilities		333,895	309,047
Non-Current Liabilities			
Interest Bearing Liabilities	12(b)	665,610	689,547
Deferred Tax Liabilities	4(c)	154,266	118,579
Provisions	13(b)	50,334	53,374
Total Non-Current Liabilities		870,210	861,500
Total Liabilities		1,204,105	1,170,547
Net Assets		393,587	384,089
Equity			
Contributed Equity	14(a)	295,376	295,376
Retained Profits	14(b)	98,211	88,713
Total Equity		393,587	384,089

The accompanying Notes form an integral part of these Financial Statements.

Statement of Financial Performance

FOR THE YEAR ENDED 30 JUNE 2002

	Note	2002 \$'000	2001 \$'000
Revenue from Ordinary Activities	2	735,254	756,731
Expenses from Ordinary Activities, excluding Borrowing Costs Expense	3	534,606	531,649
Borrowing Costs Expense		58,289	37,009
Profit from Ordinary Activities Before Income Tax Expense		142,359	188,073
Income Tax Expense Relating to Ordinary Activities	4(a)	47,379	55,029
Profit from Ordinary Activities after Related Income Tax Expense		94,980	133,044

The accompanying Notes form an integral part of these Financial Statements.

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Statement of Cash Flows

FOR THE YEAR ENDED 30 JUNE 2002

	Note	2002 \$'000 Inflows (Outflows)	2001 \$'000 Inflows (Outflows)
Cash Flows From Operating Activities			
Cash Received in the Course of Operations		756,326	833,526
Interest Received		5,859	7,716
Cash Payments to Suppliers and Employees		(561,642)	(552,151)
Interest and Other Finance Costs Paid		(53,829)	(32,587)
Income Taxes Paid		(40,295)	(17,246)
Net Cash Provided/(Used) by Operating Activities	21(f)	106,419	239,258
Cash Flows from Investing Activities			
Proceeds from Sale of Property, Plant and Equipment		1,456	1,320
Payments for Property, Plant and Equipment		(48,068)	(31,704)
Net Cash Provided/(Used) by Investing Activities		(46,612)	(30,384)
Cash Flows from Financing Activities			
Proceeds from Borrowings		93,781	389,142
Repayment of Borrowings		(93,781)	(9,142)
Return of Contributed Equity to Shareholder		–	(380,000)
Dividends Paid		(119,740)	(96,653)
Net Cash Provided/(Used) by Financing Activities		(119,740)	(96,653)
Net Increase (Decrease) in Cash Held		(59,933)	112,221
Cash at the Beginning of the Financial Year		185,819	73,598
Cash at the End of the Financial Year	21(b)	125,886	185,819

The accompanying Notes form an integral part of these Financial Statements.

Notes to and Forming Part of the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2002

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements are a general purpose financial report prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Consensus Views, relevant sections of the Public Finance and Audit Act 1983 and the Public Finance and Audit Regulation 2000, and requirements of the State Owned Corporations Act, 1989 (as amended).

(a) Basis of Accounting

The financial statements have been prepared on the basis of historical costs and except where stated do not take into account current valuations on non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

Non-current assets are revalued from time to time as considered appropriate by the Directors and are not stated at amounts in excess of their recoverable amounts.

Except where stated, recoverable amounts are determined using discounted cash flows.

Land and buildings are valued at market value except that land under infrastructure assets that is reserved for operating power station usage is valued at net realisable value having due regard to the level of expenditure that would be required to prepare the land for sale.

All valuations apart from opening system asset balances at 1 March 1996 are determined by Delta Electricity and have not been adjusted in respect of the potential effect of any capital gains tax.

Investments are stated at market values calculated by Delta Electricity's funds manager by referencing specific market quoted prices/yields prevailing at balance date.

The accounting policies adopted are unless otherwise stated, consistent with those of the previous year.

(b) Contributed Equity

The Delta Electricity entity commenced operations on 1 March 1996. Under the terms of a Ministerial Order signed by the Honourable P.C. Scully Acting Minister for Energy and dated 1 March 1996, staff, assets, rights and liabilities were transferred from Pacific Power to Delta Electricity.

The State Owned Corporations Act, 1989 (as amended), requires Delta Electricity to have two voting shareholders; the Treasurer and another Minister, currently the Minister for Industrial Relations, Special Minister of State and Assistant Treasurer. Each shareholder holds one \$1 share.

(c) Liability Management

During the year, Delta Electricity actively managed its interest bearing liabilities against a benchmark in accordance with both Board approved policies and the New South Wales Treasury Management Policy. New South Wales Treasury

Corporation stock, interest rate and currency swaps, forward rate agreements and interest rate futures and options are available as a means of managing Delta Electricity's interest rate exposures. All gains and losses incurred in the use of these derivative instruments are recognised as borrowing costs in the Statement of Financial Performance as incurred.

(d) Depreciation

Depreciation is calculated on a straight-line basis to write off the net cost or revalued amount of each item of property, plant and equipment (excluding land) over its expected useful life. Estimates of remaining useful lives are made on a regular basis for all assets, with annual reassessments for major items.

The expected useful lives of property, plant and equipment is 50 years for operating power stations (2001: 50 years) and ranges from 5 to 30 years for other property, plant and equipment (2001: 5 to 30 years).

Major spares purchased specifically for particular plant are capitalised and depreciated on the same basis as the plant to which they relate.

(e) Assets Under Construction

Interest costs on borrowings specifically financing assets under construction are capitalised up to the date of completion of each asset to the extent those costs are recoverable. No borrowing costs were capitalised during the 2001/02 financial year.

(f) Borrowing Costs

Borrowing costs include interest, amortisation of discounts or premiums relating to borrowings, amortisation of ancillary costs incurred in connection with arrangement of borrowings, and gains and losses incurred in the use of derivative instruments for the management of interest rate exposure related to borrowed funds.

Discount and premium on borrowings is in the nature of an adjustment to the cost of borrowing. Any discount or premium on borrowings is amortised over the term of the loans, with the amount applicable to each year being included in the Statement of Financial Performance as part of Delta Electricity's borrowing costs for that year. The interest bearing liabilities amount appearing in the Statement of Financial Position is net of amortisation (Note 12).

(g) Employee Entitlements

Delta Electricity makes provision through its Statement of Financial Performance for its liability in respect of employee entitlements for annual leave and long service leave. A calculation of the liability at balance date is made each year for employees' entitlements to annual leave and long service leave.

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Notes to and Forming Part of the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

(g) Employee Entitlements *continued*

The basis of the liabilities and contributions are:

- (i) For annual leave, the liability represents the amount which Delta Electricity has a present obligation to pay resulting from employees' services provided up to balance date. The provision has been calculated at nominal amounts based on current salary rates and includes related oncosts.
- (ii) For long service leave, the liability has been determined using an actuarial shorthand method of calculation and represents the present value of expected future payments for long service leave, including projected remuneration rates. Associated oncosts are also included.

Superannuation entitlement details are provided in Note 15.

(h) Investments

Income earned from the investment of funds is included as revenue in the Statement of Financial Performance.

(i) Insurance

Delta Electricity is a self-insurer for certain risks, while other risks are insured externally.

(j) Inventory Valuation

Inventories are carried at the lower of cost and net realisable value. Cost is allocated on an average basis for stores and materials and on a weighted average cost per tonne/litre basis for coal and oil stocks.

(k) Taxation

Tax effect accounting procedures are followed whereby the income tax expense in the Statement of Financial Performance is matched with the accounting profit after allowing for permanent differences. The tax effect of timing differences, which arise from items being brought to account in different periods for income tax and accounting purposes, is carried forward in the Statement of Financial Position as a future income tax benefit or a provision for deferred income tax. The future tax benefit relating to tax losses is not carried forward as an asset unless the benefit is virtually certain of realisation.

Income tax payments are made to the New South Wales Office of State Revenue under the National Tax Equivalent Regime (NTER).

(l) Foreign Currency Translation

Transactions denominated in a foreign currency are converted at the exchange rate at the date of the transaction. Foreign currency receivables and payables at balance date are translated at exchange rates current at balance date. Exchange gains and losses are brought to account in determining the profit or loss for the year.

Exchange gains and losses and costs arising on forward foreign exchange contracts entered into as hedges of specific commitments are deferred and included in the determination

of the amounts at which the hedged transactions are brought to account. If a hedging transaction is terminated prior to its maturity date and the hedged transaction is still expected to occur, any gains or losses realised are deferred and included in the measurement of the hedged transaction when it occurs. Where a hedging transaction is terminated prior to maturity because the hedged transaction is no longer expected to occur, any gains or losses are recognised in the Statement of Financial Performance at the date of termination.

Exchange gains and losses relating to other hedge transactions are brought to account in the same period as the exchange rate movement. Costs on such contracts are amortised over the life of the hedge contract.

(m) Segment Reporting

Delta Electricity is an electricity generation corporation that operates in a single business and geographical segment. All production facilities are located in New South Wales.

(n) Revenue

Revenue from operating activities represents revenue earned from the sale of electricity and is recognised as it accrues. Revenue from outside operating activities includes rent and interest income on investments which are recognised as they accrue, gross proceeds on sale of non current assets which is brought to account on sale of the asset, and other miscellaneous income and proceeds from other operations which are recognised on performance of the service or delivery of the goods. Revenue is reported in Note 2.

(o) Goods and Services Tax

Revenues, expenses and assets 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 the item of expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to the ATO is included as a current asset or liability in the Statement of Financial Position. Cash flows are included in the Statement of Cash Flows on a gross basis.

(p) Generating Costs

Generating costs represent all costs (raw materials, labour and overheads etc.) associated with the production of electricity for sale in the National Electricity Market. Specific items requiring separate disclosure have been reported individually in Note 3.

(q) Rounding of Amounts

Amounts shown in the Financial Statements have been rounded to the nearest thousand dollars except where the disclosure of whole dollar amounts is appropriate.

Notes to and Forming Part of the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2002

	2002 \$'000	2001 \$'000
2 REVENUE FROM ORDINARY ACTIVITIES		
Revenue from Operating Activities		
Sale of electricity	719,297	737,787
Revenue from Outside Operating Activities		
Rent	87	109
Interest	6,274	8,874
Proceeds from sale of non-current assets	1,456	1,271
Proceeds from other operations	1,285	1,372
Miscellaneous:		
– Insurance Recoupment *	5,692	5,480
– Other	1,163	1,838
Revenue from Ordinary Activities	735,254	756,731

* A further amount of \$4.1 million (2001: \$9.6 million) has been offset against generating costs for insurance repair costs incurred by Delta Electricity.

3 EXPENSES FROM ORDINARY ACTIVITIES

Expenses from ordinary activities		
Generating Costs	465,982	468,383
Depreciation:		
– Buildings	4,678	4,479
– Plant and Equipment	29,480	28,182
– Motor Vehicles	697	800
Depreciated Value of Non-Current Assets Sold	1,271	1,454
Superannuation Expenses	6,285	6,201
Provision for Employee Entitlements	6,642	7,524
Write Down in Value of Inventories	612	189
Bad and Doubtful Debts	1,326	1,325
Operating Lease Rental Expense	1,950	2,087
Auditors Remuneration	130	126
Fees Paid to Board Members	389	331
Consultants Fees	476	678
Other Expenses	466	416
Expenses from ordinary activities considered individually significant		
Asset surplus adjustments in superannuation funds	14,222	9,474
Expenses from Ordinary Activities	534,606	531,649

The net gain on the disposal of property, plant and equipment was \$185,000 (2001: net loss \$183,000).

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Notes to and Forming Part of the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2002

	2002 \$'000	2001 \$'000
4. INCOME TAX		
(a) Income Tax Expense		
The income tax on the profit from ordinary activities differs from the amount prima facie payable on that profit as follows:		
Prima facie income tax on the profit from ordinary activities at 30% (2001: 34%)	42,708	63,945
Tax effect of differences which:		
Reduce tax payable due to:		
– Research and development	(33)	(59)
Increase tax payable due to:		
– Employer Superannuation Overfunded Contributions	6,152	(7,466)
– Entertainment Expenses	6	9
– Development Expenses	469	334
– Other Income	2	–
Restatement of deferred tax balances due to changes in tax rate	(1,905)	(1,967)
Under/(over) provision in prior year	(20)	233
Income tax expense relating to profit from ordinary activities	47,379	55,029
Income tax expense relating to profit from ordinary activities is made up of:		
Income Tax Paid	16,612	9,947
Provision for Income Tax	7,330	39,871
Provision for Deferred Income Tax	20,697	8,542
Future Income Tax Benefit	2,740	(3,331)
	47,379	55,029
(b) Current Tax Liabilities		
Provision for Income Tax	7,330	39,871
	7,330	39,871
(c) Non-Current Deferred Tax Liabilities		
Provision for Deferred Income Tax	154,266	118,579
	154,266	118,579
Provision for Deferred Income Tax comprises the estimated expense at the applicable rate of 30%. (2001:30%)		
(d) Non-Current Deferred Tax Assets		
Future Income Tax Benefit	18,251	22,189
	18,251	22,189
Future Income Tax Benefit comprises the estimated future benefit at the applicable rate of 30%. (2001:30%)		
5. CASH ASSETS		
Bank	248	267
Cash Management Funds	125,638	185,552
	125,886	185,819

Notes to and Forming Part of the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2002

	2002 \$'000	2001 \$'000
6. RECEIVABLES		
(a) Current		
Trade Debtors	181,378	80,646
Debtors other than trade	10,929	6,513
Less: Provision for Doubtful Debts	(2,650)	(1,325)
	189,657	85,834
(b) Non-Current		
Long-term debtors	59	78
	59	78

Trade and other debtors are carried at nominal amounts due less any provision for doubtful debts. Collectibility from debtors is reviewed on an ongoing basis and a provision for doubtful debts is recognised when reasonable doubt exists about the collectibility of the amount.

Trade debtors incorporates electricity sales activities with participants in the National Electricity Market. Funds from trade debtors are receivable by no later than 21 working days after completion of the billing period. Board policies are in place for determining eligible counterparties and limits applying to those parties.

Other debtors incorporate miscellaneous non-core activities undertaken by Delta Electricity. Amounts are due 30 days after invoicing.

Long term debtors represent loans advanced to Delta Electricity employees to assist in the purchase of housing. These loans were originally issued by Pacific Power and were transferred to Delta Electricity on establishment. The loans have varying maturity terms up to 8 years and are secured by mortgages over the properties purchased.

7. INVENTORIES

Stores and Materials	29,608	29,248
Coal Stocks	54,943	49,090
Oil Stocks	934	1,066
	85,485	79,404

8. OTHER FINANCIAL ASSETS

Other Managed Funds	15,858	15,436
	15,858	15,436

These funds represent asset reserves for funding the internal insurance provision.

9. OTHER ASSETS – CURRENT

Miscellaneous	13	26
Prepayments	6,242	26,420
	6,255	26,446

Included in Prepayments is \$6.0 million (2001: \$26.1 million) relating to defined benefit superannuation schemes administered by the SAS Trustee Corporation (Note 15).

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Notes to and Forming Part of the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2002

10. PROPERTY, PLANT AND EQUIPMENT

(a) Reconciliation of written down value for asset classes

	Cost		Accumulated Depreciation		Written Down Value	
	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
Land						
Infrastructure – at cost	5,852	5,880	–	–	5,852	5,880
	5,852	5,880	–	–	5,852	5,880
Buildings						
Power Stations – at cost	202,465	194,841	29,416	24,747	173,049	170,094
Other Buildings – at cost	308	286	71	69	237	217
	202,773	195,127	29,487	24,816	173,286	170,311
Plant and Equipment						
Power Stations – at cost	1,114,598	1,081,197	171,437	145,144	943,161	936,053
Other Plant and Equipment – at cost	49,305	39,681	15,363	12,495	33,942	27,186
	1,163,903	1,120,878	186,800	157,639	977,103	963,239
Total Property, Plant and Equipment	1,372,528	1,321,885	216,287	182,455	1,156,241	1,139,430

The above table includes work in progress for Buildings of \$ Nil (2001: \$0.1 million) and Plant and Equipment of \$36.1 million (2001: \$42.0 million).

(b) Reconciliation of 2002 movements in asset classes

	Land	Power Stations – Buildings	Other – Buildings	\$'000 Power Stations – Plant and Equipment	Other – Plant and Equipment	Total
Carrying amount at beginning of year	5,880	170,094	217	936,053	27,186	1,139,430
Additions	–	7,624	29	33,401	11,888	52,942
Disposals	(28)	–	–	–	(1,248)	(1,276)
Depreciation	–	(4,669)	(9)	(26,293)	(3,884)	(34,855)
Carrying amount at end of year	5,852	173,049	237	943,161	33,942	1,156,241

11. PAYABLES

	2002 \$'000	2001 \$'000
Accounts Payable	160,528	83,995
Other Creditors	9,781	8,985
	170,309	92,980

Accounts Payable represents amounts to be paid in the future for goods received and services provided at balance date. These liabilities are usually settled within 42 days. Other Creditors represents interest due on borrowings and payable within 6 months.

Notes to and Forming Part of the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2002

	2002 \$'000	2001 \$'000
12. INTEREST BEARING LIABILITIES		
(a) Current		
NSW Treasury Corporation Short-Term Borrowings	63,022	41,347
	63,022	41,347
(b) Non-Current		
NSW Treasury Corporation Stock	665,610	689,547
	665,610	689,547

At balance date, Delta Electricity had Executive Council approval to borrow up to \$880 million (2001: \$880 million). Maturing loans may be re-financed if the borrowing limit is not exceeded. As such, Interest Bearing Liabilities of \$80.4 million (2001: \$74.3 million) with less than one year to maturity have been classified as Non-Current.

Premium on domestic loans issued by New South Wales Treasury Corporation amounted to \$9,984,000 (2001: Premium \$13,218,000). (Note 1(f))

13. PROVISIONS

(a) Current

Dividend	85,482	119,740
Employee Entitlements	4,428	6,547
Redundancy	–	5,868
Insurance	2,764	2,125
	92,674	134,280

(b) Non-Current

Employee Entitlements	28,930	26,953
Insurance	21,404	26,421
	50,334	53,374

On 31 August 1996, Delta Electricity obtained a Self Insurer's licence for Worker's Compensation. In accordance with the licence conditions Delta Electricity has a current provision of \$883,000 (2001: \$860,000) and a non-current provision of \$3,285,000 (2001: \$2,686,000) for worker's compensation included in the Insurance Provision.

14. EQUITY

(a) Contributed Equity

Balance at beginning of year	295,376	675,376
Return of Contributed Equity to Shareholder	–	(380,000)
Contributed Equity at end of year	295,376	295,376

(b) Retained Profits

Retained profits at beginning of year	88,713	85,409
Profit from Ordinary Activities after income tax expense	94,980	133,044
Dividends	(85,482)	(129,740)
Retained Profits at end of year	98,211	88,713

In accordance with the provisions of the Share Dividend Scheme, dividend payments in respect of the year ended 30 June 2002 will total \$85.5 million (2001: \$129.7 million).

15. SUPERANNUATION

Actuarial reviews of superannuation liabilities for various defined benefit schemes were carried out by Mercer for Pillar Administration. This involved a review of the key economic assumptions used by the Government Actuary in the last triennial review dated 30 June 2000.

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Notes to and Forming Part of the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2002

	2002/03 % pa	2003/04 % pa	Thereafter % pa		
15. SUPERANNUATION CONTINUED					
The economic assumptions used in calculating the gross superannuation liability of the various defined benefit schemes as at 30 June 2002 are as follows:					
Investment Return	7.0	7.0	7.0		
Salary Growth Rate	6.5	4.0	4.0		
Consumer Price Index	2.5	2.5	2.5		
Due to a continuation of a superannuation contribution holiday approved by the SAS Trustee Corporation, Delta Electricity was not required to make payments to Pillar Administration for State Superannuation Scheme (SSS), State Authorities Superannuation Scheme (SASS) and State Authorities Non-Contributory Superannuation Scheme (SANCS) during the year. (2001: Nil)					
The position of the defined benefit schemes are as follows:					
	SASS \$'000	SANCS \$'000	SSS \$'000	2002 \$'000	2001 \$'000
Gross Liability Assessed by SAC as at 30 June	30,188	10,473	73,407	114,068	105,815
Less: Investment Reserve Account Balance	28,852	8,989	82,254	120,095	131,942
Unfunded Liability/ (Prepaid Contributions)	1,336	1,484	(8,847)	(6,027)	(26,127)
The net prepaid position of \$6.0 million is recognised as an asset in the Statement of Financial Position.					
The decrease in prepaid contributions during the period of \$20.1 million (2001: decrease of \$15.3 million) has been separated into Superannuation Expenses (\$5.9 million) which represents the expected annual reduction in the surplus as a result of the superannuation contribution holiday, and an Individually Significant Item (\$14.2 million) which represents an unexpected reduction in the surplus. (Note 3).					
16. EXPENDITURE COMMITMENTS					
				2002 \$'000	2001 \$'000
Expenditure contracted for at balance date but not provided for in the Financial Statements:					
(a) Capital					
Payable no later than one year				22,785	27,360
Payable later than one, not later than 5 years				8,928	19,858
Payable later than 5 years				250	–
(b) Operating (excluding lease commitments)					
Payable no later than one year				9,994	7,950
Payable later than one, not later than 5 years				6,998	4,365
Payable later than 5 years				100	–
17. OPERATING LEASE COMMITMENTS					
Future operating lease rentals contracted for at balance date but not provided for in the Financial Statements:					
Payable no later than one year				1,323	2,040
Payable later than one, not later than 5 years				341	1,459
Payable later than 5 years				–	–
Delta Electricity leases office accommodation under an operating lease expiring in December 2003. This lease provides a right of renewal at which time all terms will be renegotiated. There are two further operating leases in place relating to power station equipment which expire in July 2002 and July 2003. There are no terms for renewal in these leases.					

Notes to and Forming Part of the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2002

18. CONTINGENT LIABILITIES

There were no known contingent liabilities in existence at balance date.

19. CONTROLLED ENTITIES

Delta Electricity acquired the two issued \$1 ordinary shares of Delta Electricity Australia Pty. Ltd in 1997. The company has not traded since inception.

On 27 September 2001, Delta Electricity Australia Pty. Ltd acquired one of the two \$1 ordinary shares in Sunshine Electricity Management Pty. Ltd. The other \$1 ordinary share was acquired by Sunshine Renewable Energy Pty. Ltd. Sunshine Electricity Management Pty. Ltd was established as an agent for a proposed future investment in renewable energy.

Delta Electricity Australia Pty. Ltd has no other assets or liabilities apart from the \$1 ordinary share acquired in Sunshine Electricity Management Pty. Ltd.

20. FINANCIAL INSTRUMENTS

(a) Off-Statement of Financial Position Financial Instruments

Swaps, Forward Rate Agreements, and Futures

Delta Electricity has a portfolio of debt consisting of short, medium and long-term borrowings. This debt is used to service the asset structure and ongoing activities of the organisation. Delta Electricity has identified interest rate risks associated with its debt portfolio. In managing the risks in accordance with Board approved limits, the organisation will be and is involved in derivative financial instruments. Derivative financial instruments including swaps, forward rate agreements, interest rate futures and forwards are used to alter and modify the natural risks inherent in the Statement of Financial Position.

The nominal principal amounts and periods of expiry for interest rate futures held at balance date were:

	2002 \$'000	2001 \$'000
Less than one year	(8,600)	25,600
One to five years	—	—

At balance date, Delta Electricity had 2 interest rate swaps in place. (2001: Nil) As the swaps offset, the total notional principal amount is Nil.

Forward Foreign Exchange Contracts

In the normal course of business, Delta Electricity is required to purchase goods or services from overseas which require settlement in the supplier's currency. Under Board approved policies, Delta Electricity hedges specific material foreign exchange commitments by use of forward foreign exchange contracts to protect the organisation from the effect of future exchange rate fluctuations. The contracts are timed to mature when overseas payments are made with any gain or loss realised being included in the measurement of the purchase.

At balance date, Delta Electricity had 21 (2001: 26) forward foreign exchange contracts. The values of these contracts are outlined in the table below:

Currency	Number of Contracts	2002		Number of Contracts	2001	
			Currency Value			Currency Value
USD	10		664,899	7		222,000
JPY	—		—	2		10,537,000
EUR	4		3,694,311	6		7,149,000
GBP	7		2,355,387	10		3,619,000
CHF	—		—	1		149,000

The contracts are showing an unrealised loss of \$811,000 (2001: \$1,096,000 unrealised loss) and all are expected to mature in the next 14 months when payment for goods or service occurs.

Electricity Futures Contracts

Delta Electricity enters into electricity futures contracts for the specific purpose of hedging the organisation's electricity contract position. Trading is undertaken under Board approved policies with strict limits in place.

At balance date, there were no electricity futures contracts in place. (2001: Nil).

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Notes to and Forming Part of the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2002

20. FINANCIAL INSTRUMENTS continued

(b) Credit Risk Exposures

The credit risk on financial assets which have been recognised on the Statement of Financial Position is generally the carrying amount, net of any provision for doubtful debts. The recognised financial assets of the Corporation include amounts receivable from government owned agencies (91.5%) and other debtors (8.5%). Electricity debtors amounted to \$181.4 million. Credit risk also arises from potential counter-party default on forward foreign exchange contracts and other derivative instruments. The Australian dollar value of this exposure at balance date was \$75,000 (2001: \$172,000).

(c) Interest Rate Risk Exposures and Net Fair Values

Delta Electricity's exposure to interest rate risk for financial instruments and the aggregate net fair values of financial assets and liabilities at 30 June 2002 are:

	Floating Interest \$'000	<1 year \$'000	Fixed interest maturing in			>5 years \$'000	Non-Interest bearing \$'000	Carrying amount \$'000	Aggregate net fair value \$'000
			1-2 years \$'000	2-5 years \$'000					
Financial Assets									
Cash	125,882					4	125,886	125,886	
Trade debtors						181,378	181,378	181,378	
Debtors other than trade						8,279	8,279	8,279	
Investments	15,858						15,858	15,858	
Other Miscellaneous	13						13	13	
Long Term Debtors		59					59	59	
Financial Liabilities									
Accounts Payable						160,528	160,528	160,528	
Other Creditors						9,781	9,781	9,781	
Interest Bearing Liabilities		63,022	80,385	237,408	347,817		728,632	750,231	
Off-Statement of Financial Position Financial Instruments									
Financial Assets									
Futures*	1,400						68	68	
Interest Rate Swap^	14,900			(14,900)				(105)	
Financial Liabilities									
Futures*	(10,000)						(72)	(72)	
Interest Rate Swap^	(14,900)			14,900				(84)	
Forward Foreign Exchange Contracts #								(811)	

* Notional principal amount – positive amounts indicates bought futures; negative amount indicates sold futures. Net negative carrying amounts included in Accounts Payable.

^ Notional principal amount – positive amount indicates interest is receivable; negative amount indicates interest is payable. Negative aggregate net fair value indicates the cost to terminate the transaction.

Negative amount indicates unrealised loss.

Notes to and Forming Part of the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2002

20. FINANCIAL INSTRUMENTS continued

c) Interest Rate Risk Exposures and Net Fair Values Cont'd

Delta Electricity's exposure to interest rate risk for financial instruments and the aggregate net fair values of financial assets and liabilities at 30 June 2001 were:

	Floating Interest \$'000	<1 year \$'000	Fixed interest maturing in			Non-Interest bearing \$'000	Carrying amount \$'000	Aggregate net fair value \$'000
			1-2 years \$'000	2-5 years \$'000	>5 years \$'000			
Financial Assets								
Cash	185,814					5	185,819	185,819
Trade debtors						80,646	80,646	80,646
Debtors other than trade						5,188	5,188	5,188
Investments	15,436						15,436	15,436
Other Miscellaneous	26						26	26
Long Term Debtors		78					78	78
Financial Liabilities								
Accounts Payable						84,558	84,558	84,558
Other Creditors						8,985	8,985	8,985
Interest Bearing Liabilities		115,669	94,306	243,583	277,336		730,894	751,733
Off-Statement of Financial Position Financial Instruments								
Futures*	25,600						7	7
Forward Foreign Exchange Contracts#							-	(1,096)

* Notional principal amount – positive amounts indicates bought futures. Carrying amounts included in Accounts Payable.

Negative amount indicates unrealised loss.

The weighted average interest exposure on financial assets is 4.4% (2001: 6.2%), while weighted average interest exposure on financial liabilities is 7.6% (2001: 7.9%).

The carrying amount approximates the net fair value for cash, all debtors, investments, other miscellaneous, accounts payable and other creditors.

The net fair values for interest bearing liabilities have been determined by Delta Electricity's treasury service provider who uses a discounted cash flow methodology to market value the financial instruments. The discount rate used is based on the zero curve derived from market rates prevailing at balance date.

The net fair value for futures represents the margin call at balance date.

The net fair value for forward foreign exchange contracts is the unrealised gain/loss on the instrument determined by using the exchange rates at balance date.

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

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Notes to and Forming Part of the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2002

21. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Cash

For the purposes of the Statement of Cash Flows, cash includes cash on hand, deposits held at call with financial institutions and investments in money market instruments, net of outstanding bank overdrafts and borrowings which are used in the cash management function on a day to day basis. It also includes investments held as part of the daily cash management function.

(b) Reconciliation of Cash

Cash at the end of the period as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

	2002 \$'000	2001 \$'000
Cash Assets	125,886	185,819
Current Interest Bearing Liabilities	–	–
Balance as per Statement of Cash Flows	125,886	185,819

(c) Dividends and Taxes

No dividends were received during the period. Dividends paid by Delta Electricity during the period amounted to \$119.7 million (2001: \$96.7 million). Tax equivalent payments for the year were \$40.3 million (2001: \$17.2 million).

(d) Acquisitions and Disposal of Entities

There were no acquisitions or disposals during the year.

(e) Financing Arrangements

Facilities Available

Bank Overdraft	2,000	2,000
NSW Treasury Corporation Loans	880,000	880,000
Total Available	882,000	882,000

Facilities Utilised

Bank Overdraft	–	–
NSW Treasury Corporation Loans	728,632	730,894
Total Utilised	728,632	730,894

Delta Electricity, with the exception of overdraft facilities, is required to borrow all new money through the New South Wales Treasury Corporation. The bank overdraft facility is available on an as required basis. The organisation also has an ongoing \$100 million draw down in place to be used on an as required basis.

Notes to and Forming Part of the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2002

	2002 \$'000	2001 \$'000
21. NOTES TO THE STATEMENT OF CASH FLOWS continued		
(f) Reconciliation of Net Cash Provided/(Used) by Operating Activities to Profit from Ordinary Activities after Related Income Tax Expense		
Profit from Ordinary Activities after Related Income Tax Expense	94,980	133,044
Add/(Less): Non-Cash Items		
Depreciation	34,855	33,461
Amortisation	(2,270)	(341)
Inventory Adjustments	612	192
Assets Written Off	5	24
Bad and Doubtful Debts	1,326	1,325
Add/(Less): Items classified as Investing/Financing Activities		
(Gain)/Loss on sale of Property, Plant and Equipment	(185)	183
Accounting (Gain)/Loss on Debt Re-financing	–	5
Net Cash Provided by Operating Activities Before Changes in Assets and Liabilities	129,323	167,893
Net Changes in Assets and Liabilities During the Period		
(Increase)/Decrease in Trade Debtors	(103,646)	45,439
(Increase)/Decrease in Other Debtors	(3,877)	(1,069)
(Increase)/Decrease in Inventories	(11,367)	(9,633)
(Increase)/Decrease in Other Assets	19,532	13,937
Increase/(Decrease) in Payables	74,970	(17,202)
Increase/(Decrease) in Income Tax Related Assets/Liabilities	7,084	37,783
Increase/(Decrease) in Other Liabilities	(5,600)	2,110
Net Cash Provided/(Used) by Operating Activities	106,419	239,258

22. EVENTS OCCURRING AFTER REPORTING DATE

Executive Council approval was granted on 19 June 2002 for Delta Electricity to increase its borrowing limit to \$1,000 million effective from 1 July 2002. (2001: \$880 million). On 1 July 2002, Delta Electricity returned \$120 million of Contributed Equity to the shareholder. This return of equity was funded through borrowings from New South Wales Treasury Corporation.

The Board of Delta Electricity considered and approved an independent valuation of Delta Electricity's assets on 25 July 2002 with effect from 2002/03. The revaluation resulted in an increase of \$577.1 million in the value of Property, Plant and Equipment and the total increment has been charged to the Asset Revaluation Reserve.

23. COAL SUPPLY ARRANGEMENTS

In April 2002, Delta Electricity finalised long term coal contracts with Powercoal Pty Ltd. The contracts are commercially based with terms between 6 and 16 years duration and ensure a secure fuel supply for Delta Electricity's power stations.

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Notes to and Forming Part of the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2002

24. TREASURER'S EXEMPTIONS

Approval has been given under delegation from the Treasurer, the Hon. Michael Egan, MLC, to exempt for the year ended June 30 1997 and subsequent years, Delta Electricity from the following financial reporting requirements:

Financial reporting exemptions

Item	Reference	Comment
Format of Financial Statements	Public Finance and Audit Act (PF&AA)	
Financial Statements – presentation of manufacturing and trading statements	s41B(c) PF&AA	Subject to a condition*
Notes – Income and Expenditure	(Schedule 1, Part 1): PF&AA (General) Reg	
Amount set aside for renewal or replacement of fixed assets	Item 2	
Amounts set aside to any provision for know commitments	Item 4	
Amounts appropriated for repayment of loans/advances/debentures /deposits	Item 6	
Material items of income and expenditure on a program or function basis	Item 13	Subject to a condition*

* Conditions imposed by Treasury and conveyed to Delta Electricity in correspondence dated 11 July 1997.

END OF FINANCIAL STATEMENTS AUDITED BY AUDITOR-GENERAL

Statement By Members Of The Board

Pursuant to Section 41 of the Public Finance and Audit Act, 1983, and in accordance with a resolution of Delta Electricity, we declare on behalf of Delta Electricity that in our opinion:

1. The accompanying Financial Statements exhibit a true and fair view of the financial position of Delta Electricity as at 30 June, 2002 and its performance for the year ended on that date.
2. The accompanying Financial Statements are a general purpose financial report which has been prepared in accordance with applicable accounting standards and other mandatory professional reporting requirements, the provisions of the State Owned Corporations Act, 1989, including Part 3 of the Public Finance and Audit Act, 1983, the Public Finance and Audit Regulation, 2000, except where the Treasurer's exemption has been granted.
3. At the date of this statement, there are reasonable grounds to believe that Delta Electricity will be able to pay its debts as and when they become due and payable.
4. We are not aware of any circumstances at the date of this declaration that would render any particulars included in the financial report to be misleading or inaccurate.



Peter Dodd
CHAIRMAN
15 October 2002



Jim Hennes
CHIEF EXECUTIVE
15 October 2002

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Auditor-General's Opinion



Independent Audit Report Delta Electricity

To Members of the New South Wales Parliament

Scope

I have audited the accounts of Delta Electricity for the year ended 30 June 2002. The members of the Board of the Corporation are responsible for the financial report consisting of the accompanying statement of financial position, statement of financial performance and statement of cash flows, together with the notes thereto, and the information contained therein. My responsibility is to express an opinion on the financial report to Members of the New South Wales Parliament based on my audit as required by the *State Owned Corporations Act 1989* and the *Public Finance and Audit Act 1983* (the PF&A Act).

My audit has been conducted in accordance with statutory requirements and Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. My procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates.

These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements and statutory reporting requirements, in Australia, so as to present a view which is consistent with my understanding of the Corporation's financial position, the results of its operations and its cash flows.

The audit opinion expressed in this report has been formed on the above basis.

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Audit Opinion

In my opinion, the financial report of Delta Electricity complies with section 41B of the PF&A Act, other statutory reporting requirements and presents fairly in accordance with applicable Accounting Standards and other mandatory professional reporting requirements the financial position of the Corporation as at 30 June 2002 and the results of its operations and its cash flows for the year then ended.

A handwritten signature in black ink, appearing to read "RJ Sendt".

RJ Sendt
AUDITOR-GENERAL
SYDNEY
15 October 2002