

Financial Statements

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Financial Statements

Delta Electricity

STATEMENT OF FINANCIAL POSITION

As at 30 June 2004

	Note	Consolidated		Parent Entity	
		2004 S'000	2003 S'000	2004 S'000	2003 S'000
Current Assets					
Cash Assets	5	23,463	48,693	23,458	48,693
Receivables	6(a)	84,418	99,378	84,416	99,381
Tax Assets	4(b)	–	4,516	–	4,516
Inventories	7	64,792	96,377	64,792	96,377
Other Financial Assets	8	–	16,592	–	16,592
Other	9(a)	7,122	6,337	7,122	6,337
Total Current Assets		179,795	271,893	179,788	271,896
Non-Current Assets					
Receivables	6(b)	1,960	1,771	5,939	5,330
Property, Plant and Equipment	10	1,674,685	1,712,372	1,674,685	1,712,372
Deferred Tax Assets	4(e)	19,381	18,614	19,381	17,878
Other	9(b)	1,227	1,044	23	21
Total Non-Current Assets		1,697,253	1,733,801	1,700,028	1,735,601
Total Assets		1,877,048	2,005,694	1,879,816	2,007,497
Current Liabilities					
Payables	11(a)	94,825	107,019	94,843	107,103
Interest Bearing Liabilities	12(a)	39,883	34,405	39,883	34,405
Current Tax Liabilities	4(c)	10,150	–	10,150	–
Provisions	13(a)	85,703	72,586	85,703	72,586
Other	14(a)	1,373	560	1,373	560
Total Current Liabilities		231,934	214,570	231,952	214,654
Non-Current Liabilities					
Payables	11(b)	762	614	762	614
Interest Bearing Liabilities	12(b)	602,909	749,854	602,909	749,854
Deferred Tax Liabilities	4(d)	190,036	178,382	190,036	178,382
Provisions	13(b)	50,736	61,678	50,736	61,678
Other	14(b)	75	–	75	–
Total Non-Current Liabilities		844,518	990,528	844,518	990,528
Total Liabilities		1,076,452	1,205,098	1,076,470	1,205,182
Net Assets		800,596	800,596	803,346	802,315
Equity					
Contributed Equity	15(a)	175,376	175,376	175,376	175,376
Reserves	15(b)	577,088	577,088	577,088	577,088
Retained Profits	15(c)	48,132	48,132	50,882	49,851
Total Equity		800,596	800,596	803,346	802,315

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

Delta Electricity

STATEMENT OF FINANCIAL PERFORMANCE

For the Year Ended 30 June 2004

	Note	Consolidated		Parent Entity	
		2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Revenue from Ordinary Activities	2	740,894	738,473	740,939	741,137
Expenses from Ordinary Activities	3	563,598	565,232	563,348	565,441
Borrowing Costs Expense		66,254	71,238	66,254	71,238
Profit from Ordinary Activities Before Income Tax Expense		111,042	102,003	111,337	104,458
Income Tax Expense Relating to Ordinary Activities	4(a)	36,872	40,653	36,136	41,389
Profit from Ordinary Activities after Related Income Tax Expense		74,170	61,350	75,201	63,069
Net increase in asset revaluation reserve	15(b)	–	577,088	–	577,088
Increase in retained profits on adoption of revised accounting standards:					
AASB1028 Employee Benefits	15(c)	–	(1,229)	–	(1,229)
AASB1044 Provisions, Contingent Liabilities and Contingent Assets	15(c)	–	2,870	–	2,870
Total revenues, expenses and valuation adjustments recognised directly in equity		–	578,729	–	578,729
Total changes in equity other than those resulting from transactions with owners as owners		74,170	640,079	75,201	641,798

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

Delta Electricity

STATEMENT OF CASH FLOWS

For the Year Ended 30 June 2004

	Note	Consolidated		Parent Entity	
		2004 \$'000 Inflows (Outflows)	2003 \$'000 Inflows (Outflows)	2004 \$'000 Inflows (Outflows)	2003 \$'000 Inflows (Outflows)
Cash Flows From Operating Activities					
Cash Received in the Course of Operations		809,382	837,113	809,391	839,696
Interest Received		3,686	5,246	3,685	5,242
Cash Payments to Suppliers and Employees		(546,023)	(579,303)	(545,761)	(579,220)
Interest and Other Finance Costs Paid		(69,274)	(65,220)	(69,274)	(65,220)
Income Taxes Paid		(11,320)	(29,450)	(11,320)	(29,450)
Net Cash Provided/(Used) by Operating Activities	23(f)	186,451	168,386	186,721	171,048
Cash Flows from Investing Activities					
Proceeds from Sale of Property, Plant and Equipment		1,528	1,232	1,528	1,232
Payments for Property, Plant and Equipment		(26,887)	(45,531)	(26,887)	(45,531)
Payments for Construction Work in Progress		(225)	(797)	–	–
Loans to Related Parties		–	–	(500)	(3,459)
Proceeds from Sale of Investments		16,592	–	16,592	–
Net Cash Provided/(Used) by Investing Activities		(8,992)	(45,096)	(9,267)	(47,758)
Cash Flows from Financing Activities					
Proceeds from Borrowings		36,053	160,489	36,053	160,489
Repayment of Borrowings		(176,057)	(105,489)	(176,057)	(105,489)
Return of Contributed Equity to Shareholder		–	(120,000)	–	(120,000)
Dividends Paid		(63,069)	(135,483)	(63,069)	(135,483)
Net Cash Provided/(Used) by Financing Activities		(203,073)	(200,483)	(203,073)	(200,483)
Net Increase (Decrease) in Cash Held		(25,614)	(77,193)	(25,619)	(77,193)
Cash at the Beginning of the Financial Year		48,693	125,886	48,693	125,886
Cash at the End of the Financial Year	23(b)	23,079	48,693	23,074	48,693

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

Delta Electricity

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2004

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 New South Wales Public Finance and Audit Act 1983 and the New South Wales 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 in accordance with the principles of accrual accounting and the historical cost convention, 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.

(b) Changes in Accounting Policies

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

(c) Principles of Consolidation

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by Delta Electricity (parent entity) as at 30 June 2004 and the results of all controlled entities for the year then ended. Delta Electricity and its controlled entities together are referred to as the consolidated entity. The effect of all transactions between entities in the consolidated entity are eliminated in full. Disclosure of the consolidated entity is only provided in the Notes when information is different from that of the parent entity.

Delta Electricity has one controlled entity, Delta Electricity Australia Pty. Ltd, which is a wholly owned subsidiary.

(d) Contributed Equity

Delta Electricity 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 Special Minister of State. Each shareholder holds one \$1 share.

(e) 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 Treasury Management Policy issued by New South Wales Treasury. 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 part of borrowing costs in the Statement of Financial Performance as incurred.

(f) Property, Plant and Equipment

Property, plant and equipment is recognised at fair value in accordance with AASB1041 Revaluation of Non-Current Assets and the New South Wales Treasury Accounting Policy for the Valuation of Physical Non-Current Assets at Fair Value. Revaluations are made with sufficient regularity to ensure the carrying amount of property, plant and equipment does not differ materially from its fair value at reporting date. Any valuation adjustments are subject to approval of the Directors, irrespective of whether those values are determined internally or by independent valuation.

Revaluation increments are generally credited directly to the asset revaluation reserve. A revaluation increment is only recognised immediately as revenue when the increment reverses a revaluation decrement, in respect of a class of asset, previously recognised as an expense in the Statement of Financial Performance.

Revaluation decrements are generally recognised immediately as expenses in the Statement of Financial Performance. A revaluation decrement is only recognised as a debit to the asset revaluation reserve when a credit balance for the same class of assets exists in the asset revaluation reserve.

Revaluation increments and decrements are offset against one another within a class of property, plant and equipment, but not otherwise.

Delta Electricity

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 (2003: 50 years) and ranges from 5 to 30 years for other property, plant and equipment (2003: 5 to 30 years). Information technology software is depreciated over 2.5 years (2003: 2.5 years).

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

Where material items of plant and equipment have separately identifiable components which are subject to regular replacement, those components are assigned useful lives distinct from the item of plant and equipment to which they relate.

(g) 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 amounts appearing in the Statement of Financial Position are net of amortisation. Refer to Note 12.

(h) Assets Under Construction

Costs associated with 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 for the parent entity during the 2003/04 financial year.

(i) Employee Benefits

The liability for wages and salaries at reporting date is recognised in current payables. The liability includes unpaid wages and salaries at reporting date and performance/business success payments related to the 2003/04 financial year. The liability is measured at the amounts expected to be paid when the liability is settled. The liability for wages and salaries is settled within 7 days of reporting date, while the liability for performance/business success payments is settled within two months of reporting date.

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

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 reporting date. The provision has been calculated at nominal amounts based on expected future salary rates and includes related oncosts.
- (ii) For long service leave, the liability 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 16(b).

(j) Cash Management and Other Managed Funds

Cash management and other managed funds are stated at market values calculated by Delta Electricity's funds manager by referencing specific market quoted prices/yields prevailing at reporting date. Refer to Note 5 and Note 8.

Income earned from cash management and other managed funds is included as revenue in the Statement of Financial Performance.

Delta Electricity

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Insurance

Delta Electricity is a self-insurer for certain risks, while other risks are insured externally. In accordance with AASB1044 Provisions, Contingent Liabilities and Contingent Assets, the insurance provision in the Statement of Financial Position reflects the present obligation to settle amounts as a result of past transactions or events. There is some degree of uncertainty about the timing of the future payment and/or the amount to be paid.

(l) Dividends

Provision is made for the amount of any dividend declared, determined or publicly recommended. Delta Electricity determines the level of dividend for the current financial year prior to reporting date as part of the Statement of Corporate Intent process. The Statement of Corporate Intent is a performance agreement between the Delta Electricity Board and the shareholders.

(m) 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 other fuel stocks.

(n) 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 deferred tax asset 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).

Legislation to allow groups, comprising a parent entity and its wholly owned resident entities, to elect to consolidate for income tax purposes was substantially enacted on 21 October 2002.

The head entity, Delta Electricity and its wholly owned subsidiary, Delta Electricity Australia Pty. Ltd have formed a consolidated tax group and will be taxed as a single entity from 1 July 2003.

Delta Electricity will notify the Australian Taxation Office of the tax consolidation group before the lodgement of the group's 2004 Income Tax Equivalent Return.

As there is no tax sharing agreement between the members of the consolidated group and the head entity, Delta Electricity is fully responsible for all income tax obligations of the group, including any income tax arising in relation to the transactions and other events of Delta Electricity Australia Pty. Ltd. Delta Electricity will also recognise any timing differences arising in relation to the transactions and other events of Delta Electricity Australia Pty. Ltd.

Delta Electricity Australia Pty. Ltd retained the existing tax cost base of all its assets upon entry into the consolidation group.

Delta Electricity recognised and Delta Electricity Australia Pty. Ltd derecognised the deferred tax asset of \$736,118 in Delta Electricity Australia Pty. Ltd's accounts at the time the tax consolidated group was formed. The deferred tax asset related to the previous year's timing differences of Delta Electricity Australia Pty. Ltd.

No compensation is receivable or payable between Delta Electricity and Delta Electricity Australia Pty. Ltd in relation to tax balances.

Delta Electricity

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(o) 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 reporting date are translated at exchange rates current at reporting date. Exchange gains and losses are brought to account in determining the profit or loss for the year.

Exchange gains and losses arising on forward foreign exchange contracts entered into as hedges of specific commitments together with unrealised exchange gains and losses resulting from these transactions are deferred in the Statement of Financial Position and included in the determination of the amounts at which the hedged transactions are brought to account. The amounts receivable and payable for the forward foreign exchange contracts are also recorded in the Statement of Financial Position.

Where 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 together with previously deferred 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.

(p) 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.

(q) 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 funds 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.

(r) 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.

(s) Generating Costs

Generating costs represent all costs (raw materials, labour and overheads) 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.

(t) Comparative Figures

Where necessary, comparative information has been reclassified to enhance comparability in respect of changes in presentation adopted in the current year. The 30 June 2003 comparative figures for Note 22(b) and Note 22(c) relating to Electricity Hedging Contracts have been restated to reflect the same methodology adopted for 30 June 2004.

(u) 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.

Delta Electricity

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2004

	Consolidated		Parent Entity	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
2. REVENUE FROM ORDINARY ACTIVITIES				
Revenue from Operating Activities				
Sale of Electricity	724,210	727,689	724,210	727,689
Revenue from Outside Operating Activities				
Rent	183	162	183	162
Interest	3,672	5,987	3,671	5,983
Proceeds from Sale of Non-Current Assets	1,420	1,339	1,420	1,339
Proceeds from Other Operations	1,787	1,600	1,787	1,600
Miscellaneous	1,678	1,696	1,724	4,364
Revenues from Ordinary Activities Considered Individually Significant				
Adjustments in Defined Benefit Superannuation Funds	7,944	–	7,944	–
Revenue from Ordinary Activities	740,894	738,473	740,939	741,137
3. EXPENSES FROM ORDINARY ACTIVITIES				
Expenses from Ordinary Activities				
Generating Costs	482,568	470,847	482,568	471,056
Depreciation:				
– Buildings	8,808	8,792	8,808	8,792
– Plant and Equipment	51,660	48,127	51,660	48,127
– Motor Vehicles	715	695	715	695
Depreciated Value of Non-Current Assets Sold	1,248	1,148	1,248	1,148
Superannuation Expenses	7,833	6,593	7,833	6,593
Provision for Employee Benefits	7,897	9,680	7,897	9,680
Write Down in Value of Inventories	27	158	27	158
Operating Lease Rental Expense	1,011	2,235	1,011	2,235
Auditors' Remuneration	151	140	149	140
Directors' Remuneration	421	456	421	456
Consultants Fees	589	122	589	122
Other Expenses	670	586	422	586
Expenses from Ordinary Activities Considered Individually Significant				
Adjustments in Defined Benefit Superannuation Funds	–	15,653	–	15,653
Expenses from Ordinary Activities	563,598	565,232	563,348	565,441

The net gain on the disposal of property, plant and equipment was \$172,000 (2003: \$191,000).

Delta Electricity

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2004

	Consolidated		Parent Entity	
	2004 S'000	2003 S'000	2004 S'000	2003 S'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% (2003: 30%)	33,313	30,601	33,401	31,337
Tax effect of differences which:				
Reduce tax payable due to:				
– Research and development	(13)	(25)	(13)	(25)
– Non Assessable Income	–	(1,376)	(13)	(1,376)
– Employer Superannuation	(2,297)	–	(2,297)	–
Increase tax payable due to:				
– Employer Superannuation	–	5,320	–	5,320
– Depreciation on Property, Plant and Equipment (revalued)	5,904	5,904	5,904	5,904
– Entertainment Expenses	5	5	5	5
– Development Expenses	–	239	–	239
– Other Income	–	2	–	2
– Derecognition of Future Income Tax Benefit no longer available	12	–	12	–
Impacts of Tax Consolidation:				
Initial recognition of deferred tax balances of wholly owned subsidiary on implementation of the tax consolidation system	–	–	(736)	–
Current and deferred taxes relating to transactions, events and balances of wholly-owned subsidiary in the tax consolidated group	–	–	(75)	–
Under/(over) provision in prior year	(52)	(17)	(52)	(17)
Income tax expense relating to profit from ordinary activities	36,872	40,653	36,136	41,389
Income tax expense relating to profit from ordinary activities is made up of:				
Income Tax Paid	16,078	21,378	16,078	21,378
Current Tax Receivable	–	(4,516)	–	(4,516)
Provision for Income Tax	9,907	–	9,907	–
Provision for Deferred Income Tax	11,654	24,857	11,654	24,857
Deferred Tax Assets	(767)	(1,066)	(1,503)	(330)
	36,872	40,653	36,136	41,389

Delta Electricity

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2004

	Consolidated		Parent Entity	
	2004	2003	2004	2003
	\$'000	\$'000	\$'000	\$'000
4. INCOME TAX (CONTINUED)				
(b) Current Tax Assets				
Current Tax Receivable	–	4,516	–	4,516
	–	4,516	–	4,516
(c) Current Tax Liabilities				
Provision for Income Tax	10,150	–	10,150	–
	10,150	–	10,150	–
(d) Non-Current Deferred Tax Liabilities				
Provision for Deferred Income Tax	190,036	178,382	190,036	178,382
	190,036	178,382	190,036	178,382
Provision for Deferred Income Tax comprises the estimated deferred expense at the applicable rate of 30% (2003:30%).				
(e) Non-Current Deferred Tax Assets				
Deferred Tax Assets	19,381	18,614	19,381	17,878
	19,381	18,614	19,381	17,878
Deferred Tax Assets comprises the estimated future benefit at the applicable rate of 30% (2003:30%).				
5. CASH ASSETS				
Bank	326	352	321	352
Cash Management Funds	23,137	48,341	23,137	48,341
	23,463	48,693	23,458	48,693
6. RECEIVABLES				
(a) Current				
Trade Debtors	77,679	95,982	77,679	95,982
Other Debtors	6,739	3,396	6,737	3,399
	84,418	99,378	84,416	99,381
(b) Non-Current				
Advance to Wholly Owned Subsidiary	–	–	3,979	3,559
Other Debtors	1,960	1,771	1,960	1,771
	1,960	1,771	5,939	5,330

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. There were no doubtful debts at reporting date (2003: \$Nil).

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.

Current other debtors incorporate miscellaneous non-core activities undertaken by Delta Electricity and receivables due on forward foreign exchange contracts hedging specific commitments. Amounts for miscellaneous non-core activities are due 30 days after invoicing while receivables on forward foreign exchange contracts are due to settle within one year of reporting date.

Advance to wholly owned subsidiary represents the advance of funds to Delta Electricity Australia Pty. Ltd in accordance with the terms of a joint venture arrangement to develop renewable energy plant. The advance is presently interest free and there are no set repayment terms.

Non-current other debtors represent debtors with terms greater than one year from reporting date and receivables due on forward foreign exchange contracts hedging specific commitments which settle more than one year after reporting date.

Delta Electricity

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2004

	Parent Entity	
	2004	2003
	\$'000	\$'000
7. INVENTORIES		
Stores and Materials	30,720	29,540
Coal Stocks	33,026	65,791
Other Fuel Stocks	1,046	1,046
	64,792	96,377

8. OTHER FINANCIAL ASSETS

Other Managed Funds	–	16,592
	–	16,592

Other Managed Funds were liquidated during the year and utilised for the prepayment of non-current interest bearing liabilities.

	Consolidated		Parent Entity	
	2004	2003	2004	2003
	\$'000	\$'000	\$'000	\$'000
9. OTHER ASSETS				
(a) Current				
Refundable Security Deposit	6,261	5,418	6,261	5,418
Prepayments	713	629	713	629
Deferred Foreign Exchange Losses and Costs	146	124	146	124
Miscellaneous	2	166	2	166
	7,122	6,337	7,122	6,337
(b) Non-Current				
Deferred Foreign Exchange Losses and Costs	23	21	23	21
Construction Work In Progress	1,204	1,023	–	–
	1,227	1,044	23	21

A refundable security deposit has been provided to satisfy a requirement under Delta Electricity's self insurer's licence for workers' compensation. This deposit can be redeemed in exchange for a bank guarantee.

10. PROPERTY, PLANT AND EQUIPMENT**(a) Valuation of Property, Plant and Equipment**

Property, plant and equipment was revalued to fair value on 1 July 2002. The revaluation was based on an independent valuation managed by Deloitte Touche Tohmatsu. A subsequent assessment of fair value as at 30 June 2004 was undertaken, and it was determined that the written down value of property, plant and equipment was not materially different from fair value at reporting date.

Delta Electricity

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2004

	Parent Entity	
	2004	2003
	\$'000	\$'000
10. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)		
(b) Reconciliation of written down value for asset classes		
Land		
At fair value	23,400	23,409
Total Land	23,400	23,409
Buildings		
Power Stations		
At fair value	262,746	261,220
Less: accumulated depreciation	(15,147)	(7,566)
Total power stations	247,599	253,654
Other Buildings		
At fair value	28,991	28,985
Less: accumulated depreciation	(2,452)	(1,226)
Total other buildings	26,539	27,759
Total Buildings	274,138	281,413
Plant and Equipment		
Power Stations		
At fair value	1,403,403	1,386,422
Less: accumulated depreciation	(85,333)	(41,905)
Total power stations	1,318,070	1,344,517
Other Plant and Equipment		
At fair value	74,942	69,950
Less: accumulated depreciation	(15,865)	(6,917)
Total other plant and equipment	59,077	63,033
Total Plant and Equipment	1,377,147	1,407,550
Total Written Down Value of Property, Plant and Equipment	1,674,685	1,712,372

The above table includes work in progress for plant and equipment of \$40.5 million (2003: \$45.5 million).

(c) Reconciliation of 2004 movements in asset classes:

	Land	Power Stations – Buildings	Other – Buildings	Power Stations – Plant and Equipment	Other – Plant and Equipment	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Carrying amount at beginning of year	23,409	253,654	27,759	1,344,517	63,033	1,712,372
Additions	–	1,526	6	16,981	6,246	24,759
Disposals/Write-offs	(9)	–	–	–	(1,254)	(1,263)
Depreciation Expense	–	(7,581)	(1,226)	(43,428)	(8,948)	(61,183)
Carrying amount at end of year	23,400	247,599	26,539	1,318,070	59,077	1,674,685

Delta Electricity

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2004

	Consolidated		Parent Entity	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
11. PAYABLES				
(a) Current				
Accounts Payable	80,820	93,402	80,838	93,486
Other Creditors	14,005	13,617	14,005	13,617
	94,825	107,019	94,843	107,103
(b) Non-Current				
Other Creditors	762	614	762	614
	762	614	762	614

Accounts payable represents amounts to be paid in the future for goods received and services provided at reporting date. These liabilities are usually settled within 42 days. Current other creditors represents interest due on borrowings which are payable within 6 months and amounts payable on forward foreign exchange contracts initiated as a specific hedge of future transactions due to settle within one year of reporting date. Non-current other creditors represents amounts payable on forward foreign exchange contracts initiated as a specific hedge of future transactions due to settle greater than one year from reporting date.

	Parent Entity	
	2004 \$'000	2003 \$'000
12. INTEREST BEARING LIABILITIES		
(a) Current		
NSW Treasury Corporation Short-Term Loans	39,883	34,405
	39,883	34,405
(b) Non-Current		
NSW Treasury Corporation Loans	602,909	749,854
	602,909	749,854

At reporting date, Delta Electricity had Executive Council approval to borrow up to \$1,000 million (2003: \$1,000 million).

Maturing loans may be re-financed if the borrowing limit is not exceeded. As such, Interest Bearing Liabilities, initially deemed as non-current, with less than one year to maturity have been classified as non-current. At reporting date, there was no debt initially classified as non-current due to mature within one year (2003: \$132.3 million).

Premium on domestic loans issued by New South Wales Treasury Corporation amounted to \$7,903,000 (2003: \$12,414,000). Refer to Note 1(g).

Delta Electricity

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2004

	Parent Entity	
	2004	2003
	\$'000	\$'000
13. PROVISIONS		
(a) Current		
Dividend	74,170	63,069
Employee Benefits	9,940	5,908
Redundancy	–	684
Insurance	1,593	2,925
	85,703	72,586
(b) Non-Current		
Employee Benefits	31,687	33,471
Superannuation	4,051	11,707
Insurance	14,998	16,500
	50,736	61,678

On 31 August 1996, Delta Electricity obtained a Self Insurer's licence for Workers' Compensation. In accordance with the licence conditions Delta Electricity has a current provision of \$889,000 (2003: \$1,165,000) and a non-current provision of \$3,402,000 (2003: \$3,780,000) for workers' compensation included in the Insurance Provision.

(c) Movements in Provisions

Movements in each class of provision during the financial year, other than employee benefits and superannuation, are set out below:

	2004			
	\$'000			
Current				
	Dividend	Redundancy	Insurance	Total
Carrying amount at start of year	63,069	684	2,925	66,678
Add: Additional provision	74,170	–	1,391	75,561
Less: Payments	(63,069)	(684)	(2,723)	(66,476)
Carrying amount at end of year	74,170	–	1,593	75,763
Non-Current				
			Insurance	Total
Carrying amount at start of year			16,500	16,500
Less: Adjustment to assessed liability			(1,502)	(1,502)
Less: Payments			–	–
Carrying amount at end of year			14,998	14,998

Delta Electricity

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2004

	Parent Entity	
	2004	2003
	\$'000	\$'000
14. OTHER LIABILITIES		
(a) Current		
Retentions	661	560
Deferred Foreign Exchange Gains	570	–
Miscellaneous	142	–
	1,373	560
(b) Non-Current		
Deferred Foreign Exchange Gains	75	–
	75	–
	Consolidated	Parent Entity
	2004	2003
	\$'000	\$'000

15. EQUITY**(a) Contributed Equity**

Balance at beginning of year	175,376	295,376	175,376	295,376
Return of Contributed Equity to Shareholder	–	(120,000)	–	(120,000)
Contributed Equity at end of year	175,376	175,376	175,376	175,376

(b) Reserves

Asset Revaluation Reserve				
Balance at beginning of year	577,088	–	577,088	–
Increment on revaluation of Property, Plant and Equipment	–	577,088	–	577,088
Asset Revaluation Reserve at end of year	577,088	577,088	577,088	577,088

(c) Retained Profits

Balance at beginning of year	48,132	98,211	49,851	98,211
Profit from Ordinary Activities after Related Income Tax Expense	74,170	61,350	75,201	63,069
Adjustments to opening retained earnings arising from initial adoption of new/revised standards:				
AASB1028 Employee Benefits	–	(1,229)	–	(1,229)
AASB1044 Provisions, Contingent Liabilities and Contingent Assets	–	2,870	–	2,870
Dividends provided for or paid	(74,170)	(113,070)	(74,170)	(113,070)
Retained Profits at end of year	48,132	48,132	50,882	49,851

Delta Electricity

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2004

16. EMPLOYEE BENEFITS AND SUPERANNUATION**(a) Employee Benefits**

The aggregate employee benefit liability is composed of:

	Parent Entity	
	2004 \$'000	2003 \$'000
Accrued Wages and Salaries	2,817	283
Provision for Employee Benefits – Current	9,940	5,908
Provision for Employee Benefits – Non-Current	31,687	33,471
	44,444	39,662

Accrued wages and salaries for 2004 includes performance and business success payments related to 2003/04 that are part of formal agreements with employees.

(b) Superannuation

Defined benefit superannuation schemes are administered by Pillar Administration on behalf of the SAS Trustee Corporation (STC). An actuarial review of superannuation liabilities for the defined benefit schemes was carried out by Mercer as at 30 June 2004.

The economic assumptions used in calculating the gross superannuation liability of the various defined benefit schemes as at 30 June 2004 was as follows:

	2004/05 % pa	2005/06 % pa	Thereafter % pa
Investment Return	7.0	7.0	7.0
Salary Growth Rate	4.0	4.0	4.0
Consumer Price Index	2.5	2.5	2.5

Assumptions with regard to rates of mortality, resignation, retirement and other demographics are those that were used in the 2003 triennial valuation.

Payments to Pillar Administration for the State Superannuation Scheme (SSS), State Authorities Superannuation Scheme (SASS) and State Authorities Non-Contributory Superannuation Scheme (SANCS) totalled \$6.6 million for the financial year (2003: \$4.0 million).

The position of the defined benefit schemes are as follows:

	SASS \$'000	SANCS \$'000	SSS \$'000	Parent Entity	
				2004 \$'000	2003 \$'000
Assessed Gross Liability as at 30 June	41,993	13,395	90,372	145,760	132,608
Less: Investment Reserve Account Balance	(37,546)	(12,002)	(92,161)	(141,709)	(120,901)
Unfunded Liability / (Prepaid Contributions)	4,447	1,393	(1,789)	4,051	11,707

The net unfunded liability of \$4.1 million is recognised as a non-current provision in the Statement of Financial Position.

The net movement in the defined benefit superannuation schemes unfunded liability for the period in respect of the above three funds was a reduction of \$7.7 million (2003: increase of \$17.7 million). This is explained by superannuation expenses (\$6.8 million) which represents the expected expense, an individually significant revenue item (\$7.9 million) which represents the unexpected movement due to investment performance exceeding benchmark (Note 2), and cash contributions (\$6.6 million).

Delta Electricity

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2004

	Parent Entity	
	2004	2003
	\$'000	\$'000
17. EXPENDITURE COMMITMENTS		
Expenditure contracted for at reporting date but not recognised as liabilities in the Statement of Financial Position:		
(a) Capital		
Payable no later than one year	4,081	9,970
Payable later than one, not later than 5 years	2,717	3,824
Payable later than 5 years	–	–
	6,798	13,794
(b) Operating (excluding lease commitments)		
Payable no later than one year	14,191	16,759
Payable later than one, not later than 5 years	27,527	4,970
Payable later than 5 years	–	–
	41,718	21,729

Delta Electricity expects to receive input tax credits from the Australian Taxation Office totalling \$4,404,000 for Goods and Services Tax paid for these commitments.

18. OPERATING LEASE COMMITMENTS

Future operating lease rentals contracted for at reporting date but not recognised as liabilities in the Statement of Financial Position:

Payable no later than one year	779	866
Payable later than one, not later than 5 years	2,945	3,304
Payable later than 5 years	–	437
	3,724	4,607

Delta Electricity leases office accommodation under an operating lease expiring in December 2008. There is no option for renewal at the end of the lease period. Delta Electricity expects to receive input tax credits from the Australian Taxation Office totalling \$280,000 for Goods and Services Tax paid for these commitments.

19. CROSS BORDER LEASE

Delta Electricity has entered into several arrangements designed to optimise investment in Mt Piper Power Station. These arrangements have been executed through a series of agreements which in legal form constitute lease, prepayment and deposit transactions. These arrangements will run until 2 January 2020 and include options allowing Delta Electricity to purchase the assets at the end of the term. The substance and commercial effect of these transactions is to leave Delta Electricity with uninterrupted use and control of the associated infrastructure (subject to the satisfaction of the transaction's contractual obligations), which remains on the Statement of Financial Position. The benefits derived by Delta Electricity were brought to account on inception of the arrangement.

No significant credit risk or concentration of credit risk arises as a consequence of these arrangements.

20. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

There were no known contingent liabilities or contingent assets in existence at reporting date.

21. CONTROLLED ENTITIES

Delta Electricity acquired the two issued \$1 ordinary shares of Delta Electricity Australia Pty. Ltd in 1997. The wholly owned subsidiary commenced commercial operations in 2002/03.

Delta Electricity

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2004

22. FINANCIAL INSTRUMENTS**(a) 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 reporting date were:

	Parent Entity	
	2004 \$'000	2003 \$'000
Less than one year*	–	(10,500)
One to five years*	–	–

* positive amount indicates bought futures; negative amount indicates sold futures.

There were no derivative instruments related to the management of interest rate risk in place at reporting date.

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.

Amounts receivable and payable on open contracts are included in other debtors and payables in the Statement of Financial Position.

At reporting date, Delta Electricity had 15 (2003: 15) forward foreign exchange contracts. The values of these contracts are outlined in the table below:

Currency	Number of Contracts	Parent Entity		Number of Contracts	Currency Value
		2004 Currency Value	2003		
USD	3	114,934	–	–	–
EUR	1	28,946	12	1,246,466	–
GBP	8	1,706,347	3	274,310	–
JPY	2	143,313,030	–	–	–
CHF	1	138,269	–	–	–

The contracts are showing an unrealised gain of \$506,000 (2003: unrealised loss \$101,000) and all are expected to mature in the next 19 months when payment for goods or service occurs.

Electricity Hedging Contracts

In the normal course of business, Delta Electricity enters into various types of hedging contracts with electricity market counterparties to manage the risks associated with fluctuations in wholesale electricity market prices. These contracts are undertaken in accordance with Board approved policies.

Delta Electricity

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2004

22. 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 (89.4%) and other debtors (10.6%).

The credit risk associated with electricity contracts is mitigated through the application of limits determined by a Board approved policy. These limits are based on the credit rating of the counterparty. In the absence of an acceptable public credit rating an internal credit rating is assigned on the advice of an external credit assessment specialist. The aggregate exposure on open electricity contracts at reporting date was \$187.0 million (2003: \$139.1 million).

Credit risk also arises from potential counterparty default on forward foreign exchange contracts and other derivative instruments. The Australian dollar value of this exposure at reporting date was \$510,000 (2003: \$Nil).

(c) Interest Rate Risk Exposures and Net Fair Values

The consolidated entity exposure to interest rate risk for financial instruments and the aggregate net fair values of financial assets and liabilities at 30 June 2004 are:

	Floating Interest \$'000	Fixed interest and electricity hedging contracts maturing in			Non-Interest bearing \$'000	Carrying amount \$'000	Aggregate net fair value \$'000
		<1 year \$'000	1-5 years \$'000	>5 years \$'000			
Financial Assets							
Cash	23,459				4	23,463	23,463
Trade Debtors					77,679	77,679	77,679
Other Debtors – Current					790	790	790
Other Debtors – Non Current		20			1,128	1,148	1,148
Forward Foreign Exchange Contracts					6,762	6,762	6,762
Other Miscellaneous – Current		6,261			146	6,407	6,407
Other Miscellaneous – Non Current					24	24	24
Financial Liabilities							
Accounts Payable					80,840	80,840	80,840
Other Creditors					8,481	8,481	8,481
Forward Foreign Exchange Contracts					6,286	6,286	6,286
Interest Bearing Liabilities		39,883	292,525	310,384		642,792	660,779
Other Miscellaneous – Current					710	710	710
Other Miscellaneous – Non Current					75	75	75
Off – Statement of Financial Position Financial Instruments							
Financial Assets							
Electricity Hedging Contracts (non-interest bearing)#		473,536	669,338	2,860		1,145,734	29,273

Notional Face Value

Delta Electricity

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2004

22. FINANCIAL INSTRUMENTS (CONTINUED)**(c) Interest Rate Risk Exposures and Net Fair Values (Continued)**

The consolidated entity exposure to interest rate risk for financial instruments and the aggregate net fair values of financial assets and liabilities at 30 June 2003 were:

	Floating	Fixed interest and electricity			Non-Interest	Carrying	Aggregate
	Interest	hedging contracts maturing in			bearing	amount	net fair value
	\$'000	<1 year	1-5 years	>5 years	\$'000	\$'000	\$'000
		\$'000	\$'000	\$'000			
Financial Assets							
Cash	48,689				4	48,693	48,693
Trade Debtors					95,982	95,982	95,982
Other Debtors – Current					1,177	1,177	1,177
Other Debtors – Non Current		51			1,127	1,178	1,178
Other Managed Funds	16,592					16,592	16,592
Forward Foreign Exchange Contracts					2,812	2,812	2,759
Other Miscellaneous – Current	160	5,418			124	5,702	5,702
Other Miscellaneous – Non Current					21	21	21
Financial Liabilities							
Accounts Payable					93,402	93,402	93,402
Other Creditors					11,274	11,274	11,274
Forward Foreign Exchange Contracts					2,957	2,957	2,860
Interest Bearing Liabilities		166,739	299,420	318,100		784,259	837,083
Off – Statement of Financial Position Financial Instruments							
Financial Assets							
Futures*						310	310
Electricity Hedging Contracts (non-interest bearing)#		361,954	497,133	5,668		864,755	33,072
Financial Liabilities							
Futures*	(10,500)					(319)	(319)

Notional Face Value

* Notional principal amount – positive amount indicates bought futures; negative amount indicates sold futures. Carrying amount included in Current Accounts Payable.

The weighted average interest exposure on financial assets is 5.2% (2003: 4.8%), while weighted average interest exposure incorporating a government guarantee fee on financial liabilities is 8.8% (2003: 8.2%).

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

The net fair values of 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 reporting date.

The net fair value of futures represents the margin call at reporting date.

The net fair value of interest rate swaps represents the amount Delta Electricity would expect to receive or pay on the termination of contracts at reporting date.

The net fair value of forward foreign exchange contracts payables and receivables is the amount Delta Electricity would expect to pay or receive on termination of contracts at reporting date.

The net fair value of electricity hedging contracts represents a best estimate of the amount Delta Electricity would expect to receive or pay on termination or replacement of the contracts at reporting date and has been calculated using a forward market price based on internal and external price information. The net fair value has been determined after discounting cash flows using Delta Electricity's weighted average cost of capital.

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

Delta Electricity

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2004

22. FINANCIAL INSTRUMENTS (CONTINUED)**(d) Total Debt Maturity Table**

Total debt outstanding and maturity at reporting date is as follows:

	Parent Entity	
	2004 \$'000	2003 \$'000
Up to one year	39,883	166,739
Over one and up to two years	135,429	135,311
Over two years and up to five years	157,096	164,109
Over five years	310,384	318,100
	642,792	784,259

23. 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:

	Consolidated		Parent Entity	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Cash Assets	23,463	48,693	23,458	48,693
Current Interest Bearing Liabilities	(384)	—	(384)	—
Balance as per Statement of Cash Flows	23,079	48,693	23,074	48,693

(c) Dividends and Taxes

No dividends were received during the period. Dividends paid by Delta Electricity during the period amounted to \$63.1 million (2003: \$135.5 million). Tax equivalent payments for the year were \$11.3 million (2003: \$29.5 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	2,000	2,000
NSW Treasury Corporation Loans	1,000,000	1,000,000	1,000,000	1,000,000
Total Available	1,002,000	1,002,000	1,002,000	1,002,000

Facilities Utilised

Bank Overdraft	—	—	—	—
NSW Treasury Corporation Loans	642,792	784,259	642,792	784,259
Total Utilised	642,792	784,259	642,792	784,259

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.

Delta Electricity

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2004

23. NOTES TO THE STATEMENT OF CASH FLOWS (CONTINUED)

	Consolidated		Parent Entity	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
(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	74,170	61,350	75,201	63,069
Add/(Less): Non-Cash Items				
Depreciation	61,183	57,614	61,183	57,614
Amortisation	(2,273)	(2,157)	(2,273)	(2,157)
Project Costs	–	(204)	–	–
Inventory Adjustments	27	158	27	158
Assets Written Off	16	9	16	9
Add/(Less): Items classified as Investing/Financing Activities				
(Gain)/Loss on Sale of Property, Plant and Equipment	(172)	(191)	(172)	(191)
Accounting (Gain)/Loss on Debt Re-financing	425	2,784	425	2,784
Net Cash Provided by Operating Activities Before Changes in Assets and Liabilities	133,376	119,363	134,407	121,286
Net Changes in Assets and Liabilities During the Period				
(Increase)/Decrease in Trade Debtors	14,711	81,088	14,711	81,088
(Increase)/Decrease in Other Debtors	726	8,379	722	8,383
(Increase)/Decrease in Inventories	27,531	(5,072)	27,531	(5,072)
(Increase)/Decrease in Other Assets	1	(62)	(19)	(62)
Increase/(Decrease) in Payables	(6,378)	(62,976)	(6,378)	(62,977)
Increase/(Decrease) in Income Tax Related Assets/Liabilities	25,553	11,203	24,816	11,939
Increase/(Decrease) in Other Liabilities	(9,069)	16,463	(9,069)	16,463
Net Cash Provided/(Used) by Operating Activities	186,451	168,386	186,721	171,048

Delta Electricity

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2004

24. DIRECTORS' REMUNERATION

The following remuneration was provided to Directors of Delta Electricity:

	Parent Entity	
	2004 \$'000	2003 \$'000
Remuneration received, or due and receivable, by directors from the parent entity and related parties in connection with the management of the parent entity	389	418
Amounts paid to director superannuation funds or directly to directors in connection with the retirement of directors	32	38
Total remuneration paid or payable to directors	421	456

Directors' remuneration excludes insurance premiums paid by the parent entity in respect of directors' and officers' liability insurance as policies do not specify premiums paid in respect of individual directors and officers.

Mr P Dodd was Chairman of Delta Electricity from 1 July 2003 until 29 February 2004. Mr W Hilder filled the position of acting Chairman from 1 March 2004 until 30 June 2004. Mr P Young was appointed as Chairman of Delta Electricity on 1 June 2004 and will take up duties on 29 July 2004.

Mr P Dodd was a director of Delta Electricity Australia Pty. Ltd up until 29 February 2004.

Mr JP Henness was a director of Delta Electricity Australia Pty. Ltd for the full financial year.

No additional remuneration is paid to these directors for undertaking their Delta Electricity Australia Pty. Ltd directorship.

25. RELATED PARTY DISCLOSURES**(a) Directors and Director-Related Entities**

The Directors of Delta Electricity hold directorships of other companies, some of which may have had transactions with Delta Electricity during the financial year. Any transactions with these entities would have been made in the normal course of business and on normal commercial terms and conditions. With respect to any such transaction, no Director has declared that he/she has control or significant influence on the financial and/or operating policies of those companies in their dealings with Delta Electricity.

(b) Wholly Owned Group

During the year ended 30 June 2004, Delta Electricity in accordance with a Deed of Capital Contribution dated 11 October 2001 provided an interest free advance of \$0.4 million to Delta Electricity Australia Pty. Ltd. Total advances made to Delta Electricity Australia Pty. Ltd as at 30 June 2004 were \$4.0 million. There are no fixed terms for the repayment of the advance and no interest was received during the year.

26. EVENTS OCCURRING AFTER REPORTING DATE

There were no significant events occurring after reporting date.

Delta Electricity

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2004

27. AUSTRALIAN INTERNATIONAL FINANCIAL REPORTING STANDARDS

(a) Explanation of how the transition to AIFRS is being managed

Delta Electricity will apply the Australian Equivalents to International Financial Reporting Standards (AIFRS) from the reporting period beginning 1 July 2005.

Delta Electricity is managing the transition to the new standards by allocating internal resources and engaging consultants to analyse the pending standards and Urgent Issues Group Abstracts to identify key areas regarding policies, procedures, systems and financial impacts affected by the transition.

As a result of this exercise, Delta Electricity has taken the following steps to manage the transition to the new standards:

- A Steering Committee comprising members of the executive is overseeing the transition. The Chief Financial Officer as project sponsor is responsible for the project and reports regularly to the Committee on progress against the plan.
- The following phases to achieve transition have been identified:
 - Phase 1 – Impact Analysis Study (completed)
 - Phase 2 – Detailed analysis and documentation on major impacts (completed)
 - Phase 3 – Design, implementation and review phase (July 2004 to June 2005)

Guidance is also being provided by NSW Treasury in a number of accounting policy areas, including mandating of certain options.

(b) Key Differences in Accounting Policies

Delta Electricity has identified a number of significant differences in accounting policies that will arise from adopting AIFRS. Some differences arise because AIFRS requirements are different from existing AASB requirements. Other differences could arise from options in AIFRS. To ensure consistency at the whole of government level, NSW Treasury has advised Delta Electricity of options it is likely to mandate, and will confirm these during 2004/05. This disclosure reflects these likely mandates.

Delta Electricity's accounting policies may also be affected by a proposed standard designed to harmonise accounting standards with Government Finance Statistics (GFS). This standard is likely to change the impact of AIFRS and significantly affect the presentation of the income statement. However, the impact is uncertain, because it depends on when this standard is finalised and whether it can be adopted in 2005/06.

Based on current information, the following key differences in accounting policies are expected to arise from adopting AIFRS:

- AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards requires retrospective application of the new AIFRS from 1 July 2004, with limited exemptions. Similarly, AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors requires voluntary changes in accounting policy and correction of errors to be accounted for retrospectively by restating comparatives and adjusting the opening balance of accumulated funds. This differs from current Australian requirements, because such changes must be recognised in the current period through profit or loss, unless a new standard mandates otherwise.
- AASB 112 Income Taxes requires a balance sheet approach where the entity must identify differences between the accounting and tax value of assets and liabilities. The previous approach was to account for tax by adjusting accounting profit for temporary and permanent differences to derive taxable income. The AASB 112 approach may alter the quantum of tax assets and liabilities recognised.

In addition, the income tax expense and deferred tax assets and liabilities may be affected by other AIFRS to the extent that they impact on the balance sheet and profit or loss.

- AASB 116 Property, Plant and Equipment requires the cost and fair value of property, plant and equipment to be increased to include restoration costs, where restoration provisions are recognised under AASB 137 Provisions, Contingent Liabilities and Contingent Assets.

Major inspection costs must be capitalised and this will require the fair value and depreciation of the related asset to be re-allocated.

Entities must account for asset revaluation increments and decrements on an individual asset basis, rather than on a class basis. This change may decrease Delta Electricity's accumulated funds.

- AASB 119 Employee Benefits requires the defined benefit obligation to be discounted using the government bond rate as at each reporting date rather than the long-term expected rate of return on plan assets. This will increase the amount and the future volatility of the unfunded superannuation liability and the volatility of the employee benefit expense.

Delta Electricity

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2004

27. AUSTRALIAN INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

- AASB 123 Borrowing Costs provides the option to expense or capitalise borrowing costs. NSW Treasury is likely to mandate expensing of borrowing costs to harmonise with GFS. Previously, borrowing costs related to qualifying assets were capitalised.
- AASB 136 Impairment of Assets requires an entity to assess at each reporting date whether there is any indication that an asset (or cash generating unit) is impaired and if such indication exists, the entity must estimate the recoverable amount. However, the effect of this Standard should be minimal for Delta Electricity as it complies with NSW Treasury's policy Valuation of Physical Non Current Assets at Fair Value which incorporates all the substantive principles in AASB 136.
- AASB 139 Financial Instrument Recognition and Measurement results in the recognition of financial instruments that were previously off balance sheet, including derivatives. The standard adopts a mixed measurement model and requires financial instruments held for trading and available for sale to be measured at fair value and valuation changes to be recognised in profit or loss or equity, respectively. Previously they were recognised at cost. This may increase the volatility of the operating result and balance sheet.

The standard also includes stricter rules for the adoption of hedge accounting, and where these are not satisfied, movements in fair value will impact the income statement.

To achieve full harmonisation with GFS, entities would need to designate all financial instruments at fair value through profit or loss. However, at this stage it is unclear whether this option will be available under the standard and, if available, whether Treasury will mandate this option.

28. 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 known 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.

Delta Electricity

STATEMENT BY MEMBERS OF THE BOARD

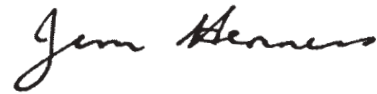
Pursuant to Section 41 of the Public Finance and Audit Act, 1983, and in accordance with a resolution of Delta Electricity, we declare on behalf of Delta Electricity that in our opinion:

1. The accompanying Financial Statements exhibit a true and fair view of the financial position of Delta Electricity as at 30 June, 2004 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, and 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 Young
CHAIRMAN

5 October 2004



Jim Henness
CHIEF EXECUTIVE

5 October 2004



GPO Box 12
Sydney NSW 2001

INDEPENDENT AUDIT REPORT DELTA ELECTRICITY

To Members of the New South Wales Parliament

Audit Opinion

In my opinion, the financial report of the Delta Electricity:

- (a) presents fairly Delta Electricity's and the consolidated entity's financial position as at 30 June 2004 and their financial performance and cash flows for the year ended on that date, in accordance with applicable Accounting Standards and other mandatory professional reporting requirements in Australia, and
- (b) complies with section 41B of the *Public Finance and Audit Act 1983* (the Act).

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

The Board's Role

The financial report is the responsibility of the members of the Board of Delta Electricity. It consists of the statements of financial position, the statements of financial performance, the statements of cash flows and the accompanying notes for Delta Electricity and the consolidated entity. The consolidated entity comprises Delta Electricity and the entities controlled at the year's end or during the financial year.

The Auditor's Role and the Audit Scope

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

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

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

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

My opinion does *not* provide assurance:

- about the future viability of Delta Electricity or its controlled entities,
- that they have carried out their activities effectively, efficiently and economically, or
- about the effectiveness of their internal controls.

Audit Independence

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

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

R Sendt
Auditor-General

SYDNEY
5 October 2004

Financial Statements

Delta Electricity Australia Pty. Ltd

BEGINNING
OF AUDITED
FINANCIAL
STATEMENTS

STATEMENT OF FINANCIAL POSITION

As at 30 June 2004

	Note	2004 \$	2003 \$
Current Assets			
Cash Assets	5	4,948	305
Receivables	6	22,289	106,083
Total Current Assets		27,237	106,388
Non-Current Assets			
Deferred Tax Assets	4(b)	–	736,118
Other	7	1,204,116	1,022,977
Total Non-Current Assets		1,204,116	1,759,095
Total Assets		1,231,353	1,865,483
Current Liabilities			
Payables	8(a)	1,115	24,542
Total Current Liabilities		1,115	24,542
Non-Current Liabilities			
Payables	8(b)	3,978,749	3,558,549
Total Non-Current Liabilities		3,978,749	3,558,549
Total Liabilities		3,979,864	3,583,091
Net Assets		(2,748,511)	(1,717,608)
Equity			
Contributed Equity	9(a)	2	2
Retained Profits/(Losses)	9(b)	(2,748,513)	(1,717,610)
Total Equity		(2,748,511)	(1,717,608)

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

Delta Electricity Australia Pty. Ltd

STATEMENT OF FINANCIAL PERFORMANCE

For the Year Ended 30 June 2004

	Note	2004 \$	2003 \$
Revenue from Ordinary Activities	2	913	4,526
Expenses from Ordinary Activities	3	295,698	2,458,254
Borrowing Costs Expense		—	—
Profit/(Loss) from Ordinary Activities Before Income Tax Expense		(294,785)	(2,453,728)
Income Tax Expense/(Benefit) Relating to Ordinary Activities	4(a)	736,118	(736,118)
Profit/(Loss) from Ordinary Activities after Related Income Tax Expense		(1,030,903)	(1,717,610)

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

Delta Electricity Australia Pty. Ltd

STATEMENT OF CASH FLOWS

For the Year Ended 30 June 2004

	Note	2004 \$ Inflows (Outflows)	2003 \$ Inflows (Outflows)
Cash Flows From Operating Activities			
Cash Received in the Course of Operations		50,026	77,920
Interest Received		913	4,526
Cash Payments to Suppliers and Employees		(322,050)	(2,538,536)
Net Cash Provided/(Used) by Operating Activities	13(f)	(271,111)	(2,456,090)
Cash Flows from Investing Activities			
Payments for Construction Work in Progress		(224,446)	(1,002,156)
Net Cash Provided/(Used) by Investing Activities		(224,446)	(1,002,156)
Cash Flows from Financing Activities			
Proceeds from Advance from Parent		500,200	3,458,549
Proceeds from Call on Share Issue		–	2
Net Cash Provided/(Used) by Financing Activities		500,200	3,458,551
Net Increase (Decrease) in Cash Held		4,643	305
Cash at the Beginning of the Financial Year		305	–
Cash at the End of the Financial Year	13(b)	4,948	305

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

Delta Electricity Australia Pty. Ltd

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2004

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, State Owned Corporations Act 1989, and relevant sections of the New South Wales Public Finance and Audit Act 1983 and the New South Wales Public Finance and Audit Regulation 2000.

(a) Basis of Accounting

The financial statements have been prepared in accordance with the principles of accrual accounting and the historical cost convention, 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.

(b) Going Concern

The financial statements of Delta Electricity Australia Pty. Ltd have been prepared on a going concern basis. The company is a participant in a joint venture operation involved in the design, construction and operation of renewable energy generation plant. Under the terms of a Deed of Capital Contribution agreement, Delta Electricity (parent entity) is required to provide necessary funding to Delta Electricity Australia Pty. Ltd during the establishment and construction phase. Delta Electricity Australia Pty. Ltd is expected to commence earning revenue from operations on completion of generation plant construction.

(c) Contributed Equity

Delta Electricity Australia Pty. Ltd was acquired on 15 December 1997 and is a wholly owned subsidiary of Delta Electricity. The company commenced commercial operations on 1 July 2002.

(d) Joint Venture Operations

The proportionate interests in assets, liabilities and expenses of the joint venture operation have been incorporated in the financial statements under the appropriate headings. Details of the joint venture operation are set out in Note 14.

(e) 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.

(f) Assets Under Construction

Costs associated with the borrowings specifically financing assets under construction are capitalised up to the date of completion of each asset to the extent those costs are recoverable. A total of \$10,064 (2003: \$190,912) in borrowing costs were capitalised during the 2003/04 financial year.

(g) Dividends

Provision is made for the amount of any dividend declared, determined or publicly recommended prior to reporting date.

(h) Taxation

Legislation to allow groups, comprising a parent entity and its wholly owned resident entities to elect to consolidate for income tax purposes was substantially enacted on 21 October 2002.

Delta Electricity Australia Pty. Ltd became a member of Delta Electricity's tax consolidated group from 1 July 2003.

The head entity, Delta Electricity will notify the Australian Taxation Office of the tax consolidation group before the lodgement of the group's 2004 Income Tax Equivalent Return.

As there is no tax sharing agreement between the members of the consolidated group and the head entity, Delta Electricity is fully responsible for all income tax obligations of the group, including any income tax arising in relation to the transactions and other events of Delta Electricity Australia Pty. Ltd. Delta Electricity will also recognise any timing differences arising in relation to the transactions and other events of Delta Electricity Australia Pty. Ltd.

As a result, Delta Electricity Australia Pty. Ltd is not subject to tax in its own right and all income tax expenses, revenues, assets and liabilities related to the transactions, balances and events of the company are recognised in the financial statement of the head entity, Delta Electricity.

Delta Electricity Australia Pty. Ltd

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Prior to the consolidation, tax effect accounting principles were adopted whereby income tax expense was calculated on pre-tax accounting profits after adjustment for permanent differences.

Delta Electricity Australia Pty. Ltd retained the existing tax cost base of all its assets upon entry into the consolidation group.

Delta Electricity recognised and Delta Electricity Australia Pty. Ltd derecognised the deferred tax asset of \$736,118 in Delta Electricity Australia Pty. Ltd's accounts at the time the tax consolidated group was formed. The deferred tax asset related to the previous year's timing differences of Delta Electricity Australia Pty. Ltd.

No compensation is receivable or payable between Delta Electricity and Delta Electricity Australia Pty. Ltd in relation to tax balances.

(i) Segment Reporting

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

(j) Revenue

Interest income on cash reserves is recognised as it accrues. Revenue from operating activities will commence on completion of generation plant construction.

(k) 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.

(l) Comparative Figures

Where necessary, comparative information has been reclassified to enhance comparability in respect of changes in presentation adopted in the current year.

(m) Rounding of Amounts

Amounts shown in the financial statements have been rounded to the nearest dollar.

	2004 \$	2003 \$
2. REVENUE FROM ORDINARY ACTIVITIES		
Revenue from Outside Operating Activities		
Interest	913	4,526
Revenue from Ordinary Activities	913	4,526
3. EXPENSES FROM ORDINARY ACTIVITIES		
Feasibility Costs	–	2,127,270
Project Administration Costs	282,481	–
Other Expenses	13,217	330,984
Expenses from Ordinary Activities	295,698	2,458,254

Delta Electricity Australia Pty. Ltd

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2004

	2004 \$	2003 \$
4. INCOME TAX		
(a) Income Tax Expense		
The income tax on the profit/(loss) from ordinary activities differs from the amount prima facie payable on that profit/(loss) as follows:		
Prima facie income tax on the profit/(loss) from ordinary activities at 30%	–	(736,118)
Derecognition of deferred tax balances on implementation of tax consolidation system	736,118	–
Income tax expense relating to profit/(loss) from ordinary activities	736,118	(736,118)
Income tax expense relating to profit/(loss) from ordinary activities is made up of:		
Deferred Tax Assets (Derecognition)	736,118	(736,118)
	736,118	(736,118)
(b) Non-Current Deferred Tax Assets		
Deferred Tax Assets	–	736,118
	–	736,118
Deferred Tax Assets comprises the estimated future benefit at the applicable rate of 30%.		
5. CASH ASSETS		
Bank	4,948	305
	4,948	305
6. CURRENT RECEIVABLES		
Advance Receivable from Parent	20,000	100,000
Other	2,289	6,083
	22,289	106,083
Advance Receivable from Parent represents the value of advances currently approved but not paid. The funds will be transferred within one month.		
7. OTHER NON-CURRENT ASSETS		
Construction Works-in-Progress	1,204,116	1,022,977
	1,204,116	1,022,977
8. PAYABLES		
(a) Current		
Accounts Payable	1,115	24,542
	1,115	24,542
Accounts Payable represents amounts to be paid in the future for goods received and services provided at reporting date. These liabilities are usually settled within 30 days.		
(b) Non-Current		
Advance from Parent Entity	3,978,749	3,558,549
	3,978,749	3,558,549

Under the terms of a Deed of Capital Contribution agreement dated 11 October 2001, Delta Electricity (parent entity) is required to provide specified funding to Delta Electricity Australia Pty. Ltd to enable the company's participation in a joint venture operation. Funding is currently provided interest free with no set terms for repayment.

Delta Electricity Australia Pty. Ltd

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2004

	2004 \$	2003 \$
9. EQUITY		
(a) Contributed Equity		
Balance at beginning of year	2	–
Share Capital Paid up by Parent Entity	–	2
Contributed Equity at end of year	2	2
(b) Retained Profits/(Losses)		
Balance at beginning of year	(1,717,610)	–
Profit/(Loss) from Ordinary Activities after income tax expense	(1,030,903)	(1,717,610)
Retained Profits/(Losses) at end of year	(2,748,513)	(1,717,610)

10. EXPENDITURE AND OPERATING LEASE COMMITMENTS

There were no contracted capital expenditure, operating expenditure or operating lease commitments at reporting date.

11. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

There were no known contingent liabilities or contingent assets in existence at reporting date.

12. FINANCIAL INSTRUMENTS**(a) Credit Risk Exposures**

The credit risk on financial assets which have been recognised on the Statement of Financial Position is generally the carrying amount.

(b) Interest Rate Risk Exposures and Net Fair Values

The exposure to interest rate risk for financial instruments at 30 June 2004 is as follows:

	Floating Interest \$	Non-Interest bearing \$	Carrying amount \$	Aggregate net fair value \$
Financial Assets				
Cash	4,948	–	4,948	4,948
Advance Receivable from Parent	–	20,000	20,000	20,000
Other Receivables	–	2,289	2,289	2,289
Financial Liabilities				
Accounts Payable	–	1,115	1,115	1,115
Advance From Parent	–	3,978,749	3,978,749	3,978,749

The exposure to interest rate risk for financial instruments at 30 June 2003 is as follows:

	Floating Interest \$	Non-Interest bearing \$	Carrying amount \$	Aggregate net fair value \$
Financial Assets				
Cash	305	–	305	305
Advance Receivable from Parent	–	100,000	100,000	100,000
Other Receivables	–	6,083	6,083	6,083
Financial Liabilities				
Accounts Payable	–	24,542	24,542	24,542
Advance From Parent	–	3,558,549	3,558,549	3,558,549

Delta Electricity Australia Pty. Ltd

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2004

12. FINANCIAL INSTRUMENTS (CONTINUED)

The weighted average interest exposure on financial assets is 4.5%. There is no interest exposure on financial liabilities.

The aggregate net fair value of financial assets and financial liabilities approximate the values recognised in the Statement of Financial Position.

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

13. 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 funds 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:

	2004 \$	2003 \$
Cash Assets	4,948	305
Balance as per Statement of Cash Flows	4,948	305

(c) Dividends and Taxes

No dividends were received during the period. There were no dividend or tax equivalent payments during the period.

(d) Acquisitions and Disposal of Entities

There were no acquisitions or disposals during the year.

(e) Financing Arrangements

Delta Electricity has current approval under the Public Authorities (Financial Arrangements) Act to advance up to \$4 million to Delta Electricity Australia Pty. Ltd. At reporting date, \$3,978,749 of this limit had been utilised.

(f) Reconciliation of Net Cash Provided/(Used) by Operating Activities to Profit/(Loss) from Ordinary Activities after Related Income Tax Expense

Profit/(Loss) from Ordinary Activities after Related Income		
Tax Expense	(1,030,903)	(1,717,610)
Net Changes in Assets and Liabilities During the Period		
(Increase)/Decrease in Other Debtors	3,793	(3,853)
(Increase)/Decrease in Other Assets	20,406	-
Increase/(Decrease) in Payables	(525)	1,491
Increase/(Decrease) in Income Tax Related Assets/Liabilities	736,118	(736,118)
Net Cash Provided/(Used) by Operating Activities	(271,111)	(2,456,090)

Delta Electricity Australia Pty. Ltd

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2004

14. INTEREST IN JOINT VENTURE OPERATION

The principal activity of Delta Electricity Australia Pty. Ltd is the participation in a joint venture operation called Sunshine Electricity to design, construct and operate renewable energy generation capacity in New South Wales.

Delta Electricity Australia Pty. Ltd has a 50% participating interest in the joint venture and is entitled to 50% of the output. The remaining 50% participating interest is held by Sunshine Renewable Energy Pty. Ltd.

Delta Electricity Australia Pty. Ltd's share of the net assets employed in the joint venture operation are represented by the values shown in the Statement of Financial Position except for items specifically related to transactions with the parent entity. These parent related transactions are disclosed under Advance Receivable from Parent (Note 6) and Advance from Parent Entity (Note 8(b)). Commitments for the joint venture operation are outlined in Note 10.

Delta Electricity Australia Pty. Ltd has acquired one of the two \$1 ordinary shares in Sunshine Electricity Management Pty. Ltd. The remaining \$1 ordinary share was acquired by Sunshine Renewable Energy Pty. Ltd. Sunshine Electricity Management Pty. Ltd was established specifically as an agent for the joint venture partners.

15. RELATED PARTY DISCLOSURES**Directors**

Mr P Dodd (from 1 July 2003 to 29 February 2004)

Mr JP Henness

No additional remuneration is provided for being a Director of Delta Electricity Australia Pty. Ltd.

Ultimate Parent Entity

The ultimate parent entity at reporting date is Delta Electricity.

Disclosures Within the Wholly-Owned Group

Delta Electricity provided engineering services to the value of \$93,732 and other minor services to the value of \$6,464 to the joint venture operation. These services were provided on a commercial basis with Delta Electricity Australia Pty. Ltd's share of the expenses being \$50,098.

16. AUSTRALIAN INTERNATIONAL FINANCIAL REPORTING STANDARDS**(a) Explanation of how the transition to AIFRS is being managed**

Delta Electricity Australia Pty. Ltd will apply the Australian Equivalents to International Financial Reporting Standards (AIFRS) from the reporting period beginning 1 July 2005.

Delta Electricity is managing Delta Electricity Australia Pty. Ltd's transition to AIFRS as part of its convergence project. Delta Electricity is allocating internal resources and engaging consultants to analyse the pending standards and Urgent Issues Group Abstracts to identify key areas regarding policies, procedures, systems and financial impacts affected by the transition.

Part of the review by Delta Electricity is to specifically address any AIFRS accounting issues and policies for Delta Electricity Australia Pty. Ltd.

Delta Electricity has taken the following steps to manage the transition to the new standards:

- A Steering Committee comprising members of the executive is overseeing the transition. The Chief Financial Officer as project sponsor is responsible for the project and reports regularly to the Committee on progress against the plan.
- The following phases to achieve transition have been identified:
 - Phase 1 – Impact Analysis Study (completed)
 - Phase 2 – Detailed analysis and documentation on major impacts (completed)
 - Phase 3 – Design, implementation and review phase (July 2004 to June 2005)

Guidance is also being provided by NSW Treasury in a number of accounting policy areas, including mandating of certain options.

Delta Electricity Australia Pty. Ltd

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2004

16. AUSTRALIAN INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)**(b) Key Differences in Accounting Policies**

Delta Electricity Australia Pty. Ltd is currently in the early stage of the construction phase and as a result there is limited impact to existing accounting policies from adopting AIFRS. The entity will ensure that accounting policies adopted after the construction phase complies with AIFRS.

Some differences will arise because AIFRS requirements are different from existing AASB requirements. Other differences could arise from options in AIFRS. To ensure consistency at the whole of government level, NSW Treasury has advised Delta Electricity of options it is likely to mandate, and will confirm these during 2004/05. This disclosure reflects these likely mandates.

Delta Electricity Australia Pty. Ltd's accounting policies may also be affected by a proposed standard designed to harmonise accounting standards with Government Finance Statistics (GFS). This standard is likely to change the impact of AIFRS and significantly affect the presentation of the income statement. However, the impact is uncertain, because it depends on when this standard is finalised and whether it can be adopted in 2005/06.

Based on current information, the following key differences in accounting policies are expected to arise from adopting AIFRS:

- AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards requires retrospective application of the new AIFRS from 1 July 2004, with limited exemptions. Similarly, AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors requires voluntary changes in accounting policy and correction of errors to be accounted for retrospectively by restating comparatives and adjusting the opening balance of accumulated funds. This differs from current Australian requirements, because such changes must be recognised in the current period through profit or loss, unless a new standard mandates otherwise.
- AASB 123 Borrowing Costs provides the option to expense or capitalise borrowing costs. NSW Treasury is likely to mandate expensing of borrowing costs to harmonise with GFS. Previously, borrowing costs related to qualifying assets were capitalised.

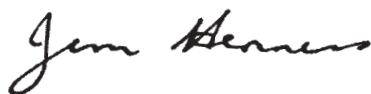
END OF
AUDITED
FINANCIAL
STATEMENTS

Delta Electricity Australia Pty. Ltd

STATEMENT BY MEMBER OF THE BOARD

Pursuant to Section 41 of the Public Finance and Audit Act, 1983, and in accordance with a resolution of Delta Electricity Australia Pty. Ltd, I declare on behalf of Delta Electricity Australia Pty. Ltd that in my opinion:

1. The accompanying Financial Statements exhibit a true and fair view of the financial position of Delta Electricity Australia Pty. Ltd as at 30 June, 2004 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, and 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 Australia Pty. Ltd will be able to pay its debts as and when they become due and payable.
4. I am 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.



Jim Hennessy

DIRECTOR

5 October 2004



GPO Box 12
Sydney NSW 2001

**INDEPENDENT AUDIT REPORT
DELTA ELECTRICITY AUSTRALIA PTY LTD**

To Members of the New South Wales Parliament

Audit Opinion

In my opinion, the financial report of Delta Electricity Australia Pty Ltd:

- (a) presents fairly the Company's financial position as at 30 June 2004 and its financial performance and cash flows for the year ended on that date, in accordance with applicable Accounting Standards and other mandatory professional reporting requirements in Australia, and
- (b) complies with section 41B of the *Public Finance and Audit Act 1983* (the Act).

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

The Board's Role

The financial report is the responsibility of the members of the Board of Delta Electricity Australia Pty Ltd. It consists of the statement of financial position, the statement of financial performance, the statement of cash flows and the accompanying notes.

The Auditor's Role and the Audit Scope

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

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

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

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

My opinion does *not* provide assurance:

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

Audit Independence

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

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

R Sendt
Auditor-General

SYDNEY
5 October 2004

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Corporate Office

Level 12 Darling Park
201 Sussex Street
Sydney NSW 2000
Telephone 02 9285 2700
Facsimile 02 9285 2777
Office Hours 8.30am – 5.00pm

Mt Piper Power Station

350 Boulder Road
Portland NSW 2847
Telephone 02 6354 8111
Facsimile 02 6354 8112
Office Hours 7.45am – 4.00pm

Munmorah Power Station

Scenic Drive
Doyalson NSW 2262
Telephone 02 4390 1611
Facsimile 02 4390 1642
Office Hours 7.45am – 4.00pm

Vales Point Power Station

Vales Road
Manning Park NSW 2259
Telephone 02 4352 6111
Facsimile 02 4352 6007
Office Hours 7.45am – 4.00pm

Wallerawang Power Station

1 Main Street
Wallerawang NSW 2845
Telephone 02 6352 8611
Facsimile 02 6352 8847
Office Hours 7.45am – 4.00pm

Delta Maintenance

Munmorah Power Station
Scenic Drive
Doyalson NSW 2262
Telephone 02 4390 1606
Facsimile 02 4390 1642
Office Hours 7.45am – 4.00pm

Website

<http://www.de.com.au>

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