



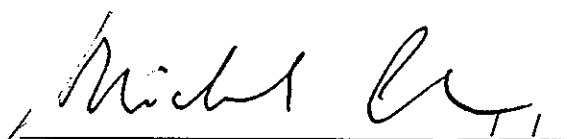
2007/08


STATEMENT OF CORPORATE INTENT


ORGANISATION: ERARING ENERGY

PERIOD: YEAR ENDING 30 JUNE, 2008

This Statement of Corporate Intent (SCI) has been agreed between:


The Hon Michael Costa, MLC
Treasurer


Mr Ross M Bunyon
Chairman
Eraring Energy


The Hon John Watkins, MLA
Deputy Premier and Minister for Finance



Mr Peter Jackson
Managing Director
Eraring Energy

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PART 1 OBJECTIVES OF THE CORPORATION

Eraring Energy was formed as a State Owned Corporation (SOC) on 2nd August 2000, following the restructure of Pacific Power and the transfer by Ministerial Order of the assets, rights and liabilities associated with the generation business.

Eraring Energy's objective is to be commercially successful in the National Electricity Market and to maximise value from its assets in the form of financial returns to the Shareholder. Eraring Energy seeks to achieve industry leadership in Trading risk management; plant asset management; and staff development and safety.

PART 2 NATURE AND SCOPE OF ACTIVITY

Eraring Energy is engaged in the production and competitive trading of electricity in the National Electricity Market produced from a portfolio of coal fired, hydro and wind generation assets, with capacity totalling 3,042 MW throughout New South Wales. An additional asset, in the form of a 42MW Gas Turbine, will be commissioned in December 2007.

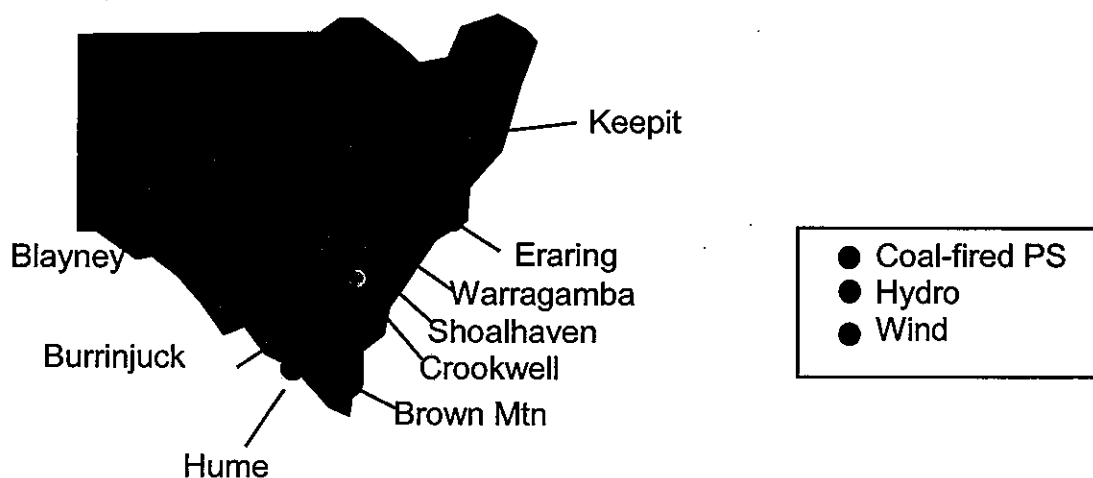


Figure 1: Eraring Energy Generation Portfolio (at 28/3/07)

Generating Asset	Unit Size	Capacity	Fuel Source
Eraring Power Station	4 x 660 MW	2,640 MW	Black Coal
Keepit Power Station	1 x 6 MW	6 MW	Hydro
Warragamba Power Station	1 x 50 MW	50 MW	Hydro
Shoalhaven Scheme - Bendeela Station	2 x 40 MW	80 MW	Hydro (Pumped Storage)
Shoalhaven Scheme - Kangaroo Valley Station	2 x 80 MW	160 MW	Hydro (Pumped Storage)
Burrinjuck Power Station	2 x 6 + 1x 16 MW	28 MW	Hydro
Brown Mountain Power Station*	1 x 4.2 + 1 x 0.75 MW	5 MW	Hydro
Hume Power Station	2 x 29 MW	58 MW	Hydro
Crookwell Wind Farm	8 x 0.6 MW	5 MW	Wind
Blayney Wind Farm	15 x 0.66 MW	10 MW	Wind

PART 3 STRATEGIC DIRECTION (OVERVIEW)

Eraring Energy's strategic direction is captured in its vision statement:

By developing and involving our people, Eraring Energy will be a leader in the changing energy environment.

Eraring will achieve this leadership position by focussing on the following strategic areas:

- **Health and Safety** - Staff, Contractor and Visitor Safety has been, and will continue to be, a primary focus of the organisation. Initiatives include a Behavioural Safety program, improved safety risk assessment practices; extensive consultation processes; and a best practice plant isolation lockout system.
- **People Development and Growth** - Eraring Energy focuses on the four key areas of shaping our culture; developing our people; rewarding and recognising our people; and workforce planning for the future to support achievement of our vision. An integrated succession plan has been implemented to address the expected loss of staff, predominantly in the power station operations area, over the next 10 year.
- **Positive and Productive Stakeholder Relationships** - Eraring Energy will proactively engage key stakeholders in supporting the achievement of business aims, particularly in the area of business development; licence to operate; changes to regulatory policy; and meeting Shareholders' expectations.
- **Greenhouse Response** - In response to ongoing community, Government and regulatory debate, Eraring Energy has committed to taking a leadership role in reducing Greenhouse gases, including operating and trading its existing renewable assets to maximum benefit.
- **Environmental Excellence** - Eraring Energy seeks to achieve environmental leadership through Environmental Excellence strategies. Eraring Energy will take a proactive and leading position on practical management and reduction of impact on the environment.

The Board and Management of Eraring Energy believe that the organisation has the capacity to achieve the goals and meet the financial and performance targets set in its business plan.

Eraring Energy's Business Plan analyses the current operating environment for the business and the industry and establishes strategies to fulfil its strategic direction. The business plan focuses on the following areas:

- Outlook for external/internal operating environment;
- Justification of key strategic initiatives;
- Nature and extent of business risk; and
- Financial projections.

PART 4 FINANCIAL PERFORMANCE TARGETS

		2007/08 SCI	2008/09 Budget	2009/10 Budget
EBIT	\$M	171.7	304.3	370.4
Underlying Net Profit before Tax	\$M	143.2	264.3	330.4
Target Dividend	\$M	52.5	142.5	210.4
Return on Assets	%	8%	15%	21%
Return on Equity	%	10%	20%	30%

All figures and ratios exclude AASB139 fair value profit movements and ETEF contributions.

PART 5 CAPITAL WORKS PROGRAM

Eraring Energy is committed to Asset Management strategies that ensure existing generating plant reliably meets electricity market commitments and achieves expected useful life targets and commercial returns.

Capital expenditure on development projects and augmentation of existing assets will only proceed after full commercial evaluation and Board approval.

PART 6 NON-COMMERCIAL ACTIVITIES - COMPENSATION FROM THE CROWN

All of Eraring Energy's physical assets are committed to commercial activity.

Eraring Energy has been allocated responsibility for management of and payment to beneficiaries other than Eraring Energy employees of dust diseases liabilities arising from the transfer of the WorkCover licence from Pacific Power at the time of corporatisation. Eraring Energy will seek specific recovery of all net costs related to this activity through a CSO (Community Service Obligation), deducted from dividends – refer Part 8.

Program Title	Purpose	Cost* (2007/08)	Dates for Discontinuation
Dust Diseases Liability transferred from Pacific Power	Management and claims payment to non-Eraring Energy employees	Net Payments: \$2M Admin: \$100k	In the order of 10

* Costs are difficult to quantify as they relate to Court determinations. Figures provided as a guide and represent net payments less recoveries.

PART 7 FINANCIAL ASSET & LIABILITY MANAGEMENT

Eraring Energy has in place a Board approved financial asset and liability management policy, which is reviewed at least annually. Eraring Energy outsourced its debt and liability management to TCorp. The policy is consistent with the *Treasury Management Policy* guidelines issued by NSW Treasury in December 1996 and the following related requirements:

- Public Authorities (Financial Arrangements) Act 1987;
- Treasury Circular 03/09: Guidelines on Reporting of Investment and Liability Management;
- Treasury Circular 01/07: Limitation on Investment Powers of Certain Authorities under the Public Authorities (Financial Arrangements) Act;
- Treasury Circular 98/7: Structured Finance;
- Energy Trading Policy for Generators, 1999; and
- Working With Government – Guidelines for Privately Financed Projects, 2006.

PART 8 DIVIDEND POLICY

Dividends will be distributed annually to shareholders. Instalments are paid on or before 1st August and 1st December.

Eraring Energy will pay a dividend equal to 100% of net profit after tax excluding significant fair value movements on electricity derivatives and superannuation. The dividend will also be adjusted for the net payment or net recovery of non-commercial activities for dust diseases liabilities of non-Eraring Energy employees.

PART 9 REPORTING AND FINANCIAL INFORMATION

Eraring Energy's half-yearly report, which is a Special Purpose Report, will provide actual performance against financial targets detailed in the SCI, to enable assessment of its performance. The report will also include the expected outturn performance. The corporation will also provide the Shareholder with regular financial reporting and forecasts at least quarterly or as otherwise requested.

PART 10 REPRESENTATION AND COMMITMENT STATEMENT

The Board of Eraring Energy confirms the following:

- The performance targets within the SCI are based on and supported by Eraring Energy's SCI Business Plan.
- Eraring Energy's Strategic Asset Management Plans are as far as practicable consistent with the principles of the *Total Asset Management (TAM) Policy* issued by NSW Treasury (TPP 04-3) and the NSW Government *Procurement Policy* (TPP 04-1). Asset maintenance policies and processes are adequate and appropriate to manage and control risks associated with physical assets.
- Where relevant and applicable, Eraring Energy will comply with the *NSW Government Procurement Policy* for budget-funded procurements of goods or services including construction, except for any accreditation schemes which form part of this policy.
- Eraring Energy is aware of the requirements of *Ministerial Memorandum No. 2005-9, Major Infrastructure Coordination and Delivery* and will comply with these requirements if not contrary to the objectives of the organisation.
- Where relevant and applicable to Eraring Energy, Projects of State Significance will be identified in accordance with the criteria set down in the Guidelines on the Assessment of Projects of State Significance. There are no Projects of State Significance in this SCI planned to commence in 2007/08.
- The requirements of NSW Treasury's *Financial Appraisal Guidelines* have been complied with for capital expenditure projects proposed to commence in 2007/08.
- All the known 'key risks' and the 'major emerging contingent liabilities' which could materially impact the current and future results of our organisation for the forthcoming year have been disclosed.
- The requirements of NSW Treasury's *Treasury Management Policy* have been complied with and related party interests, which may represent a possible conflict of interest for SOC Directors, have been disclosed.
- Eraring Energy will comply with the requirements of Premier's Memorandum No 2007 – 12 NSW Public Sector Wages Policy 2007.
- Eraring Energy will comply with the requirements of Premier's Memorandum No 2005-14, *Working Together: Public Sector OHS and Injury Management Strategy 2005-2008*.
- Eraring Energy's Managing Director has an employment contract and performance agreement. The employment contract is appraised annually each August.
- Eraring Energy's Board agrees to provide the Voting Shareholders with financial and other information, including information on major capital expenditure projects, on at least a quarterly basis to assess the performance against commitments in this SCI and to assess the value of the Shareholders' investment in the Corporation.
- Eraring Energy's Board agrees to comply with Section 3.4 (Continuous Disclosure) of the *Reporting and Monitoring Policy*.
- Eraring Energy will comply with the Treasury Circulars on accounting policy matters in accordance with Attachment 1 of the *Guidelines for the Development of the 2007/08 Statement of Corporate Intent*.