

ourour corporate reports



This section includes the corporate reports for Ergon Energy Corporation Limited and Ergon Energy Pty Ltd, which have been audited by the Auditor-General of Queensland.

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Directors' Declaration

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Directors' Report

The Board of Directors present their report on Ergon Energy Pty Ltd, A.B.N. 66 078 875 902, and its controlled entities for the year ended 30 June 2003.

Directors

The following persons held office as non-executive Directors of Ergon Energy Pty Ltd ("the parent entity") during the financial year:

Keith Hilless (appointed 1 July 2002)

Chairman

BE MIE Aust FAIM MAICD

John Bird

Deputy Chair

F CPA FAICD FTIA

Ian Brien (appointment ended 30 June 2003)

Pat Faircloth

M.Ed St., M.Lit(History), B.A., Grad.Dip.T.L.,

Dip.Ed., AMEB, MAICD

Wayne Myers

Belinda McNeven (appointed 3 July 2003)

Dip Teaching

Unless otherwise indicated, all Directors held positions as director throughout the financial year and up to the date of this report. Details of Directors' qualifications are provided on Pages 12 and 13 of the annual report.

Principal Activities

The principal activity of the Economic Entity during the financial year was electricity wholesale and retail trading in Queensland, Victoria and New South Wales.

Dividends Paid or Declared

A declaration has been made by the Board of Directors on 26th June 2003 for 100% of total operating profit after income tax equivalent expense for the year ended 30 June 2003 to be paid to the ultimate controlling entity. This amount is \$15,296,192.

Review of Operation

The consolidated profit after income tax equivalent expense of the Economic Entity for the financial year was \$15,296,192 (2002: \$15,778,000).

Significant Changes in the State of Affairs

In the opinion of the Directors, there were no significant changes in the state of affairs of Ergon Energy Pty Ltd and its controlled entities during the financial year.

Significant Events after Balance Date

There have been no events since balance date that significantly affected or may significantly affect the results of the Economic Entity in future financial years.

Likely Developments and Future Results

The Directors expect the Economic Entity's before tax operating results to continue to improve. Since the end of the financial year, demand for the Economic Entity's energy products has continued to grow.

Further information on likely developments in the operations of the consolidated entity and the future results have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the Economic Entity.

Environmental Regulation and Performance

The Economic Entity's environmental obligations are regulated under State and Federal laws.

All environmental performance obligations are reported to the Group Audit and Legal Compliance Committee and are, from time to time, subject to government agency, internal and external professional agency audits as well as ongoing review to ensure compliance.

The Economic Entity has a policy of meeting all its environmental obligations. The Economic Entity has developed and implemented a common Environmental Management System certified to international standard ISO 14001.

No environmental breaches have been notified by any government agency during the financial year, except as noted below.

There have been no major non-conformances/incidents (defined in internal policy guidelines as category 4 or 5) reported in the financial year. For further incident reporting related information refer to Page 40.

Directors' Report

Indemnification and Insurance of Directors and Officers

During the year a policy was held to insure all Directors and Officers of the Economic Entity against liabilities incurred in their capacity as Director or Officer. The content of this policy prohibits the disclosure of the nature of such liabilities and the amount of the premium paid. As such, the Corporations Act 2001 does not require disclosure of this information in these circumstances.

Directors' Shareholding

No Director held a beneficial interest in the shares of the company. All issued shares are held by Ergon Energy Corporation Limited.

Directors' Meetings

From January 2000, the Economic Entity's Board Committees were combined with the ultimate parent entity's, Ergon Energy Corporation Limited.

The number of meetings of Directors (including committees) held during the year ended 30 June 2003 and the number of meetings attended by each director were as follows:

Director	Board of Directors		Group Audit & Legal Compliance Committee		Business Development Committee		Group Human Resources Committee		Group Financial Risk Management Committee	
	Number Eligible to Attend	Number Attended	Number Eligible to Attend	Number Attended	Number Eligible to Attend	Number Attended	Number Eligible to Attend	Number Attended	Number Eligible to Attend	Number Attended
K Hillless	13	13	9	9	5	5	4	4	5	4
J Bird	13	12	9	9	-	-	-	-	5	5
I Brien	13	11	9	9	-	-	-	-	5	5
P Faircloth	13	12	-	-	-	-	4	3	-	-
W Myers	13	12	-	-	5	5	-	-	-	-
B McNeven ⁽¹⁾	-	-	-	-	-	-	-	-	-	-

⁽¹⁾ B McNeven was appointed on 3 July 2003, therefore not eligible to attend Board meeting during the reporting period.

Directors' Report

Directors' and Officers' Remuneration

Director's emoluments are set by State Government regulation, with other fees and allowances determined on the basis of meetings attended and expenditure incurred in performing their roles as Directors of the entity.

The parent entity has developed a policy for Senior Executive remuneration in accordance with the Remuneration Guidelines for Senior Executive Staff. The Group Human Resources Committee recommends Executive remuneration to the Board as part of an annual review, which includes performance evaluation, regard to comparative remuneration and independent advice. Remuneration packages generally comprise salary, performance based risk incentive bonuses and superannuation. This policy and any amendments or variations to the policy are submitted to the Shareholding Ministers who ensure that remuneration arrangements are appropriate.

In accordance with Ministerial Guidelines, details of remuneration provided to Directors and the highest remunerated Senior Executives of the parent entity (or if different, the Economic Entity) in office at 30 June 2003 are as follows:

Director	Directors' Fees \$	Committee Fees \$	Superannuation \$	Total Emoluments \$
K Hillless	39,200	-	3,573	42,773
J Bird	16,072	7,000	2,110	25,182
I Brien	16,072	7,000	2,110	25,182
P Faircloth	16,072	3,000	1,739	20,811
W Myers	16,072	-	1,469	17,541
B McNeven ⁽²⁾	-	-	-	-

⁽²⁾ B McNeven was appointed on 3 July 2003, therefore not entitled to remuneration in the reporting period.

Officer Title	Base Salary \$	Motor Vehicle & Car Park \$	Superannuation \$	Other benefits \$	Total ⁽³⁾ \$
General Manager – Retail	213,021	74	24,644	-	237,739
General Manager – Strategic Projects	138,575	13,149	20,771	141,426	313,921
General Manager – People and Change	183,335	25,014	39,559	-	247,908

The Chief Executive Officer of Ergon Energy Pty Ltd is employed by the ultimate parent entity.

⁽³⁾ Officers may also earn performance based risk incentive bonuses which are not shown in this table.

Rounding

In accordance with Australian Securities and Investment Commission Class Order No 98/0100, unless otherwise indicated, amounts contained in this report and in the financial statements have been rounded to the nearest thousand dollars.

Signed in accordance with a resolution of the Directors of Ergon Energy Pty Ltd.



Mr K Hillless
Chairman
Townsville
15/09/2003

Statements of Financial Performance

For the year ended 30 June 2003

	Note	Consolidated		Parent	
		2003	2002	2003	2002
		\$'000	\$'000	\$'000	\$'000
Revenues from ordinary activities	2	1,345,875	1,338,298	1,316,285	1,320,598
Network charges / electricity purchases		1,247,311	1,258,441	1,216,924	1,241,941
Employee expenses		19,635	15,922	19,635	15,921
Materials and services		17,099	14,125	17,099	14,125
Depreciation and amortisation		1,903	1,449	1,903	1,449
Borrowing costs expense		1,442	915	2,309	1,711
Other expenses from ordinary activities		36,571	27,385	36,571	27,384
Profit from ordinary activities before income tax equivalent expense					
tax equivalent expense	3	21,914	20,061	21,844	18,067
Income tax equivalent expense	4	6,618	4,283	6,594	3,924
Net profit after income tax equivalent expense		15,296	15,778	15,250	14,143
Non-owner transaction changes in equity					
Change in accounting policy for recording employee benefit at nominal rates recognised directly in equity		(34)	-	(34)	-
Total changes in equity other than those resulting from transactions with owners as owners	25	15,262	15,778	15,216	14,143

The statements of financial performance are to be read in conjunction with the notes to the financial statements.

Statements of Financial Position

As at 30 June 2003

	Note	Consolidated		Parent	
		2003	2002	2003	2002
		\$'000	\$'000	\$'000	\$'000
Current assets					
Cash assets	5	106,932	113,587	104,599	104,608
Receivables	6	219,270	251,208	217,999	258,970
Inventories	7	51	43	51	43
Intangible assets	8	127	-	127	-
Other	9	19,001	982	19,001	982
Total current assets		345,381	365,820	341,777	364,603
Non-current assets					
Receivables	10	1,795	6,512	1,260	4,823
Other financial assets	11	-	-	13,910	13,910
Property, plant and equipment	12	2,981	4,652	2,972	4,643
Deferred tax assets	13	9,235	4,589	5,583	3,761
Intangible assets	14	777	343	777	343
Other	15	2,004	4,311	2,004	4,310
Total non-current assets		16,792	20,407	26,506	31,790
Total assets		362,173	386,227	368,283	396,393
Current liabilities					
Payables	16	126,888	184,281	143,509	192,119
Interest bearing liabilities	17	197	636	197	636
Provisions	18	17,050	2,596	17,050	2,596
Other	19	265	3,632	265	3,632
Total current liabilities		144,400	191,145	161,021	198,983
Non-current liabilities					
Interest bearing liabilities	20	23,302	21,649	23,302	21,649
Deferred tax liabilities	21	26,165	14,901	26,165	17,750
Provisions	22	1,176	1,049	1,176	1,049
Other	23	9,944	263	-	263
Total non-current liabilities		60,587	37,862	50,643	40,711
Total liabilities		204,987	229,007	211,664	239,694
Net assets		157,186	157,220	156,619	156,699
Equity					
Contributed equity	25	123,172	123,172	123,172	123,172
Reserves	24	4,000	4,000	4,000	4,000
Retained profits	26	30,014	30,048	29,447	29,527
Total equity		157,186	157,220	156,619	156,699

The statements of financial position are to be read in conjunction with the notes to the financial statements.

Statements of Cash Flows

For the year ended 30 June 2003

	Note	Consolidated		Parent	
		2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Cash flows from operating activities					
Receipts from customers		1,225,071	1,212,399	1,191,494	1,195,067
Use of system charges		(1,364,483)	(1,307,057)	(1,331,220)	(1,290,034)
Payments to suppliers and employees		(98,564)	(72,495)	(103,276)	(72,968)
Interest received		6,235	3,898	5,874	3,483
Interest and other costs of financing		(1,442)	(915)	(2,309)	(1,711)
Community service obligations		213,183	188,457	213,183	188,456
Income tax equivalent payments		-	1	(1)	2
GST received from ATO		41,349	-	41,251	-
Other operating receipts		6,020	40,677	15,327	54,480
Other operating payments		(33,018)	(19,829)	(29,327)	(32,043)
Net cash flows provided by/(used in) operating activities	27	(5,649)	45,136	996	44,732
Cash flows from investing activities					
Proceeds from sale of property, plant and equipment		2	5,172	1	5,172
Payments for property, plant and equipment		(179)	-	(177)	-
Payments for investments made		(903)	-	(903)	-
Net cash flows provided by/(used in) investing activities		(1,080)	5,172	(1,079)	5,172
Cash flows from financing activities					
Proceeds from borrowings		-	1,442	-	1,442
Repayment of repayable deposits		74	(721)	74	(721)
Net cash flows provided by financing activities	74	74	721	74	721
Net increase / (decrease) in cash held		(6,655)	51,029	(9)	50,625
Cash at the beginning of the financial year		113,587	62,558	104,608	53,983
Cash at the end of the financial year	5	106,932	113,587	104,599	104,608

The statements of cash flow are to be read in conjunction with the notes to the financial statements.

Notes to and forming part of the financial statements

For the year ended 30 June 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements have been prepared as a general purpose financial report in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards, Urgent Issues Group Consensus Views, the provisions of the Government Owned Corporations Act 1993 and other relevant legislation issued pursuant to that Act.

The financial statements have been prepared on the basis of historical costs and, except where stated, do not take into account changing money values or current valuations of non-current assets.

The accounting policies have been consistently applied by each entity within the Economic Entity and, except where there has been a change in accounting policy, are consistent with the policies adopted in the previous year.

Principles of Consolidation

The consolidated financial statements include the financial statements of the parent entity, Ergon Energy Pty Ltd, and its controlled entities, referred to collectively as the "Economic Entity". Refer to note 11 for details on entities controlled by Ergon Energy Pty Ltd.

All inter-entity balances and transactions have been eliminated on consolidation. Where an entity either began or ceased to be controlled during the year, the results are included only from the date control commenced or up to the date control ceased.

Taxation

Tax equivalent

The entities within the Economic Entity make tax equivalent payments on their taxable income to the Queensland Government.

These taxation equivalent payments are made pursuant to Section 155(4) of the Government Owned Corporation Act 1993 and are based upon federal income tax legislation and rulings set out in the National Tax Equivalent Manual. The National Tax Equivalent Manual gives rise to obligations for taxation which would be imposed by the Income Tax Assessment Acts 1936 and 1997 (refer note 4).

The entities are not required to maintain a franking account.

Tax effect accounting

The Economic Entity adopts the liability method of tax effect accounting.

Income tax equivalent expense is calculated on operating profit adjusted for permanent differences between taxable income and accounting profit. 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 statements of financial position as a future income tax equivalent benefit or a provision for deferred income tax equivalent liability.

Future income tax equivalent benefits relating to timing differences are not brought to account unless realisation of the asset is assured beyond reasonable doubt. Future income tax equivalent benefits relating to income tax equivalent losses are only brought to account when realisation is virtually certain.

The provision for deferred income tax equivalent liability and future income tax equivalent benefit have been calculated at the tax rates expected to apply when the timing difference is expected to reverse. The company tax rate is 30% for the year ended 30 June 2003, and subsequent years.

The tax effect of capital losses is not recorded unless realisation is virtually certain.

When a provision for deferred income tax equivalent exists and a company incurs a tax equivalent loss, the future income tax equivalent benefit attributable to the tax equivalent loss has been brought to account as a reduction of the provision for deferred income tax equivalent. This is to the extent that deferred income tax equivalent has already been provided in respect to timing differences that will reverse within the financial periods during which the tax equivalent loss will remain available as a deduction from assessable income.

Revenue Recognition

Electricity sales revenue to contestable customers

Revenue is recognised in the statements of financial performance when the entities within the Economic Entity become party to the contractual provisions of the contestable customers sales contracts.

Notes to and forming part of the financial statements

For the year ended 30 June 2003

Revenue Recognition (continued)

Electricity sales revenue to customers other than contestable customers

All customer consumption is metered at intervals ranging from half an hour to three months. Revenue recognised represents the sum of invoices raised and the movement in the estimated metered but not invoiced energy consumption.

Estimated revenue from unbilled services

Unread meters represents the estimated value of unbilled electricity provided to retail customers and is included in electricity sales revenue.

Electricity debtors

The settlement of electricity debtors varies depending on the nature of the contractual arrangements entered into however accounts are normally settled within 30 days of rendering invoices. The collectability of debts is monitored on a regular basis and provision is made for any doubtful debts. Bad debts are written off during the year in which they are identified.

Community service obligations

As part of the Queensland electricity market reforms introduced in the late 1990's, the Government made a commitment that state-wide uniform retail tariffs would apply to franchise customers and that no franchise customer would be adversely affected by ongoing electricity market reforms. From the 2001/2002 year, the Queensland Government determined that a fixed gross margin, adjusted for allowed energy costs, would apply to sales of electricity to franchise customers. Payments received represent the shortfall in the margin actually received by Ergon Energy Pty Ltd.

Interest revenue

Interest revenue is recognised in the statements of financial performance as it accrues.

Inventories

Inventories are carried at the lower of average cost and net realisable value.

Cost of Sales

Cost of sales is the accumulation of costs associated with network charges, electricity purchases and any other costs associated with the supply and sale of electricity.

Property, plant and equipment

Depreciation of property, plant and equipment

Depreciation is calculated on a straight line basis to

write off the net costs or revalued amount of each item of property, plant and equipment over its expected useful life to the consolidated entity. The expected useful lives of plant and equipment vary from 3 to 10 years. An assessment of useful lives is performed annually.

Where 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.

Recoverable amount of non-current assets

The recoverable amount of an asset is the net amount expected to be recovered through the cash inflows and outflows arising from its continued use and subsequent disposal.

Where the carrying amount of a non-current asset is greater than its recoverable amount, the asset is written down to its recoverable amount. The decrement in the carrying amount is recognised as an expense in net profit or loss in the reporting period in which the recoverable amount write-down occurs.

Revaluations of non-current assets

Items of property, plant and equipment may be recognised at fair value, being the amount for which assets could be exchanged between knowledgeable willing parties in an arm's length transaction. Revaluations are made with sufficient regularity to ensure that the carrying amount of each asset does not differ materially from its fair value at the reporting date. Revaluation increments are credited directly to the asset revaluation reserve, except that, to the extent that an increment reverses a revaluation decrement in respect of that class of asset previously recognised as an expense in net profit or loss, the increment is recognised immediately as revenue in net profit and loss.

Revaluation decrements are recognised immediately as expenses in net profit or loss, except that, to the extent that a credit balance exists in the asset revaluation reserve in respect of the same class of assets, they are debited directly to the asset revaluation reserve.

Revaluation increments and decrements are offset against one another within a class of non-current assets, but not otherwise.

Revaluations do not result in the carrying value of land and buildings exceeding their recoverable amount.

Notes to and forming part of the financial statements

For the year ended 30 June 2003

Acquisition of assets

The purchase method of accounting is used for all acquisitions of assets regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given up or liabilities undertaken at the date of the acquisition plus incidental costs directly attributable to the acquisition.

Classification

Property, plant and equipment expected to be sold within 12 months are classified as a current asset.

Intangible assets

Goodwill

Where an entity or operation is acquired, the identifiable net assets are measured at fair value. The excess of the fair value of the cost of acquisition over the fair value of the identifiable net assets acquired, including any liability for restructuring costs, is brought to account as goodwill and amortised on a straight line basis over the period during which the benefits are expected to arise, which does not exceed 20 years.

Research and development

Costs incurred on research and development projects and in-process research and development acquired in the acquisition of an entity is deferred to future periods to the extent that they are expected beyond any reasonable doubt to be recoverable.

Maintenance and repairs

From time to time, plant of the Economic Entity is required to be maintained. The costs of this maintenance are charged as expense as incurred, except where they relate to the replacement of a component of an asset, in which case the costs are capitalised and depreciated.

Investments

Interests in listed and unlisted securities, other than controlled entities in the consolidated financial statements, are carried at the lower of cost or directors valuation. Dividend income is brought to account when declared or, if required, when approved by the Shareholding Ministers.

Leases

A distinction is made between finance leases which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to

ownership of leased non-current assets, and operating leases under which the lessor effectively retains substantially all such risks and benefits.

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

The leased asset is amortised over the term of the lease, or where it is likely that the Economic Entity will obtain ownership of the asset, the life of the asset.

Incentives received on entering into operating leases are recognised as liabilities. Lease payments are allocated between interest (calculated by applying the interest rate implicit in the lease to the outstanding amount of the liability), rental expense and reduction of the liability.

The present value of future payments for surplus lease space under non-cancellable operating leases which are not onerous contracts are recognised as a liability, net of sub-leasing revenue in the period in which it is determined that the lease space will be of no future benefit to the Economic Entity.

The net future lease payments are discounted using the interest rates implicit on the lease. Each lease payment is allocated between the liability and finance charges.

Other operating lease payments are charges to the statements of financial performance in the periods in which they are incurred, as this represents the pattern of benefits derived from the leased asset.

Contestable sales contracts

Contestable sales contracts are contracts with contestable customers for the sale but not the supply of electricity.

Contestable sales contracts are recorded at their net fair value. The contracts have been valued using a combination of data sources including current Ergon Energy trades, the Australian Financial Markets Association, the 5 MW brokers market and other market intelligence. Ergon Energy trades frequently in these instruments and has sufficient market information to reliably measure the value of these contracts in accordance with requirements of Australian Accounting Standards.

Notes to and forming part of the financial statements

For the year ended 30 June 2003

Volumes of sales is an estimation of future demand determined using historical averages.

The contracts are recognised in the statements of financial position on their commitment date. The contract asset or liability is revalued at each reporting date. A positive revaluation amount is reported as an asset and a negative revaluation amount reported as a liability. Changes in net fair value are reflected in the statements of financial performance in the period they occur.

Non-contestable customers and related derivative financial instruments have not been bought to account at fair value as they are dependent on the supply of electricity.

Renewable Energy Certificates

Renewable energy certificates are valued at the spot price at balance date adjusted for known market factors.

Derivative Financial Instruments

Derivative financial instruments are acquired and held to reduce the exposure to risk of unfavourable commodity price movements within a commodity market.

Entities within the Economic Entity are party to swap agreements, price cap and option agreements. Entities are also party to wholesale market purchase contracts which are financial hedging instruments entered into with electricity generators and other wholesale market participants. The entities undertake contracts for price and volume hedges to manage the exposure to commodity price and volume risk.

Derivative financial instruments held or issued for hedging contestable sales contracts or trading purposes
Derivative financial instruments held or issued for hedging contestable contracts or trading purposes are recorded at their net fair value. The contracts have been valued using a combination of data sources including current Ergon Energy trades, the Australian Financial Markets Association, the 5 MW brokers market and other market intelligence. Ergon Energy trades frequently in these instruments and has sufficient market information to reliably measure the value of these contracts in accordance with requirements of Australian Accounting Standards.

The derivative financial instruments are recognised in the statements of financial position on their commitment date. The derivative financial asset or liability is revalued at each reporting date. A positive revaluation amount is reported as an asset and a negative revaluation amount is reported as a liability.

Changes in net fair value are reflected in the statements of financial performance in the period they occur.

Derivative financial instruments other than those held for hedging contestable sales contracts or trading purposes including designated hedges

Any gains or losses on the contracts are deferred and recognised in the measurement of the underlying transaction. Recognition of payments and receipts under these contracts are at settlement as a component of electricity expense.

Trade Creditors

These amounts represents liabilities for goods and services provided by the Economic Entity prior to the end of the financial year and which are unpaid.

Dividends

Provision is made for the amount of any dividend declared by the Directors on or before the end of the financial year but not distributed at balance date.

Employee Benefits

Wages and salaries, annual leave and sick leave
The provisions for employee benefits relating to wages, salaries, annual leave and vested sick leave represent the amount which the Economic Entity has a present obligation to pay resulting from employee's services provided up to the balance date. The above provisions have been calculated at undiscounted amounts based on current wage and salaries rates and, where appropriate, at expected nominal rates and include related on-costs.

Long service leave

The provision for employee benefits relating to long service leave represents the present value of the estimated future cash outflows to be made by the employer resulting from employees' services provided up to the balance date. In determining the provision for long service leave, consideration has been given to future increases in wage and salary rates, and the Economic Entity's experience with staff departures. Related on-costs have also been included in the liability.

Provisions for employee benefits relating to long service leave which are not expected to be settled within twelve months are discounted using the rates attaching to government securities at balance date, which most closely match the terms of maturity of the related liabilities.

Notes to and forming part of the financial statements

For the year ended 30 June 2003

Superannuation

The parent entity and other controlled entities contribute to several defined benefit and defined contribution superannuation plans. Contributions are charged against income as they are made (refer note 29).

Employee benefit on-costs

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

Change in accounting policy for calculation of annual leave benefit

The above policy was adopted with effect from 1 July 2002 to comply with AASB 1028 Employee Benefits released in June 2001. In line with the requirements of the standard, annual leave benefits have been measured based on remuneration rates that the Economic Entity expects to pay as at each reporting date and does not discount cash flows to their present value. The effect of this adjustment during the financial year was \$34,000.

Borrowing Costs

Borrowing costs are expensed as incurred, except where they relate to the financing of qualifying projects under construction where they are capitalised up to the date of commissioning or sale.

Interest bearing liabilities

Customer deposits are recognised as liabilities and represent refundable payments received from customers and held as security over future electricity usage in the event of customer default.

Foreign Currency Transactions

Amounts payable and receivable in foreign currency at balance date are converted to Australian dollars at the exchange rate ruling on that date.

Onerous Contracts

A provision for onerous contracts is recognised when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract, and only after any impairment losses to the assets dedicated to that contract have been recognised.

The provision recognised is based on the excess of the estimated cash flows to meet the unavoidable costs under the contract over the estimated cash flows to be received in relation to the contract, having regard to the risks of the activities relating to the contract. The net estimated cash flows are discounted using market yields at balance date on national government guaranteed bonds with terms to maturity and currency that match, as closely as possible, the expected future payments, where the effect of discounting is material.

Cash

For the purposes of the statements of cash flows, cash includes cash on hand and in banks, deposits on call and net of bank overdrafts.

Web Site Costs

Costs in relation to web sites controlled by the Economic Entity are charged as expenses in the period in which they are incurred unless they relate to the acquisition of an asset, in which case they are capitalised and amortised over the period of their expected benefit.

Goods and Service 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 Tax Office (ATO). In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or the 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 statements of financial position.

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

Comparative Information

The comparative information includes the results of the operations of the parent entity and consolidated entity ("the Economic Entity") from the 1 July 2001 to 30 June 2002. Comparative amounts have been reclassified to ensure comparability with the current reporting period.

Notes to and forming part of the financial statements

For the year ended 30 June 2003

	Consolidated		Parent	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
2. REVENUE				
Revenue from operating activities				
Sales revenue	1,133,716	1,122,094	1,103,623	1,114,390
Community service obligations	191,798	188,457	191,798	188,456
Other operating revenue	14,124	23,829	14,124	14,249
	1,339,638	1,334,380	1,309,545	1,317,095
Revenue from outside operating activities				
Interest from unrelated parties	4,408	3,221	4,047	2,806
Interest from related parties	1,827	677	1,827	677
Proceeds on disposal of non-current assets	2	20	2	20
Dividends from related parties	-	-	864	-
	6,237	3,918	6,740	3,503
Total revenue from ordinary activities	1,345,875	1,338,298	1,316,285	1,320,598
3. OPERATING PROFIT				
Profit from ordinary activities before income tax equivalent expense includes the following specific net gains and expenses:				
Cost of sales	1,265,370	1,272,567	1,234,984	1,256,066
Net loss on disposal of property, plant and equipment	40	18	40	18
Depreciation and amortisation				
Depreciation on property, plant and equipment	1,560	1,329	1,560	1,329
Amortisation on intangibles	343	120	343	120
Total depreciation and amortisation	1,903	1,449	1,903	1,449
Borrowing costs				
Interest paid or payable to related parties	-	-	869	798
Interest paid or payable to unrelated parties	1,442	915	1,440	913
Total borrowing costs	1,442	915	2,309	1,711
Net bad & doubtful debts expense including movements				
in provision for doubtful debts	3,311	2,667	3,311	2,667
Superannuation contributions	1,067	900	1,067	900
Rental expense relating to operating leases				
Minimum lease payments	1,048	953	1,048	953
Total rental expense	1,048	953	1,048	953

Notes to and forming part of the financial statements

For the year ended 30 June 2003

	Consolidated		Parent	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
4. INCOME TAX				
4.1 Income tax equivalent expense/(benefit)				
The <i>prima facie</i> income tax equivalent on operating profit differs from the income tax equivalent provided in the accounts as follows:				
<i>Prima facie</i> income tax equivalent on operating profit at 30% (2002: 30%)	6,574	6,013	6,553	5,420
Tax effect of permanent differences				
Dividends received	-	-	(259)	-
Other items	246	223	241	223
Tax loss transferred	-	(234)	261	-
Under provision in previous year	(202)	(1,719)	(202)	(1,719)
Income tax equivalent expense attributable to operating profit	6,618	4,283	6,594	3,924
4.2 Provision for deferred income tax equivalent				
Attributable to timing differences:				
Depreciation	(61)	136	(61)	136
Unbilled electricity	48,562	36,006	47,940	35,622
Prepayments	(13)	5	(13)	5
Other	372	978	372	977
	48,860	37,125	48,238	36,740
Future income tax equivalent benefit attributable to carried forward tax losses	(22,695)	(22,224)	(22,073)	(18,990)
Total provision for deferred income tax equivalent liability	26,165	14,901	26,165	17,750
4.3 Future income tax equivalent benefit				
Attributable to timing differences:				
Provisions	4,227	3,493	4,227	3,493
Other	1,388	945	1,356	268
Carried forward losses	3,620	151	-	-
Total future income tax equivalent benefit	9,235	4,589	5,583	3,761
4.4 Tax consolidation legislation				
The Directors of the Economic Entity have not elected to implement the tax consolidation legislation as at the date of signing the financial report.				
5. CASH ASSETS (CURRENT)				
Cash at bank and on hand	106,932	113,587	104,599	104,608
The above figures are reconciled to cash at the end of the financial year as shown in the statements of cash flows as follows:				
Balance per statements of cash flows	106,932	113,587	104,599	104,608

Notes to and forming part of the financial statements

For the year ended 30 June 2003

	Consolidated		Parent	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
6. RECEIVABLES (CURRENT)				
Trade debtors and unread meters	200,320	171,572	198,245	170,395
Community service obligations receivable	7,055	27,470	7,055	27,470
Provision for doubtful debts	(4,431)	(2,587)	(4,356)	(2,587)
Total trade debtors – unrelated parties	202,944	196,455	200,944	195,278
Trade debtors – related parties	2,391	4,071	2,383	15,309
Non-trade amounts owing by unrelated parties	13,935	50,682	13,808	48,383
Non-trade amounts owing from related parties	-	-	864	-
Total current receivables	219,270	251,208	217,999	258,970
7. INVENTORIES (CURRENT)				
Inventories relating to the sale of gas	51	43	51	43
8. INTANGIBLE ASSETS (CURRENT)				
Other	127	-	127	-
9. OTHER ASSETS (CURRENT)				
Prepayments	96	172	96	172
Market trading receivable and renewable energy certificates	18,657	-	18,657	-
Other	248	810	248	810
	19,001	982	19,001	982
10. RECEIVABLES (NON-CURRENT)				
Electricity sales receivable – contestable customers	1,795	6,512	1,260	4,823
11. OTHER FINANCIAL ASSETS (NON-CURRENT)				
Investments at valuation:				
Unlisted shares in controlled entities	-	-	19,390	19,390
Less: Provision for diminution	-	-	(5,480)	(5,480)
	-	-	13,910	13,910

The carrying values of unlisted shares in controlled entities were assessed by the Directors during the year ended 30 June 2003 to ensure that the values were not in excess of their recoverable value.

The consolidated financial statements at 30 June 2003 include the following controlled entities:

Entity Name	Country of Incorporation	Percentage interest held by the parent entity
Ergon Energy (Victoria) Pty Ltd	Australia	100%
Northern Electricity Retail Corporation Pty Ltd	Australia	100%

Notes to and forming part of the financial statements

For the year ended 30 June 2003

	Consolidated		Parent	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
12. PROPERTY, PLANT AND EQUIPMENT				
Property, Plant and Equipment				
At cost	7,822	7,697	7,683	7,558
Less: Accumulated depreciation	(6,784)	(5,235)	(6,654)	(5,105)
	1,038	2,462	1,029	2,453
Work in progress	1,943	2,190	1,943	2,190
	2,981	4,652	2,972	4,643

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

	Property, Plant and Equipment		Work in Progress	
	Consolidated 2003 \$'000	Parent 2003 \$'000	Consolidated 2003 \$'000	Parent 2003 \$'000
Carrying amount at start of year	2,462	2,453	2,190	2,190
Additions	178	178	-	-
Disposals / transfers	(42)	(42)	(247)	(247)
Depreciation expense	(1,560)	(1,560)	-	-
Carrying amount at end of year	1,038	1,029	1,943	1,943

	Consolidated		Parent	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
13. DEFERRED TAX ASSETS (NON-CURRENT)				
Future income tax equivalent benefit	9,235	4,589	5,583	3,761

	Consolidated		Parent	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
14. INTANGIBLES (NON-CURRENT)				
Goodwill	360	360	360	360
Less: accumulated amortisation	(360)	(109)	(360)	(109)
Other	1,055	278	1,055	278
Less: accumulated amortisation	(278)	(186)	(278)	(186)
	777	343	777	343

	Consolidated		Parent	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
15. OTHER ASSETS (NON-CURRENT)				
Market trading receivable	2,004	4,262	2,004	4,262
Other	-	49	-	48
	2,004	4,311	2,004	4,310

	Consolidated		Parent	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
16. PAYABLES (CURRENT)				
Trade creditors – related parties	60,891	63,623	78,673	75,447
Trade creditors – unrelated parties	56,079	116,387	54,918	115,116
Other creditors	9,918	4,272	9,918	1,556
	126,888	184,281	143,509	192,119

	Consolidated		Parent	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
17. INTEREST BEARING LIABILITIES (CURRENT)				
<i>Unsecured</i>				
Customer and other repayable deposits	197	636	197	636

Notes to and forming part of the financial statements

For the year ended 30 June 2003

	Consolidated		Parent	
	2003	2002	2003	2002
	\$'000	\$'000	\$'000	\$'000
18. PROVISIONS (CURRENT)				
Employee benefits	867	714	867	714
Security deposits	887	866	887	866
Dividends	15,296	-	15,296	-
Other	-	1,016	-	1,016
	17,050	2,596	17,050	2,596

Movement in provision

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

Parent – 2003	Security Deposits	Dividends	Other	Total
	\$'000	\$'000	\$'000	\$'000
Current				
Carrying amount at start of year	866	-	1,016	1,882
Additional provision recognised	21	15,296	-	15,317
Payments/other sacrifices of economic benefits	-	-	(1,016)	(1,016)
Carrying amount at the end of year	887	15,296	-	16,183

There are no provisions in the controlled entities within the Economic Entity other than those held by the parent entity. Therefore, no movement analysis has been included for the consolidated entity.

	Consolidated		Parent	
	2003	2002	2003	2002
	\$'000	\$'000	\$'000	\$'000
19. OTHER LIABILITIES (CURRENT)				
Other	265	3,632	265	3,632

20. INTEREST BEARING LIABILITIES (NON-CURRENT)*Unsecured*

Lease incentive	1,141	-	1,141	-
Customer and other repayable deposits	22,161	21,649	22,161	21,649
	23,302	21,649	23,302	21,649

21. DEFERRED TAX LIABILITIES (NON-CURRENT)

Deferred income tax equivalent liability	26,165	14,901	26,165	17,750
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22. PROVISIONS (NON-CURRENT)

Employee benefits	1,176	1,049	1,176	1,049
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23. OTHER LIABILITIES (NON CURRENT)

Other	9,944	263	-	263
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24. RESERVES

General reserve	4,000	4,000	4,000	4,000
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This Reserve was used to establish operations in Northern Electricity Retail Corporation Pty Ltd.

25. EQUITY

Total equity at the beginning of the financial year	157,220	141,442	156,699	142,556
Total changes in equity recognised in the statements of financial performance	15,262	15,778	15,216	14,143
Transactions with owners as owners:				
Contributions of equity	-	-	-	-
Dividends	(15,296)	-	(15,296)	-
Total equity at the reporting date	157,186	157,220	156,619	156,699
Contributed Equity: Share capital				
1,214 ordinary shares fully paid	123,172	123,172	123,172	123,172

Notes to and forming part of the financial statements

For the year ended 30 June 2003

	Consolidated		Parent	
	2003	2002	2003	2002
	\$'000	\$'000	\$'000	\$'000
26. RETAINED PROFITS				
Retained Profit	30,014	30,048	29,447	29,527
Movements:				
Retained profits at the beginning of the financial year	30,048	14,270	29,527	15,384
Adjustment resulting from a change in accounting policy based on revised AASB 1028 Employee Benefits	(34)	-	(34)	-
Net Profit attributable to members of Ergon Energy Pty Ltd	15,296	15,778	15,250	14,143
Dividends provided for	(15,296)	-	(15,296)	-
	30,014	30,048	29,447	29,527

27. STATEMENTS OF CASH FLOWS**Reconciliation of the operating profit after income tax equivalent to the net cash flows provided by/(used in) operating activities**

Operating profit after income tax equivalent	15,296	15,778	15,249	14,144
Depreciation of non-current assets	1,903	1,449	1,903	1,449
Asset write off	284	-	284	-
Net (profit)/loss on disposal of property, plant and equipment	1	(38)	2	(38)
Change in employee entitlements and other provisions	9,195	(758)	(751)	(758)
Other non cash flow items	4,443	2,667	4,443	2,667
Changes in assets and liabilities				
Trade and other receivables	33,352	16,109	40,660	29,911
Other assets	(15,712)	744	(15,713)	745
Inventory	(8)	(5)	(8)	(5)
Trade and other creditors	(57,393)	1,136	(48,038)	(11,687)
Other liabilities	6,315	3,271	(3,630)	3,880
Deferred income tax equivalent liability	11,264	5,368	8,415	4,186
Future income tax equivalent benefit	(4,646)	(1,084)	(1,822)	(261)
Provisions	(9,943)	499	2	499
Net cash flows provided by/(used in) operating activities	(5,649)	45,136	996	44,732

28. EXPENDITURE COMMITMENTS

(a) Operating lease commitments

Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities, payable:

- later than one year	327	515	327	515
- later than one year and not later than five years	8,259	-	8,259	-
- later than five years	13,413	-	13,413	-
	21,999	515	21,999	515

Representing:

Cancellable operating leases	-	-	-	-
Non-cancellable operating leases	21,999	515	21,999	515
	21,999	515	21,999	515

As at 30 June 2003 the Economic Entity had no contracted commitments for capital expenditure (2002: Nil).

Notes to and forming part of the financial statements

For the year ended 30 June 2003

	Consolidated		Parent	
	2003	2002	2003	2002
	\$'000	\$'000	\$'000	\$'000

29. EMPLOYEE BENEFITS AND SUPERANNUATION COMMITMENTS

Employee benefits

The aggregate employee benefits are comprised of:

Accrued wages and salaries	618	-	618	-
Provisions (Current)	867	714	867	714
Provisions (Non-Current)	1,176	1,049	1,176	1,049
	2,661	1,763	2,661	1,763

Incentive payments

Aggregate performance bonus accrued/paid	1,073	1,472		
Total salaries and wages paid (employees receiving a performance payment)	8,210	11,456		

	2003	2002	2003	2002
	Number	Number	Number	Number
Employee numbers				
Number of employees who received a performance payment	84	152		
Number of employees at reporting date	165	171	165	171

Superannuation commitments

Entities within the Economic Entity contribute to an industry, multiple employer superannuation fund, the Electricity Supply Industry Superannuation Fund (Qld). Members, after serving a qualifying period, are entitled to benefits from this fund on retirement, resignation, retrenchment, disability or death.

The Defined Benefit Account of this fund provides defined lump sum benefit based upon years of service and final average salary. Employee contributions to the fund are based on various percentages of their gross salaries.

The most recent actuarial assessment of the fund was carried out by Mr Ralph Collins, Fellow of the Institute of Actuaries of Australia as at 1 July 2002. The actuary concluded that all liabilities of the fund which may be expected to arise in the normal course of events in the three years to 30 June 2005 and the vested benefits at that date in respect of current members, could be adequately met by:

- the assets of the fund at the valuation date;
- contributions by the employer at the recommended rate;
- contributions by the members in accordance with the Trust Deed;
- investment earnings on the above.

	2003	2002
	\$'000	\$'000

The estimated accrued benefits and fund assets at the date of the most recent actuarial assessment of the fund, based upon information supplied by the fund, are:

Net market value of plan assets	3,008	21,299
Accrued benefits	(2,373)	(13,987)
Excess of plan assets held over accrued benefits*	635	7,312
Vested benefits	(2,373)	(13,987)

* The Economic Entity has no entitlement to this excess.

Notes to and forming part of the financial statements

For the year ended 30 June 2003

30. CONTINGENT LIABILITIES

(a) Legal Claims

No common law claims are pending against entities within the Economic Entity (2002:nil).

(b) Counter Indemnity

In order to participate in the electricity market, entities within the Economic Entity were required to deliver acceptable security as collateral for its obligations arising as a consequence of normal trading. Security, in the form of payment guarantees totalling \$148,600,000 (2002: \$144,000,000) have been issued by Queensland Treasury Corporation to the National Electricity Market Management Company Limited.

These guarantees are supported by counter-indemnities to the Queensland Treasury Corporation from the ultimate parent entity totalling \$295,000,000 (2002: \$300,000,000).

31. SUBSEQUENT EVENTS

No events of a material nature have occurred subsequent to 30 June 2003.

32. ECONOMIC DEPENDENCY

Ergon Energy Pty Ltd's principal revenue depends to a significant extent on the operations of the electricity market in Queensland.

The principal operator transporting high voltage electricity for distribution is Queensland Electricity Transmission Corporation Limited (trading as Powerlink).

Low voltage electricity is then distributed primarily to Ergon Energy Pty Ltd by Ergon Energy Corporation Limited.

33. AUDITORS' REMUNERATION

	Consolidated		Parent	
	2003	2002	2003	2002
	\$	\$	\$	\$
Amounts received or due and receivable by the auditors of the parent entity and its controlled entities for:				
- audit of financial statements	85,300	81,870	75,750	72,720

Notes to and forming part of the financial statements

For the year ended 30 June 2003

34. RELATED PARTY DISCLOSURES

(a) The Directors of Ergon Energy Pty Ltd during the financial year ended 30 June 2003 were:

Keith Hillless
John Bird
Ian Brien
Patricia Faircloth
Wayne Myers

Directors of the Economic Entity and Directors of its related parties, or their director-related entities, conduct transactions with entities within the Economic Entity that occur within a normal employee, customer or supplier relationship on terms and conditions no more favourable than those with which it is reasonable to expect the entity would have adopted if dealing with the director or director-related entity at arm's length in similar circumstances. All transactions with Directors, or director-related entities during the financial period were trivial or domestic in nature, except where noted below.

Keith Hillless is Director and Vice President of the Australian Institute of Management – Qld/NT Division. During the reporting period, Ergon Energy had transactions totalling \$33,514 with this organisation. The terms and conditions of the transactions were no more favourable than those which, it is reasonable to expect, would have been adopted if dealing with the director related entity at arms length.

Wayne Myers is a non-executive director of Sirocco Communications Pty Ltd being a controlled entity of Sirocco Technologies Group Limited of which Wayne Myers is Managing Director. During the reporting period, Ergon Energy Corporation Limited purchased goods and services to the value of \$119,223 from Sirocco Communications Pty Ltd. The terms and conditions of the purchases were no more favourable than those which, it is reasonable to expect, would have been adopted if dealing with the director related entity at arms length.

Ian Brien is a shareholder of Ian Brien Motors. During the reporting period, Ergon Energy purchased goods to the value of \$30,978. The terms and conditions of the purchases were no more favourable than those which, it is reasonable to expect, would have been adopted if dealing with the director related entity at arms length.

Barry Taylor is a Director of the ultimate parent entity. Barry Taylor is a Director of Townsville Enterprises Limited. Ergon Energy is a member of this organisation and made sponsorship payments during the financial year totalling \$114,300. The terms and conditions of the payments were no more favourable than those which, it is reasonable to expect, would have been adopted if dealing with the director related entity at arms length.

Paul Bell is a Director of the ultimate parent entity. Paul Bell is an Executive Director of the Local Government Association of Queensland and Chair of the Central Queensland Institute of TAFE. During the reporting period, Ergon Energy purchased goods and services to the value of \$13,870 and \$8,510 respectively. Further, Paul Bell is Chair of the Capricorn Tourism Organisation. Ergon Energy is a community partner with this organisation and had a transaction totalling \$11,000 during the reporting period. The terms and conditions of the transactions were no more favourable than those which, it is reasonable to expect, would have been adopted if dealing with the director-related entity at arm's length.

A number of Directors are Directors of organisations that are franchise customers of Ergon Energy Pty Ltd. Accordingly, the terms and conditions of supply are no more favourable than those which, it is reasonable to expect, would have been adopted if dealing with the director-related entity at arm's length.

(b) In addition to those transactions disclosed in note 2 and 3, the ultimate controlling entity provided the parent entity with customer care administration services. This included billing services, call centre facilities and retail products and services administration to a controlled entity. All services were undertaken on commercial terms and conditions.

Amounts due and receivable from related parties in the wholly owned group are as set out in the respective notes to the financial statements.

Notes to and forming part of the financial statements

For the year ended 30 June 2003

35. REMUNERATION OF DIRECTORS AND OFFICERS

(a) Income of Directors

The number of Directors of the parent entity who were paid, or were due to be paid, directly or indirectly by the company or any related party, as shown in the following bands were:

	2003	2002
\$20,001 - \$30,000	3	3
\$40,001 - \$50,000	1	1
\$60,000 - \$70,000	-	1
\$70,000 - \$80,000	-	1
\$100,000 - \$110,000	1	-
The aggregate income of the Directors referred to above was:	\$220,948	\$255,452

The total of all amounts paid or payable, directly or indirectly, from the respective entities of which they are a director, or from any related party, to all the Directors of each entity in the Economic Entity was \$220,948 (2002: \$255,452). The above amounts exclude the value of insurance premiums made for the Directors' indemnity.

(b) Income of Senior Executives

The number of senior executive officers whose base remuneration for the year falls within the following bands, were:

	Consolidated		Parent	
	2003	2002	2003	2002
\$170,001 - \$180,000	-	1	-	1
\$190,001 - \$200,000	-	2	-	2
\$230,001 - \$240,000	1	-	1	-
\$240,001 - \$250,000	1	-	1	-
\$310,001 - \$320,000	1	-	1	-
The aggregate income of the executives referred to above:	\$799,567	\$564,740	\$799,567	\$564,740

Base remuneration of senior executives comprises the base salary paid or payable directly or indirectly. This excludes at risk performance based remuneration paid or payable by the Economic Entity or any unrelated party to executive officers in office at 30 June 2003 in connection with management of the affairs of the entity or Economic Entity.

36. SEGMENT REPORTING

The Economic Entity operates primarily in the State of Queensland and has additional operations in New South Wales, Victoria, South Australia and the Australian Capital Territory as part of its electricity retailing operations.

Notes to and forming part of the financial statements

For the year ended 30 June 2003

37. FINANCIAL INSTRUMENTS

(a) Terms, conditions and accounting policies

The Economic Entity's accounting policies, including the terms and conditions of each class of financial asset, financial liability and equity instrument, both recognised and unrecognised at the balance date, are as follows:

Financial Instruments	Note	Accounting Policies	Terms and Conditions
Financial assets			
Receivables – Trade and Other	6	Receivables are recorded at nominal amounts due less any provision for doubtful debts. Provision for doubtful debts is recognised when collection of the full nominal amount is no longer probable.	Credit sales are normally on 30 day terms.
Contestable Sales Contracts	10	Contestable sales contracts are recorded at their net fair value and net of any associated hedges.	Contestable sales contracts typically have a term ranging from 12 months to 3 years.
Receivables – Related Party	6	Amounts receivable from related parties are carried at nominal amounts.	
Financial liabilities			
Payables – Trade and Other	16	Trade creditors are recognised upon the receipt of goods or services irrespective of whether an invoice has been received or not. Values are recorded based on agreed purchase/contract costs.	The amounts are unsecured and are normally settled within 30 days.
Customer and Other Repayable Deposits	17,20	Deposits are carried at the principal amount.	Interest is credited annually on the first billing to the customer after the end of the financial year.
Lease Incentive	20	Lease incentives are recognised as liabilities and are allocated between interest (calculated by applying the interest rate implicit in the lease), rental expense and reduction of the liability.	Allocations against the lease liability are recorded monthly, in line with the payment schedule outlined in the lease.
Equity			
Ordinary Shares	25	Ordinary share capital bears no specific terms or conditions affecting income or the capital entitlements of the shareholders.	

Notes to and forming part of the financial statements

For the year ended 30 June 2003

37. FINANCIAL INSTRUMENTS (continued)

(b) Interest rate risk

The Economic Entity's exposure to interest rate risks and the effective interest rates of financial assets and financial liabilities, both recognised and unrecognised at the balance date, are as follows:

2003	Floating interest rate	Fixed interest rate maturing in: 1 to 5 years	Non-interest bearing	Carrying amount per Statements of Financial Position	Weighted average interest rate
Financial assets					
Cash	106,682	-	250	106,932	4.89
Receivables – current	-	-	219,270	219,270	-
Receivables – non-current	-	-	1,795	1,795	-
Other assets	-	-	21,005	21,005	-
Total financial assets	106,682	-	242,320	349,002	
Financial liabilities					
Repayable deposits	22,358	-	-	22,358	4.00
Trade creditors	-	-	116,970	116,970	-
Lease incentive	-	1,141	-	1,141	5.00
Other creditors	-	-	9,918	9,918	-
Total financial liabilities	22,358	1,141	126,888	150,387	
2002					
2002	Floating interest rate	Fixed interest rate maturing in: 1 to 5 years	Non-interest bearing	Carrying amount per Statements of Financial Position	Weighted average interest rate
Financial assets					
Cash	113,586	-	-	113,586	4.93
Receivables – current	-	-	251,208	251,208	-
Receivables – non-current	-	-	6,512	6,512	-
Other assets	-	-	982	982	-
Total financial assets	113,586	-	258,702	372,288	
Financial liabilities					
Repayable deposits	22,284	-	-	22,284	4.00
Trade creditors	-	-	116,386	116,386	-
Other creditors	-	-	4,272	4,272	-
Total financial liabilities	22,284	-	120,658	142,942	

Notes to and forming part of the financial statements

For the year ended 30 June 2003

37. FINANCIAL INSTRUMENTS (continued)

(c) Net fair values

The net fair value of a financial asset or a financial liability is the amount at which the asset could be exchanged, or liability settled in a current transaction between willing parties after allowing for transaction costs.

The carrying amounts of financial assets and financial liabilities are not materially different from their estimated net fair values at balance date.

(d) Credit risk exposure

Credit risk exposure represents the extent of credit related losses that the Economic Entity may be exposed to on receivables from financial assets.

Recognised

Credit risk represents the loss that would be recognised if customers failed to perform as contracted. The Economic Entity manages its credit risks by having established and maintained an appropriate credit review process.

Furthermore, the Economic Entity minimises concentration of credit risk by undertaking transactions with a large number of retail customers and limiting credit to any individual customers.

Credit settlement risk associated with electricity market trading is controlled by establishing approved credit limits with only those counterparties that have an appropriate credit rating, as determined by a recognised credit rating agency. The relevant counterparties are principally large banks and other electricity corporations.

Unrecognised

Credit settlement risk associated with electricity market trading is controlled by establishing approved credit limits with only those counterparties that have an appropriate credit rating, as determined by a recognised credit rating agency. The relevant counterparties are principally large banks and other electricity corporations.

(e) Liquidity risk exposure

Liquidity risk associated with electricity market trading is controlled by National Electricity Market Management Company Limited whereby all market participants are required to deliver irrevocable bank guarantees as security of timely settlement. These guarantees are held for and on behalf of all participants thereby limiting exposure to liquidity risk.

Where entities within the Economic Entity enter into contracts external to the regulated market, such contracts are limited in terms of exposure and value. The contracts are entered into with only those counterparties that have an appropriate credit rating as determined by a recognised credit rating agency. All contracts contain credit limit clauses.

Directors' Declaration

The Director's declare that:

- (a) the financial statements and associated notes comply with the accounting standards and Urgent Issues Group Consensus Views;
- (b) the financial statements and notes give a true and fair view;
- (c) in the Directors' opinion;
 - (i) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and
 - (ii) the financial statements and notes are in accordance with the Corporations Act 2001, including sections 296 and 297.

Made in accordance with a resolution of the Directors.



Mr K Hillless
Chairman
Townsville
15/09/2003

ERGON ENERGY PTY LTD
INDEPENDENT AUDIT REPORT

To the Members of Ergon Energy Pty Ltd

Matters relating to the electronic presentation of the audited financial report

The audit report relates to the financial report of Ergon Energy Pty Ltd for the financial year ended 30 June 2003 included on Ergon Energy Pty Ltd's web site. The Directors are responsible for the integrity of the company's web site. The audit report refers only to the financial report identified below and does not include a review of the integrity of this web site or provide an opinion on any other information which may have been hyperlinked to/from the financial report. If users of the financial report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report, available from Ergon Energy Pty Ltd, to confirm the information included in the audited financial report presented on this web site.

These matters also relate to the presentation of the audited financial report in other electronic media including CD Rom.

Scope

The financial report

The financial report of Ergon Energy Pty Ltd consists of the statements of financial performance, statements of financial position, statements of cash flows, accompanying notes to the financial report, and the directors' declaration for both Ergon Energy Pty Ltd (the company) and the consolidated entity, for the year ended 30 June 2003. The consolidated entity comprises both the company and the entities it controlled during that year.

Directors' responsibility

The directors are responsible for the preparation and true and fair presentation of the financial report, the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

As required by law, an independent audit was conducted in accordance with QAO *Auditing Standards* to enable me to provide an independent opinion whether in all material respects the financial report presents fairly, in accordance with the prescribed requirements.

Audit procedures included -

- examining information on a test/sample basis to provide evidence supporting the amounts and disclosures in the financial report,
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the Directors,
- obtaining written confirmation regarding the material representations made in conjunction with the audit, and
- reviewing the overall presentation of information in the financial report.

Independence

The *Financial Administration and Audit Act 1977* promotes the independence of the Auditor-General and QAO authorised auditors.

The Auditor-General is the auditor of all public sector entities and can only be removed by Parliament.

The Auditor-General may conduct an audit in any way considered appropriate and is not subject to direction by any person about the way in which powers are to be exercised.

The Auditor-General has for the purposes of conducting an audit, access to all documents and property and can report to Parliament matters which in the Auditor-General's opinion are significant.

Audit Opinion

In my opinion, the financial report of Ergon Energy Pty Ltd is in accordance with:

- (a) the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2003 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory financial reporting requirements in Australia.

L J SCANLAN, FCA
Auditor-General of Queensland




Queensland Audit Office

additional information

International Travel

Destination	Purpose	Persons	Title	Total Cost (\$)
Fiji	Training Delivery - Occupational H&S Workshop for the Pacific Power Association	1	Manager ISES	7,940
France	Site visit – Electricite de France facility. Airfare only within France	1	Manager Technical Support	1,400
Singapore	Present Paper – Asia Pacific CFO Conference	1	Chief Finance Officer	1,066
Thailand & Taiwan	Witness transformer tests at ABB, Thailand and Fortune, Taiwan factories	1	Principal Engineer Substations	7,000
France	Cigre Paris Session 2002. Travel funded by Cigre	1	Communications and Control Systems Engineer	Nil

online information

Throughout this report, where additional information is readily available on topics which may be of further interest to our readers, a  symbol follows the text. This symbol indicates that one of the following ‘fact sheet’ style appendices is available on our internet site. Simply visit www.ergon.com.au/annualreport

Major Capital Works Program 2002/03

Details of Community Powerline Projects 2002/03

Cyclone Area Reliability Enhancement (CARE) Program 2002/03

Regional Sponsorship Summary 2002/03

Statement of Affairs

Equal Employment Opportunity Policy

Environmental Policy

Environmental Accountability

Environmental Performance Summary 2002/03

Abbreviations

AIDM	Asset Inspection and Defect Management
CARE	Cyclone Area Reliability Enhancement program
CPA	Certified Practising Accountants
EBA	Enterprise Bargaining Agreement
EBIT	Earnings Before Interest and Tax
EECL	Ergon Energy Corporation Limited
EEO	Equal Employment Opportunity
EEPL	Ergon Energy Pty Ltd
EMFs	Electromagnetic Fields
EMS	Environmental Management System
ESAA	Electricity Supply Association of Australia
GIS	Geographical Information System
GPS	Global Positioning System
GSLs	Guaranteed Service Levels
IR	Industrial Relations
ISO	International Organisation for Standardisation
NATA	National Association of Testing Authorities
NSCA	National Safety Council of Australia
PCB	Polychlorinated Biphenyls
QAO	Queensland Audit Office
RECs	Renewable Energy Certificates
SCI	Statement of Corporate Intent
SPS	Stand-alone Power Supply

Units of measure

V	volt	the unit of potential or electrical pressure
kV	kilovolt	one kV equals 1,000 volts
W	watt	a measure of the power present when a current of one ampere flows under a pressure of one volt
kW	kilowatt	one kW equals 1,000 watts
kWh	kilowatt hour	the standard ‘unit’ of electricity which represents the consumption of electrical energy at the rate of one kilowatt over a period of one hour
MWh	megawatt hour	one MWh equals 1,000 kilowatt hours
GWh	gigawatt hour	one GWh equals 1,000 megawatt hours or one million kilowatt hours
HV	high voltage	alternating current above 1,000V
LV	low voltage	alternating current above 32V and not exceeding 1,000V
SAIDI	System Average Interruption Duration Index.	Network reliability performance index, indicating the average number of times per year that the electricity is interrupted to each customer.
SAIFI	System Average Interruption Frequency Index.	Network reliability performance index, indicating the total minutes, on average, that customers are without electricity in a year.
IISI	Injury and Illness Statistics Index.	The measure is a product of the Lost Time Injury Frequency Rate (LTIFR) and average days lost per injury for the 12 month reporting period.