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# Directors' Report

## Directors' Report

The Board of Directors present their report on Ergon Energy Corporation Limited, ABN 50 087 646 062, and its controlled entities (referred to collectively as the 'Economic Entity') for the year ended 30 June 2004.

### Directors

The following persons held office as non-executive Directors of Ergon Energy Corporation Limited (the 'Parent Entity' or 'Company') during the financial year and up to the date of this report:

**Keith Hillless** (appointed 1 July 2002)

*BE FIE(Aust) FAIM MAICD*

Chairman

**Barry Taylor** (first appointed 10 June 1999 and

reappointed on 3 July 2003)

*MAICD*

Deputy Chair

**Paul Bell** (first appointed 10 June 1999 -

reappointed 5 July 2001)

*MAICD*

**Andrew Robertson** (first appointed 10 June 1999 and

reappointed on 3 July 2003)

*B Comm ACA FAICD*

**Fay Donovan** (first appointed 10 June 1999 -

reappointed 5 July 2001)

*JP (Qualified)*

**Wayne Myers** (appointed 5 July 2001)

All Directors held their position as Director throughout the financial year and up to the date of this report. Further details of Directors' qualifications are provided in notes 34 and 35.

### Principal Activities

The principal activities of the Economic Entity during the year comprised:

- distribution of electricity within the State of Queensland;
- electricity wholesale and retail trading in Queensland, Victoria, Australian Capital Territory and New South Wales; and
- provision of electricity-related contracting and other services.

### Dividends Paid or Declared

Dividends amounting to \$87,413,384 (2003: \$119,311,501) have been paid or provided for during the financial year.

### Review and Results of Operations

The consolidated profit after income tax equivalent expense of the Economic Entity for the financial year was \$92,014,088 (2003: \$104,538,423).

### Significant Changes in the State of Affairs

Significant changes to the state of affairs of the Economic Entity that occurred during the financial year, and which are reported in consolidated financial statements, are:

On the 25 September 2003 a 100% owned controlled entity Ergon Energy Telecommunications Pty Ltd was formed with an issued share capital of \$100.

### Significant Events after Balance Date

On 16 July 2004, Sparq Solutions Pty Ltd and Quest Asset Holdings Pty Ltd were formed with an issued capital of \$1,000 each. ENERGEX Limited, holding 55%, and Ergon Energy Corporation Limited, holding 45%, jointly own Sparq Solution Pty Ltd. Quest Asset Holdings Pty Ltd is 50% owned by both ENERGEX Limited and Ergon Energy Corporation Limited. The principal activity of Sparq Solutions Pty Ltd is to provide all Information Technology and Telecommunications operations and support for the Economic Entity while Quest Asset Holdings Pty Ltd holds assets used in major information technology and telecommunications-related programs of works.

A controlled entity is currently in the process of finalising a contract with the Queensland Government dealing with long-term energy procurement (LEP) relating to franchise customers. This contract is currently subject to approval by the Cabinet Budget Review Committee. The contract has not been signed at the date of this report, however both parties have honoured the terms of the contract to date. The Economic Entity has potential exposure to future adverse market conditions should the parties cease to observe the terms of the unsigned contract.

Except for the investment and LEP discussed above, and the outworking from the Queensland Government's report "Electricity Distribution and Service Delivery for the 21st Century" – released July 2004, no other matter or circumstance has arisen since 30 June 2004 that has significantly affected, or may significantly affect, the:

- (a) Economic Entity's operations in future financial years;
- (b) results of those operations in future financial years; or
- (c) Economic Entity's state of affairs in future financial years.

### Likely Developments and Future Results

The Directors expect the Economic Entity's future financial performance to be largely dependent on negotiated outcomes for the next Queensland Competition Authority regulatory period, combined with continued profitability in the retail business.

The Economic Entity is committed to improving the status of the network. An asset quality improvement program has commenced.

The Directors have excluded from this report any further information as to the likely developments in the operations of the Economic Entity and the expected results of those operations in future financial years, as the Directors believe that it would be likely to result in unreasonable prejudice to one or more entities in 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 been certified to international standard ISO 14001.

No environmental breaches have been notified by any government agency during the financial year. 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 environmental performance information, refer to pages 24 to 27.

**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 provisions of this policy prohibit the disclosure of the nature of the liabilities and the amount of the premium paid. The Corporations Act 2001 does not require disclosure of this information in these circumstances.

**Directors' Shareholding**

No Directors held any beneficial interest in the shares of the Company. All issued shares are held by the shareholding Ministers on behalf of the Government.

**Directors' Meetings**

The Board committees are group committees of Ergon Energy Corporation Limited, Ergon Energy Pty Ltd and other entities in the wholly owned group. The number of Directors' meetings (including committees) held during the year ended 30 June 2004 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	11	11	5	5	6	6	4	4	4	4
B Taylor	11	9	5	3	6	6	-	-	-	-
P Bell	11	9	-	-	-	-	4	3	-	-
A Robertson	11	10	-	-	6	6	-	-	4	4
F Donovan	11	8	-	-	-	-	4	4	-	-
W Myers	11	11	-	-	6	6	-	-	4	3

**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, made in Townsville, by the Directors of Ergon Energy Corporation Limited.



Mr K Hillless  
Chairman  
1 October 2004

# Statements of Financial Performance

## For the year ended 30 June 2004

	Note	Consolidated		Parent	
		2004	2003	2004	2003
		\$'000	\$'000	\$'000	\$'000
Revenues from ordinary activities	2	1,577,116	1,452,879	797,638	770,229
Network charges / electricity purchases		839,219	760,947	146,751	146,205
Employee expenses		134,299	123,954	110,118	103,599
Materials and services		113,185	111,139	121,612	117,388
Depreciation and amortisation		180,220	180,516	179,282	178,610
Borrowing costs expense		93,712	84,973	93,463	85,358
Other expenses from ordinary activities		88,090	65,031	35,678	18,730
Profit from ordinary activities before income tax					
equivalent expense	3	128,391	126,319	110,734	120,339
Income tax equivalent expense	4	36,377	21,781	26,167	15,205
Profit from ordinary activities after income tax					
equivalent expense		92,014	104,538	84,567	105,134
<b>Non-owner transaction changes in equity</b>					
Increase in asset revaluation reserve	23	54,583	20,893	54,583	20,893
Adjustment resulting from a change in accounting policy for recording employee benefit at nominal rates		-	(522)	-	(490)
<b>Total revenues and expense adjustments recognised directly in equity</b>		54,583	20,371	54,583	20,403
<b>Total changes in equity other than those resulting from transactions with owners as owners</b>	24	146,597	124,909	139,150	125,537

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 2004

	Note	Consolidated		Parent	
		2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
<b>Current Assets</b>					
Cash assets	5	225,599	125,603	76,069	18,141
Receivables	6	233,721	236,683	124,674	99,284
Inventories	7	39,779	38,029	39,754	37,978
Other	8	48,829	39,153	19,905	20,087
<b>Total Current Assets</b>		<b>547,928</b>	<b>439,468</b>	<b>260,402</b>	<b>175,490</b>
<b>Non-Current Assets</b>					
Receivables	9	39,544	3,112	57,752	12,945
Other financial assets	10	100	100	132,941	138,040
Property, plant and equipment	11	3,200,933	2,944,255	3,189,846	2,941,274
Deferred tax assets	12	57,485	36,188	57,485	26,909
Intangible assets	13	741	777	-	-
Other	14	5,279	2,233	992	230
<b>Total Non-Current Assets</b>		<b>3,304,082</b>	<b>2,986,665</b>	<b>3,439,016</b>	<b>3,119,398</b>
<b>Total Assets</b>		<b>3,852,010</b>	<b>3,426,133</b>	<b>3,699,418</b>	<b>3,294,888</b>
<b>Current Liabilities</b>					
Payables	15	180,200	151,283	95,090	89,096
Interest bearing liabilities	16	1,157	2,047	686	1,850
Provisions	17	151,708	152,625	142,057	150,861
Other	18	19,458	15,940	19,458	15,676
<b>Total Current Liabilities</b>		<b>352,523</b>	<b>321,895</b>	<b>257,291</b>	<b>257,483</b>
<b>Non-Current Liabilities</b>					
Interest bearing liabilities	19	1,488,728	1,448,405	1,463,104	1,425,103
Deferred tax liabilities	20	161,069	103,391	161,069	77,226
Provisions	21	67,394	61,389	63,454	60,213
Payables	22	32,059	-	27,900	-
<b>Total Non-Current Liabilities</b>		<b>1,749,250</b>	<b>1,613,185</b>	<b>1,715,527</b>	<b>1,562,542</b>
<b>Total Liabilities</b>		<b>2,101,773</b>	<b>1,935,080</b>	<b>1,972,818</b>	<b>1,820,025</b>
<b>Net Assets</b>		<b>1,750,237</b>	<b>1,491,053</b>	<b>1,726,600</b>	<b>1,474,863</b>
<b>Equity</b>					
Contributed equity	24	1,242,405	1,042,405	1,242,405	1,042,405
Reserves	23	477,614	423,031	477,614	423,031
Retained profits	25	30,218	25,617	6,581	9,427
<b>Total Equity</b>		<b>1,750,237</b>	<b>1,491,053</b>	<b>1,726,600</b>	<b>1,474,863</b>

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 2004

	Note	Consolidated		Parent	
		2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
<b>Cash flows from operating activities</b>					
Receipts from customers		1,325,652	1,333,843	730,909	778,298
Use of system charges		(866,631)	(834,372)	(153,902)	(161,459)
Payments to suppliers and employees		(237,938)	(364,636)	(233,139)	(285,265)
Interest received		6,178	4,961	1,397	545
Interest and other costs of financing		(91,695)	(82,673)	(91,446)	(83,058)
Dividends received		9	9	15,296	-
Capital contributions received		26,372	26,216	26,372	26,214
Community service obligations		227,112	213,183	-	-
GST refund from / paid to ATO		(14,457)	2,442	(14,457)	(27,288)
Other operating receipts		51,564	30,897	42,259	43,646
Other operating payments		(86,827)	(83,952)	(33,908)	(39,658)
<b>Net cash flows provided by / (used in) operating activities</b>	26	<b>339,339</b>	245,918	<b>289,381</b>	251,975
<b>Cash flows from investing activities</b>					
Proceeds from sale of property, plant and equipment		6,058	4,785	5,254	4,783
Payments for property, plant and equipment		(383,671)	(331,100)	(374,233)	(331,168)
Payments for intangible assets		(141)	-	-	-
Payments for investments made		-	(777)	-	-
<b>Net cash flows (used in) investing activities</b>		<b>(377,754)</b>	(327,092)	<b>(368,979)</b>	(326,385)
<b>Cash flows from financing activities</b>					
Share movement		200,000	-	200,000	-
Proceeds from borrowings		38,897	151,042	38,001	151,043
Repayment of repayable deposits		(1,175)	(1,220)	(1,164)	(1,292)
Dividends paid		(99,311)	(93,397)	(99,311)	(93,397)
<b>Net cash flows provided by / (used in) financing activities</b>		<b>138,411</b>	56,425	<b>137,526</b>	56,354
Net increase in cash held		99,996	(24,749)	57,928	(18,056)
Cash at the beginning of the year		125,603	150,352	18,141	36,197
<b>Cash at the end of the year</b>	5	<b>225,599</b>	125,603	<b>76,069</b>	18,141

The statements of cash flows 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 2004

### 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 monetary 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 Corporation Limited, and its controlled entities, referred to collectively as the 'Economic Entity'. Refer to note 10 for details on entities controlled by Ergon Energy Corporation Limited.

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.

#### **Revenue Recognition**

##### ***Regulated Network Business***

The Parent Entity is subject to a revenue cap that can be earned on its regulated assets. The regulated return is recognised in accordance with the revenue cap.

Regulated network prices are determined and initially invoiced based on estimates. Actual revenue allowed by the Regulator may vary from that estimated, resulting in a direction by the Regulator to the entity to increase/reduce prices in the succeeding period(s) to recover or refund amounts under or over charged. Amounts recovered or refunded pursuant to directions from the Regulator are brought to account in the period to which the under or over charge relates.

##### ***Non-refundable capital contributions***

The Parent Entity finances part of its capital works program by way of non-refundable contributions which are applied to the cost of these works. Non-refundable contributions are recognised as revenue in accordance with Urgent Issues Group Abstract 17 - Developer and Customer Contributions in Price Regulated Industries.

##### ***Contribution acknowledgment payments***

Under direction from the shareholding Ministers, the first tranche of contestable customers in the retail electricity market receive repayment of the capital payments they had previously made. These repayments are in the form of reduced network charges for specified time periods. Transmission charges and grid service revenue are both grossed up by the amount of these rebates to customers so that the full amount of the costs and revenues are properly reflected in the financial records.

All regulated network revenue and electricity sales revenue are disclosed as sales revenue in the financial statements.

##### ***Electricity Retail Business***

##### ***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.

##### ***Electricity sales revenue to customers other than contestable customers***

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 1990s, 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 primarily represent the shortfall in the margin received by the controlled entity, Ergon Energy Pty Ltd.

# Notes to and forming part of the financial statements

## For the year ended 30 June 2004

### Non-Regulated Revenue

Non-regulated revenue comprises revenue (net of discounts and allowances) mainly from the provision of electricity-related services. This revenue is recognised when the service is provided. Revenue in relation to construction contracts is recognised based on the percentage completion of the works. Revenue from the sale of goods is recognised upon the delivery of goods to customers. Interest revenue is recognised in the statements of financial performance as it accrues.

### Cost of Sales

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

### Property, Plant and Equipment

#### Cost and valuation

Items included within the supply system and power station categories are carried at fair value. Items of other property, plant and equipment are recorded at the lower of cost or recoverable amount. The cost of property, plant and equipment constructed by the Economic Entity includes the cost of materials, direct labour and other associated costs and where appropriate, borrowing costs.

The last independent valuation of supply system and power station assets (including land and buildings integral to the supply system and power stations) was undertaken as at 31 December 1999 by a consortium comprising Gutteridge Haskins Davey Pty Ltd and Arthur Andersen using the Depreciated Optimised Replacement Cost methodology.

Supply system assets and power stations were valued by Directors at 30 June 2001 using a method consistent with depreciated optimised replacement value. This is intended to provide values based on the optimum set of replacement assets necessary to achieve the same service potential with no inappropriate surplus capacity. Under this approach, escalation factors were applied to the asset values. The Economic Entity's policy is to carry out a detailed valuation based on advice from independent experts with sufficient regularity, as determined by the Directors, to ensure the carrying value of assets does not differ materially to their fair value, and to apply escalation factors to the asset values in the intervening years.

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 or 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.

Potential capital gains tax is not taken into account when determining revaluation amounts unless there is an intention to sell the assets concerned.

#### 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.

#### Depreciation

Depreciation is calculated on the straight-line basis by reference to the useful life of each item of property, plant and equipment, other than freehold land and easements. An assessment of useful lives is performed annually. Major depreciation periods are:

	Measurement basis	Depreciation period
Supply system	Fair value	7 to 60 years
Power stations	Fair value	5 to 60 years
Other land and buildings	Cost	0 to 40 years
Other property, plant and equipment	Cost	3 to 10 years

#### 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 or replaced within 12 months is classified as a current asset.

#### Goodwill

Where an entity or operation is acquired, the identifiable net assets are measured at fair value. The excess of the fair value 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. The period of amortisation does not exceed 20 years.

# Notes to and forming part of the financial statements

## For the year ended 30 June 2004

In establishing the fair value of identifiable net assets acquired, a liability for restructuring costs is only recognised at the date of acquisition where there is a demonstrated commitment and a detailed plan. The liability is only recognised where there is little or no discretion to avoid payments to other parties in settlement of costs of the restructuring and a reliable estimate of the liability can be made.

### Research and Development

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

### 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 when approved by the Shareholders.

The Parent Entity's interest in a unit trust is carried at the lower of cost or Directors' valuation. Income is brought to account when distributions are announced.

### Inventories

Inventories shown as current assets of the Parent Entity are not for resale, but are used in the maintenance and construction of system assets and are valued at weighted average cost.

Controlled entities inventories are carried at the lower of average cost and net realisable value.

### Maintenance and Repairs

Maintenance costs are charged as expenses as incurred, except where the costs extend the useful life of the asset or upgrade the asset beyond its originally designed function or capacity. In this case, such costs are capitalised to property, plant and equipment.

### Taxation

#### *Tax equivalents*

The entities within the Economic Entity make tax equivalent payments on their taxable income to the Queensland Government. These taxation 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 2004.

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

When the provision for deferred income tax equivalent liability exists and the Economic Entity incurs a tax loss, the future income tax equivalent benefit attributable to the tax loss has been brought to account as a reduction of the provision for deferred income tax equivalent liability. This is to the extent that the deferred income tax equivalent liability 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.

#### *Tax consolidation legislation*

The Directors of Ergon Energy Corporation Limited and its wholly owned entities have elected to retrospectively implement the tax consolidation legislation as of 1 July 2002. As a result, Ergon Energy Corporation Limited, as the head entity of the consolidated group, recognises current and deferred tax amounts of its wholly owned entities as if those transactions were its own in addition to its own current and deferred tax amounts. Any amounts receivable or payable under a tax funding agreement with the tax consolidated entities are disclosed separately as tax-related amounts receivable or payable. Expenses and revenues arising under a tax funding agreement are recognised as income tax equivalent expense (revenue).

### 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 employees' services provided up to the balance date. The above provisions have been calculated at undiscounted amounts based on current wage and salary rates and, where appropriate, at expected nominal rates. Related on-costs are included.

# Notes to and forming part of the financial statements

## For the year ended 30 June 2004

### *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 that are not expected to be settled within twelve months are discounted using the rates attaching to government securities at balance date that most closely match the terms of maturity of the related liabilities.

### *Superannuation*

Entities within the Economic Entity contribute to several defined benefit and defined contribution superannuation plans. Contributions are charged against income as they are owed (refer note 29).

### *Employee benefit on-costs*

Employee benefit on-costs, including payroll costs are recognised and included in employee benefit liabilities.

### **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 values of future payments for surplus lease space under non-cancellable operating leases which are not onerous contracts are recognised as liabilities, 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 in the leases. 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.

### **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. Where the effect of discounting is material, 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.

### **Website Costs**

Costs in relation to websites 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.

### **Restructure Provision**

Restructuring costs are recognised as a result of the acquisition of an entity and arise directly as a consequence of restructuring activities of the acquired entity. Costs that generate revenues or create an asset are not included in the restructure provision. Restructure costs are only recognised when the entity can reliably estimate the amount of the liability and there is demonstrated commitment to the restructure so that there is little or no discretion to avoid payments to other parties in settlement of the costs of the restructure.

The Parent Entity recognised a provision of \$160 million as at 30 June 1999 when it entered into a scheme of arrangement to acquire the assets and liabilities of predecessor distribution companies.

### **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 5MW 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 2004

Volumes of sales are 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 on hand and to be received in the future are held for trading and measured at fair value at balance date adjusted for known market forces.

The acquittal obligations of subsidiaries to the Economic Entity are recognised as liabilities in the balance sheet of Ergon Energy Pty Ltd. The subsidiary reimburses Ergon Energy Pty Ltd for any costs incurred by Ergon Energy Pty Ltd in meeting the subsidiary's obligations under the Commonwealth Mandatory Renewable Energy Target.

### Power Purchase Agreements

Power Purchase Agreements are recorded at fair value and adjusted for any changes in market conditions for up to but not exceeding five years.

The agreements are for the sale and purchase of the energy exported from a Generator and of the Renewable Energy Certificates and Green Credits associated with the generation of energy.

The Power Purchase Agreements are valued using a combination of data sources including current Ergon Energy trades, the Australian Financial Markets Association and other market intelligence. Ergon Energy have sufficient market information to reliably measure the value of these agreements in accordance with requirements of Australian Accounting Standards.

### 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 contracting 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 5MW 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 occur at settlement as a component of electricity expense during the year.

### Trade Creditors

These amounts represent liabilities for goods and services provided to the Economic Entity prior to the end of the financial year that 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.

### 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

#### *Transactions*

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

# Notes to and forming part of the financial statements

## For the year ended 30 June 2004

### *Specific Commitments*

Hedging of specific commitments for the purchase of goods or services is undertaken in order to avoid or minimise possible adverse financial effects of movements in exchange rates. Exchange gains or losses resulting from these transactions are recognised in the financial statements on recognition of the hedged purchase.

### **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.

### **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 1 July 2002 to 30 June 2003. Comparative amounts have been reclassified to ensure comparability with the current reporting period.

### **International Financial Reporting Standards (IFRS)**

The Australian Accounting Standards Board (AASB) is adopting IFRS for application to reporting periods beginning on or after 1 January 2005. The AASB will issue Australian equivalents to IFRS, and Urgent Issues Group abstracts equivalent to International Financial Reporting Interpretations. The adoption of the Australian equivalents to IFRS will be first reflected in the Economic Entity's financial statements in the year ending 30 June 2006.

The Economic Entity has established a project team to implement the Australian equivalents to IFRS. The project team is lead by the Chief Financial Officer who reports to the Audit and Legal Compliance Committee on progress of the project. The Audit and Legal Compliance Committee has an active interest in the progress of the project. The project is focused on a whole of business approach and therefore, all areas of the business will take an active part. The project team has established a detailed project plan to manage the transition to

Australian equivalents to IFRS and is confident of successfully meeting the required timeframe for implementation.

Of the standards to be applied, Ergon Energy believes the standards with the greatest impacts will be the Australian equivalents to IAS 12 Income Taxes, IAS 19 Employee Benefits, IAS 36 Impairment of Assets and IAS 39 Financial Instruments: Recognition and Measurement.

### *Income tax*

The application of IAS 12 will require the change to a balance sheet approach for calculating the deferred tax assets and liabilities. Deferred tax balances are calculated using temporary differences based on the carrying amount of an entity's assets and liabilities and their related tax balances. Further, current and deferred tax is recognised in equity when it arises from amounts recognised in equity. Currently the income statement method is used. Taxable income is determined by adjusting pre-tax accounting profit for permanent and timing differences. Timing differences also give rise to deferred tax assets and liabilities. Current and deferred taxes cannot be recognised directly in equity.

### *Employee benefits*

The application of IAS 19 will require the superannuation surplus on sponsored defined benefit plans to be brought to account on the balance sheet where a future economic benefit exists. Subsequent movements in this surplus will be accounted for through the profit and loss statement. The superannuation surplus has not previously been brought to account.

### *Impairment of assets*

The application of IAS 36 will require the fixed assets to be grouped into cash generating units to allow effective impairment testing. Further, revaluation increments and decrements will be accounted for on an individual asset basis rather than being offset within the one asset category.

### *Financial instruments*

The application of IAS 39 Financial Instruments: Recognition and Measurement will require review of all financial assets and financial liabilities. Financial assets will be classified as either held for trading, held to maturity, available for sale or loans and receivables. Appropriate valuation methodology will be implemented depending on the classification. While the Economic Entity currently applies fair value accounting to the contestable financial instruments in accordance with IAS 39, fair value accounting must also be applied to qualifying financial instruments in the business that have previously been accounted for on an accrual basis. Where necessary, the more stringent hedge accounting rules will be implemented to meet recognition requirements.

# Notes to and forming part of the financial statements

## For the year ended 30 June 2004

	Consolidated		Parent	
	2004	2003	2004	2003
	\$'000	\$'000	\$'000	\$'000
<b>2. REVENUE</b>				
Revenue from operating activities:				
Sales revenue	1,272,068	1,186,556	715,274	685,326
Community service obligations	223,596	191,798	-	-
Commissions received	1,692	4	1	4
Miscellaneous operating revenue	49,849	44,534	41,101	44,044
	<b>1,547,205</b>	<b>1,422,892</b>	<b>756,376</b>	<b>729,374</b>
Revenue from outside operating activities:				
Non-refundable capital contributions	17,665	20,231	17,665	20,231
Interest from unrelated parties	6,178	4,962	1,397	545
Dividends received from unrelated parties	9	9	-	-
Dividends received from related parties	-	-	16,946	15,296
Proceeds on disposal of non-current assets	6,059	4,785	5,254	4,783
	<b>29,911</b>	<b>29,987</b>	<b>41,262</b>	<b>40,855</b>
<b>Total revenue from ordinary activities</b>	<b>1,577,116</b>	<b>1,452,879</b>	<b>797,638</b>	<b>770,229</b>
<b>3. OPERATING PROFIT</b>				
<b>Profit from ordinary activities before income tax equivalent expense includes the following specific net gains and expenses:</b>				
Cost of sales	845,505	766,830	-	-
Net profit on disposal of property, plant and equipment	1,535	746	962	748
Depreciation				
Supply system assets	138,116	136,739	138,116	136,739
Power station assets	7,414	9,273	7,414	9,272
Other buildings	2,893	2,840	2,893	2,840
Other property, plant and equipment	31,620	30,630	30,859	29,068
<b>Total depreciation</b>	<b>180,043</b>	<b>179,482</b>	<b>179,282</b>	<b>177,919</b>
Amortisation				
Goodwill & intangible assets	177	1,034	-	691
Diminution in investment	-	-	5,099	-
Borrowing costs				
Interest paid or payable to related parties	-	-	958	1,827
Interest paid or payable to unrelated parties	93,712	84,973	92,505	83,531
	<b>93,712</b>	<b>84,973</b>	<b>93,463</b>	<b>85,358</b>
Net bad & doubtful debts expense including movements in provision for doubtful debts	2,584	3,566	383	482
Superannuation contributions	10,518	8,339	9,466	7,215
Rental expense relating to operating leases				
Minimum lease payments	3,323	2,657	2,996	1,609
<b>Total rental expense relating to operating leases</b>	<b>3,323</b>	<b>2,657</b>	<b>2,996</b>	<b>1,609</b>

# Notes to and forming part of the financial statements

## For the year ended 30 June 2004

	Consolidated		Parent	
	2004	2003	2004	2003
	\$'000	\$'000	\$'000	\$'000
<b>4. INCOME TAX</b>				
<b>4.1 Income tax equivalent expense/(benefit)</b>				
The prima facie income tax equivalent on operating profit differs from the income tax equivalent provided in the accounts as follows:				
Prima facie income tax equivalent on operating profit at 30% (2003: 30%)				
	38,517	37,896	33,220	36,102
Tax effect of permanent differences:				
Opening provisions	(551)	(10,396)	(551)	(10,396)
Dividend receivable	-	-	(5,084)	(4,589)
Other items	(320)	660	1,958	266
(Under) over provision in previous year	(1,269)	(6,379)	(3,376)	(6,178)
Income tax equivalent expense attributable to operating profit before impact of tax consolidation	36,377	21,781	26,167	15,205
Prima facie income tax equivalent on operating profit at 30% of tax consolidated group (excluding Parent Entity)				
			8,851	-
Tax effect of permanent differences:				
Other items			(735)	-
Over provision in previous year			2,094	-
Income tax equivalent expense – tax consolidated group (excluding Parent Entity)			10,210	-
Net deferred tax liabilities of tax consolidated group assumed on implementation of tax consolidation (1 July 2002)			10,311	-
Income tax equivalent expense for year ended 30 June 2003 – tax consolidated group (excluding Parent Entity)			6,576	-
Compensation received from tax consolidated group entities			(27,097)	-
Income tax equivalent expense attributable to operating profit			26,167	-
<b>4.2 Provision for deferred income tax equivalent liability <sup>(1)</sup></b>				
Attributable to timing differences:				
Depreciation	256,753	193,980	256,196	194,041
Unbilled electricity	58,771	48,562	-	-
Prepayments	-	79	-	93
Other	4,154	2,807	4,166	2,434
Balances transferred from wholly owned entities	-	-	54,752	-
	319,678	245,428	315,114	196,568
Future income tax equivalent benefit attributable to carried forward tax losses	(158,609)	(142,037)	(154,045)	(119,342)
<b>Total provision for deferred income tax equivalent liability</b>	<b>161,069</b>	<b>103,391</b>	<b>161,069</b>	<b>77,226</b>
<b>4.3 Future income tax equivalent benefit <sup>(1)</sup></b>				
Attributable to timing differences:				
Accruals	23,924	2,385	2,158	1,825
Provisions	28,313	25,818	25,770	21,591
Other	5,248	7,985	1,657	3,493
Balances transferred from wholly owned entities	-	-	27,900	-
<b>Total future income tax equivalent benefit</b>	<b>57,485</b>	<b>36,188</b>	<b>57,485</b>	<b>26,909</b>

(1) During the year ended 30 June 2004 Ergon Energy Corporation Limited recognised deferred tax balances from all of its wholly owned entities. A dissection of the deferred tax balances transferred from wholly owned entities is disclosed in the accounts of each entity.

# Notes to and forming part of the financial statements

## For the year ended 30 June 2004

### 4. INCOME TAX (continued)

As at 30 June 2004, the Economic Entity has estimated unconfirmed unrecouped income tax losses of \$2,573,855 (2003:\$2,572,824) available to offset against future years' taxable income. The benefit of these losses of \$772,156 (2003:\$771,847) has not been brought to account as realisation is not virtually certain. The benefit will only be obtained if:

- (i) The Economic Entity derives future assessable income of a nature and of an amount sufficient to enable the benefits from the deductions for the losses to be realised;
- (ii) The Economic Entity continues to comply with the conditions for deductibility imposed by law; and
- (iii) No changes in tax legislation adversely affect the Economic Entity in realising the benefit from the deductions for the losses.

#### 4.4 Tax consolidation legislation

The Directors of the Economic Entity have elected to retrospectively implement the tax consolidation legislation as of 1 July 2002. Any impact on the income tax equivalent expense has been disclosed in the tax reconciliation above. The accounting policy on implementation of tax consolidation is set out in note 1.

Ergon Energy Corporation Limited has fully compensated its wholly owned entities for any deferred tax balances it has assumed on implementation of the tax consolidation legislation. The wholly owned entities have compensated Ergon Energy Corporation Limited for any deferred tax liabilities transferred.

The entities of the group have entered into a tax sharing and funding agreements. Under the terms of the agreement the wholly owned entities reimburse Ergon Energy Corporation Limited for any income tax payable by Ergon Energy Corporation Limited (when the liability falls due) in respect of their own activities as if they had been treated as a taxpayer separate from the group. As there is no current income tax payable, amounts (including deferred tax assets and liabilities transferred) have been recognised as non-current tax-related amounts payable (receivable) from the wholly owned entities. The tax sharing agreement, in the opinion of the Directors, is a valid agreement and limits the joint and several liability of the wholly owned entities in the event of a default by Ergon Energy Corporation Limited.

	Consolidated		Parent	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
<b>5. CASH ASSETS (CURRENT)</b>				
Cash at bank and on hand	225,599	125,603	76,069	18,141
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	225,599	125,603	76,069	18,141
<b>6. RECEIVABLES (CURRENT)</b>				
Trade debtors and unread meters	202,834	220,424	21,618	19,645
Community service obligations receivable	3,538	7,054	-	-
Provision for doubtful debts	(5,297)	(4,731)	(390)	(269)
Trade debtors – unrelated parties	201,075	222,747	21,228	19,376
Trade debtors – related parties	-	-	86,500	64,612
Non-trade amounts owing by:				
Unrelated parties	32,646	13,936	-	-
Related parties	-	-	16,946	15,296
<b>Total current receivables</b>	<b>233,721</b>	<b>236,683</b>	<b>124,674</b>	<b>99,284</b>

# Notes to and forming part of the financial statements

## For the year ended 30 June 2004

	Consolidated		Parent	
	2004	2003	2004	2003
	\$'000	\$'000	\$'000	\$'000
<b>7. INVENTORIES (CURRENT)</b>				
Maintenance and construction stock	39,779	38,029	39,754	37,978
	<b>39,779</b>	<b>38,029</b>	<b>39,754</b>	<b>37,978</b>
<b>8. OTHER ASSETS (CURRENT)</b>				
Prepayments	3,165	3,174	2,839	3,078
Property, plant and equipment	17,000	17,002	17,000	17,002
Intangible assets	-	127	-	-
Market trading receivable and Renewable Energy Certificates	28,587	18,657	-	-
Other	77	193	66	7
	<b>48,829</b>	<b>39,153</b>	<b>19,905</b>	<b>20,087</b>
<b>9. RECEIVABLES (NON-CURRENT)</b>				
Loans to controlled entities	-	-	3,000	12,945
Tax related amounts receivable from wholly owned entities	-	-	54,752	-
Electricity sales receivable – contestable customers and Power Purchase Agreement receivable	38,252	1,795	-	-
Other	1,292	1,317	-	-
	<b>39,544</b>	<b>3,112</b>	<b>57,752</b>	<b>12,945</b>
<b>10. OTHER FINANCIAL ASSETS (NON-CURRENT)</b>				
<b>Investments at cost:</b>				
Unlisted shares in unrelated entity	100	100	-	-
	<b>100</b>	<b>100</b>	<b>-</b>	<b>-</b>
<b>Investments at valuation:</b>				
Unlisted shares in controlled entities (a)	-	-	142,366	142,366
Unlisted units in controlled entity	-	-	62	62
Less: Provision for diminution	-	-	(9,487)	(4,388)
	<b>-</b>	<b>-</b>	<b>132,941</b>	<b>138,040</b>
<b>Total investments</b>	<b>100</b>	<b>100</b>	<b>132,941</b>	<b>138,040</b>

(a) The carrying values of investments in controlled entities have been assessed by the Directors as at 30 June 2004, to ensure that the values are not in excess of their expected recoverable amounts.

(b) The consolidated financial statements at 30 June 2004 include the following controlled entities:

Entity Name	Country of Incorporation	Percentage Interest Held by the Economic Entity
Ergon Energy Corporation Limited	Australia	
EA North Queensland Pty Ltd	Australia	100%
Ergon Energy Gas Pty Ltd	Australia	100%
Vantage Plus Utilities Trust	Australia	100%
Ergon Energy Utility Services Pty Ltd	Australia	100%
Ergon Energy Telecommunications Pty Ltd	Australia	100%
Ergon Energy Pty Ltd	Australia	100%
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 2004

	Consolidated		Parent	
	2004	2003	2004	2003
	\$'000	\$'000	\$'000	\$'000
<b>11. PROPERTY, PLANT AND EQUIPMENT</b>				
<b>Supply system</b>				
At Directors' valuation 2004	5,734,139	-	5,734,139	-
At Directors' valuation 2003	-	5,292,357	-	5,292,357
Less : accumulated depreciation	(2,985,125)	(2,790,362)	(2,985,125)	(2,790,362)
	2,749,014	2,501,995	2,749,014	2,501,995
<b>Power stations</b>				
At Directors' valuation 2004	130,939	-	127,939	-
At Directors' valuation 2003	-	106,622	-	106,622
Less : accumulated depreciation	(38,485)	(33,919)	(38,485)	(33,919)
	92,454	72,703	89,454	72,703
<b>Other land &amp; buildings</b>				
<b>Other land</b>				
At cost	35,887	35,650	35,887	35,650
	35,887	35,650	35,887	35,650
<b>Other buildings</b>				
At cost	123,627	121,743	123,627	121,743
Less : accumulated depreciation	(65,442)	(63,678)	(65,442)	(63,678)
	58,185	58,065	58,185	58,065
<b>Other property, plant and equipment</b>				
At cost	270,938	289,582	267,839	281,729
Less : accumulated depreciation	(137,931)	(170,261)	(135,412)	(163,447)
	133,007	119,321	132,427	118,282
<b>Work in progress</b>				
At cost	132,386	156,521	124,879	154,579
<b>Total property, plant and equipment</b>	<b>3,200,933</b>	<b>2,944,255</b>	<b>3,189,846</b>	<b>2,941,274</b>

**Valuation***Supply system*

To ensure the carrying value of supply system assets do not materially differ from their fair value, the Directors' apply an escalation factor to the asset values. Further, the Directors' performed a review of supply system assets carrying values. As a result of this review, the carrying values of certain assets were reduced.

*Land and buildings*

Registered valuers performed external valuations on land and buildings of the Economic Entity in the 2004 financial year. The basis of the valuation of land and buildings is fair value being the amounts for which the assets could be exchanged between willing parties in an arm's length transaction in an active market. Several sites were identified where the carrying amount was higher than the market value. In these instances, Directors approved the write down of the assets from the book values to the market valuation.

# Notes to and forming part of the financial statements

## For the year ended 30 June 2004

### 11. PROPERTY, PLANT AND EQUIPMENT (continued)

#### Reconciliations

#### Consolidated – 2004

	Supply Systems	Power Stations	Other Land	Other Buildings	Other Property, Plant & Equipment	Work In Progress	TOTAL
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Carrying amount at start of year	2,501,995	72,703	35,650	58,065	119,321	156,521	2,944,255
Transfer of assets between categories	(29)	-	-	-	29	-	-
Transfer to property, plant & equipment & current assets	-	-	-	-	-	(385,498)	(385,498)
Additions	334,679	24,407	337	4,954	49,131	361,363	774,871
Disposals	-	-	(47)	(48)	(3,853)	-	(3,948)
Revaluation increments less decrements	50,485	2,758	(53)	(1,893)	-	-	51,297
Depreciation/amortisation expense	(138,116)	(7,414)	-	(2,893)	(31,621)	-	(180,044)
Carrying amount at end of year	2,749,014	92,454	35,887	58,185	133,007	132,386	3,200,933

#### Reconciliations

#### Parent – 2004

	Supply Systems	Power Stations	Other Land	Other Buildings	Other Property, Plant & Equipment	Work In Progress	TOTAL
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Carrying amount at start of year	2,501,995	72,703	35,650	58,065	118,282	154,579	2,941,274
Transfer of assets between categories	(29)	-	-	-	29	-	-
Transfer to property, plant & equipment	-	-	-	-	-	(382,284)	(382,284)
Additions	334,679	21,407	337	4,954	48,823	352,584	762,784
Disposals	-	-	(47)	(48)	(3,848)	-	(3,943)
Revaluation increments less decrements	50,485	2,758	(53)	(1,893)	-	-	51,297
Depreciation/amortisation expense	(138,116)	(7,414)	-	(2,893)	(30,859)	-	(179,282)
Carrying amount at end of year	2,749,014	89,454	35,887	58,185	132,427	124,879	3,189,846

# Notes to and forming part of the financial statements

## For the year ended 30 June 2004

	Consolidated		Parent	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
<b>12. DEFERRED TAX ASSETS (NON-CURRENT)</b>				
Future income tax equivalent benefit	57,485	36,188	57,485	26,909
<b>13. INTANGIBLE ASSETS (NON-CURRENT)</b>				
Goodwill	-	360	-	-
Less: accumulated amortisation	-	(360)	-	-
Intangibles	1,196	1,055	-	-
Less: accumulated amortisation	(455)	(278)	-	-
	741	777	-	-
<b>14. OTHER ASSETS (NON-CURRENT)</b>				
Market trading receivable	4,287	2,003	-	-
Other	992	230	992	230
	5,279	2,233	992	230
<b>15. PAYABLES (CURRENT)</b>				
Trade creditors – related parties	-	-	1,208	3,821
Trade creditors – unrelated parties	85,508	91,652	38,342	35,573
Other creditors	94,692	59,631	55,540	49,702
	180,200	151,283	95,090	89,096
<b>16. INTEREST BEARING LIABILITIES (CURRENT)</b>				
<i>Unsecured</i>				
Customer and other repayable deposits	872	2,047	686	1,850
Lease incentive	285	-	-	-
	1,157	2,047	686	1,850
<b>17. PROVISIONS (CURRENT)</b>				
Dividends	87,413	99,311	87,413	99,311
Restructure	18,364	30,000	18,364	30,000
Employee entitlements	15,528	13,926	14,471	13,049
Other	30,403	9,388	21,809	8,501
	151,708	152,625	142,057	150,861

# Notes to and forming part of the financial statements

## For the year ended 30 June 2004

	Dividends \$'000	Restructure \$'000	Other \$'000	TOTAL \$'000
<b>17. PROVISIONS (CURRENT) (continued)</b>				
<b>Consolidated – 2004</b>				
Carrying amount at start of year	99,311	30,000	9,388	138,699
Net transfers from non-current	-	-	851	851
Increase in provision	87,413	1,068	28,436	116,917
Payments made against provisions	(99,311)	(12,704)	(8,272)	(120,287)
Carrying amount at end of year	87,413	18,364	30,403	136,180

### Parent – 2004

Carrying amount at start of year	99,311	30,000	8,501	137,812
Net transfer from non-current	-	-	850	850
Increase in provision	87,413	1,068	20,440	108,921
Payments made against provisions	(99,311)	(12,704)	(7,982)	(119,997)
Carrying amount at end of year	87,413	18,364	21,809	127,586

	Note	Consolidated		Parent	
		2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
<b>18. OTHER LIABILITIES (CURRENT)</b>					
Unearned capital contributions		18,398	12,089	18,398	12,088
Unclaimed monies		-	1	-	1
GST		652	3,222	652	3,223
Other		408	628	408	364
		<b>19,458</b>	<b>15,940</b>	<b>19,458</b>	<b>15,676</b>

### 19. INTEREST BEARING LIABILITIES (NON-CURRENT)

#### Unsecured

Queensland Treasury Corporation loans	(a)	1,460,217	1,421,311	1,460,217	1,421,311
Customer and other repayable deposits		25,943	25,953	2,887	3,792
Lease incentive		2,568	1,141	-	-
		<b>1,488,728</b>	<b>1,448,405</b>	<b>1,463,104</b>	<b>1,425,103</b>

(a) The market value of Queensland Treasury Corporation ('QTC') loans at 30 June 2004 was \$1,453,261,023 (2003: \$1,451,550,111). The Economic Entity has a \$150,000,000 working capital facility. \$120,871,860 was available as at 30 June 2004. The facility was fully available at 30 June 2003.

# Notes to and forming part of the financial statements

## For the year ended 30 June 2004

	Consolidated		Parent	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
<b>20. DEFERRED TAX LIABILITIES (NON-CURRENT)</b>				
Deferred income tax equivalent liability	161,069	103,391	161,069	77,226
<b>21. PROVISIONS (NON-CURRENT)</b>				
Employee entitlements	63,355	59,274	62,189	58,098
Other	4,039	2,115	1,265	2,115
	<b>67,394</b>	<b>61,389</b>	<b>63,454</b>	<b>60,213</b>

	Other \$'000	TOTAL \$'000
<b>Consolidated – 2004</b>		
Carrying amount at start of year	2,115	2,115
Net transfer to current	(851)	(851)
Increase in provision	2,775	2,775
Payments made against provisions	-	-
Write back of provision to share capital	-	-
Carrying amount at end of year	4,039	4,039

<b>Parent – 2004</b>		
Carrying amount at start of year	2,115	2,115
Net transfer to current	(850)	(850)
Increase in provision	-	-
Payments made against provisions	-	-
Write back of provision to share capital	-	-
Carrying amount at end of year	1,265	1,265

	Consolidated		Parent	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
<b>22. PAYABLES (NON-CURRENT)</b>				
Power Purchase Agreement payable	32,059	-	-	-
Tax related amounts payable to wholly owned entities	-	-	27,900	-
	<b>32,059</b>	<b>-</b>	<b>27,900</b>	<b>-</b>

# Notes to and forming part of the financial statements

## For the year ended 30 June 2004

	Consolidated		Parent	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
<b>23. RESERVES</b>				
Asset revaluation reserve	477,614	423,031	477,614	423,031
Movements :				
Asset revaluation reserve at the beginning of the financial year	423,031	422,138	423,031	422,138
Increase recognised in property, plant & equipment on revaluation of assets	54,583	20,893	54,583	20,893
Transfer to retained profits	-	(20,000)	-	(20,000)
Asset revaluation reserve at the reporting date	477,614	423,031	477,614	423,031

The asset revaluation reserve includes the net revaluation increments and decrements arising from the revaluation of non-current assets in accordance with AASB1041.

### 24. EQUITY

Total equity at the beginning of the financial year	1,491,053	1,472,955	1,474,863	1,456,137
Total changes in equity recognised in the statements of financial performance	146,597	124,909	139,150	125,537
Transactions with owners as owners :				
Contributions of equity	200,000	-	200,000	-
Write back of restructure provision	-	12,437	-	12,437
Special dividend paid	-	(20,000)	-	(20,000)
Dividends	(87,413)	(99,248)	(87,413)	(99,248)
<b>Total equity at the reporting date</b>	<b>1,750,237</b>	<b>1,491,053</b>	<b>1,726,600</b>	<b>1,474,863</b>

#### Contributed Equity:

##### Share capital

26 fully paid ordinary A class shares	-	-	-	-
1,341,581,738 fully paid ordinary B class shares	1,242,405	1,029,968	1,242,405	1,029,968
Write back of restructure provision	-	12,437	-	12,437
<b>Total share capital</b>	<b>1,242,405</b>	<b>1,042,405</b>	<b>1,242,405</b>	<b>1,042,405</b>

During the year ending 30 June 2004, the shareholding Ministers of Ergon Energy Corporation Ltd contributed equity of \$200,000,000.

On inception of Ergon Energy Corporation Limited, the value of the shares was determined with consideration to a restructure provision raised as part of the formation of the Economic Entity. The partial write back of this provision resulted in an increase in share capital at 30 June 2003.

#### Movements in issued shares during the period

	Number of ordinary shares
<b>Issued during the period:</b>	
"B" class shares	200,000,000
<b>Total issued capital</b>	<b>200,000,000</b>

# Notes to and forming part of the financial statements

## For the year ended 30 June 2004

	Consolidated		Parent	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
<b>25. RETAINED PROFITS</b>				
Retained profits	<b>30,218</b>	25,617	<b>6,581</b>	9,427
Movements:				
Retained profits at the beginning of the financial year	<b>25,617</b>	20,849	<b>9,427</b>	4,031
Transfer from asset revaluation reserve	-	20,000	-	20,000
Adjustment resulting from a change in accounting policy based on revised AASB 1028 Employee Benefits	-	(522)	-	(490)
Net profit attributable to members of Ergon Energy Corporation Limited	<b>92,014</b>	104,538	<b>84,567</b>	105,134
Special dividend paid	-	(20,000)	-	(20,000)
Movement in provision for dividends	<b>(87,413)</b>	(99,248)	<b>(87,413)</b>	(99,248)
Retained profits at end of financial year	<b>30,218</b>	25,617	<b>6,581</b>	9,427
<b>26. STATEMENTS OF CASH FLOWS</b>				
<b>Reconciliation of the operating profit after income tax equivalent to the net cash flows provided by operating activities</b>				
Operating profit after income tax equivalent	<b>92,014</b>	104,538	<b>84,567</b>	105,134
Depreciation & amortisation	<b>180,220</b>	180,517	<b>179,282</b>	178,610
Asset write-off	<b>437</b>	65	<b>5,536</b>	59
Net loss on disposal of property, plant and equipment	<b>(4,524)</b>	323	<b>(4,292)</b>	286
Changes in employee entitlement and other provisions	<b>16,990</b>	(27,816)	<b>6,335</b>	(27,057)
Other non cash flow items	<b>4,010</b>	4,698	<b>383</b>	482
<b>Changes in assets and liabilities</b>				
Trade and other receivables	<b>(36,054)</b>	30,054	<b>(70,580)</b>	(25,364)
Inventory	<b>(1,750)</b>	(10,313)	<b>(1,776)</b>	(10,304)
Other assets	<b>(13,159)</b>	(12,821)	<b>(1,017)</b>	3,016
Trade and other creditors	<b>29,201</b>	(48,258)	<b>5,994</b>	5,126
Other liabilities	<b>35,577</b>	3,079	<b>31,682</b>	6,712
Deferred income tax equivalent liability	<b>57,678</b>	31,552	<b>83,843</b>	20,288
Future income tax equivalent benefit	<b>(21,297)</b>	(9,771)	<b>(30,576)</b>	(5,083)
Payment from provision	<b>(4)</b>	71	-	70
Net cash flow provided by operating activities	<b>339,339</b>	245,918	<b>289,381</b>	251,975

# Notes to and forming part of the financial statements

## For the year ended 30 June 2004

### 27. INVESTMENTS IN CONTROLLED ENTITIES AND ASSOCIATES

#### Formation of controlled entity

On the 25 September 2003 a 100% owned controlled entity Ergon Energy Telecommunications Pty Ltd was formed with an issued share capital of \$100. The operating results of the newly controlled entity have been included in the consolidated statement of financial performance since the date of formation.

#### Investment in Associate

The investment in the associate is accounted for in the consolidated financial statements using the equity method of accounting and is carried at cost by the Parent Entity. Information relating to the associate is set out below.

Ergon Energy Corporation Limited has invested \$100 in the associate Service Essentials Pty Ltd for a 10% ownership interest. The principal activities of the associate are billing, meter reading and payment management services. The associate had zero net income during the year. Ergon Energy appoints two board members to a five member board.

	Consolidated	
	2004 \$'000	2003 \$'000
<b>Share of associate's expenditure commitments</b>		
Lease commitments	203	5,091
Other expenditure commitments	8,313	3,253
	<b>8,516</b>	<b>8,344</b>

#### Summary of the performance and financial position of associate

Share of profit/loss, assets and liabilities of the associate is:

Profit from ordinary activities after related income tax expense	-	-
Assets	1,000	914
Liabilities	1,000	914

	Consolidated		Parent	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000

### 28. EXPENDITURE COMMITMENTS

#### (a) Capital expenditure commitments

Estimated capital expenditure contracted for at balance date is payable as follows:

- not later than one year	85,118	23,837	85,118	23,837
- later than one year but not later than five years	4,019	-	4,019	-
- later than five years	-	-	-	-
	<b>89,137</b>	<b>23,837</b>	<b>89,137</b>	<b>23,837</b>

#### (b) Lease commitments

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

- not later than one year	1,456	774	966	447
- later than one year but not later than five years	12,367	8,591	1,746	332
- later than five years	10,656	13,480	94	66
	<b>24,479</b>	<b>22,845</b>	<b>2,806</b>	<b>845</b>

Representing :

Cancellable operating leases	-	-	-	-
Non-cancellable operating leases	24,479	22,845	2,806	845
	<b>24,479</b>	<b>22,845</b>	<b>2,806</b>	<b>845</b>

# Notes to and forming part of the financial statements

## For the year ended 30 June 2004

	Consolidated		Parent	
	2004	2003	2004	2003
	\$'000	\$'000	\$'000	\$'000
<b>29. EMPLOYEE BENEFITS AND SUPERANNUATION COMMITMENTS</b>				
<b>Employee benefits</b>				
The aggregate employee benefit liability is comprised of:				
Accrued wages and salaries	8,456	12,683	8,311	12,031
Provisions (Current)	15,528	13,926	14,471	13,049
Provisions (Non-Current)	63,355	59,274	62,189	58,098
	<b>87,339</b>	<b>85,883</b>	<b>84,971</b>	<b>83,178</b>
<b>Incentive payments</b>				
Aggregate performance bonus accrued/paid	4,088	4,460	3,211	3,387
Total employment cost (employees receiving a performance payment)	34,096	34,628	26,789	26,418
		Number		Number
	2004	2003	2004	2003
Number of employees who received a performance payment	333	328	264	244
Number of employees at reporting date	3,197	2,973	3,033	2,808

The Ergon Energy 'at risk' plan measures performance at three tiers - corporate, business unit and individual. For Executives, the weightings applied to each of these tiers are 40%, 40% and 20% respectively. Performance payments pertaining to the 2003/2004 financial year for Executives have not, at this stage, been paid, but have been appropriately accrued.

Senior Managers (employees reporting directly to Executives) are subject to weightings of 30%, 30% and 40% respectively.

For all other staff eligible for 'at risk' performance payments, the weightings applied to each of these tiers for the year ended 30 June 2004 were 20%, 25% and 55% respectively. Some of these staff are also award employees, covered by the terms and conditions of the current Enterprise Bargaining Agreement (EBA).

### 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 benefits 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 Institute of Actuaries of Australia, as at 1 July 2002. The actuary concluded that all liabilities of the fund that 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; and
- investment earnings on the above.

	Consolidated		Parent	
	2004	2003	2004	2003
	\$'000	\$'000	\$'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	342,186	342,186	339,178	339,178
Accrued benefits	(269,941)	(269,941)	(267,568)	(267,568)
Excess of plan assets held over accrued benefits	72,245	72,245	71,610	71,610
Vested benefits	(269,941)	(269,941)	(267,568)	(267,568)

# Notes to and forming part of the financial statements

## For the year ended 30 June 2004

### 30. CONTINGENT LIABILITIES

#### (a) Legal Claims

A number of common law claims are pending against entities within the Economic Entity. In each case, a writ has been served and the entity is at various stages of defending the action. Liability is not admitted and all claims will be defended. The total amount of these claims net of insurance recoveries is \$737,772 (\$2003: \$328,500).

#### (b) Guarantees

Bank guarantees amounting to \$305,170 (2003: \$324,159) have been issued to various parties in connection with the Parent Entity's non-regulated contracting services operations. These guarantees are supported by counter-indemnities to the Queensland Treasury Corporation from the Parent Entity totalling \$2,200,000 (2003: \$2,000,000).

In order to participate in the electricity market, entities within the Economic Entity were required to deliver acceptable security as collateral for their obligations arising as a consequence of normal trading. Security, in the form of payment guarantees totalling \$127,900,000 (2003: \$148,600,000) 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 Parent Entity totalling \$295,000,000 (2003: \$295,000,000).

#### (c) EA North Queensland Pty Ltd's Employees' Sick Leave Entitlement

EA North Queensland Pty Ltd has guaranteed to pay sick leave entitlements accrued at 8 May 2001 for employees that transferred to JMC Logistics Pty Ltd (JMC) if the JMC accrued entitlements are insufficient to cover sick leave taken in the period to 7 May 2006. The maximum amount payable is \$151,908.

#### (d) Obligations on Termination of the Bulk Supply Agreement with a Contestable Customer

On 1 June 2004, the Bulk Supply Agreement between a controlled entity, Ergon Energy Pty Ltd, and a contestable customer was terminated and replaced with a Power Purchase Agreement with an alternate energy supplier. Because of delays in the finalisation of these arrangements, the contestable customer and Ergon Energy Pty Ltd agreed to perform a comparison of payments under the Bulk Supply Agreement and the Power Purchase Agreement from July 1998. It has been further agreed that Ergon Energy Pty Ltd will pay the contestable customer the net effect of the comparison as though the Power Purchase Agreement had been in force from July 1998.

At the end of the reporting period, Ergon Energy Pty Ltd and the contestable customer were still undertaking the required reconciliation to determine the amount payable.

### 31. SUBSEQUENT EVENTS

On 16 July 2004, Sparq Solutions Pty Ltd and Quest Asset Holdings Pty Ltd were formed with an issued capital of \$1,000 each. ENERGEX Limited, holding 55%, and Ergon Energy Corporation Limited, holding 45%, jointly own Sparq Solutions Pty Ltd. Quest Asset Holdings Pty Ltd is 50% owned by both ENERGEX Limited and Ergon Energy Corporation Limited. The principal activity of Sparq Solutions Pty Ltd is to provide all Information Technology and Telecommunications operations and support for the Economic Entity while Quest Asset Holdings Pty Ltd holds assets used in major information technology and telecommunications related programs of works.

A controlled entity is currently in the process of finalising a contract with the Queensland Government dealing with long-term energy procurement (LEP) relating to franchise customers. This contract is currently subject to approval by the Cabinet Budget Review Committee. The contract has not been signed at the date of this report however both parties have honoured the terms of the contract to date. The Economic Entity has potential exposure to future adverse market conditions should the parties cease to observe the terms of the unsigned contract.

Except for the investment and LEP discussed above, and the outworking from the Queensland Government's report "Electricity Distribution and Service Delivery for the 21st Century" - released July 2004, no other matter or circumstance has arisen since 30 June 2004 that has significantly affected, or may significantly affect:

- (a) the Economic Entity's operations in future financial years;
- (b) the results of those operations in future financial years; or
- (c) the Economic Entity's state of affairs in future financial years.

# Notes to and forming part of the financial statements

## For the year ended 30 June 2004

### 32. ECONOMIC DEPENDENCY

Ergon Energy Corporation Limited's principal revenue depends, to a significant extent, on the operations of the national electricity market in Queensland and the operations of the National Electricity Market Management Company Limited.

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.

	Consolidated		Parent	
	2004	2003	2004	2003
	\$'000	\$'000	\$'000	\$'000

### 33. AUDITORS' REMUNERATION

Remuneration for audit and review of the financial reports of the Parent Entity or any entity in the Economic Entity:

	2004	2003	2004	2003
	\$'000	\$'000	\$'000	\$'000
Parent Entity	230	228	230	228
Controlled entity	111	100	-	-
	341	328	230	228

### 34. RELATED PARTY DISCLOSURES

#### (a) Transactions with Directors and Specified Executives

The Directors of Ergon Energy Corporation Limited during the financial period ended 30 June 2004 were:

Keith Hilless  
Barry Taylor  
Paul Bell  
Andrew Robertson  
Fay Donovan  
Wayne Myers

Directors and Specified Executives of the Economic Entity and Directors of its related parties, or their personally-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, Specified Executives, or personally-related entities that occurred during the financial year are trivial or domestic in nature, apart from those noted below. The related party disclosures are those in connection with Ergon Energy Corporation Limited and its controlled entities.

Keith Hilless is the Director and President of the Australian Institute of Management – Qld/NT Division. During the reporting period, Ergon Energy provided sponsorship to and purchased training from this organisation to the value of \$60,633 (2003: \$33,514). 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 personally-related entity at arm's length.

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 \$66,000 (2003: \$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 personally-related entity at arm's length.

Paul Bell is President of the Local Government Association of Queensland and Chair of the College Council of the Central Queensland Institute of TAFE. During the financial year, Ergon Energy made sponsorship payments and paid conference attendance fees to the value of \$20,506 (2003: \$13,870) to the Local Government Association of Queensland and purchased training to the value of \$7,925 (2003: \$8,510) from the Central Queensland Institute of TAFE. The terms and conditions of these transactions were no more favourable than those which it is reasonable to expect would have been adopted if dealing with the personally-related entities at arm's length.

Further, Paul Bell is Deputy Chair of Queensland Rail. Ergon Energy paid freight costs to the value of \$184,217 (2003: \$136,440) and provided electricity and the use of network assets to the value of \$42,748,068 (2003: \$45,846,685) to this entity during the financial year. The terms and conditions of these transactions were no more favourable than those which it is reasonable to expect would have been adopted if dealing with the personally-related entity at arm's length.

# Notes to and forming part of the financial statements

## For the year ended 30 June 2004

### 34. RELATED PARTY DISCLOSURES (continued)

Wayne Myers is a non-executive director of Sirocco Communications Pty Ltd. This entity is a controlled entity of Sirocco Technologies Group Limited of which Wayne Myers is managing director. During the reporting period, Ergon Energy purchased IT consultancy services and IT supplies to the value of \$47,126 (2003: \$119,223) from Sirocco Communications Limited. 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 personally-related entity at arm's length.

James Mitchell is a Specified Executive of the parent entity and the Chair of Services Essentials Pty Ltd, an associate company. During the financial year, Service Essentials Pty Ltd provided services to the wholly owned group to the value of \$17,883,293 (2003: \$Nil) and received services from the wholly owned group to the value of \$10,040,846 (2003: \$Nil). Refer Note 34 (d) for a description of the transactions. 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 personally-related entity at arm's length.

A number of Directors are the 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 personally-related entity at arm's length.

#### (b) Loans to Directors and Specified Executives

The Economic Entity has not made any loans to Directors in either the current or prior years.

Historically, this disclosure requirement has only applied to Directors. In 2004, however, it was extended to include Specified Executives of the Economic Entity. Details of loans to Specified Executives of the Economic Entity, including their personally-related entities, are set out below in aggregate.

The loans to Specified Executives arose from salary sacrifice arrangements entered into by the Specified Executives in prior years. The Economic Entity's loan receivable was offset by a liability owed by the Economic Entity to the Specified Executives resulting in no net liability to the Economic Entity.

	Balance at the start of the year	Interest paid and payable for the year	Interest not charged	Balance at the end of the year	Number of loans at the end of the year
	\$	\$	\$	\$	\$
Specified Executives of the Economic Entity	54,833	0	2,912	0	0

The loans were interest free. However, because of the offsetting liability owed to the Specified Executives, which is also interest free, no economic loss has been suffered by the Economic Entity.

The loans were repayable at the earlier of:

- Termination of the employee; or
- Termination of the underlying salary sacrifice arrangements by either the Economic Entity or the Specified Executives.

The loans to Specified Executives were repaid in full during the financial year.

This salary sacrifice arrangement was available to senior employees of a predecessor organisation, and at 30 June 2004, six employees remain in this arrangement. No net liability to the Economic Entity accrues from these arrangements, and no write-downs or allowances for doubtful receivables have been recognised in relation to any of these loans.

#### (c) Transactions within the Wholly Owned Group

In addition to those transactions disclosed in Notes 2 and 3, the Parent Entity entered into the following transactions during the period with related parties within the wholly owned group:

The Parent Entity provided customer care administration services, including retail products and services administration to a controlled entity. All services were undertaken on normal 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 2004

### 34. RELATED PARTY DISCLOSURES (continued)

#### (d) Transactions with Other Related Parties

Aggregate amounts brought to account in relation to transactions with an associate:

	Consolidated		Parent	
	2004	2003	2004	2003
	\$'000	\$'000	\$'000	\$'000
Purchase of billing, meter reading and payment management services from an associate	17,883	-	-	-
Recovery of employee expenses and other service costs from an associate	10,041	-	-	-
Value of assets sold to an associate	20	-	20	-

An unsecured loan has been advanced by the wholly owned group to an associate. The loan is in the form of an interest-bearing loan with rates between 6.90% and 7.51%. The amount outstanding at balance date was \$540,326. Amounts due and receivable from associates are as set out in the respective notes to the financial statements.

#### (e) Controlling Entities

The ultimate Parent Entity in the wholly owned group is Ergon Energy Corporation Limited.

The ultimate Parent Entity and the ultimate Australian Parent Entity is Ergon Energy Corporation Limited.

#### (f) Ownership Interests in Related Parties

Interests in the following classes of related parties are set out in the following notes:

Controlled entities – note 10

Associate – note 27

### 35. REMUNERATION OF DIRECTORS AND EXECUTIVES

Directors' 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 Company.

The non-executive Directors of the Company do not participate in any variable reward or 'at risk' plan.

The Group Human Resources Committee recommends Executive remuneration to the Board as part of an annual review. Input is sought from several industry and market surveys (in addition to that from the shareholding Ministers) when determining the level of remuneration for these positions. Final approval is then required from shareholding Ministers, ensuring that remuneration arrangements for the Executives are appropriate.

A Total Employment Cost (TEC) concept for the structure of Executive remuneration is utilised. While the total cost of an Executive's remuneration package is capped, the Executive then has the flexibility to decide the composition of the total cost (eg cash salary, motor vehicle, car park, additional superannuation, laptop etc).

Executive staff are eligible for an 'at risk' or variable component that is directly linked to both the overall performance of the corporation and their individual efforts against a range of key indicators (eg financial, operational and customer excellence, people development, risk management and growth). The initial 'target' goals are set by the Board, from the annual Statement of Corporate Intent (SCI). Any 'at risk' payment is totally contingent upon the Board's assessment of the Company's overall performance.

Executives are all employed on a similar, tenured contract, except for the Chief Executive who is employed on a five year fixed term contract. The employment contract of each Executive allows for them to be eligible to participate in the Company's 'at risk' performance remuneration plan which has a maximum allocation of up to 15% of the individual's TEC figure.

Apart from the provision of a car park, no other non-cash benefits are provided to Executives, as the TEC concept captures various benefits structured within a total cost rather than a base salary plus benefits.

# Notes to and forming part of the financial statements

## For the year ended 30 June 2004

### 35. REMUNERATION OF DIRECTORS AND EXECUTIVES (continued)

Early termination entitlements for Executives are subject to the normal terms and conditions of their contracts with Ergon Energy. The Chief Executive Officer (Retired) was entitled to a termination payment comprising the contract's base reference salary for the number of weeks determined by reference to the Queensland Transmission and Supply Corporation Redundancy Agreement (being 13 weeks plus 3 weeks for each year of service and long service leave of 1.3 weeks per year of service) and 50% of the contract's residual base reference salary. The Chief Executive (Incumbent) is entitled to a termination payment comprising all entitlements accrued under the contract, a portion of the total remuneration package, excluding bonus, that would have been payable for the balance of the term after termination date, and the balance of any bonus declared by the Chairman that remains unpaid. Other Specified Executives are entitled to a termination payment comprising a payment equivalent to 26 weeks of TEC, pro-rata long service leave and pro rata bonus. Where termination is due to redundancy, other Specified Executives are entitled to an additional payment of two weeks TEC for every completed year of employment in excess of two years to a maximum of 26 weeks. This entitlement lapses if an offer of alternative employment is received from a Queensland Government department, agency or Queensland Government-Owned Corporation prior to termination of the Executive's employment with the Company.

In accordance with Ministerial Guidelines, details of remuneration provided to Directors and the five senior Executives with the greatest authority of the Parent Entity in office at 30 June 2004 are as follows:

DIRECTOR	Primary				Post Employment		TOTAL	
	Directors' Fees		Committee Fees <sup>(1)</sup>		Superannuation		Parent Entity	Controlled Entities
	Parent Entity	Controlled Entities	Parent Entity	Controlled Entities	Parent Entity	Controlled Entities		
\$	\$	\$	\$	\$	\$	\$	\$	
<b>K Hilless – Chairman</b>								
2004	54,000	39,200	3,000	-	5,175	3,573	62,175	42,773
2003	54,000	39,200	3,000	-	5,175	3,573	62,175	42,773
<b>B Taylor – Director</b>								
2004	21,000	-	6,000	-	2,452	-	29,452	-
2003	21,000	-	3,000	-	2,182	-	26,182	-
<b>P Bell – Director</b>								
2004	21,000	-	4,000	-	2,284	-	27,284	-
2003	21,000	-	4,000	-	2,283	-	27,283	-
<b>A Robertson – Director</b>								
2004	21,000	-	7,000	-	2,554	-	30,554	-
2003	21,000	-	6,000	-	2,452	-	29,452	-
<b>F Donovan – Director</b>								
2004	21,000	-	3,000	-	2,182	-	26,182	-
2003	21,000	-	3,000	-	2,182	-	26,182	-
<b>W Myers – Director</b>								
2004	21,000	16,072	7,000	-	2,554	1,469	30,554	17,541
2003	21,000	16,072	4,000	-	2,283	1,469	27,283	17,541
<b>Total Remuneration – Directors</b>								
2004	159,000	55,272	30,000	-	17,201	5,042	206,201	60,314
2003	159,000	55,272	23,000	-	16,557	5,042	198,557	60,314

(1) The Board committees are joint committees between Ergon Energy Corporation Limited and Ergon Energy Pty Ltd. Where Directors hold positions on both Boards, Ergon Energy Corporation Limited reports the committee fees paid. No further fees were paid to Directors, other than amounts disclosed in the table.

# Notes to and forming part of the financial statements

## For the year ended 30 June 2004

## 35. REMUNERATION OF DIRECTORS AND EXECUTIVES (continued)

SPECIFIED EXECUTIVE	Primary <sup>(1)</sup>		Post Employment	Other Benefits	TOTAL
	Salary & Fees \$	Non-Monetary \$	Superannuation \$	Termination Benefits \$	
<b>Chief Executive <sup>(2)</sup></b>					
2004	129,464	10,302	23,585	-	163,351
2003	-	-	-	-	-
<b>Chief Executive Officer – Retired <sup>(3)</sup></b>					
2004	10,814	-	-	498,677	509,491
2003	220,319	-	51,350	-	271,669
<b>Executive General Manager – Distribution <sup>(4)</sup></b>					
2004	270,133	20,498	41,174	-	331,805
2003	173,340	26,867	28,667	-	228,874
<b>Chief Financial Officer</b>					
2004	234,877	3,467	27,328	-	265,672
2003	210,149	-	25,050	-	235,199
<b>Executive General Manager – Retail</b>					
2004	218,722	-	21,950	-	240,672
2003	213,021	74	24,644	-	237,739
<b>Total Remuneration – Specified Executives <sup>(5)</sup></b>					
2004	864,010	34,267	114,037	498,677	1,510,991
2003	922,565	48,951	139,123	147,813	1,258,452

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

(2) Officer held the position of Chief Executive from 27 January 2004.

(3) Officer held the position of Chief Executive Officer for a portion of the year.

(4) Officer held the position of Acting Chief Executive Officer for a portion of the year.

(5) Totals in respect of 2003 do not necessarily equal the sums of amounts disclosed for 2003 for individuals specified in 2004, as different individuals were specified in 2003.

### Aggregate 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:

	2004	2003
\$20,001 - \$30,000	3	4
\$30,000 - \$40,000	1	-
\$40,001 - \$50,000	1	1
\$100,001 - \$110,000	1	1
The aggregate income of the Directors referred to above was:	<b>\$266,515</b>	<b>\$258,874</b>

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 \$333,319 (2003: \$330,049). The above amounts exclude the value of insurance premiums made for the Directors' indemnity.

# Notes to and forming part of the financial statements

## For the year ended 30 June 2004

### 36. SEGMENT REPORTING

#### Business segments

The Economic Entity is organised on a national basis into the following divisions by product & service type:

#### Distribution

Responsible for the electricity network and the distribution of electricity.

#### Retail

Electricity trading, electricity purchasing and supplying electricity to customers.

#### Other

Ergon Energy Pty Ltd operates in the retail gas market, Ergon Energy Utility Services Pty Ltd operates a co-generation facility and Ergon Energy Telecommunications operates in the telecommunications industry.

#### Geographical segments

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.

#### Primary reporting – business segments

2004 – Consolidated	Distribution	Retail	Other	Inter-segment elimination	TOTAL
	\$'000	\$'000	\$'000	\$'000	\$'000
Sales to external customers	90,994	1,455,003	-	-	1,545,997
Intersegment sales	664,230	15,172	-	(679,402)	-
Total sales revenue	755,224	1,470,175	-	(679,402)	1,545,997
Other revenue	22,919	805	-	-	23,724
Total segment revenue	778,143	1,470,980	-	(679,402)	1,569,721
Segment result	199,560	23,531	(19)	6,531	229,603
Unallocated revenue less unallocated expenses					(101,212)
Profit from ordinary activities before income tax equivalent expense					128,391
Income tax equivalent expense					36,377
Net profit					92,014
Segment assets	3,092,631	441,326	3,063	(240,722)	3,296,298
Unallocated assets					555,712
Total assets					3,852,010
Segment liabilities	48,270	242,321	3,036	(87,836)	205,791
Unallocated liabilities					1,895,982
Total liabilities					2,101,773
Acquisitions of property, plant & equipment, intangibles and other non-current segment assets	774,554	317	-	-	774,871
Depreciation and amortisation expense	179,282	938	-	-	180,220

# Notes to and forming part of the financial statements

## For the year ended 30 June 2004

## 36. SEGMENT REPORTING (continued)

2003 – Consolidated	Distribution	Retail	Other	Inter-segment elimination	TOTAL
	\$'000	\$'000	\$'000	\$'000	\$'000
Sales to external customers	93,578	1,328,234	-	-	1,421,812
Intersegment sales	713,231	13,161	-	(726,392)	-
Total sales revenue	806,809	1,341,395	-	(726,392)	1,421,812
Other revenue	25,030	2	-	-	25,032
Total segment revenue	831,839	1,341,397	-	(726,392)	1,446,844
Segment result	216,377	18,880	(840)	(1,815)	232,602
Unallocated revenue less unallocated expenses					(106,283)
Profit from ordinary activities before income tax equivalent expense					126,319
Income tax equivalent expense					21,781
Net profit					104,538
Segment assets	2,852,060	360,311	2,707	(235,980)	2,979,098
Unallocated assets					447,035
Total assets					3,426,133
Segment liabilities	31,059	139,761	5,029	(79,693)	96,156
Unallocated liabilities					1,838,924
Total liabilities					1,935,080
Acquisitions of property, plant & equipment, intangibles and other non-current segment assets	623,537	140	-	(2,152)	621,525
Depreciation and amortisation expense	178,610	1,906	-	-	180,516

# Notes to and forming part of the financial statements

## For the year ended 30 June 2004

### 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
<b>Financial assets</b>			
Receivables – Trade and Other	6, 9	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 considered less than likely.	Credit sales are normally on 30 day terms.
Contestable Sales Contracts	9	Contestable sales contracts are recorded at their net fair value and net of any associated hedges.	Contestable sales contracts typically have terms ranging from 12 months to three years.
Power Purchase Agreements	6, 9	Power Purchase Agreements are recorded at fair value and adjusted for any changes in market forces for up to, but not exceeding five years.	The settlement term of each component of the power purchase agreement varies.
Receivables – Related Parties	6, 9	Amounts receivable from related parties are carried at nominal amounts.	
Investments – Unlisted Shares	10	Unlisted shares are carried at the lower of cost or recoverable amount.	
<b>Financial liabilities</b>			
Payables – Trade and Other	15	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.
Power Purchase Agreements	15, 22	The liability arising from the Power Purchase Agreement is measured at the nominal value	Power Purchase Agreements are settled with a generator within 14 days after the end of the month.
Interest Bearing Liabilities – Loans	19	Loans are carried at their nominal value. Interest is charged as an expense as it accrues.	Some loans are presently maintained on an interest only basis. Interest is due on the first day of the month at the effective book interest rate. The outstanding balance of the loan becomes payable immediately should the entity default on loan payments or interest or sustain an adverse material effect on its financial position.
Repayable Deposits	16,19	Subdivider deposits are carried at the principal amount. Revenue shortfalls are subtracted and interest is added on the anniversary of the deposit.	Interest is charged annually on the anniversary date of the deposits. The interest rate is either fixed or variable, depending on the conditions of the agreement. Interest is calculated on the principal less any revenue shortfalls.
Customer Security Deposits	16,19	Deposits are carried at the principle amount.	Interest is credited annually on the first billing to the customer after the end of the financial year.
Lease Incentive	16,19	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.
<b>Contributed Equity</b>			
Ordinary Shares	24	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 2004

### 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:

	Floating interest rate	Fixed interest rate maturing in:			Non- interest bearing	Carrying amount per Statements of Financial Position	Weighted average interest rate
		1 year or less	1 to 5 years	Over 5 years			
	2004 \$'000	2004 \$'000	2004 \$'000	2004 \$'000	2004 \$'000	2004 \$'000	2004 %
<b>Financial Assets</b>							
Cash	3,577	-	-	-	346	3,923	4.66
Short-term deposits	221,676	-	-	-	-	221,676	5.57
Receivables – trade	-	-	-	-	202,635	202,635	-
Receivables – other	-	-	-	-	70,630	70,630	-
Unlisted shares	-	-	-	-	100	100	-
Other assets	-	-	-	-	37,107	37,107	-
<b>Total financial assets</b>	<b>225,253</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>310,818</b>	<b>536,071</b>	
<b>Financial liabilities</b>							
Repayable deposits	25,191	140	583	349	552	26,815	4.70
Payables – trade	-	-	-	-	85,508	85,508	-
Payables – other	-	-	-	-	104,400	104,400	-
Loans	350,489	883,477	248,603	-	-	1,482,569	5.58
Other liabilities	-	-	-	-	19,458	19,458	-
Lease Incentive	-	285	2,568	-	-	2,853	5.00
<b>Total financial liabilities</b>	<b>375,680</b>	<b>883,902</b>	<b>251,754</b>	<b>349</b>	<b>209,918</b>	<b>1,721,603</b>	
	Floating interest rate	Fixed interest rate maturing in:			Non- interest bearing	Carrying amount per Statements of Financial Position	Weighted average interest rate
	2003 \$'000	1 year or less	1 to 5 years	Over 5 years			
	2003 \$'000	2003 \$'000	2003 \$'000	2003 \$'000	2003 \$'000	2003 \$'000	2003 %
<b>Financial Assets</b>							
Cash	5,195	-	-	-	346	5,541	2.81
Short-term deposits	119,912	-	-	-	150	120,062	4.91
Receivables – trade	-	-	-	-	224,542	224,542	-
Receivables – other	-	-	-	-	15,253	15,253	-
Unlisted shares	-	-	-	-	100	100	-
Other assets	-	-	-	-	24,384	24,384	-
<b>Total financial assets</b>	<b>125,107</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>264,775</b>	<b>389,882</b>	
<b>Financial liabilities</b>							
Repayable deposits	25,152	151	613	561	1,523	28,000	4.74
Payables – trade	-	-	-	-	91,652	91,652	-
Payables – other	-	-	-	-	59,631	59,631	-
Loans	235,161	-	1,196,461	10,076	-	1,441,698	5.58
Other liabilities	-	-	-	-	15,940	15,940	-
Lease Incentive	-	-	1,141	-	-	1,141	5.00
<b>Total financial liabilities</b>	<b>260,313</b>	<b>151</b>	<b>1,198,215</b>	<b>10,637</b>	<b>168,746</b>	<b>1,638,062</b>	

# Notes to and forming part of the financial statements

## For the year ended 30 June 2004

### 37. FINANCIAL INSTRUMENTS (continued)

#### (c) Forward Exchange Contracts

The Economic Entity purchases certain component parts with the purchase price denominated in a foreign currency. In order to protect against exchange rate movements, the Economic Entity has entered into forward exchange contracts to purchase US Dollars (USD) and Sterling (GBP).

At balance date, the details of outstanding contracts are:

	Sell Australian Dollars		Average Exchange Rate	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Buy USD Maturity: 0 – 6 Months	2,634	-	0.7116	-
Buy GBP Maturity: 0 – 6 Months	3,359	-	0.3859	-
6 – 12 Months	1,861	-	0.3870	-
1 – 2 Years	2,243	-	0.3853	-
	Sell Euro		Average Exchange Rate	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Buy AUD Maturity: 0 – 6 Months	-	107	-	0.5723

Accrued gains and losses on financial instruments designated as hedges of anticipated future transactions are recognised in the financial statements on settlement of the hedge position.

The accrued gains and losses on financial instruments designated as hedges of anticipated future transactions at 30 June 2004 are as follows:

	2004 \$'000	2003 \$'000
Unrealised gains	208	2
Unrealised losses	-	-
Net gains	208	2

#### (d) 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, unless otherwise stated.

#### (e) Credit risk exposure

Credit risk exposure represents the extent of credit related losses that the Economic Entity may be exposed to 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 customer. 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 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.

#### (f) 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 for 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 Directors 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, made in Townsville, by the Directors.



Mr K Hillless  
Chairman  
1 October 2004

# Independent Audit Report

## To the Members of Ergon Energy Corporation Limited

### Scope

#### *The financial report*

The financial report of Ergon Energy Corporation Limited 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 Corporation Limited (the company) and the consolidated entity, for the year ended 30 June 2004. 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 government owned corporations and their controlled 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.

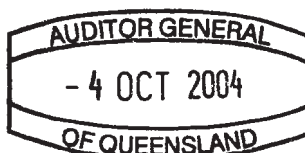
The Auditor-General has for the purposes of conducting an audit, access to all documents and property and can report to Parliament matters which in the Auditor-General's opinion are significant.

### Audit Opinion

In my opinion, the financial report of Ergon Energy Corporation Limited 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 2004 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  
Brisbane