



everything in our power



About this Report

Our Concise Sustainability Report complements the information provided in our 2005/06 Annual Report. It evolved from the sustainability section in our 2004/05 Annual Report to showcase the many ways sustainability thinking is influencing our strategic planning and operations. It is envisaged this report will also help our people to understand the benefits of pursuing sustainability in all aspects of our business, and therefore support our business improvement objectives. It is expanded upon in our full Sustainability Report on our web site.

The seeds of sustainability were undoubtedly sown in the increasing awareness of the threat posed to the natural environment by pollution and degradation. The concept has since grown to encapsulate almost every aspect of determining how we, as a society, will meet our own lifestyle aspirations without forcing future generations to suffer from our ignorance, or arrogance.

Ergon Energy's sustainability will be primarily dictated by its ability to provide reliable electricity to regional Queenslanders in the most effective way possible. At the same time we must meet our customers' service level expectations, minimise the impact of our operations on the environment, help our customers reduce or contain their energy use, provide our people with a safe and innovative workplace, and contribute to the development of our regional communities.

This report contains a concise overview of our achievements and challenges in 2005/06 across the five areas of our Sustainability Framework: Economic, Environment, Community, Culture and Governance. This report and our full Sustainability Report provide relevant information for a range of stakeholders, including our government shareholders, corporate and residential customers, community leaders such as local government, unions, suppliers, and our employees. We recognise the importance of all these stakeholders in the sustainability of Ergon Energy and believe together we can make a notable contribution to the sustainability of communities across regional Queensland.

This report is printed on 80% recycled paper.



Our Profile

Ergon Energy is committed to delivering sustainable, quality energy solutions. We service around 600,000 residential and business customers across regional Queensland, from the rapidly burgeoning coastal and rural population centres, to the remote communities of outback Queensland and the Torres Strait. Our franchise service area of over one million square kilometres covers 97% of Queensland. At 30 June 2006, we also retailed electricity to contestable customers in Queensland, New South Wales, Australian Capital Territory, Victoria and South Australia.

We have a strong focus on our people, believing it is only through the support and engagement of our 4,000 employees and our contractors that we can respond effectively to the many sustainability challenges we face as an organisation.

The valued partnerships we have built with the communities we serve create significant economic contributions, and our role as a major employer helps to develop skills across regional Queensland. We support our communities through our major sporting sponsorships and by sponsoring hundreds of local events and community initiatives each year.

We are one of Australia's largest purchasers of renewable energy and are actively involved in alternative energy generation solutions. More than 35,000 customers contribute to our Clean Energy program to help develop renewable energy options.

Our vision of being 'a world-class, customer-driven energy business' is stronger than ever. Our mission is to deliver customer and shareholder value through the provision of sustainable, quality energy solutions and associated services.

This means we are committed to:

- delivering quality products and services to our customers
- world-class infrastructure management
- supporting our regional communities
- creating an environment committed to our people
- developing profitable new business opportunities.

Our values foster a work environment where people:

- are open and honest with each other
- respect, support and encourage each other
- work together to deliver practical excellence
- take ownership and are proactive
- pursue ideas and innovations.

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Cover: During the year the number of customers contributing to our Clean Energy from Ergon Energy program increased by more than 30% to more than 35,000 homes. This program allows customers to support the development of renewable energy from sources such as the sugar cane by-product bagasse, with the added benefit of improving the long-term economic viability of one of Queensland's iconic agricultural industries.

Left: Our response to Cyclone Larry in March 2006 demonstrated the strength of our commitment to regional Queensland. Our rapid and effective response was due to well integrated and rehearsed Emergency Management Plans. We supported our people on the ground, had no lost-time injuries, provided hardship assistance to customers in need and delivered a continuous flow of information to the community.



Chairman's Message

'Sustainability is just good business... integrating its principles into Ergon Energy will take us closer to our vision and ensure we support the lifestyles and aspirations of our communities.'

I am very proud to have witnessed the development of Ergon Energy's first stand-alone Sustainability Report. We have been working towards this for a number of years and it reflects the focus we have placed on sustainability.

In a corporate context, sustainability relates to both the long-term health of our organisation and the health of the communities and environment in which we operate. Our understanding of the links between these two concepts is increasing and we continue to explore those links to make better long-term decisions.

Pursuing a more sustainable Ergon Energy is a complex, long-term but very necessary business objective that I am personally committed to, as I know each member of our Boards and Executive Management Team are also. Individually and collectively, we don't profess to have all the answers, or even know all the questions, but we strive to ask the hard questions of ourselves. I believe the key to Ergon Energy's success is in pursuing ever-improving corporate and operational practices with the end goal of supplying electricity more reliably and cost-efficiently to regional Queenslanders.

Our vision to be 'a world-class, customer-driven energy business' supports our drive to be more sustainable, by measuring ourselves against the best in the world and never losing sight that our customers, along with many other stakeholders, determine the services we need to provide, the standards we must meet and the social and environmental obligations we have.

The past year has brought significant change to Ergon Energy, particularly as a consequence of the State Government's decision to restructure the energy industry. As a result, we are preparing our contestable retail operations for sale. This has led to a renewed focus on operating an efficient electricity distribution and customer service business which will bring continued and enhanced benefits to our customers.

Our vision, mission statement and values, and even our tagline 'everything in our power', support the pursuit of sustainability, and in turn, that pursuit strengthens our resolve and our ability to live up to these statements. I encourage you to read this report to gain a deeper understanding of the myriad projects, programs and initiatives recently completed or in progress to make Ergon Energy a more sustainable business and one that meets its customers' and shareholders' needs and aspirations.

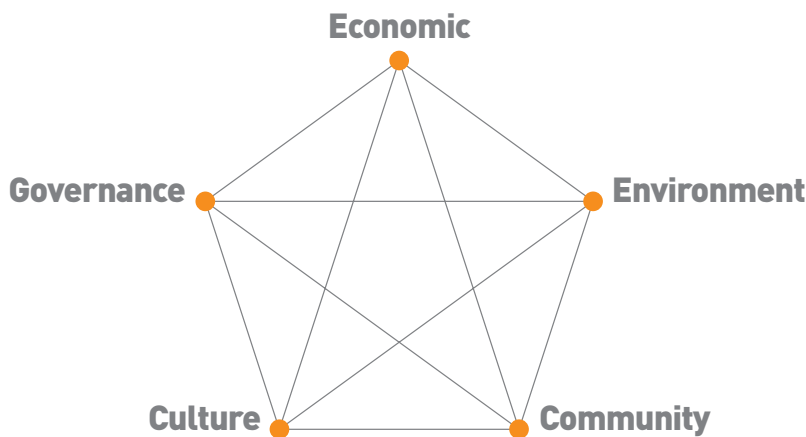
A handwritten signature in black ink, appearing to read 'K Hillless'.

Keith Hillless
Chairman

Building a Sustainability Framework

Sustainability has different manifestations in different organisations, whether they are government-owned entities like Ergon Energy, not-for-profit, publicly listed, private companies or some other form. A sustainability framework should be tailored to the organisation to reflect all its activities and needs, and be flexible enough to evolve to meet the challenges.

Ergon Energy's Sustainability Framework is built around five areas – Economic, Environment, Community, Culture, and Governance. Each area is linked to all others, as illustrated below, representing systems thinking, or holistic thinking.



The five areas are built on the traditional triple bottom line of economic, environmental and social, with social split into Community (external social) and Culture (internal social), and with Governance incorporated for its relevance to us as a Queensland Government Owned Corporation and essential service provider. However, our Sustainability Framework is much more than a diagram. As it develops it will include and integrate Ergon Energy's:

- sustainability principles
- long-term sustainability objectives
- our Sustainability Statement (internal) and Policy (external)
- representation of systems thinking, or holistic thinking
- decision-making and strategic planning processes, incorporating sustainability criteria
- integrated performance indicators
- guide to implementing major projects, incorporating sustainability criteria
- framework of operating systems

- framework of information repositories
- representation of the interrelations between organisational functions
- sustainability reporting activities.

We regard our Sustainability Framework as a means to an end. It is being developed to articulate Ergon Energy's direction and specific objectives so that we can share a common vision of what the organisation will look like in the near and distant future. It also provides an insight into what will need to change to enable us to achieve those objectives.

This framework is a decision-making tool that will assist our managers make better, more holistic choices when faced with large or small issues. It is also intended to become an umbrella under which other frameworks, strategies, processes and systems will integrate and benefit from being a unified part of a bigger picture.

Importantly, it is hoped the framework will become a motivational force that helps our people better understand their role in creating a commercial entity that goes

beyond our shareholder's and customers' requirements to deliver value well above their expectations.

This report is structured around our five-point Sustainability Framework to reinforce the framework and showcase our diverse business activities. In addition, our full Sustainability Report is strongly guided by the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines in pursuit of providing comprehensive, universally comparable information.

Sustainability ratings and awards

Although we are in the early stages of our sustainability journey, in October 2005 Ergon Energy was awarded an AA rating in the RepuTex Social Responsibility Ratings, placing us in the top 12 Australian companies using this measure. These ratings, while not able to encapsulate all aspects of sustainability, provide one of the best indications available as to the performance of an organisation on governance, social and environmental issues (see update Pg 13).

Also in the past year, Ergon Energy was recognised for our sustainability progress in two forums. In May, we were a finalist in the Corporate Sustainability category of the Queensland Environmental Protection Agency Sustainable Industries Awards, and in June, we won the Townsville City Council Sustainability in Business Award.

A list of the ratings and awards received in 2005/06 that recognise our pursuit of a more sustainable business is featured in our full Sustainability Report.

Delivering Economic Benefits

As a Government Owned Corporation, Ergon Energy must deliver economic value to the Queensland Government, our corporate customers and our communities. We believe our pursuit of sustainability can create long-term profit and deliver customer benefits by identifying opportunities in environmental and social issues.

It can stimulate and protect revenue by: helping to identify industry and market trends; encouraging re-engineering, redesign and new products and services; motivating higher productivity; generating recyclable flows; and forging new business relationships.

Pursuing sustainability can also reduce costs through reducing resource and energy consumption and identifying process inefficiencies and unsustainable practices.

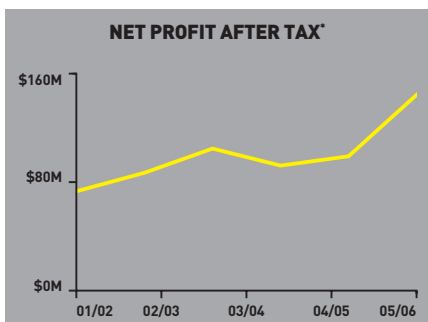
By maximising the commercial value of Ergon Energy through growth and diversification, we in turn support industry, create employment and inject operational funds into the community, while delivering cost-effective outcomes for our customers and our Shareholder.

Meeting our financial objectives

- We delivered sound financial outcomes, with all our key financial performance indicators achieved, including net profit after tax of \$144.2 million, up 46%. We see this measure as one of the clearest indicators of our economic sustainability, supported by other key financial ratios.

Importantly, we will pay a 2005/06 dividend of \$87.5 million to the Queensland Government to benefit all Queenslanders.

Further discussion on our financial performance is available in the Annual Report (Pgs 32-35).



*The 2005/06 and 2004/05 year figures are calculated in accordance with Australian International Financial Reporting Standards. The figures for the 2003/04 year and earlier are calculated in accordance with Australian Generally Accepted Accounting Principles.

Investing in regional Queensland

- We delivered a \$705.4 million network capital works program, our largest ever and up 33% on last year's record program, with around 50% of suppliers of materials and contract human resources Queensland based. In 2006/07 our capital expenditure program will remain at record levels, with \$700 million budgeted for network improvement and expansion. This program is providing vital infrastructure support to the rapid pace of development taking place across regional Queensland (see Annual Report Pgs 18-22).

The demands of Ergon Energy's record works program is also delivering employment and stimulating the development of skills throughout regional Queensland (see Annual Report Pgs 28-30), creating a significant contribution to the economic viability of many small regional communities.

- We continue to inject funds into Queensland through our community engagement activities. In 2005/06, our community sponsorships and memberships made an economic contribution of almost \$1.1 million, as well as delivering targeted social and environmental benefits. Ergon Energy also continues to facilitate customer donations to the Royal Flying Doctor Service of Australia, Queensland Division. Donations to date have exceeded \$2 million.

- Ergon Energy helps its people in their efforts to financially support those in need. In 2005/06, Power Aid – our employee safety reward and recognition program – resulted in more than \$247,000 being donated to Queensland charities and community groups. In addition to this program, our people have donated more than \$100,000 over recent years to the Tsunami Relief Fund and the Premier's Cyclone Larry Relief Appeal. These donations have been matched by Ergon Energy.

Ensuring our future viability

- As a strategic response to the announcement of the introduction of Full Retail Competition (FRC) from July 2007, we enhanced our future viability as a major electricity retailer through the acquisition of the publicly listed Victorian electricity retailer, Powerdirect. The combined retail contestable business is now being offered for sale as a company well placed for the new contestable environment (see Annual Report Pg 39).
- Up to 30 June, considerable progress was made in streamlining business processes and implementing an integrated information technology system. The Enterprise Resource Planning (ERP) solution was launched on 4 September and has replaced various disparate systems to enable us to deliver significant customer service and efficiency improvements (see Annual Report Pg 30).



- SPARQ Solutions Pty Ltd, our joint venture with Energex to provide our information technology and telecommunications services, also embarked on a program to enhance service quality to industry-leading standards. Subsequently, client (Ergon Energy and Energex) satisfaction ratings improved from around 55% in May 2005 to 79% in May 2006. The company's financial performance was also strong.

Our economic challenges

To deliver essential services to our customers as well as economic value to our Shareholders, we manage billions of dollars in assets and engage hundreds of suppliers, resulting in complex economic challenges. In summary, we need to strengthen our focus on operating an efficient and reliable network while building an even stronger customer service culture. To do this we will need to capitalise on the productivity and efficiency benefits of the major ERP currently being implemented. Over the coming year, as a result of the announced industry restructure, in addition to preparing our contestable retailing operations for sale and continuing our distribution-related preparations for FRC, we will also strive to reduce corporate overheads relative to Ergon Energy's new operational scope.

With the strong rate of development in many areas and the demands of the booming mining sector showing little sign of abating, it will also be critical that we keep pace

'We need to work together to deliver smart solutions for regional Queensland.'

Sabrina Walsh – Chief Information Officer, Information Division, Queensland Health

As part of our overall capital works program, which last year saw our asset base grow to \$6.7 billion, we continued to roll out optical fibre cable along key stretches of the Ergon Energy network, increasing our capability to provide wholesale telecommunications for carriers and carriage service providers.

As we have realised the benefits of this investment for our own operations, we have also successfully commercialised the additional capacity through our telecommunications arm Nexium Telecommunications to provide unprecedented wholesale broadband services to regional Queenslanders. Through its collaborations with licensed carriers, Nexium Telecommunications is now helping organisations like Queensland Health to do business better and deliver real benefits for their customers.

with the infrastructure needs of regional Queensland in a cost-effective manner.

Climate change is also likely to impact the economic sustainability of Ergon Energy, both through more severe weather events damaging our network, and through the deeper penetration of air conditioners and their impact on summer peak demand. The growing gap between average demand and peak demand means a greater proportion of the network's capacity is only utilised on the hottest summer days, creating an inefficient network.

The approaching sale of our retail contestable business is already stimulating a greater focus on managing electricity peak demand to help minimise the need for costly

network augmentation. In turn, this helps reduce the State Government's Community Service Obligation payments to Ergon Energy (see Annual Report Pg 34) and supports the Government's pledge to maintain its uniform state-wide electricity tariffs. Increasing our demand management activities will also help customers reduce or contain their electricity consumption.

To meet these challenges, particularly customers' desires for comfort and convenience, we must continually look to innovative, non-traditional solutions.

Finally, we need to ensure sustainability, as a business function, delivers real economic value and drives us towards our vision.

Protecting the Environment

Ergon Energy operates across diverse environments, from remote outback stations to thriving cities, to World Heritage-listed Wet Tropics rainforests and Torres Strait islands. Our people and our customers live and work in these environments and want to see them protected to maintain habitats, natural resources and quality of life. We must balance our responsibility to provide a reliable power supply with our duty to protect the environment.

To best serve its customers and the community, Ergon Energy is striving to achieve world-class environmental practice for utilities. This commitment is about minimising environmental impact, meeting increasing community expectations of environmental stewardship, and continually enhancing our environmental credentials.

Ensuring best practice across our operations

- In 2006 Ergon Energy's Environmental Management System maintained ISO 14001 accreditation and achieved the revised AS/ISO14001:2004 standard.
- In 2005/06, we continued to explore ways to reuse, recycle and extend the life of our materials, to deliver both environmental and economic benefits. Since 2003, 2,000 tonnes of scrap metal has been reclaimed and sold, as has 2,000 tonnes of unserviceable transformers, returning significant funds to the organisation. We also return used timber cable drums, which our supplier re-uses an average of four times. In urban areas especially, tree trimmings are mulched and delivered to schools and community groups at no charge.

We use recycled paper in our offices and for commercially printed products, return used toner cartridges to our supplier for refilling, and our employee volunteer Green Team continues to run recycling campaigns.

- During the year, Ergon Energy staked more than 2,000 poles as an alternative to replacing them. This means around 50% of poles identified as being 'unfit for service' no longer need to be replaced immediately – a significant environmental plus. Methods of increasing the staking rate to 70%, while maintaining maximum safety, are being investigated.
- While clearing paths through vegetation for new powerlines is an inevitable part of keeping pace with development, to

minimise the overall impact, this year we initiated two Vegetation Offset Contracts to facilitate construction of network extensions. In the Wide Bay Burnett region, we secured 85 hectares to offset 'remnant endangered ecosystems' and 'remnant of concern ecosystems' threatened by the construction of a powerline to Agnes Water. In Goondiwindi, we are awaiting the identification of a suitable 73 hectares in the Border Rivers catchment to offset land cleared for the construction and protection of a powerline from Millmerran to Goondiwindi, which went through endangered Bull Oak and Belah forests.

- We have continued to notably improve our environmental reporting systems and compliance. Environmental incidents are now classified by four levels: Class 1 is a major incident involving a sensitive environment, while Class 4 is a minor incident with a localised impact requiring minimal remediation. In 2005/06, Ergon Energy recorded no significant spills or emissions. However, we did respond to three environmental incidents that were notified to the relevant government agencies, including:
 - the impact of transmission line corridor maintenance work on habitat of the endangered Mahogany Glider (Class 2)
 - non-compliance with Environmental Management Plan, relating to erosion controls and vegetation clearing (Class 2)
 - vegetation maintenance carried out in the World Heritage Wet Tropics Area during an Ergon Energy-imposed vegetation maintenance

ban relating to the Mahogany Glider habitat incident (Class 3).

Actions taken after these incidents will help to ensure the likelihood of recurrence is minimised.

Our renewable energy investment

- Ergon Energy is one of Australia's largest purchasers of renewable energy. Our list of renewable energy Power Purchase Agreements includes agreements with sugar mill, landfill, hydro and wind farm generators. For example, Ergon Energy purchases 100% of the output from Windy Hill wind farm at Ravenshoe, south-west of Cairns.
- This investment is supported by 35,000 customers contributing to Clean Energy, our renewable energy product primarily provided to residential customers. We also contribute to the program, purchasing 5% of the electricity for all our metered properties from renewable sources. In addition, at 30 June 2006 our retail business purchased 10% of its requirements from renewable energy sources. We also purchase 100% of the electricity for our National Contact Centres in Rockhampton and Townsville through Clean Energy.
- In June 2005 we launched a project to develop an innovative solar concentrator farm at Windorah in western Queensland, due for completion in late 2007. Ergon Energy already operates two small-scale renewable energy generation facilities to supplement our remote diesel-fired power stations: the geothermal plant at Birdsville in far western Queensland and two wind turbines on Thursday Island in the Torres Strait.



‘It’s great that you can use sugar cane to make electricity. At school we’re learning all about saving the environment.’
Jack Goodwin – Redlynch, Cairns

Clean Energy from Ergon Energy is our key program to allow customers to support the development of renewable energy from sources, such as sugar cane bagasse, wind and hydro. The number of Clean Energy contributors jumped 30% to more than 35,000 over the past year. This fantastic level of customer support represents 6% of our franchise customers, one of the highest penetration rates of any similar program in Australia.

- We continued to deliver our popular solar-powered stationpower® remote area power supply systems to outback stations, islands and other areas not connected to the main grid.
- The world-first cogeneration plant we developed with Suncoast Gold Macadamias, using waste macadamia nut shells as the fuel, reached full capacity in 2005/06 and now powers the factory and the equivalent of 1,200 homes. The Moranbah coal seam methane generation plant we developed also reached full capacity in May 2006. Coal seam methane, while not renewable, is a waste product that generates low-emission electricity.
- After 18 months of developing our bid for funding under the Federal Government’s Solar Cities program, a successful Ergon Energy-led consortium will implement one of several trials in Australia using various models of distributed solar energy generation, demand-side management and smart metering (see Pg 9).

Building our green culture

- A key step forward this year was the amalgamation of our health, safety, environmental and cultural heritage strategy functions. The systems and processes that helped us achieve industry-leading safety performance are now being integrated into our environmental functions to strengthen them and ensure maximum consistency and synergy in these critical areas.
- The Green Team, launched in 2003 in response to employees wanting to do more within the workplace to contribute to the environment, has a membership exceeding 360 people, representing around 9% of our employees.

There are Green Team Leaders around Queensland who, with support from a small administrative group, this year coordinated state-wide and local activities, from participation in Clean Up Australia Day, National Tree Day and World Environment Day, to recycling and fundraising activities.

Helping our customers help the planet

- During the year, we gave our bills a contemporary new look and included more information to encourage customers to track and contain their electricity use. Our customer communications also provide helpful advice on saving electricity. Our ‘Handy Hints’ web page at www.ergon.com.au is particularly useful to customers seeking to understand the electricity usage rate of various appliances and the difference made by choosing energy-efficient appliances and using electricity wisely.
- Our key environmental sponsorship was our state sponsorship of Clean Up Australia Day. Not only does this allow us to engage with our communities and make a direct contribution to reducing litter, it provides a focal project for our Green Teams to marshal support and clean up their communities. It strongly complements our eight-year state sponsorship of the Ergon Energy Tidy Towns competition, a popular community-based initiative that harnesses civic pride to make a difference to local environments.
- Through our support of the Solar Schools program, Ergon Energy has installed 23 solar photovoltaic systems at Queensland schools since 2003, each generating around 10 kWh a

day. This saves each school around \$500 on electricity each year, but most importantly, allows students to track the generation through the day and the year, providing an appreciation of solar energy benefits and issues.

Our environmental challenges

Ergon Energy recognises that electricity generation is a major contributor to greenhouse gas emissions. Our position in the electricity supply chain means we must show leadership and leverage our customer relationships to reduce electricity use and therefore greenhouse gas emissions.

At an operational level, our challenge is to chart a more positive course for future generations. Although our operations have the potential for significant local environmental impacts on vegetation, land, water and wildlife, as well as visual impacts, our actions are demonstrating we are dedicated to protecting biodiversity in all its forms for the benefit of both the community and the environment. The challenge is to continue to be fully compliant with increasingly tight legislation and to find ways to go beyond compliance to raise the standards and lead our industry, customers and suppliers towards a more environmentally sustainable energy future.

Supporting our Community

As part of the fabric of life across regional Queensland, Ergon Energy is acutely aware of its social obligations. We maintain an in-depth understanding of our customers' expectations using mechanisms from market research to local stakeholder engagement. Our aim is to put both the individual customer and the community at the centre of our decision-making processes so we can deliver targeted service and functional improvements throughout our operations. Our aim is to be a valued partner of the communities we serve.

Our Network Management Plan includes sizeable programs to increase the capacity and improve the performance of our network. We have also set ourselves the challenge of delivering outstanding customer service experiences in an efficient way, therefore creating a more sustainable business.

Delivering enhanced services

- Ergon Energy is currently undertaking a massive \$3.2 billion network improvement program over the five years to 2009/10 to deliver on our communities' changing expectations around reliability and quality of supply, ensure security of supply and meet the current growth in demand.
- The frequency of outages for the majority of our customers showed improving trends in 2005/06. However, more work is needed to improve the network's performance as it did not meet our targets for the Long Rural category and was just outside the duration targets for Urban and Short Rural. The Annual Report (Pgs 18-22) highlights the initiatives completed and under way to respond to community expectations in this area, as well as the specific elements that impacted on our ability to meet these targets in 2005/06.
- Our rapid and effective response to Cyclone Larry was due to well integrated and rehearsed Emergency Management Plans and the dedication of our people to the power restoration effort. We put a priority on restoring essential services, had no lost-time injuries or significant community safety incidents, and delivered a continuous flow of information to the community. A key service initiative that supported our response was the establishment of the Storm Centre on our website to provide

timely information about restoration progress and priorities, as well as safety issues. More than 120,000 web site visitors were recorded in the four weeks following Cyclone Larry.

Another valuable improvement to our website was the addition of planned and unplanned outage information. Initial feedback is very positive, with further enhancements planned.

- A heightened focus on customer service, which began with the launch of our Customer Charter in June 2005, was maintained with the deployment of a business-wide customer service philosophy. Our efforts have seen our rating under the International Customer Service Standards (ICSS) assessment process increase from 4.59 in 2005 to 5.76 in 2006. At a corporate customer level, our Customer Loyalty Index results have also shown very pleasing improvements in 2005/06, moving up to 7.9 from 7.3 in 2005. (see Annual Report Pgs 22-25)
- Our internal Office of the Customer Advocate, which represents customer interests and advocates on issues of concern raised through customer feedback, remains a function few organisations have. This year we published our first Office of the Customer Advocate Annual Report.
- We also formalised and launched our Hardship Policy in early 2006. Our hardship initiatives have been

instrumental in assisting customers impacted by Cyclone Larry and are setting the benchmark for other service providers. In May, we enhanced our Life Support Program to provide greater peace of mind for customers with life-threatening medical conditions and dependent of electrical medical equipment.

- Our monthly customer service satisfaction surveys demonstrated that, on average, more than nine in ten callers to our National Contact Centres in 2005/06 were satisfied or extremely satisfied with the level of customer service they received.

We invested in significant improvements to our customer service capability, with our second contact centre in Townsville now established and world-class speech recognition technology implemented to provide customer benefits and service efficiencies. After three months, the system had answered 240,000 calls.

Contributing to community progress

- Ergon Energy is a major regional employer and is helping develop the skills base throughout Queensland. During the year, our field workforce increased a further 17% to meet the demands of our works program. We employ more than 4,000 employees, and around 2,500 external contractors.



- Ergon Energy continued to support a diverse range of events, activities and organisations with the aim of engaging with our customers and providing social, environmental and economic benefits to communities. These range from sponsorship of sports events and teams to in-kind support of community events such as local fetes. We also help more than 13% of our residential customers to contribute to the Royal Flying Doctor Service of Australia, Queensland Division through their electricity bills (Pg 4).
- As part of our desire to work more closely with communities, we have recently adopted procedures that integrate community consultation into the development of all major capital works projects.
- Our commitment to the safety of our people extends to the safety of our customers. To support our ongoing safety awareness campaigns, we recently appointed a Community Health, Safety and Environment Manager to develop a program of safety advice and practical assistance integrated with our marketing and operational activities.

Our community challenges

Our challenge is to anticipate, meet and surpass expectations in regional Queensland communities. To do this, more work is needed to improve the network's performance and deliver on our service standard targets. We also need to keep

pace with the rapidly growing demand for electricity. In 2006/07 our capital expenditure program will remain at record levels, with a \$700 million capital budget for network improvement and expansion. With increasing air conditioner usage one of the drivers of increasing peak electricity demand, this challenge also centres on educating customers on the selection and efficient use of appliances and meeting peak demand in innovative ways.

In addition to the Ergon Energy-initiated works program, customer-initiated electricity works are forecast to continue to grow, fuelled by strong population growth in many regional centres and the mining boom, and exacerbated by the difficulty in securing sufficient network designers and planners. We acknowledge delays have been experienced in this area and have engaged resources to respond. We have also reviewed the process from application through to final connection and deployed a 'contestability' model for subdivision works. As a result of these initiatives we are expecting considerable improvement in this area.

In addition, with Full Retail Competition from July 2007 likely to increase the community's service expectations, our challenge is to meet these expectations cost-effectively. We need to use mechanisms such as our Guaranteed Service Levels to further develop our service culture and place customers at the heart of our business. It's all part of delivering on the 'customer-driven' challenge within our vision.

'I've never seen a community event quite like it. It shows people are ready to embrace this project'

Glenys Schuntner – Townsville Enterprise, at the Solar Cities Community Day, Townsville, 19 March 2006

Over the past 18 months, a project team within Ergon Energy, along with consortium partners, dedicated itself to winning Federal Government funding for a Townsville-based project under the Solar Cities program. On 26 September 2006, Townsville was announced as Australia's second Solar City, joining Adelaide. The Community Day (above) was a key part of demonstrating the community's support for hosting a seven-year trial of solar energy, smart meters, energy efficiency and new approaches to electricity pricing.

The focus of Ergon Energy's project will be in the Solar Suburb of Magnetic Island. From the knowledge gained from this concentrated deployment of energy-related measures, we will enhance the performance of the electricity network, reduce greenhouse gas emissions, and help customers reduce their electricity consumption.

Developing a Culture for Success

The Culture aspect of our Sustainability Framework has an internal focus and covers how we manage, motivate and care for our people. It's all about our investment in attracting, training, equipping and supporting our people so they can perform at their best.

The drive to 'Live the Values' is about creating a Values-Based Performance Culture. To become more sustainable, we believe we need to combine values and performance to create an environment where people deliver on their promises. Through our 'Have Your Say' employee survey, we understand where our culture is now, and are clear on where we would like it to be and how we will achieve that.

Diversity brings strength to the workforce

- At 30 June 2006, Ergon Energy employed 3,929 full-time, 120 part-time and 55 casual employees, as well as external contractors, consultants, labour hire and trainees.
- Of the total workforce, more than 57% are classed as field workers, directly focused on building and maintaining the distribution network. To maintain a fully functional field capability, they are supported by a range of office-based workers who provide direct support, network management, customer service, communications, finance and employee services.
- More than 16% of our employees have been with the organisation or one of its predecessors for more than 25 years, a good indicator of the strength of Ergon Energy's culture and the attractiveness of its work environment. As a result of recent recruitment to meet the demands of the works program, 19% of our people have been employed for less than one year as at 30 June.
- Ergon Energy highly values the role of women in our workforce. Women make up 22% of our employees and we have recently implemented initiatives to encourage women to both apply for new positions and remain with the organisation, such as supporting Women's Leadership Forums across

the state, developing a Mentoring Program and being a member of Women's Network Australia. Of our nine non-executive Board members, four are women. More than 20% of middle management positions are held by women, as are more than 17% of senior management positions.

- We also value cultural diversity in our workforce as it allows our employees to be more representative of our customer base and to better understand their issues and even speak their language. Pursuing an appropriate level of diversity aligns with our role in helping regional Queensland communities become more sustainable.
- To support cultural diversity we continued to deploy a comprehensive Indigenous Employment Strategy. This is of particular benefit to service delivery in Indigenous communities, which are mostly remote with limited employment opportunities. Approximately 1.6% of our employees identify themselves as being from Aboriginal or Torres Strait Islander backgrounds. Our aim is to lift Indigenous employment to 2.4% of our workforce in line with government targets.
- At 30 June, 70% of employees had completed Equal Opportunity Training and our newly appointed Diversity Adviser is now implementing strategies to ensure that rate exceeds 85% in 2006/07.

Employee wellbeing and development

- In Ergon Energy, we do not compromise on safety. Our Lost-Time Injury Frequency Rate (LTIFR), which is the number of hours lost to injury per million person hours worked, fell significantly from 2.01 at 30 June 2005 to only 0.44 at the same point in 2006. This means Ergon Energy now offers the safest workplaces of all 16 Australian electricity companies using this measure.

Our key health programs in 2005/06 have included Zero Incident Prevention (ZIP) training, skin cancer screenings, Quit Smoking, Employee Assistance, Move for Life, AlphaOne employee health and fitness, Drug and Alcohol survey, flu vaccinations and executive health assessments.

- Our key employee development programs in 2005/06 included Development Planning, Graduate Development, Study Assistance, Mentoring and comprehensive technical training. Our key leadership development programs included Leadership Foundations, Management Development, and Coaching.

With over 4,000 employees, training is an important element of our business operations. Pleasingly, Ergon Energy was a regional finalist in two categories of the prestigious 2006 Queensland Training Awards, and a state finalist in one category.



- In October 2005, the second round of our Above and Beyond Awards were presented to 25 Ergon Energy people, all nominated by their colleagues in recognition of outstanding achievements. In 2006, the existing categories of Innovation, Customer Service and Working Together will be supplemented with Apprentice/Technical Trainee and Outstanding Achievement categories to recognise more of our high achievers.

Strengthening our workplace relations

- We place a high emphasis on internal recruitment. This provides strong career paths and helps our people remain within their communities, as well as rewards outstanding performers. We engaged 81 apprentices from regional Queensland in 2005/06 and have earmarked 97 new apprenticeships in 2006/07.
- Our key channel for management to seek information from employees is our annual 'Have Your Say' survey. The results released in May 2006 show very pleasing improvement. Around 83% of our people believe that, compared to other organisations, ours is a good company to work for. Other areas of improvement include tools and equipment, pay and benefits, advancement opportunities and the perception of Ergon Energy as being 'world class', as per our vision.

- Ergon Energy continues to invest heavily in building strong relationships with the unions that represent around 80% of our employees. Accordingly, the level of industrial disputes is very low and we continue to consult with the unions as one of our key stakeholders.

Our culture challenges

Broadly, our key challenges over the next 12 months will lie in continuing to build a performance culture, managing our skills requirements and dealing with the issues around an ageing workforce. As well, strong competition continues for skilled workers nationally and the human resource demands of our works program will remain strong.

In relation to the challenge of an ageing workforce, we need to combine the depth of knowledge from our longer-term workers with fresh ideas from our younger workers to minimise the loss of specialised knowledge and capitalise on the blending of complementary strengths.

In addition, our people have undergone significant changes in recent years, at industry, company and work group levels, and 2006/07 is likely to be no different. We must manage this change well and support our people so they can adapt and thrive.

And lastly, we must not waver on our commitment to safety and creating a workplace with zero injuries.

'No business should take short cuts where safety is concerned. I know Ergon Energy places safety first.'

Steven Abraham – Ergon Energy Apprentice Linesperson

In 2003 Ergon Energy adopted a goal of zero injuries. Since then our All Injury Frequency Rate, calculated by comparing the number of injuries with total hours worked by all employees, has dropped from 32 to 1.6 and what seemed to many an impossibility is now within our reach.

Already many work groups have achieved 12 months or longer without an injury and are leading by example to demonstrate that with everyone's vigilance and attention to detail, every accident can be avoided. Importantly, we are also seeing signs that our pursuit of a safer workplace is reaping economic, environmental, cultural and community benefits.

Best-Practice Governance

We believe strong governance is instrumental to achieving our sustainability objectives. Ergon Energy's Boards of Directors are responsible for guiding and overseeing the corporate strategies, policies and objectives. As an organisation with strong roots in communities across regional Queensland, and by the essential nature of the service we provide, we have a strong sense of social responsibility.

In a sustainability sense, we define good governance as the ability of our Boards and senior managers to manage the organisation to achieve our shareholder's short-term and long-term economic objectives in a way that minimises our environmental impact and increases our social contribution. An overview of our governance and risk management framework is provided in the Annual Report (Pgs 36-47).

Strategic planning for disasters

- The strength of our governance systems was very evident in our response to the devastation of Cyclone Larry, which is showcased in the Annual Report. Positive feedback centred on the rapid deployment of our response, prioritisation of works to restore essential services, the continuous flow of communications to the community, and the support we gave our staff and customers during this challenging period. This success could only be achieved with the governance framework provided by our Emergency Management Plans.

Strengthening our sustainability management

- In August 2005, a Corporate Sustainability Strategy was endorsed by our Executive Management Team. Since then, the newly appointed Manager Sustainability Strategy and Reporting has been formulating our Sustainability Framework (see page 3 of this report) and enhancing our sustainability reporting to provide more comprehensive and transparent information to both our employees and external stakeholders.
- The strategic functions of health, safety, environment and cultural heritage were brought together to enhance our focus on these key elements of sustainability.

- Our pursuit of world-class practice was also reflected by strong results in a number of external audits including International Customer Service Standards, Environmental Standard ISO 14001 and RepuTex Social Responsibility Ratings.
- Our people are guided by 67 policies, designed to ensure that strategic, operational, legal, reputational, financial and business risks are identified, assessed, monitored and managed to produce better performance outcomes and minimise unnecessary volatility. A Sustainability Policy is under development.

Participating in our industry

- Ergon Energy became a foundation signatory to the Energy Supply Association of Australia's Code of Sustainable Practice. We also continued to actively participate in state energy policy development, particularly the policy framework for the new operating environment under Full Retail Competition, and various other energy reforms.
- Our Chief Executive Tony Bellas became a Board member of the Energy Supply Association of Australia and our Executive General Manager Corporate and Business Development Jim Chisholm became a Board member of the Business Council for Sustainable Energy.

Our governance challenges

Our overall challenge is to continue to embed our sustainability objectives in our management systems and, through values-driven leadership, in our corporate culture. This will be supported by ongoing improvements to sustainability performance monitoring and reporting. We can not afford to rely on the successes achieved to date; we need to continue to listen to our customers and community representatives, drive towards a zero injury workplace, and build mutually beneficial partnerships with our stakeholders.

Importantly, our focus on safety has to go beyond the workplace. In 2005/06, we advised the Electrical Safety Office of 899 'dangerous electrical events' where the actions of our workers, contractors, or more often customers, or an aspect of our network assets resulted in a dangerous situation. Although the majority of these events are outside our control, one fatality of a member of the public and several injuries did occur this year. We will continue to work closely with the Queensland Government's Electrical Safety Office to enhance our governance of community safety and educate customers and our own people to avoid and prevent dangerous electrical situations.

In addition, we need to continue to listen to our stakeholders and ensure we have the mechanisms to address both individual and community concerns, especially around issues such as privacy and employee behaviour. During the year we received



15 customer privacy complaints. While the substantiated number was small, we have reviewed privacy processes and instigated other measures to minimise concerns for customers.

There were 12 allegations received through the Fair Call system, operated by an independent third party, which allows staff, contractors and members of the public to report perceived unethical conduct of any of our people (see Annual Report Pg 38). All allegations were duly considered and investigated as required. Where substantiated, action was taken, ranging from counselling to dismissal in one case. This is another example of our willingness to take on difficult issues to create a workplace where people feel supported and trusted, to deliver on our promises to our stakeholders.

'I believe business has a social responsibility to the communities they operate in.'

***Mrs Val Valentine – Community Representative,
North Queensland Regional Electricity Council***

In October 2005, Ergon Energy achieved an 'AA' rating in the RepuTex Social Responsibility Ratings, the equal highest rating by an Australian energy company and placing us in the top 12 Australian companies.

In September 2006, RepuTex confirmed Ergon Energy's 'AA' rating and noted our impressive overall improvement. We are proud of this achievement, for it represents a significant whole-of-business improvement in processes and ultimately, community contributions and customer service. We are now a leader in corporate social responsibility in Australia yet we remain focused on developing opportunities to deliver even higher service levels to all our stakeholders.

Further Information

This Concise Sustainability Report has been developed to report on the key areas of our sustainability performance as part of our annual reporting suite of documents. We published the full Sustainability Report online at www.ergon.com.au/about_us to provide depth to the information provided here and to conserve environmental, printing and transport resources. It is also available on CD by request (see contact details below).

The development of the full report has been strongly guided by the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines. Although the third generation of GRI guidelines (G3) is only at draft stage, we elected to use them in recognition of the level of changes from the 2002, or second generation, guidelines. We also have been guided by the Energy Supply Association of Australia's Code of Sustainable Practice, as well as best-practice industry reporting benchmarks.

Our aim is to move towards reporting in 'full accordance' with the GRI guidelines and the GRI Energy Supplement currently being developed. This is ambitious but we believe it to be an investment in driving business improvement through universally recognised reporting methods.

Over the coming year, we will undertake significantly more stakeholder consultation to enhance our 2006/07 sustainability reporting. We encourage your feedback via email sustainability@ergon.com.au or by calling our Manager Sustainability Strategy and Reporting, Dean Comber, on 13 10 46 so that future reports can more fully meet the needs of our employees, customers and other stakeholders.



everything in our power

