

Directors' Report

The directors present their report together with the financial report of Ergon Energy Pty Ltd ("the Company"), and of the consolidated entity, being the company and its controlled entities (the "Economic Entity") for the year ended 30 June 2005 and the auditor's report thereon.

Directors

The names and details of the directors of Ergon Energy Pty Ltd (the "Parent Entity" or "Company") in office during the financial year and up to the date of this report are as follows:

Names, qualifications, experience and special responsibilities

Keith Hillless *BE FIEAust FAIM MAICD* (Chairman)
Non-Executive Director

Keith Hillless joined the Company as Chairman in 2002. He brings to his role experience gained from a career in the electricity supply industry spanning almost 50 years. Prior to taking up the role as Chairman, Mr Hillless held the position of Managing Director with international energy corporation NRG Asia Pacific Ltd for five years. He served as the Queensland Electricity Commissioner with oversight of electricity generation, transmission, distribution and regulation in Queensland from 1991 to 1994.

Throughout his career Mr Hillless also held a number of engineering and executive roles with the Queensland Transmission and Supply Corporation and Ergon Energy's predecessor organisations, SWQEB and NORQEB. He is currently Deputy Chancellor of Queensland University of Technology, a director of the Australian Institute of Management and President of the Australian Institute of Management - Queensland and Northern Territory. Mr Hillless is a member of all Ergon Energy Board Committees and chairs the Electricity Distribution and Service Delivery Committee.

John Bird *F CPA FAICD FTIA* (Deputy Chairman)
Non-Executive Director

John Bird joined the Company as director in 1999. As a Registered Company Auditor, Mr Bird provides considerable experience and direction to Ergon Energy through his chairmanship of the Audit and Legal Compliance Committee. He was formerly a Managing Partner in Brown and Bird Certified Practising Accountants in Mackay.

Mr Bird is Chairman of the Queensland Labor Group of Companies. He is also Chairman of ESI Financial Services Pty Ltd. His other directorships include UNiTAB Limited and Electricity Supply Industry Superannuation (QLD) Ltd. Mr Bird is also a member of Ergon Energy's Financial Risk Management Committee and Electricity Distribution and Service Delivery Committee.

Patricia Faircloth *MEdSt MLit(History) BA GradDipTL DipEd AMEB MAICD*

Non-Executive Director
Retired 30 June 2005

Patricia Faircloth's term of office as director was from July 1999 to June 2005. She is a partner and director of Travelscene Smithfield and Edmonton, a travel agency operating throughout Cairns. She is also a Partner of Faircloth and O'Leary properties. Mrs Faircloth has a breadth of expertise in regional resource development. She previously held the positions of Regional Resources Consultant and Director of Resources with the Wide Bay Northern School Support Centre and Regional Project Officer with the Commonwealth Schools Program.

Her commitment to Queensland currently includes a diverse range of roles including State Councillor for the School Library Association of Queensland, Coordinator for the Association of Women Educators, and University Learning Coordinator for Central Queensland University, Bundaberg Campus. Mrs Faircloth was a member of Ergon Energy's Audit and Legal Compliance Committee.

Belinda McNeven *BEd DipTeaching*

Non-Executive Director
Retired 30 June 2005

Belinda McNeven's term of office as director was from July 2003 to June 2005. She is a Councillor with the Hervey Bay City Council and a former Deputy Mayor. She has represented the community of Hervey Bay since March 2000. She trained as a teacher in Brisbane before teaching in regional Queensland for a number of years, returning to live in Hervey Bay in 1995.

Ms McNeven's areas of interest include Information Technology, as well as Research and Development. She is Chair of the Hervey Bay City Council's Development Services Committee, which oversees development applications as part of its statutory role.

She is also a member of the Hervey Bay City Council's Economic Development Advisory Committee, as well as a Councillor on the Fraser Coast Health Council and the Fishing Industry Development Council. Ms McNeven was a member of Ergon Energy's Human Resources Committee.

Directors' Report (Continued)

Wayne Myers

Non-Executive Director

Wayne Myers joined the Company as director in 2001. He is Managing Director of Sirocco Technologies Group Limited, a technology integration, services and investment company. Mr Myers has worked in the Information Technology and Telecommunications industry for over 30 years.

He is Chairman of the Queensland Government's Major Sports Facilities Authority and also holds directorships with UNiTAB Limited and John Paul College, Brisbane. Mr Myers chairs Ergon Energy's Business Development Committee and is a member of the Financial Risk Management Committee and Electricity Distribution and Service Delivery Committee and was appointed a member of the Safety and People Committee (formerly Human Resources Committee) in July 2005.

Vanessa Brewis BCom LLB CA MAICD

Non-Executive Director

Appointed 1 July 2005

Ms Brewis is currently Executive Director (Commercial) of Taurus Software Solutions, a role which involves managing all commercial aspects of the business including strategic planning, contract negotiations, and project and risk management. She was previously a consultant for Highlands Pacific Limited and a commercial advisor for Santos Asia Pacific Pty Ltd. Ms Brewis is a Member of the Australian Institute of Company Directors, Women in Technology and the Institute of Chartered Accountants. Ms Brewis is a newly appointed member of the Financial Risk Management Committee.

Elizabeth Jameson BA LLB(Hons) FAICD FAIM

Non-Executive Director

Appointed 1 July 2005

Ms Jameson is currently Principal of Board Matters Pty Ltd and in this role consults to boards on governance issues. She also tutors in corporate governance for the Australian Institute of Company Directors' Corporate Directors' Course and is Course Director for Corporate Governance for the Chartered Secretaries Australia (Queensland). She has extensive experience in the legal profession, focusing on corporate and commercial areas, and is now focusing on governance, risk management, compliance and corporate advice. She is the Chair of the Queensland Music Festival, Deputy Chair of Brisbane Girls' Grammar School Board of Trustees, and board member and Chair Compliance Committee for MAP Funds Management Ltd. Ms Jameson is a newly appointed member of the Audit and Legal Compliance Committee.

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

Company Secretary

David Pegg BCom LLB(Hons) MSc

Company Secretary and General Counsel

David Pegg joined the Company as corporate counsel in 2000, becoming company secretary of Ergon Energy Pty Ltd in 2003. He now combines the role of general counsel and company secretary. Prior to holding this position he held the role of solicitor and senior associate at Blake Dawson Waldron for 10 years.

Principal Activity

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

There have been no significant changes in the nature of these activities during the year.

Dividends Paid or Declared

A declaration was made by the Board of Directors on 29 April 2005 for 80% of total operating profit after income tax equivalent expense for the year ended 30 June 2005 to be paid to the ultimate parent entity. Dividends amounting to \$33,248,718 (2004: \$16,919,098) have been paid or provided for during the financial year.

Operating and Financial Review

The Consolidated Statement of Financial Performance, shows a consolidated profit from ordinary activities after income tax equivalent expense of the Economic Entity for the financial year of \$41,560,897 (2004: \$16,919,098).

From 1 July 2005 the consolidated entity is required to comply with Australian equivalents to International Financial Reporting Standards (AIFRS) issued by the Australian Accounting Standards Board. The expected impact of the resulting changes in accounting policies are disclosed in Note 31 to the Financial Statements.

Significant Changes in State of Affairs

No significant changes in the state of affairs of the Economic Entity occurred during the financial year.

Significant Events after the end of the financial year

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the economic entity, the results of those operations, or the state of affairs of the Economic Entity in future financial years.

Directors' Report (Continued)

Likely Developments and Future Results

The directors expect the Economic Entity's before tax equivalents operating results to continue to improve.

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 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 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 page 35.

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 ultimate parent entity, Ergon Energy Corporation Limited.

Directors' Meetings

The Economic Entity's Board Committees are combined with those of the ultimate parent entity, Ergon Energy Corporation Limited. The number of directors' meetings (including committees) held during the financial year ended 30 June 2005 and the number of meetings attended by each director was as follows:

Director	Board of Directors		Audit and Legal Compliance Committee		Business Development Committee		Human Resources Committee		Financial Risk Management Committee		Electricity Distribution and Service Delivery 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	Number eligible to attend	Number attended
K Hillless	11	11	7	7	1	1	6	6	7	7	10	9
J Bird	11	11	7	7	-	-	-	-	7	7	10	10
P Faircloth	11	10	7	7	-	-	-	-	-	-	-	-
W Myers	11	9	-	-	1	1	-	-	7	7	10	4
B McNeven	11	11	-	-	-	-	6	6	-	-	-	-

Directors' Report (Continued)

AUDITOR'S INDEPENDENCE DECLARATION

To the directors of Ergon Energy Pty Ltd and Controlled Entities

This Audit Independence Declaration has been provided pursuant to s. 307C of the *Corporations Act 2001*.

Independence Declaration

As lead auditor for the audit of Ergon Energy Pty Ltd and Controlled Entities for the year ended 30 June 2005, I declare that, to the best of my knowledge and belief, there have been -

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.



G G POOLE, FCPA
Auditor-General of Queensland



Queensland Audit Office
Brisbane

Rounding

In accordance with Australian Securities and Investment Commission Class Order 98/100, unless otherwise indicated, amounts contained in this report and the financial statements have been rounded to the nearest thousand dollars.

Signed in accordance with a resolution, made in Brisbane, by the directors of Ergon Energy Pty Ltd.



Mr K Hillless
Chairman
9 September 2005

Statements of Financial Performance

For the year ended 30 June 2005

	Note	Consolidated		Parent	
		2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Revenue from ordinary activities	3	2,009,910	1,475,787	1,863,379	1,448,677
Network charges / electricity purchases		1,828,476	1,354,993	1,683,464	1,327,233
Employee expenses		26,022	24,181	26,022	24,181
Materials and services		9,079	7,529	9,079	7,529
Depreciation and amortisation	4	1,930	938	1,930	938
Borrowing costs	4	1,324	1,205	2,185	2,082
Other expenses from ordinary activities		83,403	59,808	83,403	65,214
Profit from ordinary activities before income tax equivalent expense		59,676	27,133	57,296	21,500
Income tax equivalent expense	5(a)	18,115	10,214	16,591	9,987
Profit from ordinary activities after income tax equivalent expense		41,561	16,919	40,705	11,513
Non-owner transaction changes in equity					
Adjustment resulting from a change in accounting policy	2	1,214	-	141	-
Total changes in equity other than those resulting from transactions with owners as owners		42,775	16,919	40,846	11,513

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 2005

	Note	Consolidated		Parent	
		2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
CURRENT ASSETS					
Cash assets	6	168,914	148,537	164,176	144,052
Receivables	7	267,318	213,781	270,007	212,110
Inventories	8	20	24	20	24
Other	9	65,755	28,924	65,755	28,924
TOTAL CURRENT ASSETS		502,007	391,266	499,958	385,110
NON-CURRENT ASSETS					
Receivables	7	122,592	70,690	119,092	65,526
Other financial assets	10	-	-	8,495	8,495
Property, plant and equipment	11	9,432	8,087	9,432	8,087
Intangible assets	12	-	527	-	527
Other	9	31,087	4,286	31,087	4,286
TOTAL NON-CURRENT ASSETS		163,111	83,590	168,106	86,921
TOTAL ASSETS		665,118	474,856	668,064	472,031
CURRENT LIABILITIES					
Payables	13	198,096	160,341	217,201	173,886
Interest bearing liabilities	14	638	471	638	471
Provisions	15	62,438	26,559	62,438	26,559
Other	16	13,964	-	13,964	-
TOTAL CURRENT LIABILITIES		275,136	187,371	294,241	200,916
NON-CURRENT LIABILITIES					
Payables	13	170,241	91,376	169,980	90,333
Interest bearing liabilities	14	27,054	25,624	27,054	25,624
Provisions	15	8,192	3,945	8,192	3,945
Other	16	17,783	9,354	9,787	-
TOTAL NON-CURRENT LIABILITIES		223,270	130,299	215,013	119,902
TOTAL LIABILITIES		498,406	317,670	509,254	320,818
NET ASSETS		166,712	157,186	158,810	151,213
EQUITY					
Contributed equity	17	123,172	123,172	123,172	123,172
Reserves	18	4,000	4,000	4,000	4,000
Retained profits	19	39,540	30,014	31,638	24,041
TOTAL EQUITY	20	166,712	157,186	158,810	151,213

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 2005

	Note	Consolidated		Parent	
		2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		1,571,016	1,274,498	1,552,928	1,245,301
Use of system charges		(1,538,423)	(1,363,014)	(1,527,640)	(1,336,207)
Payments to suppliers and employees		(30,013)	(32,290)	(35,571)	(32,290)
Interest received		8,038	5,725	7,778	5,570
Interest and other costs of financing		(1,324)	(1,205)	(2,185)	(2,082)
Dividends received		-	-	617	296
Community service obligations		153,888	227,112	153,888	227,112
Income tax equivalent payments		-	-	-	(196)
GST paid to ATO		(68,310)	(14,457)	(68,310)	(14,457)
Other operating receipts		34,581	27,240	33,729	27,821
Other operating payments		(89,675)	(62,299)	(75,709)	(61,710)
Net cash flows provided by operating activities	25(b)	39,778	61,310	39,525	59,158
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sale of property, plant and equipment		-	805	-	805
Payments for property, plant and equipment		(2,748)	(6,099)	(2,748)	(6,099)
Net cash flows used in investing activities		(2,748)	(5,294)	(2,748)	(5,294)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from borrowings		266	-	266	-
Repayable deposits received		-	885	-	885
Dividends paid		(16,919)	(15,296)	(16,919)	(15,296)
Net cash flows used in financing activities		(16,653)	(14,411)	(16,653)	(14,411)
Net increase in cash held		20,377	41,605	20,124	39,453
Cash at beginning of the financial year		148,537	106,932	144,052	104,599
Cash at the end of the financial year	25(a)	168,914	148,537	164,176	144,052

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 2005

NOTE 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 fair values of 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 as set out in Note 2, are consistent with the policies adopted in the previous year.

Principles of Consolidation

The consolidated Financial Statements include the Financial Statements of the Parent Entity, Ergon Energy Pty Ltd, and its controlled entities, referred to collectively as the "Economic Entity". Refer to Note 24 for details on entities controlled by Ergon Energy Pty Ltd.

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

Revenue Recognition - Note 3

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 represent the estimated value of unbilled electricity provided to retail customers and are 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 Queensland 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. Beginning with 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 Ergon Energy Pty Ltd.

Other Revenue

Other 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 from the sale of goods is recognised upon the delivery of goods to customers. Interest revenue is recognised as it accrues, taking into account the interest rates applicable to the financial assets.

Cost of Sales - Note 4

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 - Note 11

Depreciation

Depreciation is calculated on the straight-line basis by reference to the useful life of each item of property, plant and equipment. The expected useful lives of plant and equipment vary from 3 to 10 years. An assessment of useful lives is performed annually.

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.

Revaluation of non-current assets

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

Notes to and forming part of the Financial Statements

For the year ended 30 June 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

Acquisition of assets

The purchase method of accounting is used for all acquisitions of assets. 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.

Intangible Assets - Note 12

Goodwill

Where an entity or operation is acquired, the identifiable net assets are measured at fair value. The excess of the purchase consideration plus incidental costs 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.

Other intangible assets

Other Intangible assets are carried at cost. Amortisation is calculated on the straight-line basis by reference to the useful life of the intangible assets.

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 - Note 10

Investments in controlled entities are carried in the Company's Financial Statements at the lower of cost and recoverable amount.

Inventories - Note 8

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

Maintenance and Repairs

Maintenance and repair 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 - Note 5

Tax equivalents

The entities within the Economic Entity make tax equivalent payments on their taxable income to the Queensland Government. These taxation equivalent payments are made pursuant to Section 155(4) of the *Government Owned Corporations 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 5).

The entities are not required to maintain a franking account.

Current tax payable

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted at the end of the financial year and any adjustment to tax payable in respect of previous years.

Current tax payable is recognised as current tax expense except to the extent that it relates to items recognised directly in equity, in which case that portion is recognised directly in equity.

Deferred tax equivalent assets and liabilities

Deferred tax equivalent assets and liabilities are deductible or assessable temporary differences and unused tax losses recognised using tax rates enacted at the end of the financial year. Temporary differences are differences between the carrying amount of an asset and liability for financial reporting purposes and their tax bases. Tax bases are determined based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities.

Deferred tax equivalent assets are recognised only to the extent that it is probable that future taxable amounts will be available against which the asset can be utilised.

Movements in deferred tax equivalent assets and liabilities balances are recognised as deferred tax equivalent expenses, except to the extent they relate to:

- Items recognised directly in equity, in which case that portion is recognised in equity;
- Acquisitions of entities or operations, in which case that portion is recognised in goodwill; and
- Temporary differences that are not recognised.

Income tax equivalent expense

Income tax equivalent expense for the reporting period consists of current tax expense and deferred tax expense.

Tax consolidation

The entities of the group have entered into a tax sharing and funding agreement. Under the terms of the agreement, the entities of the Ergon Energy Pty Ltd group reimburse Ergon Energy Corporation Limited for any income tax payable (when the liability falls due) in respect of their own activities

Notes to and forming part of the Financial Statements

For the year ended 30 June 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

as if they had been treated as a taxpayer separate from the tax consolidated 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) to Ergon Energy Corporation Limited. The tax sharing agreement, in the opinion of the directors, is a valid agreement and limits the joint and several liability of the Economic Entity in the event of a default by Ergon Energy Corporation Limited.

Employee Benefits - Note 26

Wages and salaries, annual leave and sick leave

Liabilities for employee benefits for wages and 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 end of the financial year. These liabilities have been calculated at undiscounted amounts based on current wage and salary rates and, where appropriate, at expected nominal rates including related on-costs, such as workers' compensation insurance and payroll tax.

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 the end of the financial year 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 recognised as an expense as they are made. There is no provision for employer contributions to employees' superannuation schemes, as obligations are paid as they fall due. The Company and its controlled entities has no present obligation to fund a deficit as the superannuation funds are fully funded at the end of the financial year.

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 principal 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.

Provision is made for non-cancellable operating lease rentals payable on surplus leased premises when it is determined that no substantive future benefit will be obtained from its occupancy and sub-lease rentals are less. The estimate is calculated based on discounted net future cash flows, using the interest rate implicit in the lease.

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 the end of the financial year on government bonds with terms to maturity and currency that match, as closely as possible, the expected future payments.

Web Site Costs

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

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

Notes to and forming part of the Financial Statements

For the year ended 30 June 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

these instruments and has sufficient market information to reliably measure the value of these contracts in accordance with the requirements of Australian Accounting Standards.

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 customer sales contracts have not been brought to account at fair value as they are dependent on the supply of electricity.

Energy Certificates

Renewable Energy Certificates

Renewable Energy Certificates on hand and to be received in the future for trading are measured at fair value at the end of the financial year adjusted for known market forces.

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

Gas Electricity Certificates and New South Wales (NSW) Greenhouse Abatement Certificates

Gas Electricity Certificates and NSW Greenhouse Abatement Certificates on hand are held for trading and measured at fair value at the end of the financial year adjusted for known market forces.

The acquittal obligations of subsidiaries to the Economic Entity are recognised as liabilities in the Statements of Financial Position of Ergon Energy Pty Ltd. The subsidiary reimburses Ergon Energy Pty Ltd for any costs incurred in meeting the subsidiary's obligations under the Queensland 13% Gas Scheme and the NSW Greenhouse Gas Abatement Scheme.

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 5 years. The agreements are for the sale and purchase of the energy exported from a Generator and of the Renewable Energy Certificates and Green Certificates 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 Pty Ltd and its controlled entities have sufficient market information to reliably measure the value of these agreements in accordance with the 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 enter contracts for price and volume hedges to manage the exposure to commodity price and volume risk.

Derivative financial instruments held or issued for hedging contestable and franchise sales contracts or trading purposes

Derivative financial instruments held or issued for hedging contestable and franchise sales 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 Pty Ltd and its controlled entities trade frequently in these instruments and have sufficient market information to reliably measure the value of these contracts in accordance with the 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 and franchise 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 occurs at settlement as a component of electricity expense during the year.

Long-term Energy Procurement Agreement (LEP)

The LEP Agreement represents a derivative financial instrument that is measured at fair value through the Statements of Financial Performance. This policy is discussed in Note 2.

Trade Creditors - Note 13

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 - Note 15

A provision for dividends payable is recognised in the reporting period in which the dividends are declared, for the entire undistributed amount.

Notes to and forming part of the Financial Statements

For the year ended 30 June 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Borrowing Costs - Note 4

Borrowing costs are expensed as incurred, except where they relate to qualifying assets. Qualifying assets are assets which take more than 12 months to get ready for their intended use or sale. In these circumstances, borrowing costs are capitalised to the cost of the assets up to the date of commissioning or sale.

Interest Bearing Liabilities - Note 14

Customer deposits are recognised as liabilities and represent repayable monies 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.

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 - Note 6

For the purposes of the Statements of Cash Flows, cash includes cash on hand and in banks, net of bank overdrafts, and deposits on call.

Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or 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") for the year ended 30 June 2004. Comparative amounts have been reclassified to ensure comparability with the current reporting period.

NOTE 2: CHANGES IN ACCOUNTING POLICY

Income Taxes

The consolidated entity has applied the revised AASB 1020 *Income Taxes* for the first time from 1 July 2004.

Income taxes are now accounted for by applying a balance sheet tax liability method, which focuses on the tax effect of transactions and other events recognised in the Statements of Financial Position. Deferred tax equivalent assets and liabilities arise from temporary differences between the carrying amount of assets and liabilities and their tax bases and also from unused tax losses.

Under the earlier AASB 1020 income tax standard, deferred tax equivalent assets and liabilities arose only from timing differences which relate to items being brought to account in different periods for income tax and accounting purposes and also from unused tax losses.

In addition, current and deferred tax equivalent assets and liabilities are recognised as tax expense/revenue, directly in equity or as part of goodwill on acquisition, depending on the transaction they relate to, resulting in adjustments to equity balances and goodwill not previously affected by tax entries under the earlier version of the Standard.

The changes in accounting policy have resulted in an adjustment to increase retained earnings by \$1,214,333, adjustment to increase deferred tax equivalent liability of \$2,118,473 and an adjustment to increase deferred tax equivalent asset of \$3,332,805.

Due to the difficulty of establishing 1 July 2003 opening tax bases, it is impractical to determine the amount of adjustment to the net profit relating to the 2004 comparative reporting period separately from amounts relating to reporting periods prior to 2004 comparative reporting period. Accordingly, restated comparatives are not provided for in the Statements of Financial Performance.

Financial Instruments

Long-term Energy Procurement (LEP) and associated hedges have previously been accounted for using historical cost accounting. During the year, the directors changed the accounting policy to fair value measurement.

The change in accounting policy to fair value measurement will provide consistency of treatment, as all other retail traded transactions are marked to market. It will provide improved information about the risk profile of the entity. Fair value basis for accounting matches the way the business manages these transactions.

The change in accounting policy has resulted in a net increase to profit of \$9,898,964 and a net increase to LEP receivable of \$9,898,964.

Due to the difficulty of establishing 1 July 2003 fair values, it is impractical to determine the amount of adjustment to the net profit relating to the 2004 comparative reporting period separately from amounts relating to reporting periods prior to 2004 comparative reporting period. Accordingly, restated comparatives are not provided for the Statements of Financial Performance.

Notes to and forming part of the Financial Statements

For the year ended 30 June 2005

	Consolidated		Parent	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
NOTE 3: REVENUE				
Revenue from operating activities:				
Sales revenue	1,791,403	1,219,003	1,643,000	1,190,863
Community service obligations	176,872	223,596	176,872	223,596
Commissions received	1,559	1,691	1,559	1,691
Other operating revenue	32,038	24,967	31,470	25,535
	2,001,872	1,469,257	1,852,901	1,441,685
Revenue from outside operating activities:				
Interest from unrelated parties	7,099	4,808	6,839	4,653
Interest from related parties	939	917	939	917
Dividends received from related parties	-	-	2,699	617
Proceeds on disposal of non-current assets	-	805	-	805
	8,038	6,530	10,477	6,992
Total revenue from ordinary activities	2,009,910	1,475,787	1,863,378	1,448,677

NOTE 4: PROFIT FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EQUIVALENT EXPENSE

Profit from ordinary activities before income tax equivalent expense includes the following specific net gains and expenses:

Cost of sales	1,837,554	1,362,980	1,691,886	1,335,219
Net gain on disposal of property, plant and equipment	-	573	-	582
Depreciation on property, plant and equipment	1,403	761	1,403	761
Amortisation of non-current assets	527	177	527	177
Total depreciation and amortisation	1,930	938	1,930	938
Diminution in investment	-	-	-	5,415
Borrowing costs				
Interest paid or payable to related parties	-	-	867	882
Interest paid or payable to unrelated parties	1,324	1,205	1,318	1,200
Total borrowing costs	1,324	1,205	2,185	2,082
Net bad and doubtful debts expense including movements in provision for doubtful debts	1,483	2,206	1,483	2,206
Superannuation contributions	1,011	1,053	1,011	1,053
Rental expense on operating leases				
Minimum lease payments	756	326	756	326

Notes to and forming part of the Financial Statements

For the year ended 30 June 2005

	Consolidated		Parent	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000

NOTE 5: TAXATION**(a) INCOME TAX EQUIVALENT EXPENSE/(BENEFIT)**

The prima facie income tax equivalent on operating profit differs from the income tax equivalent provided in the accounts as follows:

Net profit from ordinary activities before income

tax equivalent expense	59,676	27,133	57,296	21,500
Prima facie income tax equivalent on operating profit at 30% (2004 - 30%)	17,902	8,140	17,188	6,450
Decrease in income tax equivalent expense:				
- Movement in provisions	-	-	-	(185)
- Dividends receivable	-	-	(810)	-
- Other	-	(31)	-	-
Increase in income tax equivalent expense:				
- Intangibles amortisation	172	-	172	-
- Other	41	-	41	1,421
Under/(over) provision for income tax equivalent expense in prior year	-	2,105	-	2,301

Income tax equivalent expense attributable to operating profit

before impact of tax consolidation	18,115	10,214	16,591	9,987
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(b) MAJOR COMPONENTS OF INCOME TAX EQUIVALENT EXPENSE

Current income tax equivalent expense	10,401	-	7,984	-
Deferred income tax equivalent on temporary differences	7,714	10,214	8,607	9,987
Income tax equivalent expense	18,115	10,214	16,591	9,987

Deferred income tax equivalent comprises:

- Accrued expenses	(30,158)	-	(30,305)	-
- Provisions	54	-	54	-
- Accrued income	37,798	-	38,838	-
- Property, plant and equipment	483	-	483	-
- Other	(463)	10,214	(463)	9,987
	7,714	10,214	8,607	9,987

(c) DEFERRED INCOME TAX EQUIVALENT LIABILITIES

Deferred income tax equivalent liability comprises the estimated assessable temporary differences at the applicable rate of 30% on the following items:

- Accrued income (unbilled electricity)	94,580	58,771	94,580	57,728
- Property, plant and equipment	67	65	67	65
- Other	266	481	5	481
	94,913	59,317	94,652	58,274

Notes to and forming part of the Financial Statements

For the year ended 30 June 2005

	Consolidated		Parent	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000

NOTE 5: TAXATION (Continued)**(d) DEFERRED INCOME TAX EQUIVALENT ASSETS⁽¹⁾**

Deferred income tax equivalent assets comprises the estimated assessable temporary differences at the applicable rate of 30% on the following items:

- Accruals	52,390	21,838	52,131	21,837
- Provisions	2,489	2,543	2,489	2,543
- Tax losses carried forward	3,671	8,057	-	3,522
Tax losses transferred from ultimate parent entity	(7,418)	-	(6,988)	-
Total deferred income tax equivalent asset	51,132	32,438	47,632	27,902

Deferred income tax equivalent assets unrecognised

Deferred income tax equivalent assets that have not been recognised because it is not probable that the benefits will be utilised against future taxable profits:

- Capital losses	525	525	-	-
	525	525	-	-

⁽¹⁾ During the year ended 30 June 2005 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.

NOTE 6: CASH ASSETS

Cash at bank and on hand	8,301	3,001	8,301	3,000
Short term deposits	160,613	145,536	155,875	141,052
	168,914	148,537	164,176	144,052

Bank short term deposits are at call, and pay interest at a weighted average interest rate of 5.75% (2004: 5.57%).

NOTE 7: RECEIVABLES**CURRENT**

Trade debtors - Unrelated parties:

Trade debtors and unread meters	202,960	181,187	202,959	180,665
Provision for doubtful debts	(4,386)	(4,907)	(4,386)	(4,907)
	198,574	176,280	198,573	175,758
Community service obligations	26,522	3,538	26,522	3,538
Total trade debtors - Unrelated parties	225,096	179,818	225,095	179,296
Trade debtors - Related parties	703	1,317	694	1,308
Non-trade debtors:				
Unrelated parties	41,519	32,646	41,519	31,506
Related parties	-	-	2,699	-
Total current receivables	267,318	213,781	270,007	212,110

NON-CURRENT

Tax related amounts receivable from EECL	51,132	32,438	47,632	27,902
Electricity sales receivable - Contestable customers	4,615	1,560	4,615	932
Power purchase agreement receivable	66,845	36,692	66,845	36,692
Total non-current receivables	122,592	70,690	119,092	65,526

Net Fair Values

The carrying amounts of receivables approximate net fair values.

Notes to and forming part of the Financial Statements

For the year ended 30 June 2005

	Consolidated		Parent	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
NOTE 8: INVENTORIES				
CURRENT				
Inventories held for resale - at cost	20	24	20	24
NOTE 9: OTHER ASSETS				
CURRENT				
Prepayments	-	325	-	325
Market trading assets and environmental certificates	65,755	28,587	65,755	28,587
Other	-	12	-	12
Total current other assets	65,755	28,924	65,755	28,924
NON-CURRENT				
Market trading assets	31,087	4,286	31,087	4,286
Total non-current other assets	31,087	4,286	31,087	4,286

NOTE 10: OTHER FINANCIAL ASSETS**NON-CURRENT****Investments at valuation:**

Unlisted shares in controlled entities	-	-	19,390	19,390
Less: provision for diminution	-	-	(10,895)	(10,895)
Total investments	-	-	8,495	8,495

The carrying values of investments in controlled entities have been assessed by the directors as at 30 June 2005, to ensure that the values are not in excess of their expected recoverable amounts.

NOTE 11: PROPERTY, PLANT AND EQUIPMENT**Property, plant and equipment**

At directors' valuation	10,614	3,099	10,614	3,099
Accumulated depreciation	(3,911)	(2,519)	(3,911)	(2,519)
	6,703	580	6,703	580
Work in progress				
At cost	2,729	7,507	2,729	7,507
Total property, plant and equipment	9,432	8,087	9,432	8,087

Reconciliations

Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below:

Property, plant and equipment

Carrying amount at the beginning of the financial year	580	1,038	580	1,029
Additions	7,531	308	7,531	317
Disposals	(5)	(5)	(5)	(5)
Depreciation/amortisation expense	(1,403)	(761)	(1,403)	(761)
Carrying amount at the end of the financial year	6,703	580	6,703	580
Work in progress				
Carrying amount at the beginning of the financial year	7,507	1,943	7,507	1,943
Transfer to property, plant and equipment and current assets	(7,339)	-	(7,339)	-
Additions	2,561	5,564	2,561	5,564
Carrying amount at the end of the financial year	2,729	7,507	2,729	7,507
Total property, plant and equipment	9,432	8,087	9,432	8,087

Notes to and forming part of the Financial Statements

For the year ended 30 June 2005

	Consolidated		Parent	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
NOTE 12: INTANGIBLE ASSETS				
Intangible assets	982	982	982	982
Accumulated amortisation	(982)	(455)	(982)	(455)
	-	527	-	527
NOTE 13: PAYABLES				
CURRENT				
Trade creditors - Related parties	87,060	74,035	106,165	89,112
Trade creditors - Unrelated parties	52,421	47,166	52,421	45,634
Power purchase agreement payable	36,698	25,423	36,698	25,423
Other creditors and accruals	21,917	13,717	21,917	13,717
	198,096	160,341	217,201	173,886
NON-CURRENT				
Power purchase agreement payable	75,196	32,059	75,196	32,059
Tax related amounts payable to EECL	94,913	59,317	94,652	58,274
Other creditors and accruals	132	-	132	-
	170,241	91,376	169,980	90,333
NOTE 14: INTEREST BEARING LIABILITIES				
CURRENT				
<i>Unsecured</i>				
Customer and other repayable deposits	67	186	67	186
Lease incentive	571	285	571	285
	638	471	638	471
NON-CURRENT				
<i>Unsecured</i>				
Customer and other repayable deposits	23,441	23,057	23,441	23,057
Lease incentive	3,613	2,567	3,613	2,567
	27,054	25,624	27,054	25,624

Notes to and forming part of the Financial Statements

For the year ended 30 June 2005

	Consolidated		Parent	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
NOTE 15: PROVISIONS				
CURRENT				
Dividends	33,249	16,919	33,249	16,919
Employee benefits	889	1,046	889	1,046
Security deposits	938	923	938	923
Environmental certificate acquittal	27,036	7,237	27,036	7,237
Other	326	434	326	434
	62,438	26,559	62,438	26,559
NON-CURRENT				
Employee benefits	1,757	1,166	1,757	1,166
Environmental certificate acquittal	6,435	2,779	6,435	2,779
	8,192	3,945	8,192	3,945
Reconciliations				
Reconciliations of the carrying amount of each class of provision, other than employee benefits, are set out below:				
Dividends				
Carrying amount at the beginning of the financial year	16,919	15,296	16,919	15,296
Increase in provision	33,249	16,919	33,249	16,919
Payments made during the financial year	(16,919)	(15,296)	(16,919)	(15,296)
Carrying amount at the end of the financial year	33,249	16,919	33,249	16,919
Security deposits				
Carrying amount at the beginning of the financial year	923	887	923	887
Increase in provision	898	325	898	325
Payments made during the financial year	(883)	(289)	(883)	(289)
Carrying amount at the end of the financial year	938	923	938	923
Environmental certificate acquittal - Current				
Carrying amount at the beginning of the financial year	7,237	-	7,237	-
Net transfers from non-current	1,614	-	1,614	-
Increase in provision	26,154	7,237	26,154	7,237
Payments made during the financial year	(7,969)	-	(7,969)	-
Carrying amount at the end of the financial year	27,036	7,237	27,036	7,237
Other - Current				
Carrying amount at the beginning of the financial year	434	-	434	-
Increase in provisions	26	434	26	434
Payments made during the financial year	(134)	-	(134)	-
Carrying amount at the end of the financial year	326	434	326	434
Environmental certificate acquittal - Non-current				
Carrying amount at the beginning of the financial year	2,779	-	2,779	-
Net transfers to current	(1,614)	-	(1,614)	-
Increase in provision	5,270	2,779	5,270	2,779
Carrying amount at the end of the financial year	6,435	2,779	6,435	2,779

Notes to and forming part of the Financial Statements

For the year ended 30 June 2005

	Consolidated		Parent	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
NOTE 16: OTHER LIABILITIES				
CURRENT				
Market trading liabilities	13,964	-	13,964	-
	13,964	-	13,964	-
NON-CURRENT				
Market trading liabilities	3,105	-	3,105	-
Other - Unrelated parties	6,682	-	6,682	-
Other - Related parties	7,996	9,354	-	-
	17,783	9,354	9,787	-
NOTE 17: CONTRIBUTED EQUITY				
Contributed Equity:				
Share capital				
1,214 fully paid ordinary shares	123,172	123,172	123,172	123,172
NOTE 18: RESERVES				
General reserve	4,000	4,000	4,000	4,000
This reserve was used to establish operations in Northern Electricity Retail Corporation Pty Ltd.				
NOTE 19: RETAINED PROFITS				
Retained profits	39,540	30,014	31,638	24,041
Movements:				
Retained profits at the beginning of the financial year	30,014	30,014	24,041	29,447
Net profit attributable to members of Ergon Energy Pty Ltd	41,561	16,919	40,705	11,513
Movement in provision for dividend	(33,249)	(16,919)	(33,249)	(16,919)
Net effect on initial adoption of AASB 1020 <i>Income Taxes</i>	1,214	-	141	-
Retained profits at the end of the financial year	39,540	30,014	31,638	24,041
NOTE 20: TOTAL EQUITY				
Total equity at the beginning of the financial year	157,186	157,186	151,213	156,619
Total changes in equity recognised in the Statements of Financial Performance	42,775	16,919	40,846	11,513
Transactions with owners as owners:				
- Dividends	(33,249)	(16,919)	(33,249)	(16,919)
Total equity at the end of the financial year	166,712	157,186	158,810	151,213

Notes to and forming part of the Financial Statements

For the year ended 30 June 2005

	Consolidated		Parent	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
NOTE 21: EXPENDITURE COMMITMENTS				
Capital and other expenditure commitments				
Estimated capital and other expenditure contracted for at the end of the financial year is payable as follows:				
- not later than one year	2,500	1,295	2,500	1,295
- later than one year but not later than five years	3,406	-	3,406	-
	5,906	1,295	5,906	1,295
Non-cancellable operating lease expense commitments				
Commitments in relation to leases contracted for at the end of the financial year but not recognised as liabilities payable:				
- not later than one year	2,954	490	2,954	490
- later than one year but not later than five years	11,384	10,621	11,384	10,621
- later than five years	7,566	10,561	7,566	10,561
	21,904	21,672	21,904	21,672

NOTE 22: CONTINGENT LIABILITIES

(a) Legal Claims

A common law claim is pending against the Parent Entity. A writ has been served and the entity is defending the action. Liability is not admitted and the claim will be defended. The total amount of this claim net of insurance recoveries is \$500,000 (2004: \$Nil).

(b) Guarantees

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 \$124,600,000 (2004: \$127,900,000) 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 (2004: \$295,000,000).

(c) Ergon Energy Certified Agreement 2005

The Ergon Energy Certified Agreement 2005 was certified by the Queensland Industrial Relations Commission (QIRC) on 30 May 2005.

The Australian Municipal, Administrative, Clerical and Services Union, Central and Southern Queensland Clerical and Administrative Branch Union of Employees (AMACSU) has indicated that it may commence proceedings with the Anti-Discrimination Commission of Queensland (ADCQ) possibly on the basis that all employees should receive the Electricity Distribution Service Delivery (EDSD) allowance. Proceedings of that kind do not appear to be able to be supported, no liability is admitted and so it is not practicable to make any estimate of any potential liability.

(d) Environmental

The consolidated entity provides for all known environmental liabilities. While the directors believe that, based upon current information, its current provisions for environmental rehabilitation are adequate, there can be no assurance that material new provisions will not be required as a result of new information or regulatory requirements with respect to known sites or identification of new remedial obligations at other sites.

Notes to and forming part of the Financial Statements

For the year ended 30 June 2005

NOTE 23: FINANCIAL INSTRUMENTS

(a) Terms, conditions and accounting policies

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

Financial instruments	Note	Accounting policies	Terms and Conditions
Financial assets			
Receivables - Trade and other	7	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	7	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	7	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	7	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.	
Financial liabilities			
Payables - Trade and other	13	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	13	The liabilities arising from the power purchase agreement 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.
Interest bearing liabilities - Loans	14	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	14	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.

Notes to and forming part of the Financial Statements

For the year ended 30 June 2005

NOTE 23: FINANCIAL INSTRUMENTS (Continued)

Financial instruments	Note	Accounting policies	Terms and Conditions
<i>Financial liabilities (Continued)</i>			
Customer security deposits	15	Deposits are carried at the principal amount.	Interest is credited annually on the first billing to the customer after the end of the financial year.
Environmental certificate acquittal	15	The current and forward acquittal obligations of energy certificates are measured at fair value based on current market prices.	Current year acquittal obligations for renewable energy certificates are settled on 14th February each year. NSW Greenhouse Abatement Certificates are surrendered on 1 March 2006 for the 2005 calendar year. Gas Energy Certificates are surrendered on 1 April 2006 for the 2005 calendar year. Forward acquittal obligations will be settled in accordance with the requirements of the relevant scheme in the given year.
Lease incentive	14	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.
Employee benefits	15	Employee benefit provisions, with the exception of provisions for long service leave, are calculated as undiscounted amounts based on current salaries. Provision for long service leave represents the present value of expected future cash flows with consideration given to future increases in wage and salary rates, and the Economic Entity's experience with staff departures.	
<i>Contributed equity</i>			
Ordinary shares	17		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 2005

NOTE 23: FINANCIAL INSTRUMENTS (Continued)

(b) Interest Rate Risk

The Economic Entity's exposure to interest rate risks and the effective weighted average interest rate for classes of financial assets and financial liabilities are as follows:

	Floating interest rate \$'000	Fixed interest rate maturing:			Non-interest bearing \$'000	Carrying amount per Statement of Financial Position \$'000	Weighted average interest rate %
		1 year or less \$'000	1 to 5 years \$'000	Over 5 years \$'000			
2005							
Financial assets							
Cash	168,662	-	-	-	252	168,914	5.71
Receivables	-	-	-	-	389,910	389,910	-
Other assets	-	-	-	-	96,842	96,842	-
Total financial assets	168,662	-	-	-	487,004	655,666	
Financial Liabilities							
Repayable deposits	23,441	-	-	-	67	23,508	4.00
Payables	-	-	-	-	368,106	368,107	-
Environmental certificate acquittal	-	-	-	-	33,471	33,471	-
Other liabilities	-	-	-	-	31,747	31,747	-
Lease incentive	-	571	2,282	1,331	-	4,184	5.00
Employee entitlements	-	-	-	-	2,876	2,876	-
Total financial liabilities	23,441	571	2,282	1,331	436,267	463,893	

2004**Financial assets**

Cash	148,286	-	-	-	251	148,537	5.54
Receivables	-	-	-	-	279,906	284,471	-
Other assets	-	-	-	-	33,210	33,210	-
Total financial assets	148,286	-	-	-	313,367	466,218	

Financial liabilities

Repayable deposits	23,056	-	-	-	186	23,242	4.00
Payables	-	-	-	-	247,008	251,573	-
Environmental certificate acquittal	-	-	-	-	10,016	10,016	-
Other liabilities	-	-	-	-	9,354	9,354	-
Lease incentive	-	285	2,567	-	-	2,852	5.00
Employee entitlements	-	-	-	-	2,357	2,357	-
Total financial liabilities	23,056	285	2,567	-	268,921	299,394	

Notes to and forming part of the Financial Statements

For the year ended 30 June 2005

NOTE 23: FINANCIAL INSTRUMENTS (Continued)

(c) Net Fair Values

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

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

(d) Credit Risk

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.

(e) Liquidity risk exposure

Liquidity risk associated with electricity market trading is controlled by National Electricity Market Management Company Limited whereby all market participants are required to deliver irrevocable bank guarantees as security 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.

NOTE 24: CONTROLLED ENTITIES

The consolidated financial statements at 30 June 2005 include the following controlled entities:

All of the following entities are incorporated / formed in Australia.

Parent entity	Percentage Interest Held by the Parent Entity
Ergon Energy Pty Ltd	
Controlled entities	
Ergon Energy (Victoria) Pty Ltd	100%
Northern Electricity Retail Corporation Pty Ltd	100%

NOTE 25: NOTES TO THE STATEMENTS OF CASH FLOWS

(a) Reconciliation of cash

For the purpose of the Statements of Cash Flows, cash includes cash on hand and in banks, net of bank overdrafts and investments in money market instruments. Cash at the end of the financial year as shown in the Statements of Cash Flows is reconciled to the related items in the Statements of Financial Position as follows:

	Consolidated		Parent	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000
Cash at bank and on hand	8,301	3,001	8,301	3,000
Short term deposits	160,613	145,536	155,875	141,052
	168,914	148,537	164,176	144,052

Notes to and forming part of the Financial Statements

For the year ended 30 June 2005

	Consolidated		Parent	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
NOTE 25: NOTES TO THE STATEMENTS OF CASH FLOWS (Continued)				
(b) Reconciliation of the operating profit after income tax equivalent to the net cash flows provided by/(used in) operating activities				
Operating profit after income tax equivalent expense	41,561	16,919	40,705	11,513
Depreciation and amortisation	1,930	938	1,930	938
Asset write-off	159	200	159	5,614
Net gain on disposal of property, plant and equipment	-	(573)	-	(582)
Changes in employee entitlement and other provisions	23,797	10,655	23,797	10,655
Other non-cash flow items	(28,232)	3,633	(26,223)	3,633
Changes in assets and liabilities				
Trade and other receivables	(4,991)	(61,047)	(4,233)	(57,061)
Inventory	5	27	4	27
Other assets	(63,799)	(12,205)	(63,799)	(12,205)
Trade and other creditors	55,384	33,737	43,435	30,662
Other liabilities	13,965	85,956	23,751	86,546
Deferred income tax equivalent liability	-	(26,165)	-	(26,165)
Deferred income tax equivalent asset	-	9,235	-	5,583
Payment from provision	(1)	-	(1)	-
Net cash flow provided by operating activities	39,778	61,310	39,525	59,158
NOTE 26: EMPLOYEE BENEFITS				
Employee benefits				
The aggregate employee benefit liability is comprised of:				
CURRENT				
Accrued wages and salaries	230	154	230	154
Provisions	889	1,046	889	1,046
NON-CURRENT				
Provisions	1,757	1,166	1,757	1,166
	2,876	2,366	2,876	2,366
Incentive payments				
Aggregate performance bonus accrued	886	877	886	877
Total employment cost (employees receiving a performance payment)	8,124	7,307	8,124	7,307
	2005 Number	2004 Number	2005 Number	2004 Number
Number of Employees				
Number of employees who received a performance payment	67	69	67	69
Number of employees at the end of the financial year	143	161	143	161

Notes to and forming part of the Financial Statements

For the year ended 30 June 2005

NOTE 26: EMPLOYEE BENEFITS (Continued)

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.

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 2005 were 20%, 30% and 50% (2004: 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.

Performance payments pertaining to the financial year ended 30 June 2005 had not been paid as at the end of the financial year and have been appropriately accrued.

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:

- (a) the assets of the Fund at the valuation date;
- (b) contributions by the employer at the recommended rate;
- (c) contributions by the members in accordance with the Trust Deed; and
- (d) investment earnings on the above.

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:

	Consolidated		Parent	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000
Net market value of plan assets held by the Fund to meet future benefit payments	3,008	3,008	3,008	3,008
Present value of employees' accrued benefits	(2,373)	(2,373)	(2,373)	(2,373)
Excess of plan assets held to meet future benefit payments over present value of employees' accrued benefits	635	635	635	635
Vested benefits	(2,373)	(2,373)	(2,373)	(2,373)

Vested benefits are benefits which are not conditional upon continued membership of the Fund (or any factor other than resignation from the Fund) and include benefits which members were entitled to receive had they terminated their Fund membership.

Notes to and forming part of the Financial Statements

For the year ended 30 June 2005

NOTE 27: DIRECTOR / EXECUTIVE AND RELATED PARTY DISCLOSURES

(a) Names, positions, and terms held of directors

The directors of Ergon Energy Pty Ltd during the financial period ended 30 June 2005 were:

Keith Hillless	Chairman - Non-Executive Director
John Bird	Deputy Chairman - Non-Executive Director
Patricia Faircloth	Non-Executive Director
Wayne Myers	Non-Executive Director
Belinda McNeven	Non-Executive Director

All directors' appointment terms were until 30 June 2005. Keith Hillless, John Bird and Wayne Myers were reappointed as directors on 1 July 2005 for a period of three years and three months until 30 September 2008.

(b) Remuneration of Specified Directors

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.

In accordance with Ministerial Guidelines, details of remuneration provided to directors in office at 30 June 2005 are as follows:

DIRECTOR	Primary		Post Employment	Total
	Directors' Fees	Committee Fees ⁽¹⁾	Superannuation	
	\$	\$	\$	\$
Keith Hillless				
2005	45,472	-	4,137	49,609
2004	39,200	-	3,573	42,773
John Bird				
2005	18,644	8,120	2,442	29,206
2004	16,072	7,000	2,110	25,182
Patricia Faircloth				
2005	18,644	3,480	2,014	24,138
2004	16,072	3,000	1,739	20,811
Wayne Myers				
2005	18,644	-	1,701	20,345
2004	16,072	-	1,469	17,541
Belinda McNeven				
2005	18,644	3,480	2,014	24,138
2004	16,072	3,000	1,739	20,811
Total Remuneration Directors				
2005	120,048	15,080	12,308	147,436
2004	103,488	13,000	10,630	127,118

No further fees were paid to directors, other than the amounts disclosed in the table.

⁽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.

Notes to and forming part of the Financial Statements

For the year ended 30 June 2005

NOTE 27: DIRECTOR / EXECUTIVE AND RELATED PARTY DISCLOSURES (Continued)

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:

	2005	2004
\$20,001 - \$30,000	3	3
\$40,001 - \$50,000	-	1
\$50,001 - \$60,000	1	-
\$100,001 - \$110,000	-	1
\$120,001 - \$130,000	1	-
The aggregate income of the directors referred to above was:	\$254,589	\$219,846

The remuneration bands are not consistent with the emoluments disclosed in the Remuneration of Specified Directors above as the basis of calculation differs due to the Aggregate Income of Directors including all income paid, or due to be paid to specified directors of the Company and controlled entities from the Company or any related party.

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 \$254,589 (2004: \$219,846). The above amounts exclude the value of insurance premiums made for the directors' indemnity.

(c) Remuneration of Specified Executives

The 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 employment cost which may include cash salary, motor vehicle, car park, additional superannuation and laptop.

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, for example 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. 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.

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, 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.

Notes to and forming part of the Financial Statements

For the year ended 30 June 2005

NOTE 27: DIRECTOR / EXECUTIVE AND RELATED PARTY DISCLOSURES (Continued)

In accordance with Ministerial Guidelines, details of remuneration provided to the senior executives with the greatest authority of the Parent Entity in office at 30 June 2005 are as follows:

SPECIFIED EXECUTIVE	Primary ⁽¹⁾		Post Employment		Total
	Salary and Fees \$	Non-Monetary \$	Superannuation \$	Termination \$	
Executive General Manager - Retail					
2005	230,619	3,311	20,756	-	254,686
2004	221,499	3,000	19,173	-	243,672
Executive General Manager - Customer Service⁽²⁾					
2005	175,883	3,311	13,283	-	192,477
2004	146,924	-	12,422	-	159,346
Total Remuneration - Specified Executives					
2005	406,502	6,622	34,039	-	447,163
2004	368,423	3,000	31,595	-	403,018

⁽¹⁾ Officers may also earn performance based, risk incentive bonuses which are disclosed in aggregate in Note 26 and are not shown in this table.

⁽²⁾ Officer held the position of Acting Executive General Manager-Customer Service for a portion of the 2003/04 financial year.

(d) Transactions with Director and Specified Executive Related Parties

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 on terms and conditions no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-related entities on an arm's length basis.

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 include those in connection with Ergon Energy Corporation Limited and its controlled entities.

Keith Hillless is the chairman and director 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 \$35,018 (2004: \$60,633).

Barry Taylor is a director of the ultimate parent entity and is a director of Townsville Enterprises Limited. Ergon Energy is a member of this organisation and made sponsorship payments during the financial year totalling \$124,088 (2004: \$66,000).

Paul Bell is a director of the ultimate parent entity and is president of the Local Government Association of Queensland. During the financial year, Ergon Energy made sponsorship payments and paid conference attendance fees to the value of \$38,828 (2004: \$20,506) to the Local Government Association of Queensland. He is deputy chairman of Queensland Rail. Ergon Energy paid costs to the value of \$870,270 (2004: \$184,217) and provided electricity and the use of network assets to the value of \$33,484,433 (2004: \$42,748,068) to this entity during the financial year.

Anthony Bellas and James Mitchell are Specified Executives of the ultimate parent entity and are directors of SPARQ Solutions Pty Ltd, an associate company formed during the financial year. They did not receive any remuneration for their positions as directors of this entity. During the year SPARQ Solutions Pty Ltd provided services to the wholly owned group to the value of \$40,324,774 and received services from the wholly owned group of \$49,717,445.

Further James Mitchell is the chair of Service Essentials Pty Ltd, an associate company of the ultimate parent entity. He did not receive any remuneration for the position of Chairman from this entity. During the financial year, Service Essentials Pty Ltd provided services to the wholly owned group to the value of \$19,317,623 (2004: \$17,883,293) and received services from the wholly owned group to the value of \$6,609,395 (2004: \$10,040,846). Refer Note 27(f) for a description of the transactions.

A number of directors are the directors of organisations that are franchise customers of Ergon Energy Pty Ltd.

Notes to and forming part of the Financial Statements

For the year ended 30 June 2005

NOTE 27: DIRECTOR / EXECUTIVE AND RELATED PARTY DISCLOSURES (Continued)

(e) Transactions with the Ultimate Parent Entity and with the wholly owned group

In addition to those transactions disclosed in Note 3 and 4, the Parent Entity entered into the following transactions during the period with related parties within the wholly owned group:

The ultimate Parent Entity provided business management, financial and corporate services and customer care administration services (including retail products and services administration) to controlled entities. 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.

(f) Transactions with Associates

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

	Consolidated		Parent	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Purchase of billing, meter reading and payment management services from an associate of the ultimate parent entity	19,318	17,883	19,318	17,883
Recovery of employee expenses and other service costs from an associate of the ultimate parent entity	6,609	10,041	6,609	10,041

Amounts due and receivable from associates are as set out in the respective notes to the financial statements.

(g) Controlling Entities

The Parent Entity in the wholly owned group is Ergon Energy Pty Ltd.

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

(h) Ownership Interests in Related Parties

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

Controlled entities - Note 24

NOTE 28: SEGMENT REPORTING

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

NOTE 29: ECONOMIC DEPENDENCY

Ergon Energy Pty Ltd's principal revenue depends, to a significant extent, on the operations of the electricity market in Queensland. The principal operator transporting high voltage electricity for distribution is Queensland Electricity Transmission Corporation Limited (trading as Powerlink). Low voltage electricity is then distributed primarily to Ergon Energy Pty Ltd by Ergon Energy Corporation Limited, the ultimate parent entity.

	Consolidated		Parent	
	2005 \$	2004 \$	2005 \$	2004 \$

NOTE 30: AUDITORS' REMUNERATION

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

Auditor-General of Queensland

- Audit and review of financial statements	104,000	85,500	92,000	75,450
- Other regulatory audit services	7,000	7,000	3,500	3,500
	111,000	92,500	95,500	78,950

Notes to and forming part of the Financial Statements

For the year ended 30 June 2005

NOTE 31: IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

Management of the International Financial Reporting Standards Transition

The Australian Accounting Standards Board (AASB) is adopting International Financial Reporting Standards (IFRS) for reporting periods beginning on or after 1 January 2005. As part of the transition to IFRS, the AASB has issued Australian equivalents to International Financial Reporting Standards (AIFRS). The Urgent Issues Group (UIG) has issued interpretations that are consistent with those issued by the International Financial Reporting Interpretations Committee or formerly known as the Standing Interpretations Committee.

Ergon Energy Pty Ltd and its Controlled Entities (the Economic Entity) are required to prepare Financial Statements that comply with AIFRS for the annual reporting period ending 30 June 2006. In adopting AIFRS for the first time, the Economic Entity will be required to restate the comparative Financial Statements to amounts reflecting the adoption of AIFRS. Most adjustments made on transition to AIFRS will be made, retrospectively, to opening retained earnings at 1 July 2004. In accordance with the directors' resolution to defer the application of AASB 139 *Financial Instruments: Recognition and Measurement* and AASB 132 *Financial Instruments: Disclosure and Presentation*, adjustments arising from adoption of these Standards under AIFRS will be made, retrospectively, to opening retained earnings at 1 July 2005.

The Economic Entity has established a project team to manage the transition to AIFRS. The Chief Financial Officer (CFO) leads the project. The CFO reports to the Audit and Legal Compliance Committee (ALCC) on a quarterly basis on progress of the project and policy issues. The Board formally notes the ALCC papers.

The project team has analysed the AIFRS and has identified the areas requiring a policy change. As part of this review, where choices in accounting policy are available, policy has been determined based on the most appropriate accounting policy for the Economic Entity. The ALCC and the Board have approved the accounting policies to be applied by the Economic Entity for the transition to AIFRS.

The project continued to maintain a 'whole of business' approach and therefore, all areas of the Economic Entity's business have been engaged and actively involved in the transition to AIFRS.

At the date of this financial report, the project team has substantially completed the project plan including:

- Gap analysis of Australian standards to AIFRS;
- Assessment of accounting policy alternatives on transition to AIFRS;
- Finalisation of accounting policies to be applied at transition to AIFRS;
- Quantification of the likely financial impacts on the Economic Entity; and
- Identification of process and system change requirements.

The project team is continuing to follow the project plan and is confident of successfully implementing AIFRS within the required timeframe.

The likely impacts of AIFRS on the results and financial position of the Economic Entity

The known or reliably measurable impacts of AIFRS policies on the Economic Entity's financial report for the year ended 30 June 2005 are outlined below. The policies are based on the directors' accounting policies at the date of this report. These were determined based on the facts and circumstances as at this date. It must be noted that these policies may change. For example, the release of new standards by the AASB and interpretations by the UIG will influence the facts and circumstances in the future, and hence this may impact the directors' existing accounting policy decisions under AIFRS that exist at the date of this report. Therefore, until the Economic Entity prepares its first full AIFRS Financial Statements, there is a possibility that the numbers disclosed below may change.

Defined benefit superannuation plans

Under AASB 119 *Employee Benefits*, the Economic Entity is required to recognise the defined benefit superannuation surplus / deficit on its Electricity Supply Industry Superannuation Fund as an asset / liability in the statement of financial position. The directors have elected to recognise all actuarial gains and losses arising from movements in the surplus through retained earnings.

Ergon Energy Corporation Limited is ultimately liable for the funding of the defined benefit entitlements of all employees within Ergon Energy Pty Ltd. Whilst Ergon Energy Pty Ltd will recognise a cost equal to their contribution payable in relation to the defined benefit plan, any asset or liability arising from a surplus or deficit will be recorded by Ergon Energy Corporation Limited.

Income Tax

The Economic Entity early adopted the revised AASB 1020 *Income Taxes*, under Australian Generally Accepted Accounting Principles (AGAAP), as at 1 July 2004 and therefore has determined tax balances for the reporting period 30 June 2005 in accordance with the balance sheet approach (see Note 2). Therefore, the impact of adoption of AASB 112 *Income Taxes* will not be significant at the date of this report given the early adoption of AASB 1020.

Intangible Assets - Software

In accordance with AASB 138 *Intangible Assets*, software will be classified as intangible rather than as property, plant and equipment. At 30 June 2005, the cost and accumulated amortisation of software to be reclassified to intangible assets, is \$7,650,335 and \$1,614,609 respectively.

Notes to and forming part of the Financial Statements

For the year ended 30 June 2005

NOTE 31: IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

Financial instruments

As noted above, the directors have elected to apply the exemption available under AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* and defer the date of transition of AASB 132 and AASB 139 until 1 July 2005. Accordingly, these standards will have no impact on the financial report ended 30 June 2005 in respect of AIFRS. As a result of this exemption, the comparative financial information for the reporting period ending 30 June 2006 will be in accordance with AGAAP.

As required by AASB 139, financial assets of the Economic Entity will be classified as either fair value through the Statements of Financial Performance, held to maturity, available for sale or loans and receivables. The adoption of AASB 139 is likely to have the following impacts on the financial instruments of the Economic Entity:

(a) Classification and measurement of financial assets and liabilities

Derivative financial instruments held for trading purposes will be recognised at fair value with movements in the fair value recognised directly in the Statements of Financial Performance.

Loans and receivables will be recognised initially at fair value and subsequently at amortised cost, using the effective interest rate method. This should not result in a significant divergence from current valuation processes.

(b) Cash flow hedges

Under AASB 139, forward rate agreements will be recognised and accounted for as cash flow hedges. Changes in the fair value of the hedge will be recognised in equity until the hedged transaction occurs, in which case the amounts recognised in equity will be transferred to the Statements of Financial Performance.

Foreign exchange contracts held for hedging purposes will also be accounted for as a cash flow hedge. When the hedged transaction occurs, the amounts recognised in equity will be included in the initial cost of the asset acquired.

Employee Benefits

Employee liabilities including annual leave and on-cost balances, comprising superannuation, workers compensation and payroll tax, will be measured at present value. The impact of bringing the above employee liabilities to present value will have a cumulative impact at transition date of \$65,039 increase in retained earnings.

Gain and losses in relation to the sale of non-current assets

Under AIFRS, the profit or loss from the sale of a non-current asset will be recognised as a net gain or loss on sale. Under AGAAP, the gross proceeds from the sale are recognised as revenue and the carrying amount is recognised as an expense. The transition to AIFRS will impact disclosure but will not impact reported profit.

If the policy had been applied in the 30 June 2005 financial report, there would have been no change to consolidated revenue.

Reclassification of other income

Under AIFRS, foreign currency gains and government grants will be recognised as other income. Under AGAAP, such items are classified as revenue. This change will impact disclosure but will not impact reported profit.

NOTE 32: SUBSEQUENT EVENTS

International Financial Reporting Standards

For reporting periods beginning on or after 1 January 2005 the consolidated entity must comply with the Australian equivalents to International Financial Reporting Standards (AIFRS) as issued by the Australian Accounting Standards Board. The implementation plan and potential impact of adopting AIFRS are detailed in Note 31 to the financial statements.

Directors' Declaration

The directors declare that:

- (a) The financial statements and associated notes comply with the Australian 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 Brisbane, by the directors.



Mr K Hilless
Chairman
9 September 2005

Independent Audit Report

To the Members of Ergon Energy Pty Ltd

Matters relating to the Electronic Presentation of the Audited Financial Report

The audit relates to the financial report of Ergon Energy Pty Ltd for the financial year ended 30 June 2005 included on Ergon Energy Pty Ltd's web site. The Directors are responsible for the integrity of Ergon Energy Pty Ltd's web site. We have not been engaged to report on the integrity of Ergon Energy Pty Ltd's web site. The audit report refers only to the statements named below. It does not provide an option on any other information which may have been hyperlinked to/from these statements. If users of the financial report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report, available from Ergon Energy Pty Ltd. to confirm the information included in the audited financial report presented on this web site.

Scope

The Financial Report

The financial report of Ergon Energy Pty Ltd consists of the Statements of Financial Performance, Statements of Financial Position, Statements of Cash Flows, accompanying notes to and forming part of the financial statements, and the directors' declaration for both Ergon Energy Pty Ltd (the Company) and the consolidated entity, for the year ended 30 June 2005. 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 is presented 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 audit 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.

No events have occurred that would require any changes to the audit independence declaration dated 8 September 2005 previously provided to the directors.

Audit Opinion

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

- (a) the *Corporations Act 2001*, including-
 - (i) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2005 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the *Corporations Regulations 2001*;
- (b) other mandatory financial reporting requirements in Australia.




G G POOLE, FCPA
Auditor-General of Queensland



Queensland Audit Office
Brisbane

Additional information

Online Information

Throughout this report, where additional information is readily available on topics of further interest to our readers, a  symbol is shown. This symbol indicates that one of the following 'fact sheet' style appendices or links is available on our internet site. Simply visit www.ergon.com.au/annualreport

Government Review in the Electricity Industry	Environmental Performance Summary 2004/05
Network Management Plan	Statement of Affairs 2004/05
The QCA Final Determination, Regulation of Electricity Distribution April 2005	Our Sponsorship Guidelines
Customer Charter	Regional Sponsorship Summary 2004/05
Customer Advocate	Indigenous Employment Strategy
Environmental Policy	Corporate Governance – Charters of the Boards & Committees and Policies
Vegetation Code of Practice	ASX Compliance Index
Details of Community Powerline Projects 2004/05	
Details of Cyclones Area Reliability Enhancement (CARE) Program 2004/05	

Abbreviations

AIDM	Asset Inspection and Defect Management
AIPM	Australian Institute of Project Management
ASX	Australian Stock Exchange
BMA	BHP Billiton Mitsubishi Alliance
CARE	Cyclone Area Reliability Enhancement program
CLI	Customer Loyalty Index
CPP	Community Powerline Projects
CRI	Customer Responsiveness Index
CVM	Customer Value Management
DPI	Department of Primary Industries
DNSPs	Distribution Network Service Providers
EBA	Enterprise Bargaining Agreement
EBIT	Earnings Before Interest and Tax
EDSD	Electricity Distribution and Service Delivery for the 21st Century Review
EECL	Ergon Energy Corporation Limited
EEPL	Ergon Energy Pty Ltd
EEO	Equal Employment Opportunity
EMFs	Electromagnetic Fields
ERP	Enterprise Resource Planning
ESAA	Electricity Supply Association of Australia
ESO	Electrical Safety Office
FOI	Freedom of Information
GECs	Gas Electricity Certificates
FI&S	Finance, Information and Services
KPIs	Key Performance Indicators
GOS	Grade of Service
GRI	Global Reporting Initiative
GSLs	Guaranteed Service Levels
ISO	International Organisation for Standards
IT&T	Information Technology
IT&T	Information Technology and Telecommunications
IPM	Integrated Portfolio Management
IVR	Interactive Voice Response
JET	Joint Enterprise Transformation
NAPM	Network Asset Preventative Maintenance
NATA	National Association of Testing Authorities
NCSI	NATA Certification Services International
NCC	National Contact Centre
NEM	National Electricity Market
NSCA	National Safety Council of Australia
PCBs	Polychlorinated Biphenyls
PMO	Project Managed Organisation
QA	Quality Assurance
QAO	Queensland Audit Office
QCA	Queensland Competition Authority

QUT	Queensland University of Technology
RECs	Renewable Energy Certificates
SCI	Statement of Corporate Intent
SPS	Stand-alone Power Supply
SCADA	Supervisory Control and Data Acquisition
SWER	Single Wire Earth Return
TaDS	Transmission and Distribution Services
VaR	Value at Risk

Units of Measure

SAIDI	System Average interruption Duration Index. Network reliability performance index, indicating the total minutes, on average, that customers are without electricity during the relevant period (minutes).
SAIFI	System Average Interruption Frequency Index. Network reliability performance index, indicating the average number of occasions each customer is interrupted during the relevant period (interruptions).
AIFR	All Injury Frequency Rate – measured as number of injuries per million hours worked
LTIFR	Lost Time Injury Frequency Rate. Number of lost-time injuries per million hours worked over the 12 month reporting period.
V	volt the unit of potential or electrical pressure
kV	kilovolt one kV equals 1,000 volts
W	watt a measure of the power present when a current of one ampere flows under a pressure of one volt
kW	kilowatt one kW equals 1,000 watts
MW	megawatt one MW equals 1,000 kilowatts
kWh	kilowatt hour the standard 'unit' of electricity which represents the consumption of electrical energy at the rate of one kilowatt over a period of one hour
MWh	megawatt hour one MWh equals 1,000 kilowatt hours
GWh	gigawatt hour one GWh equals 1,000 megawatt hours or one million kilowatt hours
HV	high voltage alternating current above 1,000V
LV	low voltage alternating current above 32V and not exceeding 1,000V

Overseas Travel

Country	Purpose	No. of Visits	Ergon Energy Expenditure
Ireland	Field workforce recruitment	1	\$14,900
USA	Design, testing and training for new SCADA system	15	\$130,000
USA	Professional Development	1	\$80,760
USA/Mexico	Industry Conference	1	\$0

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