



**everything
in our
power**

ANNUAL REPORT

03
04



Our vision

To be a world-class, customer-driven energy business.

Mission: To deliver customer and Shareholder value through the provision of sustainable, quality energy solutions and associated services. This means we are committed to:

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

Values: The work environment that Ergon Energy is committed to fostering is one where people:

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



**Everything in our power
to improve**



Lucy Devenish runs several hundred head of cattle on her family's property, near Chinchilla, that depend on thirst quenching pumped water. That's why she was pleased Ergon Energy listened to her concerns and kept her informed during local power supply improvements.



Fraser Power, Ergon Energy's Customer Advocate, believes passionately that listening to our customers will drive improvements across the business. It's all about letting customers, like Lucy, know that their feedback and concerns are being acted on.

Our communications

This report highlights Ergon Energy's performance during the 2003/04 financial year. Our aim is to ensure relevance and a high degree of transparency to support our corporate reporting requirements and provide a strategic and operational background for our customers, community representatives, government Shareholders and other stakeholders with an interest in Ergon Energy's performance. The report also reinforces our corporate culture for both employees and external stakeholders.

The development of this report has been guided, as part of our commitment to continuous improvement, by the principles of the accountability standard AA1000, the Global Reporting Initiative 2002 Sustainability Reporting Guidelines, the ESAA's Triple Bottom Line Reporting Guidelines and recommendations from environmental certification standard ISO 14001. Together this framework reflects a widely accepted approach to defining sustainability and therefore provides a common platform for comparability.

Across the business the three separate 'triple bottom line' elements – economic, environmental, and social – are seen as integrated, both together and within the context of our customers' expectations and best-practice governance. Achieving sustainability means balancing the complex relationships between these elements in a manner that does not compromise future needs.

Additional information to complement this report is available via an online appendix. Where further information is available this symbol ⓘ is shown. Further information about this feature can be found on page 105.

Our aim is to continue to refine our corporate reporting to ensure we meet the expectations of our stakeholders, and encourage your feedback online at www.ergon.com.au/annualreport or through the feedback form on page 107.

Chairman, Keith Hilless and new Chief Executive, Tony Bellas, introduce our strategic and operational response to the challenges facing Ergon Energy.

Delivering operational excellence in our service delivery is a key priority. Our aim is to be a truly customer-driven business.

Meeting our economic, environmental and social obligations without compromising the future is all part of our commitment to sustainability.

World-class leadership, governance and risk management are essential to managing the challenges ahead, both the opportunities and the risks.

This section includes the Corporate Reports for both Ergon Energy Corporation Limited and Ergon Energy Pty Ltd.



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Our profile

Ergon Energy is committed to delivering sustainable, quality energy solutions. This commitment is part of our vision to be recognised as 'a world-class, customer-driven energy business'.

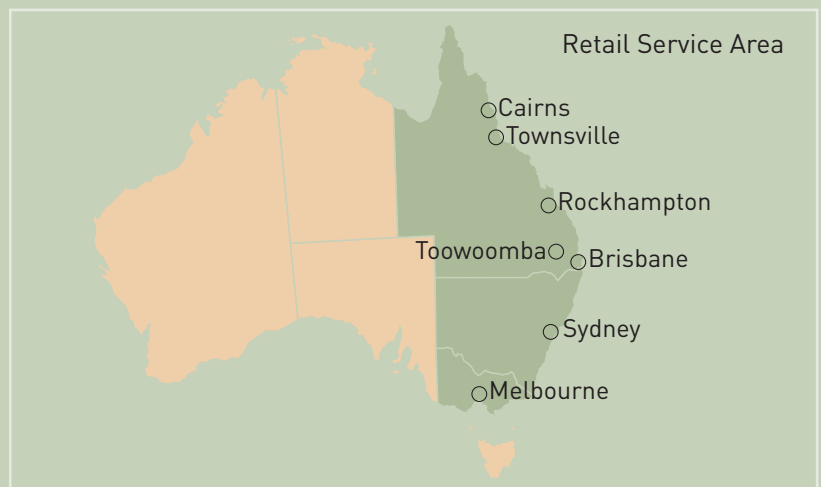
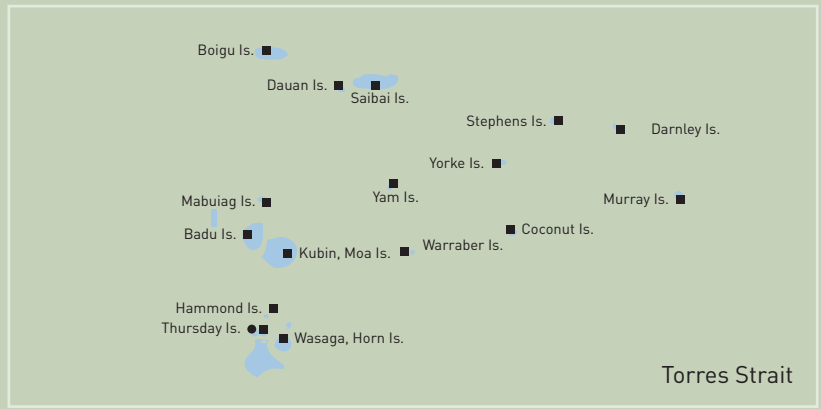
With an asset base of \$3.8 billion, and over 3,000 employees, we deliver from the Torres Strait to Queensland's major regional centres and from the coast to the outback – an area over six times the size of Victoria.

Queensland Government owned, the Ergon Energy group includes Ergon Energy Corporation Limited – our regulated electricity distribution business, and Ergon Energy Pty Ltd – our energy retailing business as our main subsidiary.

Our electricity network powers across a truly diverse landscape, from the harshest, most demanding terrains to the most sensitive. Our service area is recognised internationally as one of the largest covered by a single electricity distributor in the western world. To meet these challenges, we are constantly looking for innovative solutions – from alternative energy opportunities to world-class electricity distribution technologies.

In addition to our commitment to around 600,000 customers within Ergon Energy's franchise footprint, we're one of Australia's leading electricity retailers to large contestable customers in the National Electricity Market. We are also one of the largest purchasers of renewable energy in Australia.

Today's Ergon Energy was formed in 1999 from the amalgamation of the then six regional Queensland electricity distributors and their retail subsidiary.





Electricity Industry Overview

The electricity industry is broadly divided into four main segments: generation, transmission, distribution and retail.

GENERATION

Queensland has a number of both government-owned and private generators which operate the state's main power stations. The generators sell electricity through a central trading 'pool' arrangement, managed as part of the National Electricity Market, where retailers take supply to meet their customers' needs.

Although not a major generator, Ergon Energy owns and operates 33 stand-alone power stations to provide supply to isolated communities across the state that are not connected to the main grid. We are also involved in alternative energy generation, ranging from our Suncoast Gold Macadamias cogeneration partnership near Gympie that generates electricity from macadamia shells, to our stationpower® stand-alone power systems that are now supplying 19 isolated sites across northern Australia.

TRANSMISSION

To provide supply across the state, electricity is transmitted at voltages up to 330,000 volts. The transmission network, owned and operated by Powerlink Queensland, extends 1,700 kilometres from north of Cairns to the New South Wales border. Ergon Energy provides transmission maintenance and response services in regional Queensland to help support efficient operation of this function.

DISTRIBUTION

Ergon Energy is one of two distribution companies in Queensland. The distributors own and operate the local power 'poles and wires' through which electricity travels to homes and businesses. Servicing an area over one million square kilometres, Ergon Energy's distribution network consists of around one million power poles and 150,000 kilometres of powerlines.

RETAIL

The retailers buy wholesale electricity from the generators through the 'pool' and sell it on to customers. Ergon Energy retails power to customers in its regional Queensland supply area, as well as successfully retailing in the competitive Queensland, New South Wales and Victorian energy markets. In Queensland, customers who use over 100MWh of electricity each year are able to choose to leave the franchise tariff and become contestable, and negotiate a power supply agreement with the electricity retailer of their choice.

Our power

We believe in doing everything in our power for our customers. They are at the centre of everything we do.

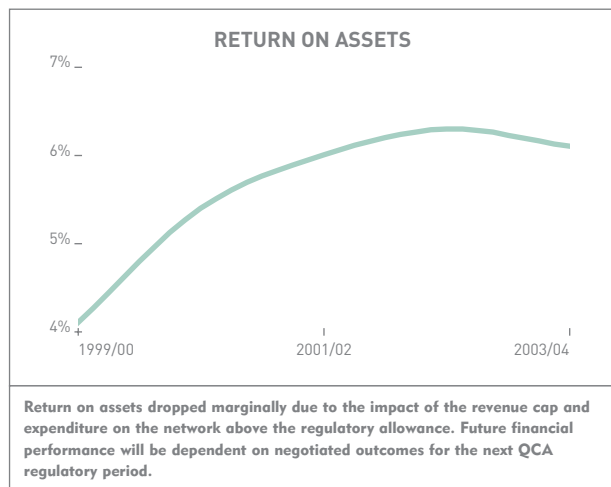
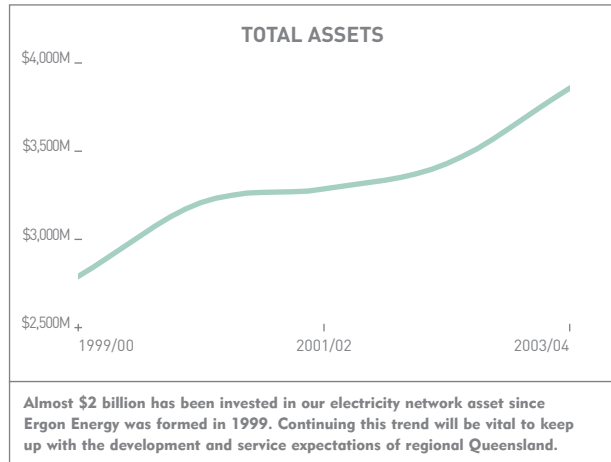
It's about responding to customers' needs – from a reliable power supply to value for money – keeping people safe, caring for the environment and communities across regional Queensland.

We believe in connecting with people and doing everything in our power to provide customer satisfaction at every touch point with Ergon Energy.



Our Highlights

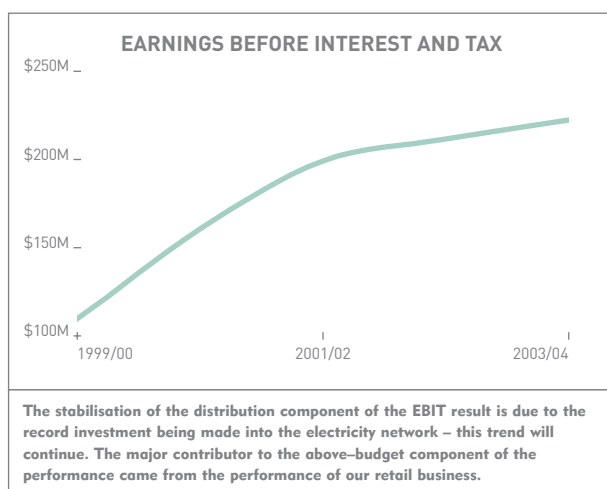
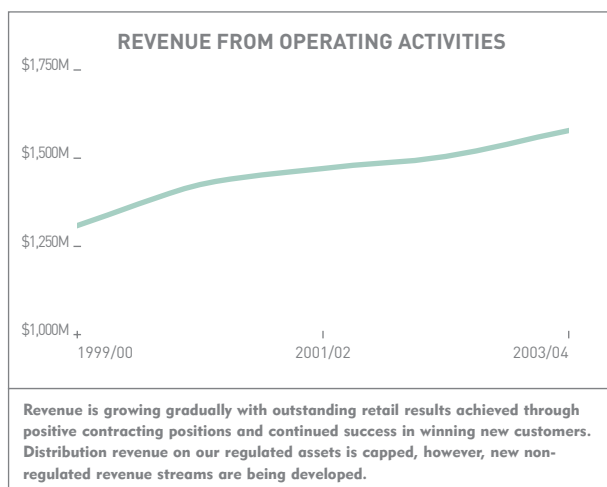
Financial Snapshot



	%	03/04
	Change	\$M
Earnings before interest and tax	5.1%	\$222.1
Earnings before interest, tax, depreciation and amortisation	2.7%	\$402.3
Operating profit before income tax	1.7%	\$128.4
Total assets	12.4%	\$3,852.0

	03/04
Return on assets	6.1%
Return on average equity	5.7%
Gearing	46.0%
Interest cover (times)	4.3

For further discussion on the above results refer to pages 21-23.



	02/03 \$M	01/02 \$M	00/01 \$M	99/00 \$M
	\$211.3	\$198.8	\$160.1	\$109.3
	\$391.8	\$372.3	\$308.5	\$246.8
	\$126.3	\$116.2	\$84.3	\$44.1
	\$3,426.1	\$3,284.5	\$3,207.4	\$2,786.0

	02/03	01/02	00/01	99/00
	6.3%	6.0%	5.4%	4.1%
	7.1%	5.7%	5.9%	4.0%
	49.3%	46.8%	45.1%	50.0%
	4.6	4.5	4.0	3.8

Delivered a record \$554 million network expenditure program

to improve power supplies to regional Queensland, including an enhanced preventative maintenance program. [Pages 14-15](#)

Customer service improvements

were made across the business – we established an internal customer advocate, implemented new system capability and improved fault management. [Pages 17-19](#)

Our customer partnering approach

delivered success in the contestable energy market with significant wins in the southern markets and a substantially stronger market position in South East Queensland. [Page 18](#)

We achieved our financial targets while balancing the need to invest in the network.

These results were supported by a strong \$28.3 million EBIT achieved by the retail business, 39% favourable to target. [Pages 22-23](#)

We reached significant business growth

milestones, including the launch of wholesale telecommunications for regional Queensland and a gas-fired generation venture. [Page 21](#)

Our Clean Energy program achieved

20,000 subscribers, making it the fastest-growing, most successful renewable energy subscription program in Australia. [Page 27](#)

We achieved the National Safety Council of Australia's highest safety grading of five stars,

placing us firmly on to the way to achieving our target of zero injuries. [Pages 30-31](#)

Performance overview

How we plan to achieve our vision

Key Result Area	Strategic Objectives	Key Performance Targets	Key Performance Results
Operational Excellence 	To be one of the most successful energy-based organisations in Australia, in terms of network performance and safety.	Guaranteed Service Levels ≥ 85% achieved Supply Reliability Indicators: Duration Total SAIDI ≤ 475 +/- 25 Frequency Total SAIFI ≤ 4.5 +/- 0.3	Guaranteed Service Levels 97% achieved Supply Reliability Indicators: Duration Total SAIDI 564 Frequency Total SAIFI 5.1
Customer Service 	To provide service excellence through improving relationships with our customers.	Customer Survey ≥ 100 +/- 2 (competitive parity)	Customer Survey 103 (above competitive parity)
Financial Performance and Growth 	To maximise Shareholder value in Ergon Energy, while improving profitability and creating employment through business growth and diversification.	Net Profit after Tax ≥ \$83.0 million Return on Assets ≥ 6.1%	Net Profit after Tax \$92.0 million Return on Assets 6.3%
People Development 	To effectively manage and support our people for both corporate and individual benefit.	Employee Opinion Survey ≥ 60% overall satisfaction Safety - NSCA 5-star grading	Employee Opinion Survey 65% overall satisfaction Safety - NSCA 5-star grading
Risk Management 	To effectively manage business risk within both the regulatory and contestable environment.	OPERATIONAL: Network – all defects managed within risk policy Environmental ISO 14001 compliance FINANCIAL AND ENERGY: No material financial breaches of policy	OPERATIONAL: Network – all defects managed within risk policy Environmental ISO 14001 accreditation FINANCIAL AND ENERGY: No material financial breaches of policy

Ergon Energy documents its corporate objectives, strategies and targets for each financial year within its Statement of Corporate Intent (SCI). As a Government Owned Corporation, this document is fundamentally a performance agreement with our shareholding Ministers.

Our performance against our 2003/04 SCI is summarised below. The three symbols indicate the perspective from which the Key Result Area has been addressed in more detail throughout the report. These perspectives, which aim to expand on the information of most relevance to our key stakeholders, include how we are serving our customers, our commitment to sustainability and our approach to corporate governance and risk management (refer to legend).



Our service



Our commitment



Our governance

Performance Achievements

Delivered a record \$554 million network expenditure program – including significant network upgrades, an enhanced preventative maintenance program (Pages 14-15) and high levels of customer-requested works (Page 21).

Due to the level of planned defect-remediation work and the impact of the storm season, network performance targets were not met (Page 16).

Our customer service teams continued to manage growing call volumes and achieved their overall grade of service target. This was supported by the implementation of a new Customer Management System and improvements to fault management (Page 19).

A customer advocate role was established to drive customer service improvements across the business (Page 17).

Success in the contestable energy market has been delivered from our customer partnering approach (Page 18).

All of our financial targets were achieved (Pages 5 & 22-23). These results were supported by a sound performance by the distribution business, despite record infrastructure related expenditure, (Pages 14-15), and a strong performance by the retail business.

We launched a wholesale telecommunications business, delivered on our gas strategy and progressed several industry partnerships (Pages 21-22). We have also had success building on the profitability of our expanding product range (Page 18).

The NSCA five-star milestone achieved for our safety systems and performance places us firmly on the way to achieving our target of zero injuries (Pages 30-31).

Employed 70 new apprentices and 20 trainees as part of our commitment to developing a strong regional skill base (Page 30).

An extended management team, along with other initiatives, has improved representation from our different operating regions in senior management decisions (Page 36).

Our Clean Energy program achieved 20,000 subscribers, making it Australia's fastest-growing, most successful renewable energy subscription program with the largest proportion of Green Power customers (Page 27).

Became one of only three organisations in Queensland to gain accreditation as a Project Managed Organisation (Page 33).

Maintained a profitable operating position throughout the volatile wholesale energy market events of March 2004 (Page 37).

Future Challenges*

We are currently implementing a network summer preparedness program and continuing with an integrated network improvement plan, which will include record expenditure and targeted defect remediation, to deliver these supply reliability targets:

Duration Index – Total SAIDI ≤ 520 +/- 10%

Frequency Index – Total SAIFI ≤ 4.6 +/- 5%

We have also established implementation targets for both our Summer Preparedness Plan and delivery of the Action Plans developed in response to the Government review.

We are incorporating the 'customer-driven' element of our vision into every area of the business, with a priority on improving customer communications during outages as recommended by Government's Electricity Distribution and Service Delivery review. The new indicators below are part of ensuring we both understand our customers' expectations and are able to deliver responsive, flexible outcomes.

Customer Survey ≥ 7.1 Now based on the 10-point scale rather than the index (performance relative to competitors).

Customer Loyalty Index ≥ 7.1

Customer Responsiveness Index ≥ 1

To meet the service expectations of our customers and of Government and, at the same time, deliver economic value to our Shareholders, we will need to maintain our focus on operational excellence and delivering value for money in capital and maintenance programs. Key commercial targets include:

Net Profit after Tax ≥ \$105.5 million

Return on Assets ≥ 6.3%

Being an employer of choice and empowering our people to deliver are key to harnessing our power to deliver our vision. Key elements in this area include the following employee satisfaction and safety outcomes:

Employee Opinion Survey ≥ 65% overall satisfaction

Safety ≥ 25% reduction in LTIFR

Operationally, defect management and environmental compliance will remain a key focus of our risk management focus. Other policy areas that require strict compliance include safety, financial management and energy trading. This will require an ongoing focus on the development and training of our people and the necessary framework to support full compliance and certification as appropriate.

Full compliance / No breaches of policy

* At the time of production of this Report these targets were being reviewed to ensure they support the Action Plans developed in response to the Government review. ②

Chairman's message

MERGER JOURNEY A SUCCESS

Reflecting on how far Ergon Energy has already come, I can only give credit to the determination and capability of Ergon Energy's people. The past five years have seen significant progress, with seven companies and numerous systems and cultures merging into one.

Ergon Energy's focus has been on putting the basics in place. We recognise that this work is ongoing in areas like safety, customer service, reliability and defect management and the modernisation of our assets. Our future direction is intrinsically linked to getting the basics right, as they are the platform upon which we can pursue future opportunities to further develop our business.

IT'S TIME TO LOOK FORWARD

We have put considerable effort into defining the strategic direction for the next phase of our journey. This has involved extensive stakeholder engagement, submissions to our Regulator, consultation with our Government Shareholders and an expanded customer research program.

Our aim has been to align our corporate objectives with the aspirations of our many stakeholders. As a result, we are continuing to focus on securing the core business, while developing our capability to deliver outstanding customer service and growth.

In January this year, Tony Bellas was appointed to drive this new direction as Ergon Energy's Chief Executive. Mr Bellas brings with him extensive energy industry, commercial and public sector experience. He is an ideal choice to lead the next phase of Ergon Energy's development.

EVERYTHING IN OUR POWER

We are looking outward, with customer service as one of our key priorities. As part of this shift, to engage our customers and set the scene for things to come, we launched 'everything in our power' in mid-June as the slogan in our latest promotional campaign.

'Everything in our power' is at the heart of what we mean by outstanding customer service – it's about going the extra mile in everything we do. It focuses our attention on communicating with our customers, keeping promises, considering the community's needs and treating customers with respect.

TAKING UP THE CHALLENGE

Ergon Energy's challenges over the five-year planning horizon are both generic to the electricity industry and unique to us. Our unique challenges revolve around the sheer size and age of our network, deficiencies in its ability to deliver consistent quality and reliability of supply and the need to develop efficient regionally focused service delivery.

For the retail business, our challenge is to capitalise on the tremendous success to date in the risk management and trading area, as well as our success winning larger customers in the National Electricity Market. Our understanding of corporate and major business needs has allowed us to deliver some outstanding and innovative results for our customers. As we move forward we aim to continue to meet our customers' needs with our knowledge of the market, as well as increase our presence in the market by increasing our overall customer load.

In response to these challenges we will:

- continue to improve network reliability
- maintain our focus on safety with a drive towards zero injuries
- improve our capability to provide outstanding customer service
- further develop leadership excellence and staff development programs
- deliver effective cost management and commercial performance
- further strengthen our retail market performance
- pursue growth opportunities while maintaining a focus on our core business strategies.

OUR VISION

Ergon Energy's strategic plan is clearly leading us towards our vision to be 'a world-class, customer-driven energy business'.

We have recently taken a fresh look at our plans to ensure that, in priority and timing, we will also be able to respond effectively to the recommendations of the recent State Government review into the industry – Electricity Distribution and Service Delivery for the 21st Century. We have made a clear commitment to the State Government to implement the review's recommendations and the Board will be reviewing progress regularly. ②

Over the coming years we'll see an investment in our network infrastructure that will enable us to meet our customers' requirements well into the 21st century. We'll be able to provide our employees with a workplace that is free of injury. Business growth will come through customer service excellence and we'll use strategic partnerships to complement our operations. We'll also continue our leadership in renewable energy solutions.

And most importantly, we'll see our success come through our people truly living our values. Everywhere, every day, we'll be doing everything in our power to support our customers.



Keith Hillless
Chairman





Chief Executive's report

LEADING THE WAY

Joining Ergon Energy as Chief Executive in the midst of what was a hectic summer storm season provided an excellent opportunity to gain a sound understanding of some of the challenges facing our organisation. It also highlighted very clearly how Ergon Energy is leading the way in many areas.

I was impressed by the efficient way our people were able to deal with the considerable weather-related power outage issues faced, and by the professionalism of the Counter Disaster Committees that swung into action in two storm-affected regions simultaneously.

During the summer period, our energy risk management and trading reputation was again cemented as Queensland's half-hour demand reached a record of 7,933MW. The period of extreme pool price volatility was profitably managed throughout the portfolio, showing once again the robust risk management capability that continues to protect the business from extreme price volatility as it has done repeatedly in the past.

Our commitment to the regional communities in which we live and work was also being demonstrated in countless ways – one being the Royal Flying Doctor Service (QLD) customer donation scheme, which was recently recognised by the Australian Financial Review Magazine Corporate Partnership Awards.

When I joined the company, it had also made its mark with a number of innovations, including the Suncoast Gold Macadamias cogeneration initiative, our award-winning stationpower® stand-alone power supply systems, and our mark-to-market energy trading risk management approach. We were already one of Australia's largest purchasers of renewable energy and had the fastest-growing renewable energy subscription program in Australia.

A STRONG TRACK RECORD

By the end of the year, Ergon Energy had delivered solid results both operationally and financially, with the majority of our performance indicators exceeding targets.

We have delivered on a very challenging \$554 million network expenditure program. The record level of investment included ongoing network refurbishment and upgrades, as well as a high level of demand for customer-requested works.

We have put the fundamentals in place. We now have key systems to support world-class asset management well into the 21st century. We are continually gaining better information on our network and have an integrated reliability-focused improvement plan, which is currently being rolled out.

We achieved the National Safety Council of Australia five-star grading for our safety systems and performance. This was one of the major milestones set when Ergon Energy was first formed and places us firmly on the path to achieving our target of zero injuries. We are also maintaining Environmental ISO 14001 certification across the business.

The commercial performance of our retail operations has been outstanding. This result was underpinned by robust risk management systems, continued success in winning new customers in the competitive market through a customer partnering approach and positive contracting positions. Overall, the Ergon Energy group achieved a Net Profit after Tax of \$92.0 million, 11% favourable to the budget.

Our financial strength is also reflected by the growth of our asset base, which is now \$3.8 billion, an increase of over 12% over the year. A number of other growth milestones were also achieved this year. Construction started on a new \$12 million power plant in Moranbah, providing a boost for regional Queensland economies, and leading the way with the use of coal-seam gas as an environmentally friendly fuel source. We also started a two-year \$19 million rollout of new fibre-optic-based communication links within regional Queensland.

TARGETING OPERATIONAL EXCELLENCE

Along with these successes, we also fully appreciate that we have challenges ahead.

Our key focus remains on the performance of the network and the fact that our network reliability performance targets were not met this year. To address this performance gap, our overall plan has taken into consideration the age and condition of our network, and incorporates best practice asset inspection and defect remediation processes. It also considers the capital and human resources required to achieve the necessary upgrades and to satisfy the growing expectations of our customers.

Details of the network and service issues facing Ergon Energy, as well as our plans to address these issues, were presented by Ergon Energy to the independent panel which was part of the State Government's review into the electricity industry. We have endorsed the findings of the independent panel and take full accountability for the actions required in relation to the regional Queensland network. We are now committed to ensuring our ongoing priorities align with the review's recommendations. ⓘ

In the next 12 months, the distribution side of our business will focus on four key priority areas to deliver performance improvements. The focus will be on:

- continuing the risk management approach to ensure assets deliver to expected operational performance standards through improved capture of asset information, reliability forecasting, vegetation management and integrated works planning
- targeting capital improvements in areas of the network that are not performing to required standards
- responding efficiently and effectively to problems on the network and customer complaints and communicating more effectively with customers overall
- investigating innovative solutions to ensure the network is capable of meeting customer expectations into the future.

This focus on power supply improvements was reinforced by an equity injection of \$200 million from the State Government in June 2004. These additional funds will support ongoing record levels of expenditure on the electricity network.

LISTENING TO CUSTOMERS

We are keenly aware that our growth objectives can only be realised from a platform of outstanding customer service.

Feedback from the Government review process and our own customer feedback mechanisms, especially following the storm season, highlights the importance of staying in touch with customer expectations. In response to this feedback, we have improved communications to our customers. We have established an internal customer advocate to strengthen our customers' voice in decision making and have established a customer loyalty index and a responsiveness index, which includes complaints management, to track our performance in this area.

Our growth objectives aim to deliver both customer and Shareholder value. They include strengthening our core business, creating job and career opportunities and assisting in Queensland's social and economic development.

In the growth area, the retail side of our business already has significant runs on the board, delivering outstanding profits and retaining or winning some of the largest and most valuable customers in Australia. The retail business will continue to provide excellent customer service and deliver unregulated revenue growth as a nationally recognised retailer by:

- delivering a customer partnering approach to our three customer segments (residential, business and corporate) through electricity-related products and value services

- leveraging our market leading risk management capabilities into new products, including gas and diesel fuel
- continuing to develop the emerging emissions market through renewable energy trading and the establishment of a project development business
- striving for operational excellence through improved cost performance, particularly through Ergon Energy's industry joint working initiatives.

EMPOWERING OUR PEOPLE FOR SUCCESS

We have outstanding and resourceful people throughout Ergon Energy who are addressing the many challenges we face in meeting the expectations of our customers across our diverse supply territory.

As a company, we are increasingly empowering our people to act and take the initiative in moving the business forward. This means simplifying our processes to ensure a more flexible and responsive organisation, while at the same time providing clear delegations and accountabilities.

The alignment of the organisation's culture to our corporate values, I believe, will also be a critical enabler for Ergon Energy to deliver its performance objectives. The values underpin the empowerment of our employees and, in particular, will be critical for achieving appropriate safety and customer service behaviours.

We've increased our total field workforce – of both permanent employees and contract resources – by over 30% in the last four years, as part of a plan to meet our extensive works program. We took on 70 new apprentices in early 2004 and will continue to recruit and skill our people to meet the challenges ahead.

Our vision to be a world-class, customer-driven energy business recognises that our future depends on our customers. It's all about the way we do business and how we relate to our customers, colleagues and our many stakeholders.

Working together, I am confident we will do everything in our power to deliver on our commitments.



Tony Bellas
Chief Executive

Moving forward

Our mission

To deliver CUSTOMER and SHAREHOLDER VALUE through the provision of sustainable, quality energy solutions and associated services.

Our focus

OPERATIONAL EXCELLENCE

- › Driving towards zero injuries
- › Outstanding customer service
- › Targeting network reliability
- › Efficient delivery of work plans
- › World-class risk management
- › Protecting the environment

GROWTH

- › Support regional Queensland development (by developing our core business and electricity network).
- › Achieve success in the contestable National Energy Market (through customer partnering and energy trading expertise).
- › Lead in environmentally friendly energy solutions
- › Develop our transmission and distribution contracting services

Our enablers

- › Listening to customers
- › Living our values
- › Empowering our people
- › Simplifying systems and processes
- › Commercial focus
- › Industry partnerships

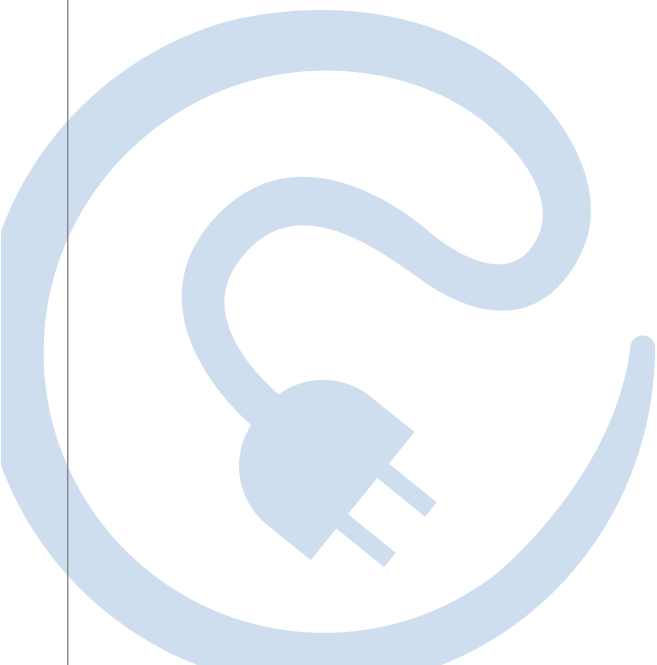
Our vision

To be a world-class, customer-driven energy business.

Our service

We're striving hard to meet our customers' expectations by building a better network, by partnering to deliver real value, and by going beyond the call.

It's all about delivering customer service to another level.



**Everything in our power
to deliver**



Kerry Woolacott, the Manager of Killarney Co-Op, faced a tight deadline and tough obstacles to have their new general and rural supply store open in time for the crucial Easter holiday trading period.



John Gillott and his team from Ergon Energy Warwick, implemented special work plans and fast-tracked infrastructure changes to ensure the Co-Op celebrated its grand opening on schedule.

Objective To be a truly customer-driven business. Our aim is to continue to build on our understanding of our customers' expectations, to support service excellence. This will enable us to deliver on our vision to be 'a world-class, customer-driven energy business' in terms of customer service, network performance, retailing and wholesaling.

Strategy To continue to listen to our customers and strive to meet their expectations - by investing in our core business to achieve improvements in power supply quality and reliability, utilising a partnering approach for major customers and building systems support to enable a high quality, cost-effective standard of service to our franchise customers.

Key Achievements

- Delivered a massive \$554 million network expenditure program as part of an integrated plan to improve power supplies to regional Queensland. This level of expenditure continues to be significantly above the allowance set by the Regulator.
- Rolled out an enhanced network asset preventative maintenance program – targeting assets such as substations – to achieve the greatest impact on reliability improvements.
- Established an internal customer advocate role as the internal voice of the customer in decision making across the business.
- Implemented a new Customer Management System and improved fault management to provide for increasingly customer-focused processes.
- Our customer partnering approach is reaping rewards in the contestable energy market with significant wins in the southern markets and a substantially stronger position in South East Queensland.

Future Our customers are our future. We are committed to being customer-driven across every area of the business. This will mean:

- an ongoing investment in our network – utilising a risk management approach to ensure assets deliver to expectations, alongside targeted capital improvements; a focus on improving customer communications and our responsiveness to customer feedback
- further improvements in the customer service area – including the integration of customer, asset and works management systems to enhance customer service delivery, as well as the expansion of our customer partnering approach across the residential, business and corporate markets through electricity-related products and value-adding services.

Our Customers, Our Future

Our job is to provide the energy that enables our customers to enjoy their chosen lifestyles and run their businesses no matter where they are. We deliver an essential service that affects people's lives – in every way electricity is key to life in the 21st century. We serve around 600,000 customers, both in our franchise regional Queensland marketplace and within the competitive Queensland, New South Wales and Victorian energy markets.

With the knowledge that our customers are our future, we are going to great lengths to stay in touch with their needs and expectations.

UNDERSTANDING OUR CUSTOMERS

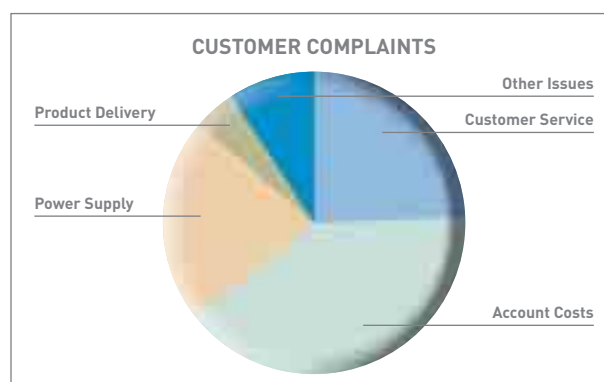
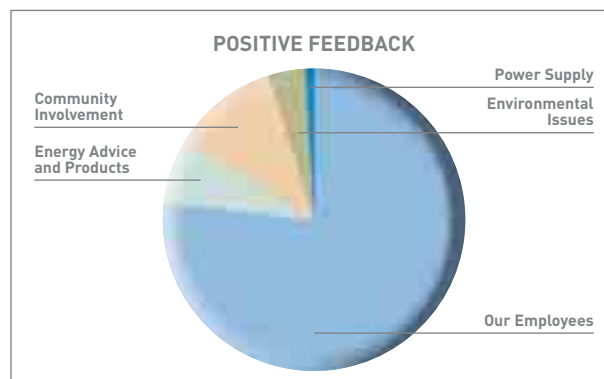
To better understand and satisfy our customers we undertake extensive formal research, utilise daily feedback from our customers and host regional Community Interaction Forums (Page 29). We also gain invaluable feedback from the six Regional Electricity Councils functioning within our franchise area (Page 29). Our aim is to be responsive to the feedback of our customers and listen at every opportunity.

To track trends in what our customers value, how we are delivering against their expectations and where we need to target improvements, we have continued to use Customer Value Management (CVM) research. In the latest results (May 2004), Ergon Energy maintained its lead over a pool of other Australian energy suppliers with an overall result of 103, where 100 represents parity or an equal rating to the other suppliers. Ergon Energy was perceived to perform well in relative terms on information provision (104), features of the electricity service (105), establishing an account (104), street light management (109) and vegetation management (105).

In the results of new customer loyalty research with our corporate customers, Ergon Energy's performance was rated as 7.3 out of 10. Ergon Energy is seen as valuing its customers and making successful efforts to understand corporate customers' business drivers. We rated highly on supply (7.3), pricing arrangements (7.8) and customer service (7.3) (Page 17).

In addition to our ongoing research, this year we conducted detailed customer research to assist us in developing our submission to the industry's Regulator, the Queensland Competition Authority (QCA), for the coming regulatory period. The research covered considerations vital to our forecasting and infrastructure planning, such as identification of reliability thresholds for different customer segments, as well as consumption patterns and drivers. We also conducted in-depth interviews with customers, as a key stakeholder group, as part of our strategic planning process to ensure our strategic direction was aligned with their aspirations.

Just as valuable to our continuous improvement objectives is the feedback that we receive on a daily basis from individual customers. The information we receive this way is currently managed through a customer feedback system, known as FACTS. The system is being progressively upgraded to enable us to better manage customer feedback and complaints.



A stakeholder database is currently being trialled to better enable us to record and manage our contacts with key stakeholders across the community. We are also currently working to provide customers with a broader range of access points, including using our website for such things as 'claims online'.

FOCUSING ON WHAT CUSTOMERS WANT

Through our efforts to better understand our customers we have already prioritised areas that require immediate attention. As a result our focus is firmly on areas such as reliability, our customer responsiveness, and on improving communications with our customers.

We understand the importance of improving network performance and service standards, and accept full accountability for delivering a safe and reliable energy supply to regional Queensland. Our customers want to know that we are aware of network quality and reliability problems and are working through a capital or maintenance works program to fix them. In line with this, they want to see improvements in outage management processes so that their need for vital power restoration information is met every time.

Our customers want us to listen, understand and respond to their needs quickly and effectively, whether it be for energy-saving advice or easy access to the right person to deal promptly with more complex requests.

Improving Reliability of Supply

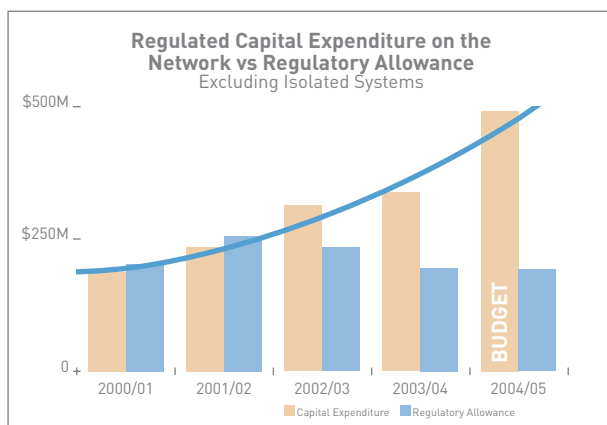
RECORD SPEND SUPPORTS IMPROVEMENT PLAN

Our commitment to improving the reliability of regional Queensland's electricity supply has led to a third successive record investment across our entire network. This year's massive \$554 million expenditure program exceeded last year's record by well over \$60 million. More than \$370 million was invested in new infrastructure and over \$180 million towards maintenance and operational activities.

This year's projects included new substations, high-voltage powerlines, augmentation work to existing infrastructure, as well as an increased commitment to our 'high tech' asset inspection program and an improved maintenance regime.

The level of spending, which is above the expenditure supported by our revenue cap set by our Regulator, the QCA, is consistent with the priorities of the business and will continue. As part of an integrated improvement plan to enable us to deliver to customer expectations well into the 21st century, we have a budget of over \$700 million for 2004/05 which will accommodate the priority recommendations from the Government review. ^①

As part of our public accountability, we plan to publish an annual Network Management Plan ^① to outline how we are responding to the challenges we are facing, as well as our performance commitments.



Our accelerated inspection cycle is addressing immediate reliability issues and obtaining the necessary quality of network data to fully utilise the state-of-the-art asset management systems now in place.



DEFECT WORK FAST-TRACKED

Throughout the year, we continued the transition from a five-year asset inspection cycle to the current three-year cycle to fast-track our response to defect-related performance issues. The focus on safety and reliability improvements has meant expanding our asset inspection and defect management efforts, which initially set out to better map and manage the network, into a more comprehensive Network Asset Preventative Maintenance program. The broader program is targeting Ergon Energy's entire network and complements the Asset Inspection and Defect Management program that for the past few years has been inspecting distribution poles and lines across the state for defects – so far reducing unassisted pole failure by 75%.

The wider scope is now dedicating our efforts to substations, our underground networks and other equipment. These are all integral parts of the power network – a fault at a substation or on a key feeder can disrupt power to several thousand customers, significantly impacting overall reliability. The program is also working to improve the management of public lighting assets and accelerate the light replacement program.

To do this work, Ergon Energy has invested in the latest technology available, including digital mapping, hand-held computers, global positioning systems and digital photography. This technology is vital to ensure comprehensive, efficient and timely inspections.

Once our current accelerated three-year inspection cycle is complete in August 2005, we will have consistent, detailed condition and configuration information for our 150,000 kilometres of distribution line assets. This will assist greatly in asset management in the longer term by enabling us to fully utilise the state-of-the-art asset management systems now in place and drive an improved maintenance approach.

Targeting World-Class Asset Management

IMPROVING OUR SYSTEMS CAPABILITY

Ergon Energy recognises that our systems capability is vital to achieving our objectives. This is driving significant investment across the business.

Over the next three years we will progressively replace the existing legacy Supervisory Control and Data Acquisition (SCADA) systems, used by the six predecessor distribution companies, with a single world-class network control system. The \$20 million system will take us to the forefront of system control technology in Australia and significantly boost the safety, management efficiency and reliability of the distribution network.

SCADA is a critical operating tool. It allows remote monitoring and control of major parts of the system to more quickly and accurately identify faults and direct crews to the problem, facilitating faster restoration of supply to our customers. This new system will also provide us with a platform for future advances in the way we manage our network.

PREPARING FOR THE STORM SEASON

In the lead-up to the busy 2003/04 storm season, we made a range of enhancements to our established storm season preparedness program, which has traditionally included testing emergency response plans and general preparedness. The enhancements included targeted asset-related works, improved stakeholder engagement and customer outage communications (Page 19), as well as a number of system improvements to support our outage management process, including the use of SMS text messaging for more effective operational communications. These efforts assisted in the management of network, stakeholder and customer service issues in what was a difficult operational period.

The intensity of the storms experienced in our southern region tested our preparedness and provided significant learning opportunities, particularly in the customer communications area. As a result we are implementing a range of improvements as part of our current summer preparedness program. These include expanding emergency scenario testing to include our National Contact Centre and, in addition to the accelerated network improvement program underway, giving greater attention to fatigue management, stakeholder engagement, vegetation management and outage communications. We are also working cooperatively with Energex on resourcing, equipment and inventory requirements for major events. The priority Ergon Energy is giving to summer preparedness is supported by the findings of the Government review. ①

MEETING CUSTOMER DEMAND

In February 2004 Queensland's electricity demand record reached an all-time high of 7,933MW. The peak load growth in regional Queensland is now running at about 4% per year, compared to approximately 3% nationally. This growth is particularly strong in areas such as Cairns, Townsville, Mackay, Rockhampton, Gladstone, Toowoomba and the Wide Bay region and is driving significant network asset upgrades, as well as being reflected in elevated levels of customer-initiated works (Page 21).

Our efforts to improve our response to requests for new customer connections, which have doubled in value over the last two years (Page 21), have been broad. New subdivision work is for the first time being managed by common standards and works practices for undergrounding. New processes for network connection requests are also currently being implemented which, although causing temporary resourcing issues, will allow us to respond in a more timely manner to around 8,000 new supply enquiries received each year.

DELIVERING A CHALLENGING CAPITAL WORKS PROGRAM

Successful completion of our record capital investment program delivered significant highlights across the state. Work to supply Cooktown from the new 132kV and 66kV inland powerline that runs via Mt Molloy and Lakeland was completed. The \$25 million project involved 140 kilometres of powerlines and two new substations. The new \$5.9 million substation in Rocky Street at Maryborough was officially commissioned – doubling capacity and improving reliability. Work was completed on the \$1.1 million project to install a second transformer at the Torrington substation that supplies customers in Toowoomba's western suburbs and out towards Oakey. The installation follows the successful completion of a new 33kV feeder line that augmented supply to the Highfields area.

As part of a major investment focus in our isolated communities, we commissioned new power stations in Windorah and Kowanyama – delivering major improvements in our ability to deliver a reliable power supply to these communities. Through our Community Powerline Projects fund, we supported local council programs to improve streetscapes in the communities of Townsville, Childers, Airlie Beach, Warwick, Yeppoon, Longreach and Dalby. ② We also continued our Cyclone Area Reliability Enhancement (CARE) Program, with projects completed in the cyclone-prone northern communities of Ayr, Tully, Mackay, Sarina, Thuringowa and Proserpine ③ (Pages 29-30).

During 2004/05, our capital program will continue to upgrade powerlines, substations and other network infrastructure. This will improve the reliability and quality of electricity supplies and support projected population growth. One of the priorities of this program, which is part of our aged asset replacement strategy, is \$12 million targeted at voltage problems relating to aged copper conductors. We are also progressing a comprehensive protection review to reduce the incidence of protection system malfunction. As we move forward we are adopting a higher standard of planning criteria to ensure key infrastructure, such as major substations, can deliver improved reliability.

The Kowanyama community of Cape York is now benefiting from reliability improvements and the increased load capacity of the \$5.3 million power station commissioned in 2003.



Distribution Network Status Report

NETWORK RELIABILITY PERFORMANCE	2003/04 Target	2003/04 Performance	2002/03 Target	2002/03 Performance
Duration Index (SAIDI)	≤ 475 +/- 25	564	< 490	495
Frequency Index (SAIFI)	≤ 4.5 +/- 25	5.1	< 4.8	4.5

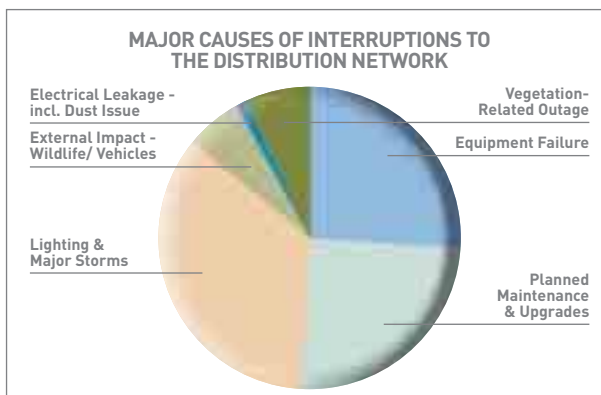
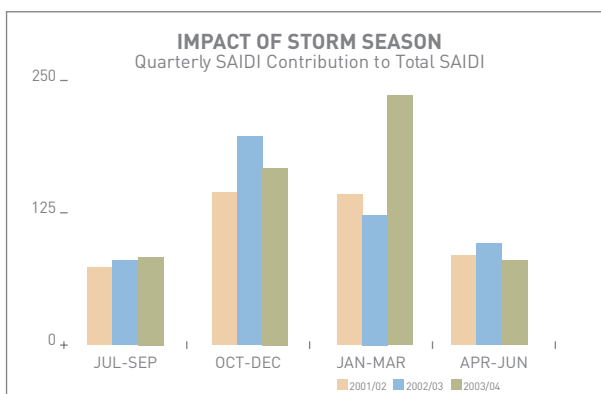
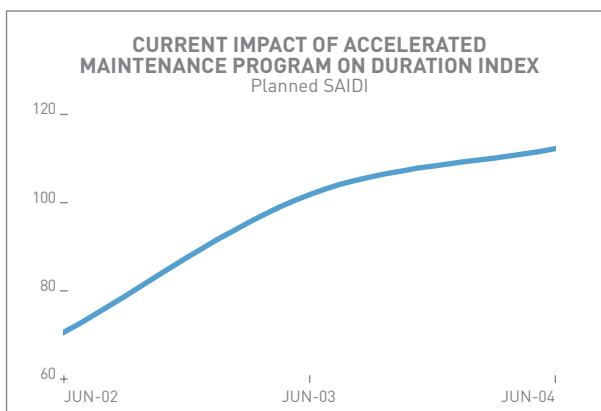
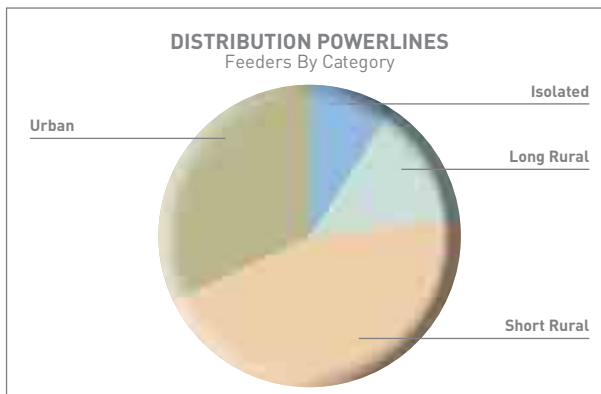
Ergon Energy has a vast distribution infrastructure network, with 68% of the main feeder powerlines operating outside urban centres. Our regional service area is six times the size of Victoria, covering diverse landscapes from the harshest, most demanding terrains to the most environmentally sensitive.

Our electricity network includes state-of-the-art infrastructure assets, including substantial upgrades and new customer-initiated works undertaken in recent years. However, it also includes significant ageing infrastructure. The network spans across 1.7 million square kilometres and has a high proportion of radial lines with limited redundancy.

Ergon Energy recognises that the current state of the network is not allowing us to consistently meet customer expectations. This gap is being addressed through an integrated improvement plan, with record levels of maintenance and capital expenditure over recent years achieving significant steps forward. However, more work needs to be done.

Our performance targets for this year were optimistic considering the ongoing impact of the elevated level of planned defect remediation work. In addition, the storm season was particularly intense in the south of the state with the System Average Interruption Duration Index (SAIDI) in January and February almost double the levels recorded in the previous two years. This level of storm season impact was not anticipated in the reliability targets and consequently, this year's targets were not met.

While we continue the transition from a five-year asset inspection cycle and move into our second three-year cycle the level of interruptions due to planned maintenance work will remain elevated. By August 2005 the entire network will have been inspected under the first three-year cycle. As we move beyond this milestone we anticipate significant improvement in the performance of the network. For urban feeders our plans aim to achieve benchmark reliability standards by 2010. For short and long rural feeders, which includes around 65,000 kilometres of SWER (Single Wire Earth Return) lines, our immediate focus is on priority area remediation. However, over the regulatory period we plan to invest an additional \$150 million to improve overall reliability and quality of supply in these areas. We are also exploring non-network supply and demand-side options to better deliver service quality.



Meeting Customer Service Expectations

WHOLE-OF-BUSINESS STRATEGY

During the year, we reviewed our customer service strategy, defining the pathway to achieving customer service excellence. We are focused on employing an enterprise-wide customer service philosophy based around enhanced customer service capacity and ongoing asset performance improvements. This is a philosophy that puts the customer at the heart of our planning and business decision-making processes. We are looking to employ new and integrated customer, asset and works management systems to enhance service delivery. This includes initiatives such as providing field crews with new technology that enables customers to receive real-time status information. This type of high-level service delivery will be supported by processes built on our understanding of our customers and their expectations, and will be governed by clear accountabilities and performance indicators.

Our journey towards customer service excellence will be framed by the International Customer Service Standard, which includes the development of a Customer Charter, training programs focused on customer outcomes, and the inclusion of customer feedback into our strategic and business planning processes. Our employees living the values (Page 30) and the empowerment of our people will also play an integral role in the cultural journey from an asset-centric to a customer-centric organisation.

GIVING THE CUSTOMER A VOICE

As part of this whole-of-business approach, the Office of the Customer Advocate was established as a unit within Ergon Energy to champion the cause of the customer. It is a new office that measures service performance and drives improvement by maintaining a level of independence to better balance customer and corporate objectives. The office's current priority is to drive improvements in customer communications, as part of our response to the recommendations to come from the Government review. ②

The role of Customer Advocate was developed as an innovative response to help Ergon Energy realise its vision. The model, the first of its kind in Queensland, is increasingly being used by corporations worldwide to give customers confidence that they do have a voice, their expectations are being acknowledged and that their feedback and concerns will be acted on.

MEASURING HOW WE PERFORM

We are currently undertaking a review of our Guaranteed Service Levels (GSLs) to ensure they reflect the organisation's

increasing customer focus. The intention is to broaden our performance promises to help define both what our customers can expect and Ergon Energy's obligations.

This year we continued to measure our service promises across the key service areas of new connections, notification for planned power interruptions, street light repairs, vegetation management and hot water problems. Overall for these five GSLs, we met or exceeded 97% satisfaction, well in excess of our 85% overall target, maintaining the strong customer focus achieved across these service areas.

In response to customer expectations clearly demonstrated during the 2003/04 storm season, we are elevating a Customer Responsiveness Index (CRI) into our corporate performance agreement (Page 7). The CRI has been developed to benchmark the future performance of the organisation against five specific areas that primarily relate to our management of customer interaction and complaint handling.

To tie in with this initiative, we are also pioneering a Corporate Customer Loyalty Index to measure customer loyalty within a customer partnering framework. The importance of this index reflects the large proportion of major customers we have, from a load perspective, and the growth opportunities we see in this area. We have collected information from these corporate customers for the first time – and will do so annually – to allow us to understand how they perceive our performance against their expectations.

Our efforts in the customer service area have also supported improvement in the capture and reporting of ad hoc customer feedback and in reducing the QCA's customer reporting measure of Average Days to Resolve Complaints by 13% from 23 days in 2002/03 to the current 20 day average. The focus now is on developing a pro-active culture aimed at reducing this further.

One of our customer service priorities is improving customer communications during outages – including streamlining information flow from the 'field' to the 'contact centre' to provide vital restoration updates to our customers.



Delivering What Customers Want

GIVING OUR CUSTOMERS THE ADVANTAGE

We continued to expand and build on the profitability of our Home Advantage product suite during the year, launching a range of quality cooling products. Accompanied with expert advice about energy-efficient air conditioning, these products continue to be well received by our customers. We also made a world-first invention available to our customers that helps residents to save money and the environment by measuring the running cost of electrical appliances in the home. The Australian-designed Cent-A-Meter allows customers to see where they can save money on their power bill, and how they can minimise the impact of their electricity use on the environment.

Our solar hot water product range continued to go from strength to strength, and we relaunched our product catalogues to offer a diverse selection of energy-related products and services. To support our product delivery capability we also established a dedicated sales campaign centre to manage product-related calls, and transferred our electrical partnership arrangements to a new contractor.

To support our service in the business customer segments we introduced a Business Advantage product suite, which included Uninterrupted Power Supply (UPS) and Power Check products.

Our notification cards have been updated, helping to better communicate to our customers in advance of planned outages for maintenance, augmentation and defect management work.



Through our partnership with iconic Yarra Trams we are now powering Melbourne's famous tram network, one of the many major customer success stories in the highly competitive southern energy market this year.



PROVIDING BETTER INFORMATION

To improve our communications Ergon Energy updated the 'look and feel' of the notice given to customers before planned outages for maintenance, augmentation and defect management work. The revised notice is part of a wider move to update other publications and notices. Its distinctive look will help customers identify these very important notices.

Our website continues to be a valuable source of information on topics such as energy efficiency, products and corporate news with over 280,000 site visitor sessions throughout the year. E-communications also expanded with the growing distribution of 'elements', our information-rich electronic newsletter for corporate customers.

Partnering with Industry

Ergon Energy continued to roll out its Customer Partnering program, aimed at providing greater value and building strong relationships with our corporate customers. The program focuses on understanding our customers' needs and expectations by placing ourselves squarely in their shoes. In this way, we are gaining valuable insights and can respond accordingly to customer feedback and input. This year we expanded the customer partnering framework to ensure a greater focus by staff on building solutions for customers. This achieved significant successes, which included:

- recontracting major customers BMA and ACI Glass Packaging, as well as signing major regional Queensland industrial customers Comalco Alumina Refinery and Orica at Gladstone
- securing a substantially increased customer load, including Brisbane Markets, Retail First, Consolidated Rutile and Rio Tinto Coal Australia
- increased penetration into southern markets through winning iconic customers such as Yarra Trams, Holmesglen Institute, Walker Corporation, Herald and Weekly Times, Genfac Plastics and Huhtamaki.

Ergon Energy has also established a Network Interface Program to provide a tangible and positive value-adding service to major customers. The network interface program was created to provide major customers with a liaison point into transmission and distribution networks and expertise on network-related matters.

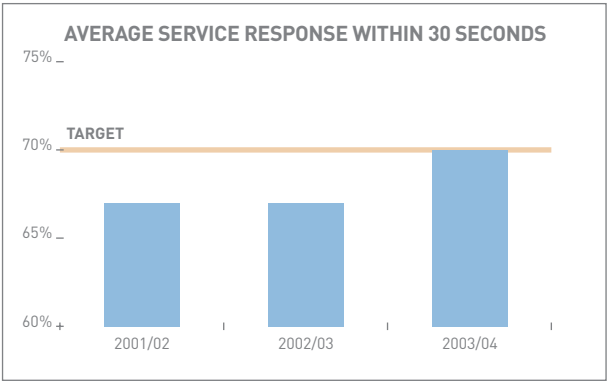
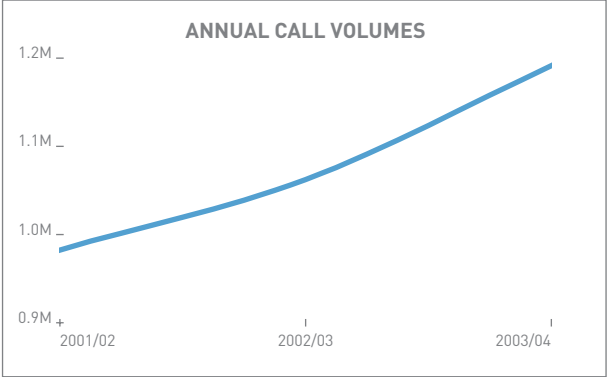
**Everything in our power
to assist**

Brendon Clarke, from Super Carclean in Cairns, wanted the peace-of-mind of knowing the new premises and equipment used by his business were electrically safe for both his employees and customers.



Amanda Tollner, one of Ergon Energy's Business Customer Representatives, shared Brendon's concerns and was pleased Ergon Energy was able to offer a complete safety and energy efficiency review.





DELIVERING TO SMALL-TO-MEDIUM ENTERPRISES

During the year we placed a major focus on building our service capability to deliver value to our small to medium business customers. We undertook considerable segmentation work to allow us to offer tailored communications and product offerings. Customer service teams were upskilled to manage contestable business customers from the acquisition stage through to delivering a high standard of ongoing service. We also developed a market awareness campaign for Victoria and South East Queensland in preparation for entry into growth markets, including Queensland's Tranche 4A market which came into effect on 1 July 2004.

The deregulation of this tranche means Queensland customers who use over 100MWh of electricity each year (about \$10,000 worth) are now able to negotiate a deal with the electricity retailer of their choice. To enable Ergon Energy to compete effectively in this tranche opening, a rapid pricing capability was developed and deployed. This capability is a huge leap forward for Ergon Energy and will support future campaigns in all markets. It allows us to be extremely responsive to customer demands for quotes, as well as better understand and price risk in this business segment in a timely and efficient manner.

Our customer partnering approach was applied to the implementation of our Tranche 4A campaign, as well as to improving our visibility in the South East corner. These efforts have, since 1 July, achieved early wins with the successful partnership of at least two industry buying groups in the first few weeks.

Making Successful Contact

A new Customer Management System (CMS) implemented into the National Contact Centre this year proved an outstanding success in its first week of operation. After only one day the National Contact Centre exceeded its grade of service target, improving on that high standard throughout the following months. The CMS is a customer-centric system that treats every customer as an individual, and every residence and property on its own merits.

We saw marked increases in call volumes as a result of customers being more comfortable with contacting the call centre – total volume for the year reached more than 1.1 million calls. This averaged out to almost 4,500 calls each working day. We moved to establish regional service delivery teams that led to call centre representatives and team leaders visiting different regions to gain first-hand knowledge of the specific impacts on field staff, depots and ultimately the customer. We implemented quality teams to improve standards and processes overall. Together these efforts helped to achieve our grade of service target for the year of 70% of calls answered within 30 seconds.

Significant work has also been undertaken over the past year to improve our service delivery across the breadth of the organisation. Our priority is to respond promptly to customer requests and issues. This means if the person contacted can resolve the issue, but not immediately, they will advise the customer of the timeframe in which this will be achieved. When they cannot resolve it at the first contact, they will pass it on to the correct department which will ensure the customer is contacted within two working days to agree a resolution timeframe.

Improving Our Service Capability

LEADING EDGE PORTFOLIO MANAGEMENT

Ergon Energy is the first in the country to adopt the leading-edge portfolio management software by Lodestar – marking another step towards providing excellence in energy pricing, advice and service for customers involved in the competitive National Electricity Market. By using the software for enhanced forecasting, profiling for prices and a genuine partnering approach with customers, Ergon Energy aims to reduce the impact of market risk to our customers.

Our agreement with Lodestar continues to position the organisation at the forefront of energy trading and strengthens our enviable status as a leader in risk management. Implementation of this solution will be complete early in 2004/05.

IMPROVING OUTAGE COMMUNICATIONS

Upgrades to our Feederstat software, part of our outage management system, have resulted in more timely and accurate information being made available to customers who call our fault line 13 22 96. To improve our call response times even further, we have also established overflow arrangements for those times when we receive higher than expected call volumes. We are continuing to make improvements in our end-to-end process by clarifying responsibilities and focusing on customer needs. Refresher training will be conducted in this area prior to the next storm season. We are also investigating opportunities to improve our use of the media to provide customers with up-to-date power restoration information.

Our commitment

Sustainability is core to our commitment to regional Queensland.

It's all about delivering economic value, protecting the environment and meeting our social obligations.



**Everything in our power
to grow**

David Mumford, Manager Information Technology with BMA's Mining Operations, values business partners committed to doing their utmost to provide practical and sustainable solutions.



Andrew Deme, from Ergon Energy's telecommunications arm, is working closely with BMA to develop new ideas that both support the company's operations and provide new solutions for regional Queensland.



Objective As part of the fabric of life across regional Queensland, Ergon Energy is acutely aware of its economic, environmental and social obligations. Our aim is to deliver on these obligations in a manner that does not compromise the future needs of the communities in which we operate.

Strategy We aim to add value and support regional development through business growth and diversification. We're driving continual improvement across our operations and providing environmental leadership to the wider community. Socially our key strategic priorities include community partnerships, supporting our people and a world-class safety focus.

Key Achievements

- As part of our growth agenda, we launched a wholesale telecommunications business in regional Queensland, delivered on our gas strategy and progressed several industry partnerships.
- We achieved all of our financial targets while balancing the need to invest in the network. These results were supported by a strong \$28.3 million EBIT achieved by our retail business.
- Our Clean Energy program achieved 20,000 subscribers, making it Australia's fastest-growing, most successful renewable energy subscription program with the largest proportion of Green Power customers.
- We built on our relationships with local government and the community through partnerships ranging from \$2 million invested in Community Powerline Projects to the success of our 'flying doctors' voluntary donation scheme.
- As part of our commitment to maintaining a strong regional skill base, we employed 70 new apprentices and 20 new trainees.
- The NSCA five-star milestone achieved for our safety systems and performance places us firmly on the way to achieving our target of zero injuries.

Future We have reviewed our environmental, social and economic objectives and believe our dual focus on operational excellence and growth will deliver our sustainability goals. However, we are only too aware that achieving our vision can only be realised through the alignment of our corporate objectives with the aspirations of key stakeholder groups. This will require an ongoing effort to integrate stakeholder expectations into decision making at every level.

Adding Economic Value

DELIVERING UTILITY AND ECONOMIC BENEFITS

Everything Ergon Energy does is ultimately aimed at delivering on our regional service charter. We have a strong appreciation that high quality, cost-effective energy solutions provide vital utility to our local economies.

As a major regional organisation, Ergon Energy's operations also inject substantial funds into these economies, creating a significant multiplying effect. In addition to goods and services purchased, we are continuing to operate with substantial increases to both direct employees and contract resources due mainly to the ongoing labour demands of our current works program (Pages 14-15). This is not only contributing financially to the local economies of regional Queensland, it is also supporting a strong regional skills base (Page 30).

Driving Our Growth Agenda

Delivering economic value into the future will mean capitalising on business growth opportunities and managing operations effectively. This focus is both fundamental to Ergon Energy becoming a world-class, customer-driven energy business and to our commitments to our Shareholders. The latter includes strengthening our core business, creating job and career opportunities and assisting regional Queensland's social and economic development.

Ergon Energy is operating in a rapidly changing environment. The opening up of the National Electricity Market, technology change, customer choice, and environmental and regulatory pressures all mean we must respond effectively by managing emerging business risks and positioning ourselves to capitalise on our strengths.

We hold a strong position as the regional Queensland electricity distributor and a niche energy retailer in the Australian energy market. Sustaining and extending this position is a key priority. Our focus is on increasing revenue streams while at the same time reducing dependence on the regulated business. This has led to us pursuing opportunities in a range of areas from developing our existing electricity distribution network to gas-fired generation and wholesale telecommunications.

DEVELOPING THE NETWORK

Almost \$2 billion has been invested in maintaining and improving the existing network since Ergon Energy was formed five years ago. Over the next five years the current record levels of investment will be vital to keep up with the development and service expectations of regional Queensland. This growth, which will substantially increase the size of our network business from what it is today, will come from both corporation-initiated upgrades and elevated levels of customer-initiated works driven by Queensland's economic growth (Page 15).

TELECOMMUNICATIONS BUSINESS LAUNCHED

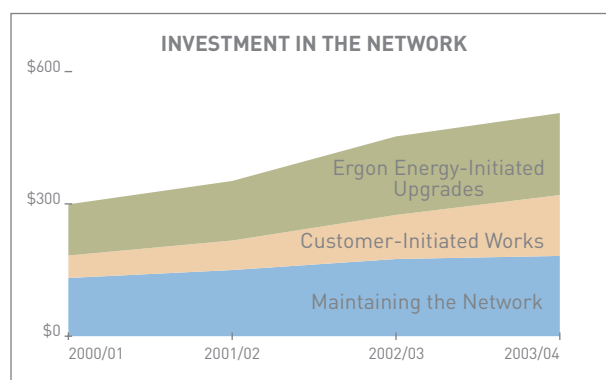
To service our telecommunication requirements we commenced a two-year \$19 million, 300 kilometre rollout of new fibre-optic cable within nine regional Queensland centres where we have a major operational presence. The infrastructure will connect our major sites, improving control of the distribution network by significantly lifting our capability to remotely control assets and respond to system events. It will also minimise our telecommunication costs, as well as increase the speed and capacity available.

In addition to the core business benefits, the rollout will allow spare capacity to be made available on a commercial basis supporting a competitive environment for high-speed broadband services to regional Queensland. To realise this opportunity, we launched Nexium Telecommunications. The new entity is currently active in the 'carriers' carrier' market making services available to telecommunication service retailers to on-sell to end-use customers (Page 34).

DELIVERING ON OUR GAS STRATEGY

Developing embedded and distributed generation solutions is a major growth opportunity and, in the case of gas-fired, can add value to both the distribution and retail sides of our business. Generation projects fuelled by coal-seam methane and mine drainage gas are important as a source of self-generated compliance certificates.

Construction started on a new \$12 million power plant in Moranbah, providing a boost for regional Queensland economies, and leading the way with the use of coal-seam gas as an environmentally friendly fuel source.



Ergon Energy's Moranbah Generation Project, which is currently under construction, is the first of a group of potential projects to be delivered under this strategy. Whilst the fundamental aim is to acquire compliance certificates, the project delivers value through establishing unregulated assets; the potential to enter long-term customer electricity supply contracts; the expansion of our build, own and operate capability; and demand for network connection assets (Page 28). The power plant will not only provide a clean gas base-load generation facility, but will make a vital contribution to making gas available to Townsville industry, further boosting the region's economic growth (Page 28).

BENEFITING FROM INDUSTRY PARTNERSHIPS

As part of our focus on our economic sustainability we have entered into a number of partnerships with other industry players, helping to achieve necessary industry-wide efficiencies.

We are supporting the delivery of transmission services across the state by providing Powerlink Queensland with a regionally located skills base for transmission maintenance and response services. We are also sharing a workshop in Virginia, Brisbane, which is helping to retain a high-voltage testing capability in Queensland.

The decision to progress the integration of Ergon Energy's Virginia workshop and Energex's Banyo workshop in Brisbane was also based on delivering industry-wide benefits. The integration has expanded the viability of the workshop and provided scope for business growth through the diversification of product and service offerings. The staged implementation saw Ergon Energy taking management control of the integrated workshop from July this year.

Over the last year, we also entered into an Information Technology and Telecommunications (IT&T) initiative with Energex. In both cases our aim was to leverage synergies to deliver the best possible outcome for Queensland. These initiatives follow the success of Service Essentials Pty Ltd, which is now delivering economies of scale and efficiencies by taking a joint approach to billing-related back office systems and services, while encouraging market competition by maintaining the commercial viability of two competitive retailers.

The options for sharing IT&T with Energex were analysed by an independent body in late 2003. The main conclusion was that pursuing a joint IT&T operating model would provide significant business benefits for both organisations. Since then, a joint-venture IT&T company has been established which promises significant savings to our Government Shareholders. Sparq Solutions Pty Ltd, which

formally commenced operations in July 2004, now provides IT&T solutions and services to Energex, Ergon Energy and Service Essentials.

We are also achieving productivity and efficiency gains internally across our organisation. To continue this progress we are evaluating the implementation of enterprise-wide business solutions, often referred to as Enterprise Resource Planning (ERP) systems, to support the efficient delivery of our asset management priorities and support services.

A Balanced Financial Performance

Ergon Energy understands that its priority as an infrastructure provider is to ensure regional Queensland has a robust and reliable electricity network. From this perspective we are pleased to report we have been able to balance achieving significant progress in modernising the network and implementing benchmark maintenance practices with our overall financial performance. We achieved all of our financial targets for 2003/04, including returns on assets and equity, as well as budget outcomes in profitability, efficiency, liquidity and capital and gearing ratios.

Ergon Energy achieved a Net Profit after Tax of \$92.0 million, 11% favourable to budget, which supports a dividend of \$87.4 million to our Shareholders. The major contribution to the above-budget performance came from the successes of our retail business. The financial performance of the distribution business was balanced by the record expenditure made in relation to the electricity network – this trend will continue.

To meet future service expectations of our customers and Government and, at the same time, deliver economic value to our Shareholders, we will need to maintain our focus on operational excellence while delivering value for money in capital and maintenance programs.

Our financial strength has led to international credit rating agency Standard and Poor's awarding Ergon Energy, for

Sparq Solutions was developed as a joint information technology subsidiary, to deliver significant business benefits for both Ergon Energy and Energex.



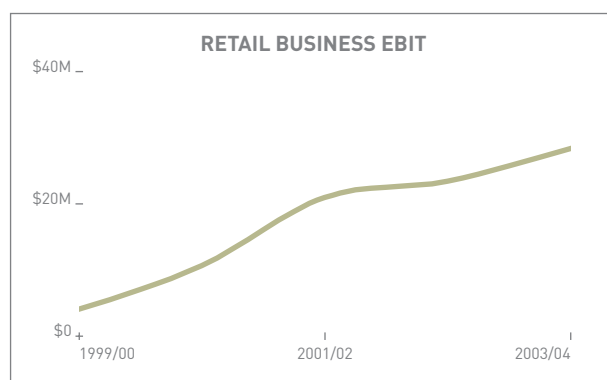
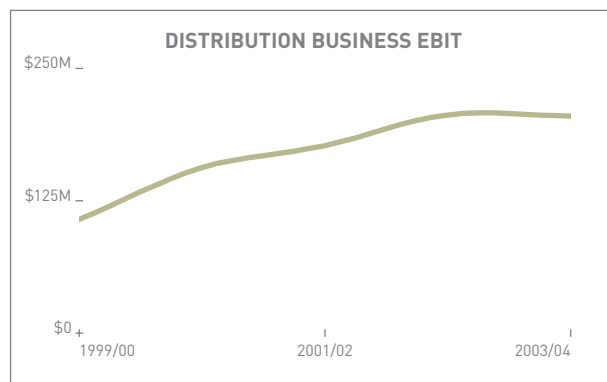
the third consecutive year, the highest corporate credit rating of any Australian energy company in its listings. The rating places us in the same league as some of Australia's top companies and ahead of our energy-sector competitors rated by Standard and Poor's.

The AA+ long-term corporate credit rating identifies Ergon Energy as having a very strong capacity to meet its financial commitments. Ergon Energy was also awarded the highest short-term rating of A-1+. The ratings, which reflect Ergon Energy's strengths as a Queensland Government Owned Corporation, auger well for our retailing activities particularly in the competitive electricity retail and wholesale markets.

This position has been reinforced by an equity injection of \$200 million from the State Government in June 2004. These funds will assist us as we move forward with record levels of expenditure on the electricity network.

A SOUND DISTRIBUTION PERFORMANCE

The distribution business achieved a sound Earnings Before Interest and Tax result of \$204.2 million. This result was achieved despite expenditure above the regulated allowance set by the QCA (Page 14) and the flow-on effect of higher financial charges. The trend to invest above the current QCA allowance is consistent with the priorities of the business to improve network reliability performance and will continue into 2004/05 – the last year of the current QCA determination. Ergon Energy's future financial performance will be dependent on negotiated outcomes for the next QCA regulatory period.



The distribution business's future economic performance will be reliant on growing the regulated and non-regulated network business to deliver to customer expectations, as well as increase revenues. Leveraging commercial opportunities, with a commitment to supporting regional development, will be vital to delivering innovative solutions to improving power supplies. This will mean building on our existing expertise in isolated generation, delivering gas embedded and distributed utility solutions and growing our competitive contracting business in the medium to longer term to deliver cost reductions and job growth.

RETAIL PERFORMANCE UP 39%

Our retail business, Ergon Energy Pty Ltd, has delivered a strong financial performance with an Earnings Before Interest and Tax result of \$28.3 million, up 39% on budget, and making a significant contribution to our overall performance. This has been underpinned by robust risk management systems, continued success in winning new customers and positive contracting positions. The retail business had favourable franchise gross margin outcomes against budget and also benefited from structured transactions capitalising on market opportunities.

The future success of our retail business as a nationally recognised energy wholesaler and retailer is linked to our ability to source load from our customer base and achieve contestable revenue growth. This will be realised by capitalising on our position as a risk-management led retailer focused on customer partnering, which is a differentiating factor within Australia's energy markets. This will also include further development of non-energy products that provide diversification of retail revenue and lifting our presence in the contestable interstate markets.

Protecting the Environment

OUR STRATEGIC FRAMEWORK

Ergon Energy is committed to environmental responsibility in serving its customers and the community. Our commitment is about targeting solutions that minimise environmental impact, meet increasing community expectations of environmental stewardship, and continually enhance our environmental credentials in energy supply and solutions.

During the year, with the aim of continual improvement, we reviewed our environmental, social and economic objectives, along with the strategies to achieve these objectives. The review concluded with a range of specific environmental objectives, grouped into the three areas of:

- operational control and compliance
- social and community
- economic and growth.

Our environmental strategic framework utilises a top-down approach, with our vision and environmental policy ^② at the highest levels cascading down to specific action plans. The framework provides for a coordinated corporate-wide approach to environmental management. Broadly, we aim to supply electricity to regional Queensland in an environmentally responsible, practical manner and leverage our position in the reduced emissions markets to deliver customers environmentally friendly solutions.

Striving for Best Practice

In Ergon Energy's service area, the key environmental issues relate to vegetation management, fuel and oil management, greenhouse gas emissions, declared plants, water quality, salinity, air quality, loss of native vegetation and habitat, coastal degradation and loss of soils. Ergon Energy has a role to play in many of these issues, with our operational best practice objectives a critical part of this contribution.

MAINTAINING INTERNATIONAL ENVIRONMENTAL CERTIFICATION

Ergon Energy is maintaining certification to the international Environmental Management System standard ISO 14001, with the last external surveillance audit conducted by NATA Certification Services International (NCSI) in May 2004. The results highlighted progressive improvements in environmental performance across the organisation.

The entire business first achieved certification in March 2003. The milestone laid the foundations for ongoing auditing and review, environmental training, as well as environmental risk assessment and management. As an important strategic tool, the ongoing certification process is being used to manage environmental risks systematically and to go beyond compliance to strive for continual improvement in environmental performance.

WORKING IN SENSITIVE AREAS

As part of routine operations, our employees regularly enter sensitive areas. In response Ergon Energy is continually improving work practices to minimise any potential impact. We are currently working with a number of state and regional pest management groups to respond to the rapidly developing issue of declared plants and weeds.

We are also currently working with the Queensland Parks and Wildlife Service and DPI Forestry to develop a Code of Practice for the maintenance of electricity infrastructure located in areas under their jurisdictions, including Nature Conservation Areas, National Parks, DPI Forestry areas and State Forest. Over the coming years, the Code is intended to guide the development of individual Environmental Management Plans for specific sites detailing how any important environmental values identified are to be protected in these sensitive areas. This work will complement the Wet Tropics World Heritage Area's Code of Practice that Ergon Energy has been following for several years.

PLANT SMART GAINS MOMENTUM

Our partnership with Greening Australia on the Plant Smart program has gained momentum, helping to advance our vegetation management agenda.

Plant Smart runs throughout regional Queensland to promote awareness of the issues of vegetation near powerlines and the planting of powerline-friendly trees and shrubs. The technical stream helps to improve safety and make vegetation management more effective. As part of the research program, 21 trial sites have been established along coastal powerline easements to determine the best approach to manage vegetation without compromising biodiversity. This research includes various vegetation management techniques, such as growth regulator trials.

Other innovative ways being adopted to manage vegetation and minimise the impact on the environment range from the more effective use of herbicides to target tall-growing species to the use of mega-mulchers and other machinery to remove vegetation more efficiently with less soil disturbance.

Plant Smart is also supporting our relationships with local councils in relation to vegetation management. Greening Australia has two dedicated coordinators working with our local councils to develop species lists for nature strip planting guides.

In January Ergon Energy signed a memorandum of understanding on vegetation management with Toowoomba City Council – the first such agreement ever signed between a utility company and a local government in Queensland. The agreement sets out clear procedures for managing vegetation growing underneath powerlines.

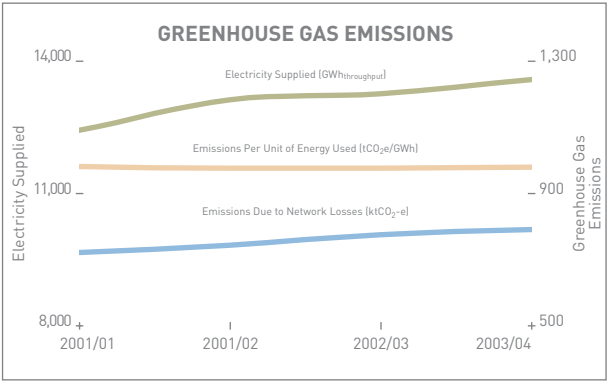
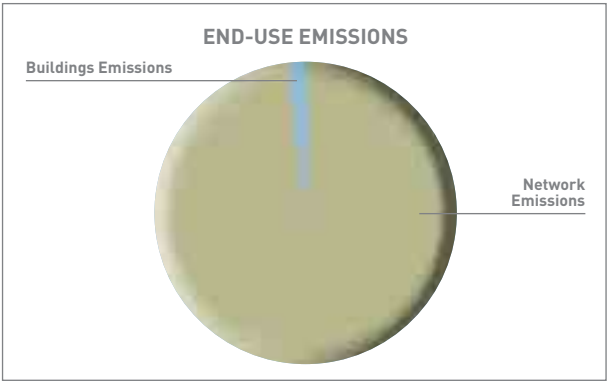
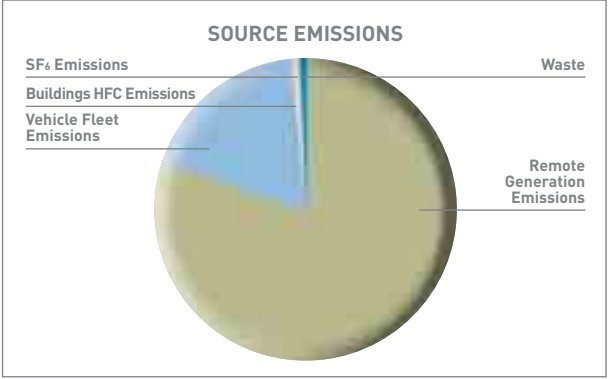
**Everything in our power
to educate**

Mitchell Hardwick, from Aloomba, loves painting as much as the environment. One of his pictures won an Ergon Energy competition and became a billboard promoting energy efficiency.



Carolyn McSweeney, an Ergon Energy Product Manager, believes it's important to enthuse and educate youngsters, like Mitchell, about energy efficiency and sustainable energy alternatives.





Source emissions are created directly by Ergon Energy. End-use emissions are those associated with electricity use, including network losses.

While emissions due to network losses have increased along with electricity supplied, they have not increased proportionally. This indicates that improvement actions on the network are having a positive effect and contributing to the relative stability of our measure of greenhouse gases emitted (carbon intensity) per unit of energy used.

CONTINUING THE GREENHOUSE CHALLENGE

As an electricity supplier Ergon Energy has determined that greenhouse gas abatement is a key strategic environmental objective. Although greenhouse gases are a natural part of the atmosphere, their concentrations are increasing, which is believed to be contributing to climate change. One of the primary reasons for the increase is the use of fossil fuels in generating energy. The greenhouse issue is a long-term challenge that we are addressing, as an industry, to make sure we care for the environment while meeting the community's expectation for reliable and competitively priced electricity.

Ergon Energy is a voluntary participant in the Greenhouse Challenge Program, a Commonwealth Government initiative to reduce and monitor greenhouse gas emissions that could contribute to global warming. The challenge, now in its fourth year, helps set emission reduction targets and actions for different parts of the business.

Most of Ergon Energy's greenhouse gas emissions result from the size and dispersed nature of our electricity distribution network. We are achieving success reducing these emissions through initiatives, such as distributed generation from renewable or lower carbon-intensity fuels like bagasse from sugar mills, the augmentation of the network, remote generation efficiency upgrades and improving the energy efficiency of our own buildings. In addition, we promote energy efficiency and greenhouse-friendly products to our customers.

Our Greenhouse Challenge agreement covers these areas with a comprehensive list of 75 abatement actions in progress, which are reported against to the Australian Greenhouse Challenge.

MANAGING RESOURCES AND WASTES

Across our operations we are improving our management of resources and waste by using strategies of avoidance, reduction, reuse and recycling.

We are factoring environmentally responsible procurement, risk management and energy efficiency into purchasing decisions across our operations. This focus is on life-cycle factors such as packaging, storage, emissions, toxicity, disposal and energy use.

Initiatives to improve the efficient use of the materials and energy and the continuation of measures to reduce air emissions have ranged from displacing fossil-fuelled generation with low-emission generation sources, upgrading obsolete and inefficient plant, fuel-switching and implementing combustion controls. This is supported by the reuse and recycling of surplus materials such as fittings, metals, plastic, cardboard and paper.

As it is now known that polychlorinated biphenyls (PCBs), which have in the past been used in oils contained in electrical equipment as coolants and lubricants, can bio-accumulate in the environment, we have continued to phase out their use. Over 150,000 litres of oil was recovered from Ergon Energy assets during the year and disposed of through licensed facilities.

Information on Ergon Energy's emissions to air, land and water from remote generation sites is reported in the National Pollutant Inventory and is publicly available online at www.npi.ea.gov.au

PRUDENT EMF MANAGEMENT

In relation to Electromagnetic Fields (EMFs), as part of our commitment to world-class infrastructure management, we have a strong focus on the principles of prudent avoidance when siting new infrastructure and undertake monitoring of EMF levels of existing infrastructure. Ergon Energy recognises the community's concerns regarding this issue and is keeping informed of new EMF research and industry developments.

Working Together

The first priority for Ergon Energy has been to address the environmental impacts of our operations; our second environmental priority is to work with the communities in which we live and work to bring about environmental benefits. To do this, Ergon Energy will continue to consult with key environmental stakeholders, from our employees to our government Shareholders, by making use of government, community and staff forums to provide information on Ergon Energy's operations, receive stakeholder feedback and support environmental initiatives.

EDUCATING ON ENERGY EFFICIENCY

We provide our customers with a broad range of advice on energy usage. Our website has a range of calculators to help our residential customers understand their electricity usage, along with energy-saving tips, air conditioning advice, information about energy-efficiency ratings and energy efficient product choices.

During the year we also launched a service to review the electrical safety and efficiency of our business customers' operations. The service not only helps the business save money, it is good for the environment because it provides practical recommendations on lighting set-up, air conditioning and other areas where electricity could be used more efficiently.

GREEN TEAMS – OUR AMBASSADORS

Our Green Teams have gone from strength to strength. Launched in the previous year, we now have over 270 staff involved – helping to support a positive environmental culture throughout the organisation.

The eight volunteer Green Teams have been involved in a range of environmental activities from small changes in the workplace like recycling, to locally organised activities such as Clean Up Australia Day, National Tree Day and World Environment Day. To date the Green Teams have planted 2,000 trees and 2,000 grasses, given 150 trees away, raised \$5,327 for environmental causes, collected around 580 bags of rubbish and weeds in various clean up activities, and collectively participated in 17 separate initiatives across the state.

POWERFUL GREEN PARTNERSHIPS

As part of our corporate social responsibility, Ergon Energy has a range of community partnerships in place that support our environmental stewardship goals.

In June, with the Australian Rainforest Foundation we launched our efforts to revegetate threatened areas of the Daintree Rainforest. Under the new partnership, we are encouraging customers to buy trees in the reforestation program. It's all about giving a boost to the Foundation's tree-planting efforts.

In partnership with the Environmental Protection Agency and the Australian Greenhouse Office, Ergon Energy helped roll out a \$300,000 Solar Schools program which has seen 12 renewable-energy systems installed in the communities of Torquay, Kingaroy, Gladstone, Bowen, Maryborough, Bundaberg, Mackay, Thuringowa, Barcaldine, Emerald, Chinchilla and Miles. The schools are now benefiting from electricity savings of up to \$500 every year, as well as contributing to a better environment through the annual reduction of around 3.6 tonnes of gas emissions – almost equivalent to each school taking one car off the road. Students will also gain from hands-on learning experiences and contribute to a greater community awareness of the benefits of alternative energies.

In addition to these partnerships, Ergon Energy is state sponsor of Clean Up Australia Day and supports hundreds of local environmental programs and events, from the North Keppel Island Environment Education Centre to the North Queensland Wildlife Carers.

Our Solar Schools partnership with the Environmental Protection Agency and schools across the state is contributing to a better environment and providing hands-on learning experiences for regional Queensland students.



IMPROVING VISUAL AMENITY

Initiated in 2001, our Community Powerline Projects fund continues to reduce the impact of powerlines on streetscapes and the environment. This year a further \$2 million was provided to enable us to work with the local councils to relocate underground or replace existing powerlines in areas of high public activity or in environmentally sensitive, scenic or historic areas. To date, 21 funding proposals have been approved across regional Queensland, including this year's undergrounding in the Airlie Beach CBD and the revitalisation project in Dalby's town centre (i) (Page 15).

Clean Energy Take Up an Australian Best

'Clean Energy from Ergon Energy' now has over 20,000 subscribers, making it the fastest-growing, most successful renewable energy subscription program in Australia. With around 3.5% of Ergon Energy's regional Queensland customers subscribing, we are leading the way with a higher take-up rate than programs in Brisbane and the southern states. Environmentally, the program's success is equivalent to taking more than 7,150 cars off the road every year.

Customers elect to pay a premium for varying proportions of their electricity requirements, with the average Clean Energy domestic customer paying \$10 extra on their quarterly bill. These funds go back into developing new clean energy sources and to funding existing renewable energy programs.

In a Queensland and Clean Energy first, Ergon Energy partnered with the Cairns Port Authority and Queensland councils in September 2003 to power the Local Government Association of Queensland annual conference held in Cairns. The conference was powered by electricity generated from 100% environmentally friendly sources.

In another first, the Nebo Shire Council became the first local government in regional Queensland to commit to the Clean Energy program. The council, south-west of Mackay, will source 5% of its total energy consumption from renewable energy.

Ensuring Environmental Governance

ACCOUNTABILITY AND EXTERNAL REPORTING

Ergon Energy recognises the need to be more transparent and accountable regarding its environmental performance to its key stakeholders, including the Government, the local community and our employees. In addition to this report we also provide Greenhouse Challenge and National Pollutant Inventory reporting, and Clean Energy reports.

We aim to build on our reporting over the coming years by integrating environmental responsibility across the business and establishing environmental performance indicators.

Currently, as an organisation, we aim to ensure our employees are aware of the environmental issues they could face within their roles, as well as the appropriate ways to deal with them. We support individual environmental responsibility, by including environmental accountability in job profiles and performance assessments, as well as through the appropriate training. Further information is available online regarding our approach to accountability and the governance structure we have in place. ②

MEASURING ENVIRONMENTAL PERFORMANCE

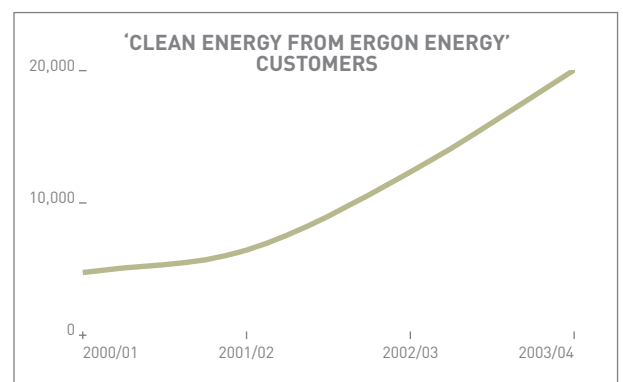
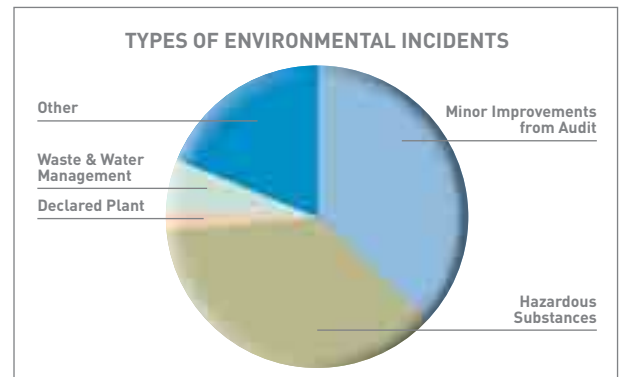
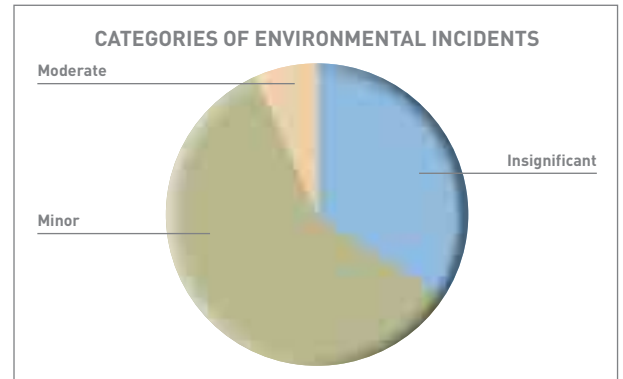
Ergon Energy monitors a range of indicators to measure our environmental performance and better communicate progress towards our sustainability objectives. In addition to the ISO 14001 certification process and Greenhouse Challenge reporting, we utilise an independent review by the ESAA against their Code of Environmental Practice. This year, the review has been delayed to bring it in line with the industry cycle and improve the comparability of our performance. Once the results become available they will be published online. ③

Our research shows that our customers give Ergon Energy a rating of 6.9 out of 10 for being sensitive to environmental issues. We also track employee opinion regarding our environmental performance, which shows 81% of our employees believe Ergon Energy has good environmental standards. This places us at world best-practice levels. Our employees are committed to carrying out their jobs in an environmentally responsible way.

We report environmental incidents, using a five-scale rating, which ranges from Category 1 – an insignificant effect, such as a localised impact on the environment that would recover without intervention through natural causes in a matter of weeks, to Category 5 – a catastrophic effect

that would involve a long-term impact to sensitive environments. The majority of incidents during the year were minor oil spills that required only on-site clean up. No breaches occurred above category 3 – moderate.

Actions resulting from incidents, identification of hazards, environmental audits or improvement suggestions are captured in a database to track progress. The status of these actions is reported monthly to senior management.



Nebo Shire Council Mayor Bob Oakes' commitment to purchasing Clean Energy from Ergon Energy is equivalent in greenhouse gas reductions to taking 17 of the council's fleet vehicles off the road.



Growing With Green Solutions

Ergon Energy's environmental credentials, our customer partnerships and a range of environmental drivers are providing fertile ground for commercial development opportunities, from renewable to other low-emission generation initiatives.

This section overviews a range of achievements that, as well as providing growth opportunities, also support our retail licence compliance, mandatory renewable energy targets, Queensland's Energy Policy requirements and national Green Power accreditation.

Under the Renewable Energy (Electricity) Act 2000, wholesale electricity buyers like Ergon Energy are required to purchase increasing amounts of renewable energy. We are on track to meet our portion of the nation's additional renewable energy target of 9,500GWh by 2010. Renewable energy is regarded as any source of energy that can be used without depleting its reserves, such as solar energy or wind energy. To show compliance, Renewable Energy Certificates (RECs) are surrendered to the Office of the Renewable Energy Regulator.

Queensland's Energy Policy, released in mid-2000, also increased our focus on environmentally friendly energy supply initiatives. The policy aims to have 13% of Queensland's electricity generated by gas sources from January 2005. The compliance units are known as Gas Electricity Certificates (GECs).

GREEN TRADING SUCCESS

During the year we maintained our position as Australia's leading renewable energy purchaser in the reduced emissions markets. Our renewable energy sources include sugar mills, wind-generation, geothermal energy and digester gas, to name a few.

We have a renewable energy turnover of about one million RECs, making us the largest REC trader in the market, excluding primary issuance, and in the top three overall. This is made up of 25% of the primary issuance market and 40% of secondary transactions market. Our trading success has also supported our standing as the fifth largest retailer by load in the National Electricity Market.

LEADING THE WAY WITH COGENERATION

In July 2003, our partnership with the sugar industry was further strengthened by a 10-year agreement with CSR Limited to buy enough power for around 16,000 homes from its \$100 million renewable energy plant due for completion in 2005. The plant at its Pioneer Mill, near Townsville, will be one of Australia's largest renewable energy biomass projects and will see tonnes of sugar cane waste converted into clean, green electricity – saving around 120,000 tonnes of carbon dioxide from entering the atmosphere annually, the equivalent to taking over 27,000 cars off the road.

In September 2003 we commissioned a \$3 million macadamia nut shell electricity plant in South East

Queensland, in partnership with Suncoast Gold Macadamias. A world-first, the power facility, which converts waste macadamia shells into electricity, received the Clean Industries Initiative Award at the ninth annual QR Sunshine Coast Environment Awards. The facility is expected to produce enough green electricity to reduce greenhouse gases by 190,000 tonnes over the life of the project.

Ergon Energy is also currently progressing plans to invest \$23 million in cogeneration and in-mill efficiency upgrades at Isis Central Sugar Mill. This investment will increase the site's generation capacity from 6 to 25MW, supplying the mill's electricity needs, as well as supporting our renewable energy targets. Together these initiatives will make a significant contribution to a cleaner environment.

THE GAS-FIRED ALTERNATIVE

Ergon Energy is also progressing a number of gas-fired embedded generation opportunities which will help deliver on our compliance and trading requirements, as well as improve our environmental credentials. In line with this, we are currently constructing a new \$12 million coal-seam gas-fired power plant at Moranbah. The facility will supply electricity to the Moranbah Gas Project, with the surplus supplied into the grid. The Moranbah Gas Project, a joint venture between coal-seam gas producer and explorer CH4 Gas Limited and BHP Billiton, will supply gas to Enertrade primarily for the conversion to base load, gas-fired operation of the Townsville Power Station (Page 21).

BUSHLIGHT SHINES OUR RENEWABLE EXPERTISE

Ergon Energy's award-winning stationpower® stand-alone power supply success has led to our involvement in the Bushlight program – aimed at improving the quality of life in small remote indigenous communities across northern Australia through the provision of sustainable energy services. By the end of the year Ergon Energy had built and installed nine stand-alone Bushlight solar power supply systems, with seven units scheduled for completion. The majority are in the Alice Springs region, with others located in the Kimberley and Gulf regions. Many of these communities previously relied solely on diesel or small petrol generators for electricity.



Meeting Our Social Obligations

DELIVERING TO COMMUNITY EXPECTATIONS

As the supplier of an essential service and an integral part of the lives of our customers, delivering to customer expectations plays a large part in meeting our social obligations. Discussion on how we are tackling this challenge has been provided on pages 12 to 19. The following pages expand further on our social commitments to the broader community and our people.

This year we have made a considerable effort to better understand the requirements of our key community stakeholders, through both improved stakeholder engagement and formal research. We have also actively participated in the relaunch of the six Regional Electricity Councils that operate throughout regional Queensland. The councils' function is to provide a forum for community involvement in the operations of the Queensland electricity network.

Our Community Interaction Program evolved into a broader community consultation strategy focusing on residential, business and community stakeholders. In addition, we lifted the stakeholder relations focus of our local managers and expanded the capability of the organisation to respond to stakeholder enquiries. Our Statement of Affairs contains details about obtaining specific stakeholder information and the community feedback mechanisms we have in place. ^①

During 2003/04 we received 35 applications for information under the Freedom of Information Act. We also continued our commitment to protecting the privacy of personal information collected as part of normal business, ensuring we comply with the National Privacy Principles contained in the Federal Privacy Act 1988.

PUBLIC SAFETY EFFORTS REMAIN A PRIORITY

During the year a detailed analysis of the risks related to dangerous electrical events that have taken place enabled a comprehensive action program to be developed to address both network and public electrical safety issues. As part of our response to this issue, we have continued to focus on our line inspection and defect remediation regime and vegetation management practices. This work supports long-term strategies to address systemic issues such as the condition of the asset, and our own safety culture.

Community electrical safety education continued with an extensive program of safety advertising and media campaigns highlighting unsafe situations around the home and on the farm. A strong focus remained on the dangers of fallen powerlines, the importance of safety switches and the need to 'look up' when working around powerlines. The 'look up and live' message was supported by changes to the Electricity Act, which now require anyone working within three metres of exposed live parts of the distribution network to undergo specific training.

SUPPORTING OUR COMMUNITIES

Around 75,000 Ergon Energy customers are now making regular contributions to the Royal Flying Doctor Service (QLD) via their electricity bills as part of our voluntary donation scheme. The success of the scheme, which has provided Queensland's 'flying doctors' with over \$600,000 since it was launched in December 2000, was recently recognised by winning the Cultural Events and Community Activities Award in The Australian Financial Review Magazine 2004 Corporate Partnership Awards.

Ergon Energy supports community events and programs throughout Queensland, from our major sponsorships of the Ergon Energy Tidy Towns Awards, Surf Life Saving Queensland and Opera Queensland to the hundreds of smaller regional and local community events and activities. This support reinforces our commitment to regional Queensland communities. Our sponsorship program operates under a set of guidelines that focuses our efforts on education, the environment, safety, and the community. ^①

Some of the events and activities sponsored in the past year included the Australian Pole Climbing Championship at the Cairns Show, Maryborough Technology Challenge, Walkamin Country Music Talent Quest, Richmond Campdraft, 1770 Festival, Mt Larcom Rodeo, Cunnamulla Show and Australia's Biggest Morning Tea ^① (Page 26).

WORKING TOGETHER WITH LOCAL GOVERNMENT

During the year we increased our interaction with local government representatives across the state, enabling us to work together to achieve mutual goals. Participation with the Local Government Association and in other council forums is allowing us to build stakeholder relationships by being more proactive in resolving their issues and utilising local government channels to share our vision. As part of these relationships we continued both our Cyclone Area Reliability Enhancement (CARE) program and our Community Powerline Projects fund.

Giving our support to organisations like Surf Life Saving Queensland is all about connecting with the community and supporting the value we see in the events and activities that bring our communities together.



The CARE program, now in its third year, has seen another \$6 million invested this year to further improve the reliability of power supply to cyclone-prone communities in Queensland's north. By improving the safety and reliability of our electricity network we aim to enhance customer service, minimise cyclone impact on local economies and help regional towns and cities to thrive year round. This work is being prioritised in consultation with local authorities. To date, over \$18 million has been spent installing around 60 kilometres of underground powerlines as part of this program. ② The Community Powerline Projects fund has also continued with strong support from local councils. Under the guidelines, funding is generally granted on a dollar-for-dollar basis for electricity infrastructure work required as part of community-based beautification projects ② (Page 15).

Our People

PEOPLE POWER ... OUR GREATEST ASSET

Our people are our key to success and as such we are committed to empowering them to deliver the best outcomes for our customers and to achieve world-class performance levels. We are continuing to listen to the needs of our employees, and through strong leadership, maintaining a keen focus on our priorities.

We have over 3,000 permanent employees ranging from power workers to specialist energy market traders. They are predominantly in full-time roles, with only 3% casual or part time. Over 18% of our employees are women. Our Boards and executive management team has female representation through three Directors and one Executive General Manager.

Our total field workforce has grown over 30% since 2001 – through both new employee positions and additional contract resources. This trend will continue with the escalated volume of work planned as part of our maintenance and infrastructure program. Over the coming period, on top of the 200 extra field workers recruited in the last 12 months, we plan to hire another 100 technical staff, 75 apprentices and 20 trainees to help us meet our customer service and reliability goals. We will also continue to develop a broader strategic human resource plan to support future planning cycles.

We have rationalised the number of contracting organisations used across the business in an effort to better manage risk, ease administration of contracts and improve the quality of services provided. Our strategy is to retain a high degree of local sourcing, and work with our contractors to share knowledge and build skills. Other improvements have been made through a focus on selection – with panels of approved contractors established to enable a sustainable contractor base – inductions and performance reviews. These efforts have been particularly

notable in the vegetation management area where we have realised significant performance improvements through the stable contractor base now in place.

MORE APPRENTICESHIP OPPORTUNITIES

We have continued to increase our intake of apprentices and trainees as part of Ergon Energy's overall policy of ensuring we have appropriately trained people to deliver a high level of customer service throughout regional Queensland.

This year we took on a record 70 new apprentices. The level of intake has required upgrading our processes and systems, training facilities and reviewing relevant curricula to ensure we meet industry best practice. Efforts in the training area have included working closely with Energex. The apprenticeships are providing opportunities for young people in their own communities across Queensland.

We also placed over 20 trainees in the office administration, information technology and engineering production technology areas of the organisation. The 12 month traineeships are part of a program that has run successfully for the last three years. We also offered vacation employment to 21 students from the electrical engineering and environmental fields.

LIVING OUR VALUES

Our values (see inside front cover) underpin the empowerment of our people to deliver more effective outcomes. Developed in consultation with employees across the business, our values aim to guide the behaviours required to deliver our vision and provide a positive work experience for all employees. We are currently implementing a three-year Living the Values strategy across the business to support organisational effectiveness and sustainability, as well as improved relationships and trust between managers and staff, an improved employment environment, and better overall organisational health. The strategy has included a values-based leadership program focused on team building and individual behaviours. Senior Management Team forums are now also being conducted regularly to foster involvement in setting our strategic direction and integrate the values into our day-to-day operations. Going forward our focus in this area will include using our values to underpin our core business responsibilities of safety and customer service.



Chief Executive Tony Bellas meeting new Systems Electrician apprentice Reece Knight, one of the 70 apprentices recruited this year as part of our commitment to maintaining a strong regional skill base.

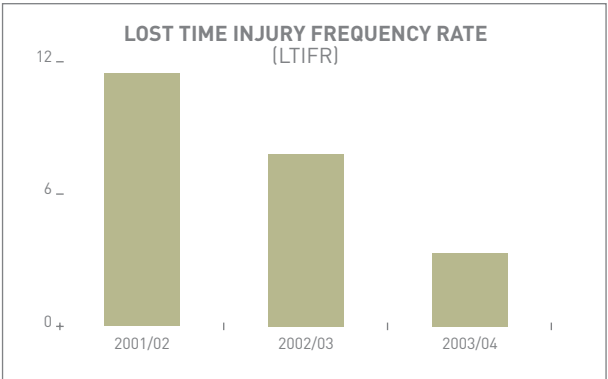
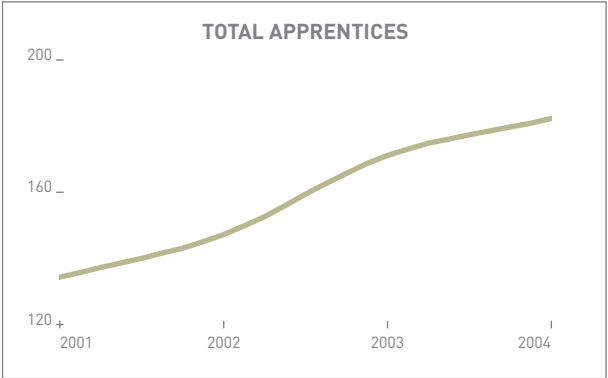
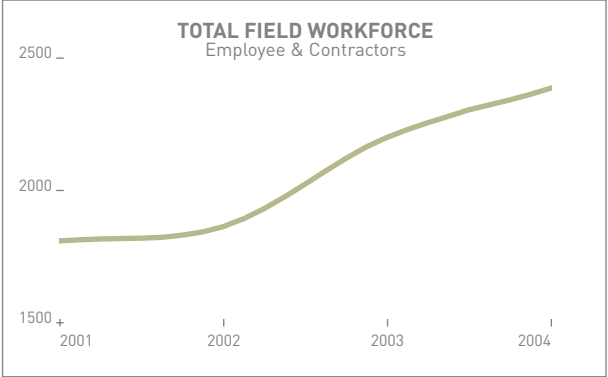
**Everything in our power
to support**



Deputy Mayor Deanne Bell, of Thuringowa, takes an active role in safeguarding her regional Queensland community against the dangers and costly impact of severe tropical storms and cyclones.



Paul Ryan, Ergon Energy's Manager Regional Services Northern, is working closely with local government along the tropical coast to achieve common goals, through initiatives like our CARE program.



A FIVE-STAR SAFETY ACHIEVEMENT

In a significant move forward, we were awarded an overall five-star National Safety Council of Australia (NSCA) grading in April. The accreditation, up one star from the previous year to the highest grading, provides independent recognition of the quality of our safety management systems and safety performance improvement in terms of lost-time injuries. Over the year our Lost Time Injury Frequency Rate (LTIFR) reduced from 7.8 to 3.3 and our Injury Illness Statistical Index (IISI) reduced from 92 to 23.

Safe work practices were also the focus of a reward and recognition scheme, Power Aid, launched in March. The scheme allows employees to earn points through safe work practices and safety initiatives that are then converted into 'donation dollars'. So far, through the Power Aid scheme, around \$35,000 has been donated to local charities by Ergon Energy work groups.

Other safety achievements this year included highlighting the risks related to dangerous electrical events, risk profiling of the corporate group, managing hazardous substances and dangerous goods at our high risk sites, the establishment of a peak safety committee – which is now meeting quarterly with positive union involvement – and the development of an Executive Health Assessment Program.

The next step will be to target safety attitudes and behaviours to move us closer towards our goal of zero injuries. Supporting this over the next year will be a health program rollout, plus a new integrated Safety Management System framework.

PRINCIPLES SUPPORT EMPLOYEE RELATIONS


Since the beginning of the year Ergon Energy's industrial relations have continued to improve through enhanced stakeholder relationships and pro-active management of industrial issues.

We are currently working to a set of principles with the aim of strengthening our relationships with industry unions as one of our key stakeholder groups. These relationships and the working principles are based on Ergon Energy's core values and reaffirm the consultative provisions of the current Enterprise Bargaining Agreement.

As part of our commitment to improving employee relations generally, we are currently in the process of rolling out an employee and industrial relations training program targeting our line managers, as well as our human resource team and union delegates, to further strengthen the relationships at the operational level. We have also enhanced the consultative framework within the business.

The understanding gained by all parties through these efforts places us in a positive position for the future challenges facing the business and our employees.

EQUAL EMPLOYMENT OPPORTUNITIES

Throughout the year we have continued our commitment to providing Equal Employment Opportunities (EEO). This included the appointment of a dedicated EEO adviser to drive a list of priorities. Actions successfully implemented to date include updating our EEO and sexual harassment and workplace bullying policies, delivering interactive training for all staff and launching an EEO intranet site. We are currently developing indigenous employment and women in management strategies as key components of our overall EEO strategy. 

SKILLING OUR LEADERS

To ensure our training and development programs are effectively addressing our needs we completed a 'common needs' analysis during the year. This has allowed us to establish a suite of training options for employees to access in addition to technical training.

Highlights of our leadership development included the delivery of a Frontline Management program to 160 employees and a Leadership Foundations program for senior management. The latter involved a range of learning techniques, including 360-degree feedback and one-on-one coaching. We also conducted performance management training for 190 managers, supervisors and team leaders.

Our focus on leadership is continuing with further leadership programs, a succession management program and the evolution of the intranet as a learning vehicle on the agenda.

Measuring Our Social Performance

In the May results of our customer value research, Ergon Energy maintained its lead over a pool of other Australian energy suppliers, performing well in relative terms on image and reputation (Page 13). We intend to monitor this more broadly in future with the aid of a national reputation rating to enable us to benchmark our performance as a community leader in social responsibility.

We also conduct an annual Employee Opinion Survey to gain input from our employees. This year's survey showed a stable overall employee satisfaction at 65%. Job security showed the most positive trend with an improvement of 9%. This indicator also rated as one of the most important to our employees. A 25% increase in employees responding to the survey also demonstrated its growing acceptance as a two-way communication mechanism.

Our governance

Leadership will be a critical element in achieving our vision, together with good governance and world-class risk management practices.

Meet the people who are leading the way – our Directors and Executive Management Team.



**Everything in our power
to lead**

John Wellington, from the National Safety Council of Australia, demanded the highest professional and ethical standards before awarding Ergon Energy with the premier NSCA five-star safety grading.



Mark Bartlett, Ergon Energy's Manager Field Safety, is responsible for coordinating the talented team of experts dedicated to identifying and managing safety risks faced by our field crews.



Objective To operate as a world-class organisation that is a leader in its management of both opportunities and risks, and is focused on continuous improvement. Our aim is to protect and enhance the interests of our Shareholders, while meeting our obligations to stakeholders.

Strategy To provide leadership within a sound governance framework that can effectively manage business risk, within both our regulatory operating environment and the contestable energy market.

Key Achievements

- Increased our stakeholder engagement efforts to help align our corporate objectives with the aspirations of our key stakeholder groups.
- Adopted the appropriate ASX principles of best practice corporate governance and expanded our governance framework to support our growth agenda.
- Became one of only three Queensland organisations to gain accreditation as a Project Managed Organisation by the Australian Institute of Project Management.
- Improved management representation from our different operating regions, and increased our customer focus and business development priority with changes to the management structure.
- Our financial energy risk management systems supported the profitable operating position of our energy-trading portfolio during the volatility of March 2004.

Future Ergon Energy's governance framework and risk management practices will remain critical enablers to achieving our vision. This will require leadership; the practical application of the management structure in place; strict adherence to environmental, financial and legal policy and legislative compliance; as well as empowering our people to live our values.

Meeting Stakeholder Expectations

LIVING OUR VALUES

To achieve our vision we have placed considerable effort into cementing strong leadership and governance foundations across the organisation. This builds on previous years and ensures the necessary leadership, governance and risk management elements are in place.

A key part of this foundation is the company's values. Our aim is to foster a work environment where people are open and honest, show respect and support each other, work together to deliver practical excellence, take ownership and are proactive, and pursue ideas and innovation. These values are increasingly being incorporated into decision making and our day-to-day operations (Page 30).

PLANNING TO DELIVER OUR VISION

We understand that our vision can only be realised through the alignment of our corporate objectives with the aspirations of our customer and other key stakeholder groups. To do this, as part of our strategic planning process, an ongoing effort is being made to better understand our key stakeholders through regular engagement and formal research. This year structured interviews were conducted across our key stakeholder groups, including our Shareholders and related government departments, customers, regulators, suppliers, generators, and unions. Employee expectations were assessed through a new Culture Survey and the annual Employee Opinion Survey.

Ergon Energy's strategic plans detail our objectives for the key result areas of operational excellence, customer service, financial performance, growth, people development and risk management. Our corporate objectives, strategies and targets for each financial year are documented within our Statement of Corporate Intent (SCI) (Pages 6-7).

Ergon Energy has an ongoing change program to support our corporate plans. During the year, we were accredited as a Project Managed Organisation by the Australian Institute of Project Management. The competency-based award recognises our effort to align our project management activity to our strategic objectives and our use of project management methodologies. To build on progress to date, improvements to management reporting and mapping benefits are now underway to ensure an optimal program for achieving our strategic objectives.

WORLD-CLASS GOVERNANCE PRINCIPLES

Moving the group forward and broadening our operational excellence has meant an ongoing focus on governance and risk management. Ergon Energy has, where applicable to a Government Owned Corporation, adopted the Australian Stock Exchange Principles of Good Corporate Governance and Best Practice Recommendations issued in March 2003. The Director's Code of Conduct guides a range of activities including, as recommended in these principles, the procedure for Directors to take independent professional advice at the company's expense.

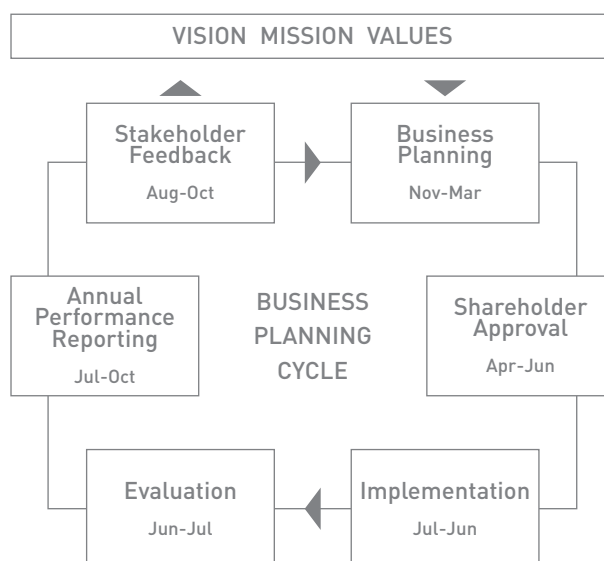
During the year the performance of the Board, and its members, was evaluated, with the Chairman conducting a survey of the Board as a whole and each individual Director conducting a self-assessment.

OPERATING ETHICALLY

Ergon Energy is continuing to deliver on its commitment to ensure its business affairs are conducted legally, ethically and with strict observance of the highest standards of integrity and propriety.

During the year our Code of Conduct, which sets out the standards expected of all employees, was relaunched and deployed with a major internal communications campaign.

The Code is supported by an independent process whereby any allegations of misconduct can be reported to an independent body through a FairCall service on 1800 500 965. Calls are answered by experienced operators on business days between 8am and 6pm. Alternatively, employees and members of the public can write to the Chief Executive or Company Secretariat. The service is aimed at supporting Ergon Energy's culture of corporate compliance and ethical behaviour. It reflects the principles embodied in the various whistle blowers' protection standards and ensures fairness to all concerned.



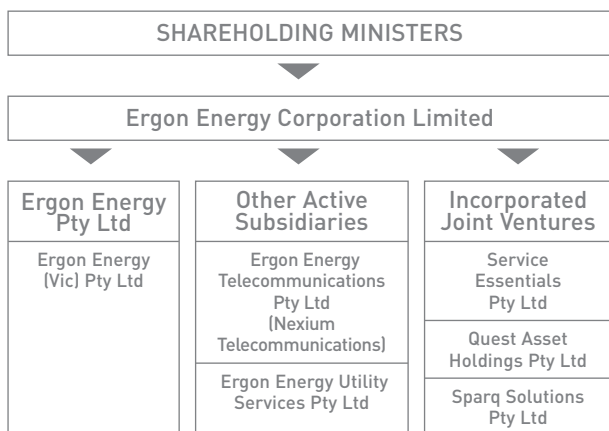
Our Directors and Company Structure

The principal operating companies in the Ergon Energy group are Ergon Energy Corporation Limited (EECL) and its subsidiary Ergon Energy Pty Ltd (EEPL). The companies are governed by the provisions of the Corporations Act 2001, except as otherwise provided by the Government Owned Corporations Act 1993. While each entity has separate Boards of Directors made up of independent, non-executive Directors, they share a number of common members.

The Directors of both companies are responsible to our Queensland Government shareholding Ministers and are appointed by the Governor-in-Council under the Government Owned Corporations Act 1993. Due to this appointment process a Board nomination committee has not been established. The Directors set strategic direction and policies, oversee our financial position and monitor the business affairs of the group. To maintain an in-depth understanding of our operations and allow them to meet with regional stakeholders, the Boards meet both in Brisbane and in our key regional centres.

Ergon Energy Corporation Limited established a new subsidiary during the year - Ergon Energy Telecommunications Pty Ltd, trading as Nexium Telecommunications, a licensed telecommunications carrier offering wholesale high-speed data capacity (Page 21). As a 100% owned subsidiary, it operates within the governance framework of the Ergon Energy group with a charter and a Board, comprising Directors from the parent company, meeting quarterly.

Ergon Energy Corporation Limited is now also a shareholder in a number of joint ventures with Energex Limited, including Service Essentials Pty Ltd, which provides back-office retail services, Sparq Solutions Pty Ltd, which provides IT&T solutions and services and Quest Asset Holdings Pty Ltd, which is a joint information technology asset owner. Detailed shareholder agreements have been established to guide how these companies are governed. They each have separate Boards, which meet monthly, comprising executives from both Ergon Energy and Energex (Page 22).



Keith Hillless BE FIE(Aust) FAIM MAICD EECL and EEPL Chair

Keith Hillless brings to his role as Chairman 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 1989 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 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 Network Committee.

Barry Taylor MAICD EECL Deputy Chair

Barry Taylor is a practicing lawyer and notary public with Suthers Taylor, a Townsville-based law firm. He has extensive experience in corporate, commercial and property law, as well as a strong interest in planning and environmental law.

Mr Taylor has over 25 years corporate, business and legal experience, together with a range of commercial interests in the construction, recycling and entertainment industries. Mr Taylor's directorships include Townsville Enterprise Limited. He is also a member of the Urban Development Institute of Australia.

Mr Taylor chairs Ergon Energy's Safety Committee and is a member of the Audit and Legal Compliance Committee and Business Development Committee.

Paul Bell MAICD EECL Director

Paul Bell is the President of the Local Government Association of Queensland with over 19 years continuous service to the Emerald Shire Council, including nine as Mayor. Paul is also Vice President of the Australian Local Government Association.

In addition to local government knowledge, Cr Bell also brings to the Board considerable experience in regional development and transport logistics. He holds the positions of Deputy Chair with Queensland Rail, Chair of Central Queensland Institute of TAFE and Deputy Chair of the Employment and Training Board. Cr Bell chairs Ergon Energy's Human Resources Committee and is a member of the Safety Committee.

Fay Donovan JP (Qualified) EECL Director

Fay Donovan is a former Deputy Mayor of the Mount Isa City Council, serving on the Council for 14 years up until she retired in March 2004. She is currently a Justice of the Peace and Civil Marriage Celebrant.

Mrs Donovan maintains an involvement with the local Mount Isa community and provides a strong regional perspective to the operations of the Board by representing the expectations of our regional Queensland stakeholders. Mrs Donovan is also a member of Ergon Energy's Human Resources Committee and Network Committee.





Andrew Robertson BComm ACA FAICD
EECL Director

Andrew Robertson, as Director of ABN AMRO Morgans Limited, brings to the Board expertise in the areas of finance and investment. He holds a Bachelor of Commerce degree, is an Affiliate of the Australian Stock Exchange Ltd, and a fellow of the Australian Institute of Company Directors. He is an Alternate Director with the Electricity Supply Industry Superannuation (Qld) Ltd and a Director of several of ABN AMRO Morgans Limited subsidiary companies. Mr Robertson is the Chairman of Ergon Energy's Financial Risk Management Committee and a member of the Business Development Committee.

Wayne Myers
EECL and EEPL Director

Wayne Myers 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 29 years. He is Chair 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 Network Committee.

John Bird FCPA FAICD FTIA
EEPL Deputy Chair

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 Chair of the Queensland Labor Group of Companies. He is also Chairman of ESI Financial Services Pty Ltd. His other Directorships include UNiTAB Queensland Ltd and Electricity Supply Industry Superannuation (QLD) Ltd. As well as his role as Chair of Ergon Energy's Audit and Legal Compliance Committee, Mr Bird is also a member of the Financial Risk Management Committee and Network Committee.

Pat Faircloth M. EdSt. MLit(History) BA. GradDipTL.DipEd AMEB MAICD
EEPL Director

Pat Faircloth 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 Association of Women Educators, and University Learning Coordinator for Central Queensland University, Bundaberg Campus. Mrs Faircloth is a member of Ergon Energy's Audit and Legal Compliance Committee.

Belinda McNeven BEd DipTeaching
EEPL Director

Belinda McNeven 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 also contributes as a member of Ergon Energy's Human Resources Committee.

Details of each Director's term of office and attendance details for Committees of the Boards are on pages 40-41 and 77-78.

COMMITTEES OF THE BOARDS

The Directors are supported by a number of committees, made up of Board members, to ensure issues relating to governance and risk management are adequately addressed.

Audit and Legal Compliance Committee – covers the group's financial integrity, business risk management, audit effectiveness, compliance with laws and regulations, and its code of business conduct. It approves and monitors Ergon Energy's in-house internal audit program and a quarterly risk management reporting process that incorporates major risk exposures, legal compliance obligations and management initiatives. Both Internal Audit and the business risk and compliance monitoring function sit within the Office of the CE and report to the Boards and their committees. The internal audit appointment or any dismissal must be agreed by this committee.

In early 2004 the committee required an independent review of the revenue reporting processes for Ergon Energy Pty Ltd. It also oversaw the implementation of recommendations from an external review of our internal audit function and planning process for the adoption of the International Financial Reporting Standards.

The committee consists of only non-executive and independent Directors and has at least three members. The Chair of the committee is not the Chair of the Board. Members have an understanding of the industry and are financially literate and at least one member has financial expertise. Subsequent to the reporting period, the committee's charter has been made publicly available on our website at www.ergon.com.au/about_us/corporate_governance.asp

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Financial Risk Management Committee – reviews financial risk management, including electricity, gas, credit liquidity and interest rate risks. During the year, the committee engaged external consultants to provide an annual review of our policy on energy market risk management.

Human Resources Committee – makes recommendations to both Boards on human resource issues and our employment policy framework, including conditions associated with both contract and award employees.

The committee oversaw performance payments to senior managers to ensure they were in keeping with Ergon Energy's remuneration policy. The policy recognises that to attract and retain the people necessary to achieve the company's vision, salaries and salary packaging must be competitive, flexible and performance-orientated. The remuneration strategy involves the allocation of at risk payments based on performance at the company, business unit and individual level. Details of remuneration to non-executive directors and executives are reported on pages 67-69 and 98-99, consistent with the requirements of Australian Accounting Standard AASB 1046. The committee also approved the implementation of a Leadership Program for 60 senior managers and Directors.

Business Development Committee – reviews and makes recommendations on business development and significant investment opportunities. The committee's aim is to ensure any development opportunities adopted are consistent with our vision and stakeholders' expectations. During the year they reviewed and made recommendations to the Boards on proposals for a number of cogeneration and gas generation projects, as well as the establishment of the new subsidiaries and joint venture companies.

Safety Committee – This committee was brought together this year to oversee a number of key safety issues, including changes to safety legislation and Ergon Energy's drive towards zero injuries.

Network Committee – Just recently established, this committee is overseeing the implementation of our responses to the recommendations from the Government review into electricity distribution and service delivery in the state (i) (Page 8).

Our Management Team

IMPROVING REGIONAL PARTICIPATION

A number of new management initiatives have been implemented to enhance the involvement in business decision making by our different operational regions, better utilise the wealth of regional operational experience and more effectively interface with the Directors. An Extended Executive Management Team has been established, including the core executive and six regional members of the Distribution Management Team, and is now meeting in a regional centre every second meeting.

There has also been a greater devolution of decision making to empower managers and staff to resolve issues at the first point of impact and allow greater regional input into business decision making.

BUILDING A TEAM TO DRIVE OUR FOCUS

A revision of our Executive Management Team led to the creation of two new roles reporting directly to the Chief Executive – creating an increased emphasis on operational excellence and business growth, with an elevated customer focus and a higher profile for business development opportunities.

Executive management’s corporate governance program is supported by a number of investment review and strategic coordination committees. These committees oversee major distribution, retail and growth investment priorities and matters. In addition to the ongoing change program, which is now managed against a baseline program, the main agenda of these committees this year included the record expenditure on the network, retail’s renewable trading programs and our business development initiatives.



Tony Bellas BEcon DipEd MBA ASA MAICD
Chief Executive

Responsible for overall business direction and priorities, and ultimately for meeting the financial and service delivery expectations of our customers, the community and our Shareholders.

Terry Effeney BEngHons BEcon MElecEng
Executive General Manager Distribution

Responsible for customer service and asset management outcomes for the distribution business while meeting safety, environment, cost and risk management targets.

Kate Skilleter MComm BMusic Hons
Executive General Manager Retail

Responsible for optimising the overall performance of our retail business, for both our customers and Ergon Energy.

Jim Mitchell BComm CPA MAICD FCT
Chief Financial Officer

Responsible for the provision of financial, corporate and administrative services to the business, and responsible for the Office of the Chief Information Officer.





Mal Leech GradDipBusAdmin BEng
Executive General Manager
Employee and Organisation Services

Responsible for the areas of human resources, employee relations, learning and development, business integration services, culture development, business processes and importantly, health and safety.

Grahame Foulger (Acting) BEng MIE(Aust) MAICD
Executive General Manager
Corporate and Business Development

Responsible for driving an integrated corporate growth strategy to exploit opportunities that grow from our core business activities.

Lindsay Woodland BBus
Executive General Manager
Customer Service

Responsible for the National Contact Centre, as our central customer interface, and our customer service strategy.

David Pegg BComm LLB Hons MSc
General Counsel and
Company Secretary

Responsible for the organisation's legal, risk and compliance functions, as well as internal audit and Office of the Company Secretariat.

Justin Fitzgerald
MComm GradDipStats BBus
Executive General Manager
Stakeholder Relations

Responsible for customer advocacy within Ergon Energy, corporate communications and key stakeholder relationships.

Delivering Effective Risk Management

Ergon Energy's risk management framework is guided by the principles of the risk management standard AS/NZ 3460. It aims to meet the governance expectations of our stakeholders, produce better performance outcomes and minimise unnecessary volatility.

During the year we developed standard risk quantification guidelines for major strategic, operational and business risks as a means of identifying priorities. This work has supported a quarterly operational risk status report, based on 20 indicators, covering our major risk sources. Risk management policies and reporting regimes were established for operations, network performance, safety, environmental management, financial integrity and wholesale energy market trading. Material breaches, risk tolerances and measures against these areas are reported to the Executive and Board on a regular basis.

We demonstrated due diligence in discharging our legal and regulatory requirements by obtaining a licence under new commonwealth Financial Services Reform legislation, as well as developing systems to ensure compliance with electrical safety legislation and a range of environmental, maintenance and construction approval requirements.

For all major growth and diversification proposals a rigorous internal investment review process has been established to manage our commercial and operational risks.

WORLD-CLASS ENERGY TRADING EXPERTISE

During the period of extreme electricity market volatility in March 2004 our trading team once again demonstrated its expertise by maintaining the profitable operating position of our energy trading portfolio. Our financial energy risk management's systems previously proved themselves during the significant market volatility of December 2002.

During the year we also further strengthened the management of our contestable retail load with highly sculpted hedges from short-term trading activity. Our risk management capability also benefited from the development of innovative hedging arrangements with the Shareholder for our franchise load.

Our trading expertise is now being used to develop an operational framework to manage diesel hedging activity to contribute to the stabilisation of Customer Service Obligation payments made by the Shareholder.

Further details of our risk management policy and internal compliance and control systems are available on our website at www.ergon.com.au/about_us/corporate_governance.asp ⓘ

Additional information

Overseas Travel

Destination	Date	Purpose	Title	Total Cost
Rio de Janeiro, Brazil	Sept 2003	To contribute to working group, participate in technical discussions and convene Advisory group meeting incl: cigré Working Group WGD2-07 meeting, SCD2 Colloquium, and cigré Advisory Group AGD2-03.	Communications & Control Systems Engineer	\$5,000
New Zealand	Nov 2003	Convene the Australian Technical Committee for cigré	Communications & Control Systems Engineer	\$1,430


Abbreviations

AIDM	Asset Inspection and Defect Management
CARE	Cyclone Area Reliability Enhancement program
CMS	Customer Management System
CRI	Customer Responsiveness Index
CVM	Customer Value Management
DPI	Department of Primary Industries
EBA	Enterprise Bargaining Agreement
EBIT	Earnings Before Interest and Tax
EECL	Ergon Energy Corporation Limited
EEO	Equal Employment Opportunity
EEPL	Ergon Energy Pty Ltd
EMFs	Electromagnetic Fields
ERP	Enterprise Resource Planning
ESAA	Electricity Supply Association of Australia
FACTS	Feedback and Claims Tracking System
GECs	Gas Electricity Certificates
GSLs	Guaranteed Service Levels
ISO	International Organisation for Standards
IT&T	Information Technology and Telecommunications
NAPM	Network Asset Preventative Maintenance
NATA	National Association of Testing Authorities
NEM	National Electricity Market
NSCA	National Safety Council of Australia
PCBs	Polychlorinated Biphenyls
QAO	Queensland Audit Office
QCA	Queensland Competition Authority
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

Units of Measure

V	volt	the unit of potential or electrical pressure
kV	kilovolt	one kV equals 1,000 volts
W	watt	a measure of the power present when a current of one ampere flows under a pressure of one volt
kW	kilowatt	one kW equals 1,000 watts
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 one kilowatt over a period of one hour
MWh	megawatt hour	one MWh equals 1,000 kilowatt hours
GWh	gigawatt hour	one GWh equals 1,000 megawatt hours or one million kilowatt hours
HV	high voltage	alternating current above 1,000V
LV	low voltage	alternating current above 32V and not exceeding 1,000V
SAIDI	System Average interruption Duration Index.	Network reliability performance index, indicating the 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).
LTIFR	Lost Time Injury Frequency Rate.	Number of injuries per million hours worked over the 12 month reporting period.
IISI	Injury and Illness Statistics Index.	The measure is a product of LTIFR and average days lost per injury for the 12 month reporting period.

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 is available on our internet site. Simply visit www.ergon.com.au/annualreport

Government Review into the Electricity Industry
Statement of Corporate Intent Targets 2004/05
Network Management Plan
Details of Community Powerline Projects 2003/04
Cyclone Area Reliability Enhancement (CARE) Program 2003/04
Environmental Policy and Governance Framework

Environmental Performance Summary 2003/04
Statement of Affairs 2003/04
Our Sponsorship Guidelines
Regional Sponsorship Summary 2003/04
Equal Employment Opportunities Strategy
Governance and Risk Management

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