



Annual Report

Ergon Energy Pty Ltd and Controlled Entities

[For the year ended 30 June 2000]



People Powering People

Chair's Introduction

Ergon Energy's retail operations entered a new era with the merger of six regional Queensland electricity distribution companies and Ergon Energy Pty Ltd under a single Ergon Energy brand.

This change allowed us to market a consistent brand image to our customers. As a single enterprise with a unified brand, we have been able to significantly enhance customer awareness about Ergon Energy and our offer. For example, market research conducted in May 2000 told us the changes were well received when 87% of our customers mentioned Ergon Energy first when asked to name an energy company, as compared to 61% of customers in May 1999.

As a consolidated business, we were able to work more closely than ever before to enhance customer service delivery. Leveraging off a unified base, we introduced Guaranteed Service Levels to give our customers the power to expect certain service standards from everyone on our team. As part of our Guaranteed Service Levels, we pay our customers if we don't meet set service standards for upgrades and maintenance, hot water connections, power connection, streetlight repairs and tree trimming.

A range of customer service enhancements to our Call Centre operations made it even easier for our customers to contact Ergon Energy. We linked our Call Centres so we could better manage periods of peak customer demand for our service and introduced new overflow arrangements for busy periods. As a single business, we capitalised on the opportunity to introduce 13 10 46 as our single customer service number, 13 22 96 as our single fault reporting contact number as well as standardised systems for resolving customer concerns.

Our customers were responsive to our expanding product offer, particularly our green energy product, Ergon Clean Energy. Regional Queenslanders demonstrated their commitment to the environment by subscribing to Ergon Clean Energy in record numbers. Some 5,700 customers subscribed to our green energy product by the end of the financial year.

We also placed priority on developing our gas supply business as another way to give our customers a broader product offer. Our significant achievements during the year included concluding a preliminary agreement with the PNG - Queensland gas project that will allow us to supply gas to electricity generators as well as commercial and industrial customers. Establishing Ergon Energy Gas Pty Ltd has given us a subsidiary company for future activity in the national gas market.

Our wholesale markets team worked to find new ways to bring our customers intelligent energy solutions and thereby ensure they receive maximum value from their relationship with Ergon Energy. By adopting a whole-of-business approach and fully using all our commercial and technical skills, we were able to benefit new customers in the national energy market through our suite of Total Energy Solutions. We helped provide greater value to our customers by enhancing our energy auditing and load management product offer.

Ergon Energy implemented its trading for profit activity to trade financial contracts in the national energy market. Operating under comprehensive risk management guidelines, this activity has created the platform for generating an important new income source as well as significantly raising Ergon Energy's wholesale market profile due to the increased volume of trades.

These achievements demonstrate that we have successfully managed unprecedented change within our business in the past year. We are also acutely aware of the rapid pace of change taking place around us in the national energy market. For this reason, we have also focused on continuing to secure Ergon Energy Pty Ltd's position in the energy sector. While many of these changes were made to our internal operations, we have also helped shape the national energy market by proactively assisting in the development of national energy

market regulations as well as the regulatory regime for the electricity industry in Queensland. Ergon Energy also provided a retail representative to the National Electricity Market Settlements and Transfer Committee to help develop processes and systems needed to introduce full retail contestability.

We recognise that the past year has been one of consolidation for our retail operations. However, our achievements speak for themselves in demonstrating Ergon Energy's fast-maturing retail capability. Our progress in the past year is testimony that we have the foundations in place to further enhance our retail offer in regional Queensland and become a leading Australian energy retailer.



Charles Ware
Chair
Ergon Energy Pty Ltd



Kim Griffith
Chief Executive Officer
Ergon Energy Pty Ltd



[Kim Griffith and Charles Ware]

Contents

Chair's Introduction	1
Directors' Report	3
Profit and Loss Statement	6
Balance Sheet	7
Statement of Cash Flows	8
Notes to and forming part of the Financial Statements	9
Directors' Declaration	24
Independent Audit Report	25
Contact Details	26

The Board of Directors present their report on Ergon Energy Pty Ltd and its controlled entities for the year ended 30 June 2000.

Directors

The following persons held office as non-executive directors of Ergon Energy Pty Ltd ("the parent entity") during the financial year. All directors held their position as director from 1 July 1999 and up to the date of this report.

Charles Ware BA, LLB(Hons) AAIMM

Chair

Solicitor, Rockhampton. Director, Queensland Biennial Festival of Music. Chair, Rockhampton Art Gallery Trust. Former Chair, Capricornia Electricity Corporation Limited and Deputy Chair, Central Electricity Retail Corporation Pty Ltd.

John Bird FCPA, MAICD, FTIA

Deputy Chair

Chair, Group Audit and Legal Compliance Committee

Former Managing Partner of Brown and Bird Certified Practising Accountants Mackay. Currently Chairman of Central Queensland Helicopter Rescue Service Ltd. Director of TAB Queensland Ltd. State Treasurer of the Australian Labor Party (Qld) and Chairman of the Queensland Labor Group of Companies. A Registered Company Auditor. Member of the CEPU Electrical Division.

Andrew McNamara BA, LLB

Former Partner, Lewis and McNamara Solicitors, Hervey Bay. Chairman, Committee for the Economic Development of Hervey Bay. Director, Wide Bay Group Training Scheme Limited.

Ian Brien

Owner, Ian Brien Motors and Selby H Pty Ltd. Chairman, Salvation Army Advisory Board. Vice Chairman, MIGATE. Local Area Representative, Motor Trades Association of Queensland.

Hon Keith De Lacy Hon.DLitt, BA, QDA, FAIM, FAICD

Former Queensland Treasurer and Member of Parliament. Chairman - Trinity Funds Management. Director - Queensland Investment Corporation, Securities Exchange Guarantee Corporation, Reef Casino, Cairns International University. Strategic Adviser, Thiess Contractors. Chairman - Foundation for Gambling Studies, Salvation Army Red Shield Appeal Cairns.

Pat Faircloth BA MEdSt GradDipTL DipTeaching AMEB M. Lit (History)

Former Regional Project Officer, Commonwealth Schools Program. Former Regional Resources Consultant and Director of Resources, Wide Bay Northern School Support Centre. State Council Delegate, Queensland Teachers' Union. Partner and Director, Endeavour Travel. State Councillor, SLAQ. President, Zonta (Bundaberg). Coordinator, AWE.

Dave Woodall MBA, FAICD, AFAIM

Chief Executive, Grainco Australia Ltd. Chairman, Australian Bulk Alliance Ltd. Director, Australian Independent Grain Terminals Ltd. Director, Chalmers Commodities Ltd. Former Chairman, Queensland Country Credit Union. Former Chairman, Queensland-China Council.

Principal Activities

The principal activities of the economic entity during the financial year were electricity wholesale and retail trading in Queensland, Victoria, New South Wales and Australian Capital Territory.

Dividends Paid or Declared

No dividends have been provided for during the financial year.

Review and Results of Operations

The consolidated profit after income tax equivalent of the economic entity for the financial year was \$2,397,000 (1999: \$4,521,000).

Significant Changes in the State of Affairs

On 30 June 1999 ownership of the parent entity was transferred to Ergon Energy Corporation Limited as a result of a Scheme of Arrangement under the Corporations Law. In the opinion of the Directors, there were no other significant changes in Ergon Energy Pty Ltd and its controlled entities state of affairs during the financial year.

Likely Developments and Future Results

The Directors expect the economic entity's future operating results to continue to improve. Demand for its energy products has continued to grow subsequent to the end of the financial year.

The Directors' have excluded from this report any further information as to the likely developments in the operations of the economic entity and the expected results of those operations in future financial years, as the Director's believe that it would be likely to result in unreasonable prejudice to one or more entities in the economic entity.

Environmental Regulation and Performance

The economic entity's environmental obligations are regulated under State and Federal Law.

All environmental performance obligations are monitored by the Group Audit and Legal Compliance Committee and subjected from time to time to Government Agency, internal and external professional agency audits. The economic entity has a policy of complying with its environmental performance obligations.

No environmental breaches have been notified by any government agency during the financial year.

Indemnification and Insurance of Directors and Officers

During the year an insurance policy was held insuring all Directors and officers of the economic entity against liabilities incurred in their capacity as Director or Officer. The content of this policy prohibits disclosure of details of the nature of the liabilities and the amount of the premium paid and as such, the Corporations Law does not require disclosure of this information in those circumstances.

Directors' Meetings

From January 2000 the Board committees were Group committees of the ultimate parent entity, Ergon Energy Corporation Limited, and Ergon Energy Pty Ltd. Prior to that date each Board had separate committees for Audit and Legal Compliance and Human Resources.

The number of meetings of directors (including committees) held during the year and the number of meetings attended by each director were as follows:

Director	Board of Directors		Group Audit & Legal Compliance Committee		Group Human Resources Committee		Group Financial Risk Management Committee	
	Number Eligible To Attend	Number Attended	Number Eligible To Attend	Number Attended	Number Eligible To Attend	Number Attended	Number Eligible To Attend	Number Attended
C Ware	13	13	4	4	2	2	1	-
Hon K De Lacy	13	13	4	2	1	-	1	1
J Bird	13	12	4	4	-	-	-	-
A McNamara	13	13	-	-	2	2	-	-
I Brien	13	11	4	3	-	-	-	-
P Faircloth	13	13	-	-	2	1	-	-
D Woodall	13	12	-	-	1	-	1	1

Profit and Loss Statement

For the year ended 30 June 2000

	notes	[Consolidated]		[Parent]	
		2000 \$'000	1999 \$'000	2000 \$'000	1999 \$'000
Operating Revenue	2	1,179,756	1,150,569	1,159,573	1,111,574
Operating profit before income tax equivalent		2,823	8,057	338	6,370
Income tax equivalent benefit / (expense) attributable to operating profit	3	(426)	(827)	962	(4,321)
Operating profit after income tax equivalent		2,397	7,230	1,300	2,049
Profit / (loss) on extraordinary item	4	-	(2,709)	-	-
Net profit / (loss) and extraordinary item after income tax equivalent		2,397	4,521	1,300	2,049
Retained profits at the beginning of the financial year		5,706	1,185	5,824	3,775
Total available for appropriation		8,103	5,706	7,124	5,824
Dividends provided for or paid	5	-	-	-	-
Retained profits at the end of the financial year		8,103	5,706	7,124	5,824

The accompanying notes form an integral part of this Profit and Loss Statement.

Directors' and Officers' Remuneration *continued*

In accordance with Ministerial Guidelines, details of remuneration provided to directors and the five most highly remunerated officers of the parent entity (or if different, the economic entity) in office at 30 June 2000 are as follows:

Director	Directors' Fees	Committee Fees	Superannuation	Total Emoluments ⁽¹⁾
C Ware	39,200	4,500	3,059	46,759
Hon K De Lacy	16,072	3,000	1,335	20,407
J Bird	16,072	4,000	1,405	21,477
A McNamara	16,072	3,500	1,370	20,942
I Brien	16,072	3,000	1,335	20,407
P Faircloth	16,072	3,000	1,335	20,407
D Woodall	16,072	1,500	1,230	18,802

Officer Title	Base Salary	Motor Vehicle & Car Park	Superannuation	Total ⁽²⁾
Chief Executive Officer	227,062	16,644	19,760	263,466 ⁽³⁾
Manager, Gas and Generation	121,480	20,845	11,540	153,865
General Manager, Wholesale Markets	109,574	24,340	9,531	143,445
Stakeholder Relations Manager	100,046	18,363	8,801	127,210
Manager, Strategy	117,210	-	8,785	125,995

(1) Represents payments to Directors from Ergon Energy Pty Ltd and its controlled entities.

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

(3) In addition, during the year accrued entitlements were paid out on appointment as Group Chief Executive Officer.

Rounding

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

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



Charles Ware

Chair

10/10/2000

Brisbane

Balance Sheet

As at 30 June 2000

	notes	[Consolidated]		[Parent]	
		2000 \$'000	1999 \$'000	2000 \$'000	1999 \$'000
Current Assets					
Cash		81,704	93,248	73,624	85,599
Receivables	6	237,239	172,641	243,698	164,790
Other	7	688	15	688	-
Total Current Assets		319,631	265,904	318,010	250,389
Non-Current Assets					
Investments	8	-	-	13,910	13,910
Property, plant and equipment	9	3,574	1,675	3,558	1,637
Other	10	23,997	29,215	21,561	24,189
Total Non-Current Assets		27,571	30,890	39,029	39,736
Total Assets		347,202	296,794	357,039	290,125
Current Liabilities					
Accounts payable	11	159,482	100,172	170,518	94,809
Borrowings	12	8,258	-	8,258	-
Provisions	13	2,560	1,433	2,560	1,432
Total Current Liabilities		170,300	101,605	181,336	96,241
Non-Current Liabilities					
Borrowings	14	13,648	29,545	13,648	29,545
Provisions	15	27,979	32,766	27,759	31,343
Total Non-Current Liabilities		41,627	62,311	41,407	60,888
Total Liabilities		211,927	163,916	222,743	157,129
Net Assets		135,275	132,878	134,296	132,996
Shareholders' Equity					
Share capital	16	123,172	123,172	123,172	123,172
Reserves	17	4,000	4,000	4,000	4,000
Retained profits		8,103	5,706	7,124	5,824
Total Shareholders' Equity		135,275	132,878	134,296	132,996

The accompanying notes form an integral part of this Balance Sheet.

Statement of Cash Flows

For the year ended 30 June 2000

	notes	[Consolidated]		[Parent]	
		2000 \$'000	1999 \$'000	2000 \$'000	1999 \$'000
Cash Flows From Operating Activities					
Receipts from customers		858,376	879,518	858,376	846,141
Payments to suppliers and employees		(1,131,112)	(1,134,546)	(1,131,104)	(1,096,894)
Interest received		5,067	8,190	4,628	7,534
Interest and other costs of financing		(1,377)	(1,037)	(1,377)	(1,037)
Community service obligations		251,659	223,724	251,659	223,724
Other operating receipts		16,402	-	16,402	-
Net cash flows used in operating activities	18(a)	(985)	(24,151)	(1,416)	(20,532)
Cash Flows From Investing Activities					
Proceeds from sale of property, plant and equipment		80	73	80	73
Payments for property, plant and equipment		(3,000)	(1,064)	(3,000)	(1,148)
Payments for investments made		-	-	-	(7,586)
Net cash flows used in investing activities		(2,920)	(991)	(2,920)	(8,661)
Cash Flows From Financing Activities					
Proceeds from borrowings		-	-	-	(3,147)
Repayable deposits received		8,258	9,707	8,258	9,707
Repayment of repayable deposits		(15,897)	(11,284)	(15,897)	(11,284)
Dividends paid		-	(1,184)	-	(1,184)
Net cash flows used in financing activities		(7,639)	(2,761)	(7,639)	(5,908)
Net decrease in cash held		(11,544)	(27,903)	(11,975)	(35,101)
Cash at the beginning of the financial year		93,248	121,151	85,599	120,700
Cash at the end of the financial year	18(b)	81,704	93,248	73,624	85,599

The accompanying notes form an integral part of this Statement of Cash Flows.

Notes to and forming part of the financial statements

For the year ended 30 June 2000

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements have been prepared as a general purpose financial report in accordance with the requirements of the Corporations Law, Australian Accounting Standards, Urgent Issues Group Consensus Views and the provisions of the Government Owned Corporations Act 1993 and other relevant legislation issued pursuant to that Act. The financial statements have been prepared on the basis of historical costs and, except where stated, do not take into account changing money values or current valuations of non-current assets.

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

Where necessary, comparative information has been reclassified to achieve consistency in disclosure.

Principles of Consolidation

The consolidated financial statements include the financial statements of the parent entity, Ergon Energy Pty Ltd, and its controlled entities, referred to collectively as the "economic entity".

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

Foreign Currency Transactions

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

Cash

For the purposes of the Statement of Cash Flows, cash includes cash on hand and at bank, and short-term deposits at call, net of outstanding bank overdrafts.

Investments

Investments are carried at the lower of cost or directors' valuation. Dividend income is brought to account when declared or, if required, when approved by the shareholders. Investments in controlled entities have been revalued from time to time by the Directors, to amounts that do not exceed their expected recoupment from future cash flows.

Taxation

Tax Equivalents

The entities within the economic entity make tax equivalent payments on their taxable income directly to the State Government. They are not liable to pay Commonwealth tax that would otherwise be payable, were they not a Government Owned Corporation ("GOC") or a subsidiary of a GOC.

These taxation payments are made pursuant to Section 155(4) of the Government Owned Corporation Act 1993 and are based upon federal income tax legislation and rulings set out in the Treasurer's Tax Equivalent Manual. The Treasurer's Tax Equivalent Manual gives rise to obligations for taxation which would be imposed by the Income Tax Assessment Acts 1936 and 1997 (Refer note 3) and the Sales Tax Assessment Act 1992.

The entities are not required to maintain a franking account.

Tax Effect Accounting

The economic entity adopts the liability method of tax effect accounting.

Income tax equivalent expense is calculated on operating profit adjusted for permanent differences between taxable income and accounting profit. The tax effect of timing differences, which arise from items being brought to account in different periods for income tax and accounting purposes, is carried forward in the balance sheet as a future income tax equivalent benefit or a provision for deferred income tax equivalent liability.

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

The provision for deferred income tax equivalent liability and future income tax equivalent benefit have been calculated at the tax rates expected to apply when the timing difference is expected to reverse. The company tax rate for the year ended 30 June 2000 is 36%, decreasing to 34% for the year ending 30 June 2001 and to 30% for the year ending 30 June 2002, and subsequent years.

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

Property, Plant and Equipment

Items of property, plant and equipment are recorded at cost. Depreciation is calculated on the straight line basis by reference to the useful life of each item of property, plant and equipment, other than freehold land. Depreciation periods vary from 3 to 10 years.

Recoverable Amount of Non-Current Assets

All non-current assets are reviewed at least annually to determine whether their carrying amounts require write down to recoverable amount. Recoverable amount is determined using net cash flows discounted to present values.

Revenue Recognition

Electricity Sales Revenue

All customer consumption is metered at intervals from half hourly to quarterly. Revenue recognised represents the sum of invoices raised and the movement in the estimated metered but not invoiced energy consumption.

Estimated Revenue from Unbilled Services

Unread meters represents the estimated value of unbilled electricity provided to retail customers and is included in Electricity Sales Revenue.

Electricity Debtors

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

Community Service Obligations

As part of the Queensland electricity market reforms introduced in the late 1990's, the Government made a commitment that state-wide uniform retail tariffs would apply to franchise customers and that no franchise customer would be adversely affected by ongoing electricity market reforms. For the 1999/2000 year, the Queensland Government has determined that a fixed margin would apply to sales of electricity to franchise customers. Payments received represent the shortfall in the margin actually received by Ergon Energy Pty Ltd.

Interest Revenue

Interest revenue is recognised as it accrues.

Employee Entitlements

The provisions for employee entitlements to wages, salaries, annual leave and vesting sick leave represents the amount which the economic entity has a present obligation to pay resulting from employee's services provided up to the balance date. These provisions have been calculated at undiscounted amounts based on current wage and salary rates and includes related on-costs.

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

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

The parent entity and other controlled entities contribute to several defined benefit and defined contribution superannuation plans. Employees of the economic entity are able to nominate the superannuation fund of their choice in to which Superannuation Guarantee Levy payments are made. Contributions are charged against income as they are made. (Refer note 20).

Leases

Payments made under operating leases are charged against profits in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be obtained from the leased property.

No entities within the economic entity are party to any finance leases.

Year 2000 Software Modification Costs

Costs incurred to ensure Year 2000 compliance were charged as expenses when incurred.

Notes to and forming part of the financial statements

For the year ended 30 June 2000

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES *continued*

Derivative Financial Instruments

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

Where the rights and obligations inherent in financial instruments to which the economic entity is a party are not materially different from the prevailing and/or the expected market prices, any unrealised gains or losses on the contracts are deferred and recognised in the measurement of the underlying transaction. That is, payments and receipts under swap agreements, price cap and option agreements are recognised upon settlement as a component of electricity expense during the year.

Where the rights and obligations inherent in financial instruments to which the economic entity is a party are materially different to prevailing and/or the expected market prices, unrealised losses are brought to account as and when identified. Under these circumstances, a provision for loss is brought to account in the financial year when the expected loss is identified. Unrealised profits are not brought to account.

Forward and Future Electricity Contracts

Entities within the economic entity are party to wholesale market purchase contracts which are financial hedging instruments entered into with electricity generators and other wholesale market participants. The entities undertake contracting for price and volume hedges to manage the exposure to commodity price and volume risk. Refer to note 28 for further details. Exposures, including related derivative hedges, are reported to the Group Financial Risk Management Committee.

Customer Deposits

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

	[Consolidated]		[Parent]	
	2000 \$'000	1999 \$'000	2000 \$'000	1999 \$'000
2. PROFIT AND LOSS ITEMS				
Included in the operating profit are the following revenues arising from operating activities:				
Sales revenue	923,699	890,807	907,179	847,442
Other revenue:				
Community service obligations	244,768	251,633	241,343	251,633
Interest from unrelated parties	4,832	7,849	4,394	7,534
Interest from related parties	634	-	634	-
Proceeds on disposal of non-current assets	80	43	80	73
Miscellaneous operating revenue	5,743	237	5,943	4,892
Total other revenue	256,057	259,762	252,394	264,132
Total revenue	1,179,756	1,150,569	1,159,573	1,111,574
The operating profit before income tax equivalent is arrived at after charging/(crediting) the following items:				
Net (profit)/loss on disposal of property, plant and equipment	7	31	7	11
Depreciation on property, plant and equipment	1,014	787	992	762
Amortisation of goodwill	-	1,389	-	-
Borrowing costs				
Interest paid to unrelated parties	1,072	1,028	1,072	1,028
Interest paid to related parties	-	-	712	596
Total borrowing costs	1,072	1,028	1,784	1,624
Amounts set aside to provisions				
Employee entitlements	994	510	994	510
Doubtful debts	652	1,539	1,045	1,178
Security deposit interest	1,071	1,624	1,071	1,624
Other provisions	674	-	674	-
Diminution in value of investment	-	-	-	5,480
Total amounts set aside to provisions	3,391	3,673	3,784	8,792
Superannuation contributions	723	490	723	434
Rental expense relating to operating leases	1,416	769	1,416	665

Notes to and forming part of the financial statements

For the year ended 30 June 2000

	[Consolidated]		[Parent]	
	2000 \$'000	1999 \$'000	2000 \$'000	1999 \$'000
3. INCOME TAX				
3.1 Income Tax Equivalent Expense/(Benefit)				
The prima facie income tax equivalent on operating profit differs from the income tax equivalent provided in the accounts as follows:				
Prima facie tax equivalent on operating profit at 36%	1,016	2,901	122	2,293
Tax effect of permanent differences				
Non-deductible items	47	497	47	2,028
Other items	(19)	(239)	-	-
Deferred income tax benefits recognised	-	(2,332)	-	-
Over provision of previous year	239	-	185	-
Restatement of deferred tax balances due to income tax rate changes	(857)	-	(1,316)	-
Income tax equivalent expense/ (benefit) attributable to operating profit	426	827	(962)	4,321
3.2 Provision for deferred income tax equivalent				
Attributable to timing differences:				
Capitalised expenditure	-	105	-	105
Unbilled electricity	27,974	32,635	27,754	31,212
Other	-	26	-	26
Total provision for deferred income tax equivalent	27,974	32,766	27,754	31,343
3.3 Future income tax equivalent benefit				
Attributable to carry forward tax losses	13,675	28,320	11,294	23,440
Attributable to timing differences:				
Provisions	1,185	747	1,136	608
Prepaid swap	8,900	-	8,900	-
Other	237	148	231	141
Total future income tax equivalent benefit	23,997	29,215	21,561	24,189

	[Consolidated]		[Parent]	
	2000 \$'000	1999 \$'000	2000 \$'000	1999 \$'000
4. EXTRAORDINARY ITEM				
Write down of goodwill on consolidation	-	2,709	-	-
Applicable income tax equivalent	-	-	-	-
	-	2,709	-	-
5. DIVIDENDS PAID OR PROVIDED FOR				
Unfranked dividends (a)	-	1,184	-	1,184
(a) The dividends paid were declared in 1997/98.				
6. RECEIVABLES (CURRENT)				
Trade debtors and unread meters	146,175	138,357	143,897	129,983
Community service obligations receivable	26,180	36,497	26,180	36,497
Provision for doubtful debts	(2,093)	(2,213)	(1,963)	(1,690)
Trade debtors	170,262	172,641	168,114	164,790
Non-trade amounts owing by:				
Unrelated parties	44,110	-	43,258	-
Related parties	22,867	-	32,326	-
Total current receivables	237,239	172,641	243,698	164,790
Movement in provision for doubtful debts				
- balance at beginning of year	(2,213)	(1,009)	(1,690)	(534)
- bad debts previously provided for written-off during the year	772	2,151	772	1,838
- bad and doubtful debts provided for during the year	(652)	(3,355)	(1,045)	(2,994)
- balance at end of year	(2,093)	(2,213)	(1,963)	(1,690)
7. OTHER ASSETS (CURRENT)				
Prepayments	594	-	594	-
GST credits	23	-	23	-
Other debtors	71	15	71	-
	688	15	688	-

Notes to and forming part of the financial statements

For the year ended 30 June 2000

	[Consolidated]		[Parent]	
	2000 \$'000	1999 \$'000	2000 \$'000	1999 \$'000
8. INVESTMENTS (NON-CURRENT)				
Investments at directors valuation comprise:				
Unlisted shares in controlled entities	-	-	19,390	19,390
Less: Provision for diminution	-	-	(5,480)	(5,480)
	-	-	13,910	13,910
(a) The carrying value of unlisted shares in controlled entities were revalued by the directors during the year ended 30 June 1999 to an amount that is not in excess of their recoverable value.				
(b) The consolidated financial statements at 30 June 2000 include the following controlled entities.				
Entity Name	Country of Incorporation		Percentage interest held by the parent entity	
Ergon Energy (Victoria) Pty Ltd	Australia		100%	
Northern Electricity Retail Corporation Pty Ltd	Australia		100%	
	[Consolidated]		[Parent]	
	2000 \$'000	1999 \$'000	2000 \$'000	1999 \$'000
9. PROPERTY, PLANT AND EQUIPMENT				
Property, Plant and Equipment				
Cost	4,563	2,909	4,280	2,770
Less: Accumulated depreciation	(2,341)	(1,234)	(2,074)	(1,133)
	2,222	1,675	2,206	1,637
Work in progress	1,352	-	1,352	-
	3,574	1,675	3,558	1,637
10. OTHER ASSETS (NON-CURRENT)				
Future income tax equivalent benefit	23,997	29,215	21,561	24,189
11. ACCOUNTS PAYABLE (CURRENT)				
Trade creditors - unrelated parties	116,446	94,190	116,215	80,359
Other creditors - related parties	870	-	12,570	8,472
Other creditors	42,166	5,982	41,733	5,978
	159,482	100,172	170,518	94,809
12. BORROWINGS (CURRENT)				
Unsecured				
Customer and other repayable deposits	8,258	-	8,258	-
13. PROVISIONS (CURRENT)				
Employee entitlements	1,010	251	1,010	251
Other	1,550	1,182	1,550	1,181
	2,560	1,433	2,560	1,432

	[Consolidated]		[Parent]	
	2000 \$'000	1999 \$'000	2000 \$'000	1999 \$'000
14. BORROWINGS (NON-CURRENT)				
Unsecured				
Customer and other repayable deposits	13,648	29,545	13,648	29,545
15. PROVISIONS (NON-CURRENT)				
Employee entitlements	5	-	5	-
Deferred income tax liability equivalent	27,974	32,766	27,754	31,343
	27,979	32,766	27,759	31,343
16. SHARE CAPITAL				
Share capital				
1,214 ordinary shares	123,172	123,172	123,172	123,172
17. RESERVES				
Special reserve	4,000	4,000	4,000	4,000
18. STATEMENT OF CASH FLOWS				
(a) Reconciliation of the operating profit after income tax equivalent to the net cash flows used in operating activities				
Operating profit after income tax equivalent	2,397	4,521	1,300	2,049
Depreciation of non-current assets	1,014	787	992	762
Net (profit)/loss on disposal of property, plant and equipment	7	(43)	7	11
Amounts set aside to provisions for:				
Employee entitlements	994	108	994	129
Doubtful debts	652	1,204	1,045	1,156
Unrealised loss on swap agreements	-	(1,649)	-	-
Security deposit interest	1,071	1,182	1,071	1,182
Other provisions	674	-	674	-
Diminution in value of investment	-	-	-	5,481
Amortisation of goodwill on consolidation	-	4,098	-	-
Changes in assets and liabilities				
Trade and other receivables	(64,468)	(39,137)	(79,171)	(34,174)
Other current assets	(673)	152	(688)	29
Trade and other creditors	59,305	5,348	75,704	(1,477)
Deferred income tax equivalent liability	(4,792)	(722)	(3,589)	4,320
Future income tax equivalent benefit	5,217	-	2,628	-
Payments from provisions	(2,383)	-	(2,383)	-
Net cash flows used in operating activities	(985)	(24,151)	(1,416)	(20,532)

Notes to and forming part of the financial statements

For the year ended 30 June 2000

	[Consolidated]		[Parent]	
	2000 \$'000	1999 \$'000	2000 \$'000	1999 \$'000
18. STATEMENT OF CASH FLOWS <i>continued</i>				
(b) Reconciliation of cash				
Cash balance comprises:				
- cash on hand	81,704	93,248	73,624	85,599
19. EXPENDITURE COMMITMENTS				
Lease expenditure commitments				
Operating leases (non-cancellable)				
- not later than one year	1,360	607	1,360	607
- later than one year and not later than two years	1,360	395	1,360	395
- later than two years and not later than five years	50	424	50	424
	2,770	1,426	2,770	1,426
As at 30 June 2000 the economic entity had no contracted commitments for capital expenditure (1999: Nil).				
20. EMPLOYEE ENTITLEMENTS AND SUPERANNUATION COMMITMENTS				
Employee entitlements				
The aggregate employee entitlement liability is comprised of:				
Accrued wages and salaries	-	561	-	561
Provisions (Current)	1,010	251	1,010	251
Provisions (Non-Current)	5	-	5	-
	1,015	812	1,015	812

Superannuation commitments

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

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

The most recent actuarial assessment of the fund was carried out by Mr Shane Mather BAppSc (Maths) as at 1 July 1999. The actuary concluded that all liabilities of the fund which may be expected to arise in the normal course of events in the three years to 30 June 2002 and the vested benefits at that date in respect of current members, could be adequately met by:

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

20. EMPLOYEE ENTITLEMENTS AND SUPERANNUATION COMMITMENTS *continued*

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

	\$'000
Net market value of plan assets	15,870
Accrued benefits	(12,508)
Excess of plan assets held over accrued benefits*	3,362
Vested benefits	(12,015)

* The economic entity has no entitlement to this excess.

21. CONTINGENT LIABILITIES**(a) Legal Claims**

A number of common law claims are pending against entities within the economic entity. In each case a writ has been served and the entity is at various stages of defending the action. Liability is not admitted and all claims will be defended.

(b) Counter Indemnity

In order to participate in the electricity market, entities within the economic entity were required to deliver acceptable security as collateral for its obligations arising as a consequence of normal trading. Security, in the form of payment guarantees totalling \$173,000,000 have been issued by Queensland Treasury Corporation to the National Electricity Market Management Company Limited. These guarantees are supported by counter-indemnities to Queensland Treasury Corporation from the ultimate parent entity totalling \$306,000,000.

(c) Automatic Generation Control Ancillary Service Payments

National Electricity Market Management Company Limited ("NEMMCO") has issued (or has indicated an intention to issue) various claims for payment against market participants including Ergon Energy Pty Ltd and Ergon Energy (Victoria) Pty Ltd in respect of liabilities NEMMCO has (or may) incur in pursuance of its functions under the National Electricity Code.

The NEMMCO claims represent contingent liabilities of the entities. There is significant uncertainty however as to whether an obligation exists on the part of these entities and it cannot be reliably ascertained.

22. SUBSEQUENT EVENTS

No events of a material nature have occurred subsequent to 30 June 2000.

23. ECONOMIC DEPENDENCY

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

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

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

Notes to and forming part of the financial statements

For the year ended 30 June 2000

	[Consolidated]		[Parent]	
	2000	1999	2000	1999
24. AUDITORS' REMUNERATION				
Amounts received or due and receivable by the auditors of the parent entity and its controlled entities for:				
- audit of financial statements	\$119,346	\$89,000	\$87,746	\$70,000

25. RELATED PARTY DISCLOSURES

(a) The directors of Ergon Energy Pty Ltd during the financial year were:

Mr Charles Ware
Hon Keith De Lacy
Mr John Bird
Mr Andrew McNamara
Mr Ian Brien
Ms Patricia Faircloth
Mr David Woodall

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

(b) In addition to those transactions disclosed in note 2, the parent entity entered into the following transactions during the period with related parties during the year:

- During the year the ultimate controlling entity, Ergon Energy Corporation Limited, was a party to a Deed of Indemnity to reimburse Ergon Energy Pty Ltd where the average price paid for electricity for franchise customers exceeded a specified bench mark price. Payments of \$1.5 million were made by the parent entity with respect to the indemnity during the year.
- The ultimate controlling entity provided the parent entity with customer care administration services, including billing services, call centre facilities and retail products and services administration to a controlled entity. All services were undertaken on commercial terms and conditions.

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

26. REMUNERATION OF DIRECTORS AND OFFICERS**(a) Income of directors**

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

	2000	1999
\$0 - \$10,000	-	1
\$10,001 - \$20,000	1	4
\$20,001 - \$30,000	5	2
\$40,001 - \$50,000	1	-
\$60,001 - \$70,000	-	1
The aggregate income of the directors referred to above was:	\$169,201	\$186,000

The total of all amounts paid or payable, directly or indirectly, from the respective entities of which they are a director, or from any related party, to all the directors of each entity in the economic entity was \$169,201 (1999: \$209,522). The above amounts exclude the value of insurance premiums made for the Directors' indemnity.

(b) Income of senior executives

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

	[Consolidated]	[Parent]
	2000	2000
\$120,001 - \$130,000	4	4
\$140,001 - \$150,000	1	1
\$150,001 - \$160,000	1	1
\$290,001 - \$300,000	1	1
The aggregate income of the executives referred to above:	\$1,091,326	\$1,091,326

Base remuneration of senior executives comprises the base salary paid or payable excluding at risk, performance based remuneration paid or payable, to executive officers in office at 30 June 2000, directly or indirectly, by the economic entity or any unrelated party in connection with management of the affairs of the entity or economic entity.

27. SEGMENT REPORTING

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

Notes to and forming part of the financial statements

For the year ended 30 June 2000

28. FINANCIAL INSTRUMENTS**(a) Terms, conditions and accounting policies**

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

Financial instruments	Note	Accounting policies	Terms and conditions
Financial assets			
Receivables - Trade and Other	6	Receivables are recorded at nominal amounts due less any provision for doubtful debts. Provision for doubtful debts is recognised when collection of the full nominal amount is no longer probable.	Credit sales are normally on 30 day terms.
Receivables - Related Party	6	Amounts receivable from related parties are carried at nominal amounts.	
Financial liabilities			
Creditors - Trade and Other	11	Trade creditors are recognised upon the receipt of goods or services irrespective of whether an invoice has been received or not. Values are recorded based on agreed purchase/contract costs.	The amounts are unsecured and are normally settled within 30 days.
Customer and Other Repayable Deposits	12,14	Deposits are carried at the principal amount.	Interest is credited annually on the last billing to the customer prior to the end of the financial year. The interest rate is set at the equivalent bank rate for an interest bearing deposit.
Equity			
Ordinary Shares	16	Ordinary share capital bears no specific terms or conditions affecting income or capital entitlements of the shareholders.	

28. FINANCIAL INSTRUMENTS *continued***(b) Interest rate risk**

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

Financial assets	Floating interest rate		Non-interest bearing		Carrying amount per the Balance Sheet		Weighted average Interest rate	
	2000 \$'000	1999 \$'000	2000 \$'000	1999 \$'000	2000 \$'000	1999 \$'000	2000 %	1999 %
Cash	81,704	93,248	-	-	81,704	93,248	5.75%	5.17%
Receivables -								
Unrelated parties	-	-	237,239	172,641	237,239	172,641	-	-
Other assets	-	-	688	15	688	15	-	-
Total financial assets	81,704	93,248	237,927	172,656	319,631	265,904	-	-
Financial liabilities								
Repayable deposits	21,906	29,545	-	-	21,906	29,545	4.00%	4.27%
Trade creditors - Unrelated parties	-	-	130,277	100,172	130,277	100,172	-	-
Other creditors	-	-	29,205	-	29,205	-	-	-
Total financial liabilities	21,906	29,545	159,482	100,172	181,388	129,717	-	-

(c) Net fair values

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

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

Notes to and forming part of the financial statements

For the year ended 30 June 2000

28. FINANCIAL INSTRUMENTS *continued*

(d) Credit risk exposure

Credit risk exposure represents the extent of credit related losses that the economic entity may be subject to on amounts to be received from financial assets.

On Balance Sheet

Credit risk represents the loss that would be recognised if customers failed to perform as contracted. The economic entity manages its credit risks by having established and maintained an appropriate credit review process. Moreover, the economic entity minimises concentration of credit risk by undertaking transactions with a large number of retail customers and limiting credit to any individual customers.

Off Balance Sheet

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

(e) Liquidity risk exposure

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

Where entities within the economic entity enter into contracts external to the regulated market, such contracts are limited in terms of exposure and value and are entered into with credit limits with only those counterparties that have an appropriate credit rating as determined by a recognised credit rating agency.

Directors' Declaration

The director's declare that:

- (a) the financial statements and associated notes comply with the accounting standards and Urgent Issues Group Consensus Views;
- (b) the financial statements and notes give a true and fair view of the financial position as at 30 June 2000 and performance of the company and economic entity for the year then ended;
- (c) in the directors' opinion;
 - (i) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and
 - (ii) the financial statements and notes are in accordance with the Corporations Law, including sections 296 and 297.

Made in accordance with a resolution of the directors.



Charles Ware

Chair

10/10/2000

Brisbane

Financials

Independent Audit Report

To the Members of Ergon Energy Pty Ltd

Scope

I have audited the financial statements, being the Directors' Declaration, the Profit and Loss Statement, Balance Sheet, Statement of Cash Flows and Notes to and forming part of the financial statements of Ergon Energy Pty Ltd for the financial year ended 30 June 2000 as set out on pages 6 to 24. The financial statements include the consolidated accounts of the economic entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year. The Directors of Ergon Energy Pty Ltd are responsible for the preparation and the presentation of the financial statements and information they contain. I have audited these financial statements in order to express an opinion on them to the members of the company.

The audit has been conducted in accordance with QAO Auditing Standards, which incorporate Australian Auditing Standards, to provide reasonable assurance as to whether the financial statements are free of material misstatement. Audit procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial statements and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion as to whether, in all material respects, the financial statements are presented fairly in accordance with Australian Accounting Standards and other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) and statutory requirements so as to present a view which is consistent with my understanding of the company's and the economic entity's financial position and the results of their operations and their cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

In my opinion, the financial statements of Ergon Energy Pty Ltd have been properly drawn up -

- (a) so as to give a true and fair view of -
 - (i) the company's state of affairs and of the economic entity as at 30 June 2000 and its profit and cash flows for the financial year ended on that date; and
 - (ii) the other matters required by sections 292 to 297 of the Corporations Law to be dealt with in the financial statements.
- (b) in accordance with -
 - (i) the provisions of the Corporations Law; and
 - (ii) the applicable Accounting Standards and other mandatory professional reporting requirements.



LJ Scanlan
Auditor-General of Queensland
Queensland Audit Office
Brisbane

Contact Details

Brisbane

Ground Floor 61 Mary St
Brisbane QLD 4000
Telephone 07 3228 8222
Facsimile 07 3228 8118

Cairns

109 Lake St
Cairns QLD 4870
Telephone 07 4050 2777
Facsimile 07 4052 1415

Dalby

30 Marble St
Dalby QLD 4405
Telephone 07 4669 0111
Facsimile 07 4669 0100

Mackay

Cnr Gordon and Gregory Sts
Mackay QLD 4740
Telephone 07 4957 1888
Facsimile 07 4951 2036

Maryborough

97-99 Adelaide Street
Maryborough QLD 4650
Telephone 07 4121 9511
Facsimile 07 4123 1124

Melbourne

Suite A, Building 5
303 Burwood Hwy
Burwood East VIC 3151
Telephone 03 9802 1800
Facsimile 03 9803 7877

Rockhampton

Cnr Fitzroy and Alma Sts
Rockhampton QLD 4700
Telephone 07 4931 2312
Facsimile 07 4927 8024

Sydney

Suite 2, Level 1
14-16 Central Rd
Miranda NSW 2228
Telephone 02 9531 2187
Facsimile 02 9531 2189

Townsville

34-46 Dalrymple Rd
Garbutt QLD 4814
Telephone 07 4727 6211
Facsimile 07 4727 6260

Website www.ergon.com.au



People Powering People