

Corporate | Reports

Contents

Ergon Energy Corporation Limited and Controlled Entities

| | |
|---|----|
| Directors' Report | 26 |
| Statements of Financial Performance | 29 |
| Statements of Financial Position | 30 |
| Statements of Cash Flows | 31 |
| Notes to and forming part of the Financial Statements | 32 |
| Directors' Declaration | 57 |
| Independent Audit Report | 58 |
| Summary Statement of Corporate Intent | 59 |
| Other Shareholder Information | 61 |

Ergon Energy Pty Ltd and Controlled Entities

| | |
|---|----|
| Directors' Report | 62 |
| Statements of Financial Performance | 65 |
| Statements of Financial Position | 66 |
| Statements of Cash Flows | 67 |
| Notes to and forming part of the Financial Statements | 68 |
| Directors' Declaration | 86 |
| Independent Audit Report | 87 |

Directors' Report

The Board of Directors present their report on Ergon Energy Corporation Limited and its controlled entities for the year ended 30 June 2001.

Directors

The following persons held office as non-executive Directors of Ergon Energy Corporation Limited during the financial year and up to the date of this report:

Hon Keith De Lacy
Chair

Barry Taylor
Deputy Chair

Paul Bell (appointment ended 30 June 2001, reappointed 5 July 2001)

Andrew Robertson

Fay Donovan (appointment ended 30 June 2001, reappointed 5 July 2001)

Charles Ware

Dave Woodall (appointment ended 30 June 2001)

Wayne Myers (appointed 5 July 2001)

Unless indicated otherwise, all Directors held their position as Director throughout the financial year and up to the date of this report. Details of Directors qualifications are provided on page 22 of the annual report.

Principal Activities

The principal activities of the economic entity during the year comprised:

- Distribution of electricity within the State of Queensland;
- Electricity wholesale and retail trading in Queensland, Victoria and New South Wales; and
- Provision of electricity related contracting and other services.

Review and Results of Operations

The consolidated profit after income tax equivalent expense of the economic entity for the financial year was \$72,953,000 (2000: \$43,180,000).

Dividends Paid or Declared

Dividends amounting to \$69,305,656 (2000: \$38,928,000) have been provided for during the financial year.

Significant Changes in the State of Affairs

Significant changes in the state of affairs of the economic entity that occurred during the financial year, and which are reported in consolidated financial statements, were:

- During the year, the parent entity continued programs to integrate and restructure the operations and corporate support functions of the merged distribution companies.
- The Parent entity engaged in a capital restructure by cancelling shares for \$50 million consideration.

Significant Events after Balance Date

There have been no significant events after Balance Date.

Likely Developments and Future Results

The Directors expect the economic entity's future before tax operating results to continue to improve.

The economic entity is committed to improving the status of the network assets. An asset quality maintenance program has commenced, which will continue for several years.

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

Environmental Regulation and Performance

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

All environmental performance obligations are reported to the Group Audit and Legal Compliance Committee and are subject from time to time to Government Agency, internal and external professional agency audits as well as ongoing review to ensure compliance.

The economic entity has a policy of meeting all its environmental obligations. The economic entity is progressing towards the development and implementation of a common Environmental Management System certified to international standard ISO 14001.

No environmental breaches have been notified by any Government agency during the financial year, except as noted below.

During the financial year there were two breaches of oil contamination to a stormwater canal. The economic entity is carrying out the actions required by the Environment Protection Agency. Vegetation clearing was carried out after the expiry date of the relevant permit. Remediation works have subsequently been carried out to the satisfaction of Queensland National Parks and Wildlife Service. In addition to the remedial action progress is being made towards development of a code of practice for vegetation clearing in national parks. Environmental management plans have been developed for the majority of overhead lines in wet tropics areas, most of which are in national parks.

No material loss was suffered as a result of these events.

Directors' Report

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 Act 2001 does not require disclosure of this information in those circumstances.

Directors' Shareholding

No Directors held any beneficial interest in the shares of the company. All issued shares are held by the shareholders on behalf of the State of Queensland.

Directors' Meetings

The Board committees are Group committees of Ergon Energy Corporation Limited and Ergon Energy Pty Ltd. The number of Directors meetings (including committees) held during the year ended 30 June 2001 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 |
| Hon K De Lacy | 12 | 12 | 6 | 6 | 5 | 4 | 4 | 4 |
| B Taylor | 12 | 12 | - | - | 5 | 2 | - | - |
| P Bell | 12 | 10 | - | - | 5 | 5 | - | - |
| A Robertson | 12 | 12 | - | - | - | - | 4 | 4 |
| F Donovan | 12 | 10 | - | - | 5 | 5 | - | - |
| C Ware | 12 | 12 | 6 | 6 | 5 | 5 | 4 | 4 |
| D Woodall | 12 | 9 | - | - | - | - | 4 | 3 |
| W Myers * | - | - | - | - | - | - | - | - |

* W Myers was appointed Director 5 July 2001.

Directors' and Officers' Remuneration

Director's emoluments are set by State Government regulation, with other fees and allowances determined on the basis of meetings attended and expenditure incurred in performing their roles as Directors of the company.

The company has developed a policy for senior executive remuneration in accordance with the Remuneration Guidelines for Senior Executive Staff. The Group Human Resources Committee recommends executive remuneration to the Board as part of an annual review, which includes performance evaluation, regard to comparative remuneration and independent advice. Remuneration packages generally comprise salary, performance based risk incentive bonuses and superannuation. This policy and any amendments or variations to the policy are submitted to the Shareholding Ministers who ensure that remuneration arrangements are appropriate.

Directors' Report

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 where different, the economic entity) in office at 30 June 2001 are as follows:

| Director | Directors' Fees | | Committee Fees | | Superannuation | | Total Emoluments | |
|---------------|-----------------|---------------------|----------------|---------------------|----------------|---------------------|------------------|---------------------|
| | Parent Entity | Controlled Entities | Parent Entity | Controlled Entities | Parent Entity | Controlled Entities | Parent Entity | Controlled Entities |
| Hon K De Lacy | 54,000 | 16,072 | - | 3,000 | 4,360 | 1,546 | 58,360 | 20,618 |
| B Taylor | 21,000 | - | 3,000 | - | 1,940 | - | 25,940 | - |
| P Bell | 21,000 | - | 4,000 | - | 2,030 | - | 27,030 | - |
| A Robertson | 21,000 | - | 4,000 | - | 2,030 | - | 27,030 | - |
| F Donovan | 21,000 | - | 3,000 | - | 1,940 | - | 25,940 | - |
| C Ware | 21,000 | 39,200 | - | 3,000 | 1,700 | 3,416 | 22,700 | 45,616 |
| D Woodall | 21,000 | 16,072 | - | 3,000 | 1,700 | 1,546 | 22,700 | 20,618 |
| W Myers * | 21,000 | - | - | - | - | - | - | - |

* W Myers was appointed Director 5 July 2001.

| Officer Title | Base Salary | Motor Vehicle & Car Park | Superannuation | Total ⁽¹⁾ |
|---|-------------|--------------------------|----------------|----------------------|
| Chief Executive Officer | 262,006 | - | 21,224 | 283,230 |
| General Manager - Field Operations | 197,705 | 12,428 | 14,867 | 225,000 |
| Chief Financial Officer | 196,389 | - | 15,711 | 212,100 |
| General Manager - Network | 164,972 | 13,428 | 11,600 | 190,000 |
| General Manager - Retail ⁽²⁾ | 157,775 | 15,540 | 12,275 | 185,590 |

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

⁽²⁾ Officer employed by a controlled entity.

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 Corporation Limited.



Hon K De Lacy
Chair
28/09/2001
Mackay

Statements of Financial Performance

For the period ended 30 June 2001

| | Note | Consolidated | | Parent | |
|--|------|--------------|-------------|-------------|-------------|
| | | 2001 \$'000 | 2000 \$'000 | 2001 \$'000 | 2000 \$'000 |
| Revenues from ordinary activities | 2 | 1,423,288 | 1,308,141 | 675,302 | 625,538 |
| Network charges / Electricity Purchases | | 802,932 | | 126,155 | |
| Employee expenses | | 156,983 | | 140,458 | |
| Materials and services | | 114,055 | | 105,072 | |
| Depreciation and amortisation | | 148,374 | 137,552 | 146,310 | 136,217 |
| Borrowing costs expense | | 75,809 | 65,177 | 73,760 | 64,676 |
| Other expenses from ordinary activities | | 40,821 | 1,061,315 | 1,677 | 383,089 |
| Profit from ordinary activities before income tax equivalent expense | 3 | 84,314 | 44,097 | 81,870 | 41,556 |
| Income tax equivalent expense | 4 | 11,361 | 917 | 9,310 | 579 |
| Profit from ordinary activities after income tax equivalents expense | | 72,953 | 43,180 | 72,560 | 40,977 |
| Net Profit | | 72,953 | 43,180 | 72,560 | 40,977 |
| Non-owner transaction changes in equity | | | | | |
| Increase in asset revaluation reserve | 22 | 387,324 | - | 387,324 | - |
| Total changes in equity other than those resulting from transactions with owners as owners | 23 | 460,277 | 43,180 | 459,884 | 40,977 |

The statements of financial performance are to be read in conjunction with the notes to the financial statements.

Statements of Financial Position

As at 30 June 2001

| | Note | Consolidated | | Parent | |
|--------------------------------------|------|------------------|------------------|------------------|------------------|
| | | 2001 \$'000 | 2000 \$'000 | 2001 \$'000 | 2000 \$'000 |
| Current Assets | | | | | |
| Cash assets | 5 | 86,612 | 109,895 | 23,613 | 27,949 |
| Receivables | 6 | 260,492 | 282,200 | 99,915 | 67,962 |
| Inventories | 7 | 30,032 | 32,653 | 29,867 | 30,338 |
| Other | 8 | 7,751 | 5,803 | 1,797 | 5,024 |
| Total Current Assets | | 384,887 | 430,551 | 155,192 | 131,273 |
| Non-Current Assets | | | | | |
| Receivables | 9 | 5,389 | 145 | 3,297 | 3,443 |
| Other financial assets | 10 | 150 | 190 | 138,090 | 133,427 |
| Property, plant and equipment | 11 | 2,689,447 | 2,258,588 | 2,678,311 | 2,253,184 |
| Deferred tax assets | 12 | 125,349 | 94,861 | 99,567 | 70,861 |
| Intangibles | 13 | 2,183 | 1,660 | 1,726 | - |
| Total Non-Current Assets | | 2,822,518 | 2,355,444 | 2,920,992 | 2,460,915 |
| Total Assets | | 3,207,405 | 2,785,995 | 3,076,184 | 2,592,188 |
| Current Liabilities | | | | | |
| Payables | 14 | 190,689 | 235,424 | 120,239 | 96,908 |
| Interest bearing liabilities | 15 | 4,917 | 14,657 | 4,917 | 6,398 |
| Provisions | 16 | 137,163 | 120,354 | 133,181 | 117,595 |
| Other | 17 | 8,185 | 16,374 | 8,179 | 16,374 |
| Total Current Liabilities | | 340,954 | 386,809 | 266,516 | 237,275 |
| Non-Current Liabilities | | | | | |
| Interest bearing liabilities | 18 | 1,164,528 | 1,075,994 | 1,142,778 | 1,062,345 |
| Deferred tax liabilities | 19 | 141,276 | 99,428 | 109,456 | 71,440 |
| Provisions | 20 | 134,846 | 139,523 | 134,838 | 139,090 |
| Other | 21 | 609 | 21 | - | 21 |
| Total Non-Current Liabilities | | 1,441,259 | 1,314,966 | 1,387,072 | 1,272,896 |
| Total Liabilities | | 1,782,213 | 1,701,775 | 1,653,588 | 1,510,171 |
| Net Assets | | 1,425,192 | 1,084,220 | 1,422,596 | 1,082,017 |
| Equity | | | | | |
| Contributed equity | 23 | 1,029,968 | 1,079,968 | 1,029,968 | 1,079,968 |
| Reserves | 22 | 387,324 | - | 387,324 | - |
| Retained profits | 24 | 7,900 | 4,252 | 5,304 | 2,049 |
| Total Equity | | 1,425,192 | 1,084,220 | 1,422,596 | 1,082,017 |

The statements of financial position are to be read in conjunction with the notes to the financial statements.

Statements of Cash Flows

For the year ended 30 June 2001

| | Note | Consolidated | | Parent | |
|--|-------|------------------|------------------|------------------|------------------|
| | | 2001 \$'000 | 2000 \$'000 | 2001 \$'000 | 2000 \$'000 |
| Cash Flows From Operating Activities | | | | | |
| Receipts from customers | | 1,175,473 | 921,928 | 541,699 | 587,503 |
| Use of system charges | | (930,034) | (669,273) | (120,297) | (134,045) |
| Payments to suppliers and employees | | (276,631) | (235,514) | (212,659) | (188,615) |
| Interest received | | 4,703 | 8,074 | 1,283 | 3,030 |
| Interest and other costs of financing | | (71,269) | (18,102) | (69,273) | (16,724) |
| Dividends received | | 131 | 131 | - | - |
| Capital contributions received | | 17,160 | 16,096 | 17,160 | 16,096 |
| Community service obligations | | 232,283 | 251,659 | - | - |
| Income tax equivalent payments | | - | (251,043) | - | (251,039) |
| GST refund from / paid to ATO | | (7,932) | - | 1,471 | - |
| Other operating receipts | | 15,450 | 46,925 | 12,966 | 55,596 |
| Other operating payments | | (29,420) | (107,715) | (28,741) | (107,228) |
| Net cash flows provided by/(used in) operating activities | 25(a) | 129,914 | (36,834) | 143,609 | (35,426) |
| Cash Flows From Investing Activities | | | | | |
| Proceeds from sale of property, plant and equipment | | 4,191 | 5,451 | 4,190 | 5,337 |
| Payments for property, plant and equipment | | (196,531) | (207,542) | (187,450) | (204,246) |
| Advance to State of Queensland | | 50,000 | (50,000) | 50,000 | (50,000) |
| Payments for investments made | | (444) | (65) | (5,000) | (50) |
| Receipts from investments realised | | 3 | 121 | 3 | 121 |
| Net cash flows used in investing activities | | (142,781) | (252,035) | (138,257) | (248,838) |
| Cash Flows From Financing Activities | | | | | |
| Share Reduction | | (50,000) | - | (50,000) | - |
| Proceeds from borrowings | | 199,130 | 262,737 | 199,335 | 262,737 |
| Repayment of borrowings | | (117,608) | (2,542) | (117,727) | (2,542) |
| Repayable deposits received | | 8,764 | 12,022 | 1,146 | 3,764 |
| Repayment of repayable deposits | | (11,772) | (22,234) | (3,514) | (6,337) |
| Dividends Paid | | (38,928) | - | (38,928) | - |
| Net cash flows provided by/(used in) financing activities | | (10,416) | 249,983 | (9,688) | 257,622 |
| Net decrease in cash held | | (23,283) | (38,886) | (4,336) | (26,642) |
| Cash at the beginning of the year | | 109,895 | 148,781 | 27,949 | 54,591 |
| Cash at the end of the year | 5 | 86,612 | 109,895 | 23,613 | 27,949 |

The statements of cash flows are to be read in conjunction with the notes to the financial statements.

Notes

to and forming part of the financial statements

For the financial period ended 30 June 2001

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 Act 2001, 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.

Principles of Consolidation

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

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

Revenue Recognition

Regulated Network Business

The parent entity is subject to a regulated return on regulated assets. The regulated return is adjusted for changes in the consumer price index, growth in sales volumes and an efficiency factor.

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

Non-Refundable Contributions

The parent entity finances part of its capital works program by way of non-repayable contributions, which are applied to the cost of these works. Non-repayable contributions are recognised as revenue in accordance with Urgent Issues Group Abstract 17 - Developer and Customer Contributions in Price Regulated Industries. Non-repayable contributions are not assessable for income tax equivalent purposes.

Contribution Acknowledgment Payments

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

All Regulated Network revenue and Electricity Sales revenue are disclosed as Sales Revenue in the financial statements.

Electricity Retail Business

Electricity Sales revenue to contestable customers

Revenue is recognised in the statement of financial performance when the entities within the economic entity become party to the contractual provisions of the contestable customers sales contracts.

Electricity Sales Revenue to customers other than contestable customers

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 year in which they are identified.

Notes

to and forming part of the financial statements

For the financial period ended 30 June 2001

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 2000/2001 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 a controlled entity, Ergon Energy Pty Ltd.

Non-Regulated Revenue

Non-regulated revenue comprises revenue (net of discounts and allowances) mainly from the provision of electricity related services. This revenue is recognised when the service is provided. Revenue in relation to construction contracts is recognised based on the percentage completion of the works.

Revenue from the sale of goods is recognised upon the delivery of goods to customers.

Interest revenue is recognised as it accrues.

Property, Plant and Equipment

Cost and Valuation

Items included within the supply system, power stations and other land and buildings classes of assets are carried at fair value. Items of other property, plant and equipment are recorded at cost. The cost of property, plant and equipment constructed by the economic entity includes the cost of materials, direct labour and other associated costs and where appropriate, borrowing costs.

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

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

Other land and buildings were valued by Directors as at 29 June 1999 taking into account relevant acquisition costs and price index movements. No revaluation increment or decrement arose as a result of this valuation. This valuation follows the policy of the Corporation which provides for a full and detailed valuation to be undertaken at three yearly intervals and for the application of relevant Australian Bureau of Statistics indices at the end of each intervening year. Other plant and equipment has not been revalued.

Valuations of classes of assets carried at fair value are obtained with sufficient regularity, as determined by the Directors, to ensure the carrying value of assets does not differ materially to their fair value. In the intervening periods revaluations are made by Directors using escalation factors determined each year.

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

Depreciation

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

| | Measurement Basis | Depreciation Period |
|-------------------------------------|-------------------|---------------------|
| Supply System | Fair value | 12 to 60 years |
| Power Stations | Fair value | 20 years |
| Other land and buildings | Cost | 0 to 40 years |
| Other property, plant and equipment | Cost | 3 to 10 years |

Notes

to and forming part of the financial statements

For the financial period ended 30 June 2001

Goodwill

Goodwill, representing the excess of purchase consideration plus incidental costs over the fair value of the identifiable net assets acquired on the acquisition of a controlled entity, is amortised over the period of time during which the benefits are expected to arise, but not exceeding 20 years.

In establishing the fair value of identifiable net assets acquired, a liability for restructuring costs is only recognised at the date of acquisition where there is a demonstrable commitment and a detailed plan.

The liability is only recognised where there is little or no discretion to avoid payments to other parties in settlement of costs of the restructuring and a reliable estimate of the liability can be made.

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.

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

Inventories

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

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

Taxation

Tax Equivalents

The entities within the economic entity make tax equivalent payments on their taxable income directly to the State Government.

These taxation payments are made pursuant to Section 155(4) of the Government Owned Corporation Act 1993 and are based upon federal income tax legislation and rulings set out in the 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 4) 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 Statement of Financial Position as a future income tax equivalent benefit or a provision for deferred income tax equivalent liability.

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

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

Notes

to and forming part of the financial statements

For the financial period ended 30 June 2001

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. Contributions are charged against income as they are made. (Refer note 28).

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.

Web Site Costs

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

Restructure Provision

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

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

Contestable Sales Contracts

Contestable Sales Contracts are contracts with contestable customers which are for the sale but not the supply of electricity.

Contestable sales contracts are recorded at their net fair value. The contracts have been valued using a combination of data sources including current Ergon Energy trades, the Australian Financial Markets Association, the 5 MW brokers market and other market intelligence. Ergon Energy trades frequently in these instruments and has sufficient market information to reliably measure the value of these contracts in accordance with requirements of Australian Accounting Standards.

Volumes of sales is an estimation of future demand determined using historical averages.

The contracts are recognised in the statements of financial position on their commitment date. The contract asset or liability is revalued at each reporting date. A positive revaluation amount is reported as an asset and a negative revaluation amount reported as a liability. Changes in net fair value are reflected in the statements of financial performance in the period they occur.

Non-contestable customers and related derivative financial instruments have not been bought to account at fair value as they are dependent on the supply of electricity.

Notes

to and forming part of the financial statements

For the financial period ended 30 June 2001

Derivative Financial Instruments

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

Entities within the economic entity are party to swap agreements, price cap and option agreements. Entities are also party to wholesale market purchase contracts which are financial hedging instruments entered into with electricity generators and other wholesale market participants. The entities undertake contracting for price and volume hedges to manage the exposure to commodity price and volume risk.

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

Derivative financial instruments held or issued for hedging contestable contracts or trading purposes are recorded at their net fair value. The contracts have been valued using a combination of data sources including current Ergon Energy trades, the Australian Financial Markets Association, the 5 MW brokers market and other market intelligence. Ergon Energy trades frequently in these instruments and has sufficient market information to reliably measure the value of these contracts in accordance with requirements of Australian Accounting Standards.

The derivative financial instruments are recognised in the statements of financial position on their commitment date. The derivative financial asset or liability is revalued at each reporting date. A positive revaluation amount is reported as an asset and a negative revaluation amount is reported as a liability. Changes in net fair value are reflected in the Statements of Financial Performance in the period they occur.

Derivative financial instruments other than those held for hedging contestable sales contracts or trading purposes including designated hedges

Any gains or losses on the contracts are deferred and recognised in the measurement of the underlying transaction. Recognition of payments and receipts under these contracts is at settlement as a component of electricity expense during the year.

Borrowing Costs

Borrowing costs are expensed as incurred, except where they relate to the financing of qualifying projects under construction where they are capitalised up to the date of commissioning or sale.

Customer Deposits

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

Foreign Currency Transactions

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 in banks, deposits on call and net of bank overdrafts.

Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item or the expense.

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

Change in the recognition of contestable sales contracts and derivatives

In previous years contestable sales contracts and associated derivative contracts were recognised in the accounts as they occurred. The unrealised portion of the contracts was not able to be measured reliably and was not recognised in the accounts.

The market for electricity contracts has continued to improve to the point where the Directors believe that the unrealised portion of sales and derivative contracts can now be reliably measured. As a result sales and derivative contracts are now recognised in the accounts on their commitment date.

This change is not reflected in the comparative numbers.

Notes

to and forming part of the financial statements

For the financial period ended 30 June 2001

Early adoption of the change to Accounting standard "AASB1041 Revaluation of Non-Current Assets"

The Australian Accounting Standards Board amended the accounting standard "AASB1041 Revaluation of Non-Current Assets" on 17 July 2001. The Directors have resolved to apply this amendment in these accounts.

Comparatives

The comparatives include the results of the operations of the parent entity from the 24 May 1999 to the 30 June 2000, and consolidated entity ("the economic entity") from 1 July 1999 to 30 June 2000.

As a result of the merger of the predecessor organisations and the subsequent organisational restructure it is impractical to reclassify comparative information for all sections of the financial statements. Comparative information for the following categories has been included in 'Other expenses from ordinary activities':

- Network charges / electricity purchases;
- Employee expenses; and
- Materials & services.

| Note | Consolidated | | Parent | |
|---|----------------|----------------|----------------|----------------|
| | 2001 \$'000 | 2000 \$'000 | 2001 \$'000 | 2000 \$'000 |
| 2. REVENUE FROM ORDINARY OPERATIONS | | | | |
| Revenue from operating activities : | | | | |
| Sales revenue | 1,127,939 | 989,897 | 611,928 | 547,207 |
| Community service obligations | 232,354 | 244,768 | - | - |
| Commissions received | 37 | 424 | 37 | - |
| Miscellaneous operating revenue | 38,353 | 40,425 | 42,264 | 50,605 |
| | 1,398,683 | 1,275,514 | 654,229 | 597,812 |
| Revenue from outside the operating activities : | | | | |
| Non-refundable capital contributions | 15,600 | 19,346 | 15,600 | 19,346 |
| Interest from unrelated parties | 4,683 | 7,699 | 1,101 | 2,789 |
| Interest from related parties | - | - | 182 | 254 |
| Dividends received from unrelated parties | 131 | 131 | - | - |
| Proceeds on disposal of non-current assets | 4,191 | 5,451 | 4,190 | 5,337 |
| | 24,605 | 32,627 | 21,073 | 27,726 |
| Total revenue from ordinary operations | 1,423,288 | 1,308,141 | 675,302 | 625,538 |

Notes

to and forming part of the financial statements

For the financial period ended 30 June 2001

| Note | Consolidated | | Parent | |
|--|----------------|----------------|----------------|----------------|
| | 2001 \$'000 | 2000 \$'000 | 2001 \$'000 | 2000 \$'000 |
| 3. OPERATING PROFIT | | | | |
| Profit from ordinary activities before income tax equivalents expense includes the following specific net gains and expenses: | | | | |
| Net loss on disposal of property, plant and equipment | 2,333 | 1,570 | 2,329 | 1,554 |
| Depreciation | | | | |
| Supply system assets | 114,027 | 111,130 | 114,027 | 111,130 |
| Power station assets | 2,611 | 2,335 | 2,611 | 2,335 |
| Other Buildings | 1,934 | - | 1,934 | - |
| Other property, plant and equipment | 29,668 | 24,042 | 27,738 | 22,752 |
| Leasehold Improvements | 6 | - | - | - |
| Total depreciation | 148,246 | 137,507 | 146,310 | 136,217 |
| Amortisation | | | | |
| Goodwill & Intangible Assets | 128 | 45 | - | - |
| Other charges against assets | | | | |
| Write down of investments to recoverable amount | - | - | 339 | - |
| Borrowing costs | | | | |
| Interest paid or payable to related parties | - | - | 512 | 571 |
| Interest paid or payable to unrelated parties | 75,809 | 65,177 | 73,248 | 64,105 |
| Net bad & doubtful debts expenses including movement in provision for doubtful debts | 2,369 | 1,385 | 586 | 170 |
| Amounts set aside to provisions | | | | |
| Employee entitlements | 25,786 | 20,364 | 25,047 | 19,142 |
| Security deposit interest | 1,200 | 1,071 | - | - |
| Other | 4,590 | 674 | 3,751 | - |
| Diminution in value of investments | - | - | - | 653 |
| Total amounts set aside to provisions | 31,576 | 22,109 | 28,798 | 19,795 |
| Superannuation contributions | 11,380 | 11,482 | 10,288 | 10,473 |
| Rental expense relating to operating leases | | | | |
| Minimum Lease Payments | 5,132 | 2,815 | 4,433 | 656 |
| Total rental expense relating to operating leases | 5,132 | 2,815 | 4,433 | 656 |

Notes

to and forming part of the financial statements

For the financial period ended 30 June 2001

| Note | Consolidated | | Parent | |
|---|----------------|----------------|----------------|----------------|
| | 2001 \$'000 | 2000 \$'000 | 2001 \$'000 | 2000 \$'000 |
| 4. INCOME TAX | | | | |
| 4.1 Income tax equivalent expense | | | | |
| The prima facie income tax equivalent on operating profit differs from the income tax equivalent provided in the accounts as follows: | | | | |
| Prima facie income tax equivalent on operating profit at 34% | 28,667 | 15,875 | 27,836 | 14,960 |
| Tax effect of permanent differences: | | | | |
| Depreciation | - | (2,496) | - | (2,496) |
| Opening provisions | (19,866) | (8,152) | (19,866) | (8,152) |
| Other items | 5,176 | (3,946) | 3,652 | (2,488) |
| (Under)/over provision in previous year | (390) | 241 | (2,540) | - |
| Income tax equivalent losses not brought to account | 346 | 438 | - | - |
| Timing differences not brought to account | - | 1,099 | - | - |
| Restatement of deferred tax balances due to income tax rate changes | (2,572) | (2,142) | 228 | (1,245) |
| Income tax equivalent expense attributable to operating profit | 11,361 | 917 | 9,310 | 579 |
| 4.2 Provision for deferred income tax equivalent liability | | | | |
| Attributable to timing differences: | | | | |
| Depreciation | 95,502 | 66,195 | 95,502 | 66,195 |
| Unbilled electricity | 31,810 | 27,974 | - | - |
| Prepayments | 211 | 228 | 211 | 214 |
| Other | 13,753 | 5,031 | 13,743 | 5,031 |
| Total provision for deferred income tax equivalent liability | 141,276 | 99,428 | 109,456 | 71,440 |
| 4.3 Future income tax equivalent benefit | | | | |
| Attributable to carry forward tax losses | 101,787 | 69,321 | 79,484 | 55,646 |
| Attributable to timing differences: | | | | |
| Accruals | 3,042 | 9,671 | 3,042 | 9,665 |
| Provisions | 20,520 | 6,735 | 17,041 | 5,550 |
| Prepaid swap | - | 8,900 | - | - |
| Other | - | 234 | - | - |
| Total future income tax equivalent benefit | 125,349 | 94,861 | 99,567 | 70,861 |

As at 30 June 2000, entities within the economic entity had additional estimated unrecouped income tax losses of \$1,561,000 available to offset against future years' taxable income. The benefit of these losses of \$530,000 has not been brought to account as realisation is not virtually certain. The benefit will only be obtained if:

- the entities derive future assessable income of a nature and of an amount sufficient to enable the benefits from the deductions for the losses to be realised;
- the entities continue to comply with the conditions for deductibility imposed by law; and
- no changes in tax legislation adversely affect the entities in realising the benefit from the deductions for the losses.

Notes

to and forming part of the financial statements

For the financial period ended 30 June 2001

| Note | Consolidated | | Parent | |
|--|----------------|----------------|----------------|----------------|
| | 2001 \$'000 | 2000 \$'000 | 2001 \$'000 | 2000 \$'000 |
| 5. CASH ASSETS (CURRENT) | | | | |
| Cash at bank and on hand | 86,612 | 109,895 | 23,613 | 27,949 |
| The above figures are reconciled to cash at the end of the financial year as shown in the statement of cash flows as follows : | | | | |
| Balance per statement of cash flows | 86,612 | 109,895 | 23,613 | 27,949 |
| 6. RECEIVABLES (CURRENT) | | | | |
| Trade debtors and unread meters | 214,046 | 158,555 | 19,657 | 13,466 |
| Community service obligations receivable | 28,953 | 26,181 | - | - |
| Provision for doubtful debts | (3,185) | (2,915) | (285) | (285) |
| Trade debtors | 239,814 | 181,821 | 19,372 | 13,181 |
| Trade debtors - related parties | - | - | 80,543 | 3,332 |
| Advance to State of Queensland | - | 50,000 | - | 50,000 |
| Recoverable works | - | 1,152 | - | 1,449 |
| Non-trade amounts owing by: | | | | |
| Unrelated parties | 20,678 | 49,227 | - | - |
| Total current receivables | 260,492 | 282,200 | 99,915 | 67,962 |
| 7. INVENTORIES (CURRENT) | | | | |
| Maintenance and construction stock | 30,032 | 30,338 | 29,867 | 30,338 |
| Appliance trading stocks | - | 2,315 | - | - |
| | 30,032 | 32,653 | 29,867 | 30,338 |
| 8. OTHER ASSETS (CURRENT) | | | | |
| Land and buildings held for resale | - | 3,770 | - | 3,770 |
| Prepayments | 1,863 | 1,412 | 1,789 | 783 |
| GST Credits | - | 63 | - | 37 |
| Other | 5,888 | 558 | 8 | 434 |
| | 7,751 | 5,803 | 1,797 | 5,024 |
| 9. RECEIVABLES (NON-CURRENT) | | | | |
| Loans to controlled entities | - | - | 3,298 | 3,298 |
| Other | 5,389 | 145 | - | 145 |
| | 5,389 | 145 | 3,298 | 3,443 |

Notes

to and forming part of the financial statements

For the financial period ended 30 June 2001

| Note | Consolidated | | Parent | |
|---|----------------|----------------|----------------|----------------|
| | 2001 \$'000 | 2000 \$'000 | 2001 \$'000 | 2000 \$'000 |
| 10. OTHER FINANCIAL ASSETS (NON-CURRENT) | | | | |
| Investments at cost: | | | | |
| Unlisted shares in unrelated entity | 100 | 140 | - | - |
| Other | 50 | 50 | 50 | 50 |
| | 150 | 190 | 50 | 50 |
| Investments at valuation: | | | | |
| Unlisted shares in controlled entities (a) | - | - | 142,366 | 137,364 |
| Unlisted units in controlled entity | - | - | 62 | 62 |
| Less: Provision for diminution | - | - | (4,388) | (4,049) |
| | - | - | 138,040 | 133,377 |
| Total investments | 150 | 190 | 138,090 | 133,427 |

(a) The carrying value of investments in controlled entities have been revalued by the Directors as at 30 June 2001, to amounts that are not in excess of their expected recoverable amount.

(b) The consolidated financial statements at 30 June 2001 include the following controlled entities :

| Entity Name | Country of Incorporation | Percentage interest held by the economic entity |
|---|--------------------------|---|
| Ergon Energy Corporation Limited | Australia | |
| EA North Queensland Pty Ltd | Australia | 100% |
| Ergon Energy Gas Pty Ltd (formerly AUSMECO Pty Ltd) | Australia | 100% |
| Vantage Plus Utilities Trust | Australia | 100% |
| Ergon Energy Pty Ltd | Australia | 100% |
| Ergon Energy (Victoria) Pty Ltd | Australia | 100% |
| Northern Electricity Retail Corporation Pty Ltd | Australia | 100% |

During the year EA North Queensland Pty Ltd has sold a substantial portion of its operations to an unrelated party.

Notes

to and forming part of the financial statements

For the financial period ended 30 June 2001

| | Note | Consolidated | | Parent | |
|--|------|----------------|----------------|----------------|----------------|
| | | 2001 \$'000 | 2000 \$'000 | 2001 \$'000 | 2000 \$'000 |
| 11. PROPERTY, PLANT AND EQUIPMENT | | | | | |
| Supply system | | | | | |
| At Cost | | - | 4,073,927 | - | 4,073,927 |
| At Directors' Valuation 2001 | | 4,818,165 | - | 4,818,165 | - |
| Less: accumulated depreciation | | (2,473,407) | (2,115,981) | (2,473,407) | (2,115,981) |
| | | 2,344,758 | 1,957,946 | 2,344,758 | 1,957,946 |
| Power Stations | | | | | |
| At Cost | | - | 54,865 | - | 54,865 |
| At Directors' Valuation 2001 | | 69,030 | - | 69,030 | - |
| Less: accumulated depreciation | | (23,754) | (16,660) | (23,754) | (16,660) |
| | | 45,276 | 38,205 | 45,276 | 38,205 |
| Other Land & Buildings | | | | | |
| Other Land | | | | | |
| At Cost | | 35,894 | 19,231 | 35,894 | 19,231 |
| Other buildings | | | | | |
| At Cost | | 117,708 | 97,189 | 117,708 | 97,189 |
| Less: accumulated depreciation | | (58,175) | (36,337) | (58,175) | (36,337) |
| | | 59,533 | 60,852 | 59,533 | 60,852 |
| Other Property, Plant and Equipment | | | | | |
| At Cost | | 232,586 | 205,818 | 226,009 | 200,927 |
| Less : accumulated depreciation | | (132,871) | (105,472) | (128,909) | (103,143) |
| | | 99,715 | 100,346 | 97,100 | 97,784 |
| Leasehold Improvements | | | | | |
| At Cost | | - | 84 | - | - |
| Less: accumulated depreciation | | - | (2) | - | - |
| | | - | 82 | - | - |
| Work in Progress | | | | | |
| At Cost | | 104,271 | 81,926 | 95,750 | 79,166 |
| Total property, plant and equipment | | 2,689,447 | 2,258,588 | 2,678,311 | 2,253,184 |

11. PROPERTY, PLANT AND EQUIPMENT (continued)

Reconciliations

Consolidated - 2001

| | Supply Systems | Power Stations | Other Land | Other Buildings | Other property, plant and equipment | Leasehold Improvements | Work In Progress | TOTAL |
|--|----------------|----------------|------------|-----------------|-------------------------------------|------------------------|------------------|-----------|
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Carrying amount at start of year | 1,957,946 | 38,205 | 19,231 | 60,852 | 100,346 | 82 | 81,926 | 2,258,588 |
| Transfer of assets between categories | (26,451) | 164 | 15,377 | (2,187) | 13,097 | - | - | - |
| Transfer provision against extraordinary loss/transfers to property, plant and equipment | - | - | - | - | 147 | - | (178,354) | (178,207) |
| Additions | 148,519 | 3,206 | 2,068 | 5,675 | 18,887 | - | 200,699 | 379,054 |
| Disposals | (2,152) | (89) | (782) | (2,873) | (3,094) | (76) | - | (9,066) |
| Revaluation increments less decrements | 380,923 | 6,401 | - | - | - | - | - | 387,324 |
| Depreciation/amortisation expense | (114,027) | (2,611) | - | (1,934) | (29,668) | (6) | - | (148,246) |
| Carrying amount at end of year | 2,344,758 | 45,276 | 35,894 | 59,533 | 99,715 | - | 104,271 | 2,689,447 |

Parent - 2001

| | Supply Systems | Power Stations | Other Land | Other Buildings | Other property, plant and equipment | Leasehold Improvements | Work In Progress | TOTAL |
|--|----------------|----------------|------------|-----------------|-------------------------------------|------------------------|------------------|-----------|
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Carrying amount at start of year | 1,957,946 | 38,205 | 19,231 | 60,852 | 97,784 | - | 79,166 | 2,253,184 |
| Transfer of assets between categories | (26,451) | 164 | 15,376 | (2,186) | 13,097 | - | - | - |
| Transfer provision against extraordinary loss/transfers to property, plant and equipment | - | - | - | - | - | - | (176,180) | (176,180) |
| Additions | 148,518 | 3,206 | 2,069 | 5,674 | 16,713 | - | 192,764 | 368,944 |
| Disposals | (2,152) | (89) | (782) | (2,873) | (2,756) | - | - | (8,652) |
| Revaluation increments less decrements | 380,924 | 6,401 | - | - | - | - | - | 387,325 |
| Depreciation/amortisation expense | (114,027) | (2,611) | - | (1,934) | (27,738) | - | - | (146,310) |
| Carrying amount at end of year | 2,344,758 | 45,276 | 35,894 | 59,533 | 97,100 | - | 95,750 | 2,678,311 |

Notes

to and forming part of the financial statements

For the financial period ended 30 June 2001

| Note | Consolidated | | Parent | |
|---|----------------|----------------|----------------|----------------|
| | 2001 \$'000 | 2000 \$'000 | 2001 \$'000 | 2000 \$'000 |
| 12. DEFERRED TAX ASSETS (NON-CURRENT) | | | | |
| Future income tax equivalent benefit | 125,349 | 94,861 | 99,567 | 70,861 |
| 13. INTANGIBLES (NON-CURRENT) | | | | |
| Goodwill | 2,080 | 353 | 1,726 | - |
| Less : accumulated amortisation | (82) | (45) | - | - |
| Intangibles | 277 | 1,352 | - | - |
| Less : accumulated amortisation | (92) | - | - | - |
| | 2,183 | 1,660 | 1,726 | - |
| 14. PAYABLES (CURRENT) | | | | |
| Trade creditors - related parties | - | - | 32,680 | 22,349 |
| Trade creditors - unrelated parties | 79,903 | 127,730 | 17,382 | 12,179 |
| Other creditors | 110,786 | 107,694 | 70,177 | 62,380 |
| | 190,689 | 235,424 | 120,239 | 96,908 |
| 15. INTEREST BEARING LIABILITIES (CURRENT) | | | | |
| Unsecured | | | | |
| Customer and other repayable deposits | 4,917 | 14,657 | 4,917 | 6,398 |
| 16. PROVISIONS (CURRENT) | | | | |
| Dividends | 69,305 | 38,928 | 69,305 | 38,928 |
| Restructure | 32,863 | 59,461 | 32,863 | 59,461 |
| Employee entitlements | 23,713 | 16,557 | 22,110 | 15,352 |
| Other | 11,282 | 5,408 | 8,903 | 3,854 |
| | 137,163 | 120,354 | 133,181 | 117,595 |
| 17. OTHER LIABILITIES (CURRENT) | | | | |
| Unearned capital contributions | 7,616 | 7,192 | 7,616 | 7,192 |
| Unclaimed monies | 86 | 83 | 86 | 83 |
| GST | 79 | - | 88 | - |
| Other | 404 | 9,099 | 389 | 9,099 |
| | 8,185 | 16,374 | 8,179 | 16,374 |

Notes

to and forming part of the financial statements

For the financial period ended 30 June 2001

| Note | Consolidated | | Parent | |
|---|----------------|----------------|----------------|----------------|
| | 2001 \$'000 | 2000 \$'000 | 2001 \$'000 | 2000 \$'000 |
| 18. INTEREST BEARING LIABILITIES (NON-CURRENT) | | | | |
| Unsecured | | | | |
| Queensland Treasury Corporation loans (a) | 1,140,454 | 1,058,650 | 1,140,267 | 1,058,650 |
| Customer and other repayable deposits | 24,074 | 17,344 | 2,511 | 3,695 |
| | 1,164,528 | 1,075,994 | 1,142,778 | 1,062,345 |
| (a) The market value of Queensland Treasury Corporation ("QTC") loans at 30 June 2001 was \$1,151,773,000 (2000: \$1,047,696,000). During 2000/2001, the economic entity replaced its short term borrowing facility (available credit as at 30 June 2000: \$128,108,000) with a \$150m working capital facility (fully available as at 30 June 2001). | | | | |
| 19. DEFERRED TAX LIABILITIES (NON-CURRENT) | | | | |
| Deferred income tax equivalent liability | 141,276 | 99,428 | 109,456 | 71,440 |
| 20. PROVISIONS (NON-CURRENT) | | | | |
| Employee entitlements | 37,262 | 42,738 | 37,254 | 42,305 |
| Restructure | 92,183 | 89,191 | 92,183 | 89,191 |
| Other | 5,401 | 7,594 | 5,401 | 7,594 |
| | 134,846 | 139,523 | 134,838 | 139,090 |
| 21. OTHER LIABILITIES (NON-CURRENT) | | | | |
| Other | 609 | 21 | - | 21 |
| 22. RESERVES | | | | |
| Asset Revaluation Reserve | 387,324 | - | 387,324 | - |
| Movements : | | | | |
| Asset revaluation reserve at the beginning of the financial year | - | - | - | - |
| Increase (decrease) recognised property, plant and equipment on revaluation of assets | 387,324 | - | 387,324 | - |
| Asset revaluation reserve at the reporting date | 387,324 | - | 387,324 | - |

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

Notes

to and forming part of the financial statements

For the financial period ended 30 June 2001

| | Note | Consolidated | | Parent | |
|--|------|----------------|----------------|----------------|----------------|
| | | 2001 \$'000 | 2000 \$'000 | 2001 \$'000 | 2000 \$'000 |
| 23. EQUITY | | | | | |
| Total equity at the beginning of the financial year | | 1,084,220 | - | 1,082,017 | - |
| Total changes in equity recognised in the Statement of Financial Performance | | 460,277 | 43,180 | 459,884 | 40,977 |
| Transactions with owners as owners: | | | | | |
| Contributions of equity | | - | 1,079,968 | - | 1,079,968 |
| Capital restructure | | (50,000) | - | (50,000) | - |
| Dividends | | (69,305) | (38,928) | (69,305) | (38,928) |
| Total equity at the reporting date | | 1,425,192 | 1,084,220 | 1,422,596 | 1,082,017 |
| Contributed Equity: | | | | | |
| Share capital | | | | | |
| 1,197,000,005 fully paid ordinary shares | (a) | - | 1,079,968 | - | 1,079,968 |
| 1,141,581,737 fully paid ordinary shares | | 1,029,968 | - | 1,029,968 | - |

Movements in issued shares during the period**Issued during the period:**

| | | | | Number of ordinary shares |
|-----------------------|-----|--|--|---------------------------------|
| - "A" class shares | | | | 0 |
| - "B" class shares | | | | 0 |
| - Capital restructure | (b) | | | (55,418,242) |
| Total issued capital | | | | (55,418,242) |

(a) Under the terms of the Scheme of Arrangement the parent entity issued in 1999/2000 "A" and "B" ordinary shares to the shareholders in direct proportion to their shareholdings in the predecessor distribution companies. In consideration for the share issue the assets and liabilities of the predecessor companies were transferred to the parent entity. The shares are deemed to be fully paid up.

(b) The share capital of Ergon Energy Corporation Limited was reduced with effect 29 June 2001, by cancelling 55,418,242 B Class Ordinary Shares for a consideration of \$0.9022 per share. The amount owing to Shareholders pursuant to this capital reduction was offset against the Advance to the State of Queensland. This advance has been repaid in full.

Notes

to and forming part of the financial statements

For the financial period ended 30 June 2001

| | Note | Consolidated | | Parent | |
|--|------|----------------|----------------|----------------|----------------|
| | | 2001 \$'000 | 2000 \$'000 | 2001 \$'000 | 2000 \$'000 |
| 24. RETAINED PROFITS | | | | | |
| Retained Profits | | 7,900 | 4,252 | 5,304 | 2,049 |
| Movements : | | | | | |
| Retained profits at the beginning of the financial year | | 4,252 | 0 | 2,049 | 0 |
| Net profit attributable to members of Ergon Energy Corporation Limited | | 72,953 | 43,180 | 72,560 | 40,977 |
| Dividends provided for or paid | | (69,305) | (38,928) | (69,305) | (38,928) |
| | | 7,900 | 4,252 | 5,304 | 2,049 |
| 25. 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 | | 72,953 | 43,180 | 72,560 | 40,977 |
| Depreciation & Amortisation | | 148,374 | 137,542 | 146,310 | 136,217 |
| Asset Write-Off | | 591 | - | 591 | - |
| Net loss on disposal of property, plant and equipment | | 2,330 | 1,570 | 2,326 | 1,554 |
| Changes in employee entitlement and other provisions | | (7,277) | 16,855 | 8,930 | 13,886 |
| Interest charges paid in advance | | - | 31,001 | - | 31,001 |
| Other non cash flow items | | - | 162 | - | (78) |
| Changes in assets and liabilities | | | | | |
| Trade and other receivables | | (33,137) | (43,334) | (81,808) | 39,348 |
| Inventory | | 2,621 | (1,257) | 471 | (736) |
| Other assets | | (4,892) | (4,055) | (1,934) | (3,778) |
| Trade and other creditors | | (62,990) | 129,622 | 14,848 | 52,782 |
| Other liabilities | | (21) | 10,739 | (21) | 10,768 |
| Deferred income tax equivalent liability | | 41,849 | 66,450 | 10,042 | 71,440 |
| Future income tax equivalent benefit | | (30,487) | (65,536) | (28,706) | (70,861) |
| Payments from provisions | | - | (359,773) | - | (357,946) |
| Net cash flow used in operating activities | | 129,914 | (36,834) | 143,609 | (35,426) |
| (b) Bank overdraft facility | | | | | |
| At 30 June 2001 the economic entity has unused bank overdraft facilities available \$1,200,000 (2000: \$1,200,000). | | | | | |

Notes

to and forming part of the financial statements

For the financial period ended 30 June 2001

26. INVESTMENTS IN CONTROLLED ENTITIES

Parent Entity
Ergon Energy Corporation Limited.

The parent entity has a 100% equity holding in the following controlled entities:

Ergon Energy Gas Pty Ltd
EA North Queensland Pty Ltd
Vantage Plus Utilities Trust
Ergon Energy Pty Ltd
Ergon Energy (Victoria) Pty Ltd
Northern Electricity Retail Corporation Pty Ltd

The Parent entity, and all controlled companies are incorporated in Australia.

| Note | Consolidated | | Parent | |
|---|----------------|----------------|----------------|----------------|
| | 2001 \$'000 | 2000 \$'000 | 2001 \$'000 | 2000 \$'000 |
| 27. EXPENDITURE COMMITMENTS | | | | |
| (a) Capital expenditure commitments | | | | |
| Estimated capital expenditure contracted for at balance is payable as follows: | | | | |
| - not later than one year | 16,572 | 30,878 | 16,572 | 30,878 |
| - later than one year but not later than five years | - | 709 | - | 709 |
| - later than five years | - | - | - | - |
| | 16,572 | 31,587 | 16,572 | 31,587 |
| (b) Lease commitments | | | | |
| Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities, payable : | | | | |
| - not later than one year | 2,183 | 2,634 | 636 | 488 |
| - later than one year but not later than five years | 792 | 3,436 | 384 | 291 |
| - later than five years | 74 | - | - | - |
| | 3,049 | 6,070 | 1,020 | 779 |
| Representing: | | | | |
| Cancellable operating leases | - | - | - | - |
| Non-cancellable operating leases | 3,049 | 6,070 | 1,020 | 779 |
| | 3,049 | 6,070 | 1,020 | 779 |
| (c) Operating lease commitments | | | | |
| Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows: | | | | |
| - not later than one year | 2,513 | 2,634 | 966 | 488 |
| - later than one year and not later than five years | 792 | 3,436 | 384 | 291 |
| - later than five years | 74 | - | - | - |
| (Not included in the above are any contingent rental payments that may arise). | 3,379 | 6,070 | 1,350 | 779 |

Notes

to and forming part of the financial statements

For the financial period ended 30 June 2001

| Note | Consolidated | | Parent | |
|---|----------------|----------------|----------------|----------------|
| | 2001 \$'000 | 2000 \$'000 | 2001 \$'000 | 2000 \$'000 |
| 28. EMPLOYEE ENTITLEMENTS AND SUPERANNUATION COMMITMENTS | | | | |
| Employee entitlements | | | | |
| The aggregate employee entitlement liability is comprised of: | | | | |
| Accrued wages and salaries | 6,576 | 6,588 | 5,905 | 6,551 |
| Provisions (Current) | 23,713 | 16,557 | 22,109 | 15,352 |
| Provisions (Non-Current) | 37,262 | 42,738 | 37,254 | 42,305 |
| | 67,551 | 65,883 | 65,268 | 64,208 |
| Employee numbers | | | | |
| Number of employee at reporting date | 2,668 | | 2,517 | |

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.

| Note | Consolidated | | Parent | |
|---|----------------|----------------|----------------|----------------|
| | 2001 \$'000 | 2000 \$'000 | 2001 \$'000 | 2000 \$'000 |
| The estimated accrued benefits and fund assets at the date of the most recent actuarial assessment of the fund, based upon information supplied by the fund, are: | | | | |
| Net market value of plan assets | 356,819 | 356,819 | 330,750 | 330,750 |
| Accrued benefits | (234,236) | (234,236) | (217,203) | (217,203) |
| Excess of plan assets held over accrued benefits* | 122,583 | 122,583 | 113,547 | 113,547 |
| Vested benefits | (234,236) | (234,236) | (217,103) | (217,103) |

* The economic entity has no entitlement to this excess.

Notes

to and forming part of the financial statements

For the financial period ended 30 June 2001

29. CONTINGENT LIABILITIES

(a) Legal Claims

A number of common law claims are pending against entities within the economic entity. In each case a writ has been served and the entity is at various stages of defending the action. Liability is not admitted and all claims will be defended. The total amount of these claims net of insurance recoveries is \$242,000.

(b) Guarantees

Bank Guarantees amounting to \$292,841 (2000: \$293,000) have been issued to various parties in connection with parent entity's non-regulated contracting services operations, and \$200,000 in connection with controlled entities' operations. These guarantees are supported by counter-indemnities to the Queensland Treasury Corporation from the parent entity totalling \$2,000,000.

In order to participate in the electricity and gas markets, 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 \$141,300,000 (2000: \$173,000,000) have been issued by Queensland Treasury Corporation to the National Electricity Market Management Company Limited ("NEMMCO") and \$1,000,000 (2000: \$1,000,000) to VENCORP. These guarantees are supported by counter-indemnities to the Queensland Treasury Corporation from the parent entity totalling \$307,000,000 (2000: \$307,000,000).

(c) Deed of Indemnity - Ergon Energy Pty Ltd

During the period the parent entity 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. No payments were made with respect to the indemnity during the period (2000 : payments of \$1,500,000 were made).

(d) Automatic Generation Control Ancillary Service Payments & Participant Fees Dispute

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

There is significant uncertainty however as to whether an obligation exists with NEMMCO yet to pursue their claims, and therefore the size of the liability cannot be reliably ascertained.

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

EA North Queensland Pty Ltd has guaranteed to pay sick leave entitlements accrued at 8 May 2001 for employees which transferred to JMC Logistics Pty Ltd (JMC) if the JMC accrued entitlements are insufficient to cover sick leave taken in the period to 7 May 2006.

30. SUBSEQUENT EVENTS

No events of a material nature have occurred subsequent to 30 June 2001.

31. ECONOMIC DEPENDENCY

Ergon Energy Corporation Limited'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.

Notes

to and forming part of the financial statements

For the financial period ended 30 June 2001

| Note | Consolidated | | Parent | |
|--|----------------|----------------|----------------|----------------|
| | 2001 \$'000 | 2000 \$'000 | 2001 \$'000 | 2000 \$'000 |
| 32. AUDITORS' REMUNERATION | | | | |
| Remuneration for audit or review of the financial reports of the parent entity or any entity in the consolidated entity: | | | | |
| Parent Entity | 260 | 324 | 260 | 324 |
| Controlled Entity | 112 | 151 | - | - |
| | 372 | 475 | 260 | 324 |

33. RELATED PARTY DISCLOSURES

(a) The directors of Ergon Energy Corporation Limited during the financial period ended 30 June 2001 were:

Hon Keith De Lacy
Mr Barry Taylor
Mr Paul Bell
Mr Andrew Robertson
Ms Fay Donovan
Mr Charles Ware
Mr Dave 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 that occurred during the financial period are trivial or domestic in nature, apart from those noted below.

Mr Andrew McNamara (a director of Ergon Energy Pty Ltd until 17 February 2000) is a director of Wide Bay Group Training Scheme Ltd, which has entered in to a contract with Ergon Energy Corporation Limited to handle apprenticeships and to provide training services. The amount paid to Wide Bay Group Training Scheme Ltd was \$1,262,962 (inclusive of GST). The terms and conditions of the contract are no more favourable than those which it is reasonable to expect would have been adopted if dealing with the director-related entity at arm's length.

Hon Keith De Lacy is a director (Chairman) of Macarthur Coal Ltd, which has a 45% interest in the Coppabella Coal Mine. Australian Premium Coal Pty Ltd (APC), the manager of Coppabella Coal Mine on

behalf of the joint venture participants is a contestable customer of Ergon Energy Pty Ltd, with sales to Coppabella Coal Pty Ltd totalling \$1,069,092 (inclusive of GST). The terms and conditions of supply are no more favourable than those which it is reasonable to expect would have been adopted if dealing with the director-related entity at arm's length.

Hon Keith De Lacy is a director of Reef Casino, which is a franchise customer of Ergon Energy Pty Ltd. Accordingly, the terms and conditions of supply are no more favourable than those which it is reasonable to expect would have been adopted if dealing with the director-related entity at arm's length.

(b) In addition to those transactions disclosed in note 3, the parent entity entered into the following transactions during the period with related parties within the wholly owned group:

- The parent entity made payments under a Deed of Indemnity with a controlled entity. Further details are provided in note 29(c).
- The parent entity provided 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 normal commercial terms and conditions.

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

(c) The parent entity reduced share capital, offsetting the amount payable to the ultimate shareholder against the Advance to the State of Queensland. Refer to note 23(b).

Notes

to and forming part of the financial statements

For the financial period ended 30 June 2001

34. 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:

| | 2001 | 2000 |
|---------------------|------|------|
| \$0 - \$10,000 | - | 3 |
| \$20,001 - \$30,000 | 4 | 3 |
| \$30,001 - \$40,000 | - | 1 |
| \$40,001 - \$50,000 | 1 | 1 |
| \$60,001 - \$70,000 | 1 | 1 |
| \$70,001 - \$80,000 | 1 | 1 |

The aggregate income of the Directors referred to above: **\$296,552** \$305,508

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 \$375,754. 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 period falls within the following bands, were:

| | Consolidated | | Parent | |
|-----------------------|--------------|------|--------|------|
| | 2001 | 2000 | 2001 | 2000 |
| \$120,001 - \$130,000 | - | 4 | - | - |
| \$140,001 - \$150,000 | 2 | 4 | 1 | 3 |
| \$150,001 - \$160,000 | - | 4 | - | 3 |
| \$160,001 - \$170,000 | 3 | - | 3 | - |
| \$180,001 - \$190,000 | 4 | - | 2 | - |
| \$190,001 - \$200,000 | - | 1 | - | 1 |
| \$210,001 - \$220,000 | 1 | - | 1 | - |
| \$220,001 - \$230,000 | 1 | - | 1 | - |
| \$280,001 - \$290,000 | 1 | - | 1 | - |
| \$290,001 - \$300,000 | - | 1 | - | - |

The aggregate income of the executives referred to above: **\$2,254,883** \$2,189,859 **\$1,735,233** \$1,097,868

Base remuneration of senior executives comprises the base salary paid or payable excluding any at risk, performance based remuneration paid or payable, to executive officers in office at 30 June 2001, directly or indirectly, by the economic entity or any unrelated party in connection with management of the affairs of the entity or economic entity.

Notes

to and forming part of the financial statements

For the financial period ended 30 June 2001

35. 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.

| | 2001 \$'000 | 2000 \$'000 |
|--|----------------|----------------|
| Total revenue | | |
| Distribution | 675,302 | 625,538 |
| Retail | 1,279,267 | 1,179,756 |
| Other | 18,567 | 24,462 |
| Elimination | (549,848) | (521,615) |
| Consolidated | 1,423,288 | 1,308,141 |
| Operating profit after income tax equivalent | | |
| Distribution | 72,560 | 40,977 |
| Retail | 6,167 | 2,397 |
| Other | (5,999) | (4,243) |
| Elimination | 225 | 4,049 |
| Consolidated | 72,953 | 43,180 |
| Segment assets | | |
| Distribution | 3,076,184 | 2,592,188 |
| Retail | 382,487 | 347,202 |
| Other | 6,280 | 9,500 |
| Elimination | (257,546) | (162,895) |
| Consolidated | 3,207,405 | 2,785,995 |

Notes

to and forming part of the financial statements

For the financial period ended 30 June 2001

36. 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 policy | 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 considered less than likely. | Credit sales are normally on 30 day terms. |
| Contestables Sales Contracts | | Contestable sales contracts are recorded at their net fair value and net of any associated hedges. | Contestable sales contracts typically have terms ranging from 12 months to 3 years. |
| Receivables - Related Parties | 6 | Amounts receivable from related parties are carried at nominal amounts. | |
| Advance to State of Queensland | 6 | The advance is carried at its nominal value. | The advance is non interest bearing and repayable within 12 months. |
| Investments - Unlisted Shares | 10 | Unlisted shares are carried at the lower of cost or recoverable amount. | |
| Financial liabilities | | | |
| Payables - Trade and Other | 14 | 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. |
| Bank Overdraft | | The bank overdrafts are carried at the principal amount. Interest is charged as an expense as it accrues. | Interest is charged at the bank benchmark rate. |
| Interest Bearing Liabilities - Loans | 18 | Loans are carried at their nominal value. Interest is charged as an expense as it accrues. | Some loans are presently maintained on an interest only basis. Interest is due on the first day at the effective book interest rate. The outstanding balance of the loan becomes payable immediately should the entity default on loan payments or interest or sustain an adverse material effect on its financial position. |
| Repayable Deposits | 15, 18 | Subdivider deposits are carried at the principal amount. Revenue shortfalls are subtracted and interest is added on the anniversary of the deposit. | Interest is charged annually on the anniversary date of the deposits. The interest rate is either fixed or variable, depending on the conditions of the agreement. Interest is calculated on the principal less any revenue shortfalls. |
| Customer Security Deposits | 15, 18 | 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. |
| Contributed Equity | | | |
| Ordinary Shares | 23 | Ordinary share capital bears no specific terms or conditions affecting income or the capital entitlements of the shareholders. | |

Notes

to and forming part of the financial statements

For the financial period ended 30 June 2001

36. 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:

| 2001 | Floating interest rate | Fixed interest rate maturing in: | | | Non-interest bearing | Carrying amount per Statement of Financial Position | Weighted average interest rate |
|------------------------------|------------------------|----------------------------------|--------------|--------------|----------------------|---|--------------------------------|
| | | 1 year or less | 1 to 5 years | Over 5 years | | | |
| | 2001 \$'000 | 2001 \$'000 | 2001 \$'000 | 2001 \$'000 | 2001 \$'000 | 2001 \$'000 | 2001 % |
| Financial Assets | | | | | | | |
| Cash | 37 | - | - | - | 2,797 | 2,834 | 1.14 |
| Short-term deposits | 83,778 | 50 | - | - | - | 83,828 | 5.13 |
| Receivables - trade | - | - | - | - | 239,813 | 239,813 | - |
| Receivables - other | - | - | - | - | 20,678 | 20,678 | - |
| Unlisted shares | - | - | - | - | 100 | 100 | - |
| Other assets | - | - | - | - | 7,751 | 7,751 | - |
| Total financial assets | 83,815 | 50 | - | - | 271,139 | 355,004 | |
| Financial liabilities | | | | | | | |
| Repayable deposits | 20,806 | 1,685 | 2,648 | 2,166 | 1,686 | 28,991 | 4.00 |
| Payables - trade | - | - | - | - | 79,903 | 79,903 | - |
| Payables - other | - | - | - | - | 93,550 | 93,550 | - |
| Loans - fixed | - | - | 1,157,503 | - | - | 1,157,503 | 5.95 |
| Other liabilities | - | - | - | - | 489 | 489 | - |
| Total financial liabilities | 20,806 | 1,685 | 1,160,151 | 2,166 | 175,628 | 1,360,436 | |
| 2000 | | | | | | | |
| 2000 | Floating interest rate | Fixed interest rate maturing in: | | | Non-interest bearing | Carrying amount per Statement of Financial Position | Weighted average interest rate |
| | | 1 year or less | 1 to 5 years | Over 5 years | | | |
| | 2000 \$'000 | 2000 \$'000 | 2000 \$'000 | 2000 \$'000 | 2000 \$'000 | 2000 \$'000 | 2000 % |
| Financial Assets | | | | | | | |
| Cash | 2,445 | - | - | - | 36 | 2,481 | 5.13 |
| Short-term deposits | 107,417 | 50 | - | - | - | 107,467 | 5.75 |
| Receivables - trade | - | - | - | - | 181,966 | 181,966 | - |
| Receivables - other | - | - | - | - | 50,379 | 50,379 | - |
| Advance to State | - | - | - | - | 50,000 | 50,000 | - |
| Unlisted shares | - | - | - | - | 140 | 140 | - |
| Other assets | - | - | - | - | 2,029 | 2,029 | - |
| Total financial assets | 109,862 | 50 | - | - | 284,550 | 394,462 | |
| Financial liabilities | | | | | | | |
| Repayable deposits | 26,134 | 1,224 | 1,937 | 1,527 | 1,179 | 32,001 | 4.00 |
| Payables - trade | - | - | - | - | 127,730 | 127,730 | - |
| Payables - other | - | - | - | - | 107,694 | 107,694 | - |
| Loans - floating | 268,145 | - | - | - | - | 268,145 | 5.63 |
| Loans - fixed | - | 2,841 | 13,338 | 774,326 | - | 790,505 | 6.08 |
| Other liabilities | 149 | - | - | - | 9,060 | 9,209 | - |
| Total financial liabilities | 294,428 | 4,065 | 15,275 | 775,853 | 245,663 | 1,335,284 | |

Notes

to and forming part of the financial statements

For the financial period ended 30 June 2001

36. FINANCIAL INSTRUMENTS (continued)

(c) Net fair values

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

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

(d) Credit risk 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.

Recognised

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

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.

Unrecognised

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

(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.

Director's Declaration

For the financial period ended 30 June 2001

The directors declare that:

- (a) the financial statements and associated notes comply with the accounting standards and Urgent Issues Group Consensus Views;
- (b) the financial statements and notes give a true and fair view of the financial position as at 30 June 2001 and performance of the company and economic entity for the period 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 Act 2001, including sections 296 and 297.

Made in accordance with a resolution of the directors.



Hon K De Lacy
Chair

Mackay

18/09/2001

Independent Audit Report

To the Members of Ergon Energy Corporation Limited

Scope

I have audited the financial statements, being the Directors Declaration, the Statement of Financial Performance, Statement of Financial Position, Statement of Cash Flows and Notes to and forming part of the financial statements of Ergon Energy Corporation Limited for the financial year ended 01 July 2000 to 30 June 2001 as set out on pages 29 to 57. 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 the company 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 Corporation Limited 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 2001 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 Act 2001** to be dealt with in the financial statements;
- (b) in accordance with -
 - (i) the provisions of the **Corporations Act 2001**; and
 - (ii) the applicable Accounting Standards and other mandatory professional reporting requirements.



L J SCANLAN
Auditor-General of Queensland



Queensland Audit Office
Brisbane

Summary Statement of Corporate Intent

In accordance with Chapter 3, Part 8 of the Government Owned Corporation Act, Ergon Energy Corporation Limited prepared a Statement of Corporate Intent ("SCI") which covers all entities within the economic entity for the financial year 2000/2001. The SCI is a formal document entered into annually by the Board of Directors with their Shareholding Ministers. The following is a summary of the 2000/2001 SCI.

Summary

In framing its corporate direction, Ergon Energy applied a broad outlook with a view to becoming a significant player in the changing and competitive national electricity marketplace. Business growth, increasing shareholder wealth and ensuring/enhancing employment opportunities have been confirmed as the platform on which Ergon Energy will build its business in 2000/2001 and beyond.

The critical success areas identified to support the business plan were:

- Financial performance;
- Operational excellence;
- Customer service excellence;
- People development and commitment;
- Change and risk management; and
- Business growth and diversification.

Major Investments

Ergon Energy continued to extend and enhance its distribution network with major investment throughout its distribution area in both regulated and non-regulated assets. Additional investment opportunities, which supported the critical success, were identified and detailed in the SCI.

Community Service Obligations

Community Service Obligations were anticipated as part of the Electricity Retail business, in accordance with State Government policy.

Risk Management and Legal Compliance

Ergon Energy is committed to effectively managing risk as an inherent part of good business planning at both the strategic and operational level. Ergon Energy's Risk Management philosophy is designed to both minimise losses and maximise opportunities in a business environment dominated by rapid change and growth.

Key risks, their impact and probability of occurrence were identified and included in the SCI.

Procedural Issues and Policies

The accounting policies, annual reports and financial statements of the economic entity conform with the requirements of the Corporations Act 2001, 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 economic entity undertook to ensure that the quarterly and annual reports provided the Shareholding Ministers with sufficient information to make an informed assessment of the economic entity's activities and its performance against the agreed performance targets contained in the SCI.

Employment and Industrial Relations

Six separate Certified Agreements with unions existed prior to the merger, each containing flexible remuneration arrangements. A Heads of Agreement has been negotiated with all the unions and the Minister for Mines and Energy to ensure the smooth transition to Ergon Energy.

Ergon Energy is committed to establish collective agreements with relevant unions that better reflect the needs of the new organisation and its various business units and these arrangements will be progressively implemented throughout the 2000/2001 period.

Summary Statement of Corporate Intent

SUMMARY OF STATEMENT OF CORPORATE INTENT (continued)

Ergon Energy has a policy of no forced redundancies and no forced relocations as a result of the merger.

The National Safety Council of Australia 5 Star grading system continued to be used to further improve Ergon Energy's current safety performance. The main target areas were improved and consistent systems, participatory risk assessment and hazard identification and integration of reporting systems.

Performance against SCI Targets

Financial Performance Targets

| Measure | Target | | Result | |
|--------------------------|--------|-------|--------|-------|
| | 2001 | 2000 | 2001 | 2000 |
| Return on: | | | | |
| Consolidated Assets | 6.5% | 5.8% | 5.4% | 4.1% |
| Regulated Network Assets | 6.8% | 6.4% | 5.5% | 5.1% |
| Return on equity: | | | | |
| Consolidated | 4.9% | 12.6% | 5.9% | 10.0% |

Financial Performance Indicators

| Measure | Target | | Result | |
|---------------------------|--------|------|--------|------|
| | 2001 | 2000 | 2001 | 2000 |
| Leverage/Liquidity Ratios | | | | |
| Debt/debt + equity | 46% | 48% | 44.5% | 50% |
| Current Ratio | 1.4 | 1.6 | 1.1 | 1.1 |
| Interest cover | 3.7 | 2.3 | 4.1 | 3.8 |

Non-Financial Targets

| Measure | Target | | Result | |
|---|--------|-------|--------|-------|
| | 2001 | 2000 | 2001 | 2000 |
| Safety | | | | |
| Lost Time Injury Frequency Rate (LTIFR) | 10.0 | 10.0 | 12.5 | 11.5 |
| Safety Reliability and Efficiency | | | | |
| SAIFI (frequency) | | | | |
| Urban | 1.5 | 1.5 | 1.8 | 1.4 |
| Rural | 4.0 | 4.0 | 2.7 | 3.1 |
| Remote Rural | 6.7 | 6.7 | 4.9 | 6.2 |
| SAIDI (duration) | | | | |
| Urban | 180 | 180 | 159 | 124.9 |
| Rural | 600 | 600 | 319 | 363.5 |
| Remote Rural | 1,200 | 1,200 | 591 | 931.6 |

Note: During 2001 the Queensland Competition Authority established new customer segmentation classifications. For future comparison, performance results against the new classifications appear on page 13.

Other Shareholder Information

International Travel

| Destination | Purpose | Persons | Title(s) | Total Cost (\$) |
|-------------|---|---------|--|-----------------|
| Croatia | Power Systems Communications and Telecontrol working group - Travel funded by CIGRE | 1 | Principal Engineer Communications and SCADA | Nil |
| Sweden | Training and Business Development | 2 | Engineering Officer - Contract Services Team Leader Substation Operations | 35,000 |
| Tonga | Business Development | 1 | Contracts Manager Contract Services | 7,000 |
| Paris | Power Systems Communications and Telecontrol working group - Travel funded by CIGRE | 1 | Communications Project Engineer | Nil |
| Nauru | Sub-contract work - Travel funded by primary Contractor | 1 | Grade 2 Technician | Nil |
| USA | E-commerce study | 1 | National Marketing Manager | 9,000 |
| Indonesia | Transformer test inspection | 1 | Engineer Network Services | 3,300 |

Shareholding Minister's Directions

During the year, we received two formal directions from our Shareholding Ministers, pursuant to Section 123 of the Government Owned Corporation Act 1993. One was regarding our application of the State Purchasing Policy. The second related to our compliance with the Code of Practice for the Building and Construction Industry. These directions are now being actioned.