

Directors' Report

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

Directors

The following persons held office as non-executive Directors of Ergon Energy Pty Ltd ("the parent entity") during the financial year:

Charles Ware (appointment ended 30 June 2001, reappointed 5 July 2001)
Chair

John Bird (appointment ended 30 June 2001, reappointed 5 July 2001)
Deputy Chair

Andrew McNamara (resigned 17 February 2001)

Ian Brien

Hon Keith De Lacy

Pat Faircloth (appointment ended 30 June 2001, reappointed 5 July 2001)

Dave Woodall (appointment ended 30 June 2001)

Wayne Myers (appointed 5 July 2001)

Unless indicated otherwise, all Directors held positions as Director throughout the financial year and up to the date of this report. Details of Directors qualifications are provided on page 23 of the annual report.

Principal Activities

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

Dividends Paid or Declared

No dividends have been provided for during the financial year.

Review and Results of Operations

The consolidated profit after income tax equivalent of the economic entity for the financial year was \$6,167,000 (2000: \$2,397,000).

Significant Changes in the State of Affairs

In the opinion of the Directors, there were no significant changes in Ergon Energy Pty Ltd and its controlled entities state of affairs during the financial year.

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. Demand for its energy products has continued to grow subsequent to the end of the financial year.

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

Environmental Regulation and Performance

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

All environmental performance obligations are monitored by the Group Audit and Legal Compliance Committee and subjected from time to time to Government Agency, internal and external professional agency audits.

The economic entity has a policy of complying with its environmental performance obligations.

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

Indemnification and Insurance of Directors and Officers

During the year an insurance policy was held insuring all Directors and officers of the economic entity against liabilities incurred in their capacity as Director or Officer. The content of this policy prohibits disclosure of details of the nature of the liabilities and the amount of the premium paid and as such, the Corporations 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 Ergon Energy Corporation Limited.

Directors' Report

Directors' Meetings

From January 2000 the Board committees were Group committees of the ultimate parent entity, Ergon Energy Corporation Limited, and Ergon Energy Pty Ltd.

The number of meetings of Directors (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
C Ware	13	13	6	6	5	5	4	4
Hon K De Lacy	13	13	6	6	5	4	4	4
J Bird	13	13	6	6	-	-	-	-
A McNamara	8	7	-	-	3	3	-	-
I Brien	13	12	6	5	-	-	-	-
P Faircloth	13	13	-	-	5	4	-	-
D Woodall	13	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 entity.

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 most highly remunerated officers of the parent entity (or if different, the economic entity) in office at 30 June 2001 are as follows:

Director	Directors' Fees	Committee Fees	Superannuation	Total Emoluments ⁽¹⁾
C Ware	39,200	3,000	3,416	45,616
Hon K De Lacy	16,072	3,000	1,546	20,618
J Bird	16,072	4,000	1,636	21,708
A McNamara	15,054	-	1,204	16,258
I Brien	16,072	3,000	1,546	20,618
P Faircloth	16,072	3,000	1,546	20,618
D Woodall	16,072	3,000	1,546	20,618

Officer Title	Base Salary	Motor Vehicle & Car Park	Superannuation	Total ⁽²⁾
General Manager - Retail	157,775	15,540	12,275	185,590
General Manager - Wholesale Markets	152,872	20,798	11,920	185,590
Change Program Manager	116,646	25,216	6,608	148,470

The Chief Executive Officer of Ergon Energy Pty Ltd is employed by the ultimate parent entity.

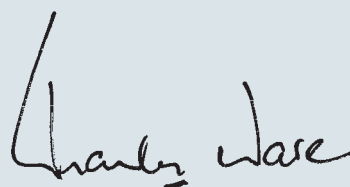
⁽¹⁾ Represents payments to Directors from Ergon Energy Pty Ltd and its controlled entities.

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

Rounding

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

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



Charles Ware

Chair

18/09/2001

Brisbane

Statements of Financial Performance

For the year ended 30 June 2001

	Note	Consolidated		Parent	
		2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
Revenues from ordinary activities	2	1,279,267	1,179,756	1,261,880	1,159,573
Network charges / electricity purchases		1,217,102		1,195,123	
Employee expenses		12,643		12,559	
Materials and services		16,786		16,765	
Depreciation and amortisation		1,820	1,014	1,813	992
Borrowing costs expense		2,431	1,072	3,151	1,784
Other expenses from ordinary activities		20,267	1,174,847	20,339	1,156,459
Profit from ordinary activities before Income Tax Equivalent expense	3	8,218	2,823	12,130	338
Income tax equivalent benefit/(expense)	4	(2,051)	(426)	(3,870)	962
Net Profit		6,167	2,397	8,260	1,300
Non-owner transaction changes in equity :		-	-	-	-
Total changes in equity other than those resulting from transactions with owners as owners	24	6,167	2,397	8,260	1,300

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	62,558	81,704	53,983	73,624
Receivables	6	272,982	237,239	292,286	243,698
Current Tax Assets	7	-	23	-	23
Inventories	8	38	-	38	-
Other	9	6,037	665	6,037	665
Total Current Assets		341,615	319,631	352,344	318,010
Non-Current Assets					
Receivables	10	3,513	-	3,513	-
Other financial assets	11	-	-	13,910	13,910
Property, plant and equipment	12	11,121	2,222	11,112	2,206
Deferred tax assets	13	25,781	23,997	20,822	21,561
Intangibles	14	457	1,352	457	1,352
Total Non-Current Assets		40,872	27,571	49,814	39,029
Total Assets		382,487	347,202	402,158	357,039
Current Liabilities					
Payables	15	183,145	159,482	203,234	170,518
Interest Bearing Liabilities	16	-	8,258	-	8,258
Provisions	17	3,904	2,560	3,904	2,560
Other	18	15	-	15	-
Total Current Liabilities		187,064	170,300	207,153	181,336
Non-Current Liabilities					
Interest Bearing Liabilities	19	21,563	13,648	21,563	13,648
Deferred Tax Liabilities	20	31,809	27,974	30,886	27,754
Provisions	21	-	5	-	5
Other	22	609	-	-	-
Total Non-Current Liabilities		53,981	41,627	52,449	41,407
Total Liabilities		241,045	211,927	259,602	222,743
Net Assets		141,442	135,275	142,556	134,296
Equity					
Contributed equity	23	123,172	123,172	123,172	123,172
Reserves	25	4,000	4,000	4,000	4,000
Retained profits	24	14,270	8,103	15,384	7,124
Total Equity		141,442	135,275	142,556	134,296

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		1,088,595	858,376	1,055,738	858,376
Payments to suppliers and employees		(1,323,007)	(1,131,112)	(1,286,349)	(1,131,104)
Interest received		4,119	5,067	3,607	4,628
Interest and other costs of financing		(2,378)	(1,377)	(3,086)	(1,377)
Community service obligations		232,283	251,659	232,283	251,659
GST Paid to ATO		(9,754)	-	(9,754)	-
Other operating receipts		1,672	16,402	1,670	16,402
Other operating payments		(598)	-	(598)	-
Net cash flows used in operating activities	26	(9,068)	(985)	(6,489)	(1,416)
Cash Flows From Investing Activities					
Proceeds from sale of property, plant and equipment		-	80	-	80
Payments for property, plant and equipment		(9,275)	(3,000)	(9,275)	(3,000)
Payments for investments made		(484)	-	(484)	-
Proceeds from investments realised		-	-	-	-
Net cash flows used in investing activities		(9,759)	(2,920)	(9,759)	(2,920)
Cash Flows From Financing Activities					
Proceeds from borrowings		64	-	64	-
Repayment of borrowings		(39)	-	(3,114)	-
Repayable deposits received		7,914	8,258	7,915	8,258
Repayment of repayable deposits		(8,258)	(15,897)	(8,258)	(15,897)
Dividends paid		-	-	-	-
Net cash flows used in financing activities		(319)	(7,639)	(3,393)	(7,639)
Net increase / (decrease) in cash held		(19,146)	(11,544)	(19,641)	(11,975)
Cash at the beginning of the financial year		81,704	93,248	73,624	85,599
Cash at the end of the financial year	5	62,558	81,704	53,983	73,624

The statements of cash flow 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 Pty Ltd, and its controlled entities, referred to collectively as the "economic entity".

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

Revenue Recognition

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.

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 gross margin adjusted for allowed energy costs, would apply to sales of electricity to franchise customers. Payments received represent the shortfall in the margin actually received by Ergon Energy Pty Ltd.

Interest revenue

Interest revenue is recognised as it accrues.

Property, Plant and Equipment

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

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.

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.

Inventories

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.

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For the financial period ended 30 June 2001

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 Statements 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.

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 employees' 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.

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.

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.

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to and forming part of the financial statements

For the financial period ended 30 June 2001

Derivative Financial Instruments continued

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

Notes

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For the financial period ended 30 June 2001

Note	Consolidated		Parent	
	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
2. REVENUE FROM ORDINARY OPERATIONS				
Revenue from operating activities:				
Sales revenue	1,037,787	923,699	1,018,839	907,179
Community service obligations	232,354	244,768	232,354	241,343
Miscellaneous operating revenue	5,026	5,743	7,098	5,943
	1,275,167	1,174,210	1,258,291	1,154,465
Revenue from outside the operating activities:				
Interest from unrelated parties	4,100	4,832	3,077	4,394
Interest from related parties	-	634	512	634
Proceeds on disposal of non-current assets	-	80	-	80
	4,100	5,546	3,589	5,108
Total revenue from ordinary operations	1,279,267	1,179,756	1,261,880	1,159,573
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	-	7	-	7
Depreciation on property, plant and equipment	1,727	1,014	1,721	992
Borrowing costs				
Interest paid or payable to related parties	-	-	729	712
Interest paid or payable to unrelated parties	2,431	1,072	2,422	1,072
Total borrowing costs	2,431	1,072	3,151	1,784
Net bad & doubtful debts expense including movement in provision for doubtful debts	1,731	652	1,846	1,045
Amounts set aside to provisions				
Employee entitlements	407	994	407	994
Security deposit interest	1,200	1,071	1,200	1,071
Other provisions	843	674	843	674
Total amounts set aside to provisions	2,450	2,739	2,450	2,739
Superannuation contributions	837	723	833	723
Rental expense relating to operating leases				
Minimum lease payments	171	1,416	153	1,416
Total rental expense	171	1,416	153	1,416

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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/(Benefit)				
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%	2,794	1,016	4,124	122
Tax effect of permanent differences				
Non-deductible items	123	47	123	47
Other items	406	(19)	-	-
Tax loss transferred	(248)	-	-	-
Overprovision in previous year	1,776	239	2,642	185
Restatement of deferred tax balances due to income tax rate changes	(2,800)	(857)	(3,019)	(1,316)
Income tax equivalent expense/(benefit) attributable to operating profit	2,051	426	3,870	(962)
4.2 Provision for deferred income tax equivalent				
Attributable to timing differences:				
Unbilled electricity	31,809	27,974	30,886	27,754
Total provision for deferred income tax equivalent liability	31,809	27,974	30,886	27,754
4.3 Future income tax equivalent benefit				
Attributable to carry forward tax losses	22,276	13,675	17,322	11,294
Attributable to timing differences:				
Provisions	3,480	1,185	3,480	1,136
Prepaid swap	-	8,900	-	8,900
Other	25	237	20	231
Total future income tax equivalent benefit	25,781	23,997	20,822	21,561

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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	62,558	81,704	53,983	73,624
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	62,558	81,704	53,983	73,624
6. RECEIVABLES (CURRENT)				
Trade debtors and unread meters	193,057	146,175	187,762	143,897
Community service obligations receivable	28,953	26,180	28,953	26,180
Provision for doubtful debts	(2,530)	(2,093)	(2,515)	(1,963)
Total Trade debtors	219,480	170,262	214,200	168,114
Trade debtors - related parties	32,824	22,867	57,499	32,326
Non-trade amounts owing by unrelated parties	20,678	44,110	20,587	43,258
Total current receivables	272,982	237,239	292,286	243,698
7. TAX ASSETS (CURRENT)				
GST credits	-	23	-	23
8. INVENTORIES (CURRENT)				
Stocks	38	-	38	-
9. OTHER ASSETS (CURRENT)				
Prepayments	74	594	74	594
Other	5,963	71	5,963	71
	6,037	665	6,037	665
10. RECEIVABLES (NON-CURRENT)				
Other	3,513	-	3,513	-

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. OTHER FINANCIAL ASSETS (NON-CURRENT)				
Investments at valuation:				
Unlisted shares in controlled entities	-	-	19,390	19,390
Less: Provision for diminution	-	-	(5,480)	(5,480)
	-	-	13,910	13,910

The carrying value of unlisted shares in controlled entities were revalued by the directors during the year ended 30 June 2001 to an amount that is not in excess of their recoverable value.

The Consolidated Financial Statements at 30 June 2001 include the following controlled entities:

Entity Name	Country of Incorporation	Percentage interest held by the parent entity
Ergon Energy (Victoria) Pty Ltd	Australia	100%
Northern Electricity Retail Corporation Pty Ltd	Australia	100%

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. PROPERTY, PLANT AND EQUIPMENT				
Property, Plant and Equipment				
Cost	6,524	4,563	6,385	4,280
Less: Accumulated depreciation	(3,924)	(2,341)	(3,794)	(2,074)
	2,600	2,222	2,591	2,206
Work in Progress	8,521	-	8,521	-
	11,121	2,222	11,112	2,206

Reconciliation of the carrying amount of each class of property, plant & equipment at the beginning and the end of the current and previous financial year are set out below:

	Property, Plant & Equipment		Work in Progress	
	Consolidated 2001 \$'000	Parent 2001 \$'000	Consolidated 2001 \$'000	Parent 2001 \$'000
Carrying amount at start of year	2,222	2,206	-	-
Additions	2,105	2,105	10,626	10,626
Disposals / transfers to property, plant & equipment	-	-	(2,105)	(2,105)
Revaluation increments	-	-	-	-
Depreciation expense	(1,727)	(1,720)	-	-
Carrying amount at end of year	2,600	2,591	8,521	8,521

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For the financial period ended 30 June 2001

Note	Consolidated		Parent	
	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
13. DEFERRED TAX ASSETS (NON-CURRENT)				
Future income tax equivalent benefit	25,781	23,997	20,822	21,561
14. INTANGIBLES (NON-CURRENT)				
Goodwill	353	-	353	-
Less accumulated amortisation	(82)	-	(82)	-
Other	279	1,352	279	1,352
Less: accumulated amortisation	(93)	-	(93)	-
	457	1,352	457	1,352
15. PAYABLES (CURRENT)				
Trade creditors - related parties	81,127	870	104,960	12,570
Trade creditors - unrelated parties	62,674	116,446	59,325	116,215
Other	39,344	42,166	38,949	41,733
	183,145	159,482	203,234	170,518
16. INTEREST BEARING LIABILITIES (CURRENT)				
Unsecured				
Customer and other repayable deposits	-	8,258	-	8,258
17. PROVISIONS (CURRENT)				
Employee entitlements	1,525	1,010	1,525	1,010
Other	2,379	1,550	2,379	1,550
	3,904	2,560	3,904	2,560
18. OTHER LIABILITIES (CURRENT)				
Other	15	-	15	-
19. INTEREST BEARING LIABILITIES (NON-CURRENT)				
Unsecured				
Customer and other repayable deposits	21,563	13,648	21,563	13,648

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
20. DEFERRED TAX LIABILITIES (NON-CURRENT)				
Deferred income tax equivalent liability	31,809	27,974	30,886	27,754
21. PROVISIONS (NON-CURRENT)				
Employee entitlements	-	5	-	5
22. OTHER LIABILITIES (NON-CURRENT)				
Other	609	-	-	-
23. RESERVES				
General Reserve	4,000	4,000	4,000	4,000
24. EQUITY				
Total equity at the beginning of the financial year	135,275	132,878	134,296	132,996
Total changes in equity recognised in the Statement of Financial Performance	6,167	2,397	8,260	1,300
Transactions with owners as owners:				
Contributions of equity	-	-	-	-
Dividends	-	-	-	-
Total equity at the reporting date	141,442	135,275	142,556	134,296
Contributed Equity:				
Share capital				
1,214 ordinary shares fully paid	123,172	123,172	123,172	123,172
25. RETAINED PROFITS				
Retained Profit	14,270	8,103	15,384	7,124
Movements:				
Retained profits at the beginning of the financial year	8,103	5,706	7,124	5,824
Net Profit attributable to members of Ergon Energy Pty Ltd	6,167	2,397	8,260	1,300
	14,270	8,103	15,384	7,124

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
26. STATEMENT OF CASH FLOWS				
Reconciliation of the operating profit after income tax equivalent to the net cash flows used in operating activities				
Operating profit after income tax equivalent	6,167	2,397	8,260	1,300
Depreciation of non-current asset	1,727	1,014	1,721	992
Net (profit)/loss on disposal of property, plant and equipment	-	7	-	7
Amounts set aside to provisions for:				
Employee entitlements	407	994	407	994
Doubtful debts	-	652	-	1,045
Security deposit interest	1,200	1,071	1,200	1,071
Other provisions	843	674	843	674
Diminution in value of investment	-	-	-	-
Amortisation of goodwill on consolidation	93	-	93	-
Changes in assets and liabilities				
Trade and other receivables	(38,843)	(64,468)	(51,688)	(79,171)
Other current assets	(5,854)	(673)	(5,854)	(688)
Trade and other creditors	24,250	59,305	35,769	75,704
Deferred income tax equivalent liability	31,809	(4,792)	30,885	(3,589)
Future income tax equivalent benefit	(1,784)	5,217	740	2,628
Provisions	(29,083)	(2,383)	(28,865)	(2,383)
Net cash flows used in operating activities	(9,068)	(985)	(6,489)	(1,416)

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
27. EXPENDITURE COMMITMENTS				
(a) Lease commitments				
Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities, payable :				
- not later than one year	1,547	1,360	1,547	1,360
- later than one year and not later than five years	408	1,410	408	1,410
- later than five years	74	-	74	-
	2,029	2,770	2,029	2,770
Representing :				
Cancellable operating leases	-	-	-	-
Non-cancellable operating leases	2,029	2,770	2,029	2,770
	2,029	2,770	2,029	2,770
(b) Operating lease commitments				
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows :				
- not later than one year	1,547	1,360	1,547	1,360
- later than one year and not later than five years	408	1,410	408	1,410
- later than five years	74	-	74	-
(Not included in the above are any contingent rental payments that may arise).	2,029	2,770	2,029	2,770
As at 30 June 2001 the economic entity had no contracted commitments for capital expenditure (2000: Nil).				

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	671	-	671	-
Provisions (Current)	1,525	1,010	1,525	1,010
Provisions (Non-Current)	-	5	-	5
	2,196	1,015	2,196	1,015

Employee numbers

Number of employee at reporting date

2001 Number	2001 Number
151	151

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:

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

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

	\$'000
Net market value of plan assets	21,299
Accrued benefits	(13,987)
Excess of plan assets held over accrued benefits*	7,312
Vested benefits	(13,987)

* 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) Counter Indemnity

In order to participate in the electricity market, entities within the economic entity were required to deliver acceptable security as collateral for its obligations arising as a consequence of normal trading. Security, in the form of payment guarantees totalling \$141,300,000 (2000: \$173,000,000) have been issued by Queensland Treasury Corporation to the National Electricity Market Management Company Limited.

Bank Guarantees amounting to \$200,000 have been issued in connection with Ergon Energy (Victoria) Pty Ltd's operations.

These guarantees are supported by counter-indemnities to the Queensland Treasury Corporation from the ultimate parent entity totalling \$306,000,000 (2000: \$306,000,000).

(c) 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 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.

The NEMMCO claims represent contingent liabilities of the entities. 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.

30. SUBSEQUENT EVENTS

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

31. ECONOMIC DEPENDENCY

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

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

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

Note	Consolidated		Parent	
	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
32. AUDITORS' REMUNERATION				
Amounts received or due and receivable by the auditors of the parent entity and its controlled entities for:				
- audit of financial statements	78	119	66	87

Notes

to and forming part of the financial statements

For the financial period ended 30 June 2001

33. RELATED PARTY DISCLOSURES

(a) The directors of Ergon Energy Pty Ltd during the financial year ended 30 June 2001 were:

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

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

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.

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.

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

- The ultimate controlling entity provided the parent entity with customer care administration services, including billing services, call centre facilities and retail products and services administration to a controlled entity. All services were undertaken on commercial terms and conditions.

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

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	-	-
\$10,001 - \$20,000	1	1
\$20,001 - \$30,000	5	5
\$40,001 - \$50,000	1	1
\$60,001 - \$70,000	-	-

The aggregate income of the Directors referred to above was: **\$166,054** 2001 and \$169,201 2000

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 \$166,054 (2000: \$169,201). The above amounts exclude the value of insurance premiums made for the Directors' indemnity.

(b) Income of Senior Executives

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

	Consolidated		Parent	
	2001	2000	2001	2000
\$120,001 - \$130,000	-	4	-	4
\$140,001 - \$150,000	1	1	1	1
\$150,001 - \$160,000	-	1	-	1
\$180,001 - \$190,000	2	-	2	-
\$290,001 - \$300,000	-	1	-	1

The aggregate income of the executives referred to above: **\$519,650** 2001 and \$1,091,326 2000

Base remuneration of senior executives comprises the base salary paid or payable excluding at risk, performance based remuneration paid or payable, to executive officers in office at 30 June 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.

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.

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 no longer probable.	Credit sales are normally on 30 day terms.
Contestable Sales Contracts		Contestable sales contracts are recorded at their net fair value and net of any associated hedges.	Contestable sales contracts typically have a term ranging from 12 months to 3 years.
Receivables - Related Parties	6	Amounts receivable from related parties are carried at nominal amounts.	
Financial Liabilities			
Creditors - Trade and Other	15	Trade creditors are recognised upon the receipt of goods or services irrespective of whether an invoice has been received or not. Values are recorded based on agreed purchase/contract costs.	The amounts are unsecured and are normally settled within 30 days.
Customer and Other Repayable Deposits	16, 19	Deposits are carried at the principal amount.	Interest is credited annually on the last billing to the customer prior to the end of the financial year. The interest rate is set at the equivalent bank rate for an interest bearing deposit.
Equity			
Ordinary Shares	24	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:

	Floating interest rate		Non-interest bearing		Carrying amount per Statement of Financial Position		Weighted average interest rate	
	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000	2001 %	2000 %
Financial assets								
Cash assets	62,558	81,704	-	-	62,558	81,704	5.13	5.75
Receivables	-	-	272,982	237,239	272,982	237,239	-	-
Other assets	-	-	6,037	688	6,037	688	-	-
Total financial assets	62,558	81,704	279,019	237,927	341,577	319,631		
Financial liabilities								
Repayable deposits	21,563	21,906	-	-	21,563	21,906	4.00	4.00
Trade creditors	-	-	62,674	130,277	62,674	130,277	-	-
Other creditors	-	-	39,344	29,205	39,344	29,205	-	-
Total financial liabilities	21,563	21,906	102,018	159,482	123,581	181,388		

(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.

(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 economic entity 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.

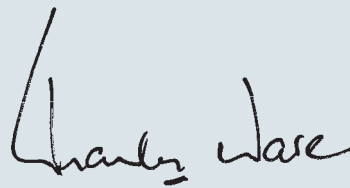
Where entities within the economic entity enter into contracts external to the regulated market, such contracts are limited in terms of exposure and value and are entered into with credit limits with only those counterparties that have an appropriate credit rating as determined by a recognised credit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

Directors' Declaration

The Director's declare that:

- (a) the financial statements and associated notes comply with the accounting standards and Urgent Issues Group Consensus Views;
- (b) the financial statements and notes give a true and fair view of the financial position as at 30 June 2001 and performance of the company and economic entity for the year then ended;
- (c) in the directors' opinion;
 - (i) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and
 - (ii) the financial statements and notes are in accordance with the Corporations Act 2001, including sections 296 and 297.

Made in accordance with a resolution of the directors.



Charles Ware
Chair

Brisbane

18/09/2001

Independent Audit Report

To the Members of Ergon Energy Pty Ltd

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 Pty Ltd for the financial year ended 30 June 2001 as set out on pages 65 to 86. The financial statements include the consolidated accounts of the economic entity comprising the company and the entities it controlled at the years 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.

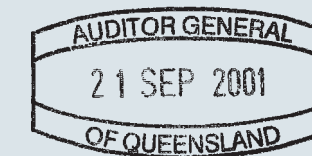
Audit Opinion

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

- (a) so as to give a true and fair view of -
 - (i) the company's state of affairs (and of the economic entity) as at 30 June 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

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