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Ergon Energy

Subsidiary Financial Statements

For the year ended 30 June 2015

ERGON ENERGY

Ergon Energy Corporation Limited and its Controlled Entities ABN 50 087 646 062

CONTENTS

As per the Queensland Treasury and Trade's Policy; ‘Company Financial Reporting in the Queensland Public Sector’, the following financial statements relating to Ergon Energy Corporation Limited’s subsidiaries have been provided for tabling in Parliament with Ergon Energy’s Annual Stakeholder Report and the Annual Financial Statements for Ergon Energy Corporation Limited and its Controlled Entities.

Ergon Energy Queensland Pty Ltd

ABN 11 121 177 802

Annual Financial Statements

For the year ended 30 June 2015

Ergon Energy Queensland Pty Ltd

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For the year ended 30 June 2015

Introduction and table of contents

The Notes to the Annual Financial Statements have been presented in six sections to make it easy to locate the relevant information. Each section sets out the accounting policies applied in producing the relevant notes, along with details of any key judgements and estimates used. This is intended to help provide readers with a clearer understanding of what drives financial performance.

Ergon Energy Queensland Pty Ltd

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For the year ended 30 June 2015

Directors' report
For the year ended 30 June 2015

The Directors present their report together with the financial report of Ergon Energy Queensland Pty Ltd ("the Company") for the year ended 30 June 2015 and the auditor's report thereon.

Directors
The names of the Directors of the Company in office during or since the end of the financial year are as follows:

Ian McLeod (Chairman)

Justin Fitzgerald (resigned 5 December 2014)

Principal activities
The principal activity of the Company during the financial year was non-contestable electricity retailing in regional Queensland.

Dividends
A declaration was made by the Directors on 15 June 2015 for 100% (2014: Nil) of total operating profit after income tax equivalent expense for the year.

Operating and financial review
The Company's profit/(loss) after income tax equivalent expense for the financial year was $204,259 thousand (2014: ($21,439) thousand). This result was driven by the reversal of prior year unrealised losses on the revaluation of financial instruments, combined with a lower cost of sales as a result of hedging strategies that took advantage of subdued wholesale prices.

The financial statements are a general purpose financial report that have been prepared in accordance with Australian Accounting Standards and Interpretations, requirements of the *Corporations Act 2001*, provisions of the *Government Owned Corporations Act 1993* (the "Act") and other relevant legislation issued pursuant to that Act.

Significant changes in the state of affairs
From 1 July 2014, the Company has adopted Hedge Accounting for its electricity trading derivatives. This has reduced the volatility flowing though the Company's profit and loss from the movement in the valuation of the hedges with the recognition of unrealised hedging gains/losses in other comprehensive income.

There have been no other significant changes in the state of affairs of the Company.

Events after reporting date
There are no significant events after the reporting date.

Likely developments and future results
The Company continues to sell electricity at the Queensland Government's notified prices in regional Queensland.

The Queensland Government has announced its intention to merge the businesses of Ergon Energy, Energex and Powerlink. The implications of this on the Company (if put into effect) are not clear at this time.

Community Service Obligations

The Company is legally required to charge its retail customers in regional Queensland at notified prices. As a consequence, the tariff revenue collected is below the cost of supplying electricity. The Community Service Obligations Deed (CSO Deed) between the Company and the State of Queensland contains the details of Community Service Obligation (CSO) payments to be made by the State of Queensland to the Company. The CSO Deed expires 30 June 2016.

Ergon Energy Queensland Pty Ltd

Directors' report
For the year ended 30 June 2015

Environmental regulation and performance

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

All environmental performance obligations are reported to the Operational Risk Committee and are, from time to time, subject to government agency, internal and external professional agency audits, as well as ongoing review to ensure compliance. No environmental breaches have been notified by any government agency during the period.

There have been no major non-conformances/incidents (defined in internal policy guidelines as Class 1 or 2) reported in the financial period. For further environmental performance information, refer to the Annual Stakeholder Report for Ergon Energy Corporation Limited, which is available on the website – www.ergon.com.au.

Indemnification and insurance of Directors and officers

During the period, a policy was held to insure all Directors and officers of the Company against liabilities incurred in their capacity as director or officer. The provisions of this policy prohibit the disclosure of the nature of the liabilities and the amount of the premium paid. The *Corporations Act 2001* does not require disclosure of this information in these circumstances.

Ergon Energy Corporation Limited (EECL) (the parent entity) indemnifies the Directors of the Company. The indemnity relates to any liability (claim, action, suit, proceeding, investigation, inquiry, damage, loss, cost or expense) incurred by virtue of being a director of the Company, other than:

- A liability owed to the Company;
- A liability for a pecuniary penalty or compensation order under the *Corporations Act 2001*; and
- A liability owed to someone other than the Company that did not arise out of conduct in good faith.

The parent entity also indemnifies each director against any legal costs incurred in respect of a liability incurred by virtue of being a director of the Company, other than for legal costs incurred in the following circumstances:

- In defending or resisting proceedings in which the director could not be indemnified;
- In defending or resisting criminal proceedings in which the director is found guilty; and
- In defending or resisting proceedings brought by the Australian Securities and Investments Commission (ASIC) or a liquidator for a court order.

The Company has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the company or any related body corporate against a liability incurred as such by an officer or auditor.

Auditor’s Independence Declaration

The Auditor’s independence declaration is set out on page 43 and forms part of the Directors’ report for the period ended 30 June 2015.

Rounding

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

Signed in accordance with a resolution of Directors made pursuant to s.298(2) of the Corporations Act 2001.

Mr I McLeod
Chairman
Brisbane 27th August 2015.

Ergon Energy Queensland Pty Ltd

Statement of profit and loss
For the year ended 30 June 2015

	Note	2015 $'000	2014 $'000
Revenue	2	**1,950,156**	1,851,868
Other income	2	**84,458**	-
Network charges / electricity purchases	3	**(1,569,316)**	(1,604,504)
Materials and services		**(74,050)**	(45,550)
Depreciation, amortisation and impairments		**(16,508)**	(12,197)
Finance costs		**(3,286)**	(4,112)
Environmental certificate compliance expenses		**(66,143)**	(81,054)
Fair value losses	3	**-**	(123,403)
Other expenses		**(14,199)**	(12,199)
Profit/(loss) before income tax equivalent expense		**291,112**	(31,151)
Income tax equivalent (expense)/benefit	4	**(86,853)**	9,712
Profit/(loss) after income tax equivalent expense/benefit		**204,259**	(21,439)

The statement of profit and loss is to be read in conjunction with the notes to the financial statements.

Ergon Energy Queensland Pty Ltd

Statement of comprehensive income
For the year ended 30 June 2015

	Note	**2015** **$'000**	2014 $'000
Profit/(loss) after income tax equivalent (expense)/benefit		**204,259**	(21,439)
Items that will not be reclassified to profit or loss:			
Prior year inter-company tax adjustment		5,943	-
Items that may be reclassified to the profit and loss			
Cash flow hedges			
Effective portion of changes in fair value for the year		40,028	-
Deferred income tax relating to changes in fair value		(12,009)	-
Total items that may be reclassified to the profit and loss		33,963	-
Total comprehensive income/(loss)		**238,221**	(21,439)
Profit/(loss) attributable to:			
Shareholders of the Company		**204,259**	(21,439)
Total comprehensive income/(loss) attributable to:			
Shareholders of the Company		**238,221**	(21,439)

The statement of comprehensive income is to be read in conjunction with the notes to the financial statements.

Ergon Energy Queensland Pty Ltd

Statement of financial position

As at 30 June 2015

	Note	2015 $'000	2014 $'000
CURRENT ASSETS			
Cash and cash equivalents	5	280,470	108,953
Trade and other receivables	6	437,275	410,240
Financial assets	7	52,960	27,680
Other assets	14	38,355	30,766
Total current assets		809,060	577,639
NON-CURRENT ASSETS			
Property, plant and equipment		133	165
Intangible assets	15	10,849	4,113
Net deferred tax equivalent asset	16	5,067	39,711
Total non-current assets		16,049	43,989
TOTAL ASSETS		825,109	621,628
CURRENT LIABILITIES			
Trade and other payables	8	596,365	400,771
Interest bearing liabilities	9	26,584	25,879
Provisions		361	334
Financial liabilities	10	32,262	127,009
Other liabilities	18	33,460	24,165
Total current liabilities		689,032	578,158
NON-CURRENT LIABILITIES			
Provisions	17	2,466	2,942
Total non-current liabilities		2,466	2,942
TOTAL LIABILITIES		691,498	581,100
NET ASSETS		133,611	40,528
EQUITY			
Share capital	19	-	-
Other owner's contributions	20	47,094	47,094
Hedging reserve		28,019	-
Retained earnings		58,498	(6,566)
TOTAL EQUITY		133,611	40,528

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

Ergon Energy Queensland Pty Ltd

Statement of changes in equity

For the year ended 30 June 2015

	Share capital	Other owner's contributions	Hedging Reserve	Retained earnings	Total equity
	$'000	$'000	$'000	$'000	$'000
Changes in equity for 2014					
Restated balance at 1 July 2013	-	15,094	-	14,873	29,967
Dividends	-	-	-	-	-
Prior year tax effect adjustment	-	32,000	-	-	32,000
Total comprehensive income for the financial year	-	-	-	(21,439)	(21,439)
Balance at 30 June 2014	-	47,094	-	(6,566)	40,528
Changes in equity for 2015					
Dividends	**-**	**-**	**-**	**(145,138)**	**(145,138)**
Total comprehensive income for the financial year	**-**	**-**	**28,019**	**210,202**	**238,221**
Balance at 30 June 2015	**-**	**47,094**	**28,019**	**58,498**	**133,611**

The statement of changes in equity is to be read in conjunction with the notes to the financial statements.

Ergon Energy Queensland Pty Ltd

Statement of cash flows

For the year ended 30 June 2015

	Note	2015 $'000	2014 $'000
Cash flows from operating activities			
Receipts from customers		**2,137,512**	2,088,995
Receipts for customer service obligations		**642,489**	598,597
Payments to suppliers		**(2,608,751)**	(2,631,461)
Interest received		**10,835**	9,361
Interest paid		**(3,259)**	(4,175)
Net cash flows from operating activities	22	**178,826**	61,317
Cash flows in investing activities			
Payments for property, plant and equipment		**-**	(122)
Payments for intangible assets		**(8,014)**	(1,276)
Net cash flows in investing activities		**(8,014)**	(1,398)
Cash flows (in)/from financing activities			
Proceeds from repayable deposits		**705**	1,980
Dividends paid		**-**	(58,760)
Net cash flows in financing activities		**705**	(56,780)
Net increase/(decrease) in cash and cash equivalents		**171,517**	3,139
Cash and cash equivalents at beginning of the financial year		**108,953**	105,814
Cash and cash equivalents at the end of the financial year	5	**280,470**	108,953

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

SECTION 1: Basis of preparation

In this section………

This section sets out the Company's accounting policies that relate to the financial statements as a whole. Where an accounting policy is specific to one note, the policy is described in the note to which it relates. This section also shows new Australian Accounting Standards endorsed, amendments and interpretations, and whether they are effective in 2015 or later years, and explains how these changes are expected to impact the financial position and performance of the Company.

Note 1: Basis of preparation

Ergon Energy Queensland Pty Ltd (the Company) is a proprietary company limited by shares and is a company domiciled in Australia.

The Company's registered office and its principal place of business are as follows:

Registered Office	*Principal Place of Business*
420 Flinders St	420 Flinders St
Townsville Queensland 4810	Townsville Queensland 4814

The company is a for-profit entity.

The principal activity of the Company during the financial period was electricity retailing in Queensland.

The financial statements were authorised for issue by the Directors on 27 August 2015.

Ergon Energy Corporation Limited is the parent entity of the Company.

(a) Statement of compliance

The financial statements are a general purpose financial report that have been prepared in accordance with Australian Accounting Standards and Interpretations, requirements of the *Corporations Act 2001*, provisions of the *Government Owned Corporations Act 1993* (the "Act"), and provisions of the *Corporations Regulations 2001*, and other relevant legislation issued pursuant to the Act.

(b) Basis of accounting

The financial statements are presented in Australian dollars. The Company is of a kind referred to in Class Order 98/100 issued by ASIC relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars.

Historical cost convention

The financial statements are prepared on the historical cost basis, except for the valuation of certain financial assets and liabilities at fair value.

(c) Application of new accounting standards and interpretations

The AASB has published new accounting standards and interpretations in the current year. The Company has adopted all of the new and revised standards and interpretations that are relevant to its operations and effective for the current reporting period.

Early adoption of standards

The Company has early adopted the revised AASB 9 (December 2013) *Financial Instruments* and *AASB 2015-2 Amendments to Australian Accounting Standards- Disclosure Initiative* in advance of their effective date. Disclosure of the impact of adoption of AASB9 is outlined in Note 1 (d). The changes resulting from AASB2015-2 are not material and relate to the streamlining of disclosures included in the notes to the financial statements.

New standards and interpretations not yet adopted

The AASB has also published certain new accounting standards and interpretations that are not mandatory for 30 June 2015 reporting periods and which the Company has not early adopted. The Company's assessment of the initial impact of the following Standards and Interpretations on its financial report is outlined below.

(i) AASB 15 Revenue from Contracts with Customers and AASB 2014-5 Amendments to Australian Accounting Standards arising from AASB 15. AASB 15 is effective for financial years commencing on or after 1 January 2017.

The AASB has issued a new standard for the recognition of revenue which will replace AASB 118 Revenue and AASB 111 Construction Contracts. AASB 15 requires revenue to be recognised when, or as, the entity satisfies a performance obligation and requires the entity to identify the distinct performance obligations at the inception of the contract ("unbundling"). A preliminary assessment indicates that this change in the accounting standard is unlikely to affect the revenue recognition policy for the Company as revenue is currently being recognised at a disaggregated level.

The International Accounting Standards Board have approved the one-year deferral of the effective date for IFRS 15 and are expected to issue a formal amendment in September 2015. The standard is now effective for reporting periods beginning on or after 1 January 2018. The AASB are expected adopt this amendment and also defer the effective date of AASB15. A further exposure draft is expected as the International Accounting Standards Board plans to propose targeted amendments to clarify aspects of the requirements.

(ii) AASB 9 Financial Instruments (December 2014) and AASB2014-7 Amendments to Australian Accounting Standards arising from AASB9 (December 2014). See Note 1(d) for disclosure on the early adoption of the December 2013 version of AASB 9.

In December 2014, the AASB made further changes to the classification and measurement rules and also introduced a new impairment model. These amendments complete the new financial instruments standard.

The new impairment model is an expected credit loss (ECL) model which may result in the earlier recognition of credit losses. The Company has not yet assessed how its own impairment provisions would be affected by the new rules.

AASB 9 (December 2014) is effective for financial years commencing on or after 1 January 2018.

There are no other standards or interpretations that are not yet effective and that would be expected to have a material impact on the Company in the current or future reporting periods and on foreseeable future transactions.

Ergon Energy Queensland Pty Ltd

Notes to the financial statements

For the year ended 30 June 2015

(d) Changes in accounting policy

AASB9 Financial Instruments

The Company has early adopted *AASB 9 (December 2013) Financial Instruments* in advance of the effective date. AASB9 contains new accounting requirements for financial assets and liabilities, including classification, measurement and general hedge accounting. The new general hedge accounting requirements are more principle based, allowing closer alignment between accounting and risk management practices.

AASB 9 will replace *AASB139 Financial Instruments: Recognition and Measurement.* The Board of Directors approved the implementation of Hedge Accounting from 1 July 2014 to minimise the volatility flowing through the Statement of profit and loss arising from the movement in the fair value of hedges. The implementation of Hedge Accounting prospectively from 1 July 2014 required an early adoption of accounting standard *AASB 9 (December 2013) Financial Instruments*, which is not otherwise mandatory until the 2018/19 financial year.

In accordance with the transitional provisions of AASB 9, the Company has applied the classification and measurement requirements retrospectively with the exception of hedge accounting which is applied prospectively. The change in classification and measurement resulting from the adoption of AASB 9 is outlined in the table below:

	IAS39		**AASB9**	
	Category	$'000	Category	$'000
Financial Assets				
Cash and cash equivalents	Fair Value	280,470	Fair Value	280,470
Trade and other receivables	AC	437,275	AC	437,275
Derivative financial instruments				
Electricity hedges (hedge accounting applied)	FVPL	33,998	FVOCI	33,998
Electricity hedges	FVPL	18,962	FVPL	18,962
Amounts previously designated as measured at fair value through profit and loss				
Elective reclassification on adoption of AASB9				45,069
Financial Liabilities				
Trade and other payables	AC	596,365	AC	596,365
Interest bearing liabilities	AC	26,584	AC	26,584
Derivative financial instruments				
Electricity hedges (hedge accounting applied)	FVPL	16,603	FVOCI	16,603
Electricity hedges	FVPL	15,592	FVPL	15,592
Power purchase agreements	FVPL	67	FVPL	67
Amounts previously designated as measured at fair value through profit and loss				
Elective reclassification on adoption of AASB9				16,603

FVOCI denotes fair value through other comprehensive income as a result of applying hedge accounting

FVPL denotes fair value through profit and loss

AC denotes amortised cost

The Company enters a range of derivative financial instruments for economic hedging purposes. Upon initial application of AASB9, derivative financial instruments that are designated hedges which meet the requirements of AASB 9 have been reclassified as held at fair value through other comprehensive income. Those derivative financial instruments that are not designated hedges which meet the requirements of AASB 9 are held at fair value through the profit and loss. There has been no change in the carrying amount of financial assets and financial liabilities resulting from the transition to AASB 9. Hedge accounting disclosures are included in Note 13.

SECTION 2: Profit and loss information

In this section………

This section focuses on the results and performance of the Company and provides further information about individual line items in the statement of profit and loss including:

- a breakdown of revenue by type
- individually significant expense items
- income tax expense
- relevant accounting policies
- estimates and judgements made in determining these items.

Note 2: Revenue and other income	2015 $'000	2014 $'000
(a) Revenue		
Sales revenue		
Sales revenue – parent entity	**2,157**	1,653
Sales revenue	**1,928,934**	1,838,077
Other revenue	**19,065**	12,139
Total revenue	**1,950,156**	1,851,869
(b) Other income		
Fair value gains on financial instruments at fair value through profit and loss*	**33,144**	-
Unwinding of inception value of designated hedges	**42,620**	-
Cash flow hedge ineffectiveness	**1,455**	-
Fair value gains on energy certificates at fair value through profit and loss*	**7,239**	-
Total other income	**84,458**	-

*Mandatory measurement at fair value.

Accounting policies

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is net of returns, trade allowances and duties and taxes paid. Revenue is recognised for the major business activities as follows:

Electricity sales revenue

Revenue recognised is the aggregate of invoices raised, together with the estimated metered but not invoiced energy consumption.

Note 3: Expenses

	2015 $'000	2014 $'000
Profit/(loss) before income tax equivalent expense/(benefit) includes the following specific expenses:		
Network charges / electricity purchases		
Cost of sales	**460,827**	587,566
Cost of sales – parent entity	**1,704,560**	1,535,863
less Community service obligation	**(596,071)**	(518,925)
	1,569,316	1,604,504
Fair value losses		
Fair value losses on financial instruments measured at fair value through profit and loss*	**-**	121,761
Fair value losses on energy certificates measured at fair value through profit and loss*	**-**	1,642
	-	123,403

*Mandatory measurement at fair value

Accounting policies

Expenses

Network charges / electricity purchases

Network charges and electricity purchases is the accumulation of costs associated with network charges, electricity purchases and any other costs associated with the sale of electricity.

Network charges are recognised on an unbilled basis based on an estimate of the usage of the distribution network.

Electricity purchases are calculated on an accrual basis, recognising the amount of electricity consumed from the National Electricity Market multiplied by the relevant pool prices.

Community service obligations offset

The Community Service Obligations (CSO) is recognised as a contra expense against the cost of sales due to the higher network charges and energy losses for NEM connected customers and the higher cost of generation for customers in other parts of the retail area.

Critical accounting estimates and judgements

Unbilled network charges

Unbilled network charges are accrued monthly. The calculation uses purchases and billing volumes for the last four months, as well as the calculated opening balance from four months prior to estimating the unbilled network charges.

Ergon Energy Queensland Pty Ltd

Notes to the financial statements

For the year ended 30 June 2015

Note 4: Taxation	**2015 $'000**	2014 $'000
(a) Income tax equivalent expense/(benefit)		
Current tax expense	**64,181**	76,991
Deferred tax expense	**22,651**	(86,703)
Under/(over) provision in prior year	**21**	-
Income tax equivalent expense/(benefit)	**86,853**	(9,712)
Deferred income tax expense included in income tax expense comprises:		
Decrease/(increase) in deferred tax assets	**25,874**	(15,160)
Increase/(decrease) in deferred tax liabilities	**(3,223)**	(71,543)
Income tax expense attributable to profit from continuing operations	**22,651**	(86,703)
(b) Numerical reconciliation of income tax equivalent expense/(benefit) to prima facie notional tax equivalents payable		
Net profit/(loss) before income tax equivalent expense	**291,112**	(31,151)
Prima facie income tax equivalent expense on operating profit at 30% (2014: 30%)	**87,334**	(9,346)
Decrease in income tax equivalent expense:		
Depreciation deductible for tax purposes only	**(407)**	(407)
Non deductible provisions	**(143)**	-
Increase in income tax equivalent expense:		
Other	**48**	41
Under/(over) provision in prior years	**21**	-
Income tax equivalent (benefit)/expense	**86,853**	(9,712)

Accounting policies for taxation are included in Note 16.

(c) Deferred Tax Recognised Directly in Equity		
Hedge accounting of derivatives	**12,009**	-
Deferred tax recognised directly in equity	**12,009**	-

Accounting policies for taxation are included at Note 16.

SECTION 3: Financial assets and financial liabilities

In this section………

This section provides further information about financial assets and financial liabilities, including:

- an overview of all financial assets and financial liabilities
- disaggregated information for those financial instruments that the Directors consider to be most significant in the context of the Company's operations
- specific accounting policies where relevant
- information about determining the fair value of the instruments, including judgements and estimation uncertainty involved.

Financial assets

	2015	2014
Note 5: Cash and cash equivalents	**$'000**	$'000
Cash at bank and on hand	**6,364**	9,494
Short term deposits	**274,106**	99,459
Total cash and cash equivalents	**280,470**	108,953

Note 6: Trade and other receivables

Current		
Trade receivables and unread meters	**337,271**	325,835
Provision for impaired receivables	**(16,778)**	(12,854)
	320,493	312,981
Community service obligations	**108,959**	92,640
Hedge and other receivables	**7,823**	4,619
Total current trade and other receivables	**437,275**	410,240

The fair value of all receivables amounts is consistent with the carrying value.

(a) Impaired trade receivables

	Gross	**Impairment**	Gross	Impairment
	2015	**2015**	2014	2014
Ageing of impaired receivables	**$'000**	**$'000**	$'000	$'000
Less than one month overdue	**25,843**	**1,029**	25,860	874
One to two months overdue	**10,295**	**1,669**	8,943	1,249
Two to three months overdue	**5,358**	**1,688**	3,968	1,107
Over three months overdue	**16,111**	**12,392**	12,785	9,624
	57,607	**16,778**	51,556	12,854

Note 6: Trade and other receivables (Continued)

	2015 $'000	2014 $'000
(a) Impaired trade receivables		
Movements in the provision for impaired trade receivables are as follows:		
Carrying amount at the beginning of the financial year	**12,854**	11,490
Provision for impairment recognised during the financial year	**15,607**	6,540
Receivables written off during the financial year as uncollectible	**(11,683)**	(5,176)
Carrying amount at the end of the financial year	**16,778**	12,854

The recognition and reversal of the provision for impaired receivables are included in “Depreciation, amortisation and impairments” in the statement of profit and loss. Amounts charged to the provision are generally written off when there is no expectation of recovery.

(b) Past due but not impaired

As at 30 June 2015, no trade receivables were past due but not impaired (2014: Nil).

Accounting policies

Trade and other receivables

Trade and other receivables

Trade and other receivables are recognised initially at fair value when the Company has a legal right to receive cash, cash equivalent or economic benefit. Subsequent to initial recognition the recoverable amount of trade and other receivables is recognised at amortised cost less accumulated impairment losses.

A provision for impairment is established when there is objective evidence that the Company will not be able to collect all amounts due. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments are considered indicators that the trade receivable is impaired. The recoverable amount is discounted at the effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of the discounting is immaterial.

Unread meters

Unbilled energy sales are accrued monthly. The previous 14 months billed consumption data is used to calculate a weighted daily average which is then multiplied by the unbilled days left in the period and seasonally adjusted. Unbilled electricity revenue is not collectible until such time as customers’ meters are read and bills rendered.

Note 7: Financial assets

	2015 $'000	2014 $'000
Current		
At fair value through profit and loss		
Derivative financial instruments – Electricity hedges	**18,962**	27,648
Power purchase agreements held for trading	**-**	32
At fair value through other comprehensive income		
Derivative financial instruments – Electricity hedges	**33,998**	-
Total current financial assets	**52,960**	27,680

Changes in the fair values of financial instruments at fair value through profit and loss are recorded in other income or other expense in the statement of profit and loss. Accounting policies in relation to financial instruments are disclosed in Note 13.

Critical accounting estimates and judgements

Electricity financial instruments measured at fair value

The Company enters into electricity financial instruments. The Company determines the fair value of these financial instruments, which includes swaps, options, swaptions and power purchase agreements (PPAs) using market based valuation methods as outlined in Note 12. It has taken into account the conditions existing at balance date and has used its judgement in the following areas:

- future price and volume estimation using in-house and off-the-shelf valuation models; and
- discounting for time value of money; and
- option volatility

Notes to the financial statements

For the year ended 30 June 2015

Financial Liabilities

Note 8: Trade and other payables

	2015 $'000	2014 $'000
Current		
Trade payables	**20,474**	35,879
Trade payables – parent entity	**371,741**	309,797
Dividends payable	**145,138**	-
Hedge and other payables	**59,012**	55,095
Total current payables	**596,365**	400,771

Accounting policies

Trade and other payables

Trade and other payables are recognised initially at fair value of the legal obligation to pay cash and subsequently at amortised cost. Trade payables include an amount payable to Ergon Energy Corporation Limited for monthly network charges. The network charges are settled by the Company on the 21st day of the following month. No interest is charged on outstanding invoices for network charges. The Company has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

Note 9: Interest bearing liabilities

Current		
Unsecured liabilities		
Customer security deposits	**26,584**	25,879
Total current interest bearing liabilities	**26,584**	25,879

Accounting policies

Customer security deposits

Customer security deposits are recognised initially at fair value of the legal obligation to pay cash and subsequently at amortised cost. Customer security deposits include security deposits received by the Company in relation to electricity supply to certain customers. Interest is paid on the deposits and credited to the customers' accounts annually.

Note 10: Financial liabilities

Current		
At fair value through profit and loss		
Derivative Financial Instruments - Electricity hedges	**15,592**	122,843
At fair value through other comprehensive income		
Derivative Financial Instruments - Electricity hedges	**16,603**	-
Held for Trading		
Power purchase agreements held for trading	**67**	4,166
Total current financial liabilities	**32,262**	127,009

Changes in fair values of financial liabilities at fair value through profit and loss are recorded in other income or other expenses in the statement of profit and loss. Accounting policies for financial instruments and hedge accounting are disclosed in Notes 12 and 13.

Critical accounting estimates and judgements relating to derivative financial instruments are outlined in Note 7.

Financial risk factors additional disclosures

Note 11: Financial risk management

The Company has policies and procedures in place to manage the financial risks associated with its operating activities. Exposure to credit, interest rate, price, liquidity and currency risks arises in the normal course of the Company's business. Derivative financial instruments are used to hedge exposure to fluctuations in electricity prices.

(a) Credit risk

Credit risk arises from the potential failure of counterparties to meet their obligations under the respective contracts at or before maturity.

The Company manages its credit risks by having established and maintained an appropriate credit review process. Furthermore, the Company minimises concentration of credit risk by undertaking transactions with a large number of retail customers and limiting credit to any individual customer.

Where it is considered appropriate, collateral in the form of a cash deposit is obtained from customers as a means of mitigating the risk of financial loss from defaults. At the end of the financial year, the Company held collateral of $26,584 thousand (2014: $25,879 thousand).

The Company manages its credit settlement risk associated with electricity market hedging by maintaining an Energy Commodity Credit Risk Manual as part of an overarching Energy Commodity Risk Management Policy. Credit settlement risk is managed by maintaining approved counterparty credit limits. The values of counterparty credit limits are determined by reference to each counterparty's credit rating, as determined by a recognised credit rating agency or, if the counterparty does not have a credit rating, by reference to the results of a detailed credit analysis. Where considered appropriate, the Company requires counterparties who have not been rated by a credit rating agency to provide appropriate letters of credit or bank guarantees. These letters of credit and bank guarantees reduced the Company's exposure to credit risk by $2,000 thousand as at 30 June 2015 (30 June 2014:$6,500 thousand).

The Company trades with wholesale counterparties, principally large banks and other electricity corporations. In order to meet its liabilities under the Renewable Energy Target Scheme and the Small Scale Renewable Energy Scheme, the Company also trades with non-wholesale market entities.

At the balance date, there were no significant concentrations of credit risk other than those disclosed below. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the statement of financial position.

Concentrations of credit risk that arise from derivative instruments exist for groups of counterparties when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. Concentrations of credit risk on electricity derivatives are indicated in the following table by percentage of the total balance receivable from counterparties in the specified categories:

	2015	2014
Counterparty classification		
Queensland Government-owned electricity entities	**75%**	75%
Entities with a Standard & Poors credit rating A	**2%**	6%
Entities with a Standard & Poors credit rating AA	**2%**	5%
Entities with a Standard & Poors credit rating BBB	**1%**	1%
Other entities	**20%**	13%

The above credit risk exposure does not take into account the value of any collateral or security. Receivables due from major counterparties are monitored regularly.

(b) Interest rate risk

Floating interest rate borrowings expose the Company to interest rate cash flow risk.

The Company does not hold or require long-term borrowings as the Company is self-funded through its income from customer receipts and community service obligation payments from the Queensland State Government. Short term borrowings are available to the Company from QTC. The Company has access to same day funds through a $300 million Working Capital Facility provided by QTC, which has a floating interest rate. Short term borrowings from the parent company are through the provision of a $100 million intercompany cash management facility, which has a floating interest rate.

Other liabilities exposing the Company to interest rate risk include the repayable deposits (floating interest rate exposure).

Note 11: Financial risk management (Continued)

(b) Interest rate risk

Sensitivity Analysis

At 30 June 2015, if interest rates had been 100 basis points higher or lower and all other variables were held constant, the Company's net profit and equity would increase or decrease by $2,359 thousand (2014: $831 thousand).

The following table indicates the effective interest rates on the Company's financial assets and liabilities at the end of the reporting period:

	Note	Floating interest rate $'000	Weighted average interest rate
2015			
Financial assets			
Cash and cash equivalents	5	**280,470**	**3.24%**
Financial liabilities			
Customer security deposits	9	**26,584**	**1.75%**
2014			
Financial assets			
Cash and cash equivalents	5	108,953	3.35%
Financial liabilities			
Customer security deposits	9	25,879	1.70%

(c) Price risk

Electricity

Electricity price risk is the risk of an adverse financial outcome resulting from a change in the price of electricity in the National Electricity Market. This can be a change in the electricity pool price or a change in the forward price of electricity. Exposures mainly arise from positions in wholesale contracts, franchise load or PPAs. Wholesale contracts relating to franchise load are generally dealt over a period of less than three years. PPAs are measured up to the end of the contract.

The parent entity's Board has approved an Energy Risk Management Policy. The Energy Risk Management Policy provides a framework for managing risks arising from the energy purchasing activities of the entity. The policy includes a market price risk exposure limit framework, monitoring and reporting requirements and audit requirements.

The Company uses derivative financial instruments to manage its electricity price risk, consumer variable volume risk and cash flow risk as well as hedge exposure to pool price fluctuations and against the committed and anticipated electricity purchases. The hedge contracts are designated against the forecast mass-market electricity load. The electricity derivative portfolio consists predominantly of swaps, caps and option contract types. Caps and option contracts are valued at fair value through profit and loss. Hedge accounting is employed for swaps with unrealised gains and losses recognised in other comprehensive income and hedge ineffectiveness recognised in the profit and loss. Refer to Note 13 for further information regarding the application of hedge accounting.

Note 11: Financial risk management (Continued)

(c) Price risk
Sensitivity Analysis
The following table details the Company's sensitivity to a 10% increase and decrease in the electricity forward price with all other variables held constant:

	Electricity Forward Price			
	+10%	+10%	**-10%**	-10%
	2015	2014	**2015**	2014
	$'000	$'000	**$'000**	$'000
Profit / (loss) before tax	**14,205**	67,739	**(16,573)**	(68,971)
Equity	**86,195**	67,739	**(84,817)**	(68,971)

Large-scale generation certificates (LGC)

LGC price risk is the risk of an adverse outcome resulting from a change in the current or forward price of LGCs.

The company holds LGCs to meet its annual compliance obligations under the *Renewable Energy (Electricity) Act 2000* and National Green Power Accreditation Program. A separate portfolio of LGCs is held for trading purposes.

LGCs held for compliance purposes are carried at cost whilst LGCs held for trading are carried at fair value. The LGC compliance obligation liability is carried at cost with shortfalls recognised at market price as a proxy for cost.
LGC entitlements under PPAs entered into for trading purposes are carried at fair value, all other LGC entitlements under PPAs are held in the compliance portfolio and carried at cost.

Price and volume risk is managed under the Energy Commodity Risk Management Policy referred to above.

Sensitivity Analysis
The following table details the Company's sensitivity to a 10% increase and decrease in price of LGCs with all other variables held constant.

	LGCs			
	+10%	+10%	**-10%**	-10%
	2015	2014	**2015**	2014
	$'000	$'000	**$'000**	$'000
Profit / (loss) before tax	**1,364**	1,883	**(1,364)**	(1,883)
Equity	**1,364**	1,883	**(1,364)**	(1,883)

Small-scale technology certificates (STC)

STC price risk is the risk of an adverse outcome resulting from a change in the current or forward price of STCs.

The company holds STCs to meet its annual compliance obligations under the Renewable Energy (Electricity) Act 2000. All STC's are held in a trading portfolio and can be used for compliance or trading purposes. STCs held for compliance or for trading are carried at fair value. The STC compliance obligation liability is carried at fair value.

Price and volume risk is managed under the Energy Commodity Risk Management Policy referred to above.

Sensitivity Analysis

The following table details the Company's sensitivity to a 10% increase and decrease in price of STCs with all other variables held constant.

	STCs			
	+10%	+10%	**-10%**	-10%
	2015	2014	**2015**	2014
	$'000	$'000	**$'000**	$'000
Profit / (loss) before tax	**(79)**	77	**79**	(77)
Equity	**(79)**	77	**79**	(77)

Note 11: Financial risk management (Continued)

(d) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close-out market positions. A working capital facility is in place with the parent entity and with QTC. Liquidity risk associated with electricity market trading is controlled by the Australian Energy Market Operator (AEMO) whereby all market participants are required to deliver irrevocable bank guarantees as security for timely settlement. These guarantees are held for and on behalf of all participants thereby limiting exposure to liquidity risk.

Where the Company enters into contracts external to the regulated market, such contracts are transacted within the terms of the Energy Commodity Risk Management Policy which provides a framework for monitoring and limiting exposures.

The tables below disclose the Company's financial liabilities, including derivative financial instruments, into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are contractual, undiscounted cash flows. For options contracts, the undiscounted cash flow represents the future premium payable. The maturities of derivative financial instruments are calculated on the basis that derivatives will be settled on a gross basis.

	Less than 1 year	1 to 5 years	Over 5 years	Total contractual cash flows	Carrying amount
At 30 June 2015	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Financial liabilities					
Electricity hedges	**24,693**	**13,130**	**-**	**37,823**	**32,195**
Power purchase agreements held for trading	**808**	**-**	**-**	**808**	**67**
Non-interest bearing	**596,365**	**-**	**-**	**596,365**	**596,365**
Variable rate	**26,584**	**-**	**-**	**26,584**	**26,584**
Total financial liabilities	**648,450**	**13,130**	**-**	**661,580**	**655,211**

	Less than 1 year	1 to 5 years	Over 5 years	Total contractual cash flows	Carrying amount
At 30 June 2014	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Financial liabilities					
Electricity hedges	78,833	60,730	-	139,563	122,843
Power purchase agreements held for trading	24,535	815	-	25,350	4,166
Non-interest bearing	400,771	-	-	400,771	400,771
Variable rate	25,879	-	-	25,879	25,879
Total financial liabilities	530,019	61,545	-	591,564	553,659

(e) Capital management

The Company manages its capital to ensure that it will be able to continue as a going concern. The Company's overall strategy remains unchanged from 2014. The capital structure of the Company consists of equity, comprising issued capital, owner's contributions and retained earnings disclosed in Notes 19 and 20.

The Company has a working capital facility in place for $300,000 thousand with QTC (2014: $300,000 thousand). This facility was not utilised at the end of the year and the Company has no other external borrowings. The parent entity has borrowing facilities in place with the QTC and is required to maintain minimum financial ratios under the associated lending terms and conditions. These minimum financial ratios must be calculated from the consolidated financial statements of the parent entity and its controlled entities. The requirements are to maintain an earnings before interest, tax, depreciation and amortisation (EBITDA) interest coverage of greater than or equal to 1.5 times, except where the total debt to total capital is greater than 75% in which case the EBITDA interest coverage must be equal or greater than 2.0 times.

Operating cash flows are used to make the routine outflows of operating expenditure and dividends. The Company's policy is to borrow from QTC and its parent entity to meet its short-term cash management and working capital requirements.

Note 12: Fair values

The fair value of a financial asset or a financial liability is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
The carrying amounts of financial assets and financial liabilities are not materially different from their estimated fair values at the end of the financial period, unless otherwise stated.
Financial assets and liabilities not measured at fair value and classified as non-current are discounted to determine the fair value using a risk free interest rate where the impact of discounting is considered material.

(a) Fair value measurements
The Company requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:
a) Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
b) Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2), and
c) Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).
The following table presents the Company's assets and liabilities measured and recognised at fair value.

2015	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Assets				
Electricity hedges	**2,511**	**50,449**	**-**	**52,960**
Large-scale generation certificates held for trading	**-**	**28,858**	**-**	**28,858**
Small-scale technology certificates held for trading	**-**	**4,387**	**-**	**4,387**
	2,511	**83,694**	**-**	**86,205**
Liabilities				
Electricity hedges	**(3,309)**	**(28,886)**	**-**	**(32,195)**
Power purchase agreements held for trading	**-**	**-**	**(67)**	**(67)**
	(3,309)	**(28,886)**	**(67)**	**(32,262)**
2014				
Assets				
Electricity hedges	3,305	20,510	3,833	27,648
Power purchase agreements held for trading	-	-	32	32
Large-scale generation certificates held for trading	-	12,436	-	12,436
Small-scale technology certificates held for trading	-	8,620	-	8,620
	3,305	41,566	3,865	48,736
Liabilities				
Electricity hedges	(19,946)	(97,178)	(5,719)	(122,843)
Power purchase agreements held for trading	-	-	(4,166)	(4,166)
	(19,946)	(97,178)	(9,885)	(127,009)

Ergon Energy Queensland Pty Ltd

Notes to the financial statements

For the year ended 30 June 2015

Note 12: Fair values (continued)

(b) Reconciliation of Level 3 fair value measurements

The following table presents the movements reconciliation of the Economic Entity's assets and liabilities in Level 3 of its fair value measurements hierarchy:

	Electricity hedges $'000	**Power purchase agreements held for trading $'000**	**Long-term energy procurement asset/(liability) $'000**	**Total $'000**
2015				
Assets				
Opening balance	**3,833**	**32**	**-**	**3,865**
Transfers out of Level 3	**(3,833)**	**-**	**-**	**(3833)**
Settlements	**-**	**(32)**	**-**	**(32)**
Closing balance	**-**	**-**	**-**	**-**
Liabilities				
Opening balance	**(5,719)**	**(4166)**	**-**	**(9,885)**
Transfers out of Level 3	**5,719**	**-**	**-**	**5,719**
Settlements	**-**	**4,099**	**-**	**4,099**
Closing balance	**-**	**(67)**	**-**	**(67)**
2014				
Assets				
Opening balance	33,420	6,497	-	39,917
Transfers out of Level 3	(25,321)	-	-	(25,321)
Settlements	-	(5,463)	-	(5,463)
Total gains or losses recognised in profit and loss	(4,266)	(1,002)	-	(5,268)
Closing balance	3,833	32	-	3,865
Liabilities				
Opening balance	(27,237)	(240)	(13,033)	(40,510)
Transfers out of Level 3	26,316	-	-	26,316
Settlements	-	(337)	13,033	12,696
Total gains or losses recognised in profit and loss	(4,798)	(3,589)	-	(8,387)
Closing balance	(5,719)	(4,166)	-	(9,885)

Note 12: Fair values (continued)

(c) Transfers between level 2 and 3 and changes in valuation techniques

Transfers between hierarchy levels are expected to occur when there is a change in the observability of a pricing input, or a change in valuation technique. The Company recognises transfers between levels of the fair value hierarchy as of the beginning of the reporting period during which the transfer has occurred. During 2015 an electricity derivative valued at $1,886 thousand (2014: $995 thousand) was transferred from a level 3 into level 2 due to an increase in market liquidity and the instrument became readily tradeable.

(d) Valuation policies and procedures

The Company has an established control framework with respect to the measurement of fair values. The Retail Commercial Services team has the overall responsibility for overseeing all financial asset and financial liability fair value measurements, including level 3 fair value, and reports directly to the Executive General Manager Retail. Significant valuation issues are reported to the Audit and Financial Risk Committee of the Company.

(i) Methods and assumptions used in determining fair value of financial assets and liabilities

The Company currently has five different classes of financial instruments that are measured at fair value, these being: swaps, options, PPAs LGCs and STCs.

Swaps

Swaps are valued using a curve sourced from Tradition Financial Services (TFS) and quoted prices from the market. Where positions are held in periods beyond the curve, the curve is extended accordingly.

I. Swaps over the counter 2015 - 2018 –TFS quarterly peak and off peak is shaped into half hourly intervals using 2012 financial year pool prices and seasonality factors.

II. Swaps - Exchange Traded 2015 - 2018- Exchange Traded Quarterly peak and off peak is shaped into half hourly intervals using 2012 financial year pool prices and seasonality factors.

Options

I. $300 Caps Exchange Traded - $300 Exchange Traded Caps are valued using the Exchange quoted prices. Where positions are held in periods beyond the curve, the curve is extended accordingly.

II. Caps over the counter- Over the counter $300 caps are valued using a mean reversion jump diffusion model incorporating historical pool price outcomes and broker provided cap curves. Where positions are held in periods beyond the curve, the curve is extended accordingly.

III. Swaptions - Over-The-Counter Swaptions are valued applying a Black Scholes 76 methodology incorporating a curve sourced from TFS. Volatility is calculated based on market implied volatility. Exchange traded Swaptions are valued applying the fair value on the exchange.

Power purchase agreements

Electricity entitlements under PPAs are valued using an input or curve sourced from the TFS. Load volumes under fair valued PPAs are determined based on forecasts.

Large-scale generation certificates

LGC positions are valued using a curve derived from externally sourced broker quotes. Where positions are held in periods beyond the curve, the curve is extended accordingly. LGC volumes under fair valued PPAs are determined based on forecasts.

Small-scale technology certificates

STC positions are valued using a curve derived from externally sourced broker quotes. Where positions are held in periods beyond the curve, the curve is extended accordingly.

Note 12: Fair values (continued)

The following table details the Company's sensitivity to a 10% increase and decrease in forecast load of PPAs and price of all other instruments in Level 3 with all other variables held constant:

	Reflected in statement of profit and loss			
	Favourable		**Unfavourable**	
	$'000		**$'000**	
	2015	2014	**2015**	2014
Power purchase agreements	**(7)**	413	**7**	(413)
Electricity Hedges	**-**	4,219	**-**	(4,219)

(ii) *Fair value valuation techniques and significant unobservable inputs*

The following table show the valuation techniques used in measuring Level 2 and Level 3 fair values, as well as the significant unobservable inputs used.

	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Electricity hedges	The curve is sourced through Tradition Financial Services (TFS) which is based on broker quoted forward curves. The curve is extended for the periods beyond the observable quoted pricing period by using CPI escalation.	CPI Escalation of forward curves beyond observable quoted pricing period.	The higher the CPI adjustment the higher the fair value of the instrument.
Power purchase agreements held for trading	The curve is sourced through Tradition Financial Services (TFS) which is based on broker quoted forward curves. The curve is extended for the periods beyond the observable quoted pricing period by using CPI escalation.	CPI Escalation of forward curves beyond observable quoted pricing period.	The higher the CPI adjustment the higher the fair value of the instrument.
	Management forecast of PPA generation.	Management forecast of PPA generation.	Estimated fair value would increase if the management forecast increased generation for PPA's in an asset position.

(iii) *Master netting or similar agreements*

The Company enters into derivative transactions under International Swaps and Derivatives Association (ISDA) master netting agreements. In general, under such agreements the amounts owed by each counterparty on a single day in respect of all transactions outstanding in the same currency are aggregated into a single net amount that is payable by one party to the other. In certain circumstances, e.g. when a credit event such as a default occurs, all outstanding transactions under the agreement are terminated, the termination value is assessed and only a single net amount is payable in settlement of all transactions.

The ISDA agreements do not meet the criteria for offsetting in the statement of financial position. This is because the Company does not have any currently legally enforceable right to offset recognised amounts, because the right to offset is enforceable only on the occurrence of future events such as default or other credit events.

Note 12: Fair values (continued)

The following table sets out the carrying amounts of recognised financial instruments that are subject to the above agreements.

	Note	Gross amounts of financial instruments in the statement of financial position	Related financial instruments that are not offset	Net amount
		$'000	$'000	$'000
2015				
Financial assets				
Electricity Hedges	**7**	**52,960**	**(52,960)**	**-**
Financial liabilities				
Electricity Hedges	**10**	**(32,195)**	**52,960**	**20,765**
2014				
Financial assets				
Electricity Hedges	**7**	27,648	(27,648)	-
Financial liabilities				
Electricity Hedges	**10**	(122,843)	27,648	(95,195)

Accounting policies

Financial instruments

Derivatives are recognised at fair value at the date that a derivative contract is entered into (trade date) and is subsequently measured at fair value at each reporting date. A positive revaluation amount is reported as an asset and a negative revaluation amount is reported as a liability. The resulting gain or loss is recognised in the statement of profit and loss immediately, with the exception of effective hedges where unrealised gains and losses are deferred in the cash flow hedge reserve.

The following transactions are classified as derivative financial instruments and measured at fair value:

1) Derivative financial instruments held or issued for hedging franchise load

Derivative financial instruments held or issued for hedging franchise load are recorded at their fair value. The contracts are valued using a combination of data sources including current trades executed by the Company, the Sydney Futures Exchange (SFE), ICAP, Tradition Financial Services (TFS) and other market intelligence. The Company trades frequently in these instruments and has sufficient market information to reliably measure the value of these contracts in accordance with the requirements of Australian Accounting Standards. Refer to Note 13 for hedge accounting disclosures and accounting policies.

2) Power purchase agreements

PPAs are agreements for the sale and purchase of the energy exported from a generator and of LGCs. PPAs held for trading purposes represent derivative financial instruments that are measured at fair value through the profit and loss.

PPAs are valued using a combination of data sources including trades executed by the Company, the SFE, ICAP, TFS and other market intelligence. The Company has sufficient market information to reliably measure the value of these agreements in accordance with the requirements of Australian Accounting Standards. PPAs that are entered into for the Company's own use are not considered financial instruments and are therefore accrual accounted.

3) Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss. Where the embedded derivative cannot be measured separately from the host contract, the entire contract is measured at fair value through profit and loss.

Note 13: Hedge accounting

Cash flow hedges

Cash flow hedges are used by the Company to hedge the energy commodity risk arising through its retail operations. The Company principally uses energy futures, swaps, caps and options to protect against price and volume fluctuations. The effective hedge contracts are valued at fair value through other comprehensive income with hedge accounting employed only for swaps. Ineffective hedge contracts are valued at fair value through profit and loss.

The Company undertakes derivative transactions to hedge the price of electricity it purchases over a three-year period within a set of volumetric limits. Changes in hedge effectiveness are predominantly driven by changes in energy load forecasts.

The inherent variability in the volume of electricity purchased by customers and dispatched from generators means that actual purchase requirements and sales volume can vary from the forecasts. The forecasts are updated for significant changes in underlying conditions and where this leads to a reduction in the forecast below the aggregate notional volume of hedge instruments in the relevant periods impacted. The affected hedging instruments are de-designated and the accumulated gain or loss which has been recognised in the hedge reserve is recognised directly in the statement of profit and loss as the underlying forecast purchase or sale transactions are no longer expected to occur. During the year ended to 30 June 2015 no hedges were de-designated and all underlying forecast transactions remain highly probable to occur as originally forecast.

Gains and losses recognised in the hedge reserve in the statement of comprehensive income on electricity derivatives at the end of the reporting period will be released to the profit and loss in the period in which the underlying purchase or sale transactions are recognised.

(i) *Nominal amount of electricity hedges outstanding*

The average notional amount of electricity hedges outstanding over the next 3 years from FY 2016 to FY 2018 is approximately 4,671,976 MWh (Megawatt hours) at an average contracted price ranging between $51 and $56.

(ii) *Fair value of financial instruments designated as hedging instruments*

The following table sets out the fair value of electricity hedges which meet the criteria for hedge accounting. The accounting policies applied to the valuation of electricity derivatives is outlined below:

	Note	2015 $'000
Financial Assets: Cash flow hedges - electricity derivatives		**33,998**
Financial Liabilities: Cash flow hedges – electricity derivatives		**(16,603)**

(iii) *The impact of hedging instruments designated in hedge relationships as at 30 June 2015 is as follows*:

	Note	2015 $'000
Statement of profit and loss		
Gain on unwind of inception value of designated hedges	2(b)	**42,620**
The ineffectiveness gains recognised in other income	2(b)	**1,455**
Statement of comprehensive income		
Cash flow hedge reserve (CFHR)		
Opening balance		**-**
The effective portion recognised in CFHR (pre-tax)		**147,864**
Transfer from CFHR to electricity purchases		**(107,836)**
Closing balance		**40,028**

No hedge gains or losses were reclassified to electricity purchases due to the transaction no longer being expected to occur.

Note 13: Hedge accounting (continued)

(iv) *The table below outlines the impact of applying hedge accounting for the electricity hedges:*

Electricity Price Risk	**2015 $'000**
Changes in value of hedge instrument	**42,119**
Changes in value of hedge item	**44,642**
Cash flow hedge reserve	**40,028**

Accounting policies

Derivative financial instruments and hedge accounting

Derivatives are initially recognised at fair value on the date they are entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Company designates certain derivatives as hedges of a particular cash flow risk associated with a recognised asset, liability or highly probable forecast transaction.

The Company documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Company also documents its assessment both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative instruments used for hedging purposes are disclosed in note 12. Movements of the hedging reserve in shareholders' equity are shown in the statement of other comprehensive income. The fair value of hedging derivatives is classified as either current or non-current based on the timing of the underlying cash flows of the instrument. Cash flows due within 12 months of the reporting date are classified as current and cash flows due after 12 months of the reporting date are classified as non-current.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the statement of profit and loss. Amounts accumulated in equity are transferred to the income statement in the periods when the hedged item affects profit and loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the statement of profit and loss. When the forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the statement of profit and loss.

Certain derivative financial instruments do not qualify for hedge accounting, despite being valid economic hedges of the relevant risk. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised immediately in the statement of profit and loss.

Refer to Note 7 and Note 12 for additional information in relation to accounting policies for financial instruments.

SECTION 4: Other operating assets and liabilities

In this section………

This section shows the assets and liabilities that the Directors consider to be less significant in the context of the Company's operations.

Liabilities relating to the Company's financing activities are addressed in Section 3.

Other operating assets

Note 14: Other assets	**2015 $'000**	2014 $'000
Current		
Energy certificates – at cost	**5,110**	9,711
Energy certificates – at fair value	**33,245**	21,055
Total current other assets	**38,355**	30,766

Accounting Policies

Energy certificates

Renewable energy certificates are classified into two certificate types, LGCs and STCs.

LGCs held for trading purposes are measured at fair value at the end of the financial year, adjusted for known market forces with changes in fair value recognised in the statement of profit and loss. LGCs are valued using a combination of data sources including trades executed by the Company, ICAP, TFS and other market intelligence. The Company has sufficient market information to reliably measure the value of these certificates in accordance with the requirements of Australian Accounting Standards.

LGCs used solely to satisfy retail sales commitments and surrender obligations are measured at cost.

STCs are measured at fair value at the end of the financial year, with changes in fair value recognised in the income statement. STCs are valued at the market price on the measurement date.

Critical accounting estimates and assumptions

Energy certificates

Like financial instruments measured at fair value, energy certificates held for trading are measured at fair value. The Company determines the fair value of these certificates using market based valuation methods as outlined in Note 12. It has taken into account the conditions existing at balance date and has used its judgement in determining the fair value.

Note 15: Intangible assets

Note 15: Intangible assets	2015 $'000	2014 $'000
Software - at cost	**11,712**	11,712
Less: accumulated amortisation and impairment	**(10,435)**	(9,157)
	1,277	2,555
Work in progress – at cost	**9,572**	1,558
Total intangible assets	**10,849**	4,113
Reconciliations		
Software		
Cost at the beginning of the financial year	**11,712**	11,025
Accumulated amortisation and impairment at the beginning of the financial year	**(9,157)**	(7,171)
Carrying amount at the beginning of the financial year	**2,555**	3,854
Additions	**0**	687
Amortisation expense	**(1,278)**	(1,986)
Carrying amount at the end of the financial year	**1,277**	2,555
Work in progress		
Carrying amount at start of year	**1,558**	849
Transfer to software	**-**	(687)
Expense projects not proceeding	**-**	-
Additions*	**8,014**	1,396
Carrying amount at the end of the financial year	**9,572**	1,558
Total intangible assets	**10,849**	4,113

*Additions relate to the customer billing replacement system and other information enablement solutions.

Accounting policies

Intangible assets

Internally generated assets including software, expenditure on research and development

Internally generated intangible assets are measured at historical cost less accumulated amortisation and accumulated impairment losses.

Expenditure on research activities, undertaken with the prospect of gaining new technical knowledge or understanding, is recognised in the statement of profit and loss when incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of a new or substantially improved product and process, is capitalised if the product or process is technically and commercially feasible, the Company has sufficient resources to complete development and it can measure reliably the expenditure attributable to the intangible asset during its development.

Amortisation

The cost of an intangible asset is amortised on a straight-line basis over the estimated useful life of the asset unless such assets have an indefinite useful life. The estimated useful lives vary from 3 to 10 years.

Note 15: Intangible assets (continued)

Accounting policies

Impairment of assets

Assets that have an indefinite useful life are not subject to depreciation or amortisation and are tested annually for impairment or more frequently, if events or changes in circumstances indicate that the assets may be impaired.

All assets which are depreciated or amortised are reviewed for events or changes in circumstances that may indicate that the carrying amount may not be recoverable. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimated future cash flows have not been adjusted.

An impairment loss is recognised immediately in the statement of profit and loss for the amount by which the carrying amount of the asset (or cash generating unit) exceeds its recoverable amount. When an impairment loss subsequently reverses, the carrying amount of the asset (cash generating unit) is increased to the revised estimate of the recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the statement of profit and loss, unless the relevant asset is carried at fair value, in which case the reversal is treated as a revaluation increase.

Note 16: Net deferred tax equivalent assets/ (liabilities)

	2015 $'000	2014 $'000
(a) Deferred tax equivalent assets		
The balance comprises temporary differences attributable to:		
Amounts recognised in the statement of profit and loss:		
Provisions	**15,018**	11,052
Derivatives	**7,837**	37,724
Other	**168**	120
	23,023	48,896
Amounts recognised directly in equity:		
Hedge accounting of derivatives	**1,400**	-
Deferred tax equivalent assets	**24,423**	48,896
(b) Deferred tax equivalent liabilities		
The balance comprises temporary differences attributable to:		
Amounts recognised in the statement of profit and loss:		
Property, plant and equipment	**1,083**	671
Derivatives	**3,119**	8,514
Other	**1,745**	-
	5,947	9,185
Amounts recognised directly in equity:		
Hedge accounting of derivatives	**13,408**	-
Deferred tax equivalent liabilities	**19,356**	9,185
(c) Net deferred tax equivalent asset/(liability)		
Deferred tax equivalent assets	**24,423**	48,896
Deferred tax equivalent liabilities	**(19,356)**	(9,185)
Net deferred tax equivalent asset/(liability)	**5,067**	39,711

Note 16: Net deferred tax equivalent assets / (liabilities)

Accounting policies

Income tax

(i) *Tax equivalents*

The Company is part of a tax-consolidated group that is subject to the National Tax Equivalents Regime (NTER). The NTER broadly utilises the provisions of the *Income Tax Assessment Act 1936*, the *Income Tax Assessment Act 1997* and associated legislation, the NTER Manual as well as Rulings and other pronouncements by the Australian Tax Office (ATO), in order to determine the tax payable by The Company.

(ii) *Current tax equivalents payable*

Consistent with the requirements of Australian Accounting Standards Board (AASB) Interpretation 1052 *Disaggregated Disclosures*, as the Company is a member of a tax-consolidated group, the current tax equivalents payable/(receivable) is recognised in the accounts of the head entity, Ergon Energy Corporation Limited. The balance assumed by the head entity is recognised as an amount payable/(receivable) to the Company in conjunction with the tax funding arrangement (refer below).

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

(iii) *Deferred tax equivalent assets and liabilities*

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

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

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

- Items recognised directly in equity, in which case that portion is recognised in equity; and

DTA's and DTL's are offset if there is a legally enforceable right to offset current tax liabilities and assets and they relate to income taxes levied by the same tax authority.

(iv) *Income tax equivalent expense*

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

(v) *Tax consolidation*

The Company is a wholly-owned subsidiary in a tax-consolidated group with Ergon Energy Corporation Limited as the head entity. The group was tax consolidated from 1 July 2002.

Current tax expense/income, DTAs and DTLs arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the group allocation approach based on the allocation specified in the tax funding agreement.

The tax funding agreement requires a notional current and deferred tax equivalents calculation for each entity as if it were a taxpayer in its own right, except that distributions made and received arising within the tax-consolidated group are treated as having no tax consequences.

The Company recognises notional DTAs arising from unused tax losses and tax credits to the extent that it is probable that future taxable profits of the tax-consolidated group will be available against which the asset can be utilised.

(vi) *Nature of tax funding arrangement and tax sharing agreements*

All members of the tax-consolidated group, have entered into a tax funding arrangement which sets out the tax funding obligations for each member. The tax funding arrangements require payments to/from the head entity equal to the notional current tax equivalents liability (asset) assumed by the head entity and any notional tax loss or tax credit deferred tax asset assumed by the head entity, resulting in the Company recognising an inter-entity payable (receivable) equal in amount to the notional tax equivalents liability (asset) assumed. The inter-entity payable (receivable) is at call.

Contributions to fund the notional current tax equivalents liabilities are payable as per the tax funding arrangement and reflect the timing of the head entity's obligation to make payments for tax equivalents liabilities to the relevant tax authorities.

All members of the tax-consolidated group, have also entered into a tax sharing agreement. The tax sharing agreement provides for the determination of the allocation of income tax equivalents liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement, as payment of any amounts under the tax sharing agreement is considered remote.

Notes to the financial statements

For the year ended 30 June 2015

Note 16: Net deferred tax equivalent assets / (liabilities) (Continued)

Accounting policies
Income tax

(vii) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the ATO. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position for the Company.

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.

Commitments are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

Other operating liabilities

Note 17: Provisions	**2015 $'000**	2014 $'000
Non-current		
Provision for rehabilitation	**2,466**	2,942
Total non-current provisions	**2,466**	2,942
Reconciliations		
Reconciliations of the carrying amounts of each class of provision are set out below:		
Provision for rehabilitation		
Carrying amount at the beginning of the financial year	**2,942**	2,806
Provision made during the financial year	**-**	136
Reversal of unused amounts	**(476)**	-
Carrying amount at the end of the financial year	**2,466**	2,942

Rehabilitation

The rehabilitation provision relates to the costs set aside to rehabilitate the Barcaldine Power Station site and the Cheepie-Barcaldine Gas Pipeline. This provision relates to the assets recognised in property, plant and equipment in the balance sheet.

Accounting policies

Restoration and rehabilitation provisions

A provision for restoration and rehabilitation is recognised when there is a present obligation as a result of activities undertaken, it is probable that an economic outflow of economic benefits will be required to settle the obligation and the amount of the provision can be measured reliably. The estimated future obligations include the costs of restoring the affected area.

Critical accounting estimates and judgements

Provision for rehabilitation

The provision for rehabilitation was revised in June 2015 based on an estimate from an internal mechanical design officer.

Note 18: Other liabilities	2015 $'000	2014 $'000
Current		
Environmental certificate acquittal	**32,920**	23,653
Unclaimed monies	**540**	512
Total current other liabilities	**33,460**	24,165

Accounting policies

Environmental certificate acquittal

The Company is subject to legislation requiring the surrender of energy certificates to the relevant Government body as outlined below. These are recognised as an other liability and valued at amortised cost.

Large-scale generation certificates

Certificates created by the Renewable Energy (Electricity) Act 2000 which must be surrendered each year to the Office of the Renewable Energy Regulator (ORER). Each year, the Company must surrender a certain number of LGCs to the ORER dependent on the amount of electricity it sells.

Small-scale technology certificates

Certificates established under the Small-scale Renewable Energy Scheme (SRES) which creates a financial incentive for owners to install eligible systems which are entitled to a certain number of STCs based on the amount of renewable electricity the system produces or displaces. STCs can be exchanged on the open STC Market or through the STC Clearing House. The SRES places a legal liability on electricity retailers to purchase a certain amount of STCs each year. STCs must be surrendered on a quarterly basis.

SECTION 5: Capital structure

In this section………

This section outlines the Company's share capital, reserves and related movements. Liabilities relating to the Company's financing activities are addressed in Section 3.

Note 19: Share capital	2015 $'000	2014 $'000
Share capital		
100 fully paid ordinary shares	**-**	-
Total share capital	**-**	-

Issued capital totals $100 (2014: $100).

Fully paid ordinary shares carry one vote per share and carry the rights to dividends. The shares have no par value.

Accounting policies

Share capital

Ordinary shares are classified as equity.

Note 20: Other owner's contributions

		2015	2014
Contributions by owner	– retail industry restructure	**91,855**	91,855
	– Queensland Power Trading Corporation restructure	**2,503**	2,503
	– historical unbilled network charges adjustment	**(79,264)**	(79,264)
	– historical tax effect adjustment	**32,000**	32,000
		47,094	47,094

Accounting policies

Other owner's contribution

Where assets and liabilities are transferred between entities of the wholly-owned group, or between State of Queensland controlled entities, under the directive of the ultimate Shareholder (being the State of Queensland) and the consideration paid is not equal to the value recognised on the transferred assets and liabilities, the difference is recognised as an other owner's contribution.

SECTION 6: Other notes

In this section………

This section covers other information that is not directly related to specific line items in the financial statements, including information about commitments, contingent assets and liabilities, key management personnel disclosures, related party transactions, auditor's remuneration and other statutory information.

Note 21: Contingent assets and liabilities

(a) Guarantees issued

In order to participate in the electricity market, the Company is required to deliver acceptable security as collateral for their obligations arising as a consequence of normal trading. Security, in the form of payment guarantees totalling $100,000 thousand (2014: $101,700 thousand) have been issued by QTC to AEMO. These guarantees are supported by counter indemnities to QTC totalling $350,000 thousand (2014: $350,000 thousand) by the parent entity.

(b) Guarantees held

The Company holds bank guarantees from trading counterparties totalling $2,000 thousand (2014: $6,500 thousand) as security to cover their obligations arising from the trading of electricity. The Company holds bank guarantees from customers totalling $3,144 thousand (2014: $3,357 thousand) as security to cover their obligations arising from purchase of electricity.

Accounting policies

Contingent assets and liabilities

Except for contingent liabilities required on an acquisition of a business, contingent assets and liabilities are not recognised in the financial statements. They are however, disclosed in the notes to the financial statements, where appropriate.

Ergon Energy Queensland Pty Ltd

Notes to the financial statements

For the year ended 30 June 2015

Note 22: Notes to statement of cash flows	2015	2014
	$'000	$'000
Reconciliation of profit/(loss) after income tax equivalent expense/(benefit) to the net cash flows provided by operating activities		
Profit/(loss) after income tax equivalent expense	**204,259**	(21,439)
Non-cash flows in profit from ordinary activities:		
Depreciation and amortisation	**1,309**	2,019
Changes in provisions	**(449)**	(63)
Loss/(gain) on revaluation of financial instruments at fair value through profit and loss	**1,642**	121,761
Loss/(gain) on revaluation of energy certificates at fair value through profit and loss	**(86,099)**	1,642
Impairments	**15,199**	10,178
Other non-cash flow items	**86,851**	(123,702)
Changes in assets and liabilities		
Trade and other receivables	**(49,932)**	(10,509)
Other assets	**9,780**	903
Trade and other payables	**(117)**	82,195
Other liabilities	**(3,615)**	(1,804)
Payment from provision	**-**	136
Net cash flow provided by operating activities	**178,826**	61,317

Accounting policies

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and investments in money market instruments. Carrying value approximates fair value. They are highly liquid and have a maturity of three months or less at date of acquisition.

Note 23: Key management personnel disclosures

(a) Names, positions and terms held of Directors

The Directors of the Company during the financial year ended 30 June 2015 were:

Ian McLeod — Chairman and Executive Director

Justin Fitzgerald resigned on 5 December 2014.

(b) Compensation - Directors

The Directors are all executives of the parent entity. The Directors' appointments are as a result of their executive positions in the parent entity and no compensation has been made for their directorship of the Company.

Information regarding the compensation received by the Directors as a result of their executive positions in the parent entity is included in the financial statements of the parent entity.

(c) Transactions with related parties of key management personnel

Key management personnel of the Company and its related parties, or their related parties, conduct transactions with the Company on terms and conditions no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-related entities on an arm's length basis.

All transactions with key management personnel or related parties that occurred during the period are trivial or domestic in nature.

Note 24: Related party transactions

(a) Transactions with the parent entity and with the wholly owned group

The parent entity provided business management, financial and corporate services and customer care administration services (including retail products and services administration) to the Company. The total value of these services during the year was $44,845,411 (2014: $43,486,155). All services were undertaken on normal commercial terms and conditions.

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

(b) Controlling entities

The Australian parent entity is Ergon Energy Corporation Limited.

(c) Transactions with State of Queensland controlled entities

The Company transacts with other State of Queensland controlled entities. All transactions are negotiated on terms equivalent to those that prevail in arm's length transactions.

The value of these related party transactions and balances, as reported in the statement of financial position and statement of profit and loss, are disclosed below:

	2015	2014
Revenue	**$**	$
CSO and LEP revenue	**596,070,923**	518,925,107
Pensioner rebate and grant revenue from Department of Communities	**49,544,380**	41,811,605
Interest received on deposits with QTC	**10,157,845**	8,916,904
Revenue from State of Queensland controlled entities	**86,091,412**	89,996,149
Expenses		
Interest on QTC borrowings (Includes administration fees)	**422,835**	502,491
Electricity trading with State of Queensland controlled entities	**144,085,405**	31,402,799
Environmental certificate transactions with State of Queensland controlled entity counterparties	**1,649,416**	1,322,526
Assets		
Deposits held with QTC	**274,106,249**	99,458,778
CSO amounts receivable	**108,959,369**	92,639,713
Trade receivables with State of Queensland controlled entities	**3,945,696**	4,696,654
Liabilities		
Electricity trading payable with State of Queensland controlled entities	**16,281,722**	3,052,841
Community Ambulance Cover Levy payable to Office of State Revenue	**-**	10,667

No security has been obtained or provided for the above assets and liabilities. Settlement is in Australian dollars.

Note 25: Auditor's remuneration

	2015	2014
Remuneration for audit and review of the financial reports of the Company:	**$**	$
Auditor-General of Queensland		
Audit services		
Audit and review of financial reports	**221,000**	122,500
Other audit services	**31,590**	30,000
	252,590	152,500

Ergon Energy Queensland Pty Ltd

Directors' declaration

In the Directors' opinion:

1. The financial statements and associated notes, set out on pages 5 to 40

   (i) Comply with Australian Accounting Standards and Interpretations;
   (ii) Are in accordance with the *Corporations Act 2001*; and
   (iii) Give a true and fair view of the financial position of the Company as at 30 June 2015 and of its performance for the year ended on that date.

2. There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

3. This declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the Corporations Act 2001 for the financial year ended 30 June 2015.

Made in accordance with a resolution by the Directors.

Mr I McLeod
Chairman
Brisbane
27th August 2015

Ergon Energy Queensland Pty Ltd

Independent Auditor's Report

To the Members of Ergon Energy Queensland Pty Ltd

Report on the Financial Report

I have audited the accompanying financial report of Ergon Energy Queensland Pty Ltd which comprises the statement of financial position as at 30 June 2015, the statement of profit and loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001,* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on the financial report based on the audit. The audit was conducted in accordance with the Auditor-General of Queensland Auditing Standards*,* which incorporate the Australian Auditing Standards. Those standards require compliance with relevant ethical requirements relating to audit engagements and that the audit is planned and performed to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my audit opinion.

Independence

The *Auditor-General Act 2009* promotes the independence of the Auditor-General and all authorised auditors. The Auditor-General is the auditor of all Queensland public sector entities and can be removed only by Parliament.

The Auditor-General may conduct an audit in any way considered appropriate and is not subject to direction by any person about the way in which audit powers are to be exercised. The Auditor-General has for the purposes of conducting an audit, access to all documents and property and can report to Parliament matters which in the Auditor-General's opinion are significant.

In conducting the audit, the independence requirements of the *Corporations Act 2001* have been complied with. I confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Ergon Energy Queensland Pty Ltd*,* would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In my opinion –

(a) the financial report of Ergon Energy Queensland Pty Ltd is in accordance with the *Corporations Act 2001*, including –

    (i) giving a true and fair view of the company's financial position as at 30 June 2015 and of its performance for the year ended on that date; and

    (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Ergon Energy Queensland Pty Ltd

Independent Auditor's Report

Other Matters - Electronic Presentation of the Audited Financial Report

Those viewing an electronic presentation of these financial statements should note that the audit does not provide assurance on the integrity of the information presented electronically and does not provide an opinion on any information which may be hyperlinked to or from the financial statements. If users of the financial report are concerned with the inherent risks arising from electronic presentation of information, they are advised to refer to the printed copy of the audited financial statements to confirm accuracy of this electronically presented information.

N George

N GEORGE CPA
(as Delegate of the Auditor-General of Queensland)

QUEENSLAND
31 AUG 2015
AUDIT OFFICE

Queensland Audit Office
Brisbane

Ergon Energy Queensland Pty Ltd

Auditor's Independence Declaration

To the Directors of Ergon Energy Queensland Pty Ltd.

This auditor's independence declaration has been provided pursuant to s.307C of *the Corporations Act 2001*.

Independence Declaration

As lead auditor for the audit of Ergon Energy Queensland Pty Ltd for the year ended 30 June 2015, I declare that, to the best of my knowledge and belief, there have been:

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

QUEENSLAND
31 AUG 2015
AUDIT OFFICE

N GEORGE CPA
(as Delegate of the Auditor-General of Queensland)

Queensland Audit Office
Brisbane

Ergon Energy Telecommunications Pty Ltd

ABN 34 106 459 465

Annual Financial Statements

For the year ended 30 June 2015

Ergon Energy Telecommunications Pty Ltd

Table of Contents

For the year ended 30 June 2015

Introduction and table of contents

The financial statements have been presented in a style which attempts to make them less complex and more relevant to shareholders. We have grouped the note disclosures into five sections: ‘Basis of preparation’, ‘Profit and loss information’, ‘Financial assets and financial liabilities’, and ‘Other notes’.

Each section sets out the accounting policies applied in producing the relevant notes, along with details of any key judgements and estimates used.

The purpose of this format is to provide readers with a clearer understanding of what drives financial performance of the company.

Ergon Energy Telecommunications Pty Ltd

Directors' report

For the year ended 30 June 2015

The directors present their report together with the financial report of Ergon Energy Telecommunications Pty Ltd (the Company), for the year ended 30 June 2015 and the auditor's report thereon.

Directors

The names of the directors of the Company in office during the financial year and up to the date of this report are as follows:

Ian McLeod	Chairman and Executive Director

Gordon Taylor was appointed as an Executive Director on 20 October 2014 and resigned on 5 June 2015.

Principal activities

The principal activity of the Company is the provision of wholesale telecommunications services in Queensland on a non-exclusive basis to carriers and carriage service providers, as well as internally to Ergon Energy Corporation Limited and its controlled entities.

Dividends paid or declared

A declaration was made by the directors on 24 June 2015 for 100% of total operating profit after income tax equivalent expense for the year to be paid to the parent entity.

Dividends amounting to $1,815,072 (2014: $2,475,119) have been provided for during the financial year. A final dividend of $2,475,119 was paid on 31 December 2014 in respect of the 2014 financial year. The dividend for the 2015 financial year was not paid during the year.

Operating and financial review

The statement of profit and loss and other comprehensive income shows a profit after income tax equivalent expense of the Company for the financial year of $1,815,072 (2014: $2,475,119).

Nexium continued to provide wholesale and retail high-speed optic-fibre connectivity to the mining, energy and government sectors, as well as internal support to our operational communications network, SCADA network and corporate connections.

The financial statements are a general purpose financial report that have been prepared in accordance with Australian Accounting Standards and Interpretations, requirements of the *Corporations Act 2001*, provisions of the *Government Owned Corporations Act 1993* (the “Act”) and other relevant legislation issued pursuant to that Act.

Significant changes in the state of affairs

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

Significant events after balance date

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

Likely developments and future results

The Company expects to continue its wholesale telecommunications services in Queensland.

Environmental regulation and performance

The Company's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a State or Territory.

Ergon Energy Telecommunications Pty Ltd

Directors' report

For the year ended 30 June 2015

Indemnification and insurance of directors and officers

During the year, a policy was held to insure all directors and officers of the Company against liabilities incurred in their capacity as director or officer. The provisions of this policy prohibit the disclosure of the nature of the liabilities and the amount of the premium paid. The *Corporations Act 2001* does not require disclosure of this information in these circumstances.

The parent entity indemnifies the directors of the Company. The indemnity relates to any liability (claim, action, suit, proceeding, investigation, inquiry, damage, loss, cost or expense) incurred by virtue of being a director of the Company, other than: A liability owed to the Company; a liability for a pecuniary penalty or compensation order under the *Corporations Act 2001*; and a liability owed to someone other than the Company that did not arise out of conduct in good faith.

The parent entity also indemnifies each director against any legal costs incurred in respect of a liability incurred by virtue of being a director of the Company, other than for legal costs incurred in the following circumstances: in defending or resisting proceedings in which the director could not be indemnified; in defending or resisting criminal proceedings in which the director is found guilty; and in defending or resisting proceedings brought by ASIC or a liquidator for a court order.

The Company has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the Company or any related body corporate against a liability incurred as such by an officer or auditor.

Auditor’s independence declaration

The Auditor’s Independence Declaration is set out on page 21 and forms part of the Directors’ Report for the year ended 30 June 2015.

Signed in accordance with a resolution of directors made pursuant to s292(2) of the *Corporations Act 2001*.

Ian McLeod
Chairman
Brisbane, 27th August 2015.

Ergon Energy Telecommunications Pty Ltd

Statement of profit and loss and other comprehensive income

For the year ended 30 June 2015

	Note	**2015** **$**	2014 $
Revenue	2	**8,845,308**	10,173,646
Cost of sales	3	**(4,473,529)**	(4,771,139)
Materials and services		**(1,778,115)**	(1,864,805)
Amortisation		**-**	(1,818)
Other income/(expenses)		**(704)**	-
Profit before income tax equivalent expense		**2,592,960**	3,535,884
Income tax equivalent expense	4(a)	**(777,888)**	(1,060,765)
Profit after income tax equivalent expense		**1,815,072**	2,475,119
Other comprehensive income for the financial year, net of tax		**-**	-
Total comprehensive income for the financial year		**1,815,072**	2,475,119
Profit attributable to:			
Shareholders of the Company		**1,815,072**	2,475,119
Total comprehensive income attributable to:			
Shareholders of the Company		**1,815,072**	2,475,119

Ergon Energy Telecommunications Pty Ltd

Statement of financial position

As at 30 June 2015

	Note	2015 $	2014 $
CURRENT ASSETS			
Trade and other receivables	5	**2,808,271**	4,458,636
Total current assets		**2,808,271**	4,458,636
NON-CURRENT ASSETS			
Net deferred tax equivalent assets		**-**	59,429
Total non-current assets		**-**	59,429
TOTAL ASSETS		**2,808,271**	4,518,065
CURRENT LIABILITIES			
Trade and other payables	6	**2,297,568**	3,806,218
Unearned sales revenue	7	**499,908**	711,223
Total current liabilities		**2,797,476**	4,517,441
NON-CURRENT LIABILITIES			
Net deferred tax equivalent liability		**10,171**	-
Total non-current liabilities		**10,171**	-
TOTAL LIABILITIES		**2,807,647**	4,517,441
NET ASSETS		**624**	624
EQUITY			
Share capital	9	**100**	100
Retained earnings		**524**	524
TOTAL EQUITY		**624**	624

The statement of financial position is to be read in conjunction with the notes to the financial statements

Ergon Energy Telecommunications Pty Ltd

Statement of changes in equity

For the year ended 30 June 2015

	Note	Share capital $	Retained earnings $	Total equity $
Changes in equity for 2014				
Balance at 1 July 2014		100	524	624
Dividends		-	(2,475,119)	(2,475,119)
Total comprehensive income for the financial year		-	2,475,119	2,475,119
Balance at 30 June 2014		100	524	624
Changes in equity for 2015				
Dividends		**-**	**(1,815,072)**	**(1,815,072)**
Total comprehensive income for the financial year		**-**	**1,815,072**	**1,815,072**
Balance at 30 June 2015		**100**	**524**	**624**

Ergon Energy Telecommunications Pty Ltd

Statement of cash flows

For the year ended 30 June 2015

	Note	**2015** **$**	2014 $
Cash flows from operating activities			
Net cash flows from operating activities	10	**-**	**-**
Cash flows from investing activities			
Net cash flows from investing activities		**-**	**-**
Cash flows from financing activities			
Net cash flows from financing activities		**-**	**-**
Net increase/(decrease) in cash and cash equivalents		**-**	**-**
Cash and cash equivalents at beginning of the financial year		**-**	**-**
Cash and cash equivalents at the end of the financial year		**-**	**-**

The statement of cash flows is to be read in conjunction with the notes to the financial statements

Section 1: Basis of preparation

In this section………

This section sets out the Company's accounting policies that relate to the financial statements as a whole. Where an accounting policy is specific to one note, the policy is described in the note to which it relates. This section also shows new Australian Accounting Standards endorsed, amendments and interpretations, and whether they are effective in 2015 or later years. We explain how these changes are expected to impact the financial position and performance of the Company.

NOTE 1: Basis of preparation

Ergon Energy Telecommunications Pty Ltd (the "Company") is a proprietary company limited by shares and is a company domiciled in Australia. The Company's registered office and its principal place of business are as follows:

Registered Office	***Principal Place of Business***
420 Flinders Street	34-46 Dalrymple Road
Townsville Queensland 4810	Garbutt Queensland 4814

The Company is a for-profit entity and the principal activities during the financial year consisted of the provision of wholesale telecommunications services in Queensland on a non-exclusive basis to carriers and carriage service providers, as well as internally to Ergon Energy Corporation Limited and its controlled entities.

The financial statements were authorised for issue by the directors on 27th August 2015.

(a) Basis of accounting

Statement of compliance

The financial statements are a general purpose financial report that have been prepared in accordance with Australian Accounting Standards and Interpretations, requirements of the *Corporations Act 2001*, provisions of the *Government Owned Corporations Act 1993*, provisions of the *Corporations Regulations 2001,* and other relevant legislation issued pursuant to that Act.

Basis of preparation

The financial statements are presented in Australian dollars. The company is of a kind referred to in Class Order 98/100 issued by ASIC relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest dollar.

Historical cost convention

The financial statements are prepared on an historical cost basis.

(b) Application of new Accounting Standards and Interpretations

The Australian Accounting Standards Board (AASB) has published certain new accounting standards and interpretations in the current year. The Company has adopted all of the new and revised standards and interpretations that are relevant to the operations and effective for the current reporting period. The adoption of these new and revised standards and interpretations does not have a material impact on the result or disclosure of the Company in the current reporting period.

Early adoption of standards

The Company has early adopted *AASB 2015-2 Amendments to Australian Accounting Standards- Disclosure Initiative* in advance of their effective date. The changes resulting from AASB2015-2 are not material and relate to the streamlining of disclosures included in the notes to the financial statements

NOTE 1: Basis of preparation (continued)

(b) Application of new Accounting Standards and Interpretations (continued)

New standards and interpretations not yet adopted

The AASB has also published certain new accounting standards and interpretations that are not mandatory for 30 June 2015 reporting periods, and which the Company has not early adopted. The Company's assessment of the initial impact of the following Standards and Interpretations on its financial report is outlined below.

(i) AASB 15 Revenue from Contracts with Customers and AASB 2014-5 Amendments to Australian Accounting Standards arising from AASB 15. AASB 15 is effective for financial years commencing on or after 1 January 2017.

The AASB has issued a new standard for the recognition of revenue which will replace AASB 118 Revenue and AASB 111 Construction Contracts. AASB 15 requires revenue to be recognised when, or as, the entity satisfies a performance obligation and requires the entity to identify the distinct performance obligations at the inception of the contract ("unbundling"). A preliminary assessment indicates that this change in the accounting standard is unlikely to affect the revenue recognition policy for the Company as revenue is currently being recognised at a disaggregated level.

The International Accounting Standards Board have approved the one-year deferral of the effective date for IFRS 15 and are expected to issue a formal amendment in September 2015. The standard is now effective for reporting periods beginning on or after 1 January 2018. The AASB are expected to adopt this amendment and also defer the effective date of AASB 15. A further exposure draft is expected as the International Accounting Standards Board plans to propose targeted amendments to clarify aspects of the requirements.

(ii) AASB 9 Financial Instruments (December 2014) and AASB2014-7 Amendments to Australian Accounting Standards arising from AASB9 (December 2014).

In December 2014, the AASB made changes to the classification and measurement rules and also introduced a new impairment model. These amendments complete the new financial instruments standard.

The new impairment model is an expected credit loss (ECL) model which may result in the earlier recognition of credit losses. The Company has not yet assessed how its own impairment provisions would be affected by the new rules.

AASB 9 (December 2014) is effective for financial years commencing on or after 1 January 2018.

There are no other standards or interpretations that are not yet effective and that would be expected to have a material impact on the Company in the current or future reporting periods and on foreseeable future transactions.

Section 2: Profit and loss information

In this section………

This section focuses on the results and performance of the Company. Section provides further information about individual line items in the profit or loss statement, including:

- a breakdown of revenue by type
- individually significant expense items
- relevant accounting policies

NOTE 2: Revenue

	2015 $	2014 $
Sales revenue		
Sales revenue – parent entity	**2,734,994**	3,581,461
Sales revenue	**5,991,622**	6,432,119
Other revenue		
Interest received – parent entity	**118,692**	160,066
Total revenue	**8,845,308**	10,173,646

Accounting policies

Revenue recognition

Operating revenue comprises revenue from the provision of services, which is recognised by reference to the stage of completion of the transaction.

Interest income is recognized in the income statement as it accrues, using the effective interest rate method. All revenue is stated net of the amount of Goods and Services Tax (GST).

NOTE 3: Expenses

Profit before income tax equivalent expense includes the following specific expenses:

	2015 $	2014 $
Cost of sales	**3,684,414**	4,128,841
Cost of sales – parent entity	**789,115**	642,298
	4,473,529	4,771,139

Accounting policies

Cost of sales

Cost of sales is the accumulation of costs associated with the delivery of wholesale telecommunication services.

NOTE 4: Taxation	**2015**	2014
	$	$
(a) Income tax equivalent expense		
Current tax expense	**708,288**	1,117,652
Deferred tax expense/(benefit)	**69,600**	(56,887)
Income tax equivalent expense	**777,888**	1,060,765
Deferred income tax expense/(benefit) included in income tax expense comprises:		
Decrease/(increase) in deferred tax assets	**56,936**	(56,887)
Increase /(decrease) in deferred tax liabilities	**12,664**	-
Income tax expense/(benefit) attributable to profit from continuing operations	**69,600**	(56,887)
(b) Numerical reconciliation of income tax equivalent expense to prima facie tax payable		
Net profit before income tax equivalent expense	**2,592,960**	3,535,884
Prima facie income tax equivalent expense on operating profit at 30% (2014: 30%)	**777,888**	1,060,765
Income tax equivalent expense	**777,888**	1,060,765

Accounting policies

Income taxes

(i) Tax equivalents

The Company is part of a tax-consolidated group that is subject to the National Tax Equivalents Regime (NTER). The NTER broadly utilises the provisions of the *Income Tax Assessment Act 1936*, the *Income Tax Assessment Act 1997* and associated legislation, the NTER Manual as well as Rulings and other pronouncements by the Australian Tax Office (ATO), in order to determine the tax payable by the Company.

(ii) Income tax equivalent expense

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

(iii) Tax consolidation

The Company is a wholly-owned subsidiary in a tax-consolidated group with Ergon Energy Corporation Limited as the head entity. The group was tax consolidatd from 1 July 2002.

Current tax expense/income, deferred tax equivalent liabilities (DTLs) and deferred tax equivalent assets (DTAs) arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the group allocation approach based on the allocation specified in the tax funding agreement.

The tax funding agreement requires a notional current and deferred tax equivalents calculation for each as if it were a taxpayer in its own right, except that distributions made and received arising within the tax-consolidated group are treated as having no tax consequences.

The Company recognises notional DTAs arising from unused tax losses and tax credits to the extent that it is probable that future taxable profits of the tax-consolidated group will be available against which the asset can be utilised.

(iv) Nature of tax funding arrangement and tax sharing agreements

All members of the tax-consolidated group, have entered into tax funding arrangement which sets out the tax funding obligations for each member. The tax funding arrangements require payments to/from the head entity equal to the notional current tax equivalents liability (asset) assumed by the head entity and any notional tax loss or tax credit deferred tax asset assumed by the head entity, resulting in the Company recognising an inter-entity payable (receivable) equal in amount to the notional tax equivalents liability (asset) assumed. The inter-entity payable (receivable) is at call.

Contributions to fund the notional current tax equivalents liabilities are payable as per the tax funding arrangement and reflect the timing of the head entity's obligation to make payments for tax equivalent liabilities to the relevant tax authorities.
All members of the tax-consolidated group, have also entered into a tax sharing agreement. The tax sharing agreement provides for the determination of the allocation of income tax equivalent liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement, as payment of any amounts under the tax sharing agreement is considered remote.

NOTE 4: Taxation (Continued)

Accounting policies

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 ATO. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position of the parent entity

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.

Commitments are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

Section 3: Financial assets and financial liabilities

In this section………

This section provides further information about the Company's financial assets and financial liabiliites, including:

- trade and other receivables
- trade and other payables
- unearned sales revenue
- financial risk management
- specific accounting policies where relevant

NOTE 5: Trade and other receivables	2015 $	2014 $
Current		
Trade receivables	**1,081,852**	1,480,780
Trade receivables – parent entity	**1,693,753**	2,970,716
Prepayments and other receivables	**32,666**	7,140
Total current trade and other receivables	**2,808,271**	4,458,636

Accounting policies

Trade and other receivables

Trade and other receivables are recognised when the Company has a legal right to receive cash, cash equivalent or economic benefit. Trade and other receivables are measured at amortised cost less provision for impaired receivables. The recoverability of trade and other receivables is reviewed on an ongoing basis.

(a) Impaired trade receivables

No impairment has been raised in 2015 financial year (2014: nil). This has been determined by reference to past default experience and other relevant evidence such as significant financial difficulties of the debtor, the probability that the debtor will enter bankruptcy or financial reorganisation and payment default or delinquency. Refer to Note 8 for more information on the risk management policy of the Company and the credit quality of it's trade receivables.

NOTE 6: Trade and other payables	2015 $	2014 $
Current		
Trade payables and accruals	**184,917**	213,447
Dividend payable	**1,815,072**	2,475,119
Payable to parent entity	**297,579**	1,117,652
Total current trade and other payables	**2,297,568**	3,806,218

Accounting policies

Trade and other payables

(i) Trade and other payables

Trade and other payables are recognised when the Company has a legal obligation to pay cash. Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost.

(ii) Dividends payable

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

NOTE 7: Unearned sales revenue	**2015** **$**	2014 $
Unearned sales revenue	**499,908**	711,223
Total unearned sales revenue	**499,908**	711,223

Accounting policies

Unearned sales revenue

The company invoices customers in advance for services which have not been rendered as at the end of the reporting period. The revenue associated with these services is deferred in unearned revenue until the service has been provided to the customer

NOTE 8: Financial risk management

The Company has policies and procedures in place to control the financial risks associated with its operating activities. Exposure to credit and liquidity risks arises in the normal course of the Company's business.

(a) Credit risk

Credit risk arises from the potential failure of counterparties to meet their obligations under the respective contracts at maturity. The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was as follows:

Trade receivables	**1,081,852**	1,480,780
Trade receivables – parent entity	**1,693,753**	2,970,716
	2,775,605	4,451,476

The Company manages credit risk by maintaining an established and appropriate credit review process. Furthermore, the Company's largest customer is the parent entity, which decreases the credit risk.

The Company trades with wholesale counterparties, principally telecommunications carriers. The Company has not recognized an impairment loss against any existing customers for many years.

(b) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The financial statements have been prepared on the going concern basis, which assumes continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business.

At 30 June 2015, the Company has a working capital surplus of $10,795 (2014: deficit $58,805).

The Directors consider the Company will be able to pay its debts as and when they fall due by relying on the letter of support issued by Ergon Energy Corporation Limited each year.

Section 4 Other notes

In this section………

This section outlines the Company's share capital along with other information that is not directly related to specific line items in the financial statements. This includes information about commitments, contingent assets and liabilities, key management personnel disclosures, related party transactions and other statutory information.

NOTE 9: Share capital

	2015 $	2014 $
100 - fully paid ordinary shares	**100**	100
Total share capital	**100**	100

Fully paid ordinary shares carry one vote per share and carry the rights to dividends. The shares have no par value.

Accounting policies

Share Capital

Ordinary shares are classified as equity.

NOTE 10: Notes to statement of cash flows

	2015 $	2014 $
Reconciliation of profit after income tax equivalent expenses to the net cash flows provided by/(used in) operating activities		
Profit after income tax equivalent expense	**1,815,072**	2,475,119
Non-cash flows in profit from ordinary activities:		
Depreciation and amortisation	**-**	1,818
Changes in assets and liabilities:		
Trade and other receivables	**1,650,365**	(305,012)
Trade and other payables	**(1,059,918)**	543,932
Prior year dividend paid	**(2,475,119)**	(2,658,970)
Net Deferred tax asset/liability	**69,600**	(56,887)
Net cash flow provided by/(used in) operating activities	**-**	-

Accounting policies

Cash and cash equivalents

The Company does not operate a bank account nor hold any cash balances or investments in money market instruments. The parent company provides all cash transaction services including all payments and receipts. These transactions are recorded in an intercompany loan account.

NOTE 11: Key management personnel disclosures

(a) Names, positions and terms held of directors

The directors of the Company during the financial year ended 30 June 2015 were:

Ian Mcleod	Chairman and Executive Director

Gordon Taylor was appointed as an Executive Director on 20 October 2014 and resigned on 5 June 2015.

(b) Compensation - directors

The directors are executives of the parent entity. The directors' appointments are as a result of their executive positions in the parent entity and no compensation has been made for their directorship of the Company (or any other subsidiary).

Information regarding the compensation received by the directors as a result of their executive positions in the parent entity is included in the financial statements of the parent entity.

(c) Transactions with related parties of key management personnel

The Company has not entered into transactions with key management personnel of the Company or their related parties.

NOTE 12: Related party transactions

(a) Transactions with the parent entity

The parent entity provided business management, financial and corporate services and customer care administration services (including services administration) to the Company. The total value of these services during the financial year was $1,916,218 (2014:$1,856,593). All services were undertaken on normal commercial terms and conditions.

The Company provided telecommunication services to the parent entity, the total value of these services during the financial year is as per note 2.

(b) Controlling entities

The Australian parent entity is Ergon Energy Corporation Limited.

(c) Transactions with State of Queensland controlled entities

The Company transacts with other State of Queensland controlled entities. All transactions are negotiated on terms equivalent to those that prevail in arm’s length transactions.

The value of these related party transactions as reported in the statement of financial position and statement of profit and loss and other comprehensive income, are disclosed below:

	2015	2014
Revenue	**$**	$
Revenue from State of Queensland controlled entities	**461,938**	441,230
Expenses		
Costs paid to State of Queensland controlled entities	**1,355,419**	1,533,086
Assets		
Trade receivable from State of Queensland controlled entities	**52,929**	219,837

No security has been obtained or provided for the above assets and liabilities. Settlement is in Australian dollars.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2015

NOTE 13: Auditor's remuneration	2015	2014
	$	$
Remuneration for audit and review of the financial statements of the Company:		
Auditor-General of Queensland		
Audit services		
- Audit and review of the financial statements	**29,000**	30,500
	29,000	30,500

Audit remuneration will be paid by the parent company.

Ergon Energy Telecommunications Pty Ltd

Directors' Declaration

In the directors' opinion:

1. The financial statements and associated notes, set out on pages 4 to 17

   (i) Comply with Australian Accounting Standards and Interpretations;
   (ii) Are in accordance with the *Corporations Act 2001*; and
   (iii) Give a true and fair view of the financial position of the Company as at 30 June 2015 and of its performance for the year ended on that date.

2. There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Made in accordance with a resolution by the directors.

I McLeod
Chairman
Brisbane,
27th August 2015

Ergon Energy Telecommunications Pty Ltd

Independent Audit Report

To the Members of *Ergon Energy Telecommunications Pty Ltd.*

Report on the Financial Report

I have audited the accompanying financial report of Ergon Energy Telecommunications Pty Ltd which comprises the statement of financial position as at 30 June 2015, the statement of profit and loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies, other explanatory information, and the directors' declaration.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on the financial report based on the audit. The audit was conducted in accordance with the Auditor-General of Queensland Auditing Standards, which incorporate the Australian Auditing Standards. Those standards require compliance with relevant ethical requirements relating to audit engagements and that the audit is planned and performed to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my audit opinion.

Independence

The *Auditor-General Act 2009* promotes the independence of the Auditor-General and all authorised auditors. The Auditor-General is the auditor of all Queensland public sector entities and can be removed only by Parliament.

The Auditor-General may conduct an audit in any way considered appropriate and is not subject to direction by any person about the way in which audit powers are to be exercised. The Auditor-General has for the purposes of conducting an audit, access to all documents and property and can report to Parliament matters which in the Auditor-General's opinion are significant.

In conducting the audit, the independence requirements of the *Corporations Act 2001* have been complied with. I confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Ergon Energy Telecommunications Pty Ltd, would be in the same terms if given to the directors as at the time of this auditor's report.

Ergon Energy Telecommunications Pty Ltd

Opinion

In my opinion –

(a) the financial report of Ergon Energy Telecommunications Pty Ltd is in accordance with the *Corporations Act 2001*, including –

  (i) giving a true and fair view of the company's financial position as at 30 June 2015 and of its performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Other Matters - Electronic Presentation of the Audited Financial Report

Those viewing an electronic presentation of these financial statements should note that the audit does not provide assurance on the integrity of the information presented electronically and does not provide an opinion on any information which may be hyperlinked to or from the financial statements. If users of the financial report are concerned with the inherent risks arising from electronic presentation of information, they are advised to refer to the printed copy of the audited financial statements to confirm accuracy of this electronically presented information.

N GEORGE CPA
(as Delegate of the Auditor-General of Queensland)

QUEENSLAND
31 AUG 2015
AUDIT OFFICE

Queensland Audit Office
Brisbane

Ergon Energy Telecommunications Pty Ltd

Auditor's independence declaration

To the directors of Ergon Energy Telecommunications Pty Ltd

This auditor's independence declaration has been provided pursuant to s.307C of the *Corporations Act 2001*.

Independence Declaration

As lead auditor for the audit of Ergon Energy Telecommunications Pty Ltd for the year ended 30 June 2015, I declare that, to the best of my knowledge and belief, there have been:

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

QUEENSLAND
31 AUG 2015
AUDIT OFFICE

N GEORGE CPA
(as Delegate of the Auditor-General of Queensland)

Queensland Audit Office
Brisbane

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Ergon Energy Corporation Limited ABN 50 087 646 062
Ergon Energy Queensland Pty Ltd ABN 11 121 177 802