ENERGISING Queensland communities

Annual Report 2017-18

Energy Queensland

In keeping with Energy Queensland's commitment to connect respectfully with Aboriginal and Torres Strait Islander peoples and communities, we acknowledge Aboriginal and Torres Strait Islander people as the first people of Australia and the Traditional Custodians of this land and its waters.

We pay our respects to Elders past, present and future for they hold the memories, the traditions, the culture and knowledge of Aboriginal Australia.

This report covers the Energy Queensland Group's (the Group's) overall performance for 2017-18. It showcases the contribution of Energex Limited, Ergon Energy Corporation Limited, Ergon Energy Queensland Pty Ltd, and Yurika Pty Ltd. Commentary is also provided on the Group's other subsidiary companies.

This and earlier Annual Reports are on our website at www.energyq.com.au/annualreport

We welcome feedback to help us improve our reporting. Comments can be directed to community@energyq.com.au

We deliver electricity to over 2.3 million customers right across the vast state of Queensland.

IMAGE CREDIT: Mick McCarthy, Scenic Rim

CONTENTS

About us

The Energy Queensland Group is 100% owned by Queenslanders.

As a Government Owned Corporation, we deliver electricity across Queensland through our 'poles and wires' businesses Energex and Ergon Energy Network. Our retailer, Ergon Energy Retail sells this electricity to customers throughout regional Queensland.

These essential service activities are also supported by a range of innovative products and services delivered through our Yurika and other market brands.

This Annual Report presents our Group's achievements for 2017-18, our second full year of operation since our establishment in June 2016. We are proud of our progress to date, and we are excited to outline the steps we are taking towards future challenges and fulfilling our commitments to Queensland communities.

Led by our purpose to safely deliver secure, affordable and sustainable energy solutions – we remain absolutely committed to energising communities across the state.

BELOW: Read more on each of our brands and our governance framework on p60.

Vision

We energise Queensland communities.

Purpose

To safely deliver secure, affordable and sustainable energy solutions with our communities and customers.

Our values

Safe
We are committed to keeping our people, community and customers safe

Knowledgeable
We openly share our knowledge

Innovative
We strive to make our business better

Leading
We lead and follow each other to success

Listening
We respect and hear each other

Engaged
We work as a team to be the best we can be

Diverse
We are diverse which makes us stronger

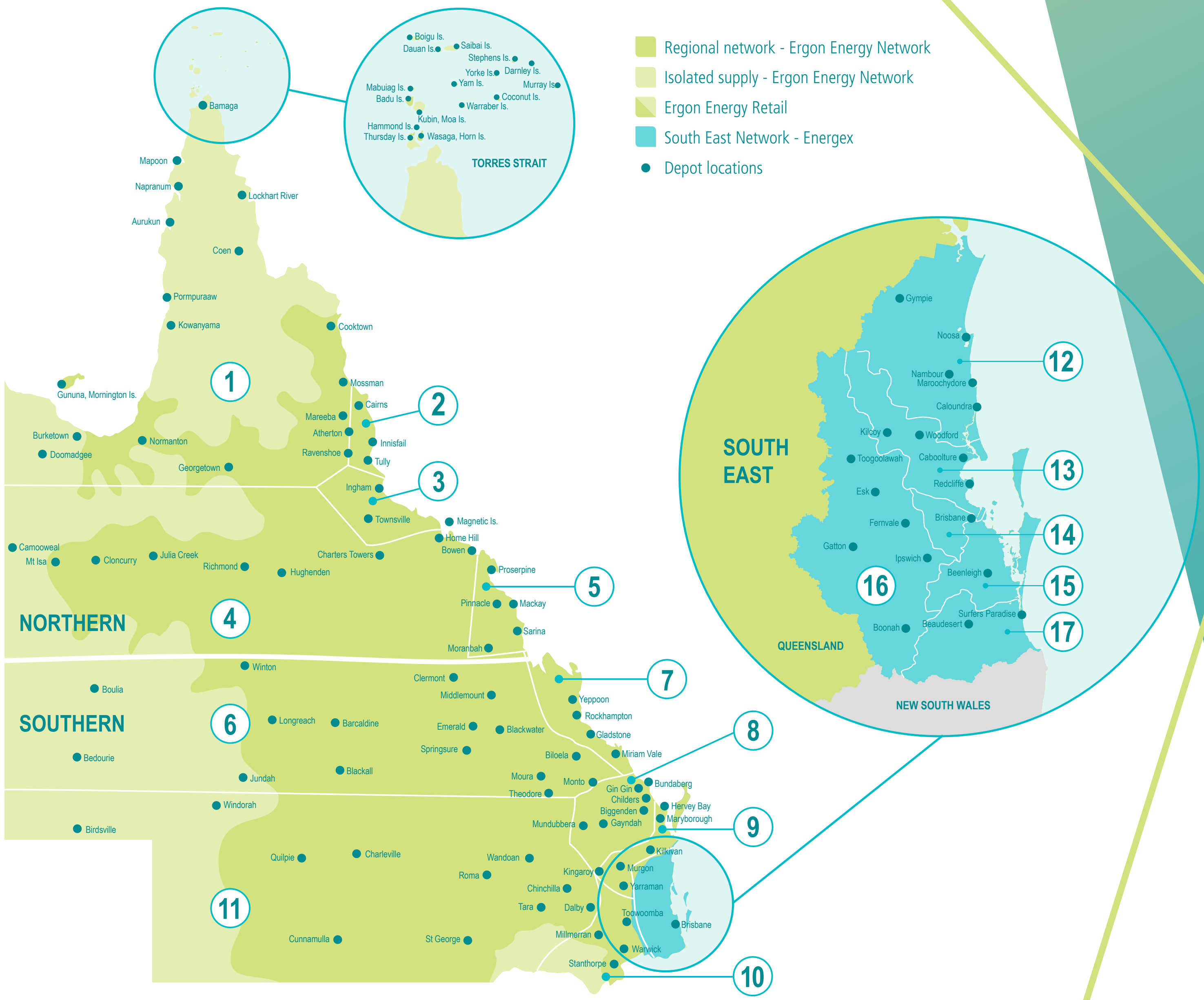
Strategic objectives

"Led by our purpose to safely deliver secure, affordable and sustainable energy solutions – we remain absolutely committed to energising communities across the state."

David Smales, CEO

Our service area

We have strong connections with the Queensland communities we serve. With 7,247 employees across the state, we play an active role as an employer and in supporting local communities from Tweed River to Torres Strait.



Our 17 service areas

1 Far North
2 Tropical Coast
3 Herbert
4 Flinders
5 Pioneer
6 Central West
7 Capricornia
8 Bundaberg Burnett
9 Fraser Burnett
10 Darling Downs
11 South West
12 Sunshine Coast
13 Brisbane North
14 Brisbane Central
15 Brisbane South
16 Ipswich Lockyer
17 Gold Coast

State-wide capability energising our communities

108 new apprentices

7,247 employees

2.3 million connected customers

700,000 Retail customers

1.5 million customer calls

4 Customer Service Centres

124 service depots and offices

3 Network Control Centres

33 stand-alone power stations

220,000km powerlines

1.7 million power poles

34,482GWh electricity delivered a year

4,920MW South East peak demand

regional Queensland peak demand 2,601MW

498,500 total solar energy systems connected

7 new large scale renewables connected

100% reliability standards met

$1.3 billion capital investment program to keep your lights on

$493 million Community Service Obligation payment – ensuring equitable pricing for all

This year's highlights

We connected with our communities and customers

– with over 100 events to listen and better understand our customers' needs and wants as we plan for 2020 and beyond (p15).

Our teams delivered a safe response to a busy storm season

– with 13 major events state-wide – proving it pays to be prepared (p18).

We continued to bring down the cost of using the network

– these charges have fallen by 7% per year, over the last four years (p29).

A record level of solar capacity was connected to the network

– an additional 415MW with utility-size and business solar increasing.

We now have 29% of detached houses enjoying the benefits of solar energy (p35).

EasyPay Rewards was launched,

allowing our retail customers to better manage their bills and be rewarded (p38).

Metering Dynamics became Australia's top performing Meter Data Provider,

showcasing best-in-class metering services to assist retailers and network providers (p39).

Achieved a lift in employee engagement,

putting us well above the average for energy and utility businesses (p41).

108 new recruits were welcomed into our apprenticeship programs –

including 19 female and 15 Aboriginal and Torres Strait Islander apprentices (p43).

Our home-grown Safety is Defence program

was rolled out to improve safety outcomes in the workplace (p49).

Delivered efficiencies

– through synergies, proactive cost savings and prudent deferral (p56).

We're owned by Queenslanders.

Every time you call our service centres, you're guaranteed 100% local service.

Townsville | Rockhampton | Brisbane

Message from the Chairman and Chief Executive Officer

The second full year for our company has seen further change and improvements in our operations. Our concerted efforts have been aimed at creating real value for our communities and customers and the year's achievements demonstrate this ongoing focus and commitment.

A clear focus on better customer outcomes

As a portfolio Energy Queensland is doing many things to create a secure, affordable and sustainable energy future for Queensland.

Our customers tell us that electricity prices remain a key issue for them, with concern about paying the bills a reality for many Queenslanders. Recognising that our networks' costs make up around one-third of a residential customer's electricity bill, we take our part in this seriously. During the course of the year we have again continued to place further downward pressure on electricity prices by controlling spend and reducing network charges. Pleasingly, this has resulted in our fourth successive year in a row of achieving approximately a 7% per annum network charge reduction.

We have delivered this strong outcome whilst also concluding the Energex, Ergon Energy and Sparq Solutions merger that we started in July 2016, and while also effectively maintaining the safety and reliability of the network for the benefit of all Queenslanders. This has been especially challenging during a busy storm season. While we did not experience any extreme events over the summer, our networks experienced 13 major weather events in total, including tropical cyclones, storms and heatwaves, with our field crews rising to the challenge on every occasion.

Throughout the period we have continued to place focus on how we positively contribute to and energise Queensland communities. Energy Queensland recognises that customers, through their choices, are at the forefront of transforming the energy industry and that it is our job to enable those choices in the most efficient and cost-effective way possible. This, our second annual report, presents a number of examples where we are making a positive difference to Queensland communities and our customers.

A customer-led transformation heading towards 2020

During the year we have boosted our engagement with communities, customers and their representative bodies. We have been listening intently to our customers and other key community stakeholders to better understand what really matters to them. This has included travelling around our state, talking to the peak bodies that represent our customers, actively participating in conversations with our local communities, and engaging with our industry partners.

All of these stakeholder groups recognise that our industry is in a period of rapid transformation, where technologies are evolving fast, and expectations are evolving just as quickly. What we've been hearing is already influencing our strategic direction, our day-to-day decisions, and our thinking around what is or is not in the long-term interests of our customers. This is especially important now as we put a major effort into developing our investment plans for both Energex and Ergon Energy Network for 2020 to 2025. These plans will be reviewed by our regulator early in 2019.

Our successful merger has strengthened our capability

The foundational elements of our merger are now complete. Following our initial two-year establishment phase, Energy Queensland now has a much strengthened capability to deliver strong performance outcomes.

Safety, both in terms of looking after our employees and contractors and the safety of our communities, remains our number one priority. From the boardroom to the field, Energy Queensland and its team members are committed to continuously improving safety outcomes. We are increasing transparency and establishing an open culture so that we may better manage and learn from incidents. We are also working hard to remove the stigma associated with mental health.

Our approach is helping to drive an improvement in our underlying safety performance, with a 20% reduction in the number of lost time injuries, as well as an improvement in our significant injury rate. However, whilst encouraged by some of our performance metrics we also recognise that there is much more that we need to do to ensure a safer workplace. This will continue to be a key focus for Energy Queensland's management and leaders into the future.

Delivering economic value to Queensland

We are pleased to advise that we continue to make significant progress against the cost reduction targets the Government previously

> We've again been able to put downward pressure on prices… (and) we're confident the steps we're taking will continue to build on our core technical strengths and create further value through innovation, as we position ourselves for future success."

David Smales, CEO

committed to as part of our merger in order to reduce the cost of living pressures for Queensland customers. This year has seen further cost savings achieved and we now expect to exceed our targeted net merger savings of $562 million in the current regulatory control period. This is being achieved through the ongoing delivery of organisational efficiencies and other proactive cost savings, and the prudent deferral of expenditure.

Our 2017-18 financial results will allow us to deliver an $809 million dividend payment to the Queensland Government, ultimately benefiting the people of Queensland.

In supporting customers, we also delivered the Community Service Obligation payment, the subsidy for regional Queensland consumers, costing $493 million this year, as well as the payment of Solar Bonus Scheme credits, and other customer rebates.

This year we have also been part of the Queensland Government's $50 asset ownership dividend, which was passed onto all Queensland households.

We see a bright future for Queenslanders

In closing, we see a bright future. While we find ourselves in a period of rapid industry transformation, we remain confident that the steps that are being taken will continue to build on our core strengths and create further value for Queensland communities and our customers.

Our position of strength is a credit to many, many people. Not only those in our organisation today, but also others before us. A special mention must go to Terry Effeney, our former CEO, who passed away earlier this year. Terry was an inspirational leader, both within Energex and Ergon Energy, who made an enormous contribution to the electricity supply that we enjoy across Queensland today.

We would also like to recognise our 7,000 plus employees who are the ones taking up the reins today, as we establish our plans for the future in our Regulatory Proposals.

Thank you also for your support throughout this year, and your interest in our Annual Report.

We look forward to continuing to engage on the things that really matter to you and the community, both the challenges and opportunities that are ahead of us, and to truly energising Queensland.

Phil Garling
Chairman

David Smales
Chief Executive Officer

Performance overview

Energy Queensland's key financial and non-financial performance indicators and targets, and the achievements for 2017-18 are highlighted below.

Formally agreed through our Statement of Corporate Intent (SCI), we report progress against these targets to our shareholding Ministers on a quarterly basis throughout the year. Commentary on each of these measures has been provided in this report.

As a business, we also use a range of other measures to assess our progress towards our strategic objectives, and to drive continued operational performance improvement across the Group.

Performance indicators

COMMUNITY

Minimum Service Standards

Our Ergon Energy and Energex networks met all twelve Minimum Service Standards for network reliability (more on p20).

RESULT 100%
TARGET 100%

Program of Works Delivery Index

We delivered 96% of the customer and business initiated works program within our planned targets (more on p22).

RESULT 96%
TARGET ≥90%

CUSTOMER

Customer Index

We continued to focus on the customer experience with real time performance monitoring driving service improvements (more on p30).

RESULT 6.7
TARGET ≥6.7

Customer Enablement Index

We exceeded our stretch target, with employees feeling supported to achieve outcomes that are valued by customers (more on p30).

RESULT 6.1
TARGET ≥5.6

OUR PEOPLE

Employee Engagement Survey Results

We achieved an increase of four percentage points in employee engagement, while still just short of our ambitious target, this puts us on track towards best practice (more on p41).

RESULT 61%
TARGET ≥67%

WORKPLACE SAFETY

Total Recordable Injury Frequency Rate (TRIFR)

We are encouraging our people to be more open about reporting incidents, while resulting in a short-term deterioration in TRIFR this will allow us to better address hazards moving forward (more on p48).

RESULT 11.6
TARGET ≤7.6

Lost Time Injury Frequency Rate (LTIFR)

We fell just short of our LTIFR target. This has led to targeted interventions including our Musculoskeletal Injuries Action Plan (more on p48).

RESULT 3.3
TARGET ≤3.1

Ergon Network's local Stanthorpe team, including (back) Darrell Chapman and Mick Watson and (front) Dave McMurtrie, Wes Ford and Brett Wilson, were proud to support the local community by stringing the festive lights and bunting for the biennial Apple and Grape Harvest Festival.

ECONOMIC

Net Profit After Tax

The underlying performance, after adjusting the profit for changes in Retail tariffs from the time that the SCI was set, was achieved through strong cost control (more on p57).

RESULT $809M
TARGET $612M

Standard Control Services Total Expenditure

For our core service we continued to drive down expenditure (more on p57).

RESULT $1,706M
TARGET $1,780M

Return on Capital Employed

We had higher net profits and lower borrowings than early forecasts, leading to a higher than anticipated return (more on p57).

RESULT 8.1%
TARGET 6.9%

Our communities

As a Group of companies, we're committed to showing leadership in the energy sector by strengthening our service to customers and communities, and to being the 'citizen's voice' in the energy transformation that is underway.

This is driving us to engage more effectively, to explore new ways of working that deliver value for communities and customers, and commercially for us as a business, and to communicate more to build trust.

We're coming from a position of strength with brands that are known across the communities we serve, and with employees who live and work across the state.

How we're responding

- Connecting with our communities and customers – with over 100 events to better understand our customers' needs and wants as we plan for 2020 and beyond
- Delivery of a safe response to a busy summer storm season – with 13 major events – and met a new peak in demand in the South East of 4,920MW
- Delivered our commitment to safe and reliable supply – meeting all of the Minimum Service Standards for 2017-18
- Installed close to 5,000 new card-operated meters in our isolated communities enabling a range of customer benefits
- Expanded our school electrical safety education program – 95% of Queensland primary schools are participating in Safety Heroes
- Continued our local partnership investment, with 25 grass-roots non-profit groups receiving support from our Community Fund.

Informing our future investment plans

To ensure we're meeting the needs of our customers and our communities into the future, we've been actively connecting, to better understand what really matters and using these insights to guide our planning and investment for 2020 and beyond.

With our industry undergoing a period of rapid transformation, open dialogue is critical to enabling diversity of thought, innovation, and ultimately, better, more sustainable, customer-driven solutions. To be successful, we recognise that engagement must be embedded within our culture – as such, it is one of our values that drives our business strategy (p5).

In addition to our business-as-usual engagement and customer feedback, in 2017-18 we engaged through a variety of other community and customer forums. To develop our network strategies and investment plans in our Regulatory Proposals for 2020 to 2025 (p16), and our network tariff reform program (p29), we hosted over 100 events to listen to the diverse views in our community and different customer segments. We also introduced the Talking Energy website, an online hub for engagement.

We also undertook a number of other engagement initiatives to help us improve the customer's experience across the Group (p16).

Our community and customer engagement program

INDUSTRY PARTNERS

- Electrical contractor forums
- Developer forums
- Qualitative and quantitative research:
  - Voice of the Customer surveys

END USE CUSTOMERS

- Customer Council
- Regulatory Proposals Working Group
- Network tariff consultations
- Agricultural customer forums
- Major customer forums
- Qualitative and quantitative research:
  - Voice of the Customer surveys
  - Customer focus groups
  - Queensland Household Energy Survey
  - Brand research and tracking surveys

COMMUNITY STAKEHOLDERS

- Talking Energy website
- Community Leader Forums
- Local community stakeholder engagement program
- Community safety program
- Local government engagement – Public lighting forums

Energising Queensland communities

During the year we launched a new Community Strategy designed to further deepen our connection with our communities, and the customers that we serve.

The focus of this strategy is about reconnecting with community stakeholders and ensuring we are truly part of our local communities.

We hosted five Community Leader Forums across the state during May and June 2018. These events enabled community stakeholders to provide feedback on the industry, voice their needs in relation to local electricity supply, and to talk one-on-one with our senior managers about their challenges.

Aligning with our Community Strategy, these conversations are fundamental to building trust and credibility and for creating real long-term value for our customers and our business, and for Queensland. They demonstrate the new engagement principles launched as part of our overarching strategy.

Our principles for engagement

We're committed to ensuring:

- We're accessible and inclusive in engaging interested or impacted stakeholders
- Our communications are easily understood, timely and appropriate
- Open transparency in our decision making processes and outcomes
- Our engagement is responsive and improves with feedback and measurement.

BELOW: The Australian Energy Regulator's Consumer Challenge Panel member Mr Mark Grenning (pictured standing) attended several of our Community Leader Forums across the state. Mark was joined by panel members, Mike Swanston and Louise Benjamin, at these events and other customer forums for our Regulatory Proposal for 2020-25.

We asked what really matters

To us, community value is about focusing on the ‘collective good’, the broader social, environmental and economic value we contribute as an organisation to society.

We know we need to contribute to electricity affordability and to deliver reliable supply, but we wanted to also know what else matters to the communities we work in. The feedback we received shows that our communities place a high importance on workplace health and safety, and on mental health, customer privacy, and a range of other sustainability matters which we have consequently covered in this report.

GOVERNMENT OWNERSHIP

CLIMATE CHANGE

USE OF RESOURCES

CULTURAL HERITAGE

RENEWABLES

RECOGNISING DIVERSITY

BIODIVERSITY

ENVIRO IMPACTS

COST OF LIVING

MENTAL HEALTH

ENERGY LITERACY

CUSTOMER PRIVACY

LOCAL ECONOMY

HOUSING AFFORDABILITY

PUBLIC POLICY AND MARKET REFORM

ELECTRICAL SAFETY

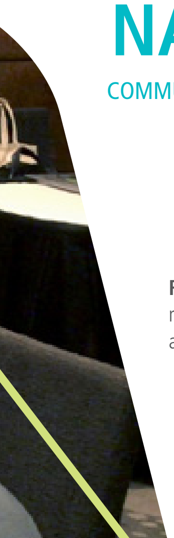
ETHICAL CONDUCT

WORKPLACE SAFETY

NATURAL DISASTERS

COMMUNITY INVESTMENT

LOCAL JOBS



RIGHT: Our communities told us that health and safety is important. This is reinforced internally in our purpose, our values and our strategic objectives, and externally through our community safety campaigns.

Storm season 2017-18

Major events - October 2017 to April 2018

Total customers **IMPACTED**

500,000+

EMPLOYEES **MOBILISED**

~3,000

TOTAL OUTAGE **DURATION**

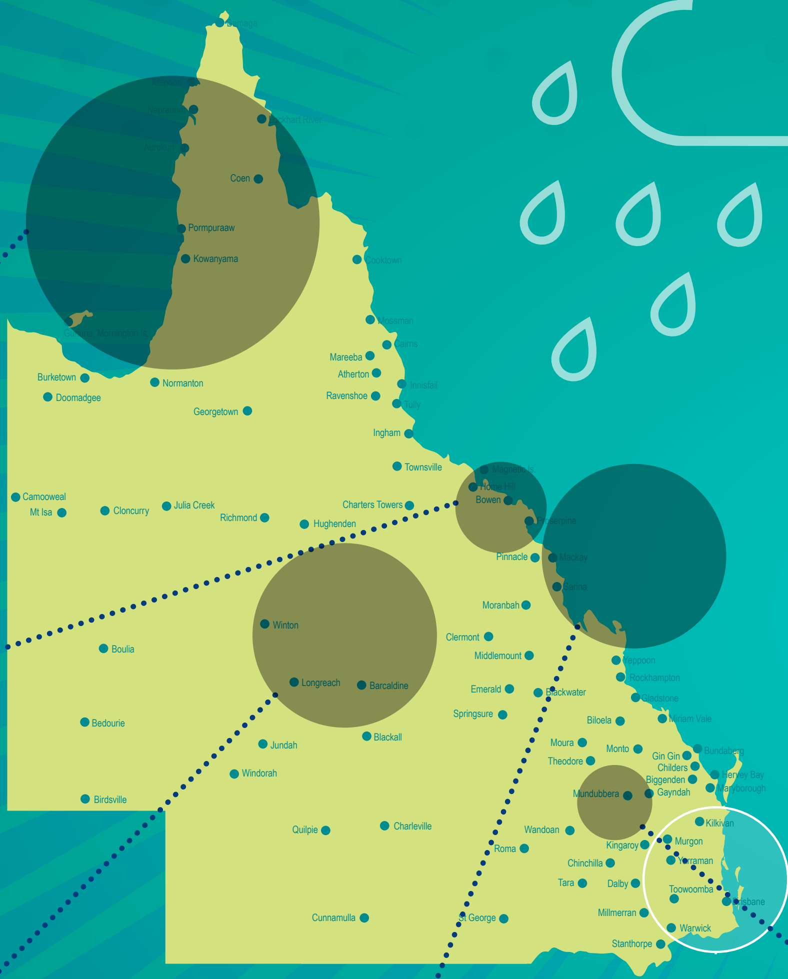
34 DAYS

PROGRAM OF WORK IMPACTS

- Some priority 1 and 2 defect extensions
- Moderate impact overall

CUSTOMER SENTIMENT

Overall positive customer and social media sentiment



22-29 March 2018

TC Nora

- Category 3 event
- Significant damage in Pormpuraaw
- Minor damage in Aurukun, Kowanyama, Mossman (flooding)
- 153 employees mobilised

3-6 April 2018

TC Iris

- Category 4 event
- Did not make landfall
- Minor wind damage in Mackay
- Rectified using local resources
- ~ 237 employees mobilised

20-25 February 2018

Barcaldine - Moranbah

- 4.5 days duration
- 250 employees mobilised

12-15 March 2018

TC Linda

- Category 2 event
- Did not make landfall
- ~ 248 employees mobilised

5-8 November 2017

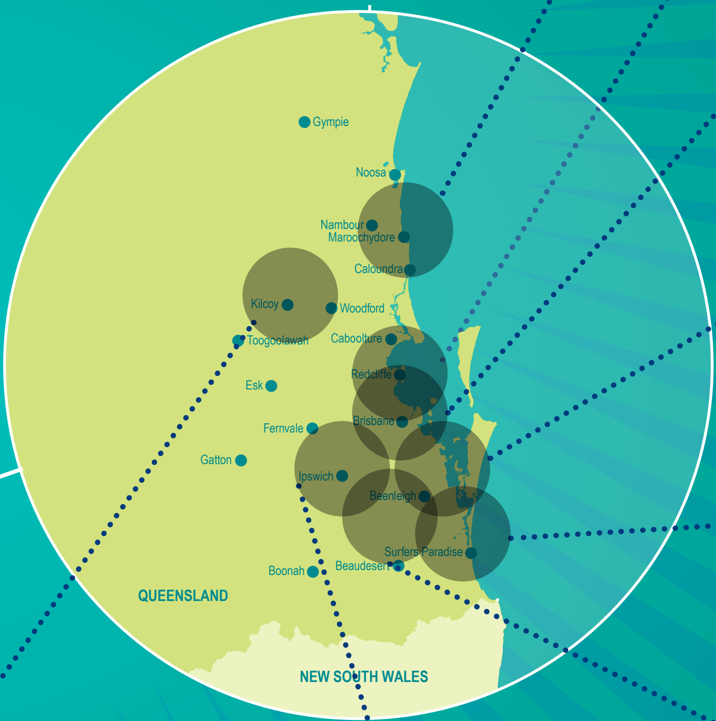
Bundaberg Burnett

- 3 days duration
- 180 employees mobilised

LEFT: Brisbane experienced a number of storms during the 2017-18 summer. Here, our field crews worked hard to restore power during four days of extreme weather.

Being there after the storm

Throughout the year we continued to deliver a safe response to a busy summer storm season. The 2017-18 season was considered average, with 13 major weather events, although a number of these continued for a number of days. We are experiencing an increase in intensity of storms over the last three years, and this provides an important reminder of our annual summer preparedness efforts, bushfire and flood mitigation planning.



16 February 2018
Sunshine Coast
- 11 hours duration
- 140 employees mobilised

29 October 2017
Redcliffe
- 6 hours duration
- 284 employees mobilised

11-15 February 2018
Brisbane
- 4 days duration
- 858 employees mobilised
- 5 PeakSmart events

25 December 2017
Gold Coast and Brisbane South
- 18 hours duration
- 156 employees mobilised

31 December 2017
Gold Coast and Brisbane South
- 15.5 hours duration
- 144 employees mobilised

7 November 2017
Kilcoy
- 8 hours duration
- 82 employees mobilised

15 February 2018
Ipswich
- 14 hours duration
- 130 employees mobilised

9-10 December 2017
Mount Tamborine
- 2 days duration
- 137 employees mobilised

SCORECARD

Network performance scorecard

Throughout 2017-18, despite a busy storm season (p18), we maintained our safe, reliable power supply. Across the Ergon Energy and Energex networks, all twelve of the Minimum Service Standards (MSS) for reliability were met.

Some measures experienced a decline in performance when compared to 2016-17, due to the level of significant weather events. Many of these events did not reach the Major Event Day threshold for exclusion and therefore are reflected in the overall results. We also increased our planned outages for network maintenance, while still meeting the required standards.

The longer term trend shows a sustained level of performance, as a result of sound historical investments into both the networks and our operational response capability and focus. The level of overall reliability being delivered by our distribution networks has now largely plateaued. Details of the trends are available in our online Distribution Annual Planning Reports.

With the optimal performance capability of our supply network reached, we are now targeting network investment to areas where reliability standards are below expectations. Overall, reliability will be maintained through routine asset renewal programs.

ERGON ENERGY NETWORK	2016-17	2017-18		TARGET (MSS)
Average number of outages per customer (System Average Interruption Frequency Index)				
Urban Distribution	1.14	**1.52**	▲	≤1.98
Short Rural Distribution	2.64	**2.71**	▲	≤3.95
Long Rural Distribution	5.80	**5.55**	▼	≤7.40
Average length of outages - minutes (System Average Interruption Duration Index)				
Urban Distribution	107min	**134min**	▲	≤149min
Short Rural Distribution	279min	**316min**	▲	≤424min
Long Rural Distribution	781min	**891min**	▲	≤964min

ENERGEX	2016-17	2017-18		TARGET (MSS)
Average number of outages per customer (System Average Interruption Frequency Index)				
CBD Distribution	0.02	**0.04**	▲	≤0.15
Urban Distribution	0.67	**0.67**	-	≤1.26
Short Rural Distribution	1.45	**1.46**	▲	≤2.46
Average length of outages - minutes (System Average Interruption Duration Index)				
CBD Distribution	4min	**5min**	▲	≤15min
Urban Distribution	76min	**73min**	▼	≤106min
Short Rural Distribution	165min	**187min**	▲	≤218min

Reporting based on the MSS exclusion criteria outlined in each network's Distribution Authority.

Ergon Energy Network data includes regulated main network and excludes isolated networks.

BELOW: Routine asset renewal programs includes pole replacements.

Managing demand

In February the state experienced very hot summer weather conditions, leading to electricity use peaking at 4,920MW in the South East – setting a new record for demand – and at 2,601MW in regional Queensland. As climate conditions remain volatile, there is the potential for further records in annual maximum demands.

In preparing for these summertime, air conditioning-led peak periods, our network planning and investment process is focused on reinforcing constrained sections of the network (p23), as well as on improved demand management (p36), to maintain a secure, reliable supply.

At the same time, across our networks the traditional daily demand profile is changing. Many areas of the grid are now experiencing reduced demand during daylight hours as a result of solar energy being generated. However, this solar energy by itself, without a battery storage system, is unable to reduce the evening peaks in residential demand. To help manage this change, and support Distributed Energy Resources, we are continuing to target investment across the network and find new solutions (p23 and 33).

ENERGEX	2016-17	2017-18	
Number of connected customers	1,439,468	**1,463,494**	▲
Network-wide peak demand	4,814MW	**4,920MW**	▲
Electricity delivered	21,324GWh	**21,239GWh**	▼

ERGON ENERGY NETWORK	2016-17	2017-18	
Number of connected customers	747,183	**759,185**	▲
Network-wide peak demand	2,637MW	**2,601MW**	▼
Electricity delivered	13,330GWh	**13,243GWh**	▼

Standing by our commitments

We are committed to making sure the safe and efficient delivery of electricity to your home or business meets industry standards. Where we fail to meet our commitment, we provide a Guaranteed Service Level (GSL) payment to the electricity account holder. This covers network reliability, the notification of planned power interruptions, appointments, new connection and reconnection timeframes, wrongful disconnections, and the resolution of hot-water supply.

During the year, storm events impacted local network reliability (p18). These unplanned events were not declared natural disasters and, as such, we provided a significant number of GSL payments this year compared to the previous year for failing to meet our service standard.

During 2017-18 we undertook a review of our planned interruptions process. This is particularly important in ensuring our planned works are not adversely impacting customers living with medical conditions that require life support equipment or other essential electrical appliances.

GUARANTEED SERVICE LEVEL PAYMENTS	ERGON ENERGY NETWORK		ENERGEX	
	2016-17	2017-18	2016-17	2017-18
Network reliability	3,588	**22,775**	2,415	**41,910**
Notification planned interruptions	1,323	**1,381**	1,149	**1,321**
Other	293	**309**	731	**656**
TOTAL	5,204	**24,465**	4,295	**43,887**

LEFT: Energy Minister Dr Anthony Lynham (right) meeting with field crews in Mackay, pictured here with Brendan Halton and Fred Van Hees.

Investing in assets for the future

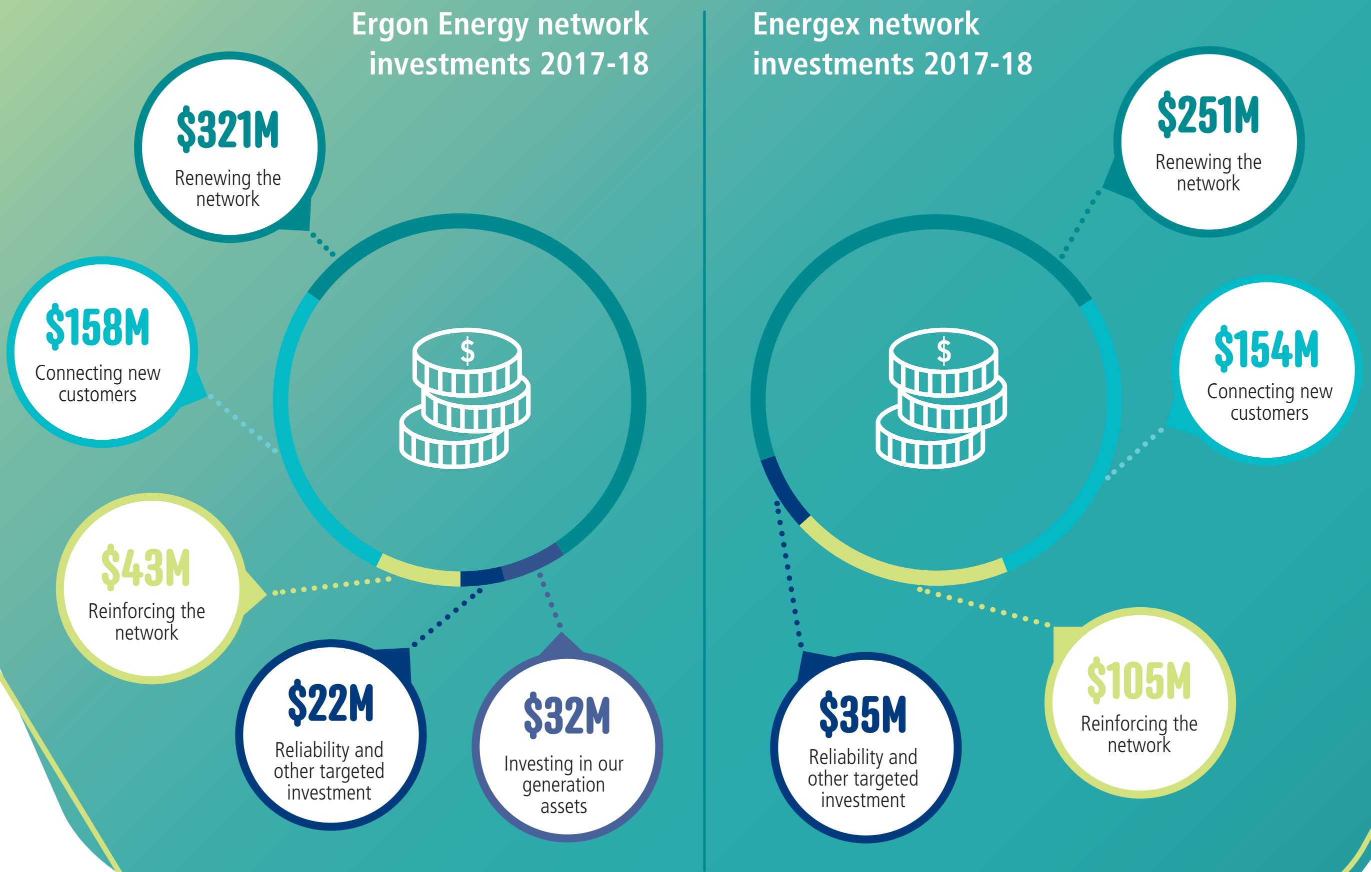
We're continually working to maintain, upgrade and build important electrical infrastructure to meet Queensland's changing electricity needs. These carefully planned investments are maintaining safety and reliability, and reinforcing the network across the state. In 2017-18, we commissioned over 390 projects, and delivered 96% of customer and business initiated work within planned targets, meeting our Program of Work Delivery Index.

- **475,400** asset inspections
- **10,000** poles replaced
- **101,000** 'Priority 2' defects rectified
- **4,900** transformer defects addressed
- **5,600** powerline 'spreaders' installed
- **19,700** earth tests and maintenance
- **580km** of conductor replaced
- **280km** of copper conductor removed
- **748,300** spans of vegetation management

Major projects commissioned 2017-18

Replaced transformers and 33kV circuit breakers at Nudgee Zone Substation in Brisbane

A new power station at Palm Island, one of our isolated communities located off the coast of Townsville



ABOVE: We delivered our network capital works programs for 2017-18 with a focus on efficiency while ensuring safe and reliable supply – a combined investment of $1,121 million. Our largest investment was in renewing the network – $321 million in regional Queensland and $251 million in the South East. Customer-initiated works was the second largest area of investment, with connections increasing in regional Queensland, but decreasing in the South East as per forecasts.

BELOW: In 2017-18, we commissioned over 390 projects maintaining safety and reliability, and reinforcing the network across the state.

Strategic property investment

With a significant property portfolio, we've also been taking a strategic approach to redevelop some of our owned-sites to realise further efficiencies and enable fit for purpose facilities. During 2017-18 major depot redevelopments were completed in both Townsville and Toowoomba. These projects consolidated buildings and existing facilities, provided cost efficiencies and improved our ability to coordinate disaster response. We continue to work hard to consolidate our property portfolios to deliver further savings and performance efficiencies, including the consolidation of functions to enable exiting of surplus office accommodation.

Energising the Commonwealth Games

In preparation for the Commonwealth Games in April 2018, as a critical service provider to the event, we worked closely with the Gold Coast 2018 Commonwealth Games Corporation and City of Gold Coast Public Utility Providers. Energex invested $9.2 million to prepare the electricity grid for the Games. This work improved grid resilience and network reliability, mainly around the Gold Coast area (but also other sites across the state), and now provides a legacy benefit for the community.

RIGHT: The rollout of the new card operated meters required significant community engagement with the local councils, the power card resellers, and the community via social media and face-to-face. Here Chris Samuelsson, an Ergon Energy Retail Vulnerable Customers and Service Policy Specialist met with Corrina Geia and Elizabeth Baluz from Sunset Snack Foods at Palm Island.

Empowering communities

Providing electricity services to Queensland's isolated communities is challenging, with the majority being remote and supplied by stand-alone power stations.

Card operated meters provide real benefits

Following a successful trial of card operated meters in Wujal Wujal on Cape York and Hammond Island in Torres Strait, Ergon Energy Retail extended the program to a further 32 isolated communities across the state during the year. Teaming up with Ergon Network to offer an electricity solution that meets the needs of those living in these communities, the card operated meter installation of almost 5,000 is now complete.

Providing real-time data on their usage, customers can recharge their meter via a reusable card at local outlets and councils. This system also has the ability to pay the Queensland Government electricity rebate into a card 'linked' to the meter at the customer's home.

Shared value through community investment

During 2017-18 we proudly continued our community investment program, including community safety education, state-wide community partnerships, an employee volunteer program, Community Funds, and sponsorship of a range of other local community initiatives.

Enhancing community safety awareness

Safety is the number one priority for Energy Queensland – not just for our employees, but also the wider community. This saw us continue to build electrical safety awareness across Queensland communities in 2017-18.

During the year, there were 760 community electrical safety incidents across our network, down from 831 during 2016-17. The majority of these were motor vehicle and transport accidents; however, agriculture, vegetation management and construction industry recorded high incident numbers.

Targeting at-risk industries

Our marketing and safety campaign targeted the most at-risk industries to raise awareness of the potential dangers when working around electricity assets, particularly powerlines, and to drive behavioural change. Participation in field days and industry events provided face-to-face education programs and practical tools for improving safety behaviours. These events delivered our core 'Look up and live' and 'Dial before you dig' messages and other important information.

We also continued to collaborate with key stakeholders, such as Workplace Health and Safety Queensland and the Electrical Safety Office to deliver electrical safety messaging. The benefits of these ongoing relationships include a unified voice and a coordinated effort to increase awareness of electrical safety messages.

To ensure we deliver safety messaging to the entire community, our community safety marketing campaigns also continued. In our regional areas, the Scouts Queensland 'Be prepared' messaging remained, along with the Grim Llama 'Think ahead a bit' electricity campaign. While in the South East the safety advertisement, 'If you could only see the dangers, you'd stop yourself' continued.

A refreshed state-wide marketing campaign is planned for release in 2018-19. After analysing safety data, this campaign will encompass storm and cyclone safety, industry safety and other targeted customer segments at specific times of the year.

Safety Heroes in schools

We continued to deliver the Safety Heroes program, with 95% of all Queensland primary schools participating during 2017-18. The age-specific content is designed to educate on the importance of being safe around electricity. Supported with interactive activities and resources, the program was delivered by more than 80 employees during the year.

LEFT: Energy Queensland's Rebecca Dulhunty delivered a Safety Heroes talk to daughter Isobelle's Gold Coast Christian College during the year. Isobelle became one of our many Safety Heroes.

Actively participating in our local community

Our people live and work in Queensland and that's what makes us even prouder to be a partner of the Royal Flying Doctor Service (RFDS) (Qld Section) for close to 18 years. Through our involvement, this year, the RFDS Local Hero Awards were able to involve the broader community. Thanks to the generosity of Ergon Energy Retail's customers, more than $13 million has been donated to date to the RFDS through our long running partnership.

Our support for the volunteers also continued through partnerships with the Queensland State Emergency Services (SES), the Queensland Rural Fire Service and Rockhampton's Beef Week. We also supported the Queensland Ballet and the Queensland Theatre, and helped out through our Community Fund and a range of other state-wide and local partnerships.

A highlight was a new partnership, for Ergon Energy Retail, with Ronald McDonald House North Queensland. In sponsoring their 'Ergon Energy Laundry', we're enabling families to do a load of washing and or clean their child's favourite teddy or blanket while family members are on the ward.

In addition to financial support, Energy Queensland was able to assist many local clubs and organisations with in-kind assistance. From the repurposing of power poles for Pony Club jumps, to erecting the local hockey scoreboard, just a few of the many ways we contribute to Queensland communities.

Our employees are giving back

Our employees are active in volunteering their time to support valuable community initiatives. We support these collective efforts by providing employees the opportunity to undertake two days of Volunteer Leave to support charities and causes close to their heart (p27). During 2017-18, a total of 82 volunteer days were provided to local community initiatives.

Employees also helped to save lives during the year by rolling up their sleeves for the Australian Red Cross Blood Service. The Red Cross' Red25 Club provides a running tally of corporations and their employees' donations throughout the year, with our employees the most generous in the energy sector in Queensland.

Buy local, support local

With a focus on procuring goods and services from local suppliers, where possible, we provide flow on economic opportunities for local industries and the communities in which we operate.

In 2017-18, to keep the lights on, we made more than $894 million worth of direct purchases from Queensland suppliers – 65% of our total spend.

By supporting the government's procurement principles, as set out in the latest Queensland Procurement Policy (2017), we seek to purchase locally, drive value for our shareholders and deliver economic benefits for communities across Queensland.

BELOW: Our partnership with Queensland Theatre was recognised at the 2018 Queensland Reconciliation Awards. Winning the Partnership Category, the award was presented to the Queensland Theatre/Lonestar Company and ourselves for the production 'My Name is Jimi'.

CASE STUDY

Connecting with community

Our local sponsorship program is one way we are connecting with our communities.

This program is outworked through our Area Managers, who know their local communities best, with the help of passionate community advocates across the business.

One great example this year was when a local staff member, Dan Stapley, an Electrical Fitter and Mechanic, was able to create a win-win through a sponsorship initiative with Multicultural Development Australia (MDA). Here our $1,500 sponsorship ultimately supported MDA in supplying English books to refugees settling in to a new life in Queensland.

Dan is a passionate volunteer with MDA, which places mentors with refugee families during their first three to six months in the country.

"You get matched with a family and try and help them get used to life. English is a big part of it, but there's also helping out with the paperwork, navigating cultural differences, learning about catching buses and public transport – lots of things.

"One of the most common negative comments I hear about refugees is that people think they don't integrate, so part of what attracted me to MDA is that you're on the front line of changing that, helping people to integrate, which is no easy task."

Dan volunteers his personal time and with the support of Energy Queensland, he accesses two days of volunteer leave to help support MDA.

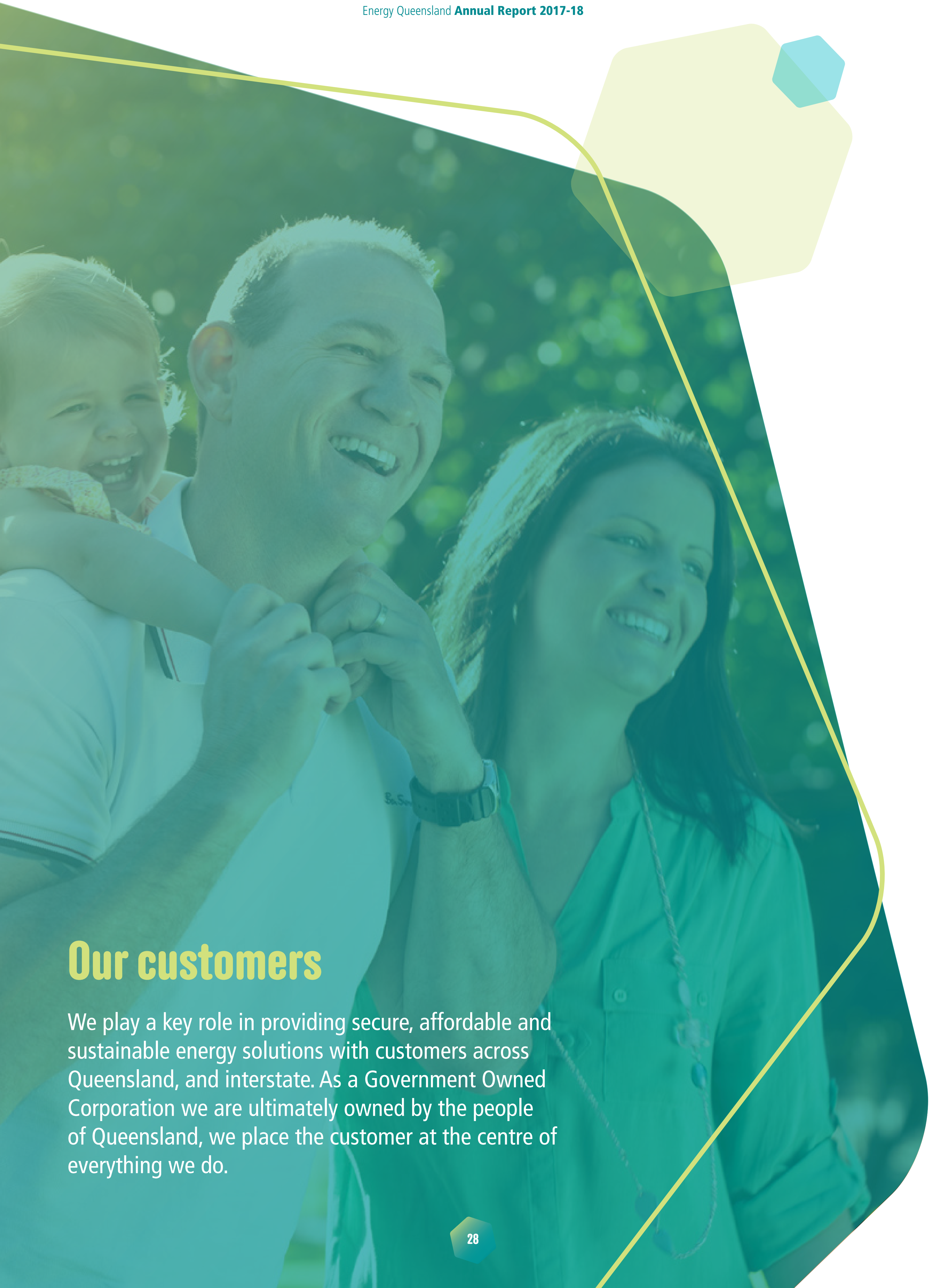
"I really value the Volunteer Leave, it helps me support the cause. It's important to me, as I volunteer regularly in my own time to help those new to Queensland," Dan said.

Dan is currently matched with a family from Iran, a father and his 17-year-old son who live in a nearby suburb on Brisbane's southside. While he doesn't pry into the past struggles of the people he supports, he said you can't help but feel very lucky for what you have and where you live.

"I didn't do anything to deserve being born here. It's just a stroke of luck. They're always looking for more volunteers. It's really only one or two hours a week and it can make a huge difference to people's lives," Dan said.

During 2017-18, through our Area Managers and other employees participating in their communities, we provided over $160,000 in local grass-roots sponsorships.

BELOW: Geebung employee Dan Stapley, with Brisbane Central Area Manager Trevor King, supporting MDA's Sari Joensuu.



Our customers

We play a key role in providing secure, affordable and sustainable energy solutions with customers across Queensland, and interstate. As a Government Owned Corporation we are ultimately owned by the people of Queensland, we place the customer at the centre of everything we do.

We are actively responding to the customer-led energy transformation taking place – our focus is on customers' needs both today and tomorrow. We're further supporting this transformation with business-led initiatives, along with delivering a number of Government initiatives to support Queenslanders.

How we're responding

- We're continuing to drive network costs down – for homes and small businesses we have reduced network charges by 7% per year, over the last four years
- Work is underway, towards a modernised network for everyone
- A record level of solar capacity – 415MW is now connected to the network
- We launched EasyPay Rewards, allowing our Retail customers to smooth out the highs and lows and be rewarded
- We launched Yurika's Virtual Power Plant (VPP) – Australia's largest operational VPP*
- Metering Dynamics named as Australia's top performing Meter Data provider by the Australian Energy Market Operator (AEMO).

*As at June 2018

Addressing affordability

We know that electricity affordability remains a major concern both from a cost of living and a business competitiveness perspective.

Pleasingly, some relief has come with electricity price decreases being realised across most of the regulated tariffs available in regional Queensland.

For 2018-19 this equates to an annual bill decrease of 1.3% for a typical customer on the main residential tariff (Tariff 11) – a saving of $20 on an annual bill of $1,542 – and 3.4% for a typical customer on the main small business tariff (Tariff 20) – a saving of $87 on a bill of $2,568.

Reducing network charges is the main reason for the tariff decreases – for homes and small businesses the cost of using the state's network has fallen by an average of 7% per year over the last four years. Wholesale energy costs have also reduced recently, however, the cost decreases have partially been offset by higher costs associated with the Renewable Energy Target (p52).

These tariffs, which are offered by Ergon Energy Retail, are set by the Queensland Competition Authority (QCA) in accordance with the Queensland Government's Uniform Tariff Policy, which means most regional customers pay significantly less for electricity than it costs to supply it.

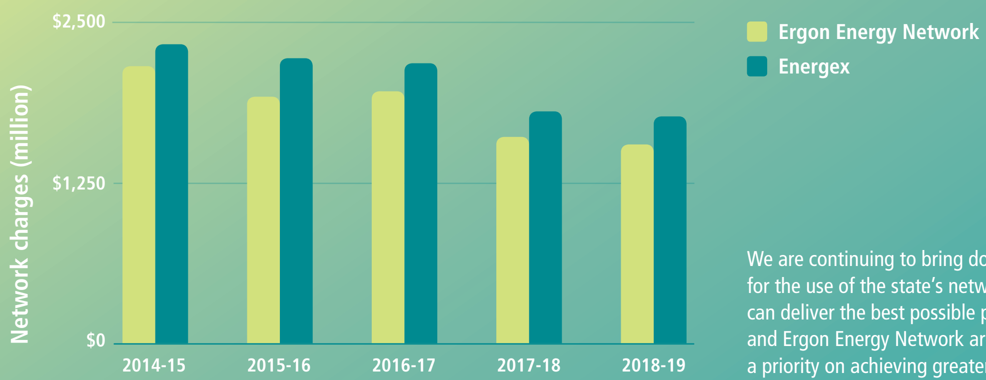
The downward trend in network charges is also supporting retail price relief in South East Queensland. We continue to work hard to keep our costs down while delivering safe and reliable services to all.

Future network tariffs

Looking to the future, we are planning significant network tariff reforms guided by our ongoing engagement with customers. Consultation with residential, small and medium business, as well as large business has been underway during 2017-18, with proposed tariff structures provided to customers for their consideration.

As part of our activities, we are developing network tariffs for 2020-25 that provide customers with choice and flexibility, that promote greater levels of equity and fairness by minimising cross-subsidies wherever possible, that target manageable customer impacts, that drive retail innovation and support emerging technologies, and most importantly, facilitate greater simplicity and affordability for customers.

Bringing network charges down



We are continuing to bring down what we charge for the use of the state's networks. To ensure we can deliver the best possible price, both Energex and Ergon Energy Network are continuing to place a priority on achieving greater efficiencies.

Making it easy for customers

In early 2018, we refreshed our Customer Strategy to focus our efforts on delivering experiences that our customers value.

This strategy establishes our roadmap to becoming a best-practice customer experience organisation. It is focusing our efforts on aligning the Group under a shared set of customer principles, understanding our customer segments (with a greater analytics capability), ensuring operational excellence across all touch points, and enabling connected employees, as well as a culture of innovation that is best able to anticipate customer needs.

In line with the strategy, we are actively measuring our customers' experience. Our 'voice of the customer' program enables our different customer segments to provide real time feedback on our performance, around key touch points, to help us identify the opportunities for service improvements. For 2017-18 we met our Customer Index target of 6.7 and, importantly, we used the performance monitoring to drive continuous improvement.

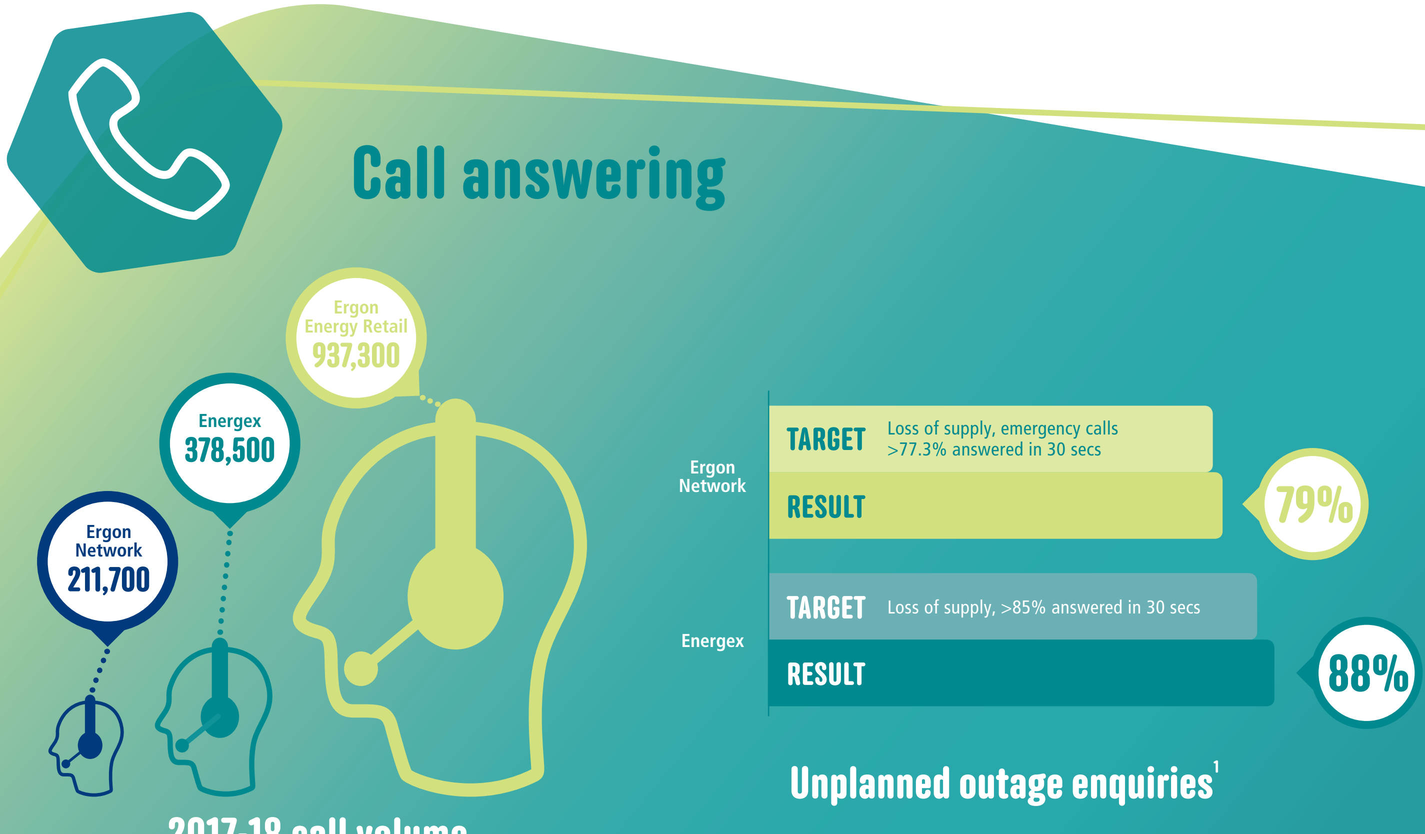
To support this, we also survey employees to identify where we need to support them to deliver improved customer-focused outcomes. Pleasingly, our result for the Customer Enablement Index was 6.1, an increase of 15% on the previous year – showing support for our employees is continuing to grow and have an impact. We recognise that there is more work to be done in providing a valued customer experience, but the result reflects the significant work undertaken to date.

To demonstrate the commitment of meeting the needs of our customers, we signed on to a new industry-wide charter aimed at progressing the solutions required to deliver energy in line with community expectations. Known as The Energy Charter, it focuses on embedding a customer-centred culture and conduct in energy businesses to create tangible improvements in price and service delivery.

Locals only a phone call away

Our Ergon Energy Retail Contact Centres are in Townsville and Rockhampton with local people at the ready to help our customers with personal energy advice and bill support. There has been considerable focus on improving customer experience when speaking with us this year. Customer survey results have reflected this with customer satisfaction at 84.4% for the year, and first contact resolution occurring for 84.0% of customers.

Our network Customer Operations teams are also located across the state, and are here to help in emergency situations. They focus on answering emergency and loss of supply calls quickly to ensure customer and community safety. The Customer Operations team also provide an end-to-end customer service for all Energex and Ergon Network related enquiries and schedule and dispatch work to our field crews.



1. Network targets as set for the AER's Service Target Performance Incentive Scheme.

Customer engagement at a glance

Improving our digital experience

During the year, Ergon Energy Retail commenced work on improving the digital customer experience with user-led enhancements. Customers are telling us they want to be able to manage their interactions with us via digital channels, and the goal of this transformation is to make it easy, seamless and intuitive.

This year saw the HomeSmart Savvy online portal developed as a core residential customer offering, enabling customers to gain value from the introduction on digital meters. This builds on My Account, which allows residential customers to easily manage their account online, with other Retail portals to undergo transformation in 2018-19, further enhancing the customer experience.

The portal was tested with the roll out of more than 5,000 smart meters through the Energy Savvy Families trial. This program helped low-income families with monthly bills and access to their energy usage online through the portal. The feedback from customers, and through local project champions, in Mareeba, Murgon, Toowoomba, Cairns, Townsville, Rockhampton, Hervey Bay, Bundaberg, Mount Isa and Charters Towers, helped refine the program.

LEFT: Our Network Control Centres help manage the network when unplanned outages occur.

To help facilitate the transition to electric vehicles, we have installed 17 fast-charging stations across Queensland (p51).

Competition in metering – Power of Choice

As part of the Australian Energy Market Commission's Power of Choice reforms, new rules were introduced in December 2017 to give customers options and greater control of the way they use and manage their electricity. These changes expanded competition in metering and require all new and replacement electricity meters to be digital meters.

Significant work was undertaken across the Group to meet the December timeline for the industry-wide change, driving through major accountability and process changes.

As part of this change, Metering Dynamics expanded as a national metering coordinator and provider (p39) and our Network businesses' responsibilities decreased, as they are now only responsible for maintaining existing meters. In regional Queensland Ergon Energy Retail took up the responsibility for metering, as the main point of contact for all customer requests relating to the installation, update or maintenance of metering services.

Multiple parties now are required to work together to connect a customer. We are continuing to resolve issues raised by key stakeholders, including developers, electrical contractors, metering providers and other retailers, to improve the experience under the new the legislative framework, and to provide greater value to our customers.

Network transformation

The electricity sector, like many industries, is undergoing a rapid period of transformation. As new products like solar, battery and electric vehicles become more accessible, evolving technology, greater choice, improved data analytics and customer desire for more control are driving many of these changes.

We're taking steps to support these changes, and meet customers' changing needs as safely and efficiently as possible. In order to meet these challenges, work is already underway and we are preparing for a digital transformation, towards becoming a coordinated digital utility of the future.

To do this effectively, we are continuing to deliver electricity safely and reliably, while working with customers across the state on their large and small energy projects. At the same time, we are working towards implementing a fully digital system where our systems and data, and our people, are better connected. This intelligent grid will enable energy, real time information and value exchange through efficient and effective management of an increasingly complex and interconnected energy system.

With an eye to the future, we have already taken our first steps and have begun to modernise our existing networks, with replacement works and new infrastructure helping to gradually build this capability. Our future network will further support communities to optimise value, where customers play a part in generating and supplying energy between one another.

Our goal is to be a leading energy utility, where our digital platform provides power through the network, technology insights provide visibility and control, and data analytics that provide equitable outcomes for all who use it.

Technology delivering local solutions

We're continually looking for smarter, more cost effective ways to supply reliably at the local level.

While the majority of our network is performing well, we know that some customers are experiencing outages and voltage fluctuations outside our standards.

The Power Quality (PQ) measures along the network are one way we assess local network performance. Along with quality of supply complaints from customers, monitoring helps us to identify which areas are underperforming.

To resolve these issues, network changes are required, combined with new technologies and transformation to 230V (p35). New smart power electronics devices and energy storage technologies, such as our Grid Utility Support System (GUSS) and low voltage STATCOMs are being deployed to regulate voltage fluctuations.

New modelling techniques, through projects such as the Solar Enablement Initiative, are also being developed to use smart algorithms and in-situ data to better identify network constraints and opportunities.

In addition, our Network Planning teams are engaging on community-based energy initiatives, as we work towards the best solutions for all.

BELOW: To benefit all customers, we've introduced a device called STATCOMs to our networks. This technology provides a cost effective solution to regulating network voltages, that can be impacted by solar energy systems feeding into the network or during periods of high customer load. In doing so, the potential for quality of supply issues is reduced, the performance of the existing solar energy systems can be maximised, and the network can also enable further solar connections.

Supporting connections and renewables

Interest in renewable energy and new technologies is driving unprecedented change in the electricity industry. We play a role in supporting the establishment, growth and integration into the existing electricity distribution networks.

In responding to customer-initiated requests for network connections or upgrades in the South East - for both load and generation projects - $154 million was invested in the network in 2017-18, down slightly on the $175 million invested in 2016-17. In regional Queensland, $158 million was invested – this increase from the $149 million in 2016-17 largely reflects the economic activity surrounding the growth in renewable energy sector.

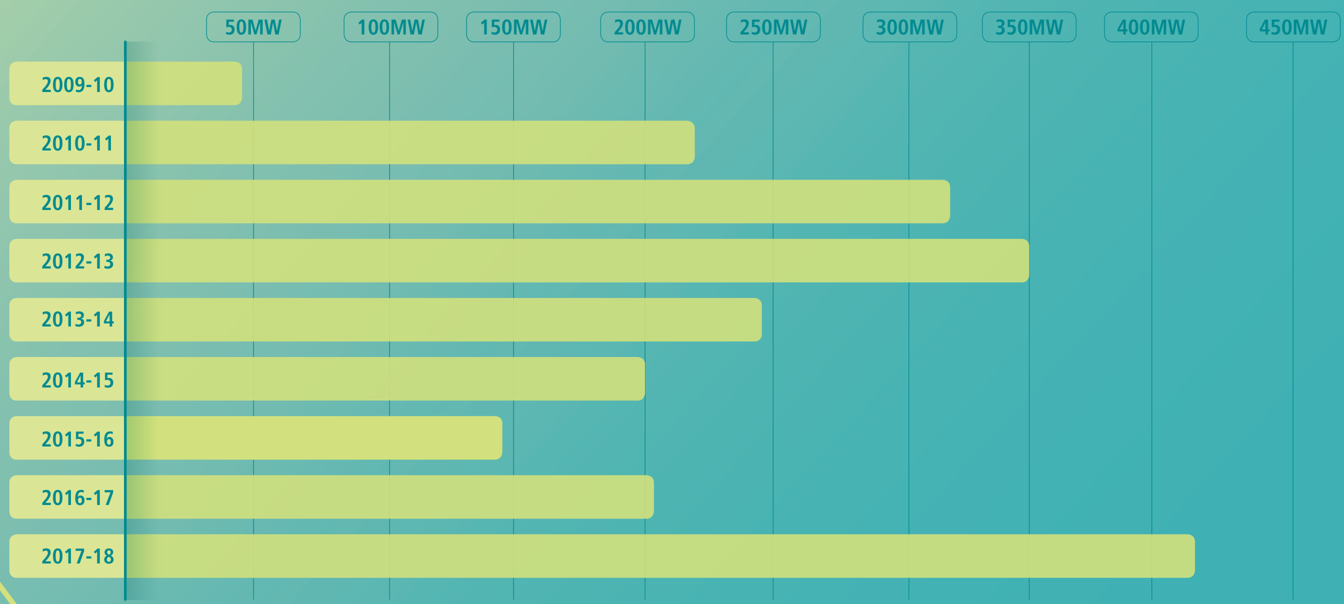
BELOW: During 2017-18, we connected seven new major solar projects adding almost 150MW in renewable generation capacity.

Major solar farms connected in 2017-18

- Dunblane Solar Farm
- Hughenden Sun Farm
- Longreach Solar Farm
- Kidston Solar Project
- Normanton Solar Farm
- Lakeland Solar and Storage Project
- Collinsville Solar Farm

TYPE OF RENEWABLE CONNECTION	NUMBER	TOTAL CAPACITY
Solar farms (>1500 kW)	9	185MW
Large-scale solar PV (>30 - 1500 kW)	813	22MW
Small-scale solar PV (<=30 kW)	497,805	2,155MW
Totals	**498,627**	**2,362MW**

Total solar capacity installed each year



The annual solar capacity connected to the Energex and Ergon Energy's networks reached a record level in 2017-18 at 415MW, more than double the capacity connected in the previous year, largely due to seven solar farms connecting in regional Queensland.

In total there are now more than 497,800 solar photovoltaic systems connected to our networks, equating to a total of 2,155MW of generation capacity. Queensland has the highest penetration of roof top solar of any state or country in the world with 29% of detached houses across Queensland now benefitting. This resource is capable of generating around 9GWh per day. We continue to work with customers to facilitate connections and find options that avoid costly network upgrades. Where quality of supply issues are identified, the cost to address these is funded as part of our standard maintenance program.

During the year, the number of battery connections has also continued to increase as energy storage system prices reduce. We are also supporting the Queensland Government's Energy Resource Register, ahead of the national register being released in 2018, and encouraging customers to register any battery systems that are connected to our networks.

The adoption of plug-in electric vehicles (EVs) in Queensland is currently following a steady trajectory, with fairly equal volumes of battery EVs and plug-in hybrid EVs. More than 90% of Queensland's 1,526 EVs are registered in the South East. As more models become available in late 2018 and beyond, and charging infrastructure increases (p51), the adoption rate is expected to accelerate significantly.

Transition to 230V

Queensland's Electricity Regulation was amended in 2017 to mandate a transition to the 230V standard in Queensland by October 2018. As such, we are making small voltage reductions at many sites across the state. From July 2020 customer voltages should align with the preferred range of 225V to 244V.

This transition will provide significant benefits to customers including the increased capacity for solar hosting, reduced inverter tripping on high voltage, alignment with national and international standards, improved equipment performance and some small energy savings.

Our demand management strategies were developed based on key customer insights

DEMAND MANAGEMENT STRATEGIES	Affordable	Reliability	Choice and control	Innovation	Approachable	Tailored	Community focused
Ensure efficient and well planned investment and infrastructure	●					●	●
Maintain reliable supply of electricity for all end use customers		●				●	●
Maximise power system security and reliability particularly during summer		●					●
Inform and engage our end use customers and stakeholders			●		●	●	
Activate the demand response market			●	●			
Support our program by investment in innovation				●		●	

Aligning demand management across Queensland

Each year Energex and Ergon Energy Network publish a Demand Management Plan to engage and inform key stakeholders. This year we have delivered a unified Demand Management Plan for 2018-19. It brings together a single approach to demand management for the whole of Queensland, while at the same time acknowledging the differences in each region and networks.

We work directly with our customers and our industry partners to reduce demand to ensure an affordable and secure network. The initiatives across both networks benefit customers, through direct or indirect incentives and cost savings, as an alternate solution to investing in traditional network infrastructure to efficiently managing network risks.

PeakSmart rolls out across Ergon Network

As part Energex's long established Positive Payback program, we now have over 90,000 PeakSmart air conditioners under load control in the South East. During 2017-18, this resource was activated five times for short periods (p19).

With this success, the demand management initiative was rolled out this year to targeted areas across regional Queensland. To help take pressure off the network at peak times, customers are rewarded with cash incentives for installing a new PeakSmart air conditioner or converting an existing system.

PeakSmart allows us to send a signal to air conditioners on the program to temporarily reduce consumption, similar to putting the air conditioners into economy mode. The program now has 59MVA of capacity available across Queensland to help manage demand on the network and reduce outages.

RIGHT: PeakSmart is one of our demand management strategies helping to take pressure off the network at peak times.

> We are continuing to deliver efficiencies while maintaining a strong emphasis on safety and 'keeping the lights on' for Queenslanders."

Peter Price,
Head of Corporate Strategy

CASE STUDY

Redback smart network monitoring pilot

Supported by the Queensland Government's Advance Queensland Initiative, Energy Queensland joined a three-year collaboration this year to trial smart network monitoring in Queensland homes.

With a view to improving safety and power quality, the pilot, commencing in 2018, will test 20,000 smart monitoring network devices installed in the switchboard. The device will provide functions such as monitoring broken neutrals and phase detection in near real time, as well as recording power, voltage, current, power factor for power quality purposes. This helps us identify safety hazards, understand the network and efficiently plan for future customer needs.

ABOVE: Senior Engineer Daniel Eghbal, from the Redback Smart Network Monitoring trial project with a residential customer. This trial aims to improve safety by monitoring faults such as broken neutral and monitoring power quality.

ABOVE: We're working collaboratively to bring the benefits of solar energy to those in public housing through the Sunny Savers program.

Ergon Energy Retail – more choice and value

With electricity affordability front of mind for many, Ergon Energy Retail's focus has been on providing customers with more control over energy use and assisting with the cost.

Customers signing up for rewards

A highlight this year was the launch of EasyPay Rewards. This offer allows customers to smooth out the highs and lows of their bills across the year with direct debit, for easy budgeting, and, in moving to e-bills, they receive a reward of $75 for residential customers, and $120 for business customers per year for three years. In 2017-18,we also credited residential accounts with an asset ownership dividend of $50. This forms part of a two-year Queensland Government initiative under the Affordable Energy Plan.

Energy Savvy Families was a joint Ergon Energy Retail, Queensland Council of Social Service (QCOSS), CitySmart and Queensland Government initiative. We are now working with QCOSS to assess whether the information and behaviours learnt through the trial are continuing to provide long-lasting value for customers.

Businesses are using our free EnergyCheck product to help them monitor energy use, compare tariffs and save.

This year we have also had a special focus on customers in rental accommodation, who have significant barriers to accessing the benefits of solar energy, through the Sunny Saver trial. We partnered with the Queensland Government to install solar panels on public housing with no upfront cost to tenants. Trial participants in Cairns and Rockhampton are already saving on their electricity bills, and helping us find better ways to further support customers.

Helping those in need – financial inclusion

We continued to work closely with customers experiencing financial hardship to help them manage their electricity bills.

To respond to affordability issues, a specialist credit triage team was established to provide early support to residential and small business customers in debt, helping them avoid further hardship and potential disconnection. We actively encourage those experiencing financial difficulties to engage with us early for support.

For those in ongoing hardship, our Customer Assist program, established in 2009, continued to provide personal payment plans and support with energy education and audits, and information on the Government assistance available. During the year, the team who promote and improve access to the services that aim to remove financial exclusion was strengthened by consolidating a number of previously separate teams.

This enabled us to actively help more customers with extended payment plans. More people are also now accessing Queensland Government support, including the electricity rebate that was expanded to include Commonwealth Health Care Card and asylum seekers in April 2017.

While the summer rain reduced the number of areas in Queensland that had been drought-declared, we also continued to provide specific support on behalf of the Queensland Government to primary producers, with many entering their sixth year of drought. There has also been a significant focus on support for Indigenous communities (p24 and 51).

Looking forward we will be working closely with Good Shepherd Micro-Finance; having committed to their Financial Inclusion Action Plan (FIAP) in June 2018. This will see us working with the FIAP's broad membership across Australia, collaborating to find solutions that provide greater support for vulnerable customers.

Yurika, let's re-imagine

Our newest brand, Yurika, launched this year, brings together various offerings and high value, innovative solutions for customers and communities throughout Australia. Yurika's offerings complement those within the Group, with a focus on new solutions including infrastructure and utilities, metering, telecommunications, micro grids, and commercial and industrial solutions.

Launch of the Yurika Virtual Power Plant

In January 2018, we launched the Yurika Virtual Power Plant (VPP), Australia's largest operational VPP* (see above left).

Managed via a cloud-based platform, the VPP control room in Townsville can take pressure off the network at peak times by remotely redirecting electricity supply from Yurika's VPP customers. Utilising these aggregated VPP assets (like contingency generators, solar and battery storage systems and non-time critical energy intensive equipment) from around the state, the VPP can help manage the volatility of high wholesale prices in the National Electricity Market. For customers, the VPP provides an avenue to realise additional value from their Distributed Energy Resource investments.

Already proving beneficial, the VPP provided 44MW in capacity from customers to help meet new record peak demand in the summer of 2017-18 (p19).

*As at June 2018

Infrastructure and utility services

Yurika is providing an end-to-end service for generator and load customers including concept and engineering studies through to construction, operation and maintenance.

We are actively supporting the renewables transformation in Queensland by constructing high voltage connection assets including substations for several large scale solar projects across the state.

The combination of these works provides jobs for hundreds of staff and contractors across Queensland, providing critical infrastructure to ensure the reliability of networks as well supporting the adoption of new technologies including large scale renewables.

Metering Dynamics, Australia's top performer

Metering Dynamics was newly accredited as a Meter Data Provider (MDP) in December 2017 with the metering reforms under Power of Choice (p32).

By the end of January 2018, just two months after commencing operations under the new arrangements, they were named Australian's top performing MDP – a position held for the remainder of the financial year. This performance showcases best-in-class metering services to assist retailers and network providers.

The AEMO measures performance across the National Electricity Market (NEM), based on the quantity and quality of meter data delivered for settlement, as well as the management of connection point standing data.

In a rapid growth phase, Metering Dynamics have also managed the migration of approximately 40,000 Type 1-4 National Metering Identifiers from Energex and Ergon Network Meter Data Providers, along with developing their national footprint as the Metering Coordinator for Ergon Energy Retail and Aurora Energy in Tasmania.

Nexium Telecommunications

During 2017-18, Nexium continued its collaboration with Energy Queensland and other utilities to leverage existing utility fibre optic infrastructure for a Queensland Government owned ICT services provider. This telecommunications capacity is due for delivery in late 2018 and will provide a dedicated high speed 10 Gigabits per second inland digital highway connecting Cairns, Townsville, Blackwater, Toowoomba and Brisbane. We also note the 2017 state election commitment regarding exploring additional opportunities to use spare fibre optic capacity on publicly-owned optical fibre networks, and we continue to cooperate with government in its investigations.

In strengthening its reach across Queensland, Nexium is also now providing alarm monitoring and escalation support to a large South East Queensland Council – this was important during the 2018 Commonwealth Games. During 2017-18, Nexium also continued construction activities that will provide direct access to all 22 Queensland located National Broadband Network (NBN) Points of Interconnect. This allows Nexium to provide backhaul to other carriers, carriage service providers and retail service providers. To further support the regions, we have also completed construction of a new 54 kilometre section of fibre optic cable that is connecting Gin Gin to Bundaberg.

Following a period of negotiation, we also have executed a contract and successfully become one of the preferred data service providers to a public safety agency and are now supplying fixed line data services to public safety agency members.

Our people

We're aligning our people with a shared vision – one that energises Queensland communities, with a focus on customers now and in the future.

We recognise the importance of developing and investing in our people. We are transforming to a culture that is responsive, efficient and adaptable.

With traditional strengths in technical skills, we're investing in our people skills more broadly, so that we meet customer expectations and adapt to the changing role that energy plays in their lifestyles.

How we're responding

- We achieved a lift of four percentage points in employee engagement, while short of our ambitious target, it puts us on track to best practice
- New Collective Enterprise Agreements were reached, representing a significant milestone for the Group
- We welcomed 108 new recruits into our apprenticeship programs – including 19 female and 15 Aboriginal and Torres Strait Islander apprentices
- Used technology to drive further efficiencies and support a high performance culture.

About our people

At the end of 2017-18, we employed 7,247 people across the state. While we have reduced our headcount in the regulated business, the launch of our unregulated business, Yurika (p39), has provided additional roles to deliver new products and services to the people of Queensland.

7,247 Employees

6,972 Full Time Equivalent

23% Female

77% Male

2.2% Indigenous employees

29% Female executive leadership

36% Female senior leadership

361 Employees from a non-English speaking background

162 Employees with a disability

Age

<25	25 - <35	35 - <45	45 - <55	55 - <65	65+
5.1%	19.8%	31.1%	26.9%	16%	1.1%

EMPLOYEE LOCATION

35% South East

25.7% Southern

16.9% Central

22.3% Northern

0.1% Interstate

A lift in employee engagement

Our vision, purpose and values require a workplace culture that places community and customer at the forefront of everything we do. To enable this, the engagement of our employees has been a key focus for 2017-18.

Research shows that an engaged workforce will deliver better value for customers and improved business outcomes. In striving to be in the top quartile of organisations with highly engaged employees, we set our target employee engagement score for 2018 at 67%.

In the 2018 employee survey, the engagement result was 61%, while short of our ambitious 'best practice' target, we are trending in the right direction – towards a top quartile organisation. Compared to our October 2017 survey, this was a significant improvement of four percentage points. In comparison to other Australian and New Zealand organisations who utilise the Aon Hewitt engagement survey, we are considered to have a 'moderately' engaged team (two points above the average), and to be well above the average of other energy and utility businesses (seven points above).

The number of employees participating also increased this year (by 2%), indicating a growing willingness to speak up about how we best take our business forward. These results show we are on the right track towards collectively delivering real improvements across our workforce.

RIGHT: Our 2018 apprentice intake is a diverse group of people, reflective of the communities in which we operate. Here, our Rockhampton group are eager to learn their new trades.

Collective agreement unites

During the year new Collective Enterprise Agreements were reached, representing a significant milestone for the united Group.

Bringing together and aligning a number of existing collective agreements, our people voted overwhelmingly for the Energy Queensland Collective Agreement 2017 and the Retail Union Collective Agreement 2017. Following approval from the Fair Work Commission, these agreements are now in effect until March 2021.

Building one high-performing Energy Queensland team

Since its formation in 2016, Energy Queensland has been on a journey to build 'One EQL Team' and create a new corporate culture based upon its Vision, Purpose and 'SKILLED' Values. Significant progress has been made to date by 'spearheading' change and uplifting capability in the intrinsically linked areas of safety and leadership development.

Developing 'SKILLED' Leaders

Developing the capability of our leaders to achieve sustainable and continuously improving performance business outcomes continues to be a key focus for our business. We launched our *SKILLED* Leader Program in January 2018 and already have had approximately one-quarter (217 out of 850) of our leaders attend the week-long leadership development course. We recognise that it will take a couple of years (to 2021) to roll this out across all of our leadership cohort given the size of our team. However, it is already delivering significant cultural and performance benefits by improving safety leadership, coaching, communications and people leadership skills.

The *SKILLED* Leaders Program is also fully aligned to and integrated with our other home-grown Safety is Defence Program (p49). Approximately 100 of our field-based leaders have been trained in coaching front line crews and team members to achieve better safety outcomes by bringing to life our Safety is Defence program. These highly capable Safety is Defence Coaches are enabled and empowered to drive changes in the workplace to achieve improved and sustainable safety outcomes.

Developing a workforce for the future

As the rapid transformation of the energy industry in Australia continues, we recognise the need for organisations like ours to invest in the next generation of team members.

While maintaining our traditional skills and capabilities, we are also enhancing these as new technologies are implemented across the state. The focus of recruitment and development now includes broader qualifications needed to meet our customers' current and future needs.

This year, we recruited 108 new apprentices from across the state into our apprenticeship program. Taking the total number of apprentices to 437, we are preparing a diverse and skilled workforce that can work with evolving technologies, including solar energy and battery solutions (p35).

Our increased focus on diversity has seen a 50:50 gender split in our graduate intake for 2017-18. We currently support 21 Electrical Engineering graduates, in the disciplines of Power and Supervisory Control and Data Acquisition/Telecommunications, with unique rotational placements providing broad learning experiences across our diverse business.

In addition, we continued to fund university scholarships to attract and retain talented Queenslanders to the science, technology, engineering and mathematics disciplines.

CASE STUDY

Apprentices provide well-rounded skills in regional Queensland

Supporting a well-rounded skills base in regional Queensland, our apprentice intake for 2017-18 is providing a strong and diverse workforce of the future. Reflective of the communities in which we operate, our apprentices join us from all walks and stages of life.

2018 apprentices - a snapshot:

- Record 19 female apprentices – 23% of intake
- 93 mature age/non-school leavers apprentices
- 15 Aboriginal and Torres Strait Islander apprentices.

At Energy Queensland, our apprentices are not only learning a trade, we're providing a supportive culture, ensuring a rewarding working environment in which everyone has the opportunities for personal development and career growth.

To help realise these commitments, our Indigenous Employment Readiness program, delivered quarterly, provides a pipeline of Aboriginal and Torres Strait Islander talent for apprenticeship positions. This allows us the appropriate level of Aboriginal and Torres Strait Islander candidates to ensure their success in a minimum of 10% of available apprentice positions.

This commitment goes beyond providing Indigenous employment pathways, it is about creating leaders for the future in the electricity industry and in their communities.

ABOVE: First-year apprentices Debbie Phillips (Maryborough), Kathryn Kidman (Yarraman) and Kerrie McHugh (Bundaberg) are shining in non-traditional roles.

Diversity and inclusion

We believe leveraging diversity and promoting inclusion across our business is critical in ensuring the workforce can meet the demands of a rapidly changing energy landscape today and into the future. With a diverse and inclusive workforce that reflects the communities we serve, we'll be well positioned to energise Queensland.

We've focused on initiatives that will shape culture over the long term, like commencing the payment of superannuation on unpaid parental leave and commencing the establishment of our first Indigenous Connections Plan which will include the elements of a Reconciliation Action Plan.

Chaired by our Chief Executive Officer and led by our people, our Council for Diversity and Inclusion and associated working parties consider the areas that are of most concern. Working parties contribute to the research, recommendations and delivery of key projects in the following areas:

- Indigenous Reconciliation
- Women in Non-Traditional Roles
- Cultural Inclusion
- Disability Inclusion
- LGBTI+ Inclusion
- Flexibility Champions
- Supporting Parents and Carers.

Flexible at work

Our approach to 'flex' is a willingness to discuss flexibility for any person, in any role, for any reason. We realise that for our people to be at their best, we need to support ways that enable them to be their best self. Flexible working arrangements support diversity in our workforce and a more inclusive mindset, we believe this contributes to good decision-making, and a high performance culture for long-term success.

BELOW: To attract more women to the sector, we provided the opportunity for females to participate in a trades training program at our Rocklea training site.

CASE STUDY

Technology enhancing our workforce

Technology is enabling our people, and enhancing their ability, to undertake their roles more efficiently and effectively.

One example of how technology is helping our employees defer to and share expertise, and improve efficiencies, is the empowerment provided by the rollout of iPhones across the state.

While it is early days, our teams are already regularly using the phones to call from the field to seek specialist advice. They can seek technical guidance when undertaking challenging operational procedures, or quick advice on items of cultural significance, for example. With a quick photo or Facetime, our experts can identify and provide real-time advice to ensure the best course of action.

Some field crews are already using iPhones to access their work schedules (p55), saving on time and printing costs.

Project Manager for the iPhone rollout, Dan Massey says we've already seen field crews seeking advice on weeds in the field and using it for field audits.

"We've seen the iPhones used to identify Rat's Tail Grass and other biosecurity threats.

"Some of our crews are even using their iPhones for managing complex operational processes. In the event of outages our teams are using Facetime to assist in switching networks, a sometimes lengthy and difficult task. With the real-time advice, switching becomes easier therefore minimising the disruption to customers.

"With the rollout now complete, we're expecting to see technology playing an even greater role in everyday work activities as more functionality is added and people find new and exciting ways of using their device.

"The results of a survey conducted within field teams, suggested that 77% of respondents believe having an iPhone is already improving the way their daily work is conducted" said Dan.

ABOVE: Home Hill crew member Alex Romeo utilising his iPhone in the field. Countless innovative suggestions have been put forward by employees, like Alex, since rolling out the iPhones that are now building on the potential uses for the technology.

Health, safety and the environment

Our commitment is to the people and communities who we work with and support every day. We aspire to be an industry leader in health, safety, environment and cultural heritage.

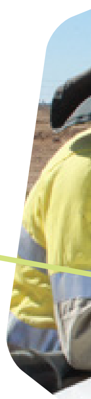
In our second year of operation, 2017-18, we introduced our new Health, Safety and Environment (HSE) Policy, supported by our 'HSE Strategy 2020' that sets out our strategic plan and actions which are aimed at bringing our commitments to life.

Our strategy aims to achieve safe and reliable operations for our people, customers and community through our engaged and enabled employees who in turn are supported by effective tools and methods of work. This approach to improving our performance outcomes was developed through collaborative in-depth conversations with our people spanning the whole organisation.

How we're driving sustainable improvement

- We have established our new group-wide Health, Safety and Environment Policy, and a strategy to bring the high reliability organisation principles to life
- We have developed and commenced deployment of our home-grown Safety is Defence program
- We have continued to remove the stigma of mental health through our Mates in Energy (MiE) program and internal mental health initiatives.

RIGHT: Our teams set their defences before starting work each day.



A high reliability organisation

We are enabling our people so that we can work together to build capability as a HRO. Led by our people, and informed by contemporary academic research and practice, our five HSE focus areas are guiding us on our improvement journey:

Deference to Expertise
We trust our people and know that they are well informed to make decisions and create improvements in their work

Continuous Learning
We are relentless in our drive to learn at every opportunity and create improvement in how we operate

People and Wellbeing
We care about the physical and mental wellbeing of our people. We are removing the stigma around mental health (p50)

Safety is Defence
We set our defences at the start of the day and focus on both the dynamics and mechanics of how work is done (p49)

Sensitivity to Operations
Our efforts are focused on supporting our customer-facing teams to help them efficiently deliver their work

Enabling a safer workplace

We have maintained our priority focus on HSE throughout the course of our second year of operation. Building on the achievements of our first year, 2017-18 has seen the maturation of HSE functions, management systems and reporting mechanisms. Collectively these are driving sustainable cultural improvements in our underlying HSE performance, which over time will lead to material improvements across a wide range of balanced scorecard measures.

Our HSE framework

In 2017-18 we continued to make significant progress in harmonising our reporting frameworks and overarching approach to identifying and managing health and safety outcomes across the organisation.

While we recognise there is more to do in this key area, such as improving our close call data information, initial indications of improvement in the underlying performance of the business are encouraging. This includes:

- A 20% reduction in the number of Lost Time Injuries (LTIs) incurred in the period as compared to the prior year
- A statistically significant positive downward trend of Significant Incident Frequency Rate (SIFR) in the second half of the period. A new measure introduced to help us better understand and further rapidly improve safety performance. This measure focuses our conversations on events with the potential for high-impact or even fatal consequences.

Continued emphasis is being placed on the review of all significant incidents, associated investigations, the closure of related actions, and key learnings are being applied across the whole of business to prevent repeat occurrences.

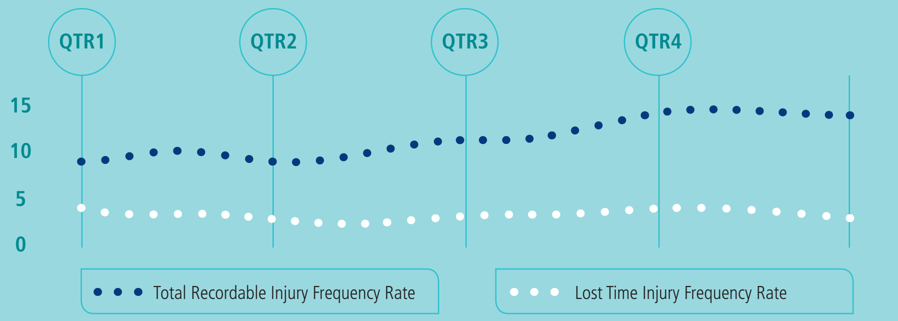
As we have continued to encourage our team members to be more open about reporting incidents, we have seen increased levels of reporting. While this has resulted in a short term deterioration of our Total Recordable Injury Frequency Rate (TRIFR) results, going forward the improved reporting culture will provide us with more meaningful information to support the ongoing systemic removal of hazards and management of risks within the business. We recognise that the primary single measure of safety performance, TRIFR is likely to continue to be maintained at 'average industry levels' (refer p48) across the next financial year until such times as our strategies start to materially impact underlying performance levels.

Employee safety scorecard

In 2017-18, our stretch safety targets were not met. Our safety performance result was 11.6 for TRIFR and 3.3 for LTIFR, which is an 'average' performance when compared to industry peer organisations.

WORKPLACE SAFETY	TARGET	RESULT
Total Recordable Injury Frequency Rate	≤7.6	**11.6**
Lost Time Injury Frequency Rate	≤3.1	**3.3**

Laying the foundation for future performance



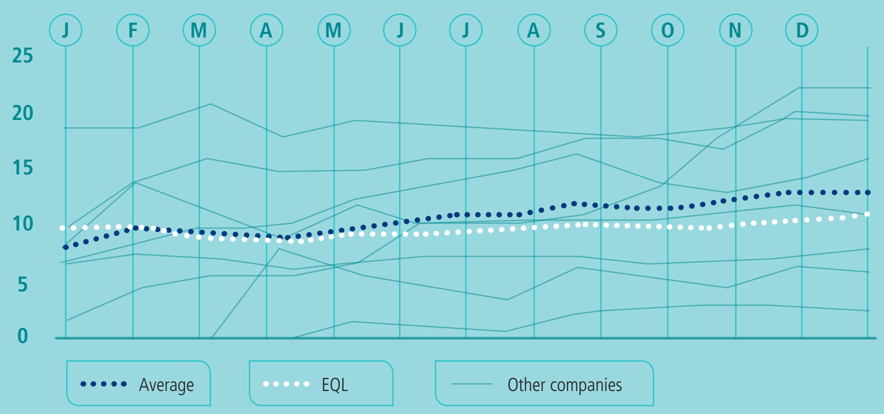
LEFT: The Energy Queensland result — a TRIFR at the end of the year of 11.6 and a LTIFR of 3.3 — is a slightly better than average performance than industry peer organisations. We are laying the foundation to take stronger ownership of safety and improve safety performance across the business.

In the first six months of reporting, significant progress has been made in gaining a deeper understanding of injury and performance categories, which in turn drive the overall and underlying injury and incident performance levels of the business. This improved understanding has resulted in the development and implementation of targeted interventions, such as the Musculoskeletal Injuries Action Plan and Switching Performance Improvement initiatives.

Our performance relative to others

We have recently started benchmarking Energy Queensland's safety performance with Energy Networks Australia member data. Initial quarterly results, show our safety performance over the last 12 months has been consistently within a mid-range position in terms of TRIFR, which is slightly better than the industry average. Over the period the overall industry trend has been in an upward direction.

ENA members - TRIFR results (2017)



Our safety future

By working on the five focus areas of our HSE Policy, and building capability towards being a HRO (p47) we are aiming to establish the right balance between control and empowerment for our high risk environment.

Through the *SKILLED* Leaders program (p42), our Safety is Defence program (below), IM SAFE (p49) and other strategic initiatives, we are laying the foundation for stronger ownership of our underlying and actual safety performance levels across the business. This shift places emphasis towards influencing change at the cultural, behavioural and functional levels.

While difficult to measure quantitatively in the early stages of its implementation, it is foreshadowed that the HSE Policy and Strategy, combined with improved levels of employee engagement, will deliver a strong and lasting positive impact on our safety culture and corresponding HSE performance outcomes.

BELOW: The home-grown Safety is Defence program was established by Andrew Bowe in 2015.

CASE STUDY

Safety is Defence – it is our game plan

Energy Queensland's home-grown Safety is Defence program is certainly kicking goals. Established in 2015 by Delivery Manager Andrew Bowe, the concept emerged while watching Rugby League.

"My work team had four safety incidents within a short time and I was motivated to see an improved approach to safety culture through my leadership. While watching footy, a post-match interview struck a chord. They said 'if we came here tonight and got our defence right, we knew we'd score points off the back of it'. That really resonated with me, and the Safety is Defence program emerged from there."

Safety is Defence is based on the premise of taking the time to find the hazards and have open discussions at each worksite, before work commences. The real success relies on the active participation from team members, living and breathing safe behaviours. Incorporating the mantra IM SAFE, how we commit to each other that we are fit and well to be at work each day, they then take these discussions with their peers and embed the focus of setting up defences for the hazards before undertaking each job.

There is no fixed rollout plan or measures in place, but an organic rollout to build ownership and drive safety behaviour change.

"We're at the embed stage of our rollout. Some employees are active in modelling Safety is Defence behaviours, while others are hearing about it for the first time. The important thing is that it is owned and supported by everyone from our apprentices to the Board."

Although in the early stages, Safety is Defence is gaining traction nationally. Awarded with the National Safety Council of Australia, Best Communication of a Safety Message category, other organisations are now seeking out Andrew's support to establish the Safety is Defence program within their own operations.

"I don't like it when people tell me I should be proud. We're not done yet. We are tackling safety, the biggest and most important cultural change for our organisation.

"What I am most proud of are the 100 people in our teams that have become coaches. They are the ones who own Safety is Defence. They're the ones living and breathing it. They've undergone training and are now going back to their peers to build Safety is Defence into how we work, and make that change in others. That is something I'm proud of."

Health and wellbeing

Our commitment to the health and wellbeing of our people extends beyond our workplace.

A key focus for 2017-18 involved reducing the stigma around mental health and promoting these conversations in our everyday discussions. We implemented a number of key initiatives including the formation of Mates in Energy, the introduction of Mental Health Advocates into our business, and continued awareness and skills training for our people and leaders.

Mates in Energy is focused on suicide prevention and reducing stigma. Through three tiers of training we are building awareness, a peer support cohort and a network of employees who are able to provide critical incident support to employees at risk while professional assistance is being sought. This program has resulted in increased confidence to hold 'conversations of care', about health and wellbeing, with our peers and with our leaders across the business.

We also continue to offer traditional programs including the employee assistance program, influenza vaccinations, access to fitness memberships, quit smoking and the drug and alcohol program. In 2018-19 we will continue this work and release our Health and Wellness Strategy, which was informed through surveys and focus groups with our people.

Defibrillator roll out

In affirming our commitment to employee health and safety, we commenced a rollout of 880 mobile defibrillators in 2018. The initial rollout is deploying mobile units into trucks, with all depots and offices to have defibrillators installed in 2018-19.

Electricity is inherently dangerous and our crews are often a long way from emergency services. Having first aid at the ready can provide peace of mind that if something does go wrong, our people have access to these life-saving devices.

Prioritising asbestos removals

This year we established plans to become asbestos free by 2030.

With a new Asbestos Management Policy, the approach is supported with a prioritised removal plan to remove asbestos from our buildings and facilities across Queensland. The aim is to safeguard our people and the broader community from exposure to materials containing asbestos.

> "Employee safety is paramount, these defibrillators can be the difference between a good and potentially tragic outcome."

Belinda Watton,
Chief Transformation Officer

BELOW: Members of our Toowoomba field crew, Dan Mauch, Joe Collins and Matthew Reis, have received a portable defibrillator for use in the event of cardiac arrest.

Environmental leadership

We aim for a high standard of environmental performance as an important element of meeting our corporate responsibility to our communities. We continue to support the development of renewable and other low-carbon energy sources, focus on energy efficiency, and demonstrate operational leadership in protecting the environment and conserving resources.

Purchasing green energy

We are a large purchaser of renewable energy in Queensland. In the last three years, Ergon Energy Retail has entered into major Power Purchase Agreements with several large-scale renewable energy projects, including the 5MW Normanton Solar Farm, the 100MW Lilyvale Solar Farm, and the 170MW Mt Emerald Wind Farm. More recently we have renewed agreements with a number of counterparties in Queensland, including sugar mills.

These Power Purchase Agreements not only secure affordable energy for Queensland customers, they contribute to achieving the Queensland Government's target of 50% energy supply from renewable sources by 2030. Supporting the viability of these projects also contributes towards economic growth in regional Queensland through construction, operation and other indirect benefits. They will also assist us in meeting our Renewable Energy Target (RET) obligation (p52).

Reducing diesel in isolated communities

We remain focused on reducing our reliance on diesel as a fuel for generation in our remote and isolated communities, through both renewable generation and energy efficiency.

We are working with targeted customers across these communities to connect solar in a way that overcomes the current technical barriers to connecting solar in the isolated power systems. There are several inhibitors to advancing solar penetration in these systems, such as the response capabilities of the existing diesel generation during the intermittency of supply associated and the risks of reverse power flows.

Our Lockhart River trial has seen a 200kW rooftop solar farm installed at four sites on government-owned buildings. With the support of a 16.9kW Battery Energy Storage System (BESS), around 10% of the local community's energy needs are now supplied from the sun.

These trials will inform and build on existing connections standards to provide our customers with more renewable energy connection opportunities. Currently customers have 1.5MW of rooftop solar energy systems connected across the isolated systems. It is estimated that over a year this could be contributing up to 2,300MWh of renewable energy to isolated power systems, resulting in an emission reduction in the order of 1,600tCO_2-e.

TOP RIGHT: To help Queensland households improve energy efficiency, we facilitated the Queensland Government's 'cash back' for energy efficient appliances. During 2018 over $13 million of rebates were provided to Queenslanders seeking to become more energy efficient.

Energy efficient public lighting

This year we launched a state-wide Public Lighting Strategy to best service our local council partnerships and other public lighting customers moving forward. The strategy aims to offer energy-efficient, sustainable and flexible lighting options, as well as smart technologies and tariff solutions for street light services, and to meet our ongoing regulatory, safety and compliance requirements.

The introduction of more energy-efficient street lighting options as a standard product offering is a result of partnerships with councils to conduct various public lighting trials. Some of these include: light emitting diode (LED) public lighting, lighting linked to smart devices, adaptive technology, bracket structural tests and low power wide area installations.

As an integral part of our Regulatory Proposal for 2020-25, we continue to work with our customers to better understand their needs and inform the future of street lighting services for their communities (p16).

Electric vehicle superhighway connecting Queenslanders

Aligning closely with the Queensland Government's strategy facilitating the transition to electric vehicles (EVs), Yurika completed the $2.8 million electric super highway project this year. Fast-charging stations are now installed in 17 locations from Cairns to Coolangatta and west to Toowoomba.

To encourage more EVs on Queensland roads the charge stations are available for use at no cost until the end of 2018, with data from each of the sites providing key insights to customer behaviour and preferences. This super highway also supports Energy Queensland's own EV fleet.

Energy scorecard

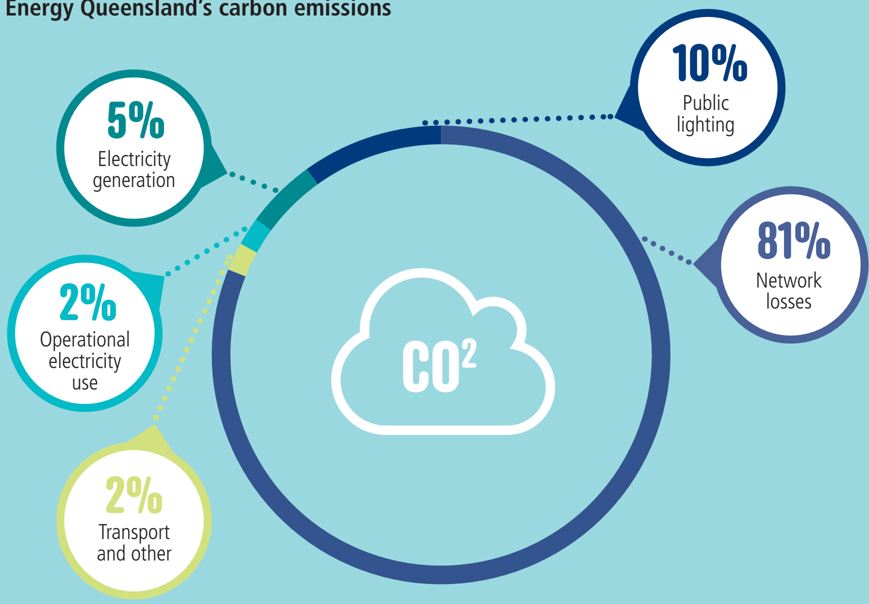
Our carbon footprint

In 2016-17, we submitted our first amalgamated submission as a Group to the Clean Energy Regulator under the *National Greenhouse & Energy Reporting Act 2007 (Commonwealth)*. Energy Queensland's annual reported greenhouse emissions total 1,662,598 tonnes of carbon dioxide equivalent (based on 2016-17 emissions data, the most update to at the time of publishing).

The primary source of direct emissions, also known as Scope 1 emissions, is emitted from our diesel and gas-fired generators that primarily provide electricity to remote communities not on the grid (p6). Other direct sources include emissions from our vehicle and equipment fleet and specialised switching gear.

Scope 2 emissions are linked to electricity used from the grid. This includes our network line losses (energy losses of approximately 4% along our distribution network), public lighting and electricity used in our buildings.

Energy Queensland's carbon emissions



Renewable energy

We are actively supporting growth of renewable energy sources, through collaboration with others, connecting new renewable sources to our network, and utilising renewable sources to reduce our reliance on diesel.

As part of the Solar Bonus Scheme in 2017-18, we paid $292 million in feed-in tariffs. Through the 44c/kWh feed-in tariff, Ergon Energy Network and Energex credited $273 million to customers, with the financial support from the Queensland Government, for the 621GWh of renewable energy they exported back into the grid state-wide in 2017-18. Through the regional feed-in tariff, 10c/kWh, Ergon Energy Retail credited customers $19 million for the additional 181GWh of renewable energy exported.

We also purchase additional Renewable Energy Certificates, to meet our liability under the Australian Government's renewable energy targets. Our Large-scale Generation Certificate compliance requirements for 2017-18 were equivalent to 15.1% of our customers' energy

ABOVE: The 50MW Kidston Solar Project was connected in 2017-18. Photo courtesy of Genex Power Limited.

requirements. We also met our compliance under the Small-scale Renewable Energy Scheme by buying Small-scale Technology Certificates, at a level equivalent to 17.1% of our customers' energy requirements.

We continue to focus on increasing the renewable energy in our isolated systems. We have wind on Thursday Island, and solar infrastructure in Doomadgee with multiple other locations to come on line in the coming years. We are also working to increase customer take-up of solar in our isolated communities (p51).

ISOLATED GENERATION STATISTICS	2016-17	2017-18
Diesel generation	109,733MWh	**112,213MWh**
Renewable generation	1,874MWh	**1,518MWh**
Total generation	111,607MWh	**113,731MWh**
Emission reduction	1,292tCO2-e	**1,047tCO2-e**

LEFT: Our crews minimise the biosecurity risk of weed spreading with vehicle wash downs.

Protecting our environment

Energy Queensland continues to seek balance in its operations to minimise environmental impacts when we construct new infrastructure and are working in our communities.

A commitment to biosecurity

Biosecurity remains a major focus area, with an increased number of biosecurity concerns raised this year by landholders implementing their On-farm Biosecurity Plans as part of Livestock Production Assurance requirements. These concerns were associated with the potential for weed spread by our everyday operational activities.

In response, we reviewed our biosecurity protocols in consultation with industry then conducted information sessions on these protocols at AgForce's Central Queensland Grains Tour.

In addition, Ergon Energy Network installed 600 digital meters for Far North Queensland banana growers, to help reduce the spread of Panama TR4 fungus, as well as improve meter reading and customer billing. Adhering to biosecurity concerns and strict quarantine measures, the use of digital meters enables meters to be read remotely. This will assist in preventing the spread of the fungus, which is a threat to the region's important banana industry.

Energy Queensland continues to work with customers, industry and other stakeholders on future biosecurity threats.

Protecting threatened species

We continue to work on improving environmental habitat condition and connectivity for threatened species.

Fauna poles with cameras were installed at Kennedy Creek Road near Cardwell, North Queensland in partnership with the Mahogany Glider Recovery Team to further assist recovery of the species.

Alternative network modifications are being investigated in the Smith's Gap area near Tully, North Queensland to improve corridor connectivity for the endangered Southern Cassowary.

In the Wide Bay Region near Mon Repos, we continued our support for a Sea Turtle Alliance initiative, working with Bundaberg Regional Council and the Department of Environment and Science to change out a number of waterfront streetlights with LEDs. This followed extensive trials of different lights to identify the solution that would have the least impact on turtles, while still meeting public lighting requirements. Further sites in the region are now being considered.

In our practices in South East Queensland, we continue to offset native trees that had to be removed due to our activities. This included regrowing vegetation in other locations through a combination of required and voluntary offsetting, which seeks to regrow strategic wildlife corridors useful for long-term conservation.

RIGHT: Our investment in reusable cages is minimising our operational impact in delivering materials to work sites in the South East.

Conserving cultural heritage

We strive to preserve cultural heritage and minimise the impact of our works program where possible. Here mobile technology is helping staff to identify items of cultural significance (p45).

During the year we have also continued to foster working relationships with the Department of Aboriginal and Torres Strait Islander Partnerships, to implement stringent protocols, and to engage with local Indigenous parties to manage and balance our operational activities.

Minimising our operational impact

Our robust systems and proactive planning seek to effectively monitor environmental issues, manage cultural heritage matters, and remedy the unforeseen, and to continuously improve our approach.

Our environmental performance obligations are overseen and incidents reported through to the Energy Queensland Board. Environmental obligations are also subject to government agency, internal and external professional agency audits, as well as ongoing review to ensure compliance. The Group's certifications to International Standard AS/ISO 14001 have been maintained.

During 2017-18, Energy Queensland had two breaches to the *Environmental Protection Act 1994 (Qld)* (Class 1 or 2 incidents). We notified the Department of Environment and Heritage Protection six times under the Duty to Notify requirement of the Act. Fuel and oil spills are our highest recorded incident.

We continue to work on cost effective ways to minimise waste and conserve resources to avoid landfill disposal of waste. For example, we have liaised with our fibreglass crossarm supplier to minimise the packaging on new products delivered. Furthermore, this supplier recuperates out of service crossarms for repurposing.

We also seek to reduce waste and actively recycle both in the field and in the office through operational changes.

Our South East distribution centre replaced plastic shrink wrapped pallets with reusable cages. This enables:

- Better packaging, reduced damage during transit and reduced number of trips to work sites
- No more pallet hire
- Reduced the quantity of plastic wrap by 3,500kg saving $12,000 per year

Rather than printing, 20 field crews are now using iPhones to receive their weekly work schedules. This equates to:

- A saving of over $18,000 in printing costs
- Approximately 26 trees

We actively recycle both in the field and in the office. In 2017-18 we recycled:

- Scrap metal 582.5 tonnes
- Oil 801,567 litres
- IT and communications hardware 5,899kg

Our total value is provided through the essential supply of electricity services, the broader investment in our community, and the financial contribution we make each year to the Queensland Government through our annual dividend.

How we're responding

- Delivered efficiencies through synergies, proactive cost savings and prudent deferral – spending $168 million less than our allowance
- Net Profit After Tax $809 million – to be paid to the Queensland Government, ultimately benefiting the people of Queensland.

Economic value

Energy Queensland is a major economic contributor to Queensland. Through our careful spending decisions and delivery of business efficiencies, we're further strengthening this contribution.

Focus on efficiencies

Energy Queensland continues to operate and maintain a safe and reliable electricity distribution network, while placing a strategic focus on transforming operations and delivering further business efficiencies and sustainable pricing outcomes for customers.

We delivered a consolidated Net Profit After Tax of $809 million (compared to $881 million in 2016-17). Notwithstanding we have received a lower revenue ($170m reduction compared to last year), we have minimised the impact on our bottom line through a combination of synergies, proactive cost savings and prudent deferral of spend where appropriate.

In addition, we're growing unregulated revenue streams and achieving favourable outcomes for our customers, employees and the Queensland Government as our shareholder.

Our SCI commitment to shareholders was $612 million, the underlying performance, after adjusting the profit for changes in Retail tariffs from the time that the SCI was set, was achieved through strong cost control. Our retailer, Ergon Energy Queensland Pty Ltd delivered a strong profit of $263 million.

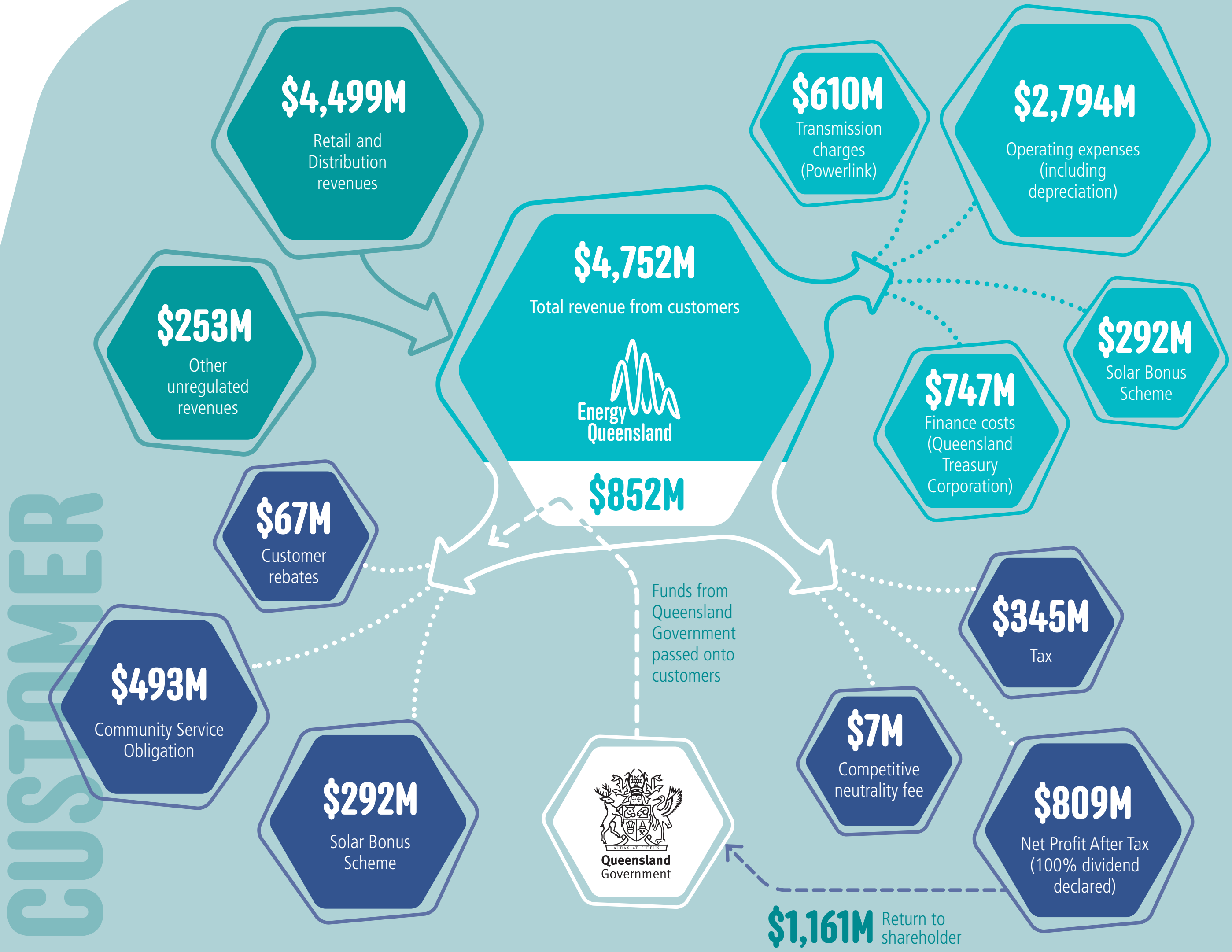
In addition, the overall result was supported by the Queensland Government's $493 million Community Service Obligation subsidy ($598 million in 2016-17) provided to Ergon Energy Retail for the benefit of customers. This subsidy covers the cost of supply not recovered from customers under the Queensland Government's Uniform Tariff Policy.

The Queensland Government also provided our customers an asset ownership dividend of $50 (p38).

The Return on Capital Employed of 8.1% also exceeded the target (6.9%).

Standard Control Services Total Expenditure was below budget by $74 million, predominately due to efficiencies within preventive maintenance and vegetation program, less non-routine maintenance, and lower spend on property and fleet capital programs.

Where the dollars flow



Financial Summary for Energy Queensland Limited (Consolidated)

A. OUR REVENUE	$MILLION 2016-17	$MILLION 2017-18
Revenue and Other Income	5,265	5,111
B. OUR EXPENSES		
Transmission Charges and Electricity Purchases	(874)	(845)
Operating Expenses	(1,818)	(1,758)
Depreciation Expense	(928)	(944)
Finance Charges	(764)	(754)
P57 OUR PROFIT		
Net Profit After Tax	881	809
C. OUR ASSETS		
Current Assets	2,556	1,754
Non-current Assets	23,452	23,956
Total Assets	**26,008**	**25,710**
D. OUR LIABILITIES		
Current Liabilities	2,067	2,045
Non-current Liabilities	20,370	20,110
Total Liabilities	**22,437**	**22,155**
Net Assets	**3,571**	**3,555**
E. OUR INVESTMENT		
Total Capital Investment	1,345	1,353
F. DIVIDENDS		
Dividends Declared	881	809

This section explains the key financial outcomes for Energy Queensland Limited for 2017-18. This commentary is not comprehensive – for full disclosures refer to the Annual Financial Statements for Energy Queensland Limited and its controlled Entities, available online at www.energyq.com.au/annualreport

A. Where does our revenue come from?

Our total revenue for the financial year was $5,111 million, reflecting an increase in electricity Retail sales revenue ($2,127 million) and a reduction in Distribution charges revenue ($2,848 million).

B. What are our main expenses?

Our operating expenses have decreased in real terms as we continue to operate our business more efficiently.

Depreciation remains a material expense due to the substantial capital employed in the provision of electricity distribution services. Our finance costs of $754 million correlate with the average debt balance and interest rates over the past two years.

Payments made under the Queensland Government's Solar Bonus Scheme continue to decline as the number of eligible customers gradually reduces. Overall, we have paid $292 million in feed-in-tariffs. In June 2017, the Queensland Government paid Energy Queensland $771 million to fund the Solar Bonus Scheme payments until 2020. As a result, these future scheme payments have not yet been passed on to electricity consumers.

The Queensland Government's Community Service Obligation subsidy is disclosed as an offset expense against transmission charges and electricity purchases. Total transmission charges and electricity purchases, net of this offset, is $845 million in line with electricity sales.

C. What assets do we own?

Our total asset base is carried at $25.7 billion. Property, plant and equipment are the major components of our asset base, at $23.4 billion, which includes mostly regulated electricity network assets. Our Network assets are revalued on an annual basis.

D. What are our liabilities?

Total liabilities have reduced to $22.2 billion this year. Our largest liability, being the interest bearing loan with Queensland Treasury Corporation, remained at $16.3 billion. Prudent capital expenditure linked with strong cash flows (including the Solar Bonus Scheme receipt mentioned above) negated the need for additional long term borrowings during the year. We remain committed to maintaining a sustainable financial position. To this end we manage our long-term debt levels to a target gearing ratio as considered appropriate by our Board, in consultation with our shareholder. The Debt to Standard Control Regulatory Asset Base Ratio was 71.0% (72.7% in 2016-17).

E. **What was our capital investment?**

For the Group, we delivered a $1,353 million capital investment program, which was slightly higher than the $1,345 million invested in 2016-17. We continue to maintain our service levels, reliability and make appropriate investment into the growth of the distribution network.

F. **What dividends do we return to our owners?**

Our 2018 dividend will comprise of 100% of Net Profit After Tax, which will be paid to our shareholder, the Queensland Government in 2018-19, ultimately benefiting the people of Queensland.

ABOVE: Further efficiencies were gained during 2017-18. A major depot redevelopment in Townsville has improved our ability to coordinate disaster response.

Vale Terry Effeney

March 2018 saw the passing of Terry Effeney, who was widely recognised as one of the most innovative, progressive and strategic minds in Australia's power industry.

Terry began his career in energy in 1979 after being awarded a cadetship with the Capricornia Electricity Board and studied Electrical Engineering and Economics at the University of Queensland.

As a cadet Terry undertook many operational field roles, working shoulder to shoulder with crew members up poles after severe storms, and performing maintenance on Central Queensland's network.

It was in these operational roles Terry not only garnered a significant grass-roots knowledge of the state's power network, he developed a profound admiration for field staff. As he rose in the industry's ranks, he worked tirelessly to ensure staff at all levels worked safely and were treated with dignity and respect.

He exceeded in numerous executive roles in Queensland's energy businesses, most notably, as Chief Operating Officer of Ergon Energy and Chief Executive Officer of Energex.

In 2016, Terry was appointed Interim Chief Executive Officer of Energy Queensland and led the merger between Ergon Energy and Energex until the permanent Chief Executive Officer was appointed.

After this challenging role he remained in high demand in the industry being appointed to the Expert Panel led by Dr Alan Finkel that delivered the landmark 'Independent Review into the Future Security of the National Electricity Market', known as the Finkel Review.

Terry also served as Chair of the Queensland Energy Security Taskforce, established by the Queensland Government.

Terry leaves an important legacy for the energy industry and a strong example for future leaders as one who led with a human touch, always making time to engage with those starting in the industry, as well as his colleagues across the country.

During the Council of Australian Governments (COAG) Energy Council meeting in Melbourne in April this year, the Federal Energy Minister Josh Frydenberg paid tribute to Terry for his outstanding service to the energy industry and his leadership in policy development.

Terry received an Honorary Doctor of Power Engineering from Central Queensland University in 2011.

He was also posthumously awarded an Order of Australia in the recent Queen's Birthday Honours list for distinguished service to the energy supply sector.

A life of service also included Terry volunteering in the community, sharing his financial expertise on School Boards and his church's Parish Finance Committee. He gave his time to St Vincent De Paul, often visiting people in need on Saturday mornings, after his regular bike ride.

Terry will be forever remembered as a gifted academic, respected leader, a true gentleman and a decent and compassionate human being.

Terry is survived by his wife Joanne and daughters Jessica, Lauren and Grea.

Corporate governance statement

Energy Queensland Limited is a 100% Government Owned Corporation (GOC) reporting to the Queensland Government via Shareholding Ministers, the Deputy Premier, Treasurer and Minister for Aboriginal and Torres Strait Islander Partnerships and Minister for Natural Resources, Mines and Energy on behalf of the Queensland community.

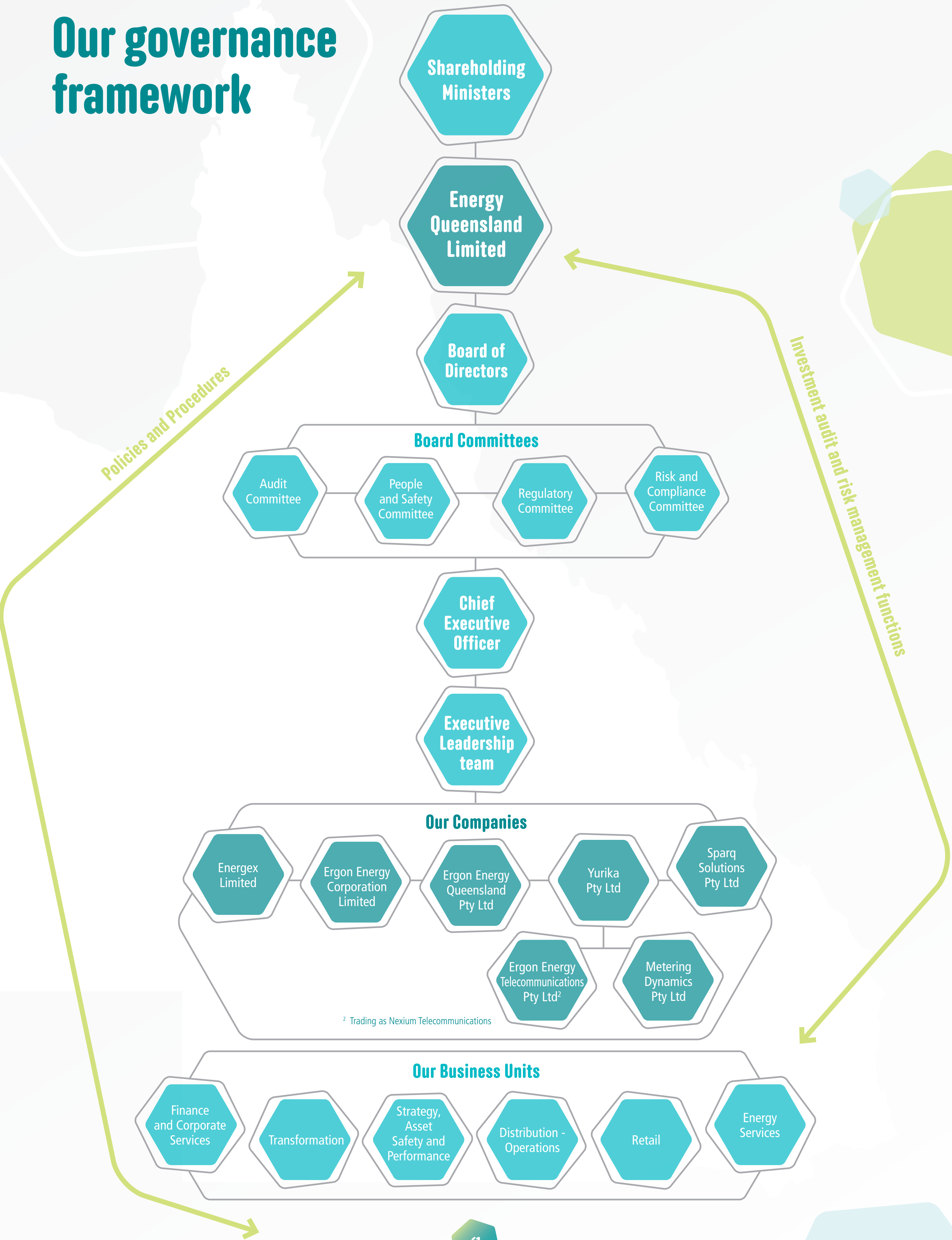
Energy Queensland Limited is the parent company of a number of operating subsidiary companies including Ergon Energy Corporation Limited and Energex Limited (refer corporate governance framework) whose main business is regulated electricity distribution, delivery of energy services and other unregulated business activities.

Ergon Energy Corporation Limited and Energex Limited carry out the business of regulated electricity distribution. In November 2017 a corporate restructure was implemented which saw the subsidiaries of Ergon Energy Corporation Limited and Energex Limited transferred to Energy Queensland. Ergon Energy Queensland Pty Ltd, our retailer, is now a direct subsidiary of Energy Queensland Limited. Energy Impact Pty Ltd was renamed Yurika Pty Ltd and transferred to become a direct subsidiary of Energy Queensland Limited. Yurika Pty Ltd also now owns the subsidiary companies Ergon Energy Telecommunications Pty Ltd (Nexium) and Metering Dynamics Pty Ltd. These three companies form the Energy Services portfolio of the Energy Queensland Group. The ICT activities carried out by Sparq Solutions Pty Ltd are in the process of transitioning to Energy Queensland Limited.

Energy Queensland Limited is governed by a Board of Directors whose primary role is to provide effective governance, oversight and strategic direction of the affairs of the Energy Queensland Group to ensure the interests of the shareholding Ministers are protected while having regard for the interests of all stakeholders including customers, employees, suppliers and the community. To assist the Board, four sub-Committees have been established namely, Audit, People and Safety, Regulatory, and Risk and Compliance.

Energy Queensland Limited's corporate governance practices are in line with the Australian Stock Exchange (ASX) Corporate Governance Council Principles and Recommendations, where applicable, and the Queensland Government's Corporate Governance Guidelines for Government Owned Corporations. These provide a framework of eight principles to develop, implement, review and report on our corporate governance arrangements.

Our governance framework



Board of Directors

Energy Queensland is managed by a Board of eight Directors and a management team led by the Chief Executive Officer (CEO).

Energy Queensland's Board Charter sets the framework for the Group's long-term success, providing oversight and strategic direction to management alongside sound corporate governance structure and practices.

RIGHT: Hugh Gleeson, Vaughan Busby, Mark Algie, Phil Garling, Helen Stanton, Kerryn Newton, Teresa Dyson and Kathy Hirshfeld.

Phil Garling

Chair

BBuild FAIB FAICD FIEAust

Phil Garling joined the Board and was appointed Chairman in 2016. He is also member of the Regulatory Committee.

Phil brings to his role as Chairman almost 40 years of experience in the Australian energy, construction, infrastructure and investment sectors, gained through an extensive board and executive career.

Phil is currently a non-executive director of Downer EDI Limited, Charter Hall Limited and Essential Energy Limited and Chairman of Tellus Holdings Limited and the Newcastle Coal Infrastructure Group. He has previously been a non-executive director of Network NSW, which was formed when Ausgrid, Endeavour Energy and Essential Energy merged in July 2012 and was the inaugural Chairman of the DUET Group for seven years. He has also completed the AICD Advanced Diploma.

Phil's understanding of the energy sector and his broad corporate experience are a valuable asset in guiding the future direction of Energy Queensland Limited.

Mark Algie

Director

BA(Politics) MBA CAHRI GAICD

Mark Algie joined the Board in 2016. He is a member of the Audit Committee and the People and Safety Committee.

Mark is a highly experienced human resources executive with over 15 years' experience across numerous sectors including defence, heavy engineering, construction, utilities, infrastructure and media.

He is currently the Managing Director of Human Outsource Pty Ltd which specialises in the provision of human resources and industrial relations advice. He is also the Director, Events and Custom Media for News Corp Australia.

Previously Mark was the Human Resources Director with APN, Australian Regional Media reporting to the Chief Executive Officer of Australian Regional Media. He also spent four years with Tenix Australia in a number of HR appointments including as Manager Human Resources Infrastructure, and two years with Ergon Energy Corporation Limited as a Senior Employee Relations Consultant. He began his career as an Army Officer with the Department of Defence.

Vaughan Busby

Director

B.Pharm, MBA

Vaughan Busby joined the Board in 2017. He is a member of the Risk and Compliance Committee and the Regulatory Committee.

Vaughan currently serves as a non-executive Director for ASX listed EOL, a company providing specialist software to the energy industry as well as Chairman of Netlogix Australia Limited and Rearden Capital Pty Ltd.

Previously, he was a Director of Ergon Energy Queensland, and the Managing Director for HRL Morrison & Co Australia, an infrastructure fund manager responsible for managing the NZX listed fund Infratil.

He has served as the Chairman of Perth Energy, a vertically integrated energy retailer in Western Australia and as a non-executive Director for Lumo Energy, an energy retailer operating in Victoria, South Australia, New South Wales and Queensland. He was also a non-executive Director of Infratil Energy Australia, a wholesale energy trading company. Vaughan was the Chief Executive Officer and Managing Director of Energy One, an electricity retailer, and a Director of Ferrier Hodgson.

He has extensive experience, not only in the energy industry, but also in turn-around and corporate restructuring. Vaughan holds an MBA from the IMD Business School in Switzerland.

Teresa Dyson

Director

LLB(Hons) BA MTax MAppFin GAICD

Teresa Dyson joined the Board in 2016. She is the Chair of the Audit Committee and a member of the Regulatory Committee and the People and Safety Committee.

Teresa is also a non-executive director of Seven West Media Ltd, Genex Power Ltd, Energy Super, UN Women National Committee Australia, Opera Queensland Limited, Northern Territory Power and Water Corporation and the Foundation for Alcohol Research and Education.

She is the Deputy Chair of the Gold Coast Hospital & Health Services Board and a member of the Foreign Investment Review Board and the Takeovers Panel.

Teresa is a lawyer with over 20 years' experience advising the private sector and governments on complex infrastructure, mergers and acquisitions, finance transactions and social infrastructure. She is currently a Consultant at McCullough Robertson Lawyers and was formerly a partner of Ashurst Lawyers and Deloitte Australia.

In 2011, Teresa was named Woman Lawyer of the Year by the Women Lawyers Association of Queensland.

Hugh Gleeson
Director
BEng(Civil) FAICD FIE(Aust)

Hugh Gleeson joined the Board in 2016. He is Chair of the Regulatory Committee and a member of the Risk and Compliance Committee.

Hugh has over 30 years of experience in energy and utilities, and was the CEO of the electricity and gas distribution businesses United Energy and Multinet Gas for 12 years. He brings to the directorship significant experience in the areas of energy regulation and policy.

Hugh is a professional engineer, and has served on the boards of the Energy Supply Association of Australia and the Energy Network Association and has also been involved in the water sector.

He is currently a non-executive director of Melbourne Water Corporation, gas distributor GDI (EEI) Pty Ltd (Allgas Energy) and electricity distributor Ausgrid.

Kathy Hirschfeld
Director
BE(Chem) HonFIEAust FTSE FIChemE FAICD

Kathy Hirschfeld joined the Board in 2016. She is the Chair of the People and Safety Committee and a member of the Risk and Compliance Committee.

Kathy has extensive experience on ASX, NYSE, private company and government boards. She also brings her experience leading a manufacturing business and earlier as a chemical engineer with BP in oil refining, logistics and exploration in Australia, the UK and Turkey. Kathy was also a Logistics Officer in the Australian Army Reserve.

Kathy is an enthusiastic leader with a commitment to developing people and building teams. She is passionate about improving the representation of women in leadership and engineering, with a keen focus on risk management, safety and corporate governance.

In 2015, Kathy was named one of Australia's AFR/Westpac 100 Women of Influence and, in 2014, the ninth woman recognised by Engineers Australia as an Honorary Fellow.

Kathy is currently President of UN Women Australia National Committee, a member of the Senate of the University of Queensland and a member on the Advisory Board to the Australian Institute of Bioengineering & Nanotechnology.

Kerryn Newton
Director
LLM MBA MA GradDip(Applied Finance and Investment) FAICD FAIM FGIA

Kerryn Newton joined the Board in 2016. She is the Chair of the Risk and Compliance Committee and a member of the Audit Committee.

Kerryn is admitted as a solicitor of the Supreme Court of Queensland and has more than 25 years' experience in legal, management and commercial roles in the private and public sectors, and as a consultant working in an extensive range of industries.

Currently, Kerryn is Managing Director of a national governance consulting firm and advises a wide range of organisations in the areas of governance, strategy and management.

Over the past decade, Kerryn has chaired the boards of numerous not-for-profit organisations in the child care, aged care and housing sectors. She was a non-executive director of Energex Limited until 2016.

Helen Stanton
Director
BEng(Minerals Processing) GAICD

Helen Stanton joined the Board in 2016. She is a member of the Audit Committee and the People and Safety Committee.

Helen brings strategy, risk and governance expertise to the Board, with extensive utilities governance experience. Her career includes operational, leadership and commissioning roles in the mining industry. More recently Helen has worked as a consultant supporting organisations to formulate strategies for bottom line, sustainable improvements.

Helen is a non-executive director of Mater Health Services North Queensland and Northern Australia Primary Health Limited.

She was previously a non-executive director of Ergon Energy Corporation Limited.

PRINCIPLE 1 – FOUNDATIONS OF MANAGEMENT AND OVERSIGHT

Energy Queensland Limited's Board Charter outlines the role of the Board and sets the framework for the Energy Queensland Group's long term success, providing oversight and strategic direction to management. The Board Charter is reviewed every two years and can be accessed by the public via Energy Queensland's website.

The Board of Energy Queensland Limited comprises of eight independent directors with activities of the subsidiary companies overseen by their own Boards made up solely of executive members.

The Board has established four committees to assist the Board in fulfilling its oversight, responsibility and performance of its functions in key areas in accordance with Committee Charters which are available on the Company's website:

- Audit Committee – Financial Integrity and Financial Reporting, Effectiveness of Fraud and Internal Control Framework, Audit, Policy Framework, and Investigations
- People and Safety Committee – People, Safety, and Environment
- Regulatory Committee – Energy Regulatory Issues, Ring-Fencing, and Regulatory Determinations
- Risk and Compliance Committee – Risk Policy and Framework, Risk Parameters, Risk Identification and Management, Risk Culture, Compliance Policy and Framework; and Compliance Culture.

In addition, the Governance and Delegations Policy sets out the overarching decision making governance and delegation of authority framework for the Boards of Energy Queensland and its subsidiaries as well as the Chief Executive Officer and executive management.

All new directors attend a structured induction session to ensure understanding of roles and responsibilities, functions of the Board and Committees, corporate expectations, an overview of Energy Queensland's operations and receipt of the Energy Queensland Board Handbook.

Energy Queensland's Executive Leadership Team comprises the Chief Executive Officer and six other executives with the team based in Townsville, Maryborough and Brisbane. Other key roles within the organisation include the Company Secretary and General Counsel. Key Performance Indicators and targets for senior executives are agreed on an annual basis with a performance review conducted during the year. The performance review of the Chief Executive Officer including setting of key performance indicators is conducted by the Chairman on an annual basis in accordance with a defined evaluation process.

PRINCIPLE 2 – STRUCTURE THE BOARD TO ADD VALUE

Energy Queensland's Board of Directors, including the Chairman, are all independent, non-executive directors appointed for a set term by the Governor-in-Council in accordance with the *Government Owned Corporations Act 1993* (Qld). As such, the Board does not play a formal role in selecting directors or the size and composition of the Board.

Details of the Directors' qualifications, skills and relevant experience are on page 64-65. The number of Board and Committee meetings held along with Directors' attendances are set out in the Directors' Report, in the Energy Queensland Financial Statement, on page 75.

Directors have an obligation under the *Corporations Act 2001* (Cth), the Director Conflicts of Interest Policy and the Energy Queensland Constitution to declare an interest or a material personal interest in a matter being considered by the Board including subsidiary Boards and Board Committees. A protocol is in place which guides Directors in determining what may be a material interest.

All directors have access to the advice and services of the Company Secretary and, with the approval of the Chairman, may seek independent professional advice in connection with their duties at the expense of Energy Queensland. A Deed of Access and Indemnity with each director gives them right of access to all documents that were provided to them during their term in office, for a period of seven years after their term on the Board.

In accordance with Board Charter and the board performance framework, an evaluation performance of the Board and Committees as well as individual Directors was conducted by an external governance and board performance assessor for the 2017-18 financial year. The evaluation process included a number of questionnaires to assess performance and provide feedback as well as individual interviews with the Chairman, individual directors and key senior executive. A number of opportunities for improvement and development have been identified to ensure the continued effectiveness of the roles of the Board and Committees, key relationships and governance processes.

PRINCIPLE 3 – PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING

We are committed to ethical and responsible decision making.

To ensure this, we have in place a governance policy framework that includes a Code of Conduct, Compliance Management Policy, Fraud and Corruption Control Policy, Governance and Delegations Policy, Conflicts of Interest Policy, Right to Information Policy, Public Interest Disclosure Policy, Entertainment Hospitality and Gifts Policy, Procurement Policy, and Travel Policy.

The Code of Conduct applies to Directors, management, staff and contractors. New employees receive induction training on ethical business practices, including the Code of Conduct.

Our advisers, consultants and contractors are expected to comply with high ethical standards aligned with the Code of Conduct. Our contracts with suppliers outline the expectations of the Code of Conduct. Directors have additional obligations and directors' duties under law. These are set out in the Board Charter (which includes a Directors' Code of Conduct) and the Board Handbook.

As our company is government-owned, no director or employee holds or trades securities in any Energy Queensland Limited company. Our Conflicts of Interest Policy supplements the legal duties that apply to directors, officers and employees relating to the misuse of information or position and insider trading laws.

In the workplace, Energy Queensland has implemented the Group's Diversity and

Inclusion Strategy to support an inclusive workplace culture (p44). The CEO chairs the Council for Diversity and Inclusion and the Chief Transformation Officer is responsible for the development and management of the Strategy.

The Investment Guidelines for GOCs set out the key principles to adopt when undertaking investment ensuring that shareholding Ministers' requirements are met while still enabling Energy Queensland to pursue commercial effectiveness in its business activities and enhance shareholder value. An Investment Management Framework also provides internal governance controls including consideration of value and risk in relation to financial treatment, strategic contribution, commercial viability and management control of investments.

PRINCIPLE 4 – SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

The role of the Audit Committee is to assist the Board in fulfilling its oversight responsibility of the Energy Queensland's financial integrity and financial reporting, effectiveness of the fraud and internal control framework, audit, policy framework and investigations. The Chairman of the Audit Committee is not the Board Chairman.

The Chief Executive Officer provides representation, through the Audit Committee, to the Board that the Financial Statements and Directors' Report for the relevant financial year are a true and fair view of the Company's financial position and are in compliance with reporting standards.

As per the provisions of the *Auditor-General Act 2009* (Qld), the Queensland Auditor-General is the external auditor for Energy Queensland Limited and its subsidiaries. The Audit Committee reviews the performance of the external auditor on an annual basis.

PRINCIPLE 5 – MAKE TIMELY AND BALANCED DISCLOSURE

The Board has reporting and continuous disclosure obligations to the shareholding Ministers under the *Government Owned Corporations Act 1993* (Qld) and *Corporations Act 2001* (Cth). These requirements are similar to the continuous disclosure obligations which apply to listed companies under the ASX Listing Rules.

Energy Queensland adopts a broad approach to taking into consideration the obligations set out in legislation and relevant policies in order to ensure accountability to the shareholding Ministers. Shareholding Ministers have access to material information regarding operations, financial performance, financial position and the governance of the Energy Queensland Group. In addition to regular briefing notes, quarterly reports are delivered to the shareholding Ministers which report against the targets set in Energy Queensland's SCI. A summary of this agreement and performance provided on page 12.

Energy Queensland has an obligation to protect the personal information of individuals collected and used during its operations, in accordance with the *Privacy Act 1988* (Cth). To prevent misuse, interference, loss, unauthorised access, modification or disclosure, strict data security systems and procedures are in place around the collection, access, use, disclosure and storage of personal information.

The Group also manages applications for access to documents in accordance with the *Right to Information Act 2009* (Qld) and the *Information Privacy Act 2009* (Qld). The process to request information is available online.

Pursuant to the Public Interest Disclosure Act 2010, Public Interest Disclosure matters are considered on their merits based on the nature, extent and scope of conduct that has given rise to the complaint made by employees or contractors of Energy Queensland. A procedure for dealing with Public Interest Disclosure is available on Energy Queensland's website.

PRINCIPLE 6 – RESPECT THE RIGHTS OF SHAREHOLDERS

In addition to regular quarterly reporting and this Annual Report, Energy Queensland reports to its shareholding Ministers in a timely manner on all issues likely to have a significant financial, operational, social or environmental impact in accordance with obligations under legislation and government guidelines. Energy Queensland works cooperatively with the shareholding Ministers on these issues to deliver the best outcomes for customers and the Queensland community. The Board Chairman meets regularly with shareholding Ministers and their representatives, as part of a broader government engagement program, to ensure active dialogue throughout the year. The CEO and various senior managers and employees liaise with representatives of shareholder departments on a regular basis.

Under the *Government Owned Corporations Act 1993* (Qld), the reserve powers of the shareholding Ministers provide that they may, in the public interest, notify Energy Queensland Limited of a public sector policy that is to apply to the corporation. In addition, under that Act the shareholding Ministers may request information, and issue directions including directions to amend the SCI and directions to pay a specified dividend. Directions can also be given under the *Electricity Act 1994* (Qld).

PRINCIPLE 7 – RECOGNISE AND MANAGE RISK

The role of the Risk and Compliance Committee is to assist the Board in fulfilling its oversight responsibility of the Group's approach to risk management, compliance management and organisational resilience and continuity. The Regulatory Committee also assists the Board in fulfilling its oversight responsibility of the regulatory matters for Energy Queensland Limited. Both Committee Charters are available on the Company's website.

The Group's approach to risk management aligns with the principles of AS/NZS ISO 31000:2018 Risk management – Principles and guidelines for managing risk.

The EQL Group is committed to embedding a risk management and organisational resilience approach across all levels of the business to support the delivery of strategic and operational objectives. The Risk Management and Resilience Policies set out the overarching risk management and organisational resilience architecture, principles and expectations to enable the EQL Group to utilise appropriate integrated practices in order to be a resilient, flexible, adaptable, and sustainable business.

EQL's Board retains ultimate responsibility for risk management and organisational resilience and for determining the appropriate level of risk that the Board is willing to accept in the conduction of EQL's business activities.

EQL's Chief Executive Officer and Executive Leadership Team have ultimate accountability for ensuring that the EQL Group has identified and managed significant portfolio risks and has effective risk management and organisational resilience strategies. Each executive is accountable for ensuring portfolio risks are identified and managed within their business unit and for having appropriate crisis, disaster, incident, emergency management and business continuity planning in place.

To ensure that EQL has in place appropriate systems and processes to enable delivery of Energy Queensland Limited's corporate strategy, the Board's Risk and Compliance Committee and the Audit Committee provide oversight in relation to (amongst other things) the appropriateness and effectiveness of risk management frameworks, processes and reporting, and the effectiveness of the internal control framework.

External audit

Energy Queensland Limited submits to a number of external audits in pursuit of world-class practice to meet certification against Australian and International Standards for the management of our electrical and data infrastructure and associated services. Energy Queensland maintains several Quality, Health, Safety and Environmental Management Systems and through regular independent external audits maintains certification against Australian Standard (AS) 4801 and British Standard (BS) 18001 for Safety, International Standards Organisation (ISO) 14001 for Environmental Management and ISO 9001 for Quality. Furthermore, independent external audits are also undertaken against Electrical Safety Legislation and the requirements for Electrical Safety Management Systems AS 5577. These audits provide Independent external assurance of the performance statements made in this report.

Internal audit

The Group's internal control framework is comprised of policies and procedures, including compliance training and assurance processes, to ensure the affairs of the organisation are being conducted in accordance with relevant legislation, regulations and codes of practice. These procedures enable the Board and the Executive to monitor, in a timely manner, any material matters affecting our operations.

Each Executive member is responsible for ensuring material business risks and compliance matters, and the effectiveness of risk management processes, are continuously monitored and reported to the Board.

The Group Manager Internal Control and Audit while reporting to the Chief Risk Officer, has unrestricted access to the Chief Executive to discuss any matter relating to the finances or operations of the business, and reports independently to the Audit Committee on progress against the Internal Audit Plan and resolution of issues raised in reports. The Internal Audit Charter (available online) adopted by the Board is reviewed on a regular basis.

Fraud and corruption control

As part of the overall Integrity framework, we are committed to the prevention of fraud (including corruption). Energy Queensland Limited has an established fraud control strategies. The Fraud and Corruption Control Policy outlines obligations for fraud identification and prevention, as well as the processes for reporting, recording and investigating allegations.

Entertainment and hospitality

To provide the transparency expected of a government owned organisation we report on entertainment and hospitality expenses over $5,000 incurred as part of normal business.

DATE: August 2017
EVENT: Energex 25ers SEQ Reunion 2017
INVESTMENT: $5,000

PRINCIPLE 8 – REMUNERATE FAIRLY AND RESPONSIBLY

The People and Safety Committee oversees all elements of the people strategy (including remuneration and performance management policies), the health and safety strategy (including the policy and practices for community, personnel and asset safety, the related initiatives and incidents), and the environmental strategy (including policy, practices and incidents). The Committee's Charter is available on the Company's website.

Energy Queensland's remuneration strategy and practices are aimed at ensuring attraction and retention of highly competent and capable employees at all levels by providing an appropriate combination of competitive, fixed and variable remuneration components. Remuneration packages for executives comply with government guidelines to achieve a balance between public accountability and transparency. Non-executive directors' fees and executives' remuneration packages including at-risk payments are reported in the Financial Statement at page 75. 'At-risk' payments are contingent upon the Board's assessment of the company's overall performance and shareholder expectations.

A performance management framework linking performance to the strategic objectives of the organisation promotes continual performance and opportunities for professional development for all employees with reviews conducted on an annual basis.

The People and Safety Committee assesses the performance of the Chief Executive Officer and the Energy Queensland Group based on key performance measures set by the Board each year and the SCI. The Board also has oversight of the performance assessments of senior executives undertaken by the Chief Executive Officer.

RIGHT: Community engagement is a key element of our distribution network planning process.

The Leadership Team

Energy Queensland's Executive Leadership team comprises of a Chief Executive Officer and six executive leaders.

Following a review during 2018, the Executive General Manager roles were rationalised from eight to six. The initial structure of eight executives provided the foundational elements for the merger, and provided the correct focus towards early successes. The move to six Executive General Managers provides teams a greater opportunity to focus on the integration of key operational and strategic functions across the business. This presents great opportunities to continue to build closer relationships, effective networks and improve collaboration across these critical business functions.

LEFT: David Smales, Belinda Watton, Peter Scott, Peter Price, Cheryl Hopkins, Paul Jordon and Charles Rattray.

David Smales

Chief Executive Officer

BEng(Hons) MBA FIEAust GAICD

David Smales began his career with the Central Electricity Generating Board in the United Kingdom and has more than 30 years' international experience in the energy industry. His experience covers technical, operational, corporate and senior executive roles, and leading businesses through transformational change.

David is a Director of various subsidiary companies of Energy Queensland, including Chairman of both Energex Limited and Ergon Energy Corporation Limited. David also chairs Energy Queensland's Diversity and Inclusion Council.

He holds a Bachelor of Mechanical and Production Engineering (with Honours) from Sheffield Hallam University (UK), a Masters of Business Administration from Warwick Business School (UK), is a fellow of Engineers Australia and also a graduate member of the Australian Institute of Company Directors. David is also a Board Director of Energy Networks Australia (ENA).

Peter Scott

Chief Financial Officer

DipBus BBus MPA MBA FCPA GAICD

Peter Scott was appointed Chief Financial Officer (CFO) in November 2016 and is responsible for managing the financial, energy pricing and energy regulatory aspects of the Energy Queensland Group of companies, in addition to the company secretariat and general counsel functions.

Peter's portfolio also includes enterprise level information, digital services and reporting, strategic procurement, and the provision of corporate shared services. Peter is a Director of various subsidiary companies of the Energy Queensland Group.

Prior to joining Energy Queensland, Peter was Energex's CFO for two years. Throughout his career he has gained extensive experience as a senior executive in both local government and government-owned corporations, including holding various CFO and Chief Executive roles. Peter's earlier career included a variety of banking and government/semi-government roles across regional Queensland.

Peter holds a Diploma of Business, a Bachelor of Business, a Master of Professional Accounting, and a Master of Business Administration. He is also a Fellow of Certified Practicing Accountants and was a Director on the Energy Super Board during 2017-18.

Belinda Watton

Chief Transformation Officer

BCom MAppLaw GradCertAppFin GAICD

Belinda is the Chief Transformation Officer at Energy Queensland. As an experienced senior executive, Belinda is currently leading a multi-functional, diverse and geographically dispersed team of over 1000 people, driving the transformational and cultural change necessary to shape Energy Queensland to realise its vision of Energising Queensland Communities. This is being achieved through the strategic direction and leadership of the people and safety functions, non-network assets (property, fleet, materials, inventory, warehousing), transformation, customer strategy and engagement, branding, innovation, internal and external communications and external stakeholder engagement teams.

Belinda has a track record of transforming cultures and delivering strong business performance in complex public, private and not for profit organisations. Belinda also holds directorships with Energy Skills Queensland and the Electrical Safety Office.

She has a Bachelor of Commerce, Masters of Applied Law, qualifications in finance and is a graduate member of the Australian Institute of Company Directors.

Paul Jordon

Executive General Manager, Distribution
GAICD

Paul Jordon was appointed Executive General Manager, Distribution in December 2017.

Paul is responsible for leading the Group's electricity distribution network including the merging and transforming of Ergon Energy's and Energex's associated operational streams including works programming, field delivery, substations, customer and market operations and a dedicated emergency planning and response team into an innovative global leader in the Energy industry.

Prior to his current appointment Paul led the customer service elements of the Ergon Energy network which included ensuring the safe and efficient operation and maintenance of the distribution network. Paul has over 30 years' experience in the electricity distribution and retail fields, both in Australia and internationally and brings a wealth of knowledge to all aspects of the EGM Distribution role including specialist levels of expertise in disaster preparedness and response and is a passionate advocate for the safety of our employees and our communities.

Peter Price

Head of Corporate Strategy and Executive General Manager, Asset Safety and Performance
BEng(Hons) MEng MCIPS FAICD

Peter Price was appointed to the Energy Queensland Executive in November 2016 and is responsible for leading the Group's engineering and asset management strategies, which includes the safe and efficient management of the Group's electricity distribution networks.

Prior to joining Energy Queensland, Peter was a member of Energex's executive management team for ten years. His career with Energex included managing and leading capital planning and program delivery, asset management, procurement, regulatory issues and the growth of new commercial businesses.

Peter holds both a bachelor degree (with honours) and a masters degree in engineering from the University of Queensland, and is a fellow of the Australian Institute of Company Directors. Peter is also Chair of Energy Skills Queensland and Deputy Chair of TAFE Queensland.

Cheryl Hopkins

Executive General Manager, Retail and Chief Risk Officer, Energy Queensland
GradCert(Management) MBA

Cheryl Hopkins was appointed Executive General Manager Retail of Energy Queensland in February 2017 and is responsible for leading the Group's electricity retailing business, Ergon Energy Retail. This includes delivering a positive customer experience, managing wholesale energy procurement, and the ongoing development of products and service choices for customers.

Prior to joining Energy Queensland, Cheryl has accumulated more than 30 years' experience in the energy industry, working in senior executive positions in retail, upstream gas and corporate functions within large private businesses operating in highly competitive markets.

Cheryl's experience includes leading transformational change. Cheryl holds a Master of Business Administration from the Macquarie Graduate School of Management.

Charles Rattray

Executive General Manager, Energy Services
BComm(Finance) BA(History)

Charles Rattray was appointed to the Energy Queensland Executive in December 2016 and is responsible for leading the growth of Yurika (which includes Metering Dynamics and Nexium) – Energy Queensland's unregulated services business.

Prior to joining the Group, Charles had an international career with periods pursuing new commercial opportunities in Australia, the United Kingdom, Switzerland and the USA, as well as a number of emerging markets. He started his career with the Australian Defence Force before moving into banking with a focus on energy, infrastructure and mining.

Charles recently supported the development of new businesses that utilise disruptive technologies, including distributed energy assets, solar, wind, batteries and smart meters.

Charles holds a Bachelor of Commerce, majoring in finance, and a Bachelor of Arts, majoring in political science and history, both from the University of Melbourne.

Glossary

tCO2-e	tonnes of carbon dioxide equivalent
AER	Australian Energy Regulator
AEMO	Australian Energy Market Operator
AS	Australian standard
ASX	Australian Stock Exchange
BESS	battery energy storage systems
CBD	central business district
CEI	customer enablement index
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CI	customer index
CSO	Community Service Obligation
DATSIP	Department of Aboriginal and Torres Strait Islander Partnership
EV	electric vehicle
EWOQ	Energy and Water Ombudsman Queensland
ENA	Energy Networks Australia
ELT	Executive Leadership Team
FIAP	Financial Inclusion Action Plan
FiT	feed-in tariff
GOC	Government Owned Corporations
GSL	Guaranteed Service Level
GUSS	Grid Utility Support System
HRO	high reliability organisation
HSE	health, safety and environment
ISO	International Organization for Standardization
Km	kilometre
LED	light emitting diode
LGBTI+	lesbian, gay, bisexual, transgender, intersex and other communities
MDA	Multicultural Development Australia
MSS	Minimum Service Standard
NBN	National Broadband Network
NEM	National Electricity Market
PoW	Program of Work
PQ	Power quality
PV	photovoltaic
QCA	Queensland Competition Authority
QCOSS	Queensland Council of Social Services
QoS	Quality of supply
RET	Renewable Energy Target
RFDS	Royal Flying Doctor Service
SPI	Switching Performance Improvement
SES	State Emergency Services
SCADA	supervisory control and data acquisition
VPP	virtual power plant

Common industry measures

RELIABILITY	
SAIDI	System Average interruption Duration Index. Network reliability performance index, indicating the total minutes, on average, that customers are without electricity during the relevant period (minutes).
SAIFI	System Average Interruption Frequency Index. Network reliability performance index, indicating the average number of occasions each customer is interrupted during the relevant period (interruptions).
Customer Minutes	Customer minutes is a measure of the number of customers interrupted multiplied by the duration of a power outage or outages, incorporating any staged restoration.
SAFETY	
TRIFR	Total Recordable Injury Frequency Rate reports a frequency rate of the number of total recordable injuries per million hours worked on a rolling twelve month basis. 'Total Recordable Injuries' is made up of Fatalities (F), Lost Time Injuries (LTIs), Medical Treatment Injuries (MTIs) and Medical Treatment Injuries – Suitable Duties (MTI-SDs) for EQL employees.
LTIFR	Lost Time Injury Frequency Rate reports a frequency rate of the number of Lost Time Injuries per million hours worked on a rolling twelve month basis.
SIFR	Significant Incident Frequency Rate. Significant HSE Incident Frequency rate measure includes the number of significant injuries which include class 1 (actual or potential) incidents, work related SEIs and DEEs, expressed as a rate per million hours worked.
TRI	Total recordable injuries. 'Total Recordable Injuries' is made up of Fatalities (F), Lost Time Injuries (LTIs), Medical Treatment Injuries (MTIs) and Medical Treatment Injuries – Suitable Duties (MTI-SDs) for EQL employees.
Electricity related	
V	volt: the unit of potential or electrical pressure
VA	volt ampere: volt amperes are the 'apparent power' and are the product of the voltage applied to the equipment times the current drawn by the equipment. The VA rating is limited by the maximum permissible current, and the watt rating by the power-handling capacity of the device
kVA	kilovolt ampere: one kVA equals 1,000VA
MVA	megavolt ampere: one MVA equals 1,000kVA
W	watt: a measure of the power present when a current of one ampere flows under a pressure of one volt
kW	kilowatt: one kW equals 1,000 watts
MW	megawatt: one MW equals 1,000 kilowatts
kWh	kilowatt hour: the standard 'unit' of electricity which represents the consumption of electrical energy at the rate of one kilowatt over a period of one hour
MWh	megawatt hour: one MWh equals 1,000 kilowatt hours
GWh	gigawatt hour: one GWh equals 1,000 megawatt hours or one million kilowatt hours

Energy Queensland Limited Annual Financial Statements

For the year ended 30 June 2018

ABN 96 612 535 583

Contents

Contents

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2018

The Board of Directors of Energy Queensland Limited (the Company or Energy Queensland) is pleased to present their report together with the financial report of the consolidated entity, being the Company and its controlled entities (the Group) for the year ended 30 June 2018 and the auditor's report thereon.

DIRECTORS

The names of Directors in office at any time during or since the end of the last financial year end are:

	Date Appointed	Date Ceased
• Philip Garling (Chairman)	30 June 2016	n/a
• Kerryn Newton[1]	30 June 2016	n/a
• Mark Algie	1 October 2016	n/a
• Teresa Dyson	1 October 2016	n/a
• Hugh Gleeson	1 October 2016	n/a
• Kathy Hirschfeld	1 October 2016	n/a
• Helen Stanton	1 October 2016	n/a
• Vaughan Busby	12 October 2017	n/a

1 – Kerryn Newton was reappointed to the Board on 1 July 2017 for a term of three years and three months.

Please refer to the 'Board profiles' section of the Company's annual report 2017/18 for details of Directors' qualifications, experience and special responsibilities.

COMPANY SECRETARY

Jane Nant BA (Hons), LLB (Hons), LLM, Grad Dip ACG, GAICD, FGIA

Jane was appointed to the role of Company Secretary in May 2017. Jane has over 10 years senior leadership experience in the utilities industry including over eight years as Company Secretary. Jane started her career as a property, planning and environmental lawyer.

REGISTERED OFFICE

420 Flinders Street
Townsville Queensland 4810

PRINCIPAL ACTIVITIES

The principal activities of the Group are the:

- Design, construction and maintenance of the Queensland Electricity Distribution Networks;
- Distribution of electricity within Queensland;
- Non-competitive electricity retailing in Queensland; and
- Provision of electricity related services.

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2018

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

The 2017/18 financial year represented the second full operating year of the Energy Queensland Group. Energy Queensland has implemented a corporate structure that is consistent with its nature as a portfolio business and will enable Ergon Energy and Energex (the Distribution Network companies) to comply with the legal separation requirements of the Australian Energy Regulator's Ring-fencing Guideline. Please refer to the disclosure in the annual report 2017/18 for details of the corporate structure changes.

OPERATING AND FINANCIAL REVIEW

The Group financial performance remained strong delivering on our commitment in our Statement of Corporate Intent. We continued targeted review of work practices, focused on transforming operations to increase efficiency and effectiveness to reduce the cost of running the business.

The Group's consolidated profit after income tax equivalent expense was $809 million for the year (2017: $881 million). This result reflects a combination of a decrease in Network Use of System revenue as a result of the Solar Bonus Scheme becoming a Jurisdictional Scheme, partially offset by an increase in retail sales revenue and decreases in finance costs and electricity purchases.

The Group delivered a $1,353 million (2017: $1,345 million) capital works program, which focused on undertaking network augmentation and connection, asset replacement, reliability improvements and customer initiated capital works. This investment contributes to maintaining safe reliable power in future years and meeting our customer needs.

Revenue

Network Use of Systems revenue has reduced as a result of the Solar Bonus Scheme becoming a Jurisdictional Scheme. Retail sales revenue increased slightly due to higher tariffs approved by the Queensland Competition Authority. Fair value gains on financial instruments were recognised during the year, predominantly due to the unwinding of mark to market losses recognised in the prior years for trades that have matured.

Expenditure

Our efforts to reduce cost and increase efficiencies in our operations have helped deliver reductions in our Operating expenditure compared to 2017. Lower transmission charges from Powerlink as a result of their new determination have contributed to the lower transmission charges and electricity purchases. Lower Materials & Services and Finance costs have also contributed to the cost reductions.

Financial Position

The primary asset of the Group's total asset base consists of the distribution assets (collectively the supply system) which is carried at a valuation performed using an income approach based on a discounted cash flow methodology.

DIVIDENDS

The Board declared a final dividend of $809 million for the 2018 financial year, payable on 30 November 2018, subject to solvency tests being satisfied at that date. A final dividend of $881 million was declared during the 2017 financial year and paid on 30 November 2017.

SIGNIFICANT EVENTS AFTER THE REPORTING DATE

There are no matters, transactions or events which have occurred since the end of the financial year which significantly affected or may significantly affect the operations of the Group, the results of operations or the state of affairs in future financial years.

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2018

LIKELY DEVELOPMENTS AND FUTURE RESULTS

The Ergon Energy and Energex businesses are required to submit their regulatory proposals for the 2020 to 2025 Regulatory Control Period to the Australian Energy Regulator by 31 January 2019. The revenue determination process will set the revenue that the networks are able to recover from customers for standard control services over that period. The regulatory proposals will outline the investment and expenditure that Energy Queensland considers necessary to provide network services. It is expected the regulator will continue to place a key focus on how the business has engaged with its customers during the preparation of these plans and Energy Queensland is responding accordingly.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The Group's environmental obligations are regulated under Federal, State and Local government laws. Based on enquiries made, the Board is not aware of any significant breaches however two significant environmental incidents were reported to a government agency in the financial year.

During the reporting period all environmental performance obligations of the Energy Queensland Group were overseen by the Energy Queensland Board, People and Safety Committee and Energy Queensland Executive Leadership Team (ELT). Detailed Strategic and operational direction is provided through ELT Health, Safety and Environment Committee Meetings.

Environmental obligations are from time to time subject to government agency audits, as well as internal and external audits undertaken as part of fulfilling environmental management requirements which ensures compliance. The Group's certifications to International Standard AS/ISO 14001 have been maintained.

The *National Greenhouse and Energy Reporting Act 2007* (NGER Act) requires the entities within the Group to report annual greenhouse gas emissions and energy use. Reports are submitted to the Greenhouse and Energy Data Officer and based on data gathered from the Group's systems.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

Policies were held throughout the period to insure all Directors and Officers of the Group against liabilities incurred in their capacity as Director or Officer. Insurance premiums paid or agreed to be paid totalled $356,360 comprising of Directors and Officers Liability, Statutory Liability and Workplace Health and Safety Liability policies covering EQL and its subsidiaries (2017: $356,360). The premiums did not increase from 2017 due to favourable claims experience.

Energy Queensland indemnifies the Directors and Officers of the Company and its subsidiaries for all liabilities and expenses incurred by the Directors and Officers, arising out of or in connection with their role as a Director or Officer, other than: any liability or expense arising from conduct that was deliberately dishonest, deliberately fraudulent or not in good faith, a liability owed to an Energy Queensland Group Company, or any criminal or pecuniary penalty.

During or since the end of the 2017/18 financial year, the Group has not otherwise, except to the extent permitted by law, indemnified or agreed to indemnify an Officer or auditor of the Group or any related body corporate against a liability incurred as such by an Officer or auditor.

DIRECTORS' SHAREHOLDING

No Directors held any beneficial interest in the shares of the Group. All issued shares are held by the shareholding Ministers on behalf of the State of Queensland.

There are no share options in existence at this time.

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2018

DIRECTORS' MEETINGS

The number of Directors' meetings (including meetings of committees of the Board) and the number of meetings attended by each Director during the year ended 30 June 2018 are:

Energy Queensland Meetings	Board[1]		Audit Committee		Regulatory Committee		Risk and Compliance Committee		People and Safety Committee	
	Attended	Held[2]	Attended	Held[2]	Attended	Held[2]	Attended	Held[2]	Attended	Held[2]
Philip Garling (Chairman)	13	13	n/a	n/a	4	4	n/a	n/a	n/a	n/a
Mark Algie[3]	13	13	4	4	n/a	n/a	n/a	n/a	5	5
Teresa Dyson[4]	12	13	5	5	4	4	1	1	4	4
Hugh Gleeson	12	13	n/a	n/a	4	4	5	5	n/a	n/a
Kathy Hirschfeld	12	13	n/a	n/a	n/a	n/a	3	5	5	5
Kerryn Newton	12	13	5	5	n/a	n/a	5	5	n/a	n/a
Helen Stanton	13	13	5	5	n/a	n/a	n/a	n/a	5	5
Vaughan Busby[5]	10	10	n/a	n/a	3	3	4	4	n/a	n/a

(1) Location of Board Meetings included: Townsville (3 meetings), Mackay (1 meeting), Rockhampton (1 meeting), Southport (1 meetin and Brisbane (7 meetings).

(2) Number of meetings held during the time the Director held office during the financial year.

(3) Mark Algie was appointed to the Audit Committee effective 12 October 2017.

(4) Teresa Dyson transferred from the Risk and Compliance Committee to the People and Safety Committee effective 12 October 201

(5) Vaughan Busby was appointed as Director of EQL Board and to the Regulatory and Risk and Compliance Committee effective 12 October 2017. He has attended all EQL Board and Committee meetings since his date of appointment to 30 June 2018.

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration is on page 82 and forms part of the Directors' report for the year ended 30 June 2018.

ROUNDING

The amounts contained in this report and in the financial statements have been rounded to the nearest million dollars unless otherwise stated (where rounding is applicable) under the option available to the Company under the ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191. The Company is an entity to which the legislative instrument applies.

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

Philip Garling
Chairman
Dated at Brisbane this 23rd day of August 2018

AUDITOR'S INDEPENDENCE DECLARATION

To the Directors of Energy Queensland Limited

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 Energy Queensland Limited and its controlled entities for the year ended 30 June 2018, 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.

B Worrall
Auditor-General
23 August 2018

Queensland Audit Office
Brisbane

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 30 JUNE 2018

In millions of dollars	Note	2018	2017
Revenue	2	**5,090**	5,249
Other income	2	**21**	16
Transmission charges and electricity purchases	3	**845**	874
Solar photovoltaic feed in tariff		**292**	289
Employee expenses	3	**564**	519
Materials and services		**350**	404
Depreciation, amortisation and impairments		**944**	928
Finance costs	3	**754**	764
Fair value losses	3	**-**	60
Other expenses		**208**	169
Profit before income tax equivalent expense		**1,154**	1,258
Income tax equivalent expense	4	**345**	377
Profit after income tax equivalent expense		**809**	881

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2018

In millions of dollars	Note	2018	2017
Profit after income tax equivalent expense		**809**	881
OTHER COMPREHENSIVE INCOME			
Items that will not be reclassified to profit or loss:			
Revaluation of property, plant and equipment	15	**124**	164
Deferred income tax relating to the revaluation of property, plant and equipment		**(37)**	(47)
Actuarial gains/(losses) on defined benefit plans recognised directly in equity		**34**	168
Deferred income tax relating to actuarial gains/(losses) on defined benefit plans		**(10)**	(50)
Items that may be reclassified to profit or loss:			
Movement in cash flow hedge reserve - gains/(losses)	14	**(181)**	(41)
Deferred income tax relating to movement in cash flow hedge reserve – (gains)/losses		**54**	12
Other comprehensive income for the financial year, net of tax		**(16)**	206
TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR		**793**	1,087

All profit and comprehensive income is attributable to the owners of the company.

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2018

In millions of dollars	Note	2018	2017
CURRENT ASSETS			
Cash and cash equivalents	5	**27**	72
Trade and other receivables	6	**1,474**	2,074
Inventories	7	**178**	167
Derivative financial assets	8	**16**	178
Other assets		**59**	65
Total current assets		**1,754**	2,556
NON-CURRENT ASSETS			
Property, plant and equipment	15	**23,381**	22,897
Intangible assets	16	**274**	264
Employee retirement benefits	17	**292**	271
Derivative financial assets	8	**1**	12
Other assets		**8**	8
Total non-current assets		**23,956**	23,452
TOTAL ASSETS		**25,710**	26,008
CURRENT LIABILITIES			
Trade and other payables	9	**1,223**	1,242
Interest bearing liabilities	10	**15**	17
Employee benefits	19	**308**	305
Provisions		**21**	18
Derivative financial liabilities	11	**57**	90
Unearned revenue	20	**356**	338
Other liabilities		**65**	57
Total current liabilities		**2,045**	2,067
NON-CURRENT LIABILITIES			
Interest bearing liabilities	10	**16,250**	16,250
Employee benefits	19	**21**	25
Provisions		**14**	13
Derivative financial liabilities	11	**47**	51
Net deferred tax equivalent liability	18	**3,507**	3,520
Unearned revenue	20	**266**	504
Other liabilities		**5**	7
Total non-current liabilities		**20,110**	20,370
TOTAL LIABILITIES		**22,155**	22,437
NET ASSETS		**3,555**	3,571
EQUITY			
Share capital	21	**19,643**	19,643
Other transactions with owners	22	**(18,634)**	(18,635)
Reserves	22	**2,323**	2,367
Retained earnings	22	**223**	196
TOTAL EQUITY		**3,555**	3,571

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2018

In millions of dollars	Share capital (Note 21)	Other transactions with owners (Note 22)	Asset revaluation reserve (Note 22)	Retained earnings (Note 22)	Hedging reserve (Note 22)	Total equity
Changes in equity for 2017						
Balance at 1 July 2016	19,643	(18,635)	2,174	71	112	3,365
Dividends	-	-	-	(881)	-	(881)
Transfer from reserves (refer to Note 22)	-	-	(7)	7	-	-
Total comprehensive income for the financial year	-	-	117	999	(29)	1,087
Balance at 30 June 2017	19,643	(18,635)	2,284	196	83	3,571
Changes in equity for 2018						
Dividends	**-**	**-**	**-**	**(809)**	**-**	**(809)**
Transfer from reserves (refer to Note 22)	**-**	**1**	**(4)**	**3**	**-**	**-**
Total comprehensive income for the financial year	**-**	**-**	**87**	**833**	**(127)**	**793**
Balance at 30 June 2018	**19,643**	**(18,634)**	**2,367**	**223**	**(44)**	**3,555**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2018

In millions of dollars	Note	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		**5,062**	6,299
Receipts for community service obligations		**618**	627
Payments to suppliers and employees		**(3,037)**	(3,179)
Interest paid		**(714)**	(783)
Income tax equivalent payments		**(290)**	(632)
Net cash from operating activities	5	**1,639**	2,332
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		**9**	15
Cash advances from/(to) other parties		**443**	(1,081)
Interest received		**24**	8
Payment for capitalised interest		**(10)**	(8)
Payments for property, plant and equipment and intangibles		**(1,267)**	(1,329)
Net cash from investing activities		**(801)**	(2,395)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		**-**	-
Repayable deposits received/(paid)		**(2)**	1
Repayment of borrowings		**-**	(3)
Dividends paid		**(881)**	-
Net cash from financing activities		**(883)**	(2)
Net increase / (decrease) in cash and cash equivalents		**(45)**	(65)
Cash and cash equivalents at the beginning of the financial year	5	**72**	137
Cash and cash equivalents at the end of the financial year		**27**	72

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

SECTION 1: Basis of Preparation

NOTE 1: BASIS OF PREPARATION

(A) General information

Energy Queensland Limited (the Company or Energy Queensland) is a public company limited by shares and is domiciled in Australia.

The consolidated financial statements of the Company for the year ended 30 June 2018 (including comparatives) comprises the Company and its subsidiaries (collectively referred to as the Group).

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

420 Flinders Street
Townsville Queensland 4810

The Group was formed on 30 June 2016. The Group Parent, Energy Queensland Limited was incorporated on 20 May 2016. On 30 June 2016, the Company was decreed a Government Owned Corporation and the shares in Energex Limited (Energex) and Ergon Energy Corporation Limited (Ergon Energy) were transferred to Energy Queensland by Regulation, effective 30 June 2016. The Group is a for-profit entity.

The principal activities of the entities within the Group during the financial year consisted of:

- Design, construction and maintenance of the Queensland Electricity Distribution Networks;
- Distribution of electricity within Queensland;
- Non-competitive electricity retailing in Queensland; and
- Provision of electricity related services.

The financial statements were authorised for issue by the Directors on 23rd August 2018. The Board members have the power to amend and reissue the Financial Statements after issue.

The financial statements are a general purpose financial report that has 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.

(B) Basis of preparation

The financial statements are presented in Australian dollars. The amounts contained in the financial statements have been rounded to the nearest million dollars unless otherwise stated (where rounding is applicable) under the option available to the company under the ASIC Corporations (Rounding in Financial/ Directors' Reports) Instrument 2016/191.

(i) 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 and certain classes of property, plant and equipment at fair value.

(ii) Basis of consolidation

The financial statements of the Group have been prepared using consistent accounting policies. Where material differences were identified between subsidiaries, adjustments have been made on consolidation.

(C) Changes in accounting policies

There are no new or revised standards effective for the year ended 30 June 2018 that will have a significant impact on the Group's financial statements compared to 30 June 2017. Amendments to AASB 107 *Statement of cash flows,* effective from this financial year, may give rise to minimal new disclosures relating to changes in liabilities arising from financing activities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 1: BASIS OF PREPARATION (CONTINUED)

(D) Application of new Accounting Standards and interpretations not yet adopted

The AASB has published new accounting standards and interpretations that are not mandatory for the 30 June 2018 reporting period and none of these have been early adopted by the Group. The Group's assessment of the impact of these Standards and Interpretations on its financial report is outlined below.

(i) *AASB 15 Revenue from Contracts with Customers is effective for financial years commencing on or after 1 January 2018.*

AASB 15 *Revenue from Contracts with Customers* replaces the existing revenue recognition standards AASB 111 *Construction Contracts,* AASB 118 *Revenue* and related Interpretations (Interpretation 13 *Customer Loyalty Programmes*, Interpretation 15 *Agreements for the Construction of Real Estate*, and Interpretation 18 *Transfers of Assets from Customers)*.

AASB 15 establishes a comprehensive framework for determining whether, how much and when to recognise revenue arising from an entity's contracts with customers. The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The impact of the new standard has been assessed for each of the major income streams of the Group and expectations are for minimal to no impacts on the revenue recognition policy for NUOS revenue, retail sales, sale of goods and some capital contributions. There will be an impact on the timing of revenue recognition in relation to service charges for certain connection assets and some capital contributions, however these revenue streams represent less than 2% of total revenues, and only a portion of each stream will be impacted.

The most significant impact will be to Large Customer Connections and re-arrangement of network assets at the customer's request where revenue will be recognised earlier. The percentage of completion method will be applied to estimate how much revenue to recognise as the project is under construction. This income is currently recognised at the end of the project when the assets are energised.

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

AASB 9 (December 2013) was early adopted on 1 July 2014 as the hedge accounting requirements were more principle based and allowed closer alignment between accounting and risk management practices. This minimised volatility flowing through the Statement of profit and loss arising from the movement in the fair value of hedges.

In December 2014, the AASB made further changes to the classification and measurement rules for financial assets and liabilities, and also introduced a new model to assess the impairment of financial assets. The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as was the case under the previous standard. Measurement is based on the expected losses resulting from possible default events within 12 months of the reporting date or from all possible default events over the expected life of the financial instrument. Significant judgement will be required to assess the credit risk of a financial asset and the impact of changing economic factors.

The current impairment models applied to the trade receivables of the Group have been reviewed and the impact of this standard is considered to be minimal. The current models consider any credit risk information applicable to specific receivable balances (such as a customer going into liquidation), and categorises accordingly. Other outstanding balances are grouped by criteria such as 'number of days overdue', 'invoice in dispute', or 'customer on payment plan'. Fixed percentages are then applied to the relevant categories of receivables based on historical trends and analysis to calculate the impairment provision.

Additional disclosures in relation to credit risk and expected credit losses will be required on application of this standard.

(iii) *AASB 16 Leases is effective for financial years commencing on or after 1 January 2019.*

AASB 16 introduces a single lease accounting model which requires the recognition of all leasing arrangements on the statement of financial position. A single, on-balance sheet lease accounting model for lessees requires a lessee to recognise a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 1: BASIS OF PREPARATION (CONTINUED)

(D) Application of new Accounting Standards and interpretations (Continued)

The Group has completed an initial assessment of the potential impact on its consolidated financial statements but has not yet completed its detailed assessment. It is expected the new standard will have a material impact on the Group given the majority of the leases currently disclosed as lease commitments in the notes to the financial statements will be brought onto the statement of financial position, resulting in increases in assets and liabilities.

The actual impact of applying AASB 16 on the financial statements in the period of initial application will depend on future economic conditions, including the Group's borrowing rate at 1 July 2019, the composition of the Group's lease portfolio at that date, the Group's latest assessment of whether it will exercise any lease renewal options and the extent to which the Group chooses to use practical expedients and recognition exemptions.

The Group's operating leases are predominantly in relation to corporate offices and the Group currently has one sub-lease. The nature and timing of the expenses related to these leases will be impacted, recognising the lease expense as depreciation on the asset on a straight line basis and interest on the lease obligation which will be front-loaded as the obligation is greater early in the lease term, rather than expensing lease payments as they are paid.

The Group plans to apply the new leasing standard on 1 July 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting the new standard will be recognised as an adjustment to the opening balance of retained earnings at 1 July 2019, with no restatement of comparative information.

No other standards or interpretations that are not yet effective are expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

SECTION 2: Profit or Loss Information

NOTE 2: REVENUE AND OTHER INCOME

In millions of dollars	2018	2017
REVENUE		
Sales revenue		
Network use of system revenue[1]	**2,142**	2,608
Retail sales revenue	**2,136**	2,081
Service charges [1]	**350**	333
Revenue from sale of goods	**52**	64
Government grant revenue [2]	**250**	3
Other revenue		
Non-refundable capital contributions	**109**	112
Interest received	**24**	8
Other operating revenue[1]	**27**	40
Total revenue	**5,090**	5,249

In millions of dollars	2018	2017
OTHER INCOME		
Fair value gains on financial instruments at fair value	**29**	-
Gain on unwinding of inception value of designated hedges	**(14)**	-
Cash flow hedge ineffectiveness gains	**6**	-
Other income	**-**	16
Total other income	**21**	16

(1) Comparatives have been restated as a result of reclassifying Ergon Network use of system revenue ($76 million) and Other operating revenue ($4 million) to Service charges. This revenue is predominantly from Powerlink for services provided.
(2) On 30 May 2017, the Queensland State Government announced a Government Grant that would fund the Solar Bonus Scheme over a three year period to provide pricing relief to electricity consumers. Previously, this revenue was recognised as part of Network Use of System revenue. Refer to Note 20 for associated unearned revenues related to this Government Grant.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 2: REVENUE AND OTHER INCOME (CONTINUED)

ACCOUNTING POLICIES

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, net of goods and services tax (GST). Revenue is recognised when the amount can be reliably measured and it is probable that future economic benefits will flow to the Group or benefits have already flowed to the Group.

(i) *Network use of system*

The Group is subject to a revenue cap that is earned on its regulated assets in the provision of Standard Control Services (SCS). SCS includes network supply services, small customer connections and services associated with unmetered connection points.

Network Use of System (NUOS) revenue is determined based on the allowed revenue cap for Distribution Use of System (DUOS) plus Transmission Use of System (TUOS) charges, also referred to as designated pricing proposal charges. The revenue received from the TUOS charges is passed through to the providers of transmission services.

NUOS is billed to retailers, to be passed on to customers, based on a combination of customers' energy consumption, demand, capacity and fixed charges at the Australian Energy Regulator (AER) approved prices. The approved prices are calculated to recover the annual NUOS charges, plus other annual allowances approved by the AER (for example, Service Target Performance Incentive Scheme rewards or penalties).

Revenue is recognised as it is invoiced, based on consumption, but may vary from the regulated revenue cap due to differences in demand. Any current period under or over recovery of the revenue cap is recovered from or returned to customers in future periods through an adjustment to prices. Where over recoveries occur they are deducted from revenue in the period in which they are returned to customers. Under recoveries are recognised as revenue in the period in which they are billed to customers.

(ii) *Retail sales revenue*

Electricity sales revenue to franchise customers (electricity consumers) is recognised as the aggregate of invoices raised, together with the estimated used but not yet invoiced energy consumption.

(iii) *Service charges*

Revenue is earned for the provision of other electricity-related services such as street lighting services, basic metering services, large customer connection services and ancillary network services. These are known as Alternative Control Services (ACS) and are subject to a regulated price determined by the AER (known as a price cap). The price charged for some of these services, such as disconnection, reconnection, meter reading and temporary connections, is limited under section 226 (2) of Queensland's Electricity Regulation 2006 which overrides the AER price caps. Where applicable, revenue is recognised when the service is provided or, with reference to the stage of completion of a contract.

(iv) *Revenue from sale of goods*

Revenue for the sale of goods is recognised on delivery of the goods to the customer.

(v) *Government grants*

Where there is reasonable assurance the Group will comply with all conditions attached to government grants and thus the grants will be earned, they are recognised in the balance sheet as unearned revenue. Grants that compensate the Group for expenses incurred are recognised as revenue in the income statement. This occurs on a systematic basis as the conditions of the grant are fulfilled.

(vi) *Non-refundable capital contributions*

The Group finances part of its capital works program through non-refundable contributions from customers which are applied to the cost of these works. Contributions towards assets are recognised as revenue at the fair value of the contribution, which will be the amount of cash contributed or an approximation of the cost to construct the asset based on an approved AER pricing formula.

All non-refundable contributions, in-kind and in-cash, are initially recognised as unearned revenue in the statement of financial position and subsequently recognised as revenue when the associated assets are brought into commercial operation or when control passes to the Group and the assets are ready for use.

(vii) *Interest received*

Interest income is recognised in the statement of profit or loss as it accrues, using the effective interest rate method.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

(i) Unbilled energy sales

Retail sales revenue accrual estimates are made to account for the unbilled period between the customers last billed meter read and the end of the reporting period. Unbilled energy sales are accrued monthly using historical billing data adjusted for seasonality.

(ii) Unbilled network charges

Unbilled network charges are accrued monthly. The calculation uses historic volumes to estimate the unbilled network charges.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 3: EXPENSES

In millions of dollars	2018	2017
Profit before income tax equivalent expense includes the following significant expenses:		
Transmission charges and electricity purchases		
Transmission use of system charges	**610**	867
Electricity purchases	**728**	605
Community service obligation offset	**(493)**	(598)
Total transmission charges and electricity purchases	**845**	874
Finance Costs		
Interest expense	**749**	782
Competitive Neutrality Fees	**7**	-
less capitalised financing costs	**(10)**	(8)
Other finance costs	**8**	(10)
Total finance costs	**754**	764
Fair Value Losses		
Fair value losses on financial instruments at fair value	**-**	59
Losses/(gains) on unwinding of inception value of designated hedges	**-**	(13)
Cash flow hedge ineffectiveness losses	**-**	13
Fair value losses on energy certificates at fair value	**-**	1
Total fair value losses	**-**	60
Employee Benefits Expense		
Wages and salaries	**292**	257
Contributions to defined contribution plans	**95**	96
Expenses related to post-employment defined benefit plans	**16**	28
Expenses related to annual and long-service leave	**86**	82
Termination benefits	**39**	32
Other	**36**	24
Total employee benefits expense	**564**	519

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 3: EXPENSES (CONTINUED)

ACCOUNTING POLICIES

Expenses

(i) Transmission charges and electricity purchases

TUOS expenses, electricity purchases and other costs associated with the sale of electricity are recognised as they are incurred.

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 (NEM) multiplied by the relevant pool prices.

Community service obligation (CSO) receipts are recognised as a contra expense against the transmission charges and electricity purchases as part of the cost of sales. The Group 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. A Deed between the Group and the State of Queensland provides for CSO payments to be made by the State of Queensland to the Group.

In addition, Direction notices issued by the shareholding Ministers which result in the non-recovery of AER approved revenue from customers may qualify as a CSO. Where a direction notice qualifies as a CSO, the Group has an entitlement to recover any such revenue shortfalls from the State of Queensland.

CSO revenue is recognised when the Group becomes entitled to a claim from the State Government for forgone revenue in accordance with section 112 of the GOC Act.

(ii) Finance Costs

Finance costs charged by the State's central financing authority, Queensland Treasury Corporation (QTC), include administration fees, capital market fees and interest on the outstanding Principal. Where applicable, a Competitive Neutrality Fee is also paid to remove any competitive advantage that may be obtained from borrowing at a lower interest rate than the private sector by virtue of the Group's government ownership.

Finance costs directly attributable to the construction of assets that take more than 12 months to prepare for their intended use are added to the cost of those assets. Finance costs not directly attributable to qualifying assets are expensed in the period in which they are incurred.

(iii) Employee Benefits Expense

Wages and salaries due but unpaid at reporting date are recognised in the Consolidated Statement of Profit or Loss at the current salary rates. As the Group expects such liabilities to be wholly settled within 12 months of reporting date, the liabilities are recognised at undiscounted amounts.

Defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

A liability for a termination benefit is recognised at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognises any related restructuring costs.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

(i) Community Service Obligation

The CSO payments are made in return for compliance with commitment to state-wide uniform tariffs for franchise customers. From 1 January 2018, Energy Queensland entered a fixed CSO agreement with the State. The compensation is a fixed payment based on forecast revenue and matching costs from electricity sales to franchise customers of Energy Queensland up to 30 June 2020 on the basis that EQL is assuming the risk, and any benefits, inherent in a fixed payment based on forecast. The parties are aiming for increased simplification and administrative ease in CSO compensation claims, payments and reporting while acknowledging the State still requires certain data in relation to the actual cost of performance of community service obligations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 4: TAXATION

In millions of dollars	2018	2017
(A) INCOME TAX EQUIVALENT EXPENSE		
Current tax expense	**347**	397
Deferred tax expense/(benefit)	**(2)**	(19)
Under/(over) provision in prior years	**-**	(1)
Income tax equivalent expense	**345**	377
Deferred income tax expense included in income tax expense comprises:		
Decrease/(increase) in deferred tax assets	**10**	3
Increase/(decrease) in deferred tax liabilities	**(12)**	(22)
Deferred income tax expense attributable to profit from continuing operations	**(2)**	(19)

(B) NUMERICAL RECONCILIATION OF INCOME TAX EQUIVALENT EXPENSE TO PRIMA FACIE TAX PAYABLE		
Net profit before income tax equivalent expense	**1,154**	1,258
Prima facie income tax equivalent expense on operating profit at 30% (2017: 30%)	**346**	377
Increase/(decrease) in income tax equivalent expense:		
Other	**(1)**	1
	345	378
Under/(over) provision in prior years	**-**	(1)
Income tax equivalent expense	**345**	377

In millions of dollars	2018	2017
(C) DEFERRED TAX RECOGNISED DIRECTLY IN EQUITY		
Revaluation property, plant and equipment	**37**	47
Recognition of defined benefit surplus/(deficit)	**10**	50
Hedge accounting of derivatives	**(54)**	(12)
Deferred tax recognised directly in equity	**(7)**	85

Refer to Note 18 for accounting policies related to taxation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

SECTION 3: Financial assets and liabilities

NOTE 5: CASH AND CASH EQUIVALENTS

In millions of dollars	2018	2017
Cash at bank and on hand	**27**	72
Short term deposits	**-**	-
Total cash and cash equivalents	**27**	72

In millions of dollars	2018	2017
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	**809**	881
NON-CASH FLOWS AND OTHER INCOME AND EXPENSE ITEMS IN PROFIT:		
Depreciation, amortisation and impairment	**944**	925
Net gain/(loss) on disposal of property, plant and equipment	**(3)**	(3)
Interest income classified as investing activities	**(24)**	(8)
Provision for inventory obsolescence	**-**	(1)
Fair value (gain)/loss on financial instruments	**(21)**	60
CHANGES IN ASSETS AND LIABILITIES:		
(Increase)/decrease in trade and other receivables	**38**	(58)
(Increase)/decrease in inventory	**(10)**	(1)
(Increase)/decrease in other assets	**(4)**	25
(Decrease)/increase in trade and other payables	**68**	(98)
(Decrease)/increase in other liabilities	**(214)**	800
(Decrease)/increase in provisions and employee benefits	**2**	(27)
(Decrease)/increase in income tax payable	**60**	(163)
(Decrease)/increase in deferred income tax liability	**(6)**	-
Net cash flow provided by operating activities	**1,639**	2,332

ACCOUNTING POLICIES

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and investments in money market instruments. They are highly liquid, subject to an insignificant risk of change in value and have a maturity of three months or less.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 6: TRADE AND OTHER RECEIVABLES

In millions of dollars	2018	2017
CURRENT		
Trade receivables	**736**	740
Less provision for impairment of receivables	**(26)**	(25)
Total net trade receivables	**710**	715
Advances facility[1]	**638**	1,081
Community service obligations receivable	**39**	116
Tax Receivable	**32**	92
Other receivables and prepayments	**55**	70
Total current trade and other receivables	**1,474**	2,074

(1) In 2017, an Advances Facility was established with Queensland Treasury which accrues interest on daily balances. Refer to Cash advances from other parties in the Consolidated Statement of Cash Flows on page 12.

(A) IMPAIRED TRADE RECEIVABLES

In millions of dollars	Gross 2018	Impairment 2018	Gross 2017	Impairment 2017
AGEING OF IMPAIRED RECEIVABLES				
Less than one month overdue	**47**	**2**	42	2
One to two months overdue	**12**	**2**	19	3
Two to three months overdue	**6**	**2**	7	2
Over three months overdue	**27**	**20**	26	18
	92	**26**	94	25

In millions of dollars	2018	2017
MOVEMENTS IN THE PROVISION FOR IMPAIRMENT OF RECEIVABLES ARE AS FOLLOWS:		
Carrying amount at the beginning of the financial year	**25**	30
Provision for impairment recognised during the financial year	**19**	26
Receivables written off during the financial year as uncollectible	**(18)**	(31)
Carrying amount at the end of the financial year	**26**	25

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 6: TRADE AND OTHER RECEIVABLES (CONTINUED)

(B) PAST DUE BUT NOT IMPAIRED

As at 30 June 2018, there were $8 million of trade receivables which were past due but not impaired (2017: $8 million).

ACCOUNTING POLICIES
Trade and other receivables

Trade and other receivables are recognised initially at fair value and are subsequently measured at amortised cost using the effective interest rate method, less an allowance for impairment. The recoverability of trade and other receivables is reviewed on an ongoing basis.

CRITICAL JUDGEMENTS IN APPLYING THE GROUP'S ACCOUNTING POLICIES
Impairment of trade receivables

A provision for impaired receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. This is based on evidence of significant financial difficulties of the debtor and probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency.

In some cases due to the high volume, low value of such trade receivables, management has exercised judgement in determining the provision for impaired trade receivables. The Group considers evidence of the trends of bad debts experienced within certain levels of aged receivables. The recoverable amount is discounted at the effective interest rate.

NOTE 7: INVENTORIES

In millions of dollars	2018	2017
CURRENT		
Maintenance and construction stocks	**171**	163
Work in progress	**7**	4
Total inventories	**178**	167

Maintenance and construction stocks include a provision for inventory obsolescence of $8 million (2017: $7 million) as a result of ongoing reviews to assess the net realisable value of inventory and identification of items that are subject to factors such as technological obsolescence or loss of service potential. The creation and release of this provision is included in other expenses. Inventories are measured at the lower of cost and net realisable value.

NOTE 8: DERIVATIVE FINANCIAL ASSETS

In millions of dollars	2018	2017
CURRENT		
At fair value through profit or loss		
Derivative financial instruments - electricity hedges	**5**	27
Designated as cash flow hedges		
Derivative financial instruments - electricity hedges	**11**	149
Held for trading		
Power purchase agreement asset	**-**	2
Total current financial assets	**16**	178

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 8: DERIVATIVE FINANCIAL ASSETS (CONTINUED)

In millions of dollars	2018	2017
NON-CURRENT		
At fair value through profit or loss		
Derivative financial instruments - electricity hedges	**1**	7
Designated as cash flow hedges		
Derivative financial instruments - electricity hedges	**-**	5
At cost		
Long term investment – Other shares	**-**	-
Total non-current financial assets	**1**	12

Relevant accounting policies and critical accounting estimates and assumptions are outlined in Note 13 Fair values and Note 14 Hedge accounting.

NOTE 9: TRADE AND OTHER PAYABLES

In millions of dollars	2018	2017
CURRENT		
Trade payables	**243**	264
Accrued interest	**59**	19
Dividends payable	**809**	881
Electricity hedges payable	**1**	1
Other payables and accruals	**111**	77
Total current payables	**1,223**	1,242

ACCOUNTING POLICIES

Trade and other payables

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

Where a dividend is declared by the Board on or before the end of the financial year but not distributed at the end of the reporting period, a dividend payable is recognised for such an amount.

The Board declared a final dividend of $809 million for the 2018 financial year, payable on 30 November 2018, subject to solvency tests being satisfied at that date. A final dividend of $881 million was declared during the 2017 financial year and paid on 30 November 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 10: INTEREST BEARING LIABILITIES

In millions of dollars	2018	2017
CURRENT		
Unsecured liabilities		
Customer and other repayable deposits	**15**	17
Total current interest bearing liabilities	**15**	17

NON-CURRENT		
Unsecured liabilities		
Queensland Treasury Corporation loans	**16,250**	16,250
Total non-current interest bearing liabilities	**16,250**	16,250

(A) QUEENSLAND TREASURY CORPORATION LOANS

The market value of Queensland Treasury Corporation (QTC) loans at 30 June 2018 was $17,606 million (2017: $17,767 million).

The market value of QTC loans is the price that the notional underlying bonds and instruments funding the loan could be bought for at balance date as advised by the QTC. This is classified as level 2 in the fair value measurements hierarchy.

The Group does not anticipate it will make loan repayments in the next 12 months (2017: Nil). There is no obligation to make repayments under current loan arrangements with the QTC.

In millions of dollars	2018	2017
(B) FINANCING ARRANGEMENTS		
The Group has access to the following short-term lines of credit:		
Working capital and credit facilities		
Facilities used at the end of the reporting period - unsecured loans	**4**	3
Facilities not utilised at the end of the financial year - unsecured loans	**732**	1,032
Total facilities available	**736**	1,035

These working capital and credit facilities are short-term in nature with the outstanding balance paid down regularly.

The Group has access to debt and cash management facilities from the QTC and access to further borrowings from the QTC subject to approval of an annual State Borrowing Program Limit.

As at 30 June 2018 the Group had approved borrowings of $16,250 million (2017: $16,250 million) with access to a further $700 million (2017: $1,000 million) in QTC facilities.

ACCOUNTING POLICIES

Interest Bearing Liabilities

Interest bearing borrowings are initially recognised at fair value net of transaction costs incurred. They are subsequently measured on an amortised cost basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 11: DERIVATIVE FINANCIAL LIABILITIES

In millions of dollars	2018	2017
CURRENT		
At fair value through profit or loss		
Derivative financial instruments - electricity hedges	**7**	51
Designated as cash flow hedges		
Derivative financial instruments - electricity hedges	**50**	39
Total current financial liabilities	**57**	90
NON-CURRENT		
At fair value through profit or loss		
Derivative financial instruments - electricity hedges	**-**	4
Designated as cash flow hedges		
Derivative financial instruments - electricity hedges	**47**	47
Total non-current financial liabilities	**47**	51

Relevant accounting policies and critical accounting estimates and assumptions are outlined in Note 13 Fair values and Note 14 Hedge accounting.

NOTE 12: FINANCIAL RISK MANAGEMENT

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

The financial risks faced by the Group are managed in accordance with the Energy Queensland Treasury Policy.

Financial risk management

(A) Credit risk

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

The Group manages credit risk by maintaining appropriate credit review processes.

The concentration of credit risk to retail customers is minimised due to transactions being with a large number of retail customers and limiting credit to any individual customer.

The concentration of credit risk related to distribution network customers is the risk of a retailer defaulting on their obligations. The Group operates in accordance with the Credit Support Guidelines issued by the Queensland Competition Authority, which align with the National Energy Customer Framework credit support arrangements. Under these guidelines, the ability to seek credit support is based on an assessment of the retailer's network charge liability compared to their credit allowance and payment history. In the event of significant retailer failure, an application to recoup such losses under general pass through provisions available through the AER would be considered. As at 30 June 2018 the Group had trade receivables of $275 million (2017: $316 million) from retailers. Four distribution network customers represented 87% of these trade receivables (2017: three distribution network customers represented 85% of these trade receivables).

Where appropriate, collateral in the form of a cash deposit or pre-payments are obtained from customers (other than limited by provisions outlined above) as a means of mitigating the risk of financial loss from defaults. At the end of the financial year, the Group held collateral of $22 million (2017: $23 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 12: FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk management (Continued)

(A) Credit risk (Continued)

Note 25 provides details of guarantees held by the Group. The Group 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 Group requires counterparties to provide appropriate letters of credit or bank guarantees. No letters of credit or bank guarantees were held as at 30 June 2018 (2017: $1 million).

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

The maximum exposure for the Group 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:

Counterparty classification	2018	2017
Queensland Government-owned electricity entities	**86%**	85%
Entities with a credit rating AA[1]	**5%**	2%
Entities with a credit rating A[1]	**1%**	1%
Entities with a credit rating BBB[1]	**1%**	2%
Other entities	**7%**	10%

(1) Standard & Poors or equivalent

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 Group to interest rate cash flow risk while fixed interest borrowings expose the Group to fair value risk.

The Group's income and operating cash flows are substantially independent of changes in short-term market interest rates.

Other assets and liabilities exposing the Group to interest rate cash flow risk include cash and cash equivalents and advances facility (floating rate interest exposure) and interest bearing repayable deposits (both fixed and floating interest rate exposure).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 12: FINANCIAL RISK MANAGEMENT (CONTINUED)

(B) Interest rate risk (Continued)

The effective interest rates on the Group's interest bearing financial assets and liabilities as at balance date are detailed below.

In millions of dollars	Floating Interest Rate $	Fixed Interest Rate $	Weighted Average Interest Rate %
2018			
Financial assets			
Cash and cash equivalents	**27**	**-**	**2.00%**
Advances facility	**638**	**-**	**2.41%**
Total financial assets	**665**	**-**	
Financial liabilities			
Repayable deposits	**15**	**-**	**2.31%**
Loans	**-**	**16,250**	**4.64%**
Total financial liabilities	**15**	**16,250**	
2017			
Financial assets			
Cash and cash equivalents	72	-	2.91%
Advances facility	1,081	-	2.91%
Total financial assets	1,153	-	
Financial liabilities			
Repayable deposits	17	-	2.16%
Loans	-	16,250	4.82%
Total financial liabilities	17	16,250	

Sensitivity analysis

At 30 June 2018, if interest rates had been 100 basis points higher and all other variables were held constant, the Group's net profit and equity would decrease by $6 million (2017: $1 million). If interest rates had been 100 basis points lower and all other variables held constant, the Group's net profit and equity would increase by $6 million (2017: $2 million).

The Group's borrowings from QTC have been classified as loans with a fixed interest rate in the table above.

(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 (electricity derivatives), franchise load or power purchase agreements (PPAs) associated with the Ergon Energy retail business. Wholesale contracts relating to franchise load are generally dealt over a period of less than three years.

There is no price risk for the network distribution businesses, due to the AER revenue cap framework and the mechanism for over or under recoveries through the adjustment of prices in future periods.

To manage retail price risk the Group has established an Energy Commodity Risk Management Policy. The 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 review requirements.

The Group uses derivative financial instruments to manage its retail electricity price risk, consumer variable volume risk and associated cash flow risk as well as to hedge exposure to pool price fluctuations and against the committed and anticipated electricity purchases. The hedge portfolio consists predominantly of swaps, caps and option contract types. Caps and option contracts are valued at fair value through profit or loss. Hedge accounting is employed for swaps with unrealised gains and losses recognised in other comprehensive income and hedge ineffectiveness recognised in the profit or loss. Refer to Note 14 for further information regarding the application of hedge accounting.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 12: FINANCIAL RISK MANAGEMENT (CONTINUED)

(C) Price risk (Continued)

The following table details the Group's sensitivity to a 20% (2017: 20%) increase and decrease in the electricity forward price with all other variables held constant. Analysis of underlying forward price volatility is used as an indicator of potential forward price movement. Under the assumption that there will be no events causing significant step changes in the market such as the announcement of major electricity generation plant closures, Management have determined that 20% is considered a reasonably possible price movement.

	Electricity Forward Price			
	+20%	+20%	-20%	-20%
In millions of dollars	2018	2017	2018	2017
Profit/(loss) before tax	**6**	25	**(1)**	(21)
Hedging reserve	**165**	102	**(165)**	(103)
Equity	**171**	127	**(166)**	(124)

(D) Liquidity risk

Liquidity risk is the risk that the Group 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. Due to the dynamic nature of the underlying businesses, the Group aims to maintain flexibility in funding by keeping committed credit lines available. Available lines of funding are disclosed in Note 10.

QTC is the approved Eligible Provider for the purposes of the Australian Financial Services Licence of an entity in the Group and is required to provide funding on written demand when requested by the Group pursuant to an approved Eligible Undertaking. QTC has provided an eligible undertaking for $300 million.

Where entities within the Group enter 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.

Liquidity risk may potentially arise in the advent of unexpected high market volatility and may result in a large margin call being required for settlement.

The tables below discloses the Group'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. The Group's long-term borrowings from QTC have interest only in perpetuity repayment profiles. The principal component of QTC borrowings are included in the over five years' time band with no interest included in respect of this facility for the period over five years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 12: FINANCIAL RISK MANAGEMENT (CONTINUED)

(D) Liquidity risk (Continued)

In millions of dollars	Less than 1 year	1 to 5 years	Over 5 years	Total contractual cash flows	Carrying Amount
CONSOLIDATED					
2018					
Electricity hedges	**39**	**70**	**-**	**109**	**104**
Financial guarantees	**100**	**-**	**-**	**100**	**-**
Non-interest bearing liabilities	**1,199**	**1**	**-**	**1,200**	**1,200**
Repayable deposits	**15**	**-**	**-**	**15**	**15**
Loans	**726**	**2,904**	**16,250**	**19,880**	**16,250**
Total	**2,079**	**2,975**	**16,250**	**21,304**	**17,569**
2017					
Electricity hedges	79	75	-	154	141
Financial guarantees	100	-	-	100	-
Non-interest bearing liabilities	1,389	1	-	1,390	1,390
Repayable deposits	17	-	-	17	17
Loans	724	3,067	16,250	20,041	16,250
Total	2,309	3,143	16,250	21,702	17,798

The amounts included above for financial guarantee contracts are the maximum amounts the Group could be forced to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting period, the Group considers that it is more likely than not that such an amount will not be payable under the arrangement. For further information regarding guarantees refer to Note 25(C).

(E) Capital management

The Group manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of borrowings disclosed in Note 10 and equity comprising share capital, other transactions with owners, reserves and retained earnings.

The Group borrows exclusively from QTC. The long-term borrowing facilities provided by QTC have an interest only in perpetuity repayment profile. The cost of debt is derived from debt instruments issued by QTC and a competitive neutrality fee designed to remove any competitive advantage obtained from borrowing at a lower interest rate than the private sector by virtue of the Group's Government ownership.

QTC manages debt financing, including new debt raising and the re-financing of existing borrowings, on behalf of the Group in accordance with agreed benchmarks. QTC borrows in advance of requirements to ensure Queensland public sector entities have ready access to funding when required and also to reduce the risk associated with refinancing maturing loans.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 12: FINANCIAL RISK MANAGEMENT (CONTINUED)

(E) Capital management (Continued)

The Group monitors capital on the basis of key financial ratios for Debt to Regulated Asset Base (RAB), and Return on Capital Employed (ROCE). At 30 June 2018 and 30 June 2017 these key financial ratios were as follows:

	2018	2017
Debt to RAB ratio	**71%**	73%
ROCE	**8.1%**	8.5%

NOTE 13: FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of a financial instrument 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.

1) Fair value measurements

The Group uses 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 Group's financial assets and liabilities measured and recognised at fair value.

In millions of dollars	Level 1	Level 2	Level 3	Total
2018				
Assets				
Power purchase agreements held for trading	**-**	**-**	**-**	**-**
Electricity hedges	**-**	**16**	**-**	**16**
Large-scale generation certificates held for trading	**-**	**14**	**-**	**14**
Small-scale technology certificates held for trading	**-**	**14**	**-**	**14**
	-	**44**	**-**	**44**
Liabilities				
Electricity hedges	**27**	**77**	**-**	**104**
	27	**77**	**-**	**104**
2017				
Assets				
Power purchase agreements held for trading	-	-	2	2
Electricity hedges	80	107	-	187
Large-scale generation certificates held for trading	-	8	-	8
Small-scale technology certificates held for trading	-	5	-	5
	80	120	2	202
Liabilities				
Electricity hedges	65	76	-	141
	65	76	-	141

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 13: FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

2) Level 3 fair value measurements

The movements of the Group's assets and liabilities in level 3 of its fair value measurements hierarchy are considered not material.

3) 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 Group recognises transfers between levels of the fair value hierarchy as of the beginning of the reporting period during which the transfer has occurred. During 2018 there were no transfers of electricity derivatives between level 2 and level 3 (2017: nil).

4) Valuation policies and procedures

The Group has an established control framework with respect to the measurement of fair values of financial instruments. The Ergon Energy Retail Commercial Services team has the overall responsibility for overseeing all financial asset and liability fair value measurements, including level 3 fair value, and reports directly to the Executive General Manager Retail.

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

The Group currently has the following classes of financial instruments that are measured at fair value through profit or loss. These are: electricity hedges (which include swaps, caps and swaptions), PPAs, as well as Large-scale Generation Certificates (LGCs) and Small-scale technology certificates (STCs).

(A) Swaps

Over the counter swaps are valued using broker quoted forward curves. Where positions are held in periods beyond the curve, the curve is extended accordingly (refer Note 13(6)).

(i) Swaps over the counter – quarterly peak and off peak is shaped into half hourly intervals using April 2017 to March 2018 pool prices and seasonality factors.

(ii) Swaps - Exchange Traded – valued using the Exchange quoted prices.

(B) Options

(i) $300 Caps Exchange Traded

$300 Exchange Traded Caps are valued using the Exchange quoted prices.

(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 (refer to Note 13(6)).

(iii) Swaptions

Over-The-Counter Swaptions are valued applying a Black Scholes 76 methodology incorporating broker quoted forward curves. Volatility is calculated based on market implied volatility. Exchange traded Swaptions are valued applying the fair value on the exchange.

(C) Power purchase agreements

Electricity entitlements under PPAs are valued using an input or curve sourced from broker quoted forward curves. Load volumes under fair valued PPAs are determined based on forecasts.

(D) Large-scale generation certificates

LGC positions which are held for trading 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.

(E) Small-scale technology certificates

STCs which are held for trading 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 13: FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

6) Fair value valuation techniques and significant unobservable inputs

The following table shows the valuation techniques used in measuring level 2 and level 3 fair values, as well as the significant unobservable inputs used:

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Electricity hedges	The curve is sourced through 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 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.

Master netting or similar agreements

The Group 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 Group does not have an 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.

Master netting or similar agreements (Continued)

In millions of dollars	Note	Gross amounts of financial instruments in the statement of financial position	Related financial instruments that are not offset	Net amount
2018				
Financial assets				
Electricity hedges	8	**17**	**(17)**	**-**
Financial liabilities				
Electricity hedges	11	**(104)**	**17**	**(87)**
2017				
Financial assets				
Electricity hedges	8	190	(114)	76
Financial liabilities				
Electricity hedges	11	(141)	114	(27)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 13: FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

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 or 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 Group, the Sydney Futures Exchange (SFE), ICAP Plc (ICAP), TFS Australia Pty Ltd (TFS) and other market intelligence. The Group 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 14 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 and other environmental certificates associated with the generation of energy. PPAs held for trading purposes are measured at fair value through the profit or loss.

PPAs are valued using a combination of data sources including trades executed by the Group, the SFE, ICAP, TFS and other market intelligence. The Group has sufficient market information to reliably measure the value of these agreements in accordance with the requirements of Australian Accounting Standards.

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

Electricity financial instruments measured at fair value

The Group enters into electricity related financial instruments and determines the fair value of these instruments, which includes swaps, options (including caps and swaptions), and PPAs using market based valuation methods. It takes 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;
- discounting to the present value for the time value of money; and
- option volatility.

NOTE 14: HEDGE ACCOUNTING

Cash flow hedges

Cash flow hedges are used by the Group to hedge the energy commodity price risk arising through the retail operations of Ergon Energy Queensland.

Ergon Energy Queensland principally uses energy swaps, and options (including caps and swaptions) 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 or loss.

The Group undertakes derivative transactions to hedge the price of expected electricity it purchases over a three-year period within a set of Gross Margin at Risk 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 or loss as the underlying forecast purchase or sale transactions are no longer expected to occur.

During the year ended 30 June 2018 $1 million hedge losses (2017: $2 million hedge gains) were reclassified to the statement of profit or loss due to the hedges no longer being designated as hedging instruments and the underlying forecast transaction no longer being highly probable to occur as originally forecast.

Where an effective hedging instrument is closed out and the underlying forecast transaction remains highly probable to occur as originally forecast, the hedge contract is de-designated and any accumulated gain or loss which has been recognised in the hedge reserve is deferred to the reserve. As at year ended 30 June 2018, $18 million gains (2017: $54 million) remain in the cash flow hedge reserve due to de-designation and all underlying forecast transactions remain highly probable to occur as originally forecast. The accumulated gain continues to be recognised in the hedge reserve.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 14: HEDGE ACCOUNTING (CONTINUED)

Gains and losses recognised in the hedge reserve in the statement of comprehensive income for electricity derivatives at the end of the reporting period will be released to the profit or 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 the 2018/19 to 2020/21 financial year is approximately 4,250,000 MWh (Megawatt hours) at an average contracted price ranging between $59 and $79 per MWh (2017: approximately 4,625,000 MWh at an average contracted price ranging between $69 and $79 per MWh).

(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:

In millions of dollars	2018	2017
Financial Assets: Cash flow hedges - electricity derivatives	**11**	154
Financial Liabilities: Cash flow hedges - electricity derivatives	**(97)**	(87)

(iii) *The impact of hedging instruments designated in hedge relationships as at 30 June 2018 is as follows*:

In millions of dollars	2018	2017
Statement of profit or loss		
Gains/(losses) on unwinding of inception value of designated hedges	**(14)**	13
Cash flow hedge ineffectiveness gains/(losses) recognised in other income	**6**	(13)

In millions of dollars	2018	2017
Statement of comprehensive income		
Cash flow hedge reserve (CFHR)		
Opening balance	**118**	159
The effective portion recognised in CFHR (pre-tax)	**(23)**	75
Transfer from CFHR to electricity purchases	**(158)**	(116)
Closing balance (pre-tax)	**(63)**	118

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

In millions of dollars	2018	2017
Electricity Price Risk		
Changes in value of hedge instrument	**(81)**	58
Changes in value of hedge item	**(81)**	61
Cash flow hedge reserve	**(63)**	118

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 14: HEDGE ACCOUNTING (CONTINUED)

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 Group designates certain derivatives as hedges of a particular cash flow risk associated with a recognised asset, liability or highly probable forecast transaction.

The Group 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 Group 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 13. Movements of the hedging reserve in shareholders' equity are shown in the statement of other comprehensive income.

The fair values of hedging derivatives are classified as 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 or loss. Amounts accumulated in equity are transferred to the income statement in the periods when the hedged item affects profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the eligible criteria for hedge accounting, hedge accounting is discontinued and any changes in the instrument's fair value which have been deferred to the cash flow hedge reserve (CFHR) is immediately transferred to the statement of profit or loss. In the event that a hedging position is closed out or sold and the underlying forecast transaction is still expected to occur, any fair value movement deferred to the CFHR will remain in the reserve and will be transferred to the statement of profit and loss when the forecast transaction ultimately occurs.

An ineligible hedge may arise where the derivative financial instrument is hedging more than the forecast load. As such there is no relationship between the hedging instrument and the hedged item for hedge accounting purposes. In this instance, the movement in the derivative instrument relating to the excess portion of forecast load is fair valued through profit and loss. If the forecast for load subsequently increases such that the derivative instrument becomes hedged against the forecast load, then the instrument will be designated as an eligible hedge for hedge accounting purposes from that point and any subsequent movement in the fair value will be taken to the CFHR. Any fair value movement that has been recognised in the statement of profit or loss up to the date of designation (referred to as the inception value) remains in the profit and loss and will unwind from the statement of profit and loss as the instrument matures.

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 or loss.

Refer to Note 13 for additional information in relation to accounting policies for financial instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

SECTION 4: Operating assets and liabilities

NOTE 15: PROPERTY, PLANT AND EQUIPMENT

In millions of dollars	2018	2017
SUPPLY SYSTEMS[1]		
Gross carrying amount	**34,932**	34,468
Less accumulated depreciation	**(12,942)**	(12,990)
Net carrying amount	**21,990**	21,478
POWER STATIONS		
Gross carrying amount	**518**	491
Less accumulated depreciation	**(253)**	(242)
Net carrying amount	**265**	249
LAND- non-regulated		
Net carrying amount	**17**	21
OTHER PLANT AND EQUIPMENT		
At cost	**1,317**	1,294
Less accumulated depreciation	**(792)**	(726)
Less accumulated impairment losses	**(8)**	(10)
Net carrying amount	**517**	558
WORK IN PROGRESS		
Work In Progress	**592**	591
TOTAL PROPERTY, PLANT AND EQUIPMENT	**23,381**	22,897

(1) Supply systems include land and building assets which are utilised for warehousing and logistics purposes, training and pole depot facilities and field response activities. These land and building assets are integral to supporting the operation of the electricity network and form a part of the regulated asset portfolio.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 15: PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

In millions of dollars	2018	2017
If property, plant and equipment were stated on a historical basis, the carrying amount would have been:		
Supply Systems	**17,586**	17,050
Power stations	**230**	214
Land	**9**	9

Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below:

SUPPLY SYSTEMS		
Gross carrying amount at the beginning of the financial year	**34,468**	33,424
Accumulated depreciation and impairment at the beginning of the financial year	**(12,990)**	(12,458)
Carrying amount at the beginning of the financial year	**21,478**	20,966
Transfers of assets between categories	**-**	6
Transfer from work in progress	**1,124**	1,034
Transfer to non-current assets held for sale	**(10)**	(1)
Disposals	**(7)**	(2)
Revaluation increments/(decrements)	**124**	161
Depreciation expense	**(709)**	(684)
Impairment losses	**(10)**	(2)
Carrying amount at the end of the financial year	**21,990**	21,478

POWER STATIONS		
Gross carrying amount at the beginning of the financial year	**491**	483
Accumulated depreciation and impairment at the beginning of the financial year	**(242)**	(233)
Carrying amount at the beginning of the financial year	**249**	250
Additions	**36**	16
Revaluation increments/(decrements)	**-**	3
Depreciation expense	**(20)**	(20)
Carrying amount at the end of the financial year	**265**	249

LAND		
Carrying amount at the beginning of the financial year	**21**	21
Transfer to non-current assets held for sale	**(4)**	-
Carrying amount at the end of the financial year	**17**	21

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 15: PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

In millions of dollars	2018	2017
OTHER PLANT AND EQUIPMENT		
Gross carrying amount at the beginning of the financial year	**1,294**	1,354
Accumulated depreciation and impairment at the beginning of the financial year	**(736)**	(712)
Carrying amount at the beginning of the financial year	**558**	642
Transfers of assets between categories	**-**	(1)
Transfers from work in progress	**77**	52
Additions	**25**	29
Disposals	**(7)**	(20)
Depreciation expense	**(136)**	(144)
Carrying amount at the end of the financial year	**517**	558
WORK IN PROGRESS		
Carrying amount at the beginning of the financial year	**591**	457
Transfers to property, plant and equipment and intangible assets	**(1,234)**	(1,095)
Additions	**1,225**	1,221
Capitalised interest	**10**	8
Carrying amount at the end of the financial year	**592**	591
TOTAL PROPERTY, PLANT AND EQUIPMENT		
Carrying amount at the beginning of the financial year	**22,897**	22,336
Transfers between categories and to intangible assets and assets held for sale	**(13)**	4
Net transfers from work in progress	**1**	7
Additions to work in progress and direct purchases	**1,251**	1,250
Capitalised interest	**10**	8
Disposals	**(14)**	(22)
Revaluation increments/(decrements)	**124**	164
Depreciation expense	**(865)**	(848)
Impairment	**(10)**	(2)
Carrying amount at the end of the financial year	**23,381**	22,897

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 15: PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Valuation of the Group's regulated Supply System assets

The majority of the Group's property, plant and equipment are employed in the distribution of electricity and subject to regulation via a revenue allowance (revenue cap). The fair value valuation of the Group's property, plant and equipment is determined via Directors' valuations using an income based approach.

The nature of the Group's property, plant and equipment is assessed on the key assumption that it will continue to operate into perpetuity.

In completing the valuation of property, plant and equipment of the Group as a going concern, future cash flows are captured beyond the explicit five year forecast period using a terminal value. The terminal value was derived with reference to a forecast regulated asset base (RAB) based on the current regulatory model.

The RAB Multiple is the relationship between market and regulatory values as it describes the ratio between the value that the market places on the expected cash flows that will accrue to it for the Group and the value the regulator intends returning to the Group over the life of the property, plant and equipment.

The following table outlines the key inputs and assumptions and their relationships to fair value considered in the discounted cash flow methodology for the valuation of the Group's regulated Supply System assets:

Fair value at 30 June 2018 $M	Unobservable inputs	Nature and range of inputs	Relationship of unobservable inputs to fair value
21,935	Revenue cash flows	Revenue cash flows have been determined based on the AER's Final Decision (2015-2020) and projected revenue cash flows for the years beyond the regulatory period.	A higher allowed rate of return increases the fair value.[1]
	Operating Expenditure	Operating expenditures for the distribution network have been determined based on the most recent management forecasts available at the time of the valuation.	A lower operating expenditure increases the fair value.
	Capital Expenditure	Future capital expenditure required to ensure the security and reliability of the distribution network have been determined based on the most recent management forecasts available at the time of the valuation.	A lower future capital expenditure increases the fair value.
	Terminal value	Terminal value at 30 June 2023 has been determined with reference to a forecast RAB using management forecasts of future cash flows and a terminal value multiple of 1.00 has been applied.	A higher terminal value and multiple increases the fair value.
	Weighted Average Cost of Capital (WACC) discount rate	A nominal WACC of 6.86% (2017:7.11%) has been employed in the valuation. The WACC discount rate has been determined in consultation with independent experts based on a long-term view of the market cost of capital.	The higher the nominal WACC, the lower the fair value.

(1) A draft rate of return guideline released by the AER on 10 July 2018 sets out the approach by which the AER will estimate the rate of return for future regulatory determinations and indicates a lower allowed rate of return which would impact future revenue cash flows and lead to a lower fair value of the Supply System assets.

The discount rate used by the Group to discount future cash flows is higher than the allowed rate of return as established by the regulator in its Final Decision for the regulatory control period 2015-2020 (which is the rate applied to the RAB to determine future cash flows). The use of a discount rate higher than the regulated rate of return leads to an estimated fair value below the value of the current year's RAB as determined by the regulator. It has been noted in assessing the fair value of property, plant and equipment that possible future regulatory changes may also impact the Group.

Valuation policies and procedures

The Group has established control frameworks with respect to the measurement of fair values. The fair value of the Group's regulated assets was determined using the income based approach, which reflects the present value of an investment's future cash flows in order to arrive at a current fair value estimate for an investment. As this valuation uses inputs not based on observable market data (i.e. unobservable inputs) this resulted in a level 3 fair value. There has been no change to the valuation technique or fair value hierarchy during the year.

Fair value hierarchy

The fair value measurement for the supply system, land and building assets of $22,272 million (2017: $21,748 million) has been categorised as a level 3 fair value based on the inputs to the valuation technique applied.

The reconciliation from opening balances to closing balances for the level 3 fair value for the supply system assets is included above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 15: PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Fully written down assets still in use

The Group has property, plant and equipment with a gross carrying amount of $1,937 million (2017: $2,206 million) and a written down value of nil that is still in the asset register. These assets have been confirmed to be still in use at the end of the reporting period.

ACCOUNTING POLICIES

Property, plant and equipment

(i) Recognition and measurement

The cost of property, plant and equipment constructed by the Group includes the cost of materials, direct labour and other associated costs and, where appropriate, borrowing costs.

Supply system and power station assets are measured at fair value less any subsequent depreciation. The fair value of these assets was determined as at 30 June 2018 using an income approach as there was no market based evidence of fair value due to the specialised nature of the assets, and the items are rarely sold, except as part of a continuing business.

Other property, plant and equipment, and work in progress are carried at cost less accumulated depreciation where applicable. The carrying amount for these assets does not differ materially from their fair value.

Revaluation increments are recognised in other comprehensive income and accumulated in the asset revaluation reserve, except for amounts reversing a decrement previously recognised as an expense.

Revaluation decrements are only offset against revaluation increments applying to the same asset and any excess is recognised as an expense.

(ii) Depreciation

Depreciation is calculated on a straight line basis by reference to the estimated useful life and residual value of each item of property, plant and equipment, with the exception of freehold land, easements and WIP which are not depreciated.

The supply system is treated as a complex asset. A complex asset is a physical asset capable of disaggregation into identifiable components that are subject to regular replacement. These components are assigned useful lives distinct from the asset to which they relate and are depreciated accordingly.

An assessment of useful lives is performed annually. The useful life estimate is determined with consideration of expected usage based on the asset's capacity, expected physical wear and tear, and expected technical or commercial obsolescence.

Items of property, plant and equipment which relate to the supply of electricity to a specific mine or facility may be depreciated over the operational life of the mine or facility.

Major depreciation periods are:

	Measurement basis	Depreciation period
Supply systems	Fair value	5 to 70 years
Power stations	Fair value	5 to 40 years
Buildings	Fair value	40 years
Other plant and equipment	Cost	3 to 40 years

(iii) Disposal of items of property, plant and equipment

The gains and losses on disposal of items of property, plant and equipment are determined by comparing the proceeds of disposals with the carrying amounts of the items. The net gains and losses on disposals are included in the statement of profit or loss.

(iv) Maintenance and repairs

Maintenance costs are charged as an expense as incurred. Other routine repair and minor renewal costs are also charged as expenses as incurred.

(v) Contributed Assets

Contributed Assets are those that are funded by customers and either constructed by the Group or constructed by an external party and then gifted to the Group. Contributed assets are recognised at fair value at the time control passes to the Group and the assets are ready for use.

(vi) Finance and related costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 15: PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Impairment of assets

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). No such impairments were required during the financial year.

Dismantled supply system assets and assets held for sale are removed from the relevant cash generating unit and impaired once the decision is made to dismantle or sell. The resulting impairment loss is treated as a revaluation decrement and recorded directly in equity to the extent of any credit balance existing in the revaluation reserve in respect of that asset, with the remainder recognised in the income statement.

NOTE 16: INTANGIBLE ASSETS

In millions of dollars	2018	2017
COMPUTER SOFTWARE		
At cost	**816**	691
Less accumulated amortisation	**(602)**	(536)
Net carrying value	**214**	155
OTHER INTANGIBLES		
At cost	**42**	41
Less accumulated amortisation	**(21)**	(15)
Net carrying value	**21**	26
WORK IN PROGRESS		
Work In Progress	**39**	83
TOTAL INTANGIBLES	**274**	264

Reconciliations of the carrying amounts for each class of intangibles are set out below:

COMPUTER SOFTWARE		
Gross carrying amount at the beginning of the financial year	**691**	659
Accumulated amortisation at the beginning of the financial year	**(536)**	(478)
Carrying amount at the beginning of the financial year	**155**	181
Transfers of assets between categories	**-**	(1)
Transfer from work in progress	**128**	45
Amortisation expense	**(69)**	(70)
Carrying amount at the end of the financial year	**214**	155

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 16: INTANGIBLE ASSETS (CONTINUED)

In millions of dollars	2018	2017
OTHER INTANGIBLES		
Gross carrying amount at the beginning of the financial year	**41**	23
Accumulated amortisation at the beginning of the financial year	**(15)**	(9)
Carrying amount at the beginning of the financial year	**26**	14
Additions	**3**	19
Disposals	**-**	(1)
Amortisation expense	**(8)**	(6)
Carrying amount at the end of the financial year	**21**	26
WORK IN PROGRESS		
Carrying amount at the beginning of the financial year	**83**	44
Transfers to property, plant and equipment and intangible assets	**(135)**	(37)
Additions	**91**	76
Carrying amount at the end of the financial year	**39**	83
TOTAL INTANGIBLE ASSETS		
Carrying amount at the end of the financial year	**274**	264

ACCOUNTING POLICIES

Intangible assets

(i) Recognition and measurement

Internally generated intangible assets, including software, 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 or 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.

(ii) 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.

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).

No impairment losses were recognised during the financial year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 17: EMPLOYEE RETIREMENT BENEFITS

Reconciliation of movements in the net defined benefit asset/(liability)

In millions of dollars	Defined benefit obligation	Fair value of plan assets	Net defined benefit asset/ (liability)
Year ended 30 June 2018			
Carrying amount at start of year	(698)	969	271
Included in profit or loss			
Current service cost	(26)	-	(26)
Interest income/(cost)	(28)	38	10
	(54)	38	(16)
Included in other comprehensive income			
Remeasurement gain/(loss):			
Actuarial gain/(loss) arising from:			
Changes in financial assumptions	(5)	-	(5)
Experience adjustments[1]	2	37	39
	(3)	37	34
Other			
Contributions by the employer	-	3	3
Contributions by Fund participants	(7)	7	-
Benefit payments and tax	139	(139)	-
	132	(129)	3
Carrying amount as at 30 June 2018	**(623)**	**915**	**292**
Year ended 30 June 2017			
Carrying amount at start of year	(865)	990	125
Included in profit or loss			
Current service cost	(31)	-	(31)
Interest income/(cost)	(25)	28	3
	(56)	28	(28)
Included in other comprehensive income			
Remeasurement gain/(loss):			
Actuarial gain/(loss) arising from:			
Changes in financial assumptions	65	-	65
Experience adjustments[1]	25	78	103
Return on plan assets excluding interest income	-	-	-
	90	78	168
Other			
Contributions by the employer	-	6	6
Contributions by Fund participants	(8)	8	-
Benefits payments and tax	141	(141)	-
	133	(127)	6
Carrying amount as at 30 June 2017	(698)	969	271

(1) Experience adjustments are the effects of differences between previous actuarial assumptions and what has actually occurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 17: EMPLOYEE RETIREMENT BENEFITS (CONTINUED)

DEFINED BENEFIT OBLIGATION

The Group contributes to an industry multiple employer superannuation fund, Energy Super. After serving a qualifying period, members are entitled to benefits from this fund on retirement, resignation, retrenchment, disability or death.

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

Energy Super is managed by a trustee company, Electricity Supply Industry Superannuation (Qld) Ltd. The Trustee is responsible for managing Energy Super for the benefit of all members, in accordance with the trust deed and relevant legislation. At 30 June 2018, the Trustee Board consisted of four member representative directors, four employer representative directors and one independent director.

Energy Super is regulated by the Australian Prudential Regulation Authority under the Superannuation Industry (Supervision) Act 1993.

The Trust Deed of the Fund states that, if the Fund winds up, after the payment of all costs and the payment of all member benefits in respect of the period up to the date of termination, any remaining Defined Benefit assets may be distributed by the Trustee of the Fund to the participating employees, acting on the advice of an actuary, unless directed otherwise by the employer in accordance with the Trust Deed.

The Group may at any time, by notice to the Trustee, terminate its contributions. The employer has a liability to pay the monthly contributions due prior to the effective date of the notice, but there is no requirement for an employer to pay any further contributions, irrespective of the financial condition of the Fund. The Group voluntarily makes additional contributions in relation to the Defined Benefit Fund.

The Group may benefit from any surplus in the Fund in the form of a contribution reduction or contribution holiday. Any reduction in contributions would normally be implemented only after advice from the Fund's actuary.

The major categories of plan assets are as follows:

In millions of dollars	2018	2017
Cash	**46**	48
Fixed interest	**91**	97
Australian shares	**229**	242
International shares	**229**	242
Alternatives	**229**	242
Property and infrastructure	**91**	98
Total fair value of plan assets	**915**	969

This portfolio exposes the Fund to market risk. All shares and fixed interest plan assets have quoted prices in active markets. The actual return on plan assets for 2018 was a profit of $75 million (2017: $107 million).

The defined benefit assets are invested in a balanced investment portfolio, to match the weighted average duration of the defined benefit obligation of 9 years (2017: 9 years).

Key actuarial assumptions used at the reporting date are as follows:

	2018 %	2017 %
Expected rate of return on plan assets for one year	**3.8**	3.9
Pre-tax discount rate	**3.8**	3.9
Future salary increases	**3.0**	3.0

The expected maturity of undiscounted defined benefit obligations is as follows:

In millions of dollars	2018	2017
Not later than one year	**58**	57
Later than one year and not later than five years	**245**	244
Later than five years	**938**	1,147
Total undiscounted defined benefit obligations	**1,241**	1,448

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 17: EMPLOYEE RETIREMENT BENEFITS (CONTINUED)

Sensitivity analysis:

The sensitivity of the defined benefit obligation to changes in the significant assumptions, holding other assumptions constant were as follows:

		2018 %	2017 %
Discount rate			
	0.5% increase	(4.40)	(4.70)
	0.5% decrease	4.70	5.00
Future salary increases			
	0.5% increase	4.90	5.25
	0.5% decrease	(4.55)	(4.85)

Net financial position of plan

The superannuation plan computes its obligations in accordance with AAS 25 *Financial Reporting by Superannuation Plans* (AAS 25) which prescribes a different measurement basis to that applied in this financial report pursuant to AASB 119 *Employee Benefits*. Under AAS 25, and in accordance with the Occupational Superannuation Standards Regulation, the Energy Super Fund is required to undertake actuarial investigations at least every three years. The last reporting period for the Energy Super Fund Actuarial Report for the Group was 30 June 2016. The next Actuarial Report as at 30 June 2019 will be completed in the 2019/20 financial year.

The following is a summary of the most recent financial position of the Energy Super Fund (with respect to both defined benefit and accumulation members for the Group's participation in the Fund) calculated in accordance with AAS 25:

In millions of dollars	Last reporting period	
Accrued benefits	30/06/2016	(1,598)
Net market value of plan assets	30/06/2016	1,773
Net surplus		175

Employer contributions

The Group contributes to both defined contribution and defined benefit superannuation plans.

For the financial year ended 30 June 2018, the Group contributed 2% (2017: 4-5%) of defined benefit members' salaries. The Group expects to retain its contribution rate of 2% during the next financial year. Accordingly, the Group expects to contribute $3 million (2017: $3 million) to its defined benefit plan in 2017/18. Funding recommendations are made by the actuary based on their forecast of various matters including future plan asset performance, interest rates and salary increases. The Group will assess this contribution rate in the future to ensure it remains appropriate.

ACCOUNTING POLICIES

Employee retirement benefits

A defined contribution plan is a superannuation plan under which the Group pays fixed contributions. The Group has no legal or constructive obligations to pay further contributions and are typically limited to prior contributions.

The contributions are recognised as an employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

A defined benefit plan is a superannuation plan that defines the amount of the benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and final average salary. The asset or liability recognised in the statement of financial position in respect of defined benefit superannuation plans is the difference between the present value of the defined benefit obligation at the reporting date and the fair value of the plan assets, together with adjustments for past service costs.

The defined benefit obligation is calculated annually by an independent actuary using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates on high quality corporate bonds that are denominated in the currency in which the benefits will be paid, being Australian dollars and that have terms to maturity that approximate the terms of the related superannuation liability. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 18: NET DEFERRED TAX EQUIVALENT LIABILITY

In millions of dollars	2018	2017
(A) DEFERRED TAX EQUIVALENT ASSETS		
The balance comprises temporary differences attributable to:		
Amounts recognised in statements of profit or loss		
Provisions/accruals	**131**	131
Tax losses	**12**	16
Derivatives	**(2)**	13
Unearned revenue	**27**	18
Other	**2**	2
	170	180
Amounts recognised directly in equity		
Hedge accounting of derivatives	**31**	25
	31	25
Deferred tax equivalent asset	**201**	205

(B) DEFERRED TAX EQUIVALENT LIABILITIES		
The balance comprises temporary differences attributable to:		
Amounts recognised in statements of profit or loss		
Property, plant and equipment	**1,955**	1,969[1]
Derivatives	**(8)**	(9)
Other	**63**	66[1]
	2,010	2,026
Amounts recognised directly in equity		
Recognition of defined benefit surplus	**53**	43[1]
Revaluation of property, plant and equipment	**1,633**	1,596[1]
Hedge accounting of derivatives	**12**	60
	1,698	1,699
Deferred tax equivalent liabilities	**3,708**	3,725

(C) TOTAL NET DEFERRED TAX EQUIVALENT LIABILITY		
Deferred tax equivalent asset	**201**	205
Deferred tax equivalent liabilities	**(3,708)**	(3,725)
Net deferred tax equivalent liability	**(3,507)**	(3,520)

(1) Comparatives have been restated to more appropriately recognise the split between income and equity of the Deferred Tax Liability relating to the defined benefits funds and asset revaluation reserves.

The Group has a closing current tax receivable of $32 million at 30 June 2018 (2017: $92 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 18: NET DEFERRED TAX EQUIVALENT LIABILITY (CONTINUED)

ACCOUNTING POLICIES

Income taxes

(i) *Tax equivalents*

The Group is liable to make tax equivalent payments on its taxable income to the Queensland Government. Any taxation payments that it is required to make will be made pursuant to Section 129(4) of the *Government Owned Corporations Act 1993*.

The National Tax Equivalents Regime (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 Taxation Office (ATO), in order to determine the tax payable by the Group.

(ii) *Current tax equivalents payable/receivable*

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantively enacted at the end of the financial year and any adjustment to tax payable in respect of previous years.

Current tax payable/receivable is recognised as current tax expense/benefit.

(iii) *Deferred tax equivalent assets and liabilities*

Deferred tax equivalent assets (DTA) and liabilities (DTL) are recognised on deductible or taxable temporary differences and unused tax losses and tax credits, which are recognised using the 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.

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;

DTAs and DTLs 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. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity.

(v) *Tax consolidation*

Energy Queensland and its wholly-owned subsidiaries formed a tax consolidated group effective from 30 June 2016 and are therefore taxed as a single entity. The head entity within the tax consolidated group is Energy Queensland Limited.

DTAs and DTLs arising from temporary differences of the members of a tax consolidated group are recognised in the separate financial accounts of the members of the tax consolidated group using the standalone basis as specified in the tax funding deed.

The tax funding deed requires a notional current and deferred tax equivalents calculation for each entity as if it were a taxpayer in its own right, with the exception of distributions made and received within the tax consolidated group (e.g. intra-group dividends) which are treated as having no tax consequences.

The head entity recognises DTAs arising from unused tax losses and tax credits of the members of the tax consolidated group 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. The recognised tax losses are available indefinitely for offsetting against the future taxable profits subject to the satisfaction of certain loss recoupment rules.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 18: NET DEFERRED TAX EQUIVALENT LIABILITY (CONTINUED)

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

The members of the Energy Queensland tax consolidated group have entered into a tax funding deed which sets out the tax funding obligations for each member. The tax funding deed allows for an intercompany payable/receivable between the head entity and subsidiary equal to the current tax liability or asset assumed by the head entity. Any tax loss or deferred tax equivalent asset assumed by the head entity, results in the recognition of an inter-entity receivable/payable in the separate financial accounts of the members of the tax consolidated group equal in amount to the tax liability/asset assumed.

The head entity recognises the assumed current tax amounts as current tax liabilities/assets, adding to its own current tax amounts (if any), since they are also due to or from the same taxation authority. The current tax liabilities/assets are equivalent to the tax balances generated by external transactions entered into by the tax consolidated group.

Contributions to fund the current tax liabilities are payable as per the tax funding deed.

The 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 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.

(vii) *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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 19: EMPLOYEE BENEFITS

In millions of dollars	2018	2017
CURRENT LIABILITIES		
Employee benefits	**296**	296
Termination benefits	**12**	9
Total current employee benefits liability	**308**	305

NON-CURRENT LIABILITIES		
Employee benefits	**21**	25
Total non-current employee benefits liability	**21**	25

ACCOUNTING POLICIES

Employee benefits

Wages and salaries, annual leave, long service leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave, long service leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities expected to be settled more than 12 months after the reporting date are measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date.

For long service leave, consideration is also given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments relating to such liabilities are discounted using market yields at the reporting date on high quality corporate bonds with terms to maturity and currency that match, as closely as possible, to the estimated future cash outflows.

Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable. Annual leave, vested long service leave and on-cost entitlements accrued but not expected to be taken within 12 months have been included as part of current liabilities as the Group does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Termination benefits

Liabilities for termination benefits are recognised for the obligation to provide termination payments to employees where there is a valid expectation in those affected that the Group will progress with a restructuring and associated terminations.

CRITICAL JUDGEMENTS IN APPLYING THE GROUP'S ACCOUNTING POLICIES

Employee benefits

Management has applied judgement in determining the following key assumptions used in calculating long service leave at balance date:

- Future increases in wages and salaries;
- Employee departures; and
- Periods of service.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 20: UNEARNED REVENUE

In millions of dollars	2018	2017
CURRENT LIABILITIES		
Unearned revenue – government grant[1]	**262**	268
Unearned revenue – capital contributions	**67**	47
Unearned revenue – other	**27**	23
Total current unearned revenue	**356**	338

In millions of dollars	2018	2017
NON-CURRENT LIABILITIES		
Unearned revenue – government grant[1]	**266**	504
Total non-current unearned revenue	**266**	504

(1) On 30 May 2017, the Queensland State Government announced a Government Grant that would fund the Solar Bonus Scheme over a three year period to provide pricing relief to electricity consumers. Refer to Note 2 for associated Government Grant Revenues recognised in 2017/18.

ACCOUNTING POLICIES

Unearned revenue – government grant

When there is reasonable assurance that the Group will comply with all conditions attached to the government grant and those grants are received, then they are recognised in the statement of financial position initially as unearned revenue. Grants that compensate the Group for expenses incurred are recognised as revenue in the income statement on a systematic basis as the conditions of the grants are fulfilled.

Unearned revenue – capital contributions

Unearned capital contributions comprise funds received from customers for the Group to construct distribution substation transformers, high voltage cables and switchgear and other assets required to supply electricity to new developments, which include renewable energy installations such as solar farms and wind farms. As supply is made available, unearned capital contributions are recognised as revenue.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

SECTION 5: Capital structure

NOTE 21: SHARE CAPITAL

	2018	2018	2017	2017
SHARE CAPITAL	**Shares**	**$M**	**Shares**	**$M**
Fully paid ordinary shares	**100**	**19,643**	100	19,643
Total share capital	**100**	**19,643**	100	19,643

Fully paid ordinary shares carry one vote per share and carry the rights to dividends. The shares have no par value. There were no changes in share capital during the period.

NOTE 22: OTHER TRANSACTIONS WITH OWNERS, RESERVES AND RETAINED EARNINGS

In millions of dollars	2018	2017
Other transactions with owners	**(18,634)**	(18,635)
Asset revaluation reserve	**2,367**	2,284
Hedging reserve	**(44)**	83
Retained earnings	**223**	196

ACCOUNTING POLICIES

Other transactions with owners

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

NATURE AND PURPOSE OF RESERVES

Asset revaluation reserve

The asset revaluation reserve relates to property, plant and equipment measured at fair value in accordance with applicable Australian Accounting Standards.

Hedging reserve

The hedging reserve is used to record the effective portion of the gains or losses on hedging instruments in cash flow hedges that have not settled. Amounts are recognised in profit or loss when the associated hedged transactions affect the profit or loss statement or as part of the cost of an asset if non-monetary.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

SECTION 6: Other notes

NOTE 23: LEASES

OPERATING LEASES

In millions of dollars	2018	2017
Not later than one year	**36**	35
Later than one year but not later than five years	**145**	146
Later than five years	**115**	156
Non-cancellable operating lease commitments	**296**	337

The Group leases various office, workshop and storage space under non-cancellable operating leases expiring within one to 10 years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are re-negotiated.

The Group sub-leases a number of corporate premises to tenants. The total future minimum sub-lease payments expected to be received under non-cancellable subleases at the end of the reporting period is $7 million (2017: $6 million).

The Group has five significant leasing arrangements, four in the greater Brisbane area and one in regional Queensland (Townsville). The remaining lease terms range from two to 10 years and there are lease extension options on all of these leases. The escalation applicable to each lease is a fixed annual rate or the greater of CPI and a fixed rate.

ACCOUNTING POLICIES

Lease commitments

(i) Operating leases

Leases in which substantially all of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments under operating leases are charged to the statements of profit or loss on a straight-line basis over the period of the lease unless an alternative basis is more representative of the time pattern of benefits to be obtained from the leased property.

(ii) Lease incentives

Where an entity in the Group is a lessee under an operating lease, the aggregate benefit of any incentive provided by the lessor for a new or renewed lease is recognised as an adjustment to rent expense over the lease term of the lease on a straight-line basis unless another systematic basis is more representative of the time pattern of benefit from the use of the leased asset.

NOTE 24: COMMITMENTS

In millions of dollars	2018	2017
CAPITAL EXPENDITURE COMMITMENTS		
Estimated capital expenditure contracted for at the end of the financial year but not recognised as liabilities[1]	**114**	109

(1) These commitments consist of executed contracts and/or open purchase orders and are valued at price levels and foreign currency exchange rates as at the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 25: CONTINGENCIES

(A) Legal claims

A number of common law claims are pending against the Group and liability is not admitted. The amount of claims due to litigation and associated legal fees is $3 million (2017: $2 million). These claims are disclosed on a gross basis and exclude possible reimbursement through insurance recoveries.

(B) Other possible claims

From time to time the Group receives formal notifications from third parties which might indicate intention to lodge formal claims against the Group. The Group investigates these matters and responds appropriately to such communications in order to minimise potential future claims.

There are no significant claims that are expected to have an impact on the Group's future financial position.

(C) Guarantees

(i) Third Parties

In order to participate in the electricity market, entities within the Group are required to deliver acceptable security as collateral to the Australian Energy Market Operator for their obligations to counter parties in the Electricity Market arising as a consequence of normal trading. Security, in the form of payment guarantees totalling $100 million (2017: $100 million), has been issued by QTC to the AEMO. EQL provides QTC with a Counter Indemnity up to the value of $150 million in respect of this guarantee.

In order to participate in the electricity market, entities within the Group are required to hold an Australian Financial Services Licence for which QTC provides the required Eligible Undertaking to the value of $300 million. EQL provides QTC with a Counter Indemnity up to the value of $300 million in respect of the eligible undertaking. The Group now has in place a Bank Guarantee facility with Commonwealth Bank to the value of $2 million (2017: Nil).

Energex also has in place a bank guarantee facility with NAB to the value of $1 million for non-regulated business (2017: $1 million).

(ii) Subsidiaries – Wholly-owned

Pursuant to ASIC Corporations (Wholly-owned Companies) Instrument 2016/785, Energy Queensland has guaranteed to pay any deficiency in the event of winding up of Energex, Ergon Energy, SPARQ Solutions, Yurika and Metering Dynamics. These controlled entities have also given a similar guarantee in the event that Energy Queensland or any of the entities are wound up or does not meet their obligations. Refer to Note 26.

(D) Guarantees held

The Group holds bank guarantees from customers totalling $84 million (2017: $62 million) relating to the construction of capital assets.

There are nil guarantees held with trading counterparties (2017: Nil), as security to cover obligations arising from the trading of electricity.

(E) Environmental remediation

The Group provides for all known environmental liabilities. The Group estimates that current provisions for environmental remediation are adequate based on current information. However, there can be no assurance that new material provisions will not be required as a result of new information or regulatory requirements with respect to known sites or identification of new remedial obligations at other sites.

ACCOUNTING POLICIES

Contingent assets and liabilities

Contingent assets are not recognised in the financial statements. Other than when required on acquisition of a business, contingent liabilities are not recognised in the financial statements. They are, however, disclosed in the notes to the financial statements, where appropriate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 26: CONSOLIDATED ENTITIES

	COUNTRY OF INCORPORATION	PERCENTAGE INTEREST HELD BY THE GROUP 2018 %	2017 %
THE COMPANY			
Energy Queensland Limited	**Australia**		
CONTROLLED ENTITIES			
Energex Limited	Australia	**100**	100
Ergon Energy Corporation Limited	Australia	**100**	100
Ergon Energy Queensland Pty Ltd	Australia	**100**	100[1]
SPARQ Solutions Pty Ltd	Australia	**100**	100
Varnsdorf Pty Ltd	Australia	**100**	100[2]
VH Operations Pty Ltd	Australia	**100**	100[2]
Yurika Pty Ltd	Australia	**100**	100[3]
Metering Dynamics Pty Ltd	Australia	**100**	100[4]
Ergon Energy Telecommunications Pty Ltd	Australia	**100**	100[5]

Impacts of the EQL Group corporate restructure effective 1 December 2017 are as follows:

1. Ergon Energy Queensland Pty Ltd was previously a subsidiary of Ergon Energy Corporation Limited. The company is now a direct subsidiary of EQL.
2. Varnsdorf Pty Ltd and VH Operations Pty Ltd were previously subsidiaries of the Energex Group. They are now direct subsidiaries of EQL.
3. Yurika Pty Ltd (formerly Energy Impact Pty Ltd) was previously a subsidiary of Energex Limited. The company is now a direct subsidiary of EQL.
4. Metering Dynamics Pty Ltd (formerly Metering Dynamics Business Support Pty Ltd) was previously a subsidiary of Energex Limited. The company is now a subsidiary of Yurika Pty Ltd.
5. Ergon Energy Telecommunications Pty Ltd was previously a subsidiary of Ergon Energy Corporation Limited. The company is now a subsidiary of Yurika Pty Ltd.

Pursuant to the *ASIC Corporations (Wholly-owned Companies) Instrument 2016/785*, relief has been granted to Energex, Ergon Energy, Yurika Pty Ltd (Yurika), Metering Dynamics Pty Ltd (Metering Dynamics) and SPARQ Solutions Pty Ltd (SPARQ Solutions) from the requirements under the *Corporations Act 2001* for the preparation, audit and lodgement of their financial reports. Ergon Energy Queensland Pty Ltd (Ergon Energy Retail), a subsidiary of Energy Queensland, still prepares its own financial statements. The remaining Energy Queensland subsidiaries are small proprietary companies and are therefore relieved from the requirement for preparation, audit and lodgement of annual financial statements.

ACCOUNTING POLICIES

Basis of consolidation

A subsidiary is an entity over which the Company has control. The Company controls an entity when the Company has power over the investee, is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the parent of the Group.

Investments in controlled entities are carried in the financial statements of the Company at the lower of cost and recoverable amount.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 26: CONSOLIDATED ENTITIES (CONTINUED)

Where an acquisition has commercial substance, the cost of an acquisition is measured as the fair value of the assets given, liabilities incurred or assumed and equity instruments issued at the date of exchange. Where such transactions result from the restructuring of entities wholly-owned by the State of Queensland and are designated as transactions with owners, assets acquired and liabilities assumed are recognised at the current carrying amounts recorded by the transferor with any difference between consideration and the carrying amount at the date of exchange recorded in equity.

CLOSED GROUP LEGISLATIVE INSTRUMENT

As a condition of *ASIC Corporations (Wholly-owned Companies) Instrument 2016/785*, Energy Queensland entered into a Deed of Cross Guarantee with the following controlled entitles:

- Energex Limited
- Ergon Energy Corporation Limited
- SPARQ Solutions Pty Ltd
- Yurika Pty Ltd
- Metering Dynamics Pty Ltd

The effect of the Deed is that Energy Queensland, the Parent, has guaranteed to pay any deficiency in the event of winding up of the above controlled entities or if they do not meet their obligations under the terms of overdrafts, loans, leases or other liabilities subject to the guarantee. These controlled entities have also given a similar guarantee in the event that any other entity in the Closed Group is wound up or if it does not meet its obligations under the terms of the overdrafts, loans, leases or other liabilities under the guarantee.

The existing Deed of Cross Guarantee continues to provide reporting relief to the above controlled entities.

The consolidated profit or loss and statements of financial position of the entities that are members of the Closed Group are provided in Note 28(A).

Further information regarding guarantees is provided in Note 25.

NOTE 27: ENERGY QUEENSLAND LIMITED (THE PARENT)

In millions of dollars	2018	2017
Current Assets	**1,686**	2,675
Non-Current Assets	**19,809**	19,662
Total Assets	**21,495**	22,337
Current liabilities	**1,869**	2,712
Non-Current Liabilities	**16,251**	16,250
Total Liabilities	**18,120**	18,962
Net Assets	**3,375**	3,375
Issued Capital	**19,643**	19,643
Other transactions with owners	**(16,267)**	(16,267)
Retained Earnings	**(1)**	(1)
Total Equity	**3,375**	3,375
Profit/(loss) of the Parent entity	**809**	881
Total comprehensive income of the Parent entity	**809**	881

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 28: CLOSED GROUP AND ENERGEX AND ERGON ENERGY PARENT INFORMATION

(A) Closed Group Information

As discussed in Note 26, pursuant to ASIC Corporations (Wholly-owned Companies) Instrument 2016/785, relief has been granted to wholly-owned entities of the Group from the *Corporations Act 2001* requirements for the preparation, audit and lodgement of their financial reports.

The consolidated profit or loss and statements of financial position of the entities that are members of the Closed Group are as follows:

Consolidated Closed Group Profit or Loss

In millions of dollars	2018	2017
Profit or loss before income tax	**776**	1,247
Income tax expense	**(232)**	(325)
Profit after tax	**544**	922
Retained earnings at the beginning of the period	**222**	56
Dividends provided for or paid	**(809)**	(881)
Transfers to reserves	**224**	125
Retained earnings at the end of the period	**181**	222

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 28: CLOSED GROUP AND ENERGEX AND ERGON ENERGY PARENT INFORMATION (CONTINUED)

(A) Closed Group Information (Continued)

Consolidated Closed Group Statement of Financial Position

In millions of dollars	2018	2017
CURRENT ASSETS		
Cash and cash equivalents	**10**	3
Trade and other receivables	**1,955**	2,138
Inventories	**178**	168
Other assets	**12**	2
Total current assets	**2,155**	2,311
NON-CURRENT ASSETS		
Property, plant and equipment	**23,377**	22,952
Intangible assets	**236**	171
Investments in subsidiaries	**119**	126
Employee retirement benefits	**292**	271
Other assets	**7**	8
Total non-current assets	**24,031**	23,528
TOTAL ASSETS	**26,186**	25,839
CURRENT LIABILITIES		
Trade and other payables (including dividends payable)	**1,713**	1,143
Employee benefits	**308**	306
Provisions	**21**	17
Unearned revenue	**356**	338
Other liabilities	**1**	1
Total current liabilities	**2,399**	1,805
NON-CURRENT LIABILITIES		
Interest bearing liabilities	**16,250**	16,258
Employee benefits	**21**	25
Provisions	**12**	11
Net deferred tax equivalent liability	**3,560**	3,589
Unearned revenue	**266**	504
Other liabilities	**5**	6
Total non-current liabilities	**20,114**	20,393
TOTAL LIABILITIES	**22,513**	22,198
NET ASSETS	**3,673**	3,641
EQUITY		
Share capital	**19,643**	19,643
Other transactions with owners	**(18,514)**	(18,508)
Reserves	**2,363**	2,284
Retained earnings	**181**	222
TOTAL EQUITY	**3,673**	3,641

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 28: CLOSED GROUP AND ENERGEX AND ERGON ENERGY PARENT INFORMATION (CONTINUED)

(B) Energex and Ergon Energy Parent Information

	Energex		Ergon Energy	
In millions of dollars	2018	2017	2018	2017
Revenue	**2,250**	**2,577**	**2,140**	**2,570**
Other Income	**-**	**14**	**-**	**2**
Expenses				
Transmission charges and electricity purchases	337	485	281	391
Solar photovoltaic feed in tariff	172	177	100	100
Employee expenses	226	254	255	230
Materials and services	191	235	231	227
Depreciation, amortisation and impairments	408	401	431	440
Other expenses	68	43	170	150
Profit before income tax equivalent expense	**848**	**996**	**672**	**1,034**
Income tax equivalent expense	255	297	202	262
Profit after income tax equivalent expense	**593**	**699**	**470**	**772**
OTHER COMPREHENSIVE INCOME				
Other comprehensive income for the financial year, net of tax	**126**	**83**	**(17)**	**138**
TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR	**719**	**782**	**453**	**910**

All profit and comprehensive income is attributable to the owners of the company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 29: KEY MANAGEMENT PERSONNEL DISCLOSURES

(A) Details of Shareholding Ministers

The Group's responsible shareholding Ministers are identified as part of the Group's KMP, and these Ministers are the:

- Deputy Premier, Treasurer and Minister for Aboriginal and Torres Strait Islander Partnerships, and the
- Minister for Natural Resources, Mines and Energy.

(B) Compensation – Shareholding Ministers

Ministerial remuneration entitlements are outlined in the Legislative Assembly of Queensland's Members' Remuneration Handbook. The Group does not bear any cost of remuneration of Ministers. The majority of Ministerial entitlements are paid by the Legislative Assembly, with the remaining entitlements being provided by Ministerial Services Branch within the Department of the Premier and Cabinet. As all Ministers are reported as KMP of the Queensland government, aggregate remuneration expenses for all Ministers is disclosed in the Queensland General Government and Whole of Government Consolidated Financial Statements as from 2017/18, which are published as part of Queensland Treasury's Report on State Finances.

(C) Details of Directors

Directors of Energy Queensland as at 30 June 2018: Term of appointment

Directors of Energy Queensland as at 30 June 2018:		Term of appointment	Appointment expiry date
Philip Garling	Chairman	3 years	30 June 2019
Kerryn Newton	Non-Executive Director	3 years 3 months	30 September 2020
Mark Algie	Non-Executive Director	3 years	30 September 2019
Teresa Dyson	Non-Executive Director	3 years	30 September 2019
Hugh Gleeson	Non-Executive Director	3 years	30 September 2019
Kathy Hirschfeld	Non-Executive Director	3 years	30 September 2019
Helen Stanton	Non-Executive Director	3 years	30 September 2019
Vaughan Busby	Non-Executive Director	3 years	30 September 2020

(D) Compensation – Directors

Directors' remuneration is set pursuant to the *Government Owned Corporations Act* 1993 by Shareholding Ministers, with other fees and allowances determined on the basis of meetings attended and expenditure incurred in performing their roles as Directors of entities forming part of the Group.

The non-executive Directors of the Company do not participate in any variable reward or 'at-risk' incentive scheme.

Amounts disclosed for remuneration of key management personnel exclude insurance premiums paid by the Company in respect of Directors' and Officers' liability insurance contracts.

In accordance with Ministerial Guidelines, details of compensation provided to Directors in office during the financial period ended 30 June 2018 by the Group are as follows:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 29: KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

(D) Compensation – Directors (Continued)

DIRECTORS' REMUNERATION	SHORT TERM BENEFITS Directors' Fees		POST EMPLOYMENT BENEFITS Superannuation		TOTAL	
In thousands of dollars	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Energy Queensland						
Philip Garling	207	206	20	20	**227**	**226**
Clive Skarott[1]	-	81	-	8	**-**	**89**
Mark Algie	83	58	8	6	**91**	**64**
Teresa Dyson	95	71	9	7	**104**	**78**
Hugh Gleeson	88	66	8	6	**96**	**72**
Kathy Hirschfeld	88	66	8	6	**96**	**72**
Kerryn Newton	88	83	8	8	**96**	**91**
Helen Stanton	85	64	8	6	**93**	**70**
Vaughan Busby[2]	61	-	5	-	**66**	**-**
Total	**795**	**695**	**74**	**67**	**869**	**762**

(1) Clive Skarott's term of appointment expired 30 June 2017.

(2) Vaughan Busby was appointed on 12 October 2017.

No further fees were paid to Directors, other than the amounts disclosed in the table above.

(E) Compensation – Executives

Senior executive employment contracts

Remuneration and other terms of employment of executives are formalised in executive employment contracts.

Each of these employment contracts makes a provision for fixed remuneration and an 'at risk' performance incentive.

A Total Fixed Remuneration (TFR) concept for the structure of executive remuneration is utilised. While the total cost of an executive's remuneration package is capped, the executive then has the flexibility to decide the composition of the total fixed remuneration, which could include cash salary or salary sacrificed arrangements including motor vehicle, car park and additional superannuation, plus any fringe benefits tax incurred.

No other non-cash benefits are provided to executives as the TFR concept captures various benefits structured within a total cost rather than a base salary plus benefits approach.

Executive staff members are eligible for an 'at risk' or variable performance pay component that is directly linked to both the overall performance of their respective employer Group and their individual efforts against a range of key indicators and targets as contained in the annual Statement of Corporate Intent and the executives' performance agreement. Any 'at risk' payment is contingent upon the Board's assessment of the company's overall performance and shareholder expectations.

Performance payments may not exceed a maximum of 15% of the individual's TFR figure.

Performance payments to all employees, including executive staff, are disclosed in this note.

All executives are engaged on tenured contractual arrangements in accordance with *The Policy for Government Owned Corporations Chief and Senior Executive Employment Arrangements* (Policy).

Separation entitlements for all executives are subject to the normal terms and conditions of their contracts with the Group.

Application to Chief Executive Officer (CEO) and other Executives

Upon termination the executive is entitled to pay in lieu of the executive's entitlements to annual leave and long service leave, calculated with reference to the executive's total fixed remuneration up to the date on which the termination takes effect. If the employment of the executive is terminated by Energy Queensland, except in the event of serious misconduct or incapacity, the executive is entitled to:

i. salary for the balance of the notice period; and
ii. a termination payment of six months (for CEO) and three months (for other Executives) superannuable salary.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 29: KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

(E) Compensation – Executives (Continued)

EXECUTIVE REMUNERATION	Short term benefits[1]	Performance payment[2]	Post-employment benefits[3]	Other long-term benefits[4]	Termination benefits	Total
2018	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Energy Queensland						
David Smales - Chief Executive Officer	858	91	20	90	-	**1,059**
Peter Scott - Chief Financial Officer	459	65	20	55	-	**599**
Belinda Watton – Chief Transformation Officer	381	58	20	46	-	**505**
Peter Price - Head of Corporate Strategy and Executive General Manager Asset Safety and Performance	391	59	43	51	-	**544**
Paul Jordon – Executive General Manager Distribution	480	53	42	53	-	**628**
Cheryl Hopkins - Executive General Manager Retail and Chief Risk Officer	383	20	20	48	-	**471**
Charles Rattray - Executive General Manager Energy Services	387	23	20	44	-	**474**
Craig Chambers - Executive General Manager Strategy, Portfolio and Innovation[5]	345	33	16	39	187	**620**
Barbara-Anne Bensted - Chief Digital Officer[6]	297	22	15	32	-	**366**
Total	**3,981**	**424**	**216**	**458**	**187**	**5,266**

(1) Short-term benefits include all payments made to the Officer during the year excluding at-risk performance payments (disclosed separately), less payments for annual leave and long-service leave taken.

(2) At risk performance payments are physically paid in the current financial year for performance for the prior financial year.

(3) Post-employment benefits represent superannuation contributions made by the employer to the superannuation fund at the rates prescribed in the executives' employment contracts (which range from 9.5% of the maximum contribution base to 10% as part of the fixed remuneration base). Some executives are members of the defined benefit superannuation fund. Refer to Note 17 for further information regarding the defined benefit obligations of the Group.

(4) Other long-term benefits represent annual and long service leave benefits accrued during the year.

(5) Craig Chambers was appointed to the position of Executive General Manager Strategy Portfolio & Innovation on 12 December 2016. He remained in that position until 9 April 2018 and the position was subsequently rationalised from the structure.

(6) Barbara-Anne Bensted was appointed to the role of Chief Digital Officer on 12 January 2017. She resigned from that position on 30 March 2018 and the position was subsequently rationalised from the structure.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 29: KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

EXECUTIVE REMUNERATION	Short term benefits[1]	Performance payment[2]	Non-monetary benefits[7]	Post-employment benefits[3]	Other long-term benefits[4]	Termination benefits	Total
2017	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Energy Queensland							
David Smales - Chief Executive Officer[8]	592	-	-	15	66		**673**
Terence Effeney - Interim Chief Executive Officer[9]	434	106	3	74	83	-	**700**
Peter Scott - Chief Financial Officer[10]	491	60	-	20	50		**621**
Belinda Watton - Executive General Manager People, Culture and Safety[11]	245	-	-	13	28	-	**286**
Peter Price - Executive General Manager Asset Safety and Performance[12]	244	-	-	26	29	-	**299**
Roslyn Baker - Chief Operating Officer Distribution[13]	152	-	-	6	18	192	**368**
Craig Chambers - Executive General Manager Strategy, Portfolio and Innovation[5]	259	-	-	11	26	-	**296**
Mark Williamson - Acting Executive General Manager Retail[13]	22	-	-	2	2	-	**26**
Charles Rattray - Executive General Manager Energy Services[14]	184	-	-	10	21	-	**215**
Barbara-Anne Bensted - Chief Digital Officer[6]	186	-	-	9	20	-	**215**
Cheryl Hopkins - Executive General Manager Retail[15]	159	-	-	7	17	-	**183**
Paul Jordon – Interim Chief Operating Officer[16]	54	-	-	3	4	-	**61**
Kevin Kehl - Interim Executive General Manager Energy Services [17]	203	60	2	22	23	-	**310**
Total	**3,225**	**226**	**5**	**218**	**387**	**192**	**4,253**

(7) Non-monetary benefits represent the value of car parking provided to the Executive.

(8) David Smales was appointed Chief Executive Officer of Energy Queensland on 26 September 2016.

(9) Terence Effeney was appointed Interim Chief Executive Officer on 30 June 2016. He remained in that role until 3 October 2016 when he was appointed to the position of Transition Executive General Manager.

(10) Peter Scott was appointed Interim Chief Financial Officer of Energy Queensland on 30 June 2016 and subsequently appointed Chief Financial Officer on 14 November 2016.

(11) Belinda Watton was in the position of Executive General Manager People, Safety & Culture for Ergon until her appointment as Executive General Manager People, Safety & Culture of Energy Queensland on 31 October 2016. The amounts disclosed are only those earned by the individual since appointment as an Executive of Energy Queensland.

(12) Peter Price was in the position of Executive General Manager Asset Management for Energex until his appointment to the position of Executive General Manager Asset Safety & Performance of Energy Queensland on 14 November 2016. The amounts disclosed are only those earned by the individual since appointment as an Executive of Energy Queensland.

(13) Mark Williamson was acting in the role of Executive General Manager Retail from 8 August 2016 until 8 February 2017. The amounts disclosed are only those earned by the individual during the period acting in that role.

(14) Charles Rattray was appointed to the role of Executive General Manager Energy Services on 19 December 2016.

(15) Cheryl Hopkins was appointed to the role of Executive General Manager Retail on 9 February 2017.

(16) Paul Jordon was in the position of Executive General Manager Customer Service for Ergon until his appointment as Interim Chief Operating Officer of Energy Queensland on 6 March 2017. The amounts disclosed are only those earned by the individual since appointment as an Executive of Energy Queensland.

(17) Kevin Kehl was appointed Interim Executive General Manager Energy Services of Energy Queensland on 30 June 2016. He was then appointed to the role of Interim Executive General Manager Strategy Portfolio & Innovation from 8 August 2016 until his resignation on 2 January 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 29: KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

(E) Compensation – Executives (Continued)

Total Fixed Remuneration Package[1]	2018	2017
	$'000	$'000
Energy Queensland		
Chief Executive Officer	**881**	865
Chief Financial Officer	**540**	524
Executive General Manager Distribution	**520**	573
Chief Transformation Officer	**456**	414
Head of Corporate Strategy and Executive General Manager Asset Safety and Performance	**505**	459
Chief Digital Officer[2]	**-**	414
Executive General Manager Retail and Chief Risk Officer	**470**	427
Executive General Manager Energy Services	**431**	392
Executive General Manager Strategy, Portfolio and Innovation[2]	**-**	481
Total	**3,803**	**4,549**

(1) The TFR package differs from the executive remuneration disclosures on the previous page, as the executive remuneration disclosures reflect the cost to the Group. Adjustments include leave and superannuation accruals and pro-rata payments for part-year entitlements. The fixed remuneration note has been adjusted to reflect the current organisational structure.

(2) These positions were rationalised from the structure in April 2018.

(F) Compensation disclosures by category:

	2018	2017
	$'000	$'000
Short-term benefits	**5,200**	4,151
Post-employment benefits	**290**	285
Other long-term benefits	**458**	387
Termination benefits	**187**	192
Total	**6,135**	5,015

This table includes Directors and Executives remuneration.

(G) Transactions with related parties of key management personnel

Key management personnel and their closely related parties conduct transactions with the Group on an arm's length basis and on terms and conditions no more favourable than those available to non-related parties.

All transactions with key management personnel or related parties that occurred during the financial year are trivial or domestic in nature, apart from those noted below.

The following executives and former executives of the Group are or were Directors of controlled entities. They did not receive any remuneration for their positions as Directors of these entities.

- David Smales
- Peter Scott
- Jane Nant
- Belinda Watton
- Craig Chambers

Peter Scott and Teresa Dyson were Directors of Energy Super during the 2017/18 financial year and Clive Skarott was a Director of Energy Super during the 2016/17 financial year. The Group contributed to the Energy Super Fund based on actuarial advice and the total payments for the year were $96 million (2017: $95 million).

(H) Loans to key management personnel

The Group has not made any loans to key management personnel in either the current or the prior financial year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 30: RELATED PARTY TRANSACTIONS

Entities subject to common control

The Company is a Queensland Government Owned Corporation, with all shares held by shareholding Ministers on behalf of the State of Queensland. All State of Queensland controlled entities meet the definition of other related parties of the Group.

Transactions with State of Queensland controlled entities

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

	2018 $'000	2017 $'000
REVENUE		
Revenue from State of Queensland controlled entities	**672,726**	398,043
Pensioner rebate revenue from Department of Communities	**98,464**	48,974
Interest received from QTC	**19,693**	61
EXPENSES		
Expenses incurred to State of Queensland controlled entities	**631,067**	887,941
Interest on QTC borrowings (includes administration fees)	**748,895**	781,761
Community service obligations offset	**(492,547)**	(598,447)
Competitive neutrality fee paid to Queensland Treasury	**7,091**	-
Electricity trading with State of Queensland controlled entities	**819**	331,024
Environmental certificate transactions with State of Queensland controlled entity counterparties	**6,935**	6,081
NTER, Payroll Tax and Land Tax paid to Queensland Treasury	**399,340**	408,307
ASSETS		
Advances facility held with Queensland Treasury	**638,093**	1,081,500
Community service obligations amounts receivable	**39,199**	116,205
Current tax receivable	**31,937**	92,438
Trade and other receivables from State of Queensland controlled entities	**9,405**	4,226
Other assets	**-**	337
LIABILITIES		
Accrued interest and fees payable to QTC	**58,905**	18,887
Trade payables to State of Queensland controlled entities	**51,687**	73,367
Dividends payable to Queensland Treasury	**808,902**	881,171
Borrowings from QTC	**16,250,000**	16,250,000
Accrued competitive neutrality fee payable to Queensland Treasury	**3,565**	-
Electricity trading with State of Queensland controlled entities	**(4,861)**	23,850
Unearned grant revenue	**528,060**	773,129

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 30: RELATED PARTY TRANSACTIONS (CONTINUED)

No provision for impairment of receivables was raised for any outstanding balances and no expense was recognised for bad or impaired debts due from State owned entities.

Transactions with State-owned electricity entities were made in accordance with the National Electricity Rules for transmission use of system charges. Other transactions are based on normal commercial terms and conditions and at market rates.

Transactions with other related parties

Disclosures relating to key management personnel are set out in Note 29.

Ultimate parent entity

The ultimate parent entity within the Group is Energy Queensland Limited.

Ownership interests in related parties

Interests in consolidated entities are set out in Note 26.

NOTE 31: AUDITOR'S REMUNERATION

	2018	2017
	$'000	**$'000**
Remuneration for audit and review of the financial reports of the Group and the Company:		
Auditor-General of Queensland		
Audit services		
Audit and review of financial reports	**1,640**	1,640
Audit and review of regulatory reports	**457**	457
Other		
Non-financial review of regulatory reports	**92**	92
	2,189	2,189

NOTE 32: EVENTS AFTER REPORTING DATE

No events of a material nature have occurred since the end of the financial year that significantly affected or may significantly affect the operations of the Group or the Company.

DIRECTORS' DECLARATION

In the Directors' opinion:

1. The financial statements and associated notes set out on pages 8 to 66;
    - (i) Comply with the 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 Group as at 30 June 2018 and of its performance for the year ended on that date.

2. As at the date of this declaration there are reasonable grounds to believe:
    - (i) That the Company will be able to pay its debts as and when they become due and payable; and
    - (ii) The members of the Closed Group will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the Deed of Cross Guarantee.

Made in accordance with a resolution, made in Brisbane, by the Directors.

Philip Garling
Chairman
23rd August 2018

Queensland Audit Office
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INDEPENDENT AUDITOR'S REPORT

To the Members of Energy Queensland Limited

Report on the audit of the financial report

Opinion

I have audited the accompanying financial report of Energy Queensland Limited and its controlled entities (the group).

In my opinion, the financial report:

a) gives a true and fair view of the group's financial position as at 30 June 2018, and its financial performance and cash flows for the year then ended

b) complies with the *Corporations Act 2001*, the Corporations Regulations 2001 and Australian Accounting Standards.

The financial report comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements including summaries of significant accounting policies and other explanatory information, and the directors' declaration.

Basis for opinion

I conducted my audit in accordance with the *Auditor-General of Queensland Auditing Standards*, which incorporate the Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of my report.

I am independent of the parent and group in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to my audit of the financial report in Australia. I have also fulfilled my other ethical responsibilities in accordance with the Code and the *Auditor-General of Queensland Auditing Standards*. I am also independent of the parent and group in accordance with the auditor independence requirements of the *Corporations Act 2001*, and confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

Key audit matters

Key audit matters are those matters that, in my professional judgement, were of most significance in my audit of the financial report of the current period. I addressed these matters in the context of my audit of the financial report as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters.

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Valuation of supply system assets ($21,990m) (Note 15)

<table>
<tr><th>Key audit matter</th><th>How my audit procedures addressed this key audit matter</th></tr>
<tr><td>
The fair value of the supply system assets has been determined using the discounted cash flow (DCF) technique (Income Approach).
The fair value estimation involved significant assumptions and judgements for:

Aggregating supply assets to units of account for valuation purposes.
Estimating future cash inflows and outflows based on:

Revenue forecasts
Estimations of efficient and prudent operating and capital cash outflow amounts occurring beyond the current regulatory period
Tax cash flow
Deriving a terminal value in Energy Queensland Limited's regulated environment.
Setting the rate used to discount the forecast cash inflows, cash outflows and terminal value to present

</td><td>
My procedures included, but were not limited to:

With reference to common industry practice, evaluating for appropriateness Energy Queensland Limited's identification of units of account and use of the income approach (having consideration for highest and best use and the principal market).
Verifying the mathematical accuracy of the discounted cash flow models.
Assessing the reasonableness of forecast revenue, operating expenditure, capital expenditure, and tax cash flows, by corroborating the key market related assumptions to relevant internal forecasts and historical external data.
Evaluating the methodology used to derive terminal values with reference to common industry practice.
Performing sensitivity analysis for the revenue cash flow growth rate, expenditure cash flow growth rate, discount rate and terminal value to assess how management addressed estimation uncertainty.
Engaging a specialist and an auditor's expert to assist me in:

agreeing the discount rate calculation methodology to industry range standards and available market information; and
assessing the reasonableness of the income approach valuation by performing valuation cross checks to comparable organisations and recent sales of similar entities.

In engaging a specialist and expert to assist me in addressing this key audit matter, I have reviewed:

the qualifications, competence, capabilities, objectivity and work completed by the specialist and auditor's expert to ensure that the nature, scope and objectives of the work completed was appropriate and the findings.

</td></tr>
</table>

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Depreciation of Supply System Property, Plant and Equipment ($709m) (Note 15)

Key audit matter	How my audit procedures addressed this key audit matter
The depreciation of supply system assets requires significant professional judgement for: • Disaggregating assets into components that are subject to regular replacement. • Forecasting the remaining useful lives of those components. • Estimating residual values. • Estimating useful lives which require consideration of an asset's current condition and its expected future use, physical wear and tear, and technical or commercial obsolescence.	My procedures included but were not limited to: • Evaluating management's approach to disaggregating supply assets with reference to common industry practice and expert advice from engineers and valuers. • Obtaining an understanding of the basis for calculating remaining useful lives of supply asset components within all the standardised component types. • Agreeing components' remaining useful lives to their respective asset management plans. • Evaluating management's assessment of physical condition, obsolescence, and expected usage and wear and tear in estimating remaining useful lives. • Assessing the reasonableness of residual values with reference to sale proceeds from disposals of similar assets.

Responsibilities of the company for the financial report

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

The company's directors are also responsible for assessing the parent's and group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate the parent or group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

My objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

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As part of an audit in accordance with the Australian Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for expressing an opinion on the effectiveness of the parent's and group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the group.
- Conclude on the appropriateness of the parent's and group's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent's or group's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify my opinion. I base my conclusions on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the parent or group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the financial report. I am responsible for the direction, supervision and performance of the audit of the group. I remain solely responsible for my audit opinion.

I communicate with the company's directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

From the matters communicated with the company's directors, I determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. I describe these matters in my auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

23 August 2018

Brendan Worrall
Auditor-General

Queensland Audit Office
Brisbane

Energy Queensland

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