Ergon Energy Queensland Pty Ltd
Annual Financial Statements

For the year ended 30 June 2018

ABN 11 121 177 802

Ergon Energy Queensland Pty Ltd

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For the year ended 30 June 2018

Introduction and Table of Contents

The Notes to the Annual Financial Statements have been developed to provide you with a clearer understanding of what drives financial performance at Ergon Energy Queensland. Each of the six sections included in this report outlines accounting policies applied in producing the relevant notes, along with details of any key judgements and estimates used.

Ergon Energy Queensland Pty Ltd

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Ergon Energy Queensland Pty Ltd

Director's Report
For the year ended 30 June 2018

The Directors present their report together with the financial report of Ergon Energy Queensland Pty Ltd ("the Company") 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
• David Smales (Chairman)	3 October 2017	n/a
• Peter Scott	3 October 2017	n/a
• Belinda Watton	26 June 2018	n/a
• Jane Nant	26 June 2018	n/a
• Craig Chambers	3 October 2017	12 June 2018
• Gary Stanford (Chairman)	23 October 2015	30 September 2017
• Rodney Wilkes	23 October 2015	3 October 2017
• Vaughan Busby	9 October 2016	3 October 2017
• Phil Garling	9 October 2016	3 October 2017

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

Dividends
A liability for dividends payable is recognised in the financial year in which the dividend is declared. Prior to 30 June 2018, the Board declared a final dividend equal to 100% of the Company's profit after income tax equivalent expense, up to the amount of net assets in the Company. As a result, a dividend of $176.653 million has been recognised in the financial statements. This dividend is payable on 30 November 2018. A final dividend of $162.192 million was declared during the 2017 financial year and paid on 30 November 2017.

Operating and financial review
The Company's profit after income tax equivalent expense was $263.178 million for the year (2017: $120.075 million). Despite lower consumption, retail tariffs were increased to cover rising wholesale electricity prices. 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. Unrealised mark to market movements reflect the unwinding of previously recorded losses as well as the decline in the fair value of derivative positions due to downward movement of forward electricity prices.

The financial statements are a general purpose financial report that have been prepared in accordance with Australian Accounting Standards and Interpretations, requirements of the *Corporations Act 2001* and provisions of the *Corporations Regulations 2001*.

Significant changes in the state of affairs
As part of the Energy Queensland Limited Group corporate restructure, shares in the Company were transferred from Ergon Energy Corporation Limited to Energy Queensland Ltd on 1 December 2017.

Significant events after the end of the reporting period
No matters or circumstances have occurred since the end of the financial year which significantly affected or may significantly affect the operations of the Company, or the state of affairs in future financial years.

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

Community Service Obligations

The Company is legally required to charge its retail customers in regional Queensland at notified prices set by the Queensland Competition Authority. As a consequence, the tariff revenue collected is below the cost of supplying electricity. The Community Service Obligation (CSO) payments are made in return for compliance with the commitment to state-wide uniform tariffs for franchise customers. From 1 January 2018, the Company's parent, Energy Queensland Limited, 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 the Company up to 30 June 2020 on that basis that Energy Queensland Limited 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.

Environmental regulation and performance

The Company's environmental obligations are regulated under Federal, State and Local government laws. All environmental performance obligations are reported monthly, and 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. No environmental breaches occurred however two significant environmental incidents (defined in internal policy guidelines as Class 1 or 2) were reported to a government agency during the financial period.

Indemnification and insurance of directors and officers

A policy was held throughout the year to insure all Directors and officers of the Company against liabilities incurred in their capacity as Director and Officer.

Energy Queensland Limited (the parent entity) indemnifies the Directors and Officers of the Company of any liability (claim, action, suit, proceeding, investigation, inquiry, damage, loss, cost or expense) incurred by virtue of being a Director or Officer of the Company, other than:

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

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

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

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

Auditor's independence declaration

The Auditor's independence declaration is set out on page 6 and forms part of the Directors' report for the period ended 30 June 2018.

Rounding

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

Ergon Energy Queensland Pty Ltd

Director's Report
For the year ended 30 June 2018

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

David C Smales

D Smales
Chairman
Brisbane
17th August 2018

Queensland Audit Office
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AUDITOR'S INDEPENDENCE DECLARATION

To the Directors of Ergon Energy Queensland Pty Ltd

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

Independence Declaration

As lead auditor for the audit of Ergon Energy Queensland Pty Ltd for the year ended 30 June 2018, I declare that, to the best of my knowledge and belief, there have been

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

17 August 2018
Queensland Audit Office
Brisbane

Damon Olive
as delegate of the Auditor-General

Ergon Energy Queensland Pty Ltd

Statement of profit or loss

For the year ended 30 June 2018

In thousands of dollars	Note	2018	2017
Revenue	2	**2,179,947**	2,130,063
Other income	2	**21,291**	-
Network charges / electricity purchases	3	**(1,472,841)**	(1,561,057)
Solar photovoltaic feed in tariff		**(119,593)**	(111,044)
Materials and services		**(66,914)**	(66,665)
Depreciation, amortisation and impairments		**(24,812)**	(31,606)
Finance costs		**(781)**	(887)
Environmental certificate compliance expenses		**(122,966)**	(110,467)
Other expenses		**(17,809)**	(77,355)
Profit before income tax equivalent expense		**375,522**	170,982
Income tax equivalent expense	4	**(112,344)**	(50,907)
Profit after income tax equivalent expense		**263,178**	120,075

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

Ergon Energy Queensland Pty Ltd

Statement of comprehensive income
For the year ended 30 June 2018

In thousands of dollars	Note	2018	2017
Profit after income tax equivalent expense		**263,178**	120,075
Other comprehensive income			
Items that may be reclassified to the profit or loss			
Movement in cash flow hedge reserve	13	(180,920)	(41,347)
Deferred income tax relating to cash flow hedge reserve movement		54,276	12,404
Items that will not be reclassified to the profit or loss			
Revaluation of property, plant and equipment		2,839	-
Deferred income tax relating to revaluation of property, plant and equipment		(852)	-
Other comprehensive income for the financial year, net of tax		(124,657)	(28,943)
Total comprehensive income		**138,521**	91,132
Profit attributable to:			
Shareholders of the Company		**263,178**	120,075
Total comprehensive income attributable to:			
Shareholders of the Company		**138,521**	91,132

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

Ergon Energy Queensland Pty Ltd

Statement of financial position

For the year ended 30 June 2018

In thousands of dollars	Note	2018	2017
CURRENT ASSETS			
Cash and cash equivalents	5	**17,115**	69,136
Trade and other receivables	6	**1,015,032**	465,210
Derivative financial assets	7	**15,967**	177,643
Other assets	14	**46,516**	62,459
Total current assets		**1,094,630**	774,448
NON-CURRENT ASSETS			
Property, plant and equipment		**3,001**	1,133
Intangible assets	15	**37,950**	27,328
Net deferred tax equivalent asset	16	**53,599**	16,718
Derivative financial assets	7	**1,177**	12,343
Total non-current assets		**95,727**	57,522
TOTAL ASSETS		**1,190,357**	831,970
CURRENT LIABILITIES			
Trade and other payables	8	**1,004,638**	576,729
Interest bearing liabilities	9	**15,415**	17,206
Provisions		**140**	113
Derivative financial liabilities	10	**56,882**	89,710
Other liabilities	17	**63,406**	55,939
Total current liabilities		**1,140,481**	739,697
NON-CURRENT LIABILITIES			
Derivative financial liabilities	10	**47,353**	51,618
Provisions		**2,523**	2,523
Net deferred tax equivalent liability	16	**-**	-
Total non-current liabilities		**49,876**	54,141
TOTAL LIABILITIES		**1,190,357**	793,838
NET ASSETS		**-**	38,132
EQUITY			
Share capital	18	**-**	-
Asset revaluation reserve		**1,987**	
Hedging reserve		**(44,051)**	82,593
Retained earnings		**42,064**	(44,461)
TOTAL EQUITY		**-**	38,132

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

Ergon Energy Queensland Pty Ltd

Statement of changes in equity

For the year ended 30 June 2018

In thousands of dollars	Share capital (Note 18)	Hedging reserve	Asset Revaluation reserve	Retained earnings	Total equity
Changes in equity for 2017					
Balance at 1 July 2016	-	111,535	-	(2,344)	109,191
Dividends	-	-	-	(162,192)	(162,192)
Total comprehensive income for the financial year	-	(28,942)	-	120,075	91,133
Balance at 30 June 2017	-	82,593	-	(44,461)	38,132
Changes in equity for 2018					
Dividends	**-**	**-**	**-**	**(176,653)**	**(176,653)**
Total comprehensive income for the financial year	**-**	**(126,644)**	**1,987**	**263,178**	**138,521**
Balance at 30 June 2018	**-**	**(44,051)**	**1,987**	**42,064**	**-**

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

Ergon Energy Queensland Pty Ltd

Statement of cash flows

For the year ended 30 June 2018

In thousands of dollars	Note	2018	2017
Cash flows from operating activities			
Receipts from customers		**1,816,148**	2,286,936
Receipts for community service obligations		**618,293**	627,087
Payments to suppliers		**(2,297,305)**	(2,676,737)
Interest received		**1,725**	2,479
Interest paid		**(781)**	(870)
Income tax equivalent payments		**(6,853)**	(86,050)
Net cash from operating activities	5	**131,227**	152,845
Cash flows from investing activities			
Payments for intangible assets		**(19,265)**	(13,061)
Net cash from investing activities		**(19,265)**	(13,061)
Cash flows from financing activities			
Repayment of repayable deposits		**(1,791)**	(2,804)
Dividends paid		**(162,192)**	(106,001)
Net cash from financing activities		**(163,983)**	(108,805)
Net increase/(decrease) in cash and cash equivalents		**(52,021)**	30,979
Cash and cash equivalents at beginning of the financial year		**69,136**	38,157
Cash and cash equivalents at the end of the financial year	5	**17,115**	69,136

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

SECTION 1: Basis of preparation

In this section…

This section explains the Company's accounting policies that relate to the financial statements as a whole. Accounting policies will be described in the note to which it relates specifically. New Australian Accounting Standards endorsed, amendments and interpretations are also included in the section, whether they are effective in 2018 or later years, and we explain how these changes are expected to impact the financial position and performance of the Company.

Note 1: Basis of preparation

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

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

420 Flinders St
Townsville Queensland 4810

The Company is a for-profit entity.

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

The financial statements were authorised for issue by the Directors on 17th August 2018. The Board members have the power to amend and reissue the Financial Statements after issue.

Energy Queensland Limited is the parent entity of the Company.

(a) Statement of compliance

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

(b) Basis of accounting

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

Historical cost convention

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

(c) Application of new accounting standards and interpretations not yet adopted

The AASB published new accounting standards and interpretations that are not mandatory for 30 June 2018 reporting periods and which the Company has not early adopted for this period. The Company'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*. 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 Company and it is expected there will be no impact on the revenue recognition policy.

(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 Company 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, on-balance sheet lease accounting model for lessees. A lessee recognises 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.

The new standard will have no impact on the Company as there are no lease arrangements in place.

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

SECTION 2: Profit or loss information

In this section…

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

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

Note 2: Revenue and other income

In thousands of dollars	2018	2017
(a) Revenue		
Sales revenue		
Sales revenue – related party*	**1,987**	1,848
Sales revenue	**2,137,030**	2,080,257
Other revenue	**40,930**	47,958
Total revenue	**2,179,947**	2,130,063
(b) Other income		
Fair value gains on financial instruments at fair value through profit or loss	**28,857**	-
Gain/(loss) on unwinding of inception value of designated hedges (Note 13(iii))	**(13,593)**	-
Cash flow hedge ineffectiveness gains (Note 13(iii))	**5,868**	-
Fair value gains on energy certificates at fair value through profit or loss	**159**	-
Total other income	**21,291**	-

* As a result of a corporate restructure, this related party changed from being the parent entity to being a fellow controlled entity.

Accounting policies

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue recognised for electricity sales is the aggregate of invoices raised, together with the estimated used but not yet invoiced energy consumption.

Critical accounting estimates and judgements

Unbilled energy sales

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.

Note 3: Expenses

In thousands of dollars	2018	2017
Profit before income tax equivalent expense includes the following specific expenses:		
Network charges / electricity purchases		
Cost of sales	**604,673**	494,722
Cost of sales – related party*	**1,360,715**	1,664,782
less Community service obligation	**(492,547)**	(598,447)
	1,472,841	1,561,057
Fair value losses		
Fair value losses on financial instruments at fair value through profit or loss	**-**	59,260
Gain on unwinding of inception value of designated hedges	**-**	(13,349)
Cash flow hedge ineffectiveness loss	**-**	12,758
Fair value losses on energy certificates at fair value through profit or loss	**-**	1,495
	-	60,164

* As a result of a corporate restructure, this related party changed from being the parent entity to being a fellow controlled entity.

Accounting policies

Expenses

Network charges / 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 obligations offset

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.

Critical accounting estimates and judgements

Unbilled network charges

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

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 Energy Queensland 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.

Note 4: Taxation

In thousands of dollars	2018	2017
(a) Income tax equivalent expense		
Current tax expense	**95,637**	89,432
Deferred tax expense	**16,784**	(38,527)
Under/(over) provision in prior year	**(77)**	2
Income tax equivalent expense	**112,344**	50,907
Deferred income tax expense included in income tax expense comprises:		
Decrease/(increase) in deferred tax assets	**14,833**	(13,276)
Increase/(decrease) in deferred tax liabilities	**1,951**	(25,251)
Income tax expense attributable to profit from continuing operations	**16,784**	(38,527)
(b) Numerical reconciliation of income tax equivalent expense to prima facie notional tax equivalents payable		
Net profit before income tax equivalent expense	**375,522**	170,981
Prima facie income tax equivalent expense on operating profit at 30% (2017: 30%)	**112,657**	51,294
Increase in income tax equivalent expense:		
Other	**171**	-
Decrease in income tax equivalent expense:		
Other	**(407)**	(389)
	112,421	50,905
Under/(over) provision in prior years	**(77)**	2
Income tax equivalent expense	**112,344**	50,907

Accounting policies for taxation are included in Note 16.

(c) Deferred Tax Recognised Directly in Equity		
Revaluation of property, plant and equipment	**852**	-
Hedge accounting of derivatives	**(54,276)**	(12,404)
Deferred tax recognised directly in equity	**(53,424)**	(12,404)

Accounting policies for taxation are included at Note 16.

SECTION 3: Financial assets and liabilities

In this section…

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

- an overview of all financial assets and liabilities
- disclosure of those financial instruments that the Directors consider to be most significant in the context of the Company's operations
- specific accounting policies where relevant
- the methods and assumptions used to estimate the fair value of financial instruments.

Financial Assets

Note 5: Cash and cash equivalents

In thousands of dollars	2018	2017
Cash at bank and on hand	**17,115**	69,136
Total cash and cash equivalents	**17,115**	69,136
Reconciliation of profit/(loss) after income tax equivalent expense/(benefit) to the net cash flows provided by operating activities		
Profit/(loss) after income tax equivalent expense	**263,178**	120,075
Non-cash flows in profit from ordinary activities:		
Depreciation, amortisation and impairments	**24,812**	31,606
Movement in provisions	**(113)**	75
Loss/(gain) on revaluation of financial instruments at fair value through profit or loss	**(21,132)**	58,669
Loss/(gain) on revaluation of energy certificates at fair value through profit or loss	**(159)**	1,495
Income tax equivalent expense	**112,344**	50,905
Changes in assets and liabilities		
(Increase)/decrease in trade and other receivables	**(531,430)**	(13,874)
(Increase)/decrease in other assets	**(7,937)**	21,587
(Decrease)/increase in trade and other payables	**267,652**	(126,638)
(Decrease)/increase in other liabilities	**7,468**	8,945
(Decrease)/increase in deferred tax liability	**16,544**	-
Net cash flow provided by operating activities	**131,227**	152,845

Accounting policies

Cash and cash equivalents

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

Note 6: Trade and other receivables

In thousands of dollars	2018	2017
Current		
Trade receivables	**213,935**	168,569
Trade receivables – related parties[1]	**618,285**	-
Accrual for unread meters	**183,436**	187,070
Provision for impaired receivables	**(23,129)**	(21,922)
	992,527	333,717
Community service obligation receivable	**-**	116,205
Hedge and other receivables	**22,505**	15,288
Total current trade and other receivables	**1,015,032**	465,210

[1] Refer to Note 11(e) for funding arrangements with the parent entity which assist with the Company's short-term cash management and working capital requirements.

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

(a) Impaired trade receivables

In thousands of dollars	2018	2018	2017	2017
Ageing of impaired receivables	**Gross**	**Impaired**	**Gross**	**Impaired**
Less than one month overdue	**45,968**	**1,936**	41,283	1,607
One to two months overdue	**11,502**	**1,740**	18,720	2,662
Two to three months overdue	**6,223**	**1,787**	6,711	1,921
Over three months overdue	**23,086**	**17,666**	21,118	15,732
	86,779	**23,129**	87,832	21,922

In thousands of dollars	2018	2017
Movements in the provision for impaired trade receivables are as follows:		
Carrying amount at the beginning of the financial year	**21,922**	25,610
Provision for impairment recognised during the financial year	**18,393**	24,534
Receivables written off during the financial year as uncollectible	**(17,186)**	(28,222)
Carrying amount at the end of the financial year	**23,129**	21,922

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

(b) Past due but not impaired

As at 30 June 2018, no aged grouping of trade receivables were past due but not impaired (2017: Nil).

Note 6: Trade and other receivables (Continued)

Accounting policies

Trade and other receivables

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.

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

Unread meters

Unbilled energy sales are accrued monthly using historical billing data to create a seasonally adjusted daily profile for each customer. This is then used to calculate the estimated energy usage to the end of the accrual month. Unbilled electricity revenue is not collectible until such time as customers' meters are read and bills rendered.

Note 7: Derivative financial assets

In thousands of dollars	2018	2017
Current		
At fair value through profit or loss		
Derivative financial instruments – electricity hedges	**4,847**	26,886
Designated as cash flow hedges		
Derivative financial instruments – electricity hedges	**10,672**	148,900
Held for trading		
Power purchase agreements asset	**448**	1,857
Total current financial assets	**15,967**	177,643
Non-Current		
At fair value through profit or loss		
Derivative financial instruments – electricity hedges	**1,177**	7,272
Designated as cash flow hedges		
Derivative financial instruments – electricity hedges	**-**	4,601
At cost		
Long term investment – other shares	**-**	470
Total non-current financial assets	**1,177**	12,343

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

Financial Liabilities

Note 8: Trade and other payables

In thousands of dollars	2018	2017
Current		
Trade payables	**46,287**	38,570
Trade payables – related party*	**697,995**	314,456
Dividends payable	**176,653**	162,192
Hedge and other payables	**83,703**	61,511
Total current payables	**1,004,638**	576,729

* As a result of a corporate restructure, this related party changed from being the parent entity to being a fellow controlled entity.

Accounting policies

Trade and other payables

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

A liability for dividends payable is recognised in the financial year in which the dividend is declared. Prior to 30 June 2018, the Board declared a final dividend equal to 100% of the Company's profit after income tax equivalent expense, up to the amount of net assets in the Company. As a result, a dividend of $176.653 million has been recognised in the financial statements. This dividend is payable on 30 November 2018. A final dividend of $162.192 million was declared during the 2017 financial year and paid on 30 November 2017.

Note 9: Interest bearing liabilities

In thousands of dollars	2018	2017
Current		
Unsecured liabilities		
Customer security deposits	**15,415**	17,206
Total current interest bearing liabilities	**15,415**	17,206

Accounting policies

Customer security deposits

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

Note 10: Derivative financial liabilities

In thousands of dollars	2018	2017
Current		
At fair value through profit or loss		
Derivative Financial Instruments - electricity hedges	**6,678**	50,591
Designated as cash flow hedges		
Derivative Financial Instruments - electricity hedges	**50,204**	39,119
Total current financial liabilities	**56,882**	89,710
Non-Current		
At fair value through profit or loss		
Derivative Financial Instruments - electricity hedges	**268**	3,811
Designated as cash flow hedges		
Derivative Financial Instruments - electricity hedges	**47,085**	47,807
Total non-current financial liabilities	**47,353**	51,618

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

Financial risk factors additional disclosures

Note 11: Financial risk management

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

(a) Credit risk

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

The Company manages its credit risks by 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.

Where it's appropriate, collateral in the form of a cash deposit is obtained from customers as a means of mitigating the risk of financial loss from defaults. At the end of the financial year, the Company held collateral of $15.415 million (2017: $17.206 million).

The Company manages its credit settlement risk associated with electricity market hedging by maintaining an Energy Commodity Credit Risk Manual as part of an overarching Energy Commodity Risk Management Policy. Credit settlement risk is managed by maintaining approved counterparty credit limits. The values of counterparty credit limits are determined by reference to each counterparty's credit rating, as determined by a recognised credit rating agency or, if the counterparty does not have a credit rating, by reference to the results of a detailed credit analysis. Where considered appropriate, the Company requires counterparties who have not been rated by a credit rating agency to provide appropriate letters of credit or bank guarantees. No letters of credit or bank guarantees were held as at 30 June 2018 (30 June 2017: $1.481 million).

Note 11: Financial risk management (Continued)

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

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

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

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

*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 Company to interest rate cash flow risk.

The Company has access to same day funds through short term borrowings from the parent company via the EQL Group's Treasury Management Agreement.

In accordance with the EQL Group Treasury policy no interest is charged on monies shared between the EQL Group entities that are captured by the Treasury Management Agreement. Refer to note 11(e) for more on the Treasury Management Agreement.

All inter-company cash management arrangements are governed by the Treasury Management Agreement as a result of the intercompany cash management facility being terminated on 1 March 2017.

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

Sensitivity Analysis

At 30 June 2018, if interest rates had been 100 basis points higher or lower and all other variables were held constant, the Company's net profit and equity would increase or decrease by $0.002 million (2017: $0.519 million).

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

Note 11: Financial risk management (Continued)

	Note	Floating interest rate $'000	Weighted average interest rate %
2018			
Financial assets			
Cash and cash equivalents	5	**17,115**	**2.00**
Financial liabilities			
Customer security deposits	9	**15,415**	**2.31**
2017			
Financial assets			
Cash and cash equivalents	5	**69,136**	**1.90**
Financial liabilities			
Customer security deposits	9	**17,206**	**2.16**

(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 NEM. 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). Wholesale contracts relating to franchise load are generally dealt over a period of less than three years. PPAs are measured up to the end of the contract.

To manage retail price risk, the Company has established an Energy Commodity Risk Management Policy. The policy provides a framework for managing risks arising from the energy purchasing activities of the Company. The policy includes a market price risk exposure limit framework, monitoring and reporting requirements and review requirements.

The Company uses derivative financial instruments to manage its electricity price risk, consumer variable volume risk and cash flow risk as well as hedge exposure to pool price fluctuations and against anticipated electricity purchases. The hedge contracts are designated against the forecast mass-market electricity load. The electricity derivative portfolio consists predominantly of swaps, caps and option contract types. Caps and option contracts are valued at fair value through profit 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 13 for further information regarding the application of hedge accounting.

Sensitivity Analysis

The following table details the Company'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 plant closures, Management have determined that 20% is considered a reasonably possible price movement.

In thousands of dollars	2018	2017	2018	2017
Electricity forward prices:	**+ 20%**	+ 20%	**- 20%**	- 20%
Profit / (loss) before tax	**6,024**	25,127	**(1,015)**	(21,120)
Hedging reserve	**165,265**	101,877	**(165,285)**	(102,531)
Equity	**171,289**	127,004	**(166,300)**	(123,651)

Note 11: Financial risk management (Continued)

(c) Price risk (continued)

Large-scale generation certificates (LGC)

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

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

LGCs held for compliance purposes are carried at cost whilst LGCs held for trading are carried at fair value. The LGC compliance obligation liability is carried at cost with shortfalls recognised at market price as a proxy for cost.

LGC entitlements under PPAs entered into for trading purposes are carried at fair value, all other LGC entitlements under PPAs are held in the compliance portfolio and carried at cost.

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

Sensitivity Analysis

The following table details the Company's sensitivity to a 20% (2017: 20%) increase and decrease in price of LGCs with all other variables held constant.

In thousands of dollars	2018	2017	2018	2017
LGCs	**+ 20%**	+ 20%	**- 20%**	**- 20%**
Profit / (loss) before tax	**98**	1,604	**(98)**	(1,604)
Equity	**98**	1,604	**(98)**	(1,604)

Small-scale technology certificates (STC)

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

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

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

Sensitivity Analysis

The following table details the Company's sensitivity to a 7% increase and a 20% decrease (2017: 7% increase and a 20% decrease) in price of STCs with all other variables held constant.

In thousands of dollars	2018	2017	2018	2017
STCs	**+ 7%***	+7%*	**- 20%**	- 20%
Profit / (loss) before tax	**368**	122	**(1,398)**	(348)
Equity	**368**	122	**(1,398)**	(348)

* The sensitivity increase of 7% (2017: 7%) for the upper limit aligns to the Government cap on STCs of $40 (2017: $40).

(d) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close-out market positions. A Treasury Management Agreement is in place with the parent entity which enables the sharing of monies between EQL Group entities and access to a $700.000 million (2017: $700.000 million) Working Capital Facility held with QTC.

Note 11: Financial risk management (Continued)

(d) Liquidity risk (continued)

The Queensland Treasury Corporation (QTC) is the approved Eligible Provider for the purposes of the Company's Australian Financial Services Licence and required to provide funding on written demand when requested by the Company pursuant to an approved Eligible Undertaking. The QTC has provided an eligible undertaking for $300 million.

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

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

In thousands of dollars	Less than 1 year	1 to 5 years	Over 5 years	Total contractual cashflows	Carrying amount
At 30 June 2018					
Financial liabilities					
Electricity hedges	**39,134**	**69,957**	**-**	**109,091**	**104,236**
Trade and Other Payables	**1,004,638**	**-**	**-**	**1,004,638**	**1,004,638**
Customer security deposits	**15,415**	**-**	**-**	**15,415**	**15,415**
Total financial liabilities	**1,059,187**	**69,957**	**-**	**1,129,144**	**1,124,289**
At 30 June 2017					
Financial liabilities					
Electricity hedges	79,273	75,366	-	154,639	141,328
Trade and Other Payables	576,728	-	-	576,728	576,728
Customer security deposits	17,206	-	-	17,206	17,206
Total financial liabilities	673,207	75,366	-	748,573	735,262

(e) Capital management

The Company manages its capital to ensure that it will be able to continue as a going concern. The capital structure of the Company consists of equity, comprising issued capital and retained earnings disclosed in Note 18. The Company has access to same day funds through short term borrowings from the parent company via the group's Treasury Management Agreement.

Note 11: Financial risk management (Continued)

(e) Capital management (continued)

Pursuant to the Treasury Management Agreement, the parent company is responsible for providing central treasury management services for the EQL Group, including the administration of the debt and cash management facilities with the Queensland Treasury Corporation. This agreement enables the sharing of monies between EQL Group entities.

The parent entity has a working capital facility in place for $700.000 million (2017: $700.000 million) with QTC plus access to additional short and long term borrowings with QTC via the State Borrowing Program operated by the Queensland Government.

Operating cash flows are used to make the routine outflows of operating expenditure and dividends. Funding via the Treasury Management Agreement is available from the parent entity to meet the Company's short-term cash management and working capital requirements.

Note 12: Fair values of financial assets and liabilities

The fair value of a financial asset or a financial liability is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

a) *Fair value measurements*

The Company requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

(i) Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
(ii) 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
(iii) Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The following table presents the Company's assets and liabilities measured and recognised at fair value.

In thousands of dollars	Level 1	Level 2	Level 3	Total
2018				
Assets				
Electricity hedges	**148**	**16,549**	**-**	**16,697**
Large-scale generation certificates held for trading	**-**	**13,678**	**-**	**13,678**
Small-scale technology certificates held for trading	**-**	**14,068**	**-**	**14,068**
Power purchase agreements held for trading	**-**	**-**	**448**	**448**
	148	**44,295**	**448**	**44,891**
Liabilities				
Electricity hedges	**26,812**	**77,424**	**-**	**104,236**
	26,812	**77,424**	**-**	**104,236**
2017				
Assets				
Electricity hedges	80,328	107,331	-	187,659
Large-scale generation certificates held for trading	-	8,019	-	8,019
Small-scale technology certificates held for trading	-	4,714	-	4,714
Power purchase agreements held for trading	-	-	1,857	1,857
	80,328	120,064	1,857	202,249
Liabilities				
Electricity hedges	65,119	76,209	-	141,328
	65,119	76,209	-	141,328

Note 12: Fair values of financial assets and liabilities (continued)

b) Reconciliation of Level 3 fair value measurements

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

In thousands of dollars	Power purchase agreements held for trading	Total
2018		
Assets		
Opening balance	**1,857**	**1,857**
Settlements	**(1,387)**	**(1,387)**
Unrealised gains/(losses) recognised in statement of profit or loss*	**(22)**	**(22)**
Closing balance	**448**	**448**
Liabilities		
Opening balance	**-**	**-**
Settlements	**-**	**-**
Unrealised gains/(losses) recognised in statement of profit or loss*	**-**	**-**
Closing balance	**-**	**-**
2017		
Assets		
Opening balance	1,713	1,713
Settlements	(804)	(804)
Unrealised gains/(losses) recognised in statement of profit or loss*	948	948
Closing balance	1,857	1,857
Liabilities		
Opening balance	-	-
Unrealised gains/(losses) recognised in statement of profit or loss*	-	-
Settlements	-	-
Closing balance	-	-

* this is recognised in the Network charges/electricity purchases line in the statement of profit or loss

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

Transfers between hierarchy levels are expected to occur when there is a change in the observability of a pricing input, or a change in valuation technique. The Company recognises transfers between levels of the fair value hierarchy as of the beginning of the reporting period during which the transfer has occurred. During 2018 there were no transfers of electricity derivatives between level 2 and level 3 (2017: nil transfers).

d) Valuation policies and procedures

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

Notes to the financial statements

For the year ended 30 June 2018

Note 12: Fair values of financial assets and liabilities (continued)

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

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

Swaps

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 12(d)ii).

- (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.

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 Note 12(d)ii).
- (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.
- (iv) Exchange traded Swaptions are valued applying the fair value on the exchange.

Power purchase agreements

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

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.

Small-scale technology certificates

STC 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.

(ii) 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.

Note 12: Fair values of financial assets and financial liabilities (continued)

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.

(iii) Master netting or similar agreements

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

The ISDA agreements do not meet the criteria for offsetting in the statement of financial position. This is because the Company does not have 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.

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

In thousands of dollars	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	17,154	(16,706)	448
Financial liabilities			
Electricity Hedges	(104,363)	16,706	(87,657)
2017			
Financial assets			
Electricity Hedges	189,605	(114,394)	75,211
Financial liabilities			
Electricity Hedges	(141,475)	114,394	(27,081)

Note 12: Fair values of financial assets and financial liabilities (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:

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

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

b) Power purchase agreements

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

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

Critical accounting estimates and judgements

Electricity financial instruments measured at fair value

The Company enters into electricity 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 13: Hedge accounting

Cash flow hedges

Cash flow hedges are used by the Company to hedge the energy commodity risk arising through its retail operations.

The Company principally uses energy swaps, 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 Company undertakes derivative transactions to hedge the price of 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, $0.588 million hedge losses (2017: $1.879 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, $18.465 million gains (2017: $54.358 million) remain in cash flow hedge reserve due to de-designation and all underlying forecast transactions remain highly probable to occur.

Notes to the financial statements

For the year ended 30 June 2018

Note 13: Hedge Accounting (continued)

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

(i) *Nominal amount of electricity hedges outstanding*

As at 30 June 2018, the average notional amount of electricity hedges outstanding over the next 3 years from FY 2019 to FY 2021 is approximately 4,250,000 MWh (Megawatt hours) at an average contracted price ranging between $59 and $79 per MWh (2017: average notional amount outstanding over 3 years from FY 2018 to FY 2020 of 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 thousands of dollars	Note	2018	2017
Financial Assets: Cash flow hedges - electricity derivatives	7	**10,672**	153,501
Financial Liabilities: Cash flow hedges – electricity derivatives	10	**(97,289)**	(86,926)

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

In thousands of dollars	2018	2017
Statement of profit or loss:		
Gains/(losses) on unwinding of inception value of designated hedges	**(13,593)**	13,349
Cash flow hedge ineffectiveness gains/(losses) recognised in other income	**5,869**	(12,758)
Statement of comprehensive income:		
Cash flow hedge reserve (CFHR)		
Opening balance	**117,991**	159,337
The effective portion recognised in CFHR (pre-tax)	**(22,668)**	75,148
Transfer from CFHR to electricity purchases	**(158,254)**	(116,494)
Closing balance (pre-tax)	**(62,931)**	**117,991**

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

In thousands of dollars	2018	2017
Electricity Price Risk:		
Changes in value of hedge instrument	**(81,173)**	57,985
Changes in value of hedge item	**(81,497)**	61,393
Cash flow hedge reserve	**(62,930)**	117,991

Note 13: 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 Company designates certain derivatives as hedges of a particular cash flow risk associated with a recognised asset, liability or highly probable forecast transaction.

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

The fair values of various derivative instruments used for hedging purposes are disclosed in Note 12. Movements of the hedging reserve in shareholders' equity are shown in the statement of other comprehensive income. The fair 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 7 and Note 12 for additional information in relation to accounting policies for financial instruments.

SECTION 4: Other operating assets and liabilities

In this section…

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

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

Other operating assets

Note 14: Other assets

In thousands of dollars	2018	2017
Current		
Energy certificates – at cost	**18,771**	49,726
Energy certificates – at fair value	**27,745**	12,733
Total current other assets	**46,516**	62,459

Accounting Policies

Energy certificates

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

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

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

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

Critical accounting estimates and assumptions

Energy certificates

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

Notes to the financial statements

For the year ended 30 June 2018

Note 15: Intangible assets

In thousands of dollars	2018	2017
Software - at cost	**27,025**	687
Less: accumulated amortisation and impairment	**(3,592)**	(687)
	23,433	-
Other Intangibles - at cost	**21,482**	18,488
Less: accumulated amortisation and impairment	**(10,385)**	(3,695)
	11,097	14,793
Work in progress – at cost	**3,420**	12,535
Total intangible assets	**37,950**	27,328
Reconciliations:		
Software		
Cost at the beginning of the financial year	**687**	687
Accumulated amortisation and impairment at the beginning of the financial year	**(687)**	(524)
Carrying amount at the beginning of the financial year	**-**	163
Additions	**26,338**	-
Disposals	**-**	-
Amortisation expense	**(2,905)**	(163)
Carrying amount at the end of the financial year	**23,433**	-
Other Intangibles		
Cost at the beginning of the financial year	**18,488**	-
Accumulated amortisation and impairment at the beginning of the financial year	**(3,695)**	-
Carrying amount at the beginning of the financial year	**14,793**	-
Additions	**2,993**	18,488
Disposals	**-**	-
Amortisation expense	**(6,689)**	(3,695)
Carrying amount at the end of the financial year	**11,097**	14,793
Work in progress		
Carrying amount at start of year	**12,535**	8,033
Transfers to intangible assets	**(26,337)**	(4,315)
Additions	**17,222**	8,817
Carrying amount at the end of the financial year	**3,420**	12,535
Total intangible assets	**37,950**	27,328

Accounting policies

Intangible assets

Internally generated assets including software, expenditure on research and development

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

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

Note 15: Intangible assets (continued)

Accounting policies (continued)

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.

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

In thousands of dollars	2018	2017
Deferred tax equivalent assets:		
The balance comprises temporary differences attributable to:		
Amounts recognised in the statement of profit or loss:		
Provisions/accruals	**27,566**	27,591
Derivatives	**(1,501)**	13,091
Other	**112**	168
	26,177	40,850
Amounts recognised directly in equity:		
Hedge accounting of derivatives	**30,813**	24,848
	30,813	24,848
Deferred tax equivalent assets	**56,990**	65,698
Deferred tax equivalent liabilities:		
The balance comprises temporary differences attributable to:		
Amounts recognised in the statement of profit or loss:		
Property, plant and equipment	**(1,288)**	(379)
Derivatives	**(8,266)**	(8,664)
Other	**159**	(2,222)
	(9,395)	(11,265)
Amounts recognised directly in equity:		
Revaluation of property, plant and equipment	**852**	-
Hedge accounting of derivatives	**11,934**	60,245
	12,786	60,245
Deferred tax equivalent liabilities	**3,391**	48,980
Net deferred tax equivalent asset/(liability):		
Deferred tax equivalent assets	**56,990**	65,698
Deferred tax equivalent liabilities	**(3,391)**	(48,980)
Net deferred tax equivalent asset/(liability)	**53,599**	16,718

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

Accounting policies

Income tax

(i) *Tax equivalents*

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

(ii) *Current tax equivalents payable/receivable*

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

Notional current tax equivalents payable is recognised as current tax expense.

(iii) *Deferred tax equivalent assets and liabilities*

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

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

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

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

(v) *Tax consolidation*

The Company is a wholly-owned subsidiary within a tax consolidated group with Energy Queensland Limited, which is the head entity.

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

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

The 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.

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

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

Contributions to fund the notional current tax equivalents liabilities are payable as per the tax funding arrangement.

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

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

(vii) *Goods and services tax (GST)*

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

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

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

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

Other operating liabilities

Note 17: Other liabilities

In thousands of dollars	2018	2017
Current		
Environmental certificate acquittal	**63,007**	55,236
Unclaimed monies	**399**	703
Total current other liabilities	**63,406**	55,939

Accounting policies

Environmental certificate acquittal

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

Large-scale generation certificates

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

Small-scale technology certificates

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

SECTION 5: Capital structure

In this section…

This section outlines the Company's shares. Liabilities relating to the Company's financing activities are addressed in Section 3 on page 17.

Note 18: Share capital

100 fully paid ordinary shares totalling $100 (2017: $100) 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.

Accounting policies

Share capital

Ordinary shares are classified as equity.

SECTION 6: Other notes

In this section…

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

Note 19: Contingent assets and liabilities

(a) Guarantees issued

In order to participate in the electricity market, the Company is required to deliver acceptable security as collateral 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 $100.000 million (2017: $100.000 million) have been issued by QTC to 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, EEQ is 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.

(b) Guarantees held

There are nil guarantees held with trading counterparties. (2017: Nil). The Company holds bank guarantees from customers totalling $1.631 million (2017: $1.481 million) as security to cover their obligations arising from purchase of electricity.

Accounting policies

Contingent assets and liabilities

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

Ergon Energy Queensland Pty Ltd

Notes to the financial statements

For the year ended 30 June 2018

Note 20: Key management personnel disclosures

(a) Names, positions and terms held of Directors

Directors of the Company as at 30 June 2018:		Term of appointment	Appointment expiry date
David Smales	Chairman and Executive Director	Ongoing	n/a
Peter Scott	Executive Director	Ongoing	n/a
Belinda Watton	Executive Director	Ongoing	n/a
Jane Nant	Executive Director	Ongoing	n/a
Craig Chambers	Executive Director	n/a	12 June 2018
Gary Stanford	Chairman and Non-Executive Director	2 years	30 September 2017
Phil Garling	Non-Executive Director	1 year	3 October 2017
Rodney Wilkes	Non-Executive Director	2 years	3 October 2017
Vaughan Busby	Non-Executive Director	1 year	3 October 2017

(b) Compensation - Directors

Directors' remuneration is set by State Government regulation, with other fees and allowances determined on the basis of meetings attended and expenditure incurred in performing their roles as Directors of the Company.

The 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' liability 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 Company are as follows:

	Short Term Benefits Directors' fees		Post-Employment Benefits Superannuation		TOTAL	
In dollars	2018	2017	2018	2017	2018	2017
Ergon Energy Queensland[1]						
Gary Stanford[3]	**22,500**	90,000	**2,138**	8,550	**24,638**	98,550
Vaughan Busby[4]	**11,613**	31,815	**1,069**	3,022	**12,682**	34,837
Phil Garling[4]	**1,935**	5,625	**178**	534	**2,113**	6,159
Gary Humphrys[2]	-	12,097	-	1,425	-	13,522
Rodney Wilkes[4]	**12,352**	45,762	**1,069**	4,275	**13,421**	50,037
Total	**48,400**	185,299	**4,454**	17,806	**52,854**	203,105

[1] David Smales, Peter Scott, Craig Chambers, Belinda Watton and Jane Nant were executive directors during 2018. As they were officers of the Company's parent entity, Energy Queensland Limited, they were not remunerated by the Company for their role as Directors.

[2] Gary Humphrys resigned 7th October 2016.

[3] Gary Stanford resigned 30th September 2017.

[4] Vaughan Busby, Phil Garling and Rodney Wilkes resigned 3rd October 2017.

(c) Compensation – Executives

The key management personnel of the Company are employed in the parent entity and no extra compensation is received.

(d) Transactions with related parties of key management personnel

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

Note 20: Key management personnel disclosures (continued)

Vaughan Busby was a non-executive director (until 3rd October 2017) and shareholder of a supplier which provides software to the Company. The software was purchased on an arm's-length basis and the software was in use prior to the commencement of the Directorship on the Board.

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

Note 21: Related party transactions

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

A related party provided business management, financial and corporate services and customer care administration services (including retail products and services administration) to the Company. The total value of these services during the year was $60,900,844 (2017: $58,462,590). All services were undertaken on normal commercial terms and conditions.

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

(b) Controlling entities

The Australian parent entity is Energy Queensland Limited, which is a Government Owned Corporation.

(c) Transactions with State of Queensland controlled entities

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

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

In dollars	2018	2017
Revenue		
Pensioner rebate and grant revenue from Department of Communities	**98,464,024**	48,974,133
Revenue from State of Queensland controlled entities	**119,640,316**	122,380,414
Expenses		
Community service obligations offset	**(492,546,710)**	(598,446,861)
Interest on QTC borrowings (includes administration fees)	**124,384**	124,767
Electricity trading with State of Queensland controlled entities	**818,972**	331,024,223
Environmental certificate transactions with State of Queensland controlled entity counterparties	**6,935,000**	6,080,500
Assets		
CSO amounts receivable	**-**	116,204,892
Trade receivables with State of Queensland controlled entities	**2,683,339**	2,499,497
Liabilities		
Electricity trading payable with State of Queensland controlled entities	**(4,861,211)**	23,850,139

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

Note 22: Auditor's remuneration

In dollars	2018	2017
Remuneration for audit of the financial reports of the Company:		
Auditor-General of Queensland		
Audit services		
Audit of the financial report	**290,000**	290,000
	290,000	290,000

Note 23: 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 Company.

Ergon Energy Queensland Pty Ltd

Directors' declaration

In the Directors' opinion:

1. The financial statements and associated notes, set out on pages 7 to 42

   (i) Comply with Australian Accounting Standards and Interpretations;

   (ii) Are in accordance with the *Corporations Act 2001*; and

   (iii) Give a true and fair view of the financial position of the Company as at 30 June 2018 and of its performance for the year ended on that date.

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

3. This declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the *Corporations Act 2001* for the financial year ended 30 June 2018.

Made in accordance with a resolution by the Directors.

David C Smales

D Smales

Chairman

Brisbane

17th August 2018

Queensland
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INDEPENDENT AUDITOR'S REPORT

To the Members of Ergon Energy Queensland Pty Ltd

Report on the audit of the financial report

Opinion

I have audited the accompanying financial report of Ergon Energy Queensland Pty Ltd.

In my opinion, the financial report:

a) gives a true and fair view of the company'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 statement of financial position as at 30 June 2018, the statement of profit and loss, statement of comprehensive income, statement of changes in equity and 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 company 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 entity 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.

Measurement of derivative financial instruments and designation of hedging instruments

(Note 7, 10, 12 and 13)

Key audit matter	How my audit procedures addressed this key audit matter
Ergon Energy Queensland Pty Ltd measures its derivative contracts at fair value, some of which use complex valuation models. The models involved significant judgements for the key inputs used to calculate the fair value of derivative financial instruments, including for: • Future electricity prices • Power purchase agreement load volume forecasts • Discount rates • Credit risk factors and • Option volatility.	I engaged a specialist and an auditor's expert to: • Obtain an understanding of the valuation models, and assess their design, integrity and appropriateness with reference to common industry practices. • Agree key model inputs to supporting documents. • Assess the reasonableness of inputs with reference to relevant external market data and verification against contracts. • In reviewing the work of the specialist and auditor's expert, I: o Evaluated their qualifications, competence, capabilities, and objectivity. o Assessed the nature, scope and objectives of the work completed for appropriateness. o Evaluated the findings and conclusions for relevance, reasonableness and consistency with other audit evidence obtained.
The accounting standards for hedge accounting are complex, and their application involved significant judgements about future energy demand to determine whether each derivative financial instrument fulfilled the conditions for classification as an effective hedge. Hedge accounting involves recording unrealised gains or losses on derivatives against equity if the derivatives are designated as effective hedges, or otherwise against profit or loss.	With the assistance of an external specialist, my procedures included, but were not limited to: • Assessing the hedge accounting process for compliance with accounting standards. This included reviewing hedge accounting documentation and testing the methodology for calculating hedge effectiveness. • Verifying the accurate classification of unrealised gains or losses on derivatives between equity and profit or loss. • In reviewing the specialist's work, I: o Evaluated their qualifications, competence, capabilities, and objectivity. o Assessed the nature, scope and objectives of the work completed for appropriateness. o Evaluated the findings and conclusions for relevance, reasonableness and consistency with other audit evidence obtained.

Measurement of unbilled revenue ($183m and forms part of $698m)

(Note 6 and 8)

Key audit matter	How my audit procedures addressed this key audit matter
The complex unbilled revenue and network charges accrual calculation involves significant judgements for estimating unread meter usage at balance date. In making this estimate, Ergon Energy Queensland Pty Ltd based the calculation on a model that used historical billing data and purchase load to create a seasonally adjusted daily profile for each customer.	My procedures included, but were not limited to: • Obtaining an understanding of the modelling approach and assessed the appropriateness of its design. • Agreeing the inputs used, including historical retail billing, purchase load and tariff rates, to relevant source data. • Verifying the mathematical accuracy of key sections of the unbilled revenue and network charges model • Developing an audit calculation estimate of the unbilled sales revenue and network amounts at year-end and comparing our estimate to Ergon Energy Queensland Pty Ltd management's estimated amount. • Back testing the unbilled revenue and network model's historical output to subsequent actual transactions.

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 company'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 company 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.

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 company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the company.
- Conclude on the appropriateness of the company'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 company'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 company 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.

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

21 August 2018

Damon Olive
as delegate of the Auditor-General

Queensland Audit Office
Brisbane

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